# MYCRON STEEL BERHAD

(622819-D)

ANNUAL REPORT

# 2016

# Contents



# Notice of Thirteenth Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the **13TH ANNUAL GENERAL MEETING** of the Company will be held at **Crystal Function Room, 4th Floor, Mutiara Complex, 3½ Miles, Jalan Ipoh, 51200 Kuala Lumpur** on **Thursday, 8 December 2016 at 10.00 a.m.** for the following purposes:

| AGENDA | Resolution |
|---|---|
| **AS ORDINARY BUSINESS** | |
| 1. To receive the Audited Financial Statements for the year ended 30 June 2016 together with the Reports of the Directors and the Auditors thereon. | **Please refer to Explanatory Note A** |
| 2. To approve the payment of Directors' fees amounting to RM406,800.00 for the period from 1 July 2016 to 31 December 2017 to be payable quarterly in arrears. | **1** |
| 3. To re-elect Tan Sri Datuk Seri Razman Md Hashim who is retiring pursuant to Section 129(6) of the Companies Act, 1965 ("the Act") and to hold office until the conclusion of the next Annual General Meeting ("AGM"). | **2** |
| 4. To re-elect the following Directors of the Company who are retiring pursuant to Article 113(1) of the Company's Articles of Association and who, being eligible, offer themselves for re-election: | |
| (i) Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | **3** |
| (ii) Azlan bin Abdullah | **4** |
| 5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. | **5** |
| **AS SPECIAL BUSINESS** | |
| 6. To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions: | |
| (a) **Proposed Renewal of Share Buy-Back Authority** | **6** |

"THAT subject to compliance with Section 67A of the Act, the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities") and any prevailing laws, rules, regulations, orders, guidelines and requirements issued by any relevant authority, the Company be and is hereby unconditionally and generally authorised to purchase and hold such number of ordinary shares of RM0.25 each in the Company ("Proposed Renewal of Share Buy-Back Authority") as may be determined by the Directors of the Company from time-to-time through the Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company provided that the aggregate number of shares to be purchased pursuant to this resolution does not exceed four percent (4%) of the issued and paid-up share capital of the Company and that an amount not exceeding the Company's total audited retained profits of RM191,267 and/or share premium account of RM19,100,456 as at 30 June 2016 would be allocated by the Company for the Proposed Renewal of Share Buy-Back Authority.

AND THAT such authority shall commence immediately upon passing of this Ordinary Resolution and will expire at the conclusion of the next AGM of the Company unless earlier revoked or varied by Ordinary Resolution of shareholders of the Company in a general meeting or upon the expiration of the period within which the next AGM is required by law to be held whichever is earlier but not so as to prejudice the completion of purchase(s) made by the Company before the aforesaid expiry date.

AND THAT the Directors be and are hereby authorised to take all steps necessary to implement, finalise and to give full effect to the Proposed Renewal of Share Buy-Back Authority and further THAT authority be and is hereby given to the Directors to decide in their absolute discretion to either retain the shares so purchased as treasury shares or cancel them or both."

# Notice of Thirteenth Annual General Meeting
(continued)

(b) **Proposed Renewal and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("RRPTs")** 7

"THAT the mandate granted by the shareholders of the Company on 30 November 2015 pursuant to Paragraph 10.09 of the Listing Requirements of Bursa Securities, authorising the Company and its subsidiaries ("the Mycron Group") to enter into the RRPTs which are necessary for the Mycron Group's day-to-day operations as set out in Section 3.3(A) and 3.3(B) of Part B of the Circular to Shareholders dated 31 October 2016 ("the Circular") with the related parties mentioned therein, be and is hereby renewed, AND THAT mandate be and is hereby granted by the shareholders of the Company to apply to the new RRPTs as set out in Section 3.3(C) of Part B of the Circular with the related party mentioned therein, provided that:

(a) the transactions are in the ordinary course of business and are on terms which are not more favourable to the related parties than those generally available to the public and on terms not to the detriment of the minority shareholders of the Company; and

(b) the transactions are made at arm's length and on normal commercial terms.

AND THAT the authority conferred by such renewed and granted mandate shall continue to be in force (unless revoked or varied by the Company in a general meeting) until:

(i) the conclusion of the next AGM of the Company following the forthcoming AGM at which time it will lapse, unless by a resolution passed at that meeting or Extraordinary General Meeting whereby the authority is renewed; or

(ii) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Act but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act; or

(iii) revoked or varied by resolution passed by the shareholders in general meeting;

whichever is earlier.

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

(c) **Authority to Issue and Allot Shares Pursuant to Section 132D of the Act** 8

"THAT, subject always to the Act, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, where such approval is necessary, the Directors be and are hereby authorised pursuant to Section 132D of the Act, to issue and allot shares in the Company at any time until the conclusion of the next AGM, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued does not exceed ten percent (10%) of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Securities for the listing of and quotation for the additional shares so issued."

By Order of the Board

**LILY YIN KAM MAY (MAICSA 0878038)**
Company Secretary

Kuala Lumpur
31 October 2016

# Notice of Thirteenth Annual General Meeting
(continued)

**NOTES:**

1. Applicable to shares held through a nominee account.

2. A member entitled to attend, speak and vote at a meeting of the Company is entitled to appoint not more than two (2) proxies to attend, speak and vote in his/her stead. A proxy may but need not be a member of the Company, and the provision of Section 149(1)(a) & (b) of the Act, shall not apply to the Company.

3. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy.

4. Where a member is an Exempt Authorised Nominee which holds shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.

5. The instrument appointing a proxy, shall be in writing under the hand of the appointer or his attorney duly authorised in writing, and in the case of a corporation, either under seal or under hand of an officer or attorney duly authorised.

6. The instrument appointing a proxy must be deposited at the Company's Registered Office, Suite 12.03, 12th Floor, No. 566, Jalan Ipoh, 51200 Kuala Lumpur, not less than forty eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.

7. Any alteration in the Form of Proxy must be initialled.

8. Form of Proxy sent through facsimile transmission shall not be accepted.

9. For the purpose of determining a member who shall be entitled to attend this 13th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Articles 79(a), 79(b) and 79(c) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 2 December 2016. Only a depositor whose name appears on the Record of Depositors as at 2 December 2016 shall be entitled to attend, speak and vote at the said meeting or appoint proxy(ies) to attend, speak and/or vote on his/her behalf.

10. (i) Explanatory Note to Ordinary Business of Agenda 1 (Explanatory Note A):

    This Agenda item is meant for discussion only as the provision of Section 169(1) of the Act, does not require a formal approval of the shareholders and hence, is not put forward for voting.

    (ii) Explanatory Notes to Special Business of Agenda 6:

    (a) **Proposed Renewal of Share Buy-Back Authority**
    The Proposed Resolution 6, if passed, would empower the Directors to exercise the power of the Company to purchase its own shares ("the Proposal") by utilising its financial resources not immediately required. The Proposal may have a positive impact on the market price of the Company's shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

    (b) **Proposed Renewal and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("RRPTs")**
    The Proposed Resolution 7, if passed, will empower the Company to conduct recurrent related party transactions of a revenue or trading nature which are necessary for the Group's day-to-day operations, and will eliminate the need to convene separate general meetings from time to time to seek shareholders' approval. This will substantially reduce administrative time, inconvenience and expenses associated with the convening of such meetings, without compromising the corporate objectives of the Group or adversely affecting the business opportunities available to the Group.

    (c) **Authority to Issue and Allot Shares Pursuant to Section 132D of the Act**
    The Ordinary Resolution proposed under Resolution 8 of the Agenda is a renewal of the General Mandate for the Directors to issue and allot shares pursuant to Section 132D of the Act. This mandate will provide flexibility for the Company to undertake future possible fund raising activities, including but not limited to placement of shares for purpose of funding the Company's future investment projects, working capital and/or acquisition(s) without having to convene another general meeting.

# Notice of Thirteenth Annual General Meeting
(continued)

The Proposed Resolution 8, if passed, will give authority to the Directors of the Company, from the date of the above AGM, to issue and allot shares in the Company up to an amount not exceeding in total ten percent (10%) of the issued and paid-up share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next AGM of the Company.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the 12th AGM held on 30 November 2015 and which will lapse at the conclusion of the 13th AGM to be held on 8 December 2016.

(iii) Poll Voting

All the Resolutions will be put to vote by Poll.

The detailed information on Special Business of Agenda 6 except for Ordinary Resolution 8 as mentioned above is set out in the Circular to Shareholders of the Company dated 31 October 2016 which is dispatched together with the Company's 2016 Annual Report.

**PERSONAL DATA POLICY**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof) and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"). (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/ or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

**STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING**

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Securities, the details of the Directors who are seeking for re-election or re-appointment in Agenda 3 and 4 of the Notice of the 13th Annual General Meeting of the Company are set out in the Directors' Profile on pages 22 to 25 of this Annual Report. Their securities holdings in the Company are set out in the Directors' Shareholdings which appears on page 31 of this Annual Report.

The detailed information relating to general mandate for issue of securities pursuant to Paragraph 6.03(3) of the Listing Requirements of Bursa Securities are set out under Note 10 (ii)(c) of the Notice of the 13th AGM of the Company.

# Chairman's Statement

> On behalf of the Board of Directors, I am pleased to present the Annual Report of Mycron Steel Berhad and its group of companies ("the Group" or "Mycron") for the financial year ended 30 June 2016.

**TUNKU DATO' YAACOB KHYRA**
Executive Chairman

## FINANCIAL RESULTS

The Group operates in the mid-stream sector of the steel industry, with the manufacture of Cold Rolled Coil ("CRC") steel sheets and Steel Tubes.

In March 2015, the Group acquired Melewar Steel Tube Sdn Bhd ("MST"), a manufacturer of Steel Tubes and Pipes, from its parent company, Melewar Industrial Group Berhad, through a share swap exercise. The rationale for the acquisition was to concentrate Melewar's steel activities under one company, giving the enlarged operations a stronger bargaining position when negotiating for the purchase of the Group's core raw material, Hot Rolled Coils ("HRC").

For the year under review, the Group achieved total revenue of RM 566.8 million compared to RM 518.3 million in the previous year, representing an increase of RM 48.5 million or 9.4%. This higher revenue was principally due to the consolidation of one full year's operations of the Steel Tube division's activities, compared to only 3 months consolidation in the previous financial year.

In terms of sales tonnage, CRC sales dipped 7.9% to 187,000 tonnes, compared to 203,000 tonnes the previous year, in a relatively quiet and lackluster market for steel products. The Steel Tube division recorded sales tonnage of 72,000 tonnes, a level very similar to the previous year (FY 2015: 73,000 tonnes).

The Group recorded a significantly improved Profit After Tax of RM 24.2 million, compared to RM 11.7 million in the previous year. The improved results for the Group is due to improved CRC sales margin attributed to a combination of better operational cost controls and improved CRC pricing, and the contribution of profits from one full year of Steel Tube operations.

In May 2016, the Ministry of International Trade and Industry ("MITI") filed an anti-dumping gazette for imports of CRC from selected companies from China, South Korea and Vietnam, with additional duties imposed for a five-year period, ending in 2021. This action by the Government has helped to stabilise the price of CRC for the last quarters of the financial year.

## DIVIDEND

Even though the Group turned in a profitable performance for the year under review, the cash flow position of the Group is still not considered stable enough, especially in an environment of limited banking facilities. The Directors, as such, do not recommend the payment of any dividend for the financial year ended 30 June 2016.

# Chairman's Statement
(continued)

## CRC OPERATIONS REVIEW

Overall, the total sales tonnage for CRC of 186,613 tonnes was lower by 7.9% compared to the previous financial year (202,921 tonnes) reflecting the relative quiet market for steel products. Table 1 shows the quarterly operating performance of the CRC Division.

During the first financial quarter, the revenue of RM 86.2 million was 20% lower than the previous quarter. The sales tonnage of 40,801 tonnes was also correspondingly lower by 15.3% than the previous quarter (48,172 tonnes). Historically, the first financial quarter is seasonally the lowest quarter for the Group, due to the Hari Raya holidays. Even though revenue and sales deliveries were lower than the previous quarter, the CRC Division registered a Profit Before Tax of RM 3.57 million, which was made possible by the continued efforts by the team at Mycron CRC, to streamline operational efficiencies and control operating costs.

| Mycron CRC Operations | | FY 2016 | | | | | FY 2015 |
|---|---|---|---|---|---|---|---|
| Financial Year ended 30 June | | Q1 | Q2 | Q3 | Q4 | TOTAL | TOTAL |
| Sales Revenue | RM mil | 86.2 | 92.1 | 100.2 | 105.1 | 383.6 | 467.3 |
| Sales Tonnage | tonnes | 40,801 | 44,644 | 49,903 | 51,265 | 186,613 | 202,921 |
| Capacity Utilisation | % max | 62.8% | 68.7% | 76.8% | 78.9% | 71.8% | 77.9% |
| Profit (Loss) Before Tax | RM mil | 3.57 | 4.68 | 7.36 | 7.52 | 23.13 | (8.37) |

Table 1 Total Capacity 260,000t/y

For the second financial quarter, revenues improved by 6.8% to RM 92.1 million, with sales tonnage improving by 9.4% at 44,644 tonnes. The CRC Division registered a further Profit Before Tax of RM 4.68 million, as efforts to contain costs paid off.

For the third financial quarter, revenues improved further by 8.8% to RM 100.2 million, with sales tonnage increasing by 11.8% to 49,903 tonnes. The CRC Division registered a Profit Before Tax of RM 7.36 million during the quarter, as CRC prices improved in anticipation of the anti-dumping action by the government.

For the fourth quarter, revenues was up a further 4.8% to RM 105.1 million, with sales tonnage improving 2.7% to 51,265 tonnes. The CRC Division registered a further Profit Before Tax of RM 7.52 million, as prices stabilised following the anti-dumping gazette in May 2016.

## DOMESTIC CRC INDUSTRY STRUCTURE

Hot Rolled Coil ("HRC") steel sheets are the basic raw material used in the production of Cold Rolled Coils ("CRC") steel sheets. CRC manufacturers, in general, produce two types of CRC, namely:

1. Scrap Based CRC (produced from Scrap Based HRC), and
2. Iron Ore Based CRC (produced from Iron Ore Based HRC).

Due to different metallurgic qualities, Scrap Based CRC is inferior in quality compared to Iron Ore Based CRC as the former contains impurities inherent in the scrap used to manufacture the HRC. Being of lower quality, Scrap Based CRC are used by downstream manufacturers mainly in the steel tube and furniture sectors.

On the other hand, the higher quality Iron Ore Based CRC are used by downstream manufacturers mainly involved in the production of steel drums for the petroleum and palm oil sectors, for making components for the automotive industry, for producing steel sheets for color coating and galvanizing purposes, and also in manufacturing electrical appliances comprising of white goods like television sets, refrigerators, microwave ovens, rice cookers, etc.

| | CRC Production (estimated) * | | | 2015 CRC | | |
|---|---|---|---|---|---|---|
| CRC Industry Statistics | 2013 t/y | 2014 t/y | 2015 t/y | t/y Capacity | Capacity Utilisation | t/y Unused Capacity |
| CRC Steel Bhd | 418,000 | 400,000 | 420,000 | 620,000 | 67.7% | 200,000 |
| Mycron Steel Bhd | 180,000 | 203,000 | 187,000 | 260,000 | 71.9% | 73,000 |
| YKGI Bhd | 105,000 | 120,000 | 110,000 | 200,000 | 55.0% | 90,000 |
| Eonmetal Group Bhd | 50,000 | 25,000 | 25,000 | 120,000 | 20.8% | 95,000 |
| | 753,000 | 748,000 | 742,000 | 1,200,000 | 61.8% | 458,000 |
| Megasteel Sdn Bhd | 50,000 | 50,000 | 0 | 1,450,000 | 0.0% | 1,450,000 |
| Total | 803,000 | 798,000 | 742,000 | 2,650,000 | 30.1% | 1,908,000 |
| **Capacity Utilisation** | | | | | | |
| Excluding MegaSteel | 62.8% | 62.3% | 61.8% | | | |
| Including MegaSteel | 30.3% | 30.1% | 28.0% | | | |

* estimated calendar year production (source: MISIF)

Table 2

# Chairman's Statement

(continued)

Currently, there are 5 domestic CRC manufacturers producing both Scrap Based and Iron Ore Based CRC. The estimated utilization rate and total capacity for the industry are shown in Table 2.

It will be noted that the industry's capacity utilisation rate is very low at 28.0%, principally due to non-operation of MegaSteel's CRC plant.

Even when excluding MegaSteel from the statistics, the industry's average capacity utilisation is still low at only 61.8%, which means that the country is only producing 742,000 tonnes, when it could have been producing 1,200,000 tonnes of CRC. This means that there is a substantial unused capacity of 458,000 tonnes of CRC that could have been manufactured domestically.

This excess of unused capacity in the cold rolling sector is caused by the large amounts of imported CRC, totalling 846,000 tonnes in 2015, almost all of which could have been manufactured in Malaysia. Refer to Table 3 for a summary of the imports of flat steel into the country.

When one considers the imports of CRC related products (such as electrical, galvanized and colour coated sheets) of 631,000 tonnes in 2015, the combined magnitude of cold rolled steel sheets being imported into the country is enormous, at 1,477,000 tonnes.

The dumping practices of certain countries has perpetuated this high level of imports, even in an environment when the 15% import duties imposed by the Malaysian government is applied.

It is therefore heartening to note the anti-dumping action taken up by MITI in May 2016 against certain manufacturers from China, South Korea and Vietnam. Hopefully with this action, the domestic industry will experience better capacity utilisation rates in the near future.

| **FLAT STEEL IMPORTS** | | | | | | | **2015** |
|---|---|---|---|---|---|---|---|
| **Class** | **Description** | **2011** | **2012** | **2013** | **2014** | **2015** | **Increase** |
| | **HRC & Related Products** | t/y | t/y | t/y | t/y | t/y | |
| 481 | Hot Rolled Coil (HRC) Sheets (Carbon Steel) | 779,939 | 826,765 | 938,944 | 1,064,983 | 1,251,399 | 17.5% |
| 470 | Plates | 285,714 | 331,052 | 389,486 | 359,901 | 283,988 | -21.1% |
| 720 | Welded Pipes & Tubes | 414,082 | 529,597 | 631,655 | 552,069 | 162,668 | -70.5% |
| | | **1,479,735** | **1,687,414** | **1,960,085** | **1,976,953** | **1,698,055** | **-14.1%** |
| 511 | **Cold Rolled Coil (CRC) Sheets (Carbon Steel)** | **820,675** | **765,789** | **851,234** | **814,731** | **846,304** | **3.9%** |
| | **CRC Related Products** | | | | | | |
| 520 | Cold-Rolled Electrical Sheets | 131,732 | 105,202 | 119,241 | 108,782 | 111,604 | 2.6% |
| 611 | Galvanized (Hot Dipped) Zinc Sheets | 285,837 | 353,373 | 376,109 | 304,618 | 279,155 | -8.4% |
| 612 | Electro-Galvanized Iron (EGI) Sheets | 172,951 | 149,316 | 131,514 | 108,146 | 74,131 | -31.5% |
| 620 | Tin Plated Sheets | 64,684 | 95,380 | 97,248 | 98,805 | 85,057 | -13.9% |
| 692 | Color Coated Sheets | 36,510 | 90,674 | 57,384 | 59,853 | 43,473 | -27.4% |
| 693 | Other Metallic Coated Sheets | 26,477 | 20,681 | 23,814 | 28,763 | 37,955 | 32.0% |
| | **Total CRC Related Products** | **718,191** | **814,626** | **805,310** | **708,967** | **631,375** | **-10.9%** |
| **HRC, CRC & CRC Related Products** | | **3,018,601** | **3,267,829** | **3,616,629** | **3,500,651** | **3,175,734** | **-9.3%** |
| | y-o-y Increase | -9.0% | 8.3% | 10.7% | -3.2% | -9.3% | |

Table 3 (source: MISIF, Malaysian Iron and Steel Industry Federation)

## STEEL TUBE OPERATIONS REVIEW

Business activities in the Steel Tube division remained unchanged at 72,188 tonnes for FY 2016, compared to the previous year's 72,870 tonnes, reflecting the intense competition of many players in a soft domestic market. Table 4 shows the quarterly operating performance of the Steel Tube division.

| **MST Steel Tube Operations** | | **FY 2016** | | | | | **FY 2015** |
|---|---|---|---|---|---|---|---|
| **Financial Year ended 30 June 2016** | | **Q1** | **Q2** | **Q3** | **Q4** | **TOTAL** | **TOTAL** |
| Sales Revenue | RM mil | 50.3 | 55.8 | 48.5 | 51.5 | 206.1 | 218.8 |
| Production Output | tonnes | 17,652 | 18,974 | 18,719 | 16,843 | 72,188 | 72,870 |
| Capacity Utilisation | % max | 47.5% | 51.0% | 50.3% | 45.3% | 48.5% | 49.0% |
| Profit Before Tax | RM mil | 0.67 | 2.63 | 1.05 | 5.05 | 9.40 | (0.79)# |

Table 4 Total Capacity 148,800t/y

# *Exclude impairment loss*

# Chairman's Statement
(continued)

For the first financial quarter, sales revenue was 13.0% lower at RM 50.3 million compared to the previous quarter's RM 57.8 million. In terms of sales volume, the lower sales tonnage of 17,652 tonnes compared to the previous quarter (Q4 2015: 20,748 tonnes) was due to the Hari Raya holidays and celebrations, and also due to the disruption in the HRC supplies from MegaSteel, as a result of a plant breakdown.

For the second financial quarter, total sales revenue improved by 10.9% to RM 55.8 million, caused by an increase in sales tonnage of 7.5% to 18,974 tonnes as a catch up due to the delayed MegaSteel HRC deliveries in the first quarter.

For the third financial quarter, total sales revenue was down 13.1% to RM 48.5 million due to weakening prices. During the quarter, sales tonnage fell by only 1.3% to 18,719 tonnes.

For the fourth quarter, sales revenue recovered by 6.2% to RM 51.5 million as prices recovered, offset by a fall in sales tonnage of 10.0% to 16,843 tonnes.

Overall, Profit Before Tax improved during the financial year to RM 9.40 million compared to a pre-tax loss before impairment of RM 0.79 million in the previous year, as a result of improved margins caused by a drop in the overall cost of HRC.

## DOMESTIC FLAT STEEL INDUSTRY SUMMARY

| FLAT STEEL CONSUMPTION | | | | | | | 2015 |
|---|---|---|---|---|---|---|---|
| **Class** | **Description** | **2011** | **2012** | **2013** | **2014** | **2015** | **Change** |
| | **HRC & Related Products** | t/y | t/y | t/y | t/y | t/y | |
| 481 | Hot Rolled Coil (HRC) Sheets (Carbon Steel) | 2,035,146 | 1,848,363 | 2,041,342 | 1,779,605 | 1,949,788 | 9.6% |
| 470 | Plates | 422,673 | 441,360 | 516,295 | 476,063 | 441,417 | -7.3% |
| 720 | Welded Pipes & Tubes | 377,538 | 550,875 | 742,800 | 302,692 | 285,037 | -5.8% |
| | | **2,835,357** | **2,840,598** | **3,300,437** | **2,558,360** | **2,676,242** | **4.6%** |
| 511 | **Cold Rolled Coil (CRC) Sheets (Carbon Steel)** | **1,601,937** | **1,567,320** | **1,563,895** | **1,589,705** | **1,534,366** | **-3.5%** |
| | **CRC Related Products** | | | | | | |
| 520 | Cold-Rolled Electrical Sheets | 113,018 | 95,701 | 111,977 | 102,291 | 104,484 | 2.1% |
| 611 | Galvanized (Hot Dipped) Zinc Sheets | 860,352 | 667,729 | 787,481 | 733,989 | 702,451 | -4.3% |
| 612 | Electro-Galvanized Iron (EGI) Sheets | 270,861 | 284,970 | 311,378 | 301,282 | 250,430 | -16.9% |
| 620 | Tin Plated Sheets | 139,586 | 155,224 | 170,239 | 164,442 | 172,267 | 4.8% |
| 692 | Color Coated Sheets | 220,134 | 275,840 | 252,397 | 235,645 | 238,260 | 1.1% |
| 693 | Other Metallic Coated Sheets | 23,701 | 19,328 | 19,173 | 26,588 | 34,209 | 28.7% |
| | | **1,627,652** | **1,498,792** | **1,652,645** | **1,564,237** | **1,502,101** | **-4.0%** |
| **HRC, CRC & CRC Related Products** | | **6,064,946** | **5,906,710** | **6,516,977** | **5,712,302** | **5,712,709** | **0%** |
| | y-o-y change | -1.0% | -2.6% | 10.3% | -12.3% | 0.0% | |

Table 5 (source: MISIF, Malaysian Iron and Steel Industry Federation)

Malaysia's overall flat steel consumption was flat in calendar year 2015 at 5.71 million tonnes (refer to Table 5).

Due to a weakness in demand, the domestic consumption of non-HRC flat steel products was relatively weak during that period: CRC down by 3.5%, CRC related products (like electrical, galvanized and color coated sheets) down by 4.0%, and Steel Pipes and Tubes down by 5.8%.

The domestic consumption of HRC on the other hand, grew by 170,000 tonnes (or 9.6%) to 1.95 million tonnes (refer to Table 5) whilst imports of HRC grew by 186,000 tonnes (or 17.5%) to 1.25 million tonnes (refer to Table 3) to reflect that growth in demand. The domestic production of HRC was therefore unchanged.

Surprisingly, on 13th July 2015, MegaSteel, the single largest domestic HRC manufacturer, submitted a Safeguard petition to MITI, citing it was injured due to excessive imports of HRC into the country. The petition requested the Malaysian government to impose safeguard duties on the import of HRC at the rate of 40% on top of the existing 15% import duty on HRC (i.e. total 55% duty), with the rate gradually reducing over a period of four years.

The Group is of a view that such a petition was baseless, and if implemented would have crippled and permanently damaged the domestic mid-stream steel industry.

# Chairman's Statement
(continued)

In accordance with the World Trade Organization (WTO) rules, a public hearing was held on 4th November 2015 in MITI's office, attended by 38 interested parties. The safeguard request was unanimously opposed by the Malaysian Iron and Steel Industry Federation ("MISIF"), Japan Iron and Steel Industry Federation ("JISIF"), China Iron and Steel Association ("CISA") and many others, who jointly argued that the Safeguard request had no merits.

After conducting its own investigation and reviewing the formal submissions provided by both sides, MITI terminated the HRC Safeguard investigation. Under WTO rules, another Safeguard petition may not be entertained for the next two years.

## HRC SUPPLY

HRC is the core raw material used by the Group, for both its CRC and Steel Tube manufacturing operations.

In 2015, of the 1.95 million tonnes of HRC consumed in the country, 0.71 million tonnes was manufactured domestically. Refer to Table 6 for an analysis of material movements.

Of the 1.95 million tonnes of HRC consumed, 799,000 tonnes (or 41.0%) was used to produce CRC whilst 842,000 tonnes (or 43.2%) was used to produce Steel Pipes and Tubes.

Sourcing HRC at a fair price and delivery reliability is clearly imperative for the going concern of CRC and Steel Tube manufacturers.

For the manufacture of the Steel Tubes, the Group uses Scrap Based HRC, which was exclusively supplied by the former sole manufacturer of HRC in Malaysia, MegaSteel Sdn Bhd ("MegaSteel"). In early 2016, MegaSteel had announced a temporary cessation of HRC production, which, up to the date of this report, has not recommenced.

Another local Scrap Based HRC manufacturer, Southern Steel Berhad ("Southern Steel"), started production of HRC in 2015. Southern Steel had encountered some technical problems in their production and has also temporarily ceased operations, with legal cases being drawn up against their equipment suppliers.

With no domestic HRC manufacturer currently in operation, the Group has been importing all its HRC needs, mainly from Japan, but with some minor supplies from other regional countries. Fortunately, having had a very long history of importing Iron Ore Based HRC from reliable suppliers, the Group is well-positioned to continue its business without any disruptions to its operations.

As mentioned earlier, MegaSteel had filed for a Safeguard petition, which was rejected by MITI in early 2016, a move which was welcomed by the domestic steel industry. It is understood that MegaSteel is challenging the Government's decision not to impose the Safeguard measures. This is being closely monitored by the entire steel industry as well as affected and interested parties locally and abroad. It is hoped that the challenge will not be successful for the sake of the future of the local mid-stream steel industry.

| MALAYSIAN FLAT STEEL 2015 | | Production | Import | Export | Consumption | |
|---|---|---|---|---|---|---|
| Class | Description | tonnes | tonnes | tonnes | tonnes | % change |
| | **HRC & Related Products** | | | | | |
| 481 | Hot Rolled Coil (HRC) Sheets (Carbon Steel) | 706,500 | 1,251,399 | 8,111 | 1,949,788 | 9.6% |
| 470 | Plates | 180,000 | 283,988 | 22,571 | 441,417 | -7.3% |
| 720 | Welded Pipes & Tubes | 841,500 | 162,668 | 719,131 | 285,037 | -5.8% |
| | | **1,728,000** | **1,698,055** | **749,813** | **2,676,242** | **4.6%** |
| 511 | **Cold Rolled Coil (CRC) Sheets **** | **798,682** | **846,304** | **110,650** | **1,534,336** | **-3.5%** |
| | **CRC Related Products** | | | | | |
| 520 | Cold-Rolled Electrical Sheets | 0 | 111,604 | 7,120 | 104,484 | 2.1% |
| 611 | Galvanized (Hot Dipped) Zinc Sheets | 467,014 | 279,155 | 43,718 | 702,451 | -4.3% |
| 612 | Electro-Galvanized Iron (EGI) Sheets | 235,710 | 74,131 | 59,411 | 250,430 | -16.9% |
| 620 | Tin Plated Sheets | 132,147 | 85,057 | 44,937 | 172,267 | 4.8% |
| 692 | Color Coated Sheets | 229,842 | 43,473 | 35,055 | 238,260 | 1.1% |
| 693 | Other Metallic Coated Sheets | 0 | 37,955 | 3,746 | 34,209 | 28.7% |
| | | **1,064,713** | **631,375** | **193,987** | **1,502,101** | **-4.0%** |
| **HRC, CRC & CRC Related Products** | | **3,591,395** | **3,175,734** | **1,054,450** | **5,712,679** | **0.0%** |

*** Includes Cold Rolled Carbon & Stainless Steel Sheets* source: MISIF

Table 6

# Chairman's Statement
(continued)

Imposing high duties will make Malaysian CRC and Steel Tube products uncompetitive and expensive, and will cripple demand for such products.

It is hoped that the Government will not reverse its decision to avoid implementing Safeguard measures, which may negatively tarnish Malaysia's position as a major trading nation, and which may invite retaliatory action against the country, in a tit-for-tat imposition of duties on other Malaysian products, such as palm oil and manufactured goods.

## LONG-TERM OUTLOOK

The Malaysian government's current import duty for flat steel material of 15% is considered reasonable enough, to shield the industry from dumping practices of steel manufacturers that enjoy export subsidies from their respective governments (e.g. China). As CRC is an important component for the manufacture of many downstream products such as automobiles, white goods (e.g. television, computers, handphones, rice cookers, refrigerators, air-conditioners, etc.), drums for petroleum and palm oil export, furniture and roofing sheets, protecting the supply of CRC is key to securing the country's long-term position as a major trading and manufacturing base for the world.

China's total steel export recorded an all-time high of 112.4 million tonnes in 2015, up 20% year-on-year, while its exports to ASEAN countries was even higher, at 28% year-on-year, at 31.9 million tonnes. It was therefore of no surprise that between 2013 and 2015, a total of 65 unfair trade complaints were made by countries all over the world against China's steel trade practices.

It is the Group's long-term view that the Malaysian government will continue to practice sound judgement in its flat steel policy, which bodes well for the Group's activities. The ability to keep Malaysia as a competitive manufacturer, whilst protecting its industries from unfair trade practices, takes great skill, and can only be achieved with open dialogue between regulators and industry.

Although the steel industry is highly competitive and is subject to significant global supply and demand anomalies, the prospects for the business are still positive as global demand grows. To this end, the Group is currently exploring the opportunities for export of its CRC and Steel Tube products, to take advantage of recently signed free trade agreements.

The ability to turn a profit from this mid-stream steel activity, is paramount for the Group's ability to survive in this industry. Maintaining strict control on operating costs with the consistent monitoring of production efficiencies is the key for success. The Group has been successful in these activities, which has allowed it to generate profits, as the results of this financial year illustrates.

Subject to unforeseen circumstances, the long-term prospects for the Group's activities in this mid-stream steel industry is positive.

## PROSPECTS FOR THE NEW FINANCIAL YEAR

Even though the Group has performed well for the period under review, there is no guarantee that the same performance will be attained in the coming year. There are both internal and external factors that can affect the performance of the domestic steel industry, including the direction of the local and global economies, the strength/weakness of the Ringgit, the China export factor, and how the Government reacts to dumping practices.

A plus point for local CRC manufacturers was the recent anti-dumping action taken against CRC imported from South Korea, Vietnam and China in May 2016.

Going forward, domestic demand will continue to be the main driver of growth, supported primarily by private sector spending. Private consumption is expected to expand further, underpinned by continued growth in wages and employment, as well as additional disposable income following government stimulus measures. Projects under the newly launched 11th Malaysia Plan should also augur well for the steel industry as a whole.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my heartfelt appreciation and thanks to all members of the management team and their staff for their hard work and dedication as well as contribution to the Group.

It is during these hard times that we differentiate ourselves by focusing our efforts in making quality products, backed by excellent after sales services. Mycron will continue to be a force in the domestic mid-stream steel industry for many years to come. Success does not always come easy and usually start from humble origins.

**TUNKU DATO' YAACOB KHYRA**
Executive Chairman

# Management Discussion & Analysis Statement

This Statement provides the management's analytical overview of the group's operations and financial performance for the Financial Year ended 30 June 2016 in supplement of other statements contained in this annual report such as the Chairman's statement, the Statement on Risk Management and Internal Controls, and the audited Financial Statements. Analytical disclosures made herein are based on available management information which may not have been specifically audited, and are made to the extent that these do not compromise competitively sensitive information. This section may also contain opinions and forward-looking views, and as such users' discretion is advised.

## OVERVIEW

The Group's net profits for the current financial year at RM24.2 million is more than twice the preceding financial year's at RM11.7 million. The considerably better performance for the current financial year despite the significant one-off 'gain of bargain purchase' of RM21.3 million in the preceding financial year can be attributed to the following factors:

- The current financial year includes the consolidation of the steel tube subsidiary's full year's results as compared to only a single quarter's in the preceding financial year
- The current financial year recorded a lower rate of decline in the Ringgit against the USD at 6% as compared to a catastrophic drop of 18% in the preceding financial year. Coupled with a higher rate of hedging in the current financial year, the Group recorded a small net foreign exchange loss of RM734 thousand (compared with 2015's loss at RM5.6 million)
- Both the cold rolled and the steel tube subsidiaries recorded stronger gross margins at 14.1% and 11.8% respectively (compared to 5.0 % and 6.3% respectively in the preceding financial year)

Bottom-line profitability aside, it is pertinent to note that the Group's 'operating cash-flow before changes in working capital' recorded a five-fold increase from RM15.6 million in financial year 2015 to RM68.2 million in financial year 2016. The surplus operating cash-flow went mainly towards supplementing working capital requirements of the steel subsidiaries and the paring down of bank-trade credits utilization which resulted in significantly lower bank gearing at 0.26 (2015: 0.57). The steel subsidiaries however stepped up utilization of interest-bearing suppliers' trade credits during the current financial year to bring the absolute gearing of the Group to 0.57 (2015: 0.84).

Outlined below are key financial ratios of the Group for the current financial year and the preceding financing year for comparison – which recorded significant improvement in all the key measures on profitability, liquidity, gearing, and valuation.

| Group Ratios | FYE2016 | FYE2015 |
|---|---|---|
| Profitability | | |
| Operational Return on Asset (EBIT/Average Assets) | 9.39% | 5.98% |
| Return on Equity (Net Earnings/Equity) | 7.21% | 3.82% |
| Liquidity | | |
| Current Ratio (Current Asset/Current Liabilities) | 1.16 | 0.95 |
| Interest Cover (EBITDA/Net Interest Expense) | 6.22 | 4.11 |
| Gearing | | |
| Debt to Equity ratio | 0.57 | 0.84 |
| Valuation | | |
| Net Asset per share (RM/share) | 1.18 | 1.08 |
| Enterprise value/Total comprehensive Income | 10.1 | 16.9 |

Unlike the preceding financial year's auditors' report which carried an "Emphasis of Matter" on the existence of material uncertainty on going-concern due to its Net Current Liability position of RM11.8million (2016: Net Current Asset RM 33.8 million) and amongst others, the auditors' report for the current financial year has no similar emphasis.

## SEGMENT'S PERFORMANCE

Segments' contribution from both the Cold Rolled Coil and the Steel Tube businesses to the Group's performance is disclosed in Note 29 of the financial statements. An analysis of these are summarised below.

# Management Discussion & Analysis Statement

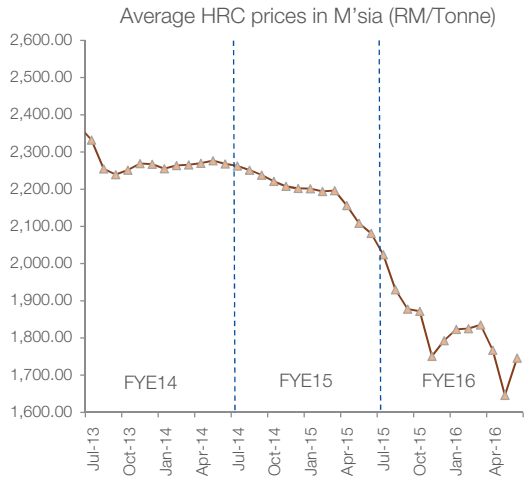
(continued)

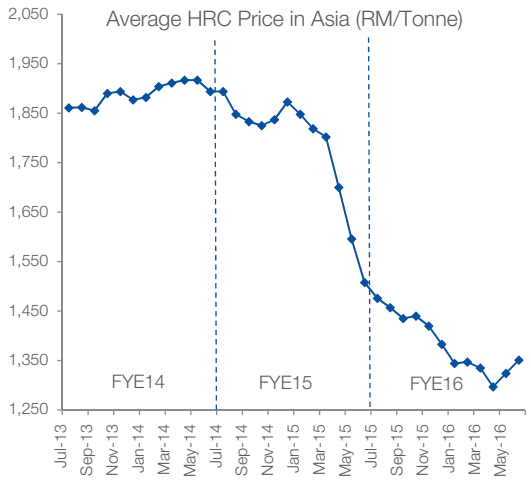
| 2016 | Cold-Rolled | Steel Tube |
|---|---|---|
| Segment's Revenue/Asset Employed : Ringgit on Ringgit | 0.88 | 1.34 |
| Segment's Net Earnings/Asset Employed : Sens on Ringgit | 4.22 | 4.47 |
| Segment's Asset/Total Assets | 72.5% | 27.4% |
| Segment's Net Earnings/Total Earnings | 71.2% | 28.5% |
| Operational Return on Assets (EBIT/Average Assets) | 9.09% | 7.40% |

*Note: Comparative figures for the preceding financial year ended 2015 is not applicable as the Steel Tube segment was only acquired in the last financial quarter of 2015.*

The Steel Tube segment's "revenue to asset employed" ratio is higher than the Cold Rolled's due to its lower asset-base as its factories' land and buildings are rented from the Group's ultimate holding parent company. After taking into account of the rental cost in the steel tube segment, the "net earnings to asset employed" for both the segments are more comparable. The high asset-base can be attributed to the Group's fair value accounting of its property, plant & equipment which have recorded strong revaluation gains on its factory land and buildings at RM5.4 million for the current financial year (2015: RM6.0 million).

Unlike the up-stream steel industries in ore mining and/or raw steel processing, the Group's mid-stream steel segments' performance is less tied to the vagaries of iron ore or raw steel prices than compared to unfair competition and market distortion. In the last 36 months from the current financial year end, the prices of Hot Rolled Coil ("HRC") which is the main raw material for the Group's steel processing, has declined by as much 30% at the lowest point – as shown in the charts below. The Group's better performance for the current financial year can be attributed to improved spreads between finished goods' selling prices and raw material costs arising from a more levelled competitive landscape.




*Source: various*

Domestic HRC prices typically have been higher than foreign HRC prices and are less elastic in respond to international price movement. This is due to the market protection regulations which domestic HRC producers have enjoyed in the past at the detriment of mid-stream manufacturers who are compelled by law to procure from domestic sources at higher prices. Despite the market protection, the two domestic HRC producers have halted production due to legacy problems in the 1st half of 2016. This coupled with the anti-dumping actions levied on Cold Rolled Coil imports from China, Korea and Vietnam, would promote a more levelled competitive landscape which should augur well for the Group's mid-stream cold rolled and down-stream steel tube manufacturing.

## CHALLENGES

As disclosed in Notes 4 (a) to (e) of the financial statements, the main financial risks of the Group are generally low and are not expected to post any material issues.

However, the Group's mid-stream steel businesses continue to bear the brunt of the Banking industries' continuing negative bias towards the Steel Industry as a whole due to the non-performing loan experiences with the upstream players – especially with the high profile cessation of business by the dominant domestic hot-rolled manufacturer. In this regard, the Group joined hands with the Malaysian Iron & Steel Industry Federation in addressing the matter with Bank Negara Malaysia on 29 October 2015. Whilst the Group's steel businesses' trade financing requirement is not at risk, the Banking Industries' negative bias on the Steel Industry as a whole makes it difficult for the Group to seek longer maturity debts and may impede higher gearing for an optimal weighted average cost of capital.

# Corporate Social Responsibility Statement

The Board of Directors acknowledges that Corporate Social Responsibility ("CSR") is the basis for building positive relationship towards the community, environment, its employees, customers, suppliers, shareholders and other stakeholders. At present, the Group continues to focus on improving the health and safety as well as welfare of the employees and workers within the organization. In pursuit of its corporate objective, the Group is committed to conduct its business in an economical, social and environmental sustainable manner.

## BUSINESS GOVERNANCE ETHICS

The Group is continuously committed to promote and maintain transparency, accountability and ethics in the conduct of its business and operations with the stakeholders, including our Government and Authorities, Shareholders and Investors, Customers, Suppliers, Employees and Communities. This includes the implementation of internal control systems such as a financial authority framework and risk management framework. Coupled with this, the Company's Audit Committee and Risk Management Committee periodically review these internal control systems together with recommendations from Internal and External Auditors as well as appointed Advisors for projects undertaken by the Company.

The Group aims to develop and evolve good relationships - trust, mutual respect, understanding with our stakeholders who have an effect on, or is affected by our businesses.

The Group has introduced various channel to engage with our stakeholders to understand and respond to their expectations and interests with regard to our services and operations.

The Group's main suppliers consist of equipment manufacturers and raw material suppliers, consumables. The Group works closely with the suppliers to create a high-quality, reliable supply chain that meets our high ethical standards. The Group has had regular engagement sessions with suppliers to identify areas and methods for improvement and to resolve issues.

The Group Procurement Department ensures diversification of supply chain to mitigate the risk of disruption to our operations. The Group's operations maintain at least one primary and one secondary supplier for raw material, consumables and spare parts, wherever possible.

The Company attained ISO 14001 : 2004 (Environmental Management System) in 2014 and successfully migrated to 2015 version in May 2016. This certification demonstrates that the Company has in place effective measures to improve resource efficiency reduce waste and drive down operation costs.

We have defined our commitment to Corporate Sustainability across five impact areas:

### 1. CUSTOMER SATISFACTION

The Group is unwavering in meeting its standards of excellence by ensuring the delivery of quality in project execution and meeting all customer deliverables as detailed in our contracts.

We aspire towards full realisation of ISO standards (ISO 9001 : 2015 & ISO14001 : 2015) throughout our operations and the application of established quality practices and policies. The Group is committed to improving compliance with product requirements and the effectiveness of its Quality Management System on a continuing basis.

### 2. WORKPLACE

The Group values its human capital and will continuously improve and provide our employees with the necessary knowledge and skills, opportunities for personal growth and work life balance. The Group adheres to the Malaysia's Employment & Labour laws with regard to the terms and conditions of employment for all its employees. The Group's Employee Handbook provides guiding principles on the standards of ethics and professional conduct for employees.

The Group recognises the value of workforce diversity and inclusiveness, and as such, there is no discrimination against employees or applicants in terms of gender, age and ethnicity. The Group recognises and values employees who have displayed outstanding performance or achievement in their career with the Group and may appropriately reward such employees.

The areas that the Group specifically looks at are:

#### (a) Safer workplace

The Directors are committed to provide a safe, healthy and quality working environment for the employees and customers and to minimize any preventable accidents and health hazards that may occur in any of the business premises. Regular Safety campaigns/briefings/trainings were conducted to create awareness of safety at all working levels.

# Corporate Social Responsibility Statement
(continued)

The Company practices "Safety Day" once bi-monthly with series of activities to further enhance their knowledge in health, safety and environmental not only in the workplace but also in the communities we operate in.

**(b) Human resource development**

The Group also ensures there are growth, development and progression opportunities for the employees through in-house training, seminar, workshops and talks. This will equip them with the latest job-related updates and learning.

**(c) Employees' welfare**

In appreciation of the employees' loyalty, valuable support and commitments to the Company, Long Service awards were presented to staffs who have worked for more than 10 years with the Company.

The Company has also maintained the policy of rewarding the employees when the "Accident Frequency Rate" is kept at a minimal level under its safety campaign named "Know safety no Injury".

## 3. MARKETPLACE

The Group is committed to maintain a proper framework to ensure that the business is run in an efficient and transparent manner in the interest of all its stakeholders. Ensuring that the business is conducted in a fair, transparent, sustainable and professional manner, the Group focused on delivering products of quality and being customer focused.

## 4. ENVIRONMENT

The Group is committed to conduct its operations to minimize any negative impact on the environment. In our daily operations, the Group continues to be committed to:

(i) Save Energy - Employees are encouraged to switch off non-essential electrical machinery, equipment and appliances when not in use. E.g. temperature of the air-conditioner is controlled at 23°C by default.

(ii) Save trees - The Company has invested on the information technology system to reduce the usage of paper in the daily operations and to practice recycling paper waste. E-mail, E-newsletter has been practised extensively to reduce the usage of papers.

(iii) 3R programs (Reduce, Reuse & Recycle) - Encourage and implement 3R concepts across the plant to reduce waste and drive cost down. Reduce waste by improving machine efficiency and quality, Reuse the papers by enforcing double sided printing, recycle the used cotton rags and re-use them in the production for non-critical application.

In order to reduce our energy consumption, the Company has replaced the existing office and plants lightings to led units. Led lighting is also being utilised whenever possible in the production area. The Company is also tracking the energy and water consumption on a monthly basis to ensure the resources are being used wisely and effectively.

Besides the above initiatives, the Company had also undertaken a Rainwater Harvesting Project since 2011 to reduce our consumption of water from SYABAS. This project also alleviates the rainwater peak run-off and helps to prevent flooding and soil erosion of our surrounding areas.

## 5. COMMUNITY

The Group aims to add value to the community in which it operates its business, and through this engagement, enhance the long-term sustainability of the business.

In recognising the above, the Company has set up an Emergency Response Team (ERT). We have presently 28 employees in the Emergency Response Team who are being trained by Bomba.

Realising the social responsibility towards the community, the Group has contributed to the funds of orphanages and charitable organisations.

# Corporate Information

| | | |
|---|---|---|
| **Domicile** | : | Malaysia |
| **Legal Form & Place of Incorporation** | : | A public listed company incorporated in Malaysia under the Companies Act, 1965 and limited by shares |
| **Directors** | : | Tunku Dato' Yaacob Khyra<br>■ *Executive Chairman*<br><br>En Azlan bin Abdullah<br>■ *Executive Director/Chief Executive Officer*<br><br>Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah<br>■ *Non-Independent Non-Executive Director*<br><br>Tan Sri Datuk Seri Razman Md Hashim<br>■ *Independent Non-Executive Director*<br><br>Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah<br>■ *Independent Non-Executive Director*<br><br>En Shazal Yusuf bin Mohamed Zain<br>■ *Independent Non-Executive Director*<br><br>Mr Muk Sai Tat<br>■ *Independent Non-Executive Director* |
| **Secretary** | : | Ms Lily Yin Kam May |
| **Audit Committee** | : | Mr Muk Sai Tat<br>■ *Chairman*<br><br>Tan Sri Datuk Seri Razman Md Hashim<br>■ *Member*<br><br>En Shazal Yusuf bin Mohamed Zain<br>■ *Member* |
| **Registrar & Transfer Office** | : | Trace Management Services Sdn Bhd<br>Suite 12.03, 12th Floor<br>No. 566 Jalan Ipoh<br>51200 Kuala Lumpur<br>Telephone No. : 03-6252 8880<br>Telefax No. : 03-6252 8080 |
| **Registered Office** | : | Suite 12.03, 12th Floor<br>No. 566 Jalan Ipoh<br>51200 Kuala Lumpur<br>Telephone No. : 03-6252 8880<br>Telefax No. : 03-6252 8080 |

# Corporate Information
(continued)

| | | |
|---|---|---|
| **Principal Place of Business** | : | Lot 717 Jalan Sungai Rasau<br>Seksyen 16<br>40200 Shah Alam<br>Selangor Darul Ehsan<br>Telephone No. : 03-5510 6608<br>Telefax No. : 03-5510 3720 |
| **Solicitors** | : | Messrs Reddi & Co. Advocates<br>REDDI Building<br>2nd and 3rd Floors<br>No. 393, Jalan Datuk Abang Abdul Rahim<br>93450 Kuching<br>Sarawak, Malaysia<br>Telephone No. : 082-484 466<br>Telefax No. : 082-484 477 |
| **Auditors** | : | Messrs PricewaterhouseCoopers (AF 1146)<br>Level 10, 1 Sentral<br>Jalan Rakyat<br>Kuala Lumpur Sentral<br>50706 Kuala Lumpur<br>Telephone No. : 03-2173 1188<br>Telefax No. : 03-2173 1288 |
| **Principal Bankers**<br>**(In alphabetical order)** | : | ■ Bangkok Bank Berhad<br>■ OCBC Bank (Malaysia) Berhad |
| **Stock Exchange Listing** | : | Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”)<br>Stock Number 5087 |
| **Website** | : | www.mycronsteel.com |
| **E-mail** | : | enquiry@mycronsteel.com |

# Mycron Steel Berhad

# Quality Recognition

Mycron Steel constantly improves its operations and strives to meet customer's expectations. In 1996, Mycron Steel achieved its ISO 9001 certification by SIRIM and IQNet. Since it was established, the effectiveness of the Quality Management System has been continually refined and adapt to global challenges.

- *In 2002 : ISO 9001 : 2000 certification in Quality Management System*
- *In 2008 : ISO 9001 : 2008 certification in Quality Management System*
- *In 2016 : ISO 9001 : 2015 certification in Quality Management System*

Mycron Steel believes it has an important role to ensure continual improvement of environmental performance in all its business operations. On 30th June 2014, Mycron Steel reached another milestone in its green environmental pathway by obtaining the ISO 14001 : 2004 Environmental Management System certification. This certification is to provide assurance that its operations not only meet the legal obligations, but also its environmental impacts are being measured. Mycron Steel sets an annual environmental improvement targets and objectives and the KPIs are regularly reviewed are publicised throughout the organisation. All the staff are committed to improve resource efficiency, promoting 3R (Reuse, Reduce & Recycle) and where possible, to work with suppliers and customers to make our factory a green and safe workplace.

In Sept 2016, Mycron Steel demonstrates a due diligence to ensure its products meeting the relevant criteria for quality. We have obtained our product certification by SIRIM in recognition of our product quality compliance against the Malaysian Standard (MS 2651 : 2015) and Japanese Industrial standards (JIS G3141 : 2011). Mycron Steel's products are verified, tested and confirmed in meeting the parameters covered by the two mentioned Quality Standards. This certification is beneficial not only to Mycron Steel but also the industry as a whole, and its customers, as it increases customers' confidence level in our product quality and consistency.


# Quality Recognition
(continued)

CERTIFICATE

MYCRON STEEL CRC SDN. BHD.
LOT 717, JALAN SUNGAI RASAU
SEKSYEN 15
40200 SHAH ALAM
SELANGOR DARUL EHSAN
MALAYSIA

ISO 14001 : 2004

MANUFACTURE OF COLD ROLLED STEEL SHEET IN COIL

IQNet

CERTIFICATE

MYCRON STEEL CRC SDN. BHD.
LOT 717, JALAN SUNGAI RASAU
SEKSYEN 15
40200 SHAH ALAM
SELANGOR DARUL EHSAN
MALAYSIA

ENVIRONMENTAL MANAGEMENT SYSTEM

ISO 14001 : 2004

MANUFACTURE OF COLD ROLLED STEEL SHEET IN COIL

LESEN PENSIJILAN BARANGAN
*Product Certification Licence*

MYCRON STEEL CRC SDN. BHD.
LOT 717, JALAN SUNGAI RASAU
SEKSYEN 15
40200, SHAH ALAM
SELANGOR, MALAYSIA

COLD-REDUCED CARBON STEEL SHEET AND STRIP OF COMMERCIAL AND DRAWING QUALITIES

Please refer to detail in the SCHEDULE

LESEN PENSIJILAN BARANGAN
*Product Certification Licence*

MYCRON STEEL CRC SDN. BHD.
LOT 717, JALAN SUNGAI RASAU
SEKSYEN 15
40200, SHAH ALAM
SELANGOR, MALAYSIA

COLD REDUCED CARBON STEEL STRIP

Please refer to detail in the SCHEDULE

# Profile of Directors

**Tunku Dato' Yaacob Khyra**
Malaysian, Aged 56, Male
*Executive Chairman*
*Member of the Executive Committee*

Tunku Dato' Yaacob Khyra was appointed to the Board of Directors of the Company on 30 March 2004 as a Non-Independent Non-Executive Director. Subsequently, he was re-designated to Non-Independent Non-Executive Chairman of the Company on 2 May 2008.

On 2 January 2015, Tunku Dato' Yaacob was re-designated to Executive Chairman of the Company. He is also a Director of Mycron Steel CRC Sdn Bhd. He currently holds the position of Executive Chairman of MAA Group Berhad ("MAAG") and Executive Chairman of Melewar Industrial Group Berhad ("MIG").

Tunku Dato' Yaacob graduated with a Bachelor of Science (Hons) Degree in Economics and Accounting from City University, London. An accountant by training, he is a Fellow of the Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Accountants.

Tunku Dato' Yaacob started his career as an Auditor with Price Waterhouse in London from 1982 to 1985 and subsequently, employed by the same firm in Kuala Lumpur from 1986 to 1987. Tunku Dato' Yaacob joined Malaysian Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad) in 1987 until October 2006.

Currently, Tunku Dato' Yaacob is a Board Member of MAAG, MIG, Melewar Group Berhad, Khyra Legacy Berhad and Ithmaar Bank B.S.C. (listed on the Bahrain Stock Exchange) and several other private limited companies.

Tunku Dato' Yaacob is the Chairman of the Board of Trustees for MAA-Medicare Charitable Foundation and The Budimas Charitable Foundation. He also sits on the Board of Altech Chemicals Limited which is listed in Australia as Non-Executive Director.

Tunku Dato' Yaacob is the brother to Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah. His shareholding in the Company is disclosed on page 31 of the Annual Report.

Tunku Dato' Yaacob does not have any personal interest in any business arrangements involving the Company.

Tunku Dato' Yaacob does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Azlan bin Abdullah**
Malaysian, Aged 58, Male
*Executive Director/ Chief Executive Officer*
*Chairman of the Executive Committee*

En Azlan bin Abdullah was appointed to the Board of Directors of the Company on 30 March 2004 as an Executive Director/ Chief Executive Officer. He is also the Executive Director/ Chief Executive Officer of Mycron Steel CRC Sdn Bhd. He is currently the Managing Director/Group Chief Executive Officer of Melewar Industrial Group Berhad and sits on the Boards of HSBC Amanah Malaysia Berhad, Langkawi Yacht Club Bhd and several other private limited companies.

En Azlan holds a Bachelor of Science Degree in Business Administration from Trinity University, San Antonio, Texas, USA and a Masters Degree in Business Administration from Morehead State University, Kentucky, USA.

He started his career in 1983 with Citibank N A and in 1987, he joined United Asian Bank ("UAB") where he started and headed the Treasury Marketing Unit. After UAB merged with Bank of Commerce, he was subsequently promoted to Head of Priority Banking Division and Branch Manager of the KL Main Branch in 1992. In 1994, he rejoined Citibank Berhad as Vice President and Head of Public Sector Division.

En Azlan has no family ties with any of the Directors and/or major shareholders of the Company. His shareholding in the Company is disclosed on page 31 of the Annual Report.

En Azlan does not have any personal interest in any business arrangements involving the Company.

En Azlan does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Profile of Directors
(continued)

**Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah**
Malaysian, Aged 60, Male
*Non-Independent Non-Executive Director*
*Member of the Risk Management Committee*

Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah was appointed to the Board of Directors of the Company on 10 June 2008 as a Non-Independent Non-Executive Director. He currently sits on the Boards of Melewar Group Berhad and several other private limited companies.

Tunku Dato' Kamil completed his Diploma (OND) Hotel & Catering Management in 1976 and Professional (HCIMA) Hotel Management in 1978. He also went on to earn a Diploma in Marketing in 1979. In 1990, he graduated with an Executive MBA from Boston University, Graduate School of Management, M.A., USA.

Back in Malaysia, Tunku Dato' Kamil's first job in 1979 was at the Hyatt Regency Hotel in Kuantan, where he served as Assistant Manager and later as Credit Manager. Following this, the diversified family organisation Melewar beckoned and the early 80's saw Tunku Dato' Kamil immersed in its diverse businesses, as Group Operations Director. Following the acquisition of two (2) public listed companies, Granite Industries Bhd and Malaysian Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad) in the mid 80's, he was appointed as the Special Projects Director and oversaw several projects, covering different industries and disciplines. In 1989, he went to Boston to do his MBA, returning in 1991 to continue his responsibilities with Melewar and Granite Industries Bhd. He also briefly served on the Board of TDM Bhd.

In mid 90's, Tunku Dato' Kamil set up a multi-concept entertainment business in Kuala Lumpur and Penang. This then saw him offering his expertise to start-up similar businesses in Southern Thailand and in Bangkok, where he also consulted for foreign companies in diverse areas such as communications, trading and defense.

Currently, as Associate Director of Business Development, Tunku Dato' Kamil spends his time evaluating new projects and finalising plans to develop his beachfront land in Cherating, Pahang for which he has incorporated a company, Ribuan Bakat Sdn Bhd, a land holding company.

Tunku Dato' Kamil is the brother to Tunku Dato' Yaacob Khyra. His shareholding in the Company is disclosed on page 31 of the Annual Report.

Tunku Dato' Kamil does not have any personal interest in any business arrangements involving the Company.

Tunku Dato' Kamil does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Profile of Directors
(continued)

**Tan Sri Datuk Seri Razman Md Hashim**
Malaysian, Aged 77, Male
*Independent Non-Executive Director*
*Member of the Audit Committee*
*Chairman of the Nomination and Remuneration Committee*

**Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah**
Malaysian, Aged 61, Male
*Independent Non-Executive Director*
*Member of the Nomination and Remuneration Committee*

Tan Sri Datuk Seri Razman Md Hashim was appointed to the Board of Directors of the Company on 1 October 2012 as an Independent Non-Executive Director.

Tan Sri Datuk Seri Razman completed his early secondary education in Australia and on completion, studied Accounting and Banking where he became a member of the Australian Institute of Bankers.

Upon his return to Malaysia, Tan Sri Datuk Seri Razman joined Standard Chartered Bank Malaysia Berhad ("SCB") as an Officer Trainee in 1967. Throughout his 34 years of banking experience in SCB, he served with the bank's offices in London, Europe, Hong Kong and Singapore. In 1994, he was appointed as the Executive Director/Deputy Chief Executive of SCB until his retirement in June 1999.

In the same month in 1999, Tan Sri Datuk Seri Razman was appointed as Chairman of MBf Finance Berhad by Bank Negara Malaysia ("BNM") until January 2002 when the finance company was sold to Arab-Malaysian Group. In May 2002 he was appointed as an Independent Non-Executive Director of Affin Bank Berhad by BNM until his retirement in May 2009. He was appointed as Independent Non-Executive Director of Malaysian Assurance Alliance Berhad ("MAA") (now known as Zurich Insurance Malaysia Berhad) on 1 July 2006 until 30 September 2011 when MAA was sold to Zurich Insurance Company Ltd.

Tan Sri Datuk Seri Razman is currently the Executive Deputy Chairman of the Sunway Group of Companies and his current directorships in other public companies include SILK Holdings Berhad, Berjaya Land Berhad, Sunway Berhad, MAA Takaful Berhad (now known as Zurich Takaful Malaysia Berhad) and MAA Group Berhad.

Tan Sri Datuk Seri Razman is also a Director of ASLI Foundation and Jeffrey Cheah Foundation as well as the Alternate Director in Perdana Leadership Foundation.

Tan Sri Datuk Seri Razman has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Tan Sri Datuk Seri Razman does not have any personal interest in any business arrangements involving the Company.

Tan Sri Datuk Seri Razman does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah was appointed to the Board of Directors of the Company on 2 January 2015 as an Independent Non-Executive Director.

He currently sits on the Boards of Global Oriental Berhad, DutaLand Berhad, Sime Darby Property Berhad and several other private limited companies involved in property development.

Tengku Datuk Seri Ahmad Shah completed his Diploma in Business Administration from Universiti Teknologi MARA in 1974. He started his career in Charles Bradburne (1930) Sdn Bhd as a stock broker from 1974 to 1981. He was a Director of TTDI Development Sdn Bhd from 1978 to 2000 and a Director of Sime UEP Berhad from 1983 to 1987 and Tractors Malaysia Holdings Berhad from 1987 to 2007.

Tengku Datuk Seri Ahmad Shah has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Tengku Datuk Seri Ahmad Shah does not have any personal interest in any business arrangements involving the Company.

Tengku Datuk Seri Ahmad Shah does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Profile of Directors
(continued)

**Shazal Yusuf bin Mohamed Zain**
Malaysian, Aged 45, Male
*Independent Non-Executive Director*

*Chairman of the Risk Management Committee*

*Member of the Audit Committee*

**Muk Sai Tat**
Malaysian, Aged 53, Male
*Independent Non-Executive Director*

*Chairman of the Audit Committee*

*Member of the Risk Management Committee*

*Member of the Nomination and Remuneration Committee*

En Shazal Yusuf bin Mohamed Zain was appointed to the Board of Directors of the Company on 2 January 2015 as an Independent Non-Executive Director. He currently sits on the Board of Melewar Industrial Group Berhad and several other private limited companies.

En Shazal holds a Master of Science in Shipping, Trade and Finance from City University Business School, United Kingdom. He also holds a Bachelor of Arts in Economics from Nottingham University, United Kingdom.

En Shazal commenced his working career in 1994 as a corporate finance executive at Commerce International Merchant Bankers Berhad (CIMB). He moved in 1996 to BSN Merchant Bankers as Assistant Manager, Corporate Banking before rejoining CIMB in 1998 as Senior Strategist, Treasury & Risk Management until 1999, when he decided to leave the investment banking sector to manage various business interests. He is currently the Managing Director of Confoil (Malaysia) Sdn Bhd and Shaz Inflight Sdn Bhd.

En Shazal has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

En Shazal does not have any personal interest in any business arrangements involving the Company.

En Shazal does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Mr Muk Sai Tat was appointed to the Board of Directors of the Company on 2 January 2015 as an Independent Non-Executive Director. He currently sits on the Boards of Melewar Industrial Group Berhad and Gabungan AQRS Berhad.

Mr Muk holds a Master of Business Administration (General Management) from University of Bath, United Kingdom and is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants.

Mr Muk commenced his working career in 1983 with PricewaterhouseCoopers as an Audit Assistant and progressed to Audit Senior upon completion of Malaysian Association of Certified Public Accountants examination in June 1989. In September 1990, he joined Ogilvy & Mather (Malaysia) Sdn Bhd as an Accountant and later joined Energizer Battery Company (M) Sdn Bhd in 1991 as a Sales Accounting Manager and Financial Analyst. In 1996, he joined Emerson Electric (M) Sdn Bhd as a Financial Controller – Southeast Asia and later joined Pernas Otis Elevator Co. Sdn Bhd and Otis Manufacturing Company Sdn Bhd in 1999 as a Financial Controller/Chief Financial Officer. In 2000, he joined Skyline Concepts Sdn Bhd as a General Manager and later joined Concino Sdn Bhd in 2001 as the Group Chief Executive Officer.

In 2003, Mr Muk joined Mangium Industries Bhd as the Group Chief Executive Officer/Executive Director and later joined WaKa Parter AG/Forestry Investment Trust (F.I.T.) and WaKa-Forest Investment Services AG (WaKa-FIS) in 2007 as a Representative for Asia (F.I.T.) and as a Director in Asia Pacific for WaKa-FIS in 2009. In 2010, he joined TT Resources Bhd as an Executive Director. In 2011, he joined Asian Business Solutions Sdn Bhd as a Partner/Consultant.

Mr Muk has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Mr Muk does not have any personal interest in any business arrangements involving the Company.

Mr Muk does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Profile of Key Senior Management

**Tunku Dato' Yaacob Khyra**
Malaysian, aged 56, Male
*Executive Chairman*

Tunku Dato' Yaacob Khyra was appointed to the Board of Directors of the Company on 30 March 2004 as a Non-Independent Non-Executive Director. Subsequently, he was re-designated to Non-Independent Non-Executive Chairman of the Company on 2 May 2008.

On 2 January 2015, Tunku Dato' Yaacob was re-designated to Executive Chairman of the Company. His personal profile is listed in the Profile of Directors on page 22 of this annual report.

**Azlan bin Abdullah**
Malaysian, aged 58, Male
*Executive Director/Chief Executive Officer*

En Azlan bin Abdullah was appointed to the Board of Directors of the Company on 30 March 2004 as an Executive Director/ Chief Executive Officer. His personal profile is listed in the Profile of Directors on page 22 of this annual report.

**Choo Kah Yean**
Malaysian, aged 51, Male
*Chief Financial Officer*

Mr Choo Kah Yean has been the Chief Financial Officer at Melewar Industrial Group Berhad since 1 November 2012.

Mr Choo has more than 28 years of work experience in finance functions that started in 1987 with the public accounting firm HRM Touche Ross which subsequently evolved into Arthur Anderson & Co. During those initial nine years of professional services he worked in a wide array of finance functions in various industries covering audit, corporate finance and recovery services, and business consulting. Moving on to the commercial sector, Mr Choo joined IOI Group in its corporate planning and finance function which helmed and oversaw the group's growth in its plantation, property, and downstream edible oil businesses during its formation years. Mr Choo's last engagement was with KNM Group heading the group's finance functions of its domestic and global operations involving process equipment manufacturing and engineering construction contracts.

Mr Choo holds Bachelor of Business Administration in Finance from Iowa State University, USA and Masters in Business Administration in Finance from University of Hull. UK. He is also Chartered Management Accountant of ICMA and is Chartered Accountant member of MIA.

Mr Choo has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Mr Choo does not have any personal interest in any business arrangements involving the Company.

Mr Choo does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Datuk Uwe Ahrens**
German, aged 51, Male
*Chief Technical Officer*

Datuk Uwe Ahrens has been the Chief Technical Officer of the Melewar Group since June 2002. Datuk Ahrens is responsible for engineering, upgrading, modification and extension of machinery and plant as well as the overall maintenance.

Datuk Ahrens holds Masters in both Mechanical Engineering and Business Administration from the Technical University Darmstadt, Germany.

Upon graduation, Datuk Ahrens joined the international engineering and industrial plant supplier, KOCH Transporttechnik GmbH in Germany, now belonging to FLSmidth Group, where he held a senior management position for 12 years, working mainly in Germany, USA and South Africa. In 1997, he was based in Kuala Lumpur as General Manager of KOCH in South East Asia and became its Managing Director in 1999. He is currently the Chief Executive Officer of Melewar Integrated Engineering Sdn Bhd.

Datuk Ahrens has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Datuk Ahrens does not have any personal interest in any business arrangements involving the Company.

Datuk Ahrens does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Jessie Tan Li Li**
Malaysian, aged 37, Female
*Assistant Vice President - Commercial*

Ms Jessie Tan Li Li joined Mycron Steel CRC Sdn Bhd in 2014; a subsidiary of the Company and presently oversees the Raw Material procurement, Sales & Marketing and Customer Service Departments.

Prior to 2014, she was a trading manager in SK Networks Trading Kuala Lumpur branch office, responsible for the trade steel and chemical products. She also has 2 years trade exposure in oil & gas industries in Malaysia and Singapore. Ms Jessie also has had extensive experience in raw material procurement in electronic and electrical, steel, automotive and wood industries.

Ms Jessie graduated from University of Sunderland, United Kingdom with Master of Business Administration in 2011. She also holds an International Certificate in Risk Management recognised by Institute of Risk Management, United Kingdom.

Ms Jessie has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Ms Jessie does not have any personal interest in any business arrangements involving the Company.

Ms Jessie does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Profile of Key Senior Management
(continued)

**Fanny Tan Boon Sim**
Malaysian, aged 38, Female
*Vice President of Manufacturing*

Ms Fanny Tan Boon Sim joined the Group in 2011 and presently oversees the Manufacturing Department of Mycron Steel CRC Sdn Bhd; a subsidiary of the Company.

Ms Fanny brings with her 14 years of experience in Iron and Steel industry covering up-stream, mid-stream and down-stream processes mainly in Quality Management and Manufacturing functions. She has a vast experience and expertise of leading & driving operations excellence through the evolvement of People, Processes and Equipment.

Prior to joining the Group, Ms Fanny was attached to BlueScope Steel (M) Sdn. Bhd. for 7 years where she was involved in Technical Services, Quality Control & Procurement role.

Ms Fanny graduated with a BSC Hons (Materials & Manufacturing) from Sheffield Hallam University.

Ms Fanny has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Ms Fanny does not have any personal interest in any business arrangements involving the Company.

Ms Fanny does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Ir. Chin Shyi Her**
Malaysian, aged 51, Male
*Chief Operating Officer, Tube Operations*

Ir. Chin Shyi Her joined the Group on 5 June 1989. In 2004, Ir. Chin was promoted to be the Assistant Vice President to manage and oversee the entire manufacturing division of the Company and subsequently assigned to the current position in May 2011.

Ir. Chin has been in the steel pipe industry for more than 27 years since he began his career as a Technical Trainee in the Company, after graduating in June 1989. In 1995, he was promoted to head the project development of the Company responsible for the improvement and upgrade of plant and machinery.

Ir. Chin Shyi Her holds a Bachelor of Engineering Degree in Mechanical Engineering (Marine Technology) from the University Technology of Malaysia. He is a Professional Engineer registered under the Board of Engineers Malaysia and also a member of the Institute of Engineers, Malaysia.

Ir. Chin Shyi Her has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Ir. Chin Shyi Her does not have any personal interest in any business arrangements involving the Company.

Ir. Chin Shyi Her does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Tan Choon Bock**
Malaysian, aged 58, Male
*Assistant Vice President - Commercial*

Mr Tan Choon Bock joined the Group in 1983 and presently oversees the Sales & Marketing Department of Melewar Steel Tube Sdn Bhd; a subsidiary of the Company.

Mr Tan Choon Bock graduated with a Bachelor in Chemical Engineering from National Taiwan University.

Mr Tan Choon Bock has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Mr Tan Choon Bock does not have any personal interest in any business arrangements involving the Company.

Mr Tan Choon Bock does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

**Roshan M. Abdullah**
Malaysian, aged 35, Male
*Chief Operating Officer of Mycron Steel Berhad*

Mr Roshan M. Abdullah is the Chief Operating Officer of Mycron Steel CRC Sdn Bhd since 5 July 2010. He oversees and is responsible for Mycron's day to day operations, entire supply chain, customer service and support.

On 1 September 2016, Mr Roshan was promoted to Chief Operating Officer of Mycron Steel Berhad and is responsible for the operations of both Mycron Steel CRC Sdn Bhd and Melewar Steel Tube Sdn Bhd.

Prior to joining Melewar Industrial Group Berhad in 2010, he was formerly the General Manager of Jas Marine Ltd and Jas Marine Sdn Bhd. Mr Roshan held multiple Senior positions both Offshore and Onshore in the Upstream Oil and Gas Sector covering Marine, Dynamic Positioning, T&I , Subsea Construction and IRM. Before specializing in the Oil & Gas Industry, Mr Roshan was in the Marine Industry with Neptune Oriental Lines (NOL), Singapore.

He graduated from Tasmania University, Australia with a Diploma in Applied Science. He holds professional Certifications – COC SM Class 1 issued by the AMSA, Government of Australia and Professional Dynamic Positioning Qualifications from IMCA and The Nautical Institute, United Kingdom.

Mr Roshan has no family ties with any of the Directors and/or major shareholders of the Company nor any shareholding in the Company.

Mr Roshan does not have any personal interest in any business arrangements involving the Company.

Mr Roshan does not have any conflict of interest with the Company and has had no conviction for any offences within the past five (5) years, other than traffic offences, if any and no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

# Group Financial Highlights & Financial Indicators

| | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| 1 | **Financial highlights of Statements of Profit or Loss** | | | | | |
| | Revenue (RM mil) | 443.3 | 513.3 | 448.0 | 518.3 | 566.8 |
| | EBITDA (RM mil) | 11.9 | 29.6 | 12.5 | 15.2 | 68.5 |
| | Profit/(loss) before tax (RM mil) | (16.7) | 11.0 | (14.1) | 10.5 | 32.4 |
| | Profit/(loss) after tax (RM mil) | (15.8) | 7.0 | (9.2) | 11.7 | 24.2 |
| | Financial Year 2015 includes 3 months of the newly acquired steel tube subsidiary's financial results. | | | | | |
| 2 | **Financial highlights of Statements of Financial Position** | | | | | |
| | Total assets (RM mil) | 483.4 | 462.4 | 428.4 | 587.5 | 563.7 |
| | Total borrowings (RM mil) | 179.0 | 177.4 | 161.0 | 257.6 | 191.1 |
| | Shareholders equity (RM mil) | 252.6 | 264.0 | 257.9 | 305.9 | 335.4 |
| | Financial Year 2015 includes the assets/liabilities of the newly acquired steel tube subsidiary. | | | | | |
| 3 | **Financial indicators** | | | | | |
| | Return on equity (%) | (6.3) | 2.7 | (3.6) | 3.8 | 7.2 |
| | Return on total assets (%) | (3.3) | 1.5 | (2.1) | 2.0 | 4.3 |
| | Gearing ratio (Times) | 0.71 | 0.67 | 0.62 | 0.84 | 0.57 |
| | Net earnings/(loss) per share (sen) | (8.9) | 3.9 | (5.2) | 5.7 | 8.6 |
| | Net asset per share (RM) | 1.42 | 1.48 | 1.45 | 1.08 | 1.19 |
| | PE ratio | (3.5) | 7.1 | (7.4) | 5.1 | 5.6 |
| | Share price as at FYE (RM) | 0.31 | 0.28 | 0.38 | 0.29 | 0.48 |

# Analysis of Shareholdings

As at 30 September 2016

| | | |
|---|---|---|
| Authorised Share Capital | - | RM500,000,000 |
| Issued and Paid-up Capital | - | RM70,886,364 |
| Class of Shares | - | Ordinary Shares of RM0.25 each |
| Voting Rights | - | 1 Vote Per Ordinary Share |
| Total Number of Shares Issued | - | 283,545,455 |
| No. of Shareholders | - | 5,231 |

| Size of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued Capital |
|---|---|---|---|---|
| Less than 100 | 532 | 10.17 | 21,265 | 0.01 |
| 100 - 1,000 | 2,042 | 39.04 | 1,122,703 | 0.40 |
| 1,001 - 10,000 | 1,932 | 36.93 | 9,046,035 | 3.19 |
| 10,001 - 100,000 | 635 | 12.14 | 18,839,906 | 6.64 |
| 100,001 and below 5% of issued shares | 89 | 1.70 | 52,465,325 | 18.50 |
| 5% and above of issued shares | 1 | 0.02 | 202,050,221 | 71.26 |
| Total | 5,231 | 100.00 | 283,545,455 | 100.00 |

**THIRTY LARGEST SHAREHOLDERS**
As at 30 September 2016

| | Name | Ordinary Shares of RM0.25 each | [(a)]% of Issued Capital |
|---|---|---|---|
| 1. | Melewar Industrial Group Berhad | 202,050,221 | 71.40 |
| 2. | Affin Hwang Nominees (Asing) Sdn Bhd<br>(Beneficiary: UOB Kay Hian Pte Ltd for Bradford Securities Ltd) | 6,320,475 | 2.23 |
| 3. | Cartaban Nominees (Asing) Sdn Bhd<br>(Beneficiary: Exempt An for Daiwa Capital Markets Singapore Limited) | 5,370,000 | 1.90 |
| 4. | CIMB Group Nominees (Asing) Sdn Bhd<br>(Beneficiary: Exempt An for DBS Bank Ltd) | 5,293,100 | 1.87 |
| 5. | Tan Cheng Chai | 4,785,000 | 1.69 |
| 6. | Cartaban Nominees (Asing) Sdn Bhd<br>(Beneficiary: Marubeni-Itochu Steel Inc.) | 3,580,000 | 1.27 |
| 7. | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: Pledged securities account for Ronie Tan Choo Seng) | 2,000,000 | 0.71 |
| 8. | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: Pledged securities account for Ronie Tan Choo Seng) | 2,000,000 | 0.71 |
| 9. | Cimsec Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: CIMB Bank for Ronie Tan Choo Seng) | 1,500,000 | 0.53 |
| 10. | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: Pledged securities account for Lee See Kwan) | 1,500,000 | 0.53 |
| 11. | Koay Wan Fing @ Koay Gian Peng | 1,100,000 | 0.39 |
| 12. | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: Pledged securities account for Tan Yuen Yuen) | 750,000 | 0.27 |
| 13. | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>(Beneficiary: Pledged securities account for Ronie Tan Choo Seng) | 700,000 | 0.25 |

# Analysis of Shareholdings

As at 30 September 2016
(continued)

**THIRTY LARGEST SHAREHOLDERS** (continued)
As at 30 September 2016

| | Name | Ordinary Shares of RM0.25 each | [(a)]% of Issued Capital |
|---|---|---|---|
| 14. | Cimsec Nominees (Tempatan) Sdn Bhd (Beneficiary: CIMB Bank for Allan Teo) | 623,700 | 0.22 |
| 15. | Ng Teng Song | 616,900 | 0.22 |
| 16. | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Lee See Leong) | 600,000 | 0.21 |
| 17. | TA Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Law Yean Chye) | 600,000 | 0.21 |
| 18. | Public Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Chang Seng Kooi) | 520,000 | 0.18 |
| 19. | Alliancegroup Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Ronie Tan Choo Seng) | 500,000 | 0.18 |
| 20. | UOB Kay Hian Nominees (Tempatan) Sdn Bhd (Beneficiary: Exempt An for UOB Kay Hian Pte Ltd) | 500,000 | 0.18 |
| 21. | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Loo Koi Yin @ Lai Mooi) | 450,000 | 0.16 |
| 22. | Lim Teong Leong | 400,000 | 0.14 |
| 23. | Maybank Securities Nominees (Asing) Sdn Bhd (Beneficiary: Maybank Kim Eng Securities Pte Ltd for Divyesh Nagindas Doshi) | 385,200 | 0.14 |
| 24. | Ong Kek Bing | 380,000 | 0.13 |
| 25. | Pacific Strike Sdn Bhd | 356,000 | 0.12 |
| 26. | Yeoh Phek Leng | 345,000 | 0.12 |
| 27. | Goh Ah Kow @ Goh Bak Cheng | 338,100 | 0.11 |
| 28. | RHB Capital Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Fong Siling ) | 320,000 | 0.11 |
| 29. | Maybank Nominees (Tempatan) Sdn Bhd (Beneficiary: Pledged securities account for Yong Choong Hing) | 312,200 | 0.11 |
| 30. | Ko Teck Hong | 309,400 | 0.11 |
| | **TOTAL** | 244,505,296 | 86.40 |

**Note:**

[(a)] The percentages of the Thirty Largest Shareholders are calculated by dividing the shares held by the respective shareholders with the total number of ordinary shares in issue, excluding 550,000 treasury shares held by the Company.

# Analysis of Shareholdings

As at 30 September 2016
(continued)

**LIST OF SUBSTANTIAL SHAREHOLDERS**
As at 30 September 2016

| Name | Number of Shares Held | | | |
|---|---|---|---|---|
| | Direct | %[1] | Indirect | %[a] |
| Tunku Dato' Yaacob Khyra | - | - | 202,102,521 | 71.42[1] |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | - | - | 202,102,521 | 71.42[2] |
| Tunku Yahaya @ Yahya bin Tunku Tan Sri Abdullah | - | - | 202,102,521 | 71.42[2] |
| Datin Ezurin Yusnita binti Abdul Malik | - | - | 202,102,521 | 71.42[2] |
| Melewar Industrial Group Berhad | 202,050,221 | 71.40 | - | - |
| Melewar Equities (BVI) Ltd | - | - | 202,050,221 | 71.40[3] |
| Melewar Khyra Sdn Bhd | - | - | 202,050,221 | 71.40[3] |
| Khyra Legacy Berhad | - | - | 202,050,221 | 71.40[4] |

**DIRECTORS' SHAREHOLDINGS**
As at 30 September 2016

| Name | Number of Shares Held | | | |
|---|---|---|---|---|
| | Direct | %[1] | Indirect | %[a] |
| Tunku Dato' Yaacob Khyra | - | - | 202,102,521 | 71.42[1] |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | - | - | 202,102,521 | 71.42[2] |
| Azlan bin Abdullah | 100,000 | 0.04 | - | - |

**Notes:**

[a] The percentages of the Thirty Largest Shareholders are calculated by dividing the shares held by the respective shareholders with the total number of ordinary shares in issue, excluding 550,000 treasury shares held by the Company.

[1] Deemed interested by virtue of Section 6A(4) and Section 122A(1)(b) of the Act via MIG.

[2] Deemed interested by virtue of their family relationship with TY, who is the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.

[3] Deemed interested by virtue of it being the major/substantial shareholders of MIG.

[4] Deemed interested by virtue of it being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.

# Statement of Corporate Governance

## STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Mycron Steel Berhad ("the Company" or "MSB") acknowledges its responsibility and commitment to ensure that high standards of corporate governance are being practised in the Group (Company and its subsidiary company) with prudent management, thereby safeguarding the assets of the Group and its shareholders' investments. The Board believes that it has substantially complied with the recommendations set out in the Malaysian Code on Corporate Governance 2012 ("MCCG" or "the Code").

The following sections explain how the Group has applied the key principles of the Code and the extent of its compliance with the recommendations throughout the financial year ended 30 June 2016.

## 1.0 ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

### 1.1 Clear Functions Reserved for the Board and Delegated to Management

The Board retains full and effective control of the Group. The Directors, collectively and individually, has a legal and fiduciary duty to act in the best interest of the Company and to effectively represent and promote the interests of the shareholders and stakeholders with a view to achieve its vision towards corporate sustainability.

Board Reserved Matters are expressly set out in the Board Charter and Limits of Authority ("LOA") are embedded in the Internal Control Procedure ("ICP") document to ensure that matters of strategic importance or having material impact are escalated to the Board for deliberation and approval. Key matters, such as approval of annual and quarterly results, acquisitions and disposals, as well as material agreements, major capital expenditure, short-term and long-term plans and strategies and succession planning for top management are reserved for the Board.

Day-to-day management of the Company is delegated to the executive director(s) or officer in charge of the Company's businesses and functions, who reports back to the Board.

To assist the Board in the discharge of its oversight function, four (4) board committees have been constituted with written terms of reference. All board committees are actively engaged and play an important role in ensuring good corporate governance in the Company:

- Audit Committee;
- Risk Management Committee;
- Nomination and Remuneration Committee; and
- Executive Committee ("EXCO")

These Board Committees are chaired by Independent Non-Executive Directors, except for the EXCO, who exercise skillful leadership with in-depth knowledge of the relevant industry and who have committed time and effort as members.

The EXCO comprises executive and non-executive directors who are non-independent of which the Executive Director/ Chief Executive Officer ("ED/CEO") is the Chairman of the EXCO with the primary objective to review and approve subject to thresholds as provided in the LOA, operational and capital expenditure, execution of contracts, procurement, litigation and human resources matters such as key management appointments and their contributions to the Company and compensation besides determining whether changes, improvements or other actions are needed to ensure that the Company's strategies and practises are aligned with shareholders' interests.

The Chairman of the respective Committees report on a quarterly basis to the Board on the key findings of their review and/or make recommendations to the Board. The ultimate responsibility for the final decision making, however, lies with the Board.

The Board conducts a quarterly review of the performance targets and long term goals of the business to ensure that the needs of the Group are consistently met. The Board is furnished with information relating to the running of the Group's operations through various financial and operational quarterly reports prepared by Management. This allows them to understand the operations better and make decisions with a view to steer the Group towards a profitable business. At each normal Board meeting, the Board receives from or through the ED/CEO and the respective Senior Management the operational report and other reports and proposals and assurances as the Board considers necessary to ensure that Management's authorities are being observed.

# Statement of Corporate Governance
(continued)

**1.2 Clear Roles and Responsibilities**

There is a clear division of responsibility between the Executive Chairman and the ED/CEO to ensure there is a balance of power and authority. The Board has a collective responsibility for the management of the Group. While, the Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board and providing objective challenges to the Management team. All Independent, Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with the Group.

In discharging its stewardship responsibilities, the Board has formally assumed the six (6) specific responsibilities as follows:-

(i) Reviewing and adopting a strategic plan for the Group.

The Board has the overall responsibility in leading and determining the Group's overall strategic direction as well as development and control of the Group without neglecting shareholders' interest. The strategic plan of the Group includes oversight of risks encompassing strategies, marketing and financial aspects of the business.

(ii) Overseeing the conduct of the Group's business to evaluate whether the business is being properly managed.

The Board specifies the parameters within which Management decisions are to be made. In discharging its responsibilities, the Board has established the implementation of appropriate internal control systems to support, promote and ensure compliance with the laws and regulations governing the Company. This includes taking into account the Company's continuing viability as an enterprise, its financial position, its cognizance of risks and mitigating factors as well as values which embrace ethical conduct and creation of sustainable value.

(iii) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks, if any.

The Board is responsible for reviewing principal risks, establish appropriate controls and action items to ensure that obligations to shareholders and stakeholders are met.

The review is conducted by the Board Risk Management Committee ("RMC") supported by Management Risk Management Committee ("MRMC") whose objective is to oversee and ensure that the function of the risk management process of the Group is monitored on a regular basis. The Board through the RMC oversees the risk management activities of the Group. The RMC oversees the formulation of relevant risk management policies and risk measurement parameters across the Group and makes the appropriate recommendations to the Board for its approval. The RMC is responsible for ensuring that the risk management framework in the Group operates effectively based on the policies approved by the Board.

The risk management team reviews and presents the identified risks to the RMC on a quarterly basis prior to submission to the Board. Salient features of the risk management methodologies are set out in the section on "Directors' Statement on Risk Management and Internal Control" from pages 53 to 55 of the Annual Report 2016.

(iv) Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing Senior Management.

The Nomination and Remuneration Committee ("NRC") has been entrusted with the responsibility to review candidates for appointment to the Board, Board Committees and Senior Management. The NRC also has the responsibility to determine the remuneration of the ED/CEO and other Senior Management personnel.

(v) Developing and implementing an investor relations program or shareholders communication policy for the Company.

The Board recognizes the importance of maintaining transparency and accountability to the shareholders and all other stakeholders. The Group maintains a website at www.mycronsteel.com which can be conveniently accessed by the shareholders and the general public. The Group's website is updated from time to time to provide the latest information about the Group, including press releases, corporate announcements and quarterly announcements of the Group's results.

The Company had established a Corporate Disclosure Policy in line with Corporate Disclosure Guide issued by Bursa Malaysia Securities Berhad ("Bursa Securities") on 28 August 2007. The Corporate Disclosure Policy of the Company provides guidance to the Board, Management, Officers and employees of the Company's disclosure requirements and practices in particular on the preparation and submission of timely, true and fair financial disclosures and material announcements to Bursa Malaysia.

This would enhance the Company's compliance, accountability and timely disclosures to all the shareholders and stakeholders.

# Statement of Corporate Governance
(continued)

(vi) Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board has overall responsibility for maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines.

The effectiveness of the system of internal controls of the Group is reviewed by the Audit Committee periodically during its quarterly meetings. The review covers the Group's financial, accounting and reporting policies and practices, reports of the internal and external auditors and the adequacy of the system of internal controls to safeguard the shareholders' interests and Group's assets.

**1.3 Formalised Ethical Standards through Code of Conduct**

The Board has approved a Code of Conduct and which sets out standards of business and ethical conduct based on general principles including, amongst others, integrity, honesty, fair dealing and confidentiality as guidance to all directors and employees in the conduct of their business and that of the Company, in order to enhance the standard of corporate governance and behaviour.

As part of best practices in good corporate governance, the Group has established a "Whistle-Blowing" policy. This policy is to encourage employees to report any major concerns over any wrongdoing within the Group relating to unlawful conduct, financial malpractice or dangers to the public or the environment.

Directors are also required to disclose their interests in accordance with Section 131 and 135 of the Companies Act, 1965 (the "Act"). A Register of Director's interests is kept by the Company Secretary and changes are tabled at the quarterly Board meetings. Directors are required to abstain from deliberating and voting on any matter in which they may be deemed interested, directly or indirectly, at any Board meeting or if the matter is passed via written resolutions. Directors are not permitted to vote in respect of any contract or proposed contract or arrangement in which he is directly or indirectly interested.

Directors of the Company and its major subsidiaries, as well as employees who are designated as "Principal Officers" are notified in advance of the open period and closed period for dealings in the shares of the Company based on our financial meetings. The Company discloses any dealings in the Company's shares by our Directors and Principal Officers to the Board as well as to Bursa Securities and such announcements can be accessed through the Company's as well as Bursa Securities' websites.

In September 2016, the CEO, En Azlan bin Abdullah had notified the Company on his dealings in the securities of Mycron Steel Berhad ("Company") outside closed period and the change of his shareholdings in the Company pursuant to Section 135(3) of the Companies Act, 1965 accordingly. The notification was subsequently presented to the Board for notation.

Other than En Azlan bin Abdullah, none of the other Directors of the Company had dealt with the shares of the Company during the financial year ended 30 June 2016 and thereafter.

**1.4 Strategies Promoting Sustainability**

The Board is mindful of the importance of business sustainability in conducting the Group's business, the impact of the Group's business on the environmental, social and governance ("ESG") aspects is taken into consideration.

Whilst the Group embraces sustainability in its operations and supply chain, the Board is in the midst of formalising a Sustainability Policy, to address the ESG aspects to be incorporated in the Group's strategy.

The Group's activities on corporate social responsibilities for the financial year under review are disclosed on pages 14 to 15 of this Annual Report.

**1.5 Access to Information and Advice**

The Directors are authorised to seek any information from management/employees, who are required to cooperate with any request made by the Directors.

All Directors have full unrestricted access to information pertaining to the Group. The agenda for every Board and Board Committees meeting, together with a set of Board and Board Committees papers are furnished to all Directors for their perusal prior to the Board and Board Committees meetings. This is to ensure sufficient time is given to enable the Directors to review and consider the agenda items to be deliberated at the Board and Board Committees meetings. The Board and Board Committees papers include, amongst others, quarterly financial reports, year-end financial statements of the Group and annual budget.

# Statement of Corporate Governance
(continued)

The Directors have full unrestricted access to advice and services of the Company Secretary, senior management and independent professional advisers including the Internal and External Auditors, at the Company's expense.

The Company also provides a platform for dialogue between the Board and the Heads of each Division either at Board meetings or during the business unit visits. This will assist the Board in arriving at business and strategic decisions relating to the Group. When necessary, the Directors also visit locations of business units which would assist the Board to make effective decisions relating to the Group.

### 1.6 Qualified and Competent Company Secretary

The Company Secretary attends all Board and Committee meetings and ensures that all Board procedures are followed. The Company Secretary also ensures that the Company complies with all applicable statutory and regulatory rules. Together with the Management, the Company Secretary also assists the Board Chairman, the Board and Committees to implement and strengthen corporate governance practices and processes, including facilitating orientation for newly appointed Directors and appointments to Committees, and continuing training and development for the Directors. On an ongoing basis, the Directors have separate and independent access to the Company Secretary.

The Board is regularly updated by the Company Secretary on new changes to the legislations and Listing Requirements and the resultant implications to the Company and the Board in discharging their duties and responsibilities.

The Company Secretary also serves notices to the Directors and Principal Officers on the closed periods for trading in MSB's shares pursuant to Chapter 14 of the Listing Requirements.

### 1.7 Board Charter

The Board Charter provides guidance to the Board in the fulfilment of its roles and responsibilities which are in line with the principles of good corporate governance. The Board Charter is subject to review on a periodical basis in order to ensure it is updated to reflect the changes to the Company's policies, procedures and processes as well as the latest relevant legislations and regulations.

The Board endeavours to comply at all times with the principles and practices set out in this Charter.

## 2.0 STRENGTHEN COMPOSITION

The Company's Articles of Association stipulates that the minimum and maximum number of directors on the Board shall not be less than two (2) nor more than twelve (12).

The Company is managed through the Board which currently comprises two (2) Executive Directors (including the Chairman), one (1) Non-Independent Non-Executive Director and four (4) Independent Non-Executive Directors. The size and composition of the Board are reviewed from time to time, taking into account the scope and nature of operations of the Company, to ensure that the size of the Board is adequate to provide for a diversity of views, facilitate effective decision-making and that the Board has an appropriate balance of executive, independent and non-independent Directors. The Board is cognizant that the composition of the Board at any one time, has to have at least two (2) or one-third (1/3) of the Board, whichever is higher, to be independent. A brief profile of each Director is presented on pages 22 to 25 of the Annual Report.

The Group considers its complement of Non-Executive Directors provide an effective Board with a mix of industry specific knowledge and broad business and commercial experience. The presence of independent non-executive directors is particularly important in corporate accountability. They constructively challenge and contribute to the development of the business strategies and direction of the Group. This balance enables the Board to provide clear and effective leadership to the Group and to bring informed and independent judgment to many aspects of the Group's strategies and performance so as to ensure that the highest standards of conduct and integrity are maintained.

The Board has also appointed a Senior Independent Director, who serves as the point of contact between the Independent Directors and the Board Chairman on sensitive issues and acts as a designated contact to whom shareholders' concerns or queries may be raised. En Shazal Yusuf bin Mohamed Zain has been appointed the Senior Independent Non-Executive Director.

In ensuring that the composition of the Board is strengthened, the Board has entrusted the Nomination and Remuneration Committee to implement policies and procedures with respect to selection and nomination of Board and Board committees.

# Statement of Corporate Governance
(continued)

**2.1 Nomination and Remuneration Committee ("NRC")**

The Board has merged the Nomination Committee and Remuneration Committee and renamed as the Nomination and Remuneration Committee since 28 August 2013. The NRC comprises the following members, which comprises exclusively Independent Non-Executive Directors:

Chairman : Tan Sri Datuk Seri Razman Md Hashim
- Independent Non-Executive Director

Members : Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah
- Independent Non-Executive Director

Mr Muk Sai Tat (appointed on 1 October 2015)
- Independent Non-Executive Director

The main activities undertaken by the NRC during the financial year ended 30 June 2016 were as follows:

(a) Reviewed the remuneration policies applicable to Directors, ED/CEO and Senior Management;

(b) Reviewed the performance bonuses for the Executive Directors/Senior Management;

(c) Reviewed the size, structure and composition of Board and Board Committees in terms of the mix of skills, experience, independence, diversity and other qualities of the Board;

(d) Assessed the effectiveness and efficiency of the Board as a whole, the Board Committees and contribution of each Director;

(e) Performed annual assessment of Independent Directors to confirm their state of independence; and

(f) Reviewed attendance of Directors at Board/Board Committees, to ensure compliance to minimum attendance requirement of Board meetings of not less than fifty percent (50%) of the total meetings held during the financial year.

In August 2016, the NRC conducted an annual review on the terms of office and performance of the Audit Committee and its members. The NRC was satisfied that the Audit Committee and its members have carried out their duties in accordance with the Terms of Reference of the Audit Committee. The outcome of the review on the terms of office and performance of the Audit Committee and its members were deliberated and adopted by the Board based on the recommendation by the NRC.

The NRC had also reviewed and revised the Terms of Reference of the NRC to be aligned with the latest amendments to the Main Market Listing Requirements ("MMLR"), which were formally approved by the Board.

**2.2 (a) Appointments to the Board**

The NRC is guided by the Procedure for the Appointment and Removal of Directors which has been approved by the Board. The NRC shall develop, maintain and review the criteria for recruitment process and annual assessment of Directors. The NRC will assess and recommend candidates to Board and Board committees based on their character, integrity, competence, professionalism and time to effectively discharge his/her role as a Director of the Company before recommending their appointment to the Board.

In its review of the candidates, the NRC would also consider the overall composition of the Board and the combination of skills of existing Directors to ensure the selected candidate would help close any possible gaps in the Board.

The recommendation of the NRC will be submitted to the Board for its consideration and approval.

The Company Secretary will ensure that all appointments are properly made and that legal and regulatory requirements are complied with.

# Statement of Corporate Governance
(continued)

**(b) Re-election of Directors and Re-Appointment of Directors who are over the age of 70**

In accordance with the Company's Articles of Association, all Directors who are appointed by the Board are subject to re-election by shareholders at the Company's next Annual General Meeting ("AGM") after their appointment. The Articles of Association also provide that one-third of the Directors for the time being shall, retire from office and provided always that all Directors shall retire from office at least once in every three (3) years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. This provides an opportunity for shareholders to renew their mandates. The re-election of each Director is voted on separately.

Pursuant to Section 129 of the Companies Act 1965, the office of a director over the age of 70 years becomes vacant at every AGM unless he is re-elected by a resolution passed at such an AGM of which no shorter notice than that required for the AGM has been given and such resolution is passed by a majority of not less than three-fourths of all members present and voting at such AGM.

**(c) Directors' Assessment/Board Evaluation**

The Board recognises the importance of assessing the effectiveness of individual Directors and the Board on an annual basis. During the financial year, the Board, through the NRC, conducted a formal review on the performance of each individual Director and the Board as a whole. The review shall take the form of a questionnaire comprising a self-evaluation of the Board as a whole and the individual Directors, and the responses will be collected and collated by the Company Secretary, on behalf of the NRC. The conclusion of the NRC's assessment will be minuted and its minutes are included in the Board papers for Board's notification.

The Board is satisfied with the overall performance of the individual Directors, Board and Board Committees for the financial year under review.

**(d) Gender Diversity**

The Board is of the view that membership of the Board should be dependent on each candidate's skills, experience, core competencies and other qualities regardless of gender. In this respect, the Board has formalised the gender diversity policy on 24 October 2013.

Female representation will be considered when vacancies arise and suitable candidates, identified, under pinned by the overriding primary aim of selecting the best candidate to support the achievement of the Company's strategic objective.

**2.3 Remuneration Policies and Procedures**

The Company shall provide a fair, reasonable and competitive remuneration for its Executive and Non-Executive Directors to ensure that the Company attracts and retains high calibre Directors who have the skills, experience and knowledge to run the Company successfully.

Remuneration packages for Senior Management/Executive Directors are structured so as to link rewards to corporate and individual performance. The remuneration of Senior Management/Executive Directors includes salary, bonus, allowance and benefits-in-kind.

The Board, as a whole, determines the remuneration of each Director and the Directors do not participate in decisions regarding their own remuneration packages. Currently, the Non-Executive Directors are paid Directors' fees and attendance allowance for each Board/Committee meeting they attended. The annual fees payable to the Directors are approved by the shareholders at the AGM based on the recommendation of the Board.

The NRC shall meet at least once a year. The NRC held two (2) meetings during the financial year ended 30 June 2016.

The attendance of the NRC members is as follows:-

| Name of Directors | No. of Meetings Attended |
|---|---|
| Tan Sri Datuk Seri Razman Md Hashim *(Chairman)* | 2/2 |
| Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah | 2/2 |
| Mr Muk Sai Tat *(appointed wef 1 October 2015)* | 1/1 |

# Statement of Corporate Governance
(continued)

Details of the Directors' remuneration during the financial year ended 30 June 2016 in aggregate, with categorisation into appropriate components, distinguishing between Executive and Non-Executive Directors, are as follows:

**Received from Company**

| Type of Remuneration | Executive Directors RM'000 | Non-Executive Directors RM'000 |
|---|---|---|
| Salaries | 300 | - |
| Allowances | - | - |
| Bonuses | 50 | - |
| Fees | - | 195 |
| Benefits-In-Kind | 23 | - |
| Other Emoluments | 56 | 62 |
| TOTAL | 429 | 257 |

**Received on Group Basis**

| Type of Remuneration | Executive Directors RM'000 | Non-Executive Directors RM'000 |
|---|---|---|
| Salaries | 1,686 | - |
| Allowances | - | - |
| Bonuses | 223 | - |
| Fees | - | 74 |
| Benefits-In-Kind | 45 | - |
| Other Emoluments | 399 | 44 |
| TOTAL | 2353 | 118 |

**Note:**

* The Executive Director/Chief Executive Officer is remunerated by the holding company, Melewar Industrial Group Berhad.

The number of Directors of the Company whose fees and remuneration for the financial year ended 30 June 2016 falls within the following bands are:-

**Received from Company**

| Range of Remuneration | Number of Directors | |
|---|---|---|
| | Executive | Non-Executive |
| RM 0 | 1 | - |
| Less than RM50,000 | - | 4 |
| RM50,001 to RM100,000 | - | 2 |
| RM400,001 to RM450,000 | 1 | - |

**Received on Group Basis**

| Range of Remuneration | Number of Directors | |
|---|---|---|
| | Executive | Non-Executive |
| Less than RM50,000 | - | - |
| RM50,001 to RM100,000 | - | 2 |
| RM900,001 to RM950,000 | 1 | - |
| RM1,450,001 to RM1,500,000 | 1 | - |

# Statement of Corporate Governance
(continued)

## 3.0 REINFORCE INDEPENDENCE

### 3.1 Annual Assessment of Independence

The Independent Directors provide independent judgment, experience and objectivity without being subordinated to operational considerations. They help to ensure that the interests of all shareholders are indeed taken into account by the Board and that the relevant issues are subjected to objective and impartial consideration by the Board.

The Board shall assess the independence of the Independent Directors prior to their appointment and annually thereafter or when any new interest or relationship develops in light of interests disclosed to the Board. During the financial year, the Board, through the NRC, assessed the independence of its Independent Non-Executive Directors based on criteria set out in the MMLR of Bursa Securities. All the Independent Directors provided the NRC with written confirmation on their independence during the annual assessment exercise conducted for the financial year ended 30 June 2016.

A Director who has no relationship with the Company, its related corporation, its major shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement, is considered to be independent.

### 3.2 Tenure of Independent Directors

The tenure of an Independent Director shall not exceed a cumulative term of nine (9) years in accordance with the Code. However, upon completion of the nine (9) years, the Independent Director may continue to serve the Board subject to the Director being re-designated as a Non-Independent Director. In the event the Director is to remain as Independent Director, the Board shall first justify and obtain shareholders' approval.

In view thereof, the Board shall provide justifications and seek shareholders' approval in the event it proposes to retain an Independent Director who has served the Board in that capacity for more than nine (9) years, upon the prior review and relevant recommendation from the NRC.

The Board noted there are no Independent Directors whose tenure exceeds a cumulative term of nine (9) years in the Company during the period under review. Therefore, there is no such need for the Company to seek shareholders' approval on the said matter at the forthcoming Thirteenth Annual General Meeting ("AGM") of the Company.

### 3.3 Separation of Position of the Board Chairman and Executive Director/Chief Executive Officer ("ED/CEO")

There is a division of responsibility between the Executive Chairman and the ED/CEO to ensure a balance of power and authority. The roles of the Executive Chairman and the ED/CEO are separate and clearly defined.

As part of good corporate governance, the Executive Chairman is responsible for ensuring board effectiveness and conduct. He ensures that all relevant issues and quality information to facilitate decision making and effective running of the Group's business are included in the meeting agenda. In doing so, the Executive Chairman will liaise with the ED/CEO and the Company Secretary on the agenda for Board meetings. The Executive Chairman encourages healthy debates on issues raised at meetings and gives opportunity to directors who wish to speak on the motions, either for or against them. Every Board resolution is then put to a vote which would reflect the collective decision of the Board and not the views of an individual or an interested group. The Executive Chairman also chairs the meeting of shareholders of the Company. At the general meetings of the Company, the Executive Chairman will ensure that the shareholders are given the opportunity to enquire on the Group's affairs.

The ED/CEO focuses on the business and the day-to-day management of the Company and the Group. He is the conduit between the Board and Management in ensuring the success of the Group's governance and management functions. The ED/CEO implements the policies, strategies and decisions adopted by the Board. He is also responsible for providing leadership to Management and advancing relationships with regulators and stakeholders.

The Board is chaired by an Executive Chairman. Whilst the Company supports the recommendations made under the Code, the Company maintains that the Chairmanship of the Board shall continue to be held by a Non-Independent Executive Director. At the moment, the Board is of the view that the Executive Chairman will remain objective in expressing his views and will allow all Board members the opportunity to participate and express their views in deliberations and decision making in the Board without fear or favour. In addition, any decisions arrived by the Board are made on consensus. The Board was also of the view that the Chairman has continued to discharge his duties effectively and has shown tremendous commitment and has played an integral role in the stewardship of MSB Group.

Despite this, the Board will endeavor that the composition of the independent directors comprise of more than one-third (1/3) of the Board to ensure balance of power and authority on the Board.

# Statement of Corporate Governance
(continued)

## 4.0 FOSTER COMMITMENT

### 4.1 Time Commitment

The Directors are aware of the time commitment expected from each of them to attend to matters of the Group generally including attendance at Board, Board Committee and other types of meetings.

An annual meeting calendar is planned and agreed with the Directors prior to the commencement of each new financial which sets out the scheduled dates for meetings of the Board and Board Committees, in order to facilitate and foster the Directors' time planning and commitment to the Company.

The Board is satisfied with the time commitment given by the Directors of the Company in discharging their duties for the financial year ended 30 June 2016.

The Board held five (5) meetings during the financial year ended 30 June 2016. The attendance of the Board members is as follows:-

| **Executive Directors** | **No. of Attendance** | **%** |
|---|---|---|
| 1. Tunku Dato' Yaacob Khyra *(Chairman)* | 4/5 | 80 |
| 2. En Azlan bin Abdullah | 5/5 | 100 |
| **Non-Independent Non-Executive Director** | **No. of Attendance** | **%** |
| 1. Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | 4/5 | 80 |
| **Independent Non-Executive Directors** | **No. of Attendance** | **%** |
| 1. Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah | 5/5 | 100 |
| 2. En Shazal Yusuf bin Mohamed Zain | 5/5 | 100 |
| 3. Mr Muk Sai Tat | 5/5 | 100 |
| 4. Tan Sri Datuk Seri Razman Md Hashim | 5/5 | 100 |

All Directors complied with the minimum attendance requirement of more than 50% of the total Board meetings held during the financial year under review.

To fulfil directors' roles and responsibilities, each director should hold no more than five (5) directorships in listed corporations pursuant to Paragraph 15.06 of the Listing Requirements. All Directors of the Company currently adhere to this requirement. All Directors are also required to provide immediate notification when accepting any new external board appointments and seek guidance from the Board Chairman on any potential conflicts of interest if necessary. Any changes to their directorships will be tabled at the quarterly Board meetings.

The Board is satisfied that the present directorships in external organisations held by the Directors do not give rise to any conflicts of interests nor impair their ability to discharge their responsibilities to the Group.

The Board will also meet on an ad-hoc basis to deliberate on urgent issues and matters that require expeditious Board direction or approval. In the intervals between Board meetings, any matters requiring urgent Board decisions and/or approval can be sought via circular resolutions which are supported with all the relevant information and explanations required for an informed decision to be made.

The Board encourages constructive and healthy debate at all meetings. The Directors are given the chance to freely express their opinions or share information with their peers in the course of deliberation as a participative Board. Any Director/Board Committees' member who has a direct or deemed interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meeting.

The Company Secretary would ensure a quorum is present for all meetings and that such meetings are convened in accordance with the articles of association of the Company or relevant Board Committee's terms of reference. The Company Secretary record the proceedings of all meetings including pertinent issues, the substance of inquiries (if any) and responses thereto, members' suggestions and the decisions made, as well as the rationale for those decisions. By doing so, the Company Secretary keep the Board updated on the follow-up actions arising from the Board's decisions and/or requests at subsequent meetings. The Board is therefore able to perform its fiduciary duties and fulfil its oversight role towards instituting a culture of transparency and accountability in the Company.

# Statement of Corporate Governance
(continued)

### 4.2 Training

The Company Secretary ensures that training on appropriate topics are organised for the Directors, whether conducted in-house or by external speakers where practical. In addition, the Directors are kept informed of available training programmes and a budget is provided by the Company each year to cater for such programmes.

Directors also have the opportunity to visit the Group's operational facilities and meet with Management to gain a better understanding of the business operations. The Company has set up a formal procedure for the issue of the appointment letter setting out the Directors' duties and obligations. Newly appointed Directors shall also be briefed on the business and organisational structure of the Group and its strategic directions.

The Directors have participated and continue to undergo the relevant training programmes to further enhance their skill and knowledge as well as the latest statutory and/or regulatory requirements in discharging their fiduciary duties to the Company.

The training programmes attended by the Directors during the financial year ended 30 June 2016 include, inter alia, the following:-

| Members of the Board | List of Training Programmes/Seminars/Conferences Attended |
|---|---|
| Tunku Dato' Yaacob Khyra | ➢ Board Chairman Series Part 2: Leadership Excellence from the Chair<br>➢ New Companies Bill 2015 |
| En Azlan bin Abdullah | ➢ HSBC Forum: RMB and China's Global Future<br>➢ Governance, Director Duties and Listing Requirement Updates for Directors of PLCs 2015<br>➢ Malaysia's Economic Update 2015<br>➢ Amanah Mortgage Portfolio Updates<br>➢ Fraud: Crook, Line and Sinker (Detect, Prevent & Recover)<br>➢ 4th AISC-KOSA Dialogue<br>➢ Non-Executive Director Retail Risk Training<br>➢ Non-Executive Director Financial Crime Awareness Training<br>➢ New Anti-Bribery and Corruption Policy<br>➢ Enterprise Risk Management<br>➢ New Companies Bill 2015 |
| Tan Sri Datuk Seri Razman Md Hashim | ➢ Sunway Managers Conference 2015<br>➢ Enterprise Risk Management |
| Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah | ➢ Failure in Corporate Governance due to Fraud – Lessons to Learn<br>➢ Enterprise Risk Management |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | ➢ Bursa Malaysia CG Breakfast Series with Directors – "Bringing the Best out in Boardroom"<br>➢ Tax Seminar on Malaysia Budget 2016<br>➢ Institute of Enterprise Risk Practitioners ("IERP") – Qualified Risk Director Program : Series 7 – Board Masterclass on Effective ERM Practices and Practical ERM Implementation Issues<br>➢ IERP – Qualified Risk Director Program : Series 8 – Board Masterclass on Leadership During Crisis<br>➢ Bursa Malaysia CG Breakfast Series – Improving Board Risk Oversight Effectiveness<br>➢ Enterprise Risk Management |

# Statement of Corporate Governance
(continued)

| Members of the Board | List of Training Programmes/Seminars/Conferences Attended |
|---|---|
| En Shazal Yusuf bin Mohamed Zain | ➢ Bursa Malaysia CG Breakfast Series with Directors – "Future of Auditor Reporting – The Game Changer for Boardroom"<br>➢ Risk Oversight Practices<br>➢ Corporate Culture and ERM<br>➢ Risk Appetite, Tolerance and Board Oversight<br>➢ Strategic ERM: A Primer for Director<br>➢ Evolving Expectations for Boards in ERM<br>➢ Role of Boards in Fraud Risk Management<br>➢ Enterprise Risk Management |
| Mr Muk Sai Tat | ➢ Bursa Malaysia CG Breakfast Series with Directors – "Bringing The Best Out In Boardrooms"<br>➢ MIA International Accountants Conference 2015<br>➢ 11th Tricor Tax & Corporate Seminar<br>➢ The 20th Malaysian Capital Market Summit "Coping with Headwinds, Restoring Market Confidence"<br>➢ Embracing The Board's Role In Corporate Transformation For Sustainable Results<br>➢ Enterprise Risk Management<br>➢ Risk Awareness Program<br>➢ Building a Modern Finance Organisation |

## 5.0 UPHOLD INTEGRITY IN FINANCIAL REPORTING

### 5.1 Compliance with Applicable Financial Reporting Standards

The Directors are responsible to ensure that the financial statements have been properly drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of their financial performance and cash flows for the financial year under review. The Audit Committee assist the Board to oversee the Group's financial reporting process and the quality of its financial reporting by reviewing the information to be disclosed, to ensure completeness, accuracy and adequacy prior to endorsing the same to the Board for release to Bursa Securities and Securities Commission respectively.

The Chief Financial Officer ("CFO") also updates the AC regularly on the Group's financial performance and highlights key issues in connection with the preparation of the financial results, including adoption of new accounting standard/policies.

### 5.2 Assessment of Suitability and Independence of External Auditors

The Company has established and maintained an appropriate and transparent relationship with the Company's External Auditors, Messrs PricewaterhouseCoopers ("PwC"), in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

The external auditors are invited to attend the meetings of the AC and the Board whenever necessary to discuss the Group's Financial Statements.

On annual basis and prior to the commencement of the audit engagement, external auditors present the Audit Plan and provide written assurance to the AC on their independence in relation to the audit works to be performed and their commitment to communicate to the AC on their independence status throughout the conduct of the audit engagement with the Company in accordance with the independence criteria set out by the International Federation of Accountants and the Malaysian Institute of Accountants.

# Statement of Corporate Governance
(continued)

The AC noted for the financial year ended 30 June 2016, PwC, the external auditors of the Company confirmed that the engagement and members of the engagement team in the course of their audits were and had been independent for the purpose of the audit in accordance with the terms of relevant professional and regulatory requirements.

The roles of the AC in relation to the internal audit and external audit are set out in the Report of the Audit Committee of this annual report.

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements of the Company is set out on page 45 of the Annual Report 2016.

## 6.0 RECOGNISE AND MANAGE RISKS

### 6.1 Sound Framework to Manage Risks

The Risk Management Committee comprises of three (3) Directors, majority of whom are Independent Non-Executive Directors. The Risk Management Committee is responsible to identify the principal risks affecting the Company and the Group and ensures the implementation of a sound risk management framework and appropriate systems to manage these risks.

The Group's Statement on Risk Management and Internal Control is set out on pages 53 to 55 of this Annual Report.

### 6.2 Internal Audit Function

The internal audit function of the Company and the Group has been outsourced to an independent party, Messrs Baker Tilly Monteiro Heng Governance Sdn Bhd ("BTMH") who reports to the AC. The internal audit function is expected to meet the standard set by internationally recognized professional bodies including the Standards for the Professional Practise of Internal Auditing set by The Institute of Internal Auditors.

Details of the Company and the Group's internal control system and framework are set out in the Directors' Statement on Risk Management and Internal Control and Audit Committee Report of this Annual Report respectively.

## 7.0 ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### 7.1 Corporate Disclosure Policies and Procedures

The Company has in place a Corporate Disclosure Policies and Procedures which sets out clear procedures on corporate disclosure, designated corporate disclosure officer and appointed spokespersons for the Company to ensure that material information disclosed by the Company is accurate, timely and complete. Clear roles and responsibilities of Directors, Management and employees are provided together with levels of authority provided to designated persons in handling and disclosing material information.

### 7.2 Leverage of Information Technology for Effective Dissemination of Information

The Board is mindful of its obligation to provide timely and fair disclosure of material information to shareholders. Shareholders and investors are kept abreast of results and other material information concerning the Group through regular and timely dissemination of information. The Company's website at www.mycronsteel.com as well as Bursa Malaysia Securities Berhad's corporate website at www.bursamalaysia.com contains information about the Company including all publicly disclosed financial information, corporate announcements, annual reports and profiles of the Company and the Group.

## 8.0 STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND ITS SHAREHOLDERS

### 8.1 Shareholders Participation at General Meetings

The Board notes the recommendation 8.1 of the Code to take reasonable steps to encourage shareholders' participation at the AGM. The Company will use best endeavours to serve the notice of the AGM to shareholders earlier than the minimum notice period of at least twenty one (21) days before the date of the meeting in order to allow the shareholders to make necessary arrangements to attend and participate either in person or by proxy.

The Board encourages full participation of shareholders at every AGM and Extraordinary General Meeting of the Company and opportunity is given to the shareholders to make relevant enquiries and seek clarification on the Group's business activities and financial performance. The Notice of the Thirteenth AGM is circulated more than thirty (30) days before the date of the meeting to enable shareholders to go through the Annual Report, fulfilling the 21-day requirement under the Companies Act, 1965 and the Listing Requirements.

# Statement of Corporate Governance
(continued)

The results of all the resolutions set out in the Notice of the Thirteenth AGM will be announced on the same day to the Bursa Securities, which is accessible on the Bursa Securities' website.

The Board ensures that full information of the Directors who are retiring at the AGM and willing to serve if re-elected are disclosed in the Notice of the AGM. The explanatory notes facilitating full understanding and evaluation of issues involved in the proposed resolutions accompanying each item of special business is included in the Notice of the AGM.

To further promote participation of members through proxy(ies), which is in line with the insertion of Paragraph 7.21 of the Listing Requirements, the Company had amended its Articles of Association to include explicitly the right of proxies to speak at general meetings, to allow a member who is an exempt authorised nominee to appoint multiple proxies for each omnibus account it holds and expressly disallow any restriction on proxy's qualification.

**8.2 Poll Voting**

In line with the recent amendments to the MMLR, the Company will implement poll voting for all the resolutions set out in the Notice of Annual General Meeting at the AGM. In addition, the Company will appoint at least 1 scrutineer to validate the votes cast at the AGM.

In accordance with Article 91 of the Articles of Association of the Company, the Chairman of the meeting has a right to demand a poll with respect to all resolutions which are put to vote at the AGM as set out in the Notice of Annual General Meeting.

The poll voting process at the general meeting will be conducted in accordance with the provisions of the Articles of Association of the Company.

The Company also took note of recommendation on e-voting and will explore the suitability and feasibility of employing electronic means for poll voting in future.

**8.3 Effective Communication and Proactive Engagement**

The forthcoming AGM will be a good opportunity for proactive engagement and communication between the Board, shareholders and investors.

The Chairman and the Board members together with Management and the External Auditors will be present to address all queries from shareholders on issues related to the Company. The shareholders will have direct access to the Board and are encouraged to participate in the question and answer session.

The Board has identified En Shazal Yusuf bin Mohamed Zain as the Senior Independent Director to whom queries or concerns regarding the Group may be conveyed.

(i) En Shazal Yusuf bin Mohamed Zain can be contacted as follows:
Telephone number: +603-5510 6608 Facsimile number: +603-5510 3720
Email address: shazal@mycronsteel.com

Queries or concerns regarding the Group may be also conveyed to the following persons:

(ii) Mr Choo Kah Yean (Chief Financial Officer, for financial related matters)
Telephone number: +603-5519 2455 Facsimile number: +603-5510 8618

(iii) En Azlan bin Abdullah (Investor Relations, for investor relations matters)
Telephone number: +603-6250 6000 Facsimile number: +603-6257 1555
Email address: aazlan@mycronsteel.com

(iv) Ms Lily Yin Kam May (Company Secretary, for shareholders' enquiries)
Telephone number: +603-6252 8880 Facsimile number: +603-6252 8080

# Statement of Corporate Governance
(continued)

## COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved this Statement on Corporate Governance. The Board considers that the Statement on Corporate Governance provides the information necessary to enable shareholders to evaluate how the Code has been applied. The Board has considered and is satisfied that the Company has fulfilled its obligation under the Code, the Listing Requirements of Bursa Securities and all applicable laws and regulations throughout the financial year ended 30 June 2016.

This Statement was made in accordance with the approval of the Board of Directors on 29 August 2016.

## STATEMENT OF DIRECTORS' RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENTS

In respect of the preparation of the audited financial statements, the Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with applicable approved accounting standards and which give a true and fair view of the state of affairs of the Group and the Company at the financial year end and of the results and cash flow of the Group and Company for the financial year.

The Board has received assurance from the Executive Director and the Financial Controller that the financial records have been properly maintained and the financial statements for the financial year ended 30 June 2016 give a true and fair view of the Company's operations and finances; and of the effectiveness of the Company's risk management and internal control systems.

In preparing the financial statements, the Directors have:

(i) adopted appropriate accounting policies and applied them consistently;

(ii) made judgments and estimates that are reasonable and prudent;

(iii) ensured that all applicable accounting standards have been complied with; and

(iv) prepared financial statements on a going concern basis, after having made enquiries that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors had also ensured the Company maintains appropriate accounting policies that disclose with reasonable accuracy of the financial position of the Company and Group which enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors also had taken steps that are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## OTHER BURSA SECURITIES COMPLIANCE INFORMATION

### 1. MATERIAL CONTRACTS

Other than those disclosed in the financial statements, there were no material contracts including contracts for any loans entered into by the Company and/or its subsidiaries involving the interests of the directors, chief executive who is not a director and major shareholders.

### 2. MATERIAL CONTRACTS RELATED TO LOAN

There were no material contracts related to loans entered into by the Company and/or its subsidiary companies involving the Company's Directors and/or major shareholders' interests during the financial year under review.

### 3. AUDIT FEES

The amount of audit fees charged for services rendered to the Group and the Company by the External Auditors for the financial year ended 30 June 2016 amounted to RM 324,257.00 and RM 120,128.00 respectively.

### 4. NON-AUDIT FEES

There were no non-audit fees charged for services rendered to the Group and the Company by the External Auditors for the financial year ended 30 June 2016.

### 5. RECURRENT RELATED PARTY TRANSACTIONS ("RRPTs") ENTERED INTO DURING THE FINANCIAL YEAR ENDED 30 JUNE 2016

On 30 November 2015, the Company sought approval for a shareholders' mandate for Mycron Group to enter into Recurrent Transactions (as defined in the Circular to Shareholders dated 6 November 2015) in their ordinary course of business with related parties ("Shareholders' Mandate") as defined in Chapter 10 of the MMLR.

# Statement of Corporate Governance
(continued)

The aggregate value of transactions conducted during the financial year ended 30 June 2016 in accordance with the Shareholders' Mandate obtained at the last AGM were as follows:

**A. RRPTs with Melewar Group of Companies**

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 1. | Trace Management Services Sdn Bhd ("Trace") | Provision of corporate secretarial services by Trace to Mycron Steel Berhad ("MSB") and its subsidiaries ("Mycron Group") | **Interested Directors**<br>Tunku Dato' Yaacob Khyra ("TY") and Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah ("TK") | TY and TK are deemed interested in Trace by virtue of their major interests in The Melewar Corporation Berhad, who in turn is the Major Shareholder of Trace. | Nil | 181,584 |

**B. RRPTs with MAA Group Berhad ("MAAG") and its subsidiaries, collectively**

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 1. | MAA Takaful Berhad ("MAAT") (now known as Zurich Takaful Malaysia Berhad) | Provision of insurance business by the Related Party to Mycron Group | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>Melewar Equities (BVI) Ltd ("MEBVI"), Melewar Khyra Sdn Bhd ("MKSB") and Khyra Legacy Berhad ("KLB") | TY is deemed interested in MAAT.<br>TY is the founder and ultimate beneficial owner of KLB.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MAAT is a 75% owned subsidiary of MAAG whose ultimate Major Shareholder is KLB. | 1,290,520 |
| 2. | MAA Corporate Advisory Sdn Bhd ("MAACA") | Provision of corporate consultancy services by the Related Party to Mycron Group | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MEBVI, MKSB and KLB | TY is deemed interested in MAACA.<br>TY is the founder and ultimate beneficial owner of KLB.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MAACA is a wholly owned subsidiary of MAA Corporation Sdn Bhd who in turn is a wholly owned subsidiary of MAAG whose ultimate Major Shareholder is KLB. | - |

# Statement of Corporate Governance
(continued)

**C. RRPTs with Melewar Industrial Group Berhad ("MIG") and its subsidiaries, collectively ("MIG Group")**

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 1. | MIG | Provision of treasury services by the Related Party to Mycron Steel CRC Sdn Bhd ("MSCRC") | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |
| 2. | Melewar Steel Mills Sdn Bhd ("MSM") | Rental charged by MSCRC to the Related Party for using land belonging to MSCRC | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MSM and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSM is a wholly owned subsidiary of MIG.<br>MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |
| 3. | MIG | Sale of pipes by the Related Party to MSCRC | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |

# Statement of Corporate Governance
(continued)

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 4. | MSM | Sale of scrap by MSCRC to the Related Party | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MSM and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSM is a wholly owned subsidiary of MIG.<br>MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 3,447,591 |
| 5. | Melewar Integrated Engineering Sdn Bhd ("MIE") | Provision of technical and consultancy services by the Related Party to MSCRC for expansion projects in cold roll mill | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIE and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MIE is a wholly owned subsidiary of MIG.<br>MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |
| 6. | MIG | Management fees for the provision of management services/advice charged by Related Party to MSCRC | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG and MSCRC by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSCRC is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 1,320,000 |

# Statement of Corporate Governance
(continued)

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 7. | Melewar Steel Services Sdn Bhd ("MSS") | Rental charged by the Related Party to Melewar Steel Tube Sdn Bhd ("MST") for the use of the factory belonging to MSS.<br><br>(Lot 16) | **Interested Directors**<br>TY and TK<br><br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MST and MSS by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br><br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br><br>MSS is a wholly owned subsidiary of MIG.<br><br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 500,940 |
| 8. | MIG | Rental charged by the Related Party to MST for the use of the factory belonging to MIG.<br><br>(Lot 10, Lot 49 and Lot 53) | **Interested Directors**<br>TY and TK<br><br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG and MST by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br><br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br><br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 4,963,860 |
| 9. | MIE | Technical Advisory fees charged by the Related Party to MST | **Interested Directors**<br>TY and TK<br><br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIE and MST by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br><br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br><br>MIE is a wholly owned subsidiary of MIG.<br><br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 96,000 |

# Statement of Corporate Governance
(continued)

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 10. | MSM | Sale of scrap by MST to Related Party | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MST and MSM by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br>MSM is a wholly owned subsidiary of MIG.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 556,383 |
| 11. | MIE | Technical advisory fees charged by the Related Party to MSCRC | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MSCRC and MIE by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MSCRC is a wholly owned subsidiary of Mycron.<br>MIE is a wholly owned subsidiary of MIG.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 192,000 |
| 12. | MIG | Provision of management fees charged by the Related Party to MST | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MST and MIG by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 1,320,000 |

# Statement of Corporate Governance
(continued)

| No. | Related Party | Nature of Transaction | Interested Related Parties | Manner of relationship with the Related Parties | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|---|
| | | | | Director | Major Shareholder | |
| 13. | Ausgard Quick Assembly Systems Sdn Bhd ("AQAS") | Sale of pipes by MST to the Related Party | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MST and AQAS by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MST is a wholly owned subsidiary of Mycron.<br>AQAS is a wholly owned subsidiary of MIG.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 84,110 |

**(D) Financial assistance between Mycron Group and classes of related parties**

| Type of Financial Assistance | Related Party | Interested Related Parties | Manner of relationship with the Related Party | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|
| | | | Director | Major Shareholder | |
| Provision of guarantees, indemnity or such other collateral to or in favour of another person which is necessary in order for MIE to procure a contract or secure work from the other person or to enable the other person to commence and/or complete a contract or work for Mycron Group. | MIE | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIE by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MIE is a wholly owned subsidiary of MIG.<br>MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |

# Statement of Corporate Governance
(continued)

| Type of Financial Assistance | Related Party | Interested Related Parties | Manner of relationship with the Related Party | | Value of Transaction (1/07/2015 – 30/06/2016) (RM) |
|---|---|---|---|---|---|
| | | | Director | Major Shareholder | |
| Provision of financial assistance to MIG Group by the pooling of funds via a centralized treasury management function within Mycron Group on a short or medium term basis i.e. for a duration not exceeding three (3) years. | MIG Group | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | 2,565,165 |
| Provision of corporate guarantee to financial institutions, as and when required, to secure the continuing trade facilities extended to direct and indirect subsidiaries. | MIG Group | **Interested Directors**<br>TY and TK<br>**Interested Major Shareholders**<br>MIG, MEBVI, MKSB and KLB | TY is deemed interested in MIG by virtue of him being the founder and ultimate beneficial owner of KLB, being the holding company of MEBVI and MKSB who are the major/substantial shareholders of MIG.<br>TK is therefore deemed interested by virtue of his relationship with TY based on Section 122A(1)(a) of the Act. | MIG is the Major Shareholder of Mycron by virtue of its 71.40% shareholding in Mycron. | - |

# Directors' Statement on Risk Management and Internal Control

This Statement is prepared pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") and is guided by the principles and best practices relating to internal controls as stipulated in the Malaysian Code on Corporate Governance 2012 ("the Code").

As the Group operates in a dynamic and cyclical business environment in which risk management and internal control system must be responsive in order to be able to support its business objectives, the Board and the Management uphold their ongoing commitment to maintain and continuously improve the Group's risk management and internal controls system to safeguard the shareholders' investments and the Group's assets.

The Board of Directors hereby issue the following Statement based on both MMLR and the Code.

## BOARD RESPONSIBILITIES

The Board acknowledges its overall responsibility and accountability for a sound system of risk management framework to be established supported by internal controls that ensures the reliability and integrity of the financial and operational information, effectiveness and efficiency of operations. As there are limitations inherent in any systems of internal control, therefore, it shall be noted that the controls are designed and positioned to mitigate risks but not eliminate the present and future risks. In this connection, it shall be noted that systems of internal control can only provide reasonable but not absolute assurance against material misstatements, frauds and losses.

The Board has delegated the implementation of these internal control systems to the Executive Directors and Senior Management who regularly reports to the Audit and Risk Management Committees on risks identified and action steps taken to mitigate and/or minimise these risks.

The Board is primarily responsible for strategic risks management while the responsibility to address all risks associated with the business operations rests with the top senior management.

The Board has delegated the responsibilities to the Risk Management Committee ("RMC") to include the role of monitoring of all internal controls on behalf of the Board and to report to the Board accordingly. This process is regularly reviewed by the Board and the Internal Auditors respectively. The internal audit function is outsourced to an independent party, Messrs Baker Tilly Monteiro Heng Governance Sdn Bhd ("BTMH").

## RISK MANAGEMENT COMMITTEE

The RMC was established by the Board on 31 March 2004. The RMC had met four (4) times during the financial year. The RMC as at the date of this Annual Report are as follows:

Chairman : En Shazal Yusuf bin Mohamed Zain

Members : Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah

: Mr Muk Sai Tat

The RMC Meetings held during the financial year ended 30 June 2016 were as follows:

| Name of Committee Members | Total Meetings attended |
|---|---|
| En Shazal Yusuf bin Mohamed Zain<br>*(Chairman, Independent Non-Executive Director)* | 4/4 |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah<br>*(Non-Independent Non-Executive Director)* | 3/4 |
| Mr Muk Sai Tat<br>*(Independent Non-Executive Director)* | 4/4 |

## RISK MANAGEMENT FRAMEWORK

The RMC had formally adopted a Risk Management Framework for the Group in 2005. The objective of this framework is to provide guidance to the Group to facilitate a structured approach in identifying, evaluating and managing significant risks and to achieve a level of adequacy and standard reporting by the operating subsidiaries and business divisions to the holding company in a timely manner.

# Directors' Statement on Risk Management and Internal Control

(continued)

The roles of the Board of Directors, Risk Management Committee and the respective Division Heads are well defined under the framework with clear lines of accountability. Management is responsible for the identification and evaluation of the key risks applicable to their areas of business units/segments on a continuous basis. The Group recognizes that Risk Management involves a structured approach, combining the efforts of all functions within the Group, to minimize the possibility and impact of unexpected damages so as to contribute towards greater efficiency and better decision making.

The RMC will assist and coordinate the implementation of the risk management programme for the Group. The implementation of the risk management programme will provide a consistent approach and guidelines in managing the Group's significant risk exposures. It has been a practice for the RMC to invite their relevant Heads of Division/Department to attend the RMC Meetings, where appropriate. During the year 2016, RMC invited the Executive Director/Chief Executive Officer ("ED/CEO"), Chief Financial Officer, Compliance and Cost Control Manager, Chief Operating Officer of CRC Operations, Chief Operating Officer of Tube Operations and Chief Technical Officer to attend the RMC Meetings to brief and clarify on the risk issues identified and to explain in detail the steps to be taken to effectively address the issues of concern.

**INTERNAL CONTROL PROCESS**

The key elements of the Group's system of internal controls that the Board has established in reviewing the adequacy and effectiveness of the risk management and internal control system during the financial year ended 30 June 2016 are as follows:

1. Organisation structure and delegation of authority

   The Group has an appropriate organizational structure for planning, executing, controlling and monitoring business operations in order to achieve the Group's business objectives. Lines of responsibility and delegations of authority are clearly defined.

2. Internal Control Procedures

   To ensure the uniformity and consistency of practices and controls within the Group, Internal Control Procedures (ICPs) have been formalized and documented which were endorsed by both the Management and the Board. These include:-

   - Internal Control System
   - Petty Cash Procedure
   - Motor Vehicle Expenses Reimbursement Procedure
   - Company Car Maintenance Procedure
   - Outstation Travel Requisition & Reimbursement Procedure
   - Entertainment Reimbursement Procedure
   - Hand Phone Expenses Reimbursement Procedure
   - Capital Asset Acquisition Procedure
   - Capital Asset Disposal Procedure
   - Investment Procedure
   - Credit Control Procedure
   - Raw Material Purchase Procedure
   - Sub-raw Materials, Tooling, Hardware, Consumable, Equipment, Fuel, Lubricants and Miscellaneous Items Purchase Procedure
   - Sales Procedure
   - Internal Security Procedure
   - Whistle-Blowing
   - Intercompany Transactions/Loans /Advances
   - FX Risk Management
   - Manual Journal Transaction Procedure
   - Employee Advance Control Procedure

   The ICPs are subject to review on a regular basis along with the internal audit review of the selected area of operations.

3. Policies and Procedures

   Operational policies and procedures are formalised to serve as a guiding principle to all employees within the Group for their day-day activities. It shall be periodically reviewed and updated to cater for the changing business environment.

4. Internal audit function

   The Group outsourced its internal audit function to Baker Tilly Monteiro Heng Governance Sdn Bhd. The Group's internal auditor reports directly to the Audit Committee after conducting reviews on the systems of internal control and the effectiveness of processes that are in place to identify, manage and report risks. The internal audit function adopts a risk-based approach and prepares its audit plan based on the risk profiles of the key business units of the Group after taking into consideration input of Management and the Audit Committee.

# Directors' Statement on Risk Management and Internal Control

(continued)

5. Managers Meeting ("MANCO")

   The Managers of each business division meets on a monthly basis to review, deliberate and resolve various operational issues, financial and key management issues.

   EXCO will also meet the MANCO on monthly basis to deliberate on similar matters mentioned above. The minutes of EXCO's meetings are included in the papers for quarterly Board meetings.

6. The Group has successfully attained the new ISO 9001:2015 certification on 29 April 2016 and such quality management system provides the Group with an improved control of key processes and a foundation for improving quality, customer service and customer satisfaction.

## CONCLUSION

For the financial year under review and up to the date the of issuance of this Statement, the Management continues to monitor all major risks affecting the Group and the necessary measures to mitigate or minimise them as well as continue to enhance the adequacy and effectiveness of the risk management and internal control system of the Group mainly focusing on strategic, financial, operational and compliance aspect. In this regard, the ED/CEO and the Chief Financial Officer ("CFO") have given assurance to the Board that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Group and the declarations made by the respective Heads of each Division. To the best of knowledge, nothing has come to the attention of the ED/CEO, CFO and the Management which may render the financial results presented and the information provided to be misleading in any material respect.

The Board is of the view that the risk management and internal control system of the Group is adequate and effective to safeguard the shareholders' investments, Group's assets and the interests of other stakeholders. During the financial year under review, it has not resulted in any material losses to the Group. Nevertheless, taking into account the rapid changing environment and circumstances, the Board continues to evaluate and take precautionary measures and steps to further strengthen the control environment.

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

# Audit Committee Report

## ESTABLISHMENT

The Audit Committee assists the Board in fulfilling the Board's responsibilities with respect to its oversight responsibilities.

## COMPOSITION

The Audit Committee comprises of three (3) members, all of who are Independent and Non-Executive Directors in compliance with the requirements of paragraph 15.09(1)(a) and (b) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") as follows:

| Name | Designation | Directorship |
|---|---|---|
| Mr Muk Sai Tat | Chairman | *Independent Non-Executive Director* |
| Tan Sri Datuk Seri Razman Md Hashim | Member | *Independent Non-Executive Director* |
| En Shazal Yusuf bin Mohamed Zain | Member | *Senior Independent Non-Executive Director* |

The Chairman of the Audit Committee, Mr Muk Sai Tat is a member of the Malaysian Institute of Accountants. The Directors' profiles are set out on pages 24 to 25 in the Annual Report.

## MEETINGS AND MINUTES

The Audit Committee shall meet at least four (4) times annually or more frequently as circumstances dictate. The Executive Director/Chief Executive Officer and Chief Financial Officer should normally attend meetings. Other Board members, employees, a representative of the External Auditors and External Independent Professional Advisers may attend meetings upon the invitation of the Audit Committee.

The Company Secretary shall be the secretary to the Audit Committee. Minutes of each meeting shall be distributed to each member prior to the meeting. The Chairman of the Audit Committee shall report to the Board, a summary of significant matters arising at each meeting.

During the financial year ended 30 June 2016, five (5) Audit Committee meetings were held. The details of attendance of each Committee member are as follows:

| Members | No. of Meetings Attended | % |
|---|---|---|
| Mr Muk Sai Tat (Chairman) | 5/5 | 100 |
| Tan Sri Datuk Seri Razman Md Hashim | 4/5 | 80 |
| En Shazal Yusuf bin Mohamed Zain | 5/5 | 100 |

In August 2016, the Nomination and Remuneration Committee ("NRC") reviewed the term of office and performance of the Audit Committee and its members through an annual evaluation focusing on the adequacy and effectiveness of the Audit Committee based on the self-assessed evaluations carried out by the Audit Committee members as well as the NRC assessment on the performance and the effectiveness of the Audit Committee. Based on the NRC's assessment and recommendation, the Board was satisfied that the Audit Committee and its members have carried out their functions, duties and responsibilities in accordance with its Terms of Reference.

# Audit Committee Report
(continued)

**SUMMARY OF WORK CARRIED OUT BY THE AUDIT COMMITTEE DURING THE FINANCIAL YEAR ENDED 30 JUNE 2016**

The Audit Committee had performed the following during the financial year ended 30 June 2016:

| | |
|---|---|
| Financial Reporting | (i) Reviewed the unaudited quarterly and annual financial results of the Group for financial year ended 30 June 2016. This also included the announcements pertaining to the release of financial results to Bursa Securities prior to recommending to the Board for approval. The review also focused on:<br>• significant accounting policies and methods adopted for the period under review which were consistent with those adopted for the audited financial statements for the financial year ended 30 June 2015;<br>• going concern assumption and compliance with financial reporting standards and other regulatory requirements.<br>(ii) Sought clarification from Management especially from the Chief Financial Officer of the Group on the following information for better understanding of the overall state of the financial position of the Company:<br>• Performance of the key divisions of the Company including the variations and contributing factors to the performance;<br>• Foreign exchange exposure;<br>• Cash flow position of the Group with specific details on the compliance to the financial covenants with the various financial institutions who had granted facilities to the Group;<br>• Position of the Gearing ratio. |
| External audit and interim review | (i) Discussed with the external auditor on their annual audit plan, nature and scope of audit focus on key risk areas as well as audit procedures, prior to the commencement of audit.<br>(ii) Reviewed the external auditors' annual audit report and accompanying reports to management, reports of their other examinations and management letters on internal control matters, including management's response and the level of co-operation given by employees to the external auditors.<br>(iii) Evaluated the external auditors' independence, objectivity and terms of engagement before recommending their re-appointment and remuneration.<br>(iv) Discussed problems and reservations arising from the interim and final external audits, and any matters the External Auditors may wish to discuss in the absence of Management.<br>(v) Reviewed with the external auditors the Statement on Risk Management and Internal Control of the Group for inclusion in the Annual Report.<br>(vi) Conducted three (3) private sessions with external auditors, without the presence of Executive Directors and Management. |

# Audit Committee Report
(continued)

| | |
|---|---|
| Internal control and internal audit | (i) Reviewed and approved the Internal Audit Consultants' Annual Internal Audit Plan and ensured principal risks, key entities, scope and functions were adequately identified and covered in the plan.<br><br>(ii) Reviewed and evaluated the overall adequacy and effectiveness of the risk management and Group's internal control system on a quarterly basis through review of results of work performed by internal and external auditors and discussions with the Management.<br><br>(iii) Reviewed the internal audit reports presented by the Internal Audit Consultants at each Audit Committee meeting and their activities with respect to:<br><br>➢ Status of audit activities as compared to the approved Annual Audit Plan.<br><br>➢ Monitored the outcome of the audits, follow-up, investigative and special audits conducted to ascertain all action plans were adequately implemented to address the key risks.<br><br>➢ Adequacy of Management's responsiveness to the audit findings and recommendations.<br><br>➢ Adequacy of audit resources of the Internal Audit Consultants.<br><br>➢ Reviewed and recommended to the Board the re-appointment of the external service provider for internal audit services and their audit fee.<br><br>(iv) Considered the views of management and both internal and external auditors on the following issues:<br><br><u>Mycron Steel CRC Sdn Bhd</u><br>➢ Maintenance Management & Machine Parts;<br>➢ Property, Plant & Equipment;<br>➢ Corporate Governance Review;<br>➢ Procure Management (Excluding Raw Material);<br>➢ Security, Safety, Health and Environment Control;<br>➢ Supply Chain Management;<br>➢ Finance Management and General Accounting Control;<br>➢ Human Resource Management;<br>➢ Electronic Data Processing Support Function;<br>➢ Production Operations;<br>➢ Quality Control & Assurance;<br>➢ Sales Ordering & Billing; and<br>➢ Credit Control and Collection.<br><br><u>Melewar Steel Tube Sdn Bhd</u><br>➢ Finance Management and General Accounting Control;<br>➢ Human Resource Management;<br>➢ Electronic Data Processing Support Function;<br>➢ Sales & Delivery Controls;<br>➢ Sales of Scraps & Reconciliation to Yield Loss; and<br>➢ Collection & Credit Control.<br><br>(v) Reviewed and debated on the recommendations made by the Internal Audit Consultants on the areas where further improvements are required in respect of the abovementioned scopes covered with subsequent recommendation to the Board the steps to improve the system of internal control derived from the findings of the internal and external auditors. |

# Audit Committee Report
(continued)

| | |
|---|---|
| Corporate Governance requirements | (i) Reviewed and monitored the disclosure of related party transactions and any conflict of interest situation and questionable transactions to ensure compliance with the Listing Requirements and that they were not favourable to the related parties than those generally available to the public and were not detrimental to minority shareholders.<br><br>(ii) Reviewed the disclosure statements on compliance of Malaysian Code on Corporate Governance, Board's responsibility on the annual audited financial statements and the state of internal control and other relevant documents for publication in the Company's Annual Report.<br><br>(iii) Reviewed the following draft Circular to Shareholders and recommended the same to the Board for approval:<br><br>(a) Proposed share buy-back of up to four percent (4%) of the issued and paid-up share capital of the Company; and<br><br>(b) Proposed renewal of shareholders' mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature and Provision of Financial Assistance. |

**INTERNAL AUDIT FUNCTIONS**

The Internal Audit function of the Company and the Group has been outsourced to an independent party, Messrs Baker Tilly Monteiro Heng Governance Sdn Bhd ("BTMH"). BTMH assists the Audit Committee in discharging its duties and responsibilities, and is independent of the activities they audit.

The 2016 Annual Internal Audit Plan which was developed based on a risk based approach was approved by the Audit Committee at its meeting held on 28 August 2014. The Internal Audit reports, which highlight internal control weaknesses were deliberated by the Audit Committee and the recommendations were duly acted upon by the Management.

During the year under review, BTMH had carried out and completed nineteen (19) audits including follow up audit assignments according to the internal audit plan which had been approved by the Audit Committee. Internal audits were carried out to provide assurance that internal controls are established and operating as intended to achieve effective and efficient operations and adherence to applicable policies, guidelines and procedures. BTMH had conducted independent reviews and risk exposures evaluation relating to the operations, related party transactions and management information system. In performing such reviews, recommendations for improvements and enhancements to the existing internal control system and work processes were made.

Mr Kuan Yew Choong was invited to attend the Audit Committee Meetings to explain and clarify to the Audit Committee on the actions taken to rectify the audit issues highlighted in the Internal Audit Reports.

Internal audit reports, incorporating audit recommendations and management's responses were issued to the Audit Committee and the management of the respective operations. Management is responsible for ensuring that corrective actions are taken within the required timeframe. All findings identified by BTMH are tracked and followed up on a quarterly basis and the status of the implementation is reported to the Audit Committee accordingly.

The proposed Internal Audit Plan for financial years ending 2017, 2018 and 2019 was approved by the Audit Committee at its meeting held on 26 May 2016.

The Internal Audit Department's role with regards to the Group's risk management framework is explained in the Statement on Risk Management and Internal Control as set out on pages 53 to 55 of the Annual Report.

The total cost incurred by the Group in relation to the conduct of the internal audit function of the Group during the financial year ended 30 June 2016 was approximately RM 128,000.00.

Based on the internal controls established and maintained by the Group, works performed by the internal and external auditors and reviews performed, the Board with concurrence of the Audit Committee was of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology controls and risk management systems were adequate and effective as at 30 June 2016.

This Report on Audit Committee was made in accordance with the approval of the Board on 29 August 2016.

# Directors' Report

## For the Financial Year Ended 30 June 2016

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

### PRINCIPAL ACTIVITIES

The principal activities of the Company are of investment holding and the provision of management services to its subsidiaries. The principal activities of the subsidiaries are that of mid-stream steel cold rolled coil manufacturing and steel tube manufacturing as disclosed in Note 13 to the financial statements.

The steel tube manufacturing subsidiary was acquired by the Company from its immediate parent company, Melewar Industrial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad at the start of the 4th quarter in the preceding financial year and has since been consolidated into the Group.

### FINANCIAL RESULTS

| | Group<br>RM | Company<br>RM |
|---|---|---|
| Net profit for the financial year | 24,177,842 | 81,474 |

### DIVIDENDS

There were no dividends declared or paid by the Company since 30 June 2015.

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

### RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are shown in the financial statements.

### ISSUE OF SHARES

The Company did not issue any new shares during the current financial year ended 31 June 2016.

### DIRECTORS

The Directors who have held office during the period since the date of the last report are:

Tunku Dato' Yaacob Khyra
Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah
Azlan bin Abdullah
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim
Muk Sai Tat
Shazal Yusuf bin Mohamed Zain
Tengku Datuk Seri Ahmad Shah ibni Almarhum Sultan Salahuddin Abdul Aziz Shah

In accordance with Article 113(1) of the Company's Article of Association, Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah and Azlan bin Abdullah are to retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Section 129(6) of the Companies Act, 1965, Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim is to retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

# Directors' Report

For the Financial Year Ended 30 June 2016
(continued)

**DIRECTORS' INTERESTS**

According to the register of Directors' shareholdings, particulars of interests of Directors who held office at the end of the financial year, in ordinary shares in the Company and its related corporations are as follows:

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | At 1.7.2015 | Bought | Sold | At 30.6.2016 |
| **Melewar Industrial Group Berhad** (Ultimate holding company) | | | | |
| Tunku Dato' Yaacob Khyra | | | | |
| - indirect interest | 82,381,232 | - | - | 82,381,232 |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | | | | |
| - indirect interest | 82,381,232 | - | - | 82,381,232 |
| Azlan bin Abdullah | | | | |
| - direct interest | 133,333 | - | - | 133,333 |

| | Number of ordinary shares of RM0.25 each | | | |
|---|---|---|---|---|
| | At 1.7.2015 | Bought | Sold | At 30.6.2016 |
| **Mycron Steel Berhad** (the Company) | | | | |
| Tunku Dato' Yaacob Khyra | | | | |
| - indirect interest | 202,102,521 | - | - | 202,102,521 |
| Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah | | | | |
| - indirect interest | 202,102,521 | - | - | 202,102,521 |
| Azlan bin Abdullah | | | | |
| - direct interest | 247,000 | - | - | 247,000 |

By virtue of Tunku Dato' Yaacob Khyra and Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah's indirect interests in shares in the ultimate holding company, they are deemed to have an interest in the shares in all the subsidiaries to the extent the ultimate holding company has an interest.

None of the other Directors holding office at the end of the financial year had any interest in ordinary shares in the Company and its related corporations during the financial year.

**DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in Note 9 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

# Directors' Report

For the Financial Year Ended 30 June 2016
(continued)

**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS**

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

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

(b) to ensure that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company had been written down to an amount which might be expected to be realised.

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

(a) which would render the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

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

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

No contingent or other liability has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or of the Company to meet their obligations when they fall due.

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

(a) 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 liability of any other person; or

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

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

In the opinion of the Directors:

(a) the results of the Group's and the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in Note 12 to the financial statements; and

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

**ULTIMATE AND IMMEDIATE HOLDING COMPANY**

The Directors regard Melewar Industrial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad as the both the immediate and the ultimate holding company.

**AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 28 October 2016.

**TUNKU DATO' KAMIL IKRAM**
**BIN TUNKU TAN SRI ABDULLAH**
DIRECTOR

**AZLAN BIN ABDULLAH**
EXECUTIVE DIRECTOR

# Statement by Directors

## Pursuant to Section 169(15) of the Companies Act, 1965

We, Tunku Dato' Kamil Ikram bin Tunku Tan Sri Abdullah and Azlan bin Abdullah, two of the Directors of Mycron Steel Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 66 to 120 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2016 and of the results and cash flows of the Group and the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out in Note 33 on page 121 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with a resolution dated 28 October 2016.

**TUNKU DATO' KAMIL IKRAM**
**BIN TUNKU TAN SRI ABDULLAH**
DIRECTOR

**AZLAN BIN ABDULLAH**
EXECUTIVE DIRECTOR

# Statutory Declaration

## Pursuant to Section 169(16) of the Companies Act, 1965

I, Choo Kah Yean, the person primarily responsible for the financial management of Mycron Steel Berhad, do solemnly and sincerely declare that the financial statements set out on pages 66 to 120 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.

**CHOO KAH YEAN**
CHIEF FINANCIAL OFFICER

Subscribed and solemnly declared by the abovenamed Choo Kah Yean, at Kuala Lumpur in Malaysia on 28 October 2016, before me.

**COMMISSIONER FOR OATHS**

# Independent Auditors' Report

To the Members of MYCRON STEEL BERHAD
(Incorporated in Malaysia)
(Company No. 622819-D)

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Mycron Steel Berhad on pages 66 to 120, which comprise the statements of financial position as at 30 June 2016 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 32.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 30 June 2016 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

# Independent Auditors' Report

To the Members of MYCRON STEEL BERHAD
(Incorporated in Malaysia)
(Company No. 622819-D)
(continued)

**OTHER REPORTING RESPONSIBILITIES**

The supplementary information set out in Note 33 on page 121 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

**OTHER MATTERS**

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

**PRICEWATERHOUSECOOPERS**
(No. AF: 1146)
Chartered Accountants

**LEE YOKE KHAI**
(No. 1589/08/17 (J))
Chartered Accountant

Kuala Lumpur
28 October 2016

# Statements of Comprehensive Income

For the Financial Year Ended 30 June 2016

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Revenue | 6 | 566,809,455 | 518,341,813 | 2,288,789 | 2,209,616 |
| Cost of sales | | (488,537,072) | (492,118,052) | - | - |
| Gross profit | | 78,272,383 | 26,223,761 | 2,288,789 | 2,209,616 |
| Other operating income | | 195,443 | 140,721 | 32,000 | - |
| Net foreign exchange loss | | (733,993) | (5,621,949) | - | - |
| Selling and distribution costs | | (4,969,522) | (3,225,181) | - | - |
| Administrative expenses | | (21,343,685) | (14,617,246) | (2,117,304) | (2,140,278) |
| Impairment loss on property, plant and equipment | 12 | (8,057,174) | (3,463,316) | - | - |
| Gain from bargain purchase | 13(b) | - | 21,280,272 | - | - |
| Finance income | 7 | 446,779 | 388,671 | 593 | 567 |
| Finance costs | 7 | (11,409,804) | (10,595,713) | (1,945) | - |
| Profit before tax | 8 | 32,400,427 | 10,510,020 | 202,133 | 69,905 |
| Taxation | 10 | (8,222,585) | 1,173,150 | (120,659) | (144,135) |
| Net profit/(loss) for the financial year | | 24,177,842 | 11,683,170 | 81,474 | (74,230) |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| - Revaluation surplus on property, plant and equipment, net of tax | | 5,374,814 | 5,959,276 | - | - |
| Total comprehensive income/(loss) for the financial year | | 29,552,656 | 17,642,446 | 81,474 | (74,230) |
| Net profit/(loss) for the financial year attributable to owners of the Company | | 24,177,842 | 11,683,170 | 81,474 | (74,230) |
| Total comprehensive income/(loss) for the financial year attributable to owners of the Company | | 29,552,656 | 17,642,446 | 81,474 | (74,230) |
| Earnings per share attributable to equity holders of the Company | | | | | |
| - basic and diluted (sen) | 11 | 8.56 | 5.72 | | |

# Statements of Financial Position

As at 30 June 2016

| | Note | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| Property, plant and equipment | 12 | 304,738,504 | 319,889,851 | 316,330 | - |
| Investments in subsidiaries | 13 | - | - | 224,290,679 | 230,290,679 |
| Intangible assets | 14 | 20,000,000 | 20,000,000 | - | - |
| | | 324,738,504 | 339,889,851 | 224,607,009 | 230,290,679 |
| **CURRENT ASSETS** | | | | | |
| Inventories | 15 | 96,740,097 | 88,939,432 | - | - |
| Trade and other receivables | 16 | 100,860,355 | 103,965,685 | 5,989 | 8,261 |
| Amount owing by ultimate holding company | 17 | 6,992,246 | 5,377,080 | - | - |
| Amounts owing by subsidiaries | 18 | - | - | 63,903 | 55,899 |
| Amounts owing by related companies | 19 | 5,796,422 | 6,851,563 | - | - |
| Tax recoverable | | 226,101 | 604,811 | 67,779 | 40,879 |
| Derivative financial assets | 20 | 704,614 | 2,071,230 | - | - |
| Cash and cash equivalents | 21 | 27,630,395 | 39,841,327 | 298,831 | 32,420 |
| | | 238,950,230 | 247,651,128 | 436,502 | 137,459 |
| **LESS: CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 22 | 116,118,872 | 93,219,887 | 311,446 | 394,477 |
| Amounts owing to subsidiaries | 18 | - | - | 18,878,906 | 24,565,891 |
| Amount owing to a related company | 19 | 534,597 | 24,120 | - | - |
| Tax payable | | 887,875 | - | - | - |
| Derivative financial liabilities | 20 | 3,263,972 | 40,650 | - | - |
| Borrowings | 24 | 84,338,603 | 166,178,759 | 40,869 | - |
| | | 205,143,919 | 259,463,416 | 19,231,221 | 24,960,368 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | 33,806,311 | (11,812,288) | (18,794,719) | (24,822,909) |
| **LESS: NON-CURRENT LIABILITIES** | | | | | |
| Deferred tax liabilities | 23 | 15,864,769 | 10,084,882 | 4,738 | - |
| Borrowings | 24 | 7,241,264 | 12,129,949 | 234,914 | - |
| | | 23,106,033 | 22,214,831 | 239,652 | - |
| | | 335,438,782 | 305,862,732 | 205,572,638 | 205,467,770 |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | | | |
| Share capital | 25 | 70,886,364 | 70,886,364 | 70,886,364 | 70,886,364 |
| Non-distributable capital reserve | 26 | 115,753,842 | 115,753,842 | 115,753,842 | 115,753,842 |
| Share premium | 26 | 19,100,456 | 19,100,456 | 19,100,456 | 19,100,456 |
| Asset revaluation reserve | | 22,544,616 | 17,169,802 | - | - |
| Treasury shares | 27 | (359,291) | (382,685) | (359,291) | (382,685) |
| Retained earnings | | 107,512,795 | 83,334,953 | 191,267 | 109,793 |
| **TOTAL EQUITY** | | 335,438,782 | 305,862,732 | 205,572,638 | 205,467,770 |

# Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2016

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Capital reserve | Share premium | Asset revaluation reserves | Treasury shares | Retained earnings | Total |
| | | RM | RM | RM | RM | RM | RM | RM |
| At 1 July 2015 | | 70,886,364 | 115,753,842 | 19,100,456 | 17,169,802 | (382,685) | 83,334,953 | 305,862,732 |
| Disposal of treasury shares | 27 | - | - | - | - | 23,394 | - | 23,394 |
| Net profit for the financial year | | - | - | - | - | - | 24,177,842 | 24,177,842 |
| Other comprehensive income: | | | | | | | | |
| - Revaluation surplus on property, plant and equipment, net of tax | 12 | - | - | - | 5,374,814 | - | - | 5,374,814 |
| Total comprehensive income for the financial year | | - | - | - | 5,374,814 | - | 24,177,842 | 29,552,656 |
| At 30 June 2016 | | 70,886,364 | 115,753,842 | 19,100,456 | 22,544,616 | (359,291) | 107,512,795 | 335,438,782 |

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Capital reserve | Share premium | Asset revaluation reserves | Treasury shares | Retained earnings | Total |
| | | RM | RM | RM | RM | RM | RM | RM |
| At 1 July 2014 | | 179,000,000 | - | 14,918,638 | 11,210,526 | (382,685) | 53,155,625 | 257,902,104 |
| Issue of new shares | 25 | 26,136,364 | - | 4,181,818 | - | - | - | 30,318,182 |
| Par value reduction | 25 | (134,250,000) | 115,753,842 | - | - | - | 18,496,158 | - |
| Net profit for the financial year | | - | - | - | - | - | 11,683,170 | 11,683,170 |
| Other comprehensive income: | | | | | | | | |
| - Revaluation surplus on property, plant and equipment, net of tax | | - | - | - | 5,959,276 | - | - | 5,959,276 |
| Total comprehensive income for the financial year | | - | - | - | 5,959,276 | - | 11,683,170 | 17,642,446 |
| At 30 June 2015 | | 70,886,364 | 115,753,842 | 19,100,456 | 17,169,802 | (382,685) | 83,334,953 | 305,862,732 |

# Company Statement of Changes in Equity

For the Financial Year Ended 30 June 2016

| | Note | Share capital | Non-Distributable Capital reserve | Non-Distributable Share premium | Treasury shares | Retained earnings/ (Accumulated losses) | Total |
|---|---|---|---|---|---|---|---|
| | | RM | RM | RM | RM | RM | RM |
| At 1 July 2015 | | 70,886,364 | 115,753,842 | 19,100,456 | (382,685) | 109,793 | 205,467,770 |
| Disposal of treasury shares | 27 | - | - | - | 23,394 | - | 23,394 |
| Net profit for the financial year | | - | - | - | - | 81,474 | 81,474 |
| At 30 June 2016 | | 70,886,364 | 115,753,842 | 19,100,456 | (359,291) | 191,267 | 205,572,638 |
| | | | | | | | |
| At 1 July 2014 | | 179,000,000 | - | 14,918,638 | (382,685) | (18,312,135) | 175,223,818 |
| Issue of new shares | | 26,136,364 | - | 4,181,818 | - | - | 30,318,182 |
| Par value reduction | | (134,250,000) | 115,753,842 | - | - | 18,496,158 | - |
| Net loss for the financial year | | - | - | - | - | (74,230) | (74,230) |
| At 30 June 2015 | | 70,886,364 | 115,753,842 | 19,100,456 | (382,685) | 109,793 | 205,467,770 |

# Statements of Cash Flows

For the Financial Year Ended 30 June 2016

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Profit before tax | | 32,400,427 | 10,510,020 | 202,133 | 69,905 |
| Adjustments for: | | | | | |
| Property, plant and equipment: | | | | | |
| - depreciation | | 16,015,089 | 12,110,328 | 10,908 | 10,530 |
| - net gain on disposals | | (64,235) | (37,287) | (32,000) | - |
| - impairment loss | | 8,057,174 | 3,463,316 | - | - |
| - write-offs | | 589,706 | 21,985 | - | - |
| Net unrealised (gain)/loss on foreign exchange | | (233,123) | 107,287 | - | - |
| Interest income | | (446,779) | (388,671) | (593) | (567) |
| Interest expense | | 11,409,804 | 10,595,713 | 1,945 | - |
| Gain from bargain purchase | | - | (21,280,272) | - | - |
| Impairment of receivables | | 475,367 | - | - | - |
| Impairment of amount owing by a related company | | - | 524,592 | - | - |
| | | 68,203,430 | 15,627,011 | 182,393 | 79,868 |
| Changes in working capital: | | | | | |
| - inventories | | (7,800,665) | 18,338,985 | - | - |
| - trade and other receivables | | 2,629,963 | (21,059,442) | 2,272 | (3,261) |
| - trade and other payables | | 27,994,513 | 15,898,589 | (83,031) | 137,637 |
| - intercompany balances | | 2,515,618 | (2,546,039) | 305,011 | 654,006 |
| Cash generated from operations | | 93,542,859 | 26,259,104 | 406,645 | 868,250 |
| Interest paid | | (11,784,275) | (10,377,940) | (1,945) | - |
| Interest received | | 446,779 | 388,671 | 593 | 567 |
| Tax paid | | (1,553,598) | (308,084) | (198,000) | (120,646) |
| Tax refund | | 55,178 | 80,191 | 55,178 | - |
| Net cash generated from operating activities | | 80,706,943 | 16,041,942 | 262,471 | 748,171 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchases of property, plant and equipment | | (3,224,123) | (8,813,117) | (47,417) | - |
| Proceeds from disposal of property, plant and equipment | | 265,570 | 105,900 | 38,180 | - |
| Net cash flow from subsidiary acquired | | - | 21,385,521 | - | (883,290) |
| Advances to ultimate holding company (net) | | (2,565,166) | (1,916,481) | - | - |
| Repayment from a subsidiary | | - | - | 6,000,000 | - |
| Repayment to a subsidiary | | - | - | (6,000,000) | - |
| Net cash (used in)/generated from investing activities | | (5,523,719) | 10,761,823 | (9,237) | (883,290) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Disposal of treasury share | | 23,394 | - | 23,394 | - |
| Repayments of borrowings | | (449,503,550) | (398,321,566) | (10,217) | - |
| Proceeds from borrowings | | 362,086,000 | 392,560,000 | - | - |
| Net cash (used in)/generated from financing activities | | (87,394,156) | (5,761,566) | 13,177 | - |
| **NET MOVEMENT IN CASH AND CASH EQUIVALENTS** | | (12,210,932) | 21,042,199 | 266,411 | (135,119) |
| CASH AND CASH EQUIVALENTS: | | | | | |
| - at beginning of the financial year | | 39,841,327 | 18,799,128 | 32,420 | 167,539 |
| - at end of the financial year | 21 | 27,630,395 | 39,841,327 | 298,831 | 32,420 |

During the financial year, the Group made non-cash purchases of property, plant and equipment amounting to RM790,713 by utilising hire-purchase loans (Note 12).

Notes to the

# Financial Statements

TABLE OF CONTENTS

# Notes to the Financial Statements

30 June 2016

## 1 GENERAL INFORMATION

The principal activities of the Company are of investment holding and the provision of management services to its subsidiaries. The principal activities of the subsidiaries are that of mid-stream steel cold rolled coil manufacturing, and steel tube manufacturing as disclosed in Note 13 to the financial statements. The steel-tube manufacturing subsidiary was acquired by the Company from its immediate parent company, Melewar Industrial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad - since the 4th quarter the preceding financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of the Bursa Malaysia Securities Berhad.

The registered office of the Company is:
Suite 12.03, 12th Floor
No. 566 Jalan Ipoh
51200 Kuala Lumpur

The principal place of business of the Company is:
Lot 717 Jalan Sungai Rasau
40200 Shah Alam
Selangor Darul Ehsan

As at 30 June 2016, all monetary assets and liabilities of the Group and the Company are denominated in Ringgit Malaysia, unless otherwise stated.

The financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 28 October 2016.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all the financial years presented in dealing with items which are considered material in relation to the financial statements, unless otherwise stated.

### (a) Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and financial assets and financial liabilities (including derivative instruments) measured at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Group and the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current event and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

<u>Standards, amendments to published standards and interpretations that are effective</u>

There are no new accounting standards, amendments to published standards and interpretations that are effective for the first time for the financial year beginning on 1 July 2015.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(a) Basis of preparation** (continued)

Standards, and amendments that have been issued but not yet effective

A number of new standards and amendments to standards and interpretations such as those set out below are effective for financial year beginning after 1 July 2016. The Group and Company are assessing the impact of the below standards and amendments to the published standards on the financial statements of the Group and of the Company in the initial year of adoption.

The Group will apply these new standards and amendments to standards in the following period:

Financial year beginning on or after 1 July 2016

- Amendment to MFRS 11 'Joint arrangements' (effective from 1 January 2016) requires an investor to apply the principles of MFRS 3 'Business Combination' when it acquires an interest in a joint operation that constitutes a business. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

  The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Financial year beginning on or after 1 July 2017

- Amendments to MFRS 107 'Statement of Cash Flows - Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

  In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

  The amendments shall be applied retrospectively.

Financial year beginning on or after 1 July 2018

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(a) Basis of preparation** (continued)

Standards, and amendments that have been issued but not yet effective (continued)

The Group will apply these new standards and amendments to standards in the following period: (continued)

Financial year beginning on or after 1 July 2018 (continued)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Financial year beginning on or after 1 July 2019

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

**(b) Basis of consolidation**

(i) Investment in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(b) Basis of consolidation** (continued)

(i) Investment in subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to consolidate because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Gains or losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

(iv) Acquisitions

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are with limited exceptions measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

**(c) Investment in subsidiaries**

Investments in subsidiaries are carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the profit or loss.

The amounts due from subsidiaries of which the Company does not expect repayment in the foreseeable future are considered as part of the Company's investments in the subsidiaries.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(d) Property, plant and equipment**

(i) Measurement basis

Property, plant and equipment are initially stated at cost. Land and buildings, plant, machinery and electrical installation are subsequently shown at fair values, based on periodic valuation by external valuers, less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised, whilst parts affirmed to be replaced in the immediate term are assessed for impairment provision. All other repairs and maintenance are recognised as expenses in the profit or loss during the financial year in which they are incurred.

Increase in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously in profit or loss, the increase is first recognised in profit or loss. Decrease that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and deprecation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the profit or loss. The revaluation surplus included in equity is transferred directly to retained earnings when the asset is retired or disposed of.

Any 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.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision of the residual values and useful lives are included in the profit or loss for the financial year in which the changes arise.

At each reporting date, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(f) on impairment of non-financial assets.

(ii) Depreciation

Freehold land is not depreciated as it has infinite life. Other property, plant and equipment are depreciated on the straight-line basis based on cost of the assets or their revalued amounts, to their residual values, over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 50 years |
| Plant, machinery and electrical installation | 4 – 40 years |
| Motor vehicles, furniture, fittings and office equipment | 10 years |

Depreciation on assets under construction commences when the assets are ready for its intended use.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Accounting by lessee

(i) Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance lease are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty if the Group will obtain ownership at the end of the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in the profit or loss over the lease term on the same basis as the lease expense.

(ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in the profit or loss when incurred.

**(f) Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset in which case, it is taken to asset revaluation reserve.

**(g) Financial assets**

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) Financial assets** (continued)

Classification (continued)

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

Financial assets at fair value through profit or loss are financial assets that are designated or held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing it in the near term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

In addition, certain financial assets are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- Its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- The item is a hybrid contract that contains one or more embedded derivatives.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of 'trade and other receivables (excluding prepayments)', 'amount owing by ultimate holding company' and 'amounts owing by related companies' in the financial statements (Note 32).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose the investment within 12 months of the end of the reporting date.

Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on trade date i.e. the date on which the Group and the Company commit to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed to the profit or loss.

Subsequent measurement - gains and losses

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in the profit or loss in the financial year in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (refer to the accounting policy below on impairment of financial assets) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in the profit or loss. Dividend income on available-for-sale equity instruments is recognised in the profit or loss when the Group's right to receive payments is established.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) Financial assets** (continued)

Subsequent measurement - impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) 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 debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the profit or loss. If 'loans and receivables' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

When as asset is uncollectible, it is written off against the related allowance account. Such assets are written-off after all the necessary procedures have been completed and the amount of the loss has been determined.

(ii) Assets classified as available-for-sale financial assets

The Group assesses at the end of the reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through the profit or loss in subsequent periods.

**(h) De-recognition of financial assets**

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(i) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is presented in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

**(j) Derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognised in the statement of financial position at fair value on the date on which derivative contracts are entered into and are subsequently re-measured at their fair values at each reporting date. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as financial assets at fair value through profit or loss and accounted for in accordance with the accounting policy set out in Note 2(g).

Derivatives that qualify for hedge accounting are designated as either:

(a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) Hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The Group applies fair value hedge accounting for hedging forward contracts on purchases. The gain or loss relating to the effective and ineffective portion of both the hedging instrument and the hedged item are recognised in profit or loss.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

**(k) Intangible assets**

The Group carries an intangible asset relating to the licenses, patents and trademarks from the consolidation of its acquired Steel Tube subsidiary since the preceding financial year ended 30 June 2015.

Licences, patents and trademarks are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Licences, patents and trademarks that have a finite useful life are carried at cost less accumulated amortisation and accumulated losses. Amortisation is calculated using the straight line method over their estimated useful lives. Trademarks and tradenames that can be renewed perpetually with nominal sums are treated as having an indefinite useful life and are not subjected to amortisation but annually assessed for impairment.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(k) Intangible assets** (continued)

At each reporting date, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(f) on impairment of non-financial assets.

**(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis. Finished goods and work-in-progress comprise cost of materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs of purchased inventory are determined after deducting rebates and discounts.

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

**(m) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprises of cash in hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(n) Financial liabilities**

The Group and the Company classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification at initial recognition.

Other financial liabilities of the Group and the Company comprise ‘trade and other payables (excluding prepayments)’, ‘amount owing to subsidiaries’, ‘amount owing to a related company’ and ‘borrowings’.

When other financial liabilities are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the other financial liabilities are de-recognised, and through the amortisation process.

Financial liabilities are de-recognised when the obligation specified in the contract is discharged or cancelled or expired.

Borrowings are recognised initially at their fair values, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost; any difference between initial recognised amount and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

**(o) Provisions**

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed by another party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provision is not recognised for future operating losses.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(o) Provisions** (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised in the same class of obligations may be small.

Provisions are measured at the present value of the management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

**(p) Share capital**

(i) Classification

Ordinary shares are classified as equity.

(ii) Share issue costs

Incremental costs incurred directly attributable to the issue of new ordinary shares are deducted against the share premium or capital reserve account.

(iii) Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

(iv) Purchase of own shares

When the Company or its subsidiaries purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental external costs, net of tax, is deducted from equity attributable to the owners of the Company as treasury shares until they are cancelled, re-issued or disposed of. Where such ordinary shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity attributable to the owners of the Company.

**(q) Revenue recognition**

Revenue is measured at the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of goods and services tax, returns, rebates and discounts and amounts collected on behalf of third parties and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measureable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of goods

Sale of goods is recognised upon delivery of products and customer acceptance, and performance of after-sales services, if any, net of sales taxes and discounts and after eliminating sales within the Group.

(ii) Processing service and management fee income

Processing service and management fee income are recognised on accrual basis when services are rendered.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(q) Revenue recognition** (continued)

(iv) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

**(r) Employees' benefits**

(i) Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Defined contribution plan

The Group contributes to the Employees' Provident Fund, which is a defined contribution plan, regulated and managed by the government. The contributions are charged to the profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further financial obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(s) Current and deferred income tax**

The income tax expense for the financial year comprises current and deferred tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting date in Malaysia.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is recognised in full, using the liability method, on temporary differences at the reporting date arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting date and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Deferred tax assets (including tax benefits from reinvestment allowance) are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

# Notes to the Financial Statements

30 June 2016

(continued)

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(t) Foreign currencies**

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Group's and the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedges or are attributable to items that form part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss under a separate 'net foreign exchange gain or loss' line item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets are reported as part of the fair value gain or loss.

**(u) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and in compliance with the requirements of MFRS 8. The chief operating decision-maker of the Group responsible for allocating resources and assessing performance of the operating segments is the Executive Committee.

**(v) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

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

**(w) Financial guarantee contracts**

Financial guarantee contracts are contracts that require the Group or the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

A financial guarantee contract is recognised as a financial liability at the time the guarantee is issued. Liabilities arising from financial guarantee contracts, including the Group's and the Company's guarantees for its subsidiaries through deeds of cross guarantee, are initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of the financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

# Notes to the Financial Statements

30 June 2016

(continued)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Financial guarantee contracts (continued)

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Company for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that the Directors believe to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### (a) Impairment of assets due to change in circumstances

The Company's Cold Rolled subsidiary has an imminent plan to upgrade a particular processing-line and to replace certain motors of another processing line, where the implementation thereof will result in the carrying revalued amount not being fully recoverable due to the displaced parts or components. The Directors have made certain assumptions in assessing the recoverable amount of those affected lines in-order to determine the appropriate provision for impairment as disclosed in Note 12.

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

The Group appoints independent professional firms to determine the fair valuation of its property, plant and equipment which generally do not have quoted prices in active markets for identical assets. The Directors at the advice of the appointed professional-valuers exercised judgment and made assumptions in the selection and deployment of the most suitable valuation techniques in the ensuing fair value determination.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The operations of the Group are subject to a variety of financial risks. The Group's overall financial risk management objective is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from its exposure to various financial risks as discussed hereinafter. Financial risk management is carried out at both functional and operational levels, and to the extent possible is embedded into its policies, processes, and controls. This is further reinforced with continuous assessment and improvement on the effectiveness and adequacy of its financial risk management practises by its Executive Committee, internal audit, and the Risk Management Committee which reports to the Board.

Various risk management policies that are made and approved by the Directors for application in day-to-day operations for controlling and managing financial risks are set out below.

### (a) Capital risk

The Group's capital management objectives are (i) to ensure the economic deployment of its capital for sustainable returns which in the long run would exceed the cost of capital; and (ii) to ensure uninterrupted and adequate supply of capital to fulfil objective (i).

The Group views its equity (shareholders' fund) less intangibles if any and interest bearing debts as capital resources, and has a policy to maintain the debt-equity ratio below 1.5 times or in accordance with its financial covenants. Capital deployment amongst the Group's subsidiaries and/or business units is at the purview of the Board, but each of its subsidiaries and/or business units is primarily responsible for the management of its allocated capital subject to the oversight by the Executive Committee and the Board.

The Group's subsidiaries are subjected to financial covenants on minimum adjusted shareholders' funds and maximum allowable 'debt-to-equity' ratio computed at both the entity and Group levels under their respective debenture. The adjusted shareholders' fund is calculated as total equity less intangibles, whilst the 'debt-to-equity' ratio is calculated as total interest bearing liabilities divided by the adjusted shareholders' fund.

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(a) Capital risk** (continued)

For the reporting period, the Group's subsidiaries complied with their respective debenture-imposed capital covenants, and generally have been capital-sufficient in meeting peak business needs. Over the current reporting period, equity capital deployed in the Group has increased by around RM29.6 million (or up 10%) whilst interest-bearing-debt capital has deceased by around RM66.6 million (or down 26%). The Group's debt-equity ratio closed at 0.6 times for the current reporting period compared to 0.9 times at the preceding close.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group's and/or the Company's financial resources are insufficient to meet financial obligations as when due, or have to be met at an excessive cost. The Group's liquidity risk management objective is to ensure that all its committed and foreseeable funding commitments can be met as and when due, and in a cost effective manner.

The Group's financial obligations are primarily incepted at the respective Cold-Rolled-Coil and Steel Tube subsidiaries, and these are mainly in the form of short-term obligations (less than 12 months) comprising of trade or credit facilities utilisation. The Cold-Rolled-Coil and Steel Tube subsidiaries' short term bank debts-to-total bank debts ratio at the close of the current reporting period is 88.9% and 99.5% respectively. However, the said subsidiaries have adequate short-term assets to meet short-term liabilities as reflected in the Group's current-ratio of 1.16 times at the close of the current reporting period (compared to only 0.95 times for the preceding period).

The Company's net current liabilities position at the close of the current financial year of RM18.8 million (2015: RM24.8 million) is attributed to the novation of RM24 million debt owing by MIG to the Steel Tube subsidiary as part of the purchase consideration in the acquisition of the latter in the preceding financial year. This materially large net current liabilities position does not pose any liquidity risk to the Company given that it is an intra-group debt and the timing of the repayment can be controlled by the Company.

Neither the Group nor the Company has in any instances failed to meet any of its financial obligations when they fell due during the current financial year. This is attributed to the positive performance of the Group coupled with its liquidity risk management policies and methods comprising a combination of the following:

- Maintaining sufficient back-up credit facilities and the continuing support from a diversified range of funding sources;
- Maintaining a strict debt servicing plan vis-à-vis its cash flows generated from operations and from available financial assets;
- Rolling short-term cash flows planning on weekly, monthly and annual basis;
- Managing the concentration and maturity profile of both financial and non-financial liabilities vis-à-vis its financial assets and free-cash-flow from operations; and
- Managing cash conversion cycles and optimising working capital deployment.

The Group's subsidiaries are subjected to certain liquidity covenants such as the minimum allowable 'EBITDA to Interest Expense' ratio and 'Debt Service Cover Ratio'. For the reporting period, the Group's subsidiaries duly complied with the aforementioned liquidity covenants imposed at the subsidiaries level.

The Group's significant reliance on bank trade facilities (which are callable on demand) as a source of funding poses a degree of liquidity risk. To diversify the risk, the Cold Rolled subsidiary and the Steel Tube subsidiary have a total trade credit-line of USD27.1 million (RM109.0 million) and USD15.7 million (RM63.3 million) respectively from key suppliers.

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(b) Liquidity risk** (continued)

At the reporting date, the Company's exposure to liquidity risk arises from corporate guarantees issued to the Cold-Rolled subsidiary's outstanding bank debts of RM59.1 million (2015: RM115.9 million), and to the Steel-Tube subsidiary's outstanding bank debts of RM29.4 million (2015: RM59.8 million). The Company also issued a corporate guarantee to a raw material supplier of its Cold-Rolled subsidiary for related trade credits of RM22.7 million in the previous financial year. The Directors are of the opinion that the default risk by the subsidiaries on both the aforementioned is remote.

Total undrawn banking trade-line facilities balance for the subsidiaries at the reporting date is around RM75.7 million (2015: RM49.1 million).

The maturity analysis of the Group's financial liabilities at the reporting date based on contractual undiscounted repayment obligations are set out in the table below:

| Group<br>At 30 June 2016 | Carrying amount<br>RM | Contractual interest rate<br>% | Contractual cash flows<br>RM | Current<br>RM | 1 – 2 years<br>RM | 2 – 3 years<br>RM | > 3 years<br>RM |
|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | | |
| Bankers' acceptance | 68,960,000 | 5.25% - 7.45% | 70,010,322 | 70,010,322 | - | - | - |
| Revolving credits | 9,600,000 | 5.45% | 9,644,436 | 9,644,436 | - | - | - |
| Term Loan 1 | 9,850,078 | 6.25% | 10,819,812 | 3,609,410 | 3,321,832 | 3,134,332 | 754,238 |
| Term Loan 2 | 2,338,092 | 6.00% | 2,405,159 | 2,405,159 | - | - | - |
| Hire-purchase creditors | 831,697 | 2.44% - 3.38% | 926,251 | 374,162 | 258,356 | 111,386 | 182,347 |
| Trade payables | 99,474,756 | 2.50% - 5.50% | 99,474,756 | 99,474,756 | - | - | - |
| Trade and other payables | 16,644,116 | | 16,644,116 | 16,644,116 | - | - | - |
| Amount owing to a related company | 534,597 | | 534,597 | 534,597 | - | - | - |
| | 208,233,336 | | 210,459,449 | 202,696,958 | 3,580,188 | 3,245,718 | 936,585 |
| Derivative financial liabilities | 3,263,972 | | 3,263,972 | 3,263,972 | - | - | - |
| | 211,497,308 | | 213,723,421 | 205,960,930 | 3,580,188 | 3,245,718 | 936,585 |

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(b) Liquidity risk** (continued)

The maturity analysis of the Group's financial liabilities at the preceding financial year's reporting date as comparison based on contractual undiscounted repayment obligations are set out in the table below:

| Group<br>At 30 June 2015 | Carrying amount<br>RM | Contractual interest rate<br>% | Contractual cash flows<br>RM | Current<br>RM | 1 – 2 years<br>RM | 2 – 3 years<br>RM | 3 – 4 years<br>RM |
|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | | |
| Bankers' acceptance | 152,921,451 | 5.45% - 5.60% | 154,712,796 | 154,712,796 | - | - | - |
| Revolving credits | 10,000,000 | 5.75% | 10,141,781 | 10,141,781 | - | - | - |
| Term Loan 1 | 12,750,000 | 6.25% | 14,416,182 | 3,696,447 | 3,509,332 | 3,321,832 | 3,888,571 |
| Term Loan 2 | 2,202,081 | 6.00% | 2,393,745 | - | 2,393,745 | - | - |
| Hire-purchase creditors | 435,176 | 0.21% - 4.99% | 472,349 | 282,439 | 142,406 | 47,504 | - |
| Trade payables | 79,368,887 | 4.00% - 5.50% | 79,368,887 | 79,368,887 | - | - | - |
| Trade and other payables | 13,315,363 | | 13,315,363 | 13,315,363 | - | - | - |
| Amount owing to a related company | 24,120 | | 24,120 | 24,120 | - | - | - |
| | 271,017,078 | | 274,845,223 | 261,541,833 | 6,045,483 | 3,369,336 | 3,888,571 |
| Derivative financial liabilities | 40,650 | | 40,650 | 40,650 | - | - | - |
| | 271,057,728 | | 274,885,873 | 261,582,483 | 6,045,483 | 3,369,336 | 3,888,571 |

The maturity analysis of the Company's financial liabilities at the reporting date (and preceding year's reporting date as comparison) based on contractual undiscounted repayment obligations are set out in the respective tables below:

| Company<br>At 30 June 2016 | Carrying amount<br>RM | Contractual cash flows<br>RM | Current<br>RM | 1 – 2 years<br>RM | More than 2 years<br>RM |
|---|---|---|---|---|---|
| Trade and other payables | 311,446 | 311,446 | 311,446 | - | - |
| Hire-purchase creditors (contractual interest rate 2.72%) | 275,783 | 328,291 | 48,648 | 48,648 | 230,995 |
| Amount due to subsidiaries | 18,878,906 | 18,878,906 | 18,878,906 | - | - |
| Financial guarantee contracts | - | 88,310,000 | 88,310,000 | - | - |
| **At 30 June 2015** | | | | | |
| Trade and other payables | 394,477 | 394,477 | 394,477 | - | - |
| Amount due to subsidiaries | 24,565,891 | 24,565,891 | 24,565,891 | - | - |
| Financial guarantee contracts | - | 175,700,000 | 175,700,000 | - | - |

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(c) Credit risk**

Credit risk is the risk of financial loss resulting from counterparties' failure to discharge their contractual obligations. The Group's objective on credit risk management is to minimise the probability of financial loss resulting from any counterparty's default.

The Group's exposure to credit risk arises primarily from cash and bank balances, trade and other receivables and related company (outside the Group) balances.

The Group has credit-control policies on credit sales, and the exposure to credit risk is monitored on a continuous basis through periodic review of the receivables' aging. Credit evaluations are performed on all customers and are reviewed annually. Credit terms and limits are assigned based on the financial strength of the customers; and where deemed appropriate, corporate guarantees and personal indemnities are obtained from customers.

At the reporting date, the Group has significant concentration of credit risk in its trade receivables where the top 10 corporate customers' outstanding of the Cold Rolled and the Steel Tube subsidiaries represent about 91% (2015: 89%) and 44% (2015: 43%) of their respective trade receivables. The Company has no other significant concentration of credit risk except for amounts due from subsidiaries. At the reporting date, the Group has 2 (2015: 1) external customers that contributes to more than 10% of the Group's revenue. The revenue contributed by the said customers amounted to RM146.3 million (2015: RM106.8 million).

The Group's and the Company's major classes of financial assets are as disclosed in Note 32 to the financial statements. The maximum exposure to credit risk for each class of financial assets is the carrying amount of each class of financial assets presented in the statements of financial position. Nevertheless, management obtains corporate guarantees and personal indemnities from trade debtors where possible in managing exposure to credit risk.

Other financial assets are of deposits with licensed banks, bank balances and derivative financial assets that are placed with licensed financial institutions. The Directors are of the view that the risk of non-performance by these reputable financial institutions is remote.

Details of the Group's financial assets after credit impairment assessment (excluding cash and bank balances) at the reporting date are set out in the table below:

| | | | | ← Past due not impaired → | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Impaired | Neither past due nor impaired | < 30 days | 31 – 60 days | 61 – 90 days | 91 – 180 days | > 181 days | Total past due not impaired |
| | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| Group | | | | | | | | | |
| At 30 June 2016 | | | | | | | | | |
| Trade receivables | 97,256,475 | 248,301 | 82,049,963 | 13,996,867 | 847,008 | 110,371 | - | 3,965 | 14,958,211 |
| Other receivables | 10,848,835 | 9,622,484 | 1,226,351 | - | - | - | - | - | - |
| Deposits | 1,078,178 | - | 1,078,178 | - | - | - | - | - | - |
| Amount owing by ultimate holding company | 6,992,246 | - | 6,992,246 | - | - | - | - | - | - |
| Amounts owing by related companies | 6,321,014 | 524,592 | 289,827 | - | - | - | - | 5,506,595 | 5,506,595 |
| Derivative financial assets | 704,614 | - | 704,614 | - | - | - | - | - | - |
| | 123,201,362 | 10,395,377 | 92,341,179 | 13,996,867 | 847,008 | 110,371 | - | 5,510,560 | 20,464,806 |

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(c) Credit risk** (continued)

Details of the Group's financial assets after credit impairment assessment (excluding cash and bank balances) at the preceding financial year's reporting date as comparison are set out in the table below:

| | | | | Past due not impaired | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Impaired | Neither past due nor impaired | < 30 days | 31 – 60 days | 61 – 90 days | 91 – 180 days | > 181 days | Total past due not impaired |
| | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| Group | | | | | | | | | |
| At 30 June 2015 | | | | | | | | | |
| Trade receivables | 99,121,348 | 248,301 | 85,583,679 | 11,086,673 | 2,080,580 | 36,018 | 86,097 | - | 13,289,368 |
| Other receivables | 10,361,684 | 9,147,117 | 1,214,567 | - | - | - | - | - | - |
| Deposits | 967,373 | - | 967,373 | - | - | - | - | - | - |
| Amount owing by ultimate holding company | 5,377,080 | - | 5,377,080 | - | - | - | - | - | - |
| Amounts owing by related companies | 7,376,155 | 524,592 | 1,429,765 | 217,266 | - | 32,862 | - | 5,171,670 | 5,421,798 |
| Derivative financial assets | 2,071,230 | - | 2,071,230 | - | - | - | - | - | - |
| | 125,274,870 | 9,920,010 | 96,643,694 | 11,303,939 | 2,080,580 | 68,880 | 86,097 | 5,171,670 | 18,711,166 |

Similar analysis on financial assets at Company level (at the reporting date and preceding reporting date) being principally amounts owing by subsidiaries is deemed unnecessary as the balances are neither past due nor impaired and these amounts are expected to be recovered within the next financial year.

(i) Financial assets that are past due but not impaired

Financial assets of the Group that are past due but not impaired comprised mainly of trade receivables. Majority of these balances arose from customers that have been trading with the Group for more than three years, and based on historical trends these past due amounts are usually collected in full albeit some delay. As at the approval date of the financial statements, the Group has received 99% of the outstanding sums from these customers.

At the reporting date, the related company balances comprise of trade balances amounting to RM5,506,595 (2015: RM5,421,798). Management believes that these amounts are recoverable as the Group has been receiving regular payments from these related companies with trade terms of 60 days (2015: 60 days).

(ii) Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are generally credit customers within approved credit period. The Group's and the Company's trade receivables credit term ranges from 3 days to 90 days (2015: 3 days to 90 days).

At the reporting date, the related company balances comprise of trade and non-trade balances amounting to RM Nil (2015: RM1,155,925) and RM289,827 (2015: RM273,840) respectively.

The Group and the Company do not have any receivables that are neither past due nor impaired that have been negotiated during the financial year.

(iii) Financial assets that are impaired

During the current financial year, the Group's Steel Tube subsidiary made full impairment on credit rebates amounting to RM475,367 due from a domestic hot rolled coil supplier (classified under other receivables) which abruptly ceased operation.

Beside the aforementioned, there are no other financial assets that warranted impairment but not impaired during or at the close of the financial year.

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(c) Credit risk** (continued)

(iii) Financial assets that are impaired (continued)

Movement of the Group's allowance for impairment of trade and other receivables is as follows:

| Group | Trade receivables (Note 16) RM | Other receivables (Note 31) RM | Amount owing by related co. (Note 19) RM | Total RM |
|---|---|---|---|---|
| As at 30 June 2016 | | | | |
| Allowance for impairment: | | | | |
| 1 July 2015 | 248,301 | 9,147,117 | 524,592 | 9,920,010 |
| Impairment charge for the financial year | - | 475,367 | - | 475,367 |
| 30 June 2016 | 248,301 | 9,622,484 | 524,592 | 10,395,377 |
| As at 30 June 2015 | | | | |
| Allowance for impairment: | | | | |
| 1 July 2014 | 248,301 | 9,147,117 | - | 9,395,418 |
| Impairment charge for the financial year | - | - | 524,592 | 524,592 |
| 30 June 2015 | 248,301 | 9,147,117 | 524,592 | 9,920,010 |

Movement of the Company's allowance for impairment of other receivables is as follows:

| Company | 2016 (Note 31) RM | 2015 (Note 31) RM |
|---|---|---|
| Other receivables | | |
| Allowance for impairment: | | |
| 1 July / 30 June | 9,147,117 | 9,147,117 |

**(d) Interest rate risk**

Interest rate risk is the risk that the future cash flows and/or fair valuations of the Group's and the Company's interest bearing financial instruments will be negatively impacted due to fluctuation in market interest rates. The Group's objective on interest rate risk management is to achieve a balance between re-pricing risks and minimising its weighted average borrowing cost.

The Group's interest bearing financial instruments are mainly relating to its domestic borrowings. As at the end of this reporting period, the Company does not have any interest bearing debt and the Group does not have any floating-rate borrowings within its debt portfolio. Even-though the Group does not have any interest rate risk exposure on floating-rate borrowings, its fixed rate borrowings are mainly short-term trade facilities (utilised to finance raw coil material purchases and credit sales) which are subject to frequent re-pricing upon rollover every 3 to 4 months. Despite the frequent re-pricing coupled with the weak Ringgit amid threats of interest-rate rise in the United States of America, the domestic re-pricing rate has been relatively stable for the entire financial year 2016. Nevertheless, the concentration of short-term fixed-rate financial liabilities exposes the Group to interest rate re-pricing risk.

The Group and the Company have immaterial interest bearing assets which comprised mainly of fixed interest bearing short-term deposits subject to frequent but generally stable re-pricing. Neither the Group nor the Company holds any interest-rate derivatives during and at the close of the current financial year.

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(d) Interest rate risk** (continued)

Details of the interest bearing financial instruments for the Group are as follows:

| | 2016<br>RM | 2015<br>RM |
|---|---|---|
| Fixed rate borrowings, denominated in RM | 91,579,867 | 178,308,708 |
| Fixed rate credit from supplier, denominated in USD (Note 22) | 82,236,184 | 63,870,368 |
| Fixed rate credit from supplier, denominated in RM (Note 22) | 17,238,572 | 15,459,935 |
| | 191,054,623 | 257,639,011 |

The Group's outstanding interest bearing financial instruments at the close of the current financial year is significantly reduced by 26% compared to the preceding financial year.

No sensitivity analysis on profit/(loss) arising from floating interest rate movement is provided as the Group does not have any floating rate financial instruments over the current and the preceding financial year. On the re-pricing risk impact had the overall interest rates being 1% higher, the Group's profit after tax for financial year 2016 would have been lower by RM1.5 million (2015: RM1.9 million). A 1% lower interest rate would have the equal but opposite effect to the aforementioned amounts.

**(e) Foreign currency exchange risk**

Foreign currency risk is the risk that the fluctuation of foreign exchange ("FX") rates may negatively impact fair value or future cash flows of financial instruments in currencies other than its own functional currency. The Group's foreign currency risk management objective is to minimise foreign currency exposure on financial instruments that may give rise to fluctuations in fair values or future cash flows.

As a policy, the Group would seek natural hedging methods to mitigate its FX exposure before incepting any derivative as a hedging instrument. The Group mainly uses forward exchange contracts to hedge its foreign currency risk.

The Group's Cold Rolled and Steel Tube operations' revenue stream are mainly denominated in their Ringgit functional currency, whilst their raw material coils procurement are mostly imported from abroad denominated in USD. The Steel Tube operations also derive a small portion of its revenue (around 10%) from export sales denominated mainly in SGD. In summary, the Group FX exposure is mainly in USD-short and to a lesser extent SGD-long.

The Group's Cold Rolled and Steel Tube subsidiaries accept forward orders from their customers, and these forward orders' are priced using appropriate reference forward market FX rates on its cost components which utilise imported raw materials. The Group would hedge at least 50% of its purchase commitment/order with a matching FX forward contract (depending on the availability of limited FX facilities with the counterparty banks, and on the forward duration period) to facilitate future payment in that foreign currency. In this regard, the Group designates qualifying FX hedges for fair value hedge accounting over the reporting period on effective FX forwards incepted to hedge the Group's USD exposure arising from its imported raw materials. These hedges are designated on inception after been tested for prospective effectiveness using the 'dollar-off-set' ratio method. On Steel Tube's affirmed export sales in foreign currencies, the Group would sell forward around 50% of its future foreign currency receivables. But these FX forwards are usually not hedge accounted as they do not fulfil all the criteria for hedge accounting, but are fair valued through profit or loss. Further disclosures are made in Note 20 on derivatives.

Over the financial year 2016, the Ringgit depreciated against the USD by another 6% on-top of the catastrophic decline of around 18% recorded over the preceding financial year 2015. The aforesaid lower FX decline coupled with higher FX hedge coverage for the current financial year averaging 85% (2015: averaging 60%), turned in a lower net foreign exchange loss of RM0.7 million (2015: net foreign exchange loss of RM5.6 million).

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(e) Foreign currency exchange risk** (continued)

A summary of the realised and unrealised gain / (loss) from incepted hedging instruments (being foreign exchange forwards) and the hedged items (being receivables or payables in foreign currencies) over the twelve months period for the current and the preceding financial year as comparison are outlined below.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **FX Fair Value** | **Unrealised RM'000** | **Realised RM'000** | **Total RM'000** | **Unrealised RM'000** | **Realised RM'000** | **Total RM'000** |
| FX Hedging Instrument | | | | | | |
| Not hedge accounted | 39 | (41) | (2) | 265 | 1,720 | 1,985 |
| Hedge accounted | (2,598) | 1,503 | (1,095) | 1,765 | 2,495 | 4,260 |
| | (2,559) | 1,462 | (1,097) | 2,030 | 4,215 | 6,245 |
| FX Hedged Items | | | | | | |
| Not hedge accounted | 194 | (926) | (732) | (405) | (7,202) | (7,607) |
| Hedge accounted | 2,598 | (1,503) | 1,095 | (1,765) | (2,495) | (4,260) |
| | 2,792 | (2,429) | 363 | (2,170) | (9,697) | (11,867) |
| Net FX Gain/(Loss) | 233 | (967) | (734) | (140) | (5,482) | (5,622) |

Details of the Group's foreign currencies exposure in its Ringgit Malaysia functional currency as at the reporting date (and preceding financial year's reporting date) are set out in the respective tables below:

| | **From USD** | **From EURO** | **From SGD** | **Total** |
|---|---|---|---|---|
| As at 30 June 2016 | | | | |
| Financial assets | | | | |
| Trade and other receivables | 140,681 | 24,597 | 2,976,227 | 3,141,505 |
| Cash and bank balances | 710,465 | - | 771,160 | 1,481,625 |
| | 851,146 | 24,597 | 3,747,387 | 4,623,130 |
| Less: Financial liabilities | | | | |
| Trade and other payables | 83,062,143 | - | - | 83,062,143 |
| Net financial (liabilities)/assets | (82,210,997) | 24,597 | 3,747,387 | (78,439,013) |
| Off balance sheet | | | | |
| Contracted commitments | (78,680,731) | - | - | (78,680,731) |
| Less: Forward foreign currency contracts at notional value at closing rate | 149,586,961 | - | (1,625,890) | 147,961,071 |
| Net currency exposure | (11,304,767) | 24,597 | 2,121,497 | (9,158,673) |

# Notes to the Financial Statements

30 June 2016

(continued)

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (continued)

**(e) Foreign currency exchange risk** (continued)

| | From USD | From EURO | From SGD | From YEN | Total |
|---|---|---|---|---|---|
| As at 30 June 2015 | | | | | |
| Financial assets | | | | | |
| Trade and other receivables | 571,530 | 567,502 | 3,561,936 | 26,932 | 4,727,900 |
| Cash and bank balances | 351,988 | - | 1,169,320 | - | 1,521,308 |
| | 923,518 | 567,502 | 4,731,256 | 26,932 | 6,249,208 |
| Less: Financial liabilities | | | | | |
| Trade and other payables | 63,870,368 | - | - | - | 63,870,368 |
| Net financial (liabilities)/assets | (62,946,850) | 567,502 | 4,731,256 | 26,932 | (57,621,160) |
| Off balance sheet | | | | | |
| Contracted commitments | (44,432,522) | - | - | - | (44,432,522) |
| Less: Forward foreign currency contracts at notional value at closing rate | 96,097,780 | - | (1,264,320) | - | 94,833,460 |
| Net currency exposure | (11,281,592) | 567,502 | 3,466,936 | 26,932 | (7,220,222) |

'Net currency exposure' if positive is in long position, and if negative is in short position of the captioned foreign currency.

The following table demonstrates the sensitivity of the Group's profit/(loss) after tax to a reasonably possible change in the US Dollar ("USD"), Euro Dollar ("EURO"), Singapore Dollar ("SGD") and Japanese Yen ("YEN") exchange rates against RM, with all other variables in particular interest rates held constant.

| | Increase/(decrease) | |
|---|---|---|
| | 2016 | 2015 |
| | RM | RM |
| **Group** | | |
| RM appreciates against USD by 3% | 257,749 | 253,836 |
| RM appreciates against EURO by 3% | (561) | (12,769) |
| RM appreciates against SGD by 3% | (48,370) | (78,006) |
| RM appreciates against YEN by 3% | - | (606) |

A 3% depreciation of the foreign exchange rate would have the equal but opposite effect to the amount shown above, on the basis that all other variables remain constant.

# Notes to the Financial Statements

30 June 2016

(continued)

## 5 FAIR VALUE

The carrying amounts of the following financial assets and liabilities approximate their fair values due to the relatively short-term maturity of these financial instruments: deposits, cash and bank balances, receivables and payables (including non-trade intercompany balances) except for those disclosed below:

Fair value estimation

The table below analyses financial instruments carried at fair value by valuation methods. The different levels have been defined as follows:

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

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the Group's financial assets that are measured at fair value at the reporting date:

| | Level 1<br>RM | Level 2<br>RM | Level 3<br>RM | Total<br>RM |
|---|---|---|---|---|
| 30 June 2016 | | | | |
| Financial assets | | | | |
| Derivative financial assets | - | 704,614 | - | 704,614 |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | 3,263,972 | - | 3,263,972 |
| 30 June 2015 | | | | |
| Financial assets | | | | |
| Derivative financial assets | - | 2,071,230 | - | 2,071,230 |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | 40,650 | - | 40,650 |

The fair value of financial instruments that are not traded in an active market, such as those foreign currency exchange forward contracts held by the Group at the close of the financial year, is determined by way of marking-to-market the underlying variable using published market rates or as quoted by counterparty financial institutions and with the resulting value discounted back to present value if the maturity tenure is material. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates, and is classified under Level 2. Those foreign currency exchange forward contracts with marked-to-market positive fair value is classified as derivative financial assets, whilst those with marked-to-market negative fair value is classified as derivative financial liabilities.

Neither the Group nor the Company holds any financial assets or liabilities where fair values are assessed at Level 1 and Level 3.

# Notes to the Financial Statements

30 June 2016

(continued)

## 6 REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM | RM | RM | RM |
| Sale of goods | 563,040,067 | 518,162,537 | - | - |
| Processing service income | 3,769,388 | 179,276 | - | - |
| Management fee income | - | - | 2,288,789 | 2,209,616 |
| | 566,809,455 | 518,341,813 | 2,288,789 | 2,209,616 |

The Group's higher revenue for the current financial year ended 2016 is partially attributed to the full financial year consolidation of its Steel Tube subsidiary (RM206 million) compared to only a single quarter post acquisition revenue contribution (RM58 million) in the preceding financial year.

## 7 FINANCE INCOME AND COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM | RM | RM | RM |
| Finance income: | | | | |
| Interest on deposits with financial institutions | 446,779 | 388,671 | 593 | 567 |
| Finance costs: | | | | |
| Interest expenses: | | | | |
| Interest on borrowings | 7,459,769 | 7,466,989 | - | - |
| Interest on suppliers' credit | 3,903,757 | 3,221,720 | - | - |
| Interest on hire-purchase | 46,278 | 65,577 | 1,945 | - |
| | 11,409,804 | 10,754,286 | 1,945 | - |
| Net foreign exchange gain: | | | | |
| - realised | - | (158,573) | - | - |
| - unrealised | - | - | - | - |
| Total finance costs | 11,409,804 | 10,595,713 | 1,945 | - |

# Notes to the Financial Statements

30 June 2016

(continued)

## 8 PROFIT BEFORE TAX

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM | RM | RM | RM |
| Profit before tax is arrived at after charging/(crediting): | | | | |
| Auditors' remuneration: | | | | |
| - current financial year | 298,148 | 216,399 | 104,950 | 100,914 |
| - under accruals in the prior financial years | 21,834 | 24,761 | 7,822 | 27,114 |
| - non-audit fees | - | 110,000 | - | 110,000 |
| Changes in inventories of finished goods and work in progress | 2,259,825 | (5,907,094) | - | - |
| Raw materials consumed | 428,532,541 | 441,534,551 | - | - |
| Consumables | 16,307,770 | 14,142,738 | - | - |
| Property, plant and equipment (Note 12): | | | | |
| - depreciation | 16,015,089 | 12,110,328 | 10,908 | 10,530 |
| - gain on disposals | (64,235) | (37,287) | (32,000) | - |
| - impairment loss | 8,057,174 | 3,463,316 | - | - |
| - write offs | 589,705 | 21,985 | - | - |
| Impairment of receivables (Note 16) | 475,367 | - | - | - |
| Rental of buildings | 5,482,800 | 1,324,000 | | - |
| Staff costs (excluding remuneration of Executive Directors): | | | | |
| - salaries, bonuses and allowances | 22,256,858 | 13,546,886 | 709,131 | 607,527 |
| - defined contribution plan – contributions | 3,048,720 | 1,841,220 | 95,832 | 83,767 |
| - others | 2,281,682 | 1,752,181 | 99,724 | 105,959 |
| Net unrealised (gain)/loss on foreign exchange | (233,123) | 107,287 | - | - |
| Net realised loss on foreign exchange | 967,116 | 5,356,089 | - | - |
| Gain from bargain purchase | - | (21,280,272) | - | - |

A significant item impacting the current financial year's Profit before Tax at the Group level is the impairment loss on property, plant and equipment (see Note 12) of RM8.1 million (2015: RM3.5 million).

## 9 DIRECTORS' REMUNERATION

The aggregate amount of emoluments received/receivable by Directors of the Group and of the Company is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM | RM | RM | RM |
| Non-executive Directors: | | | | |
| - fees | 195,300 | 325,626 | 195,300 | 325,626 |
| - other emoluments | 61,500 | 78,000 | 61,500 | 78,000 |
| Executive Directors: | | | | |
| - salaries and other emoluments | 350,180 | 175,020 | 350,180 | 175,020 |
| - defined contribution plan | 56,250 | 22,500 | 56,250 | 22,500 |
| | 663,230 | 601,146 | 663,230 | 601,146 |

The estimated monetary value of benefits-in-kind received and receivable by the Directors of the Group and of the Company are RM22,700 (2015: RM21,200) and RM22,700 (2015: RM21,200) respectively.

# Notes to the Financial Statements

30 June 2016

(continued)

## 9 DIRECTORS' REMUNERATION (continued)

The number of Directors whose total remuneration fall within the following bands are as follows:

| | Number of Directors | | | |
|---|---|---|---|---|
| | Executive | | Non-Executive | |
| | 2016 | 2015 | 2016 | 2015 |
| Range of remuneration | | | | |
| Nil | 1 | 1 | - | - |
| RM1 to RM50,000 | - | - | 4 | 9 |
| RM50,001 to RM350,000 | 1 | 1 | 2 | 1 |
| | 2 | 2 | 6 | 10 |

## 10 TAXATION

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Current tax: | | | | |
| - current tax expense | 2,909,828 | 77,915 | 115,921 | 144,135 |
| - over provision in prior financial years | (144,823) | - | - | - |
| | 2,765,005 | 77,915 | 115,921 | 144,135 |
| Deferred tax: (Note 23) | | | | |
| - origination and reversal of temporary differences | 5,457,580 | (1,251,065) | 4,738 | - |
| Tax expense/(credit) | 8,222,585 | (1,173,150) | 120,659 | 144,135 |

The explanation of the relationship between taxation and profit before tax is as follows:

Numerical reconciliation between taxation and the product of accounting profit multiplied by the Malaysian tax rate.

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Profit before tax | 32,400,427 | 10,510,020 | 202,133 | 69,905 |
| Tax calculated at the Malaysian tax rate of 24% (2015: 25%) | 7,776,102 | 2,627,505 | 48,512 | 17,476 |
| Tax effects of: | | | | |
| - expenses not deductible for tax purposes | 925,583 | 1,069,961 | 79,969 | 126,801 |
| - tax incentive obtained for double deductions | (75,307) | (201,977) | - | - |
| - income not subject to tax | (258,970) | (5,409,817) | (7,822) | (142) |
| - over provision in prior financial years | (144,823) | - | - | - |
| - change in tax rate (footnote i) | - | 741,178 | - | - |
| Tax expense/(credit) | 8,222,585 | (1,173,150) | 120,659 | 144,135 |

*Footnote (i): Being tax effect arising from reduced corporate tax rate at 24% for assessment year 2016 onwards affecting deferred tax liabilities computation in financial year 2015; and deferred tax provision for imputation of minimal capital gain tax on corporation at 5%.*

# Notes to the Financial Statements

30 June 2016

(continued)

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| Net profit attributable to equity holders of the Company (RM) | 24,177,842 | 11,683,170 |
| Weighted average number of ordinary shares (excluding treasury shares) | 282,515,230 | 204,096,064 |
| Basic earnings per share (sen) | 8.56 | 5.72 |

The weighted average number of ordinary shares for the current financial year 2016 is slightly higher in the absence of any new shares issued compared with the preceding financial year where 104,545,455 new ordinary shares were issued on 1 April 2015 as part of the purchase consideration for the acquisition of the Steel Tube subsidiary.

### (b) Diluted earnings per share

The diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as the Company did not issue any financial instruments that may entitle its holders to new ordinary shares causing dilution.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Freehold land RM | Buildings RM | Plant, machinery and electrical installation RM | Motor vehicles RM | Furniture, fittings and office equipment RM | Construction in progress RM | Total RM |
|---|---|---|---|---|---|---|---|
| Group | | | | | | | |
| Cost/Valuation | | | | | | | |
| At 1 July 2015 | | | | | | | |
| - cost | - | - | - | 2,225,269 | 3,165,278 | 1,201,478 | 6,592,025 |
| - valuation | 47,500,000 | 57,500,000 | 221,823,980 | - | - | - | 326,823,980 |
| Additions | - | - | 2,784,344 | 832,393 | 186,079 | 212,020 | 4,014,836 |
| Disposals | - | - | (159,697) | (678,674) | (1,500) | - | (839,871) |
| Write offs | - | - | (630) | - | (571) | (588,820) | (590,021) |
| Revaluation during the financial year | 5,500,000 | 14,391 | 182,730 | - | - | - | 5,697,121 |
| Transfer | - | - | 196,000 | - | - | (196,000) | - |
| Effects of elimination of accumulated depreciation on revaluation | - | (1,814,391) | (13,636,260) | - | - | - | (15,450,651) |
| At 30 June 2016 | 53,000,000 | 55,700,000 | 211,190,467 | 2,378,988 | 3,349,286 | 628,678 | 326,247,419 |
| Accumulated depreciation | | | | | | | |
| At 1 July 2015 | - | - | - | 816,230 | 1,013,395 | - | 1,829,625 |
| Charge for the financial year | - | 1,814,391 | 13,648,605 | 239,074 | 313,019 | - | 16,015,089 |
| Disposals | - | - | (12,172) | (625,900) | (464) | - | (638,536) |
| Write offs | - | - | (173) | (142) | - | - | (315) |
| Effects of elimination of accumulated depreciation on revaluation | - | (1,814,391) | (13,636,260) | - | - | - | (15,450,651) |
| At 30 June 2016 | - | - | - | 429,262 | 1,325,950 | - | 1,755,212 |
| Accumulated impairment | | | | | | | |
| At 1 July 2015 | - | - | 11,696,529 | - | - | - | 11,696,529 |
| Charge for the financial year | - | - | 8,057,174 | - | - | - | 8,057,174 |
| At 30 June 2016 | - | - | 19,753,703 | - | - | - | 19,753,703 |
| Net book value | 53,000,000 | 55,700,000 | 191,436,764 | 1,949,726 | 2,023,336 | 628,678 | 304,738,504 |
| Representing: | | | | | | | |
| - cost | - | - | - | 1,949,726 | 2,023,336 | 628,678 | 4,601,740 |
| - valuation | 53,000,000 | 55,700,000 | 191,436,764 | - | - | - | 300,136,764 |
| | 53,000,000 | 55,700,000 | 191,436,764 | 1,949,726 | 2,023,336 | 628,678 | 304,738,504 |

# Notes to the Financial Statements

30 June 2016

(continued)

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Note | Freehold land RM | Buildings RM | Plant, machinery and electrical installation RM | Motor vehicles RM | Furniture, fittings and office equipment RM | Construction in progress RM | Total RM |
|---|---|---|---|---|---|---|---|---|
| Group | | | | | | | | |
| Cost/Valuation | | | | | | | | |
| At 1 July 2014 | | | | | | | | |
| - cost | | - | - | - | 1,281,511 | 2,521,287 | 1,733,153 | 5,535,951 |
| - valuation | | 41,500,000 | 58,500,000 | 179,930,201 | - | - | - | 279,930,201 |
| Acquisition of a subsidiary | 13(b) | - | - | 42,078,092 | 476,833 | 515,575 | 712,606 | 43,783,106 |
| Additions | | - | - | 5,836,491 | 614,477 | 128,416 | 2,558,133 | 9,137,517 |
| Disposals | | - | - | (58,044) | (147,552) | - | - | (205,596) |
| Write offs | | - | - | (25,765) | - | - | - | (25,765) |
| Revaluation during the financial year | | 6,000,000 | 789,480 | 192,240 | - | - | - | 6,981,720 |
| Transfer | | - | - | 3,802,414 | - | - | (3,802,414) | - |
| Effects of elimination of accumulated depreciation on revaluation | | - | (1,789,480) | (9,931,649) | - | - | - | (11,721,129) |
| At 30 June 2015 | | 47,500,000 | 57,500,000 | 221,823,980 | 2,225,269 | 3,165,278 | 1,201,478 | 333,416,005 |
| Accumulated depreciation | | | | | | | | |
| At 1 July 2014 | | - | - | - | 808,231 | 772,958 | - | 1,581,189 |
| Charge for the financial year | | - | 1,789,480 | 9,986,583 | 93,828 | 240,437 | - | 12,110,328 |
| Disposals | | - | - | (51,154) | (85,829) | - | - | (136,983) |
| Write offs | | - | - | (3,780) | - | - | - | (3,780) |
| Effects of elimination of accumulated depreciation on revaluation | | - | (1,789,480) | (9,931,649) | - | - | - | (11,721,129) |
| At 30 June 2015 | | - | - | - | 816,230 | 1,013,395 | - | 1,829,625 |
| Accumulated impairment | | | | | | | | |
| At 1 July 2014 | | - | - | 8,233,213 | - | - | - | 8,233,213 |
| Charge for the financial year | | - | - | 3,463,316 | - | - | - | 3,463,316 |
| At 30 June 2015 | | - | - | 11,696,529 | - | - | - | 11,696,529 |
| Net book value | | 47,500,000 | 57,500,000 | 210,127,451 | 1,409,039 | 2,151,883 | 1,201,478 | 319,889,851 |
| Representing: | | | | | | | | |
| - cost | | - | - | - | 1,409,039 | 2,151,883 | 1,201,478 | 4,762,400 |
| - valuation | | 47,500,000 | 57,500,000 | 210,127,451 | - | - | - | 315,127,451 |
| | | 47,500,000 | 57,500,000 | 210,127,451 | 1,409,039 | 2,151,883 | 1,201,478 | 319,889,851 |

# Notes to the Financial Statements

30 June 2016

(continued)

## 12 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Motor vehicles RM | Furniture, fittings and office equipment RM | Total RM |
|---|---|---|---|
| Company | | | |
| At 30 June 2016 | | | |
| Cost | | | |
| At 1 July 2015 | 576,291 | 180,512 | 756,803 |
| Additions | 333,418 | - | 333,418 |
| Disposals | (582,471) | - | (582,471) |
| At 30 June 2016 | 327,238 | 180,512 | 507,750 |
| Accumulated depreciation | | | |
| At 1 July 2015 | 576,291 | 180,512 | 756,803 |
| Charge for the financial year | 10,908 | - | 10,908 |
| Disposals | (576,291) | - | (576,291) |
| At 30 June 2016 | 10,908 | 180,512 | 191,420 |
| Net book value | | | |
| At 30 June 2016 | 316,330 | - | 316,330 |
| At 30 June 2015 | | | |
| Cost | | | |
| At 1 July 2014/30 June 2015 | 576,291 | 180,512 | 756,803 |
| Accumulated depreciation | | | |
| At 1 July 2014 | 576,291 | 169,982 | 746,273 |
| Charge for the financial year | - | 10,530 | 10,530 |
| At 30 June 2015 | 576,291 | 180,512 | 756,803 |
| Net book value | | | |
| At 30 June 2015 | - | - | - |

Freehold land and buildings, plant, machinery and electrical installation of the Group were revalued in the financial year ended 30 June 2016 by an independent firm of professional valuers, CH Williams Talhar & Wong Sdn. Bhd. based on open market value and depreciated replacement costs method respectively in ascertaining their fair values.

Arising from the valuation above, the total revaluation gain on property, plant and equipment amounting to RM5,697,121 (2015: RM6,981,720) was recognised during the financial year, with a corresponding revaluation reserve, adjusted for deferred tax, amounting to RM5,374,814 (2015: RM5,959,276) been recognised in the other comprehensive income. Arising from the same valuation, there was also a revaluation loss on plant, machinery and electrical installation which resulted in the recognition of a net impairment charge of RM1,057,174 (2015: RM3,463,316) on the statement of comprehensive income.

# Notes to the Financial Statements

30 June 2016

(continued)

**12 PROPERTY, PLANT AND EQUIPMENT** (continued)

At the close of the current financial year, the Group's Cold Rolled subsidiary has an imminent plan to upgrade a certain production line and to replace certain legacy motors of another production line which will affect the said assets' carrying revalued amount. In assessing the affected assets' fair value net disposal of the components to be displaced or its recoverable amount, there is an indication of material impairment which necessitate the recognition of an additional impairment charge of RM7 million, as summarised in the table below, in the statement of comprehensive income for the current financial year:

| | All in RM' million | | |
|---|---|---|---|
| | **Existing Carrying Revalued Amount** | **Estimated Fair Value Net Displacement** | **Impairment Provision** |
| Production Line A: up-grade | 22.2 | 16.6 | 5.6 |
| Production Line B: motor replacement | 4.0 | 2.6 | 1.4 |
| | 26.2 | 19.2 | 7.0 |

All property, plant and equipment are pledged for banking facilities.

Plant and machinery of the Group's steel tube subsidiary amounting to RM36,209,000 (2015: RM38,465,000) are located on properties belonging to the ultimate holding company.

The net book values of the revalued property, plant and equipment that would have been included in the financial statements had these assets been carried at deemed costs less accumulated depreciation are as follows:

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM** | **RM** |
| Freehold land | 31,300,000 | 31,300,000 |
| Buildings | 54,034,117 | 56,048,081 |
| Plant, machinery and electrical installation | 204,919,412 | 216,351,779 |
| | 290,253,529 | 303,699,860 |

(a) Valuation of property, plant and equipment

The fair value of property, plant and equipment is individually determined periodically, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting date. The Directors relied upon the valuations obtained during the financial year based on the following methodologies:

(i) Freehold land and properties - open market basis by reference to observable prices in an active market or recent market transactions on arm's length terms. (Level 2)

(ii) Plant, machinery and electrical installation - depreciated replacement cost method, which is based on the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. (Level 3)

(b) Asset acquired under hire-purchase arrangements

Additions to property, plant and equipment of the Group during the financial year amounting to RM4,014,836 includes those acquired by means of hire-purchase totalling RM790,713.

As at 30 June 2016, the net book value of the assets under hire-purchase arrangements in the Group is RM1,287,207 (2015: RM1,631,468).

# Notes to the Financial Statements

30 June 2016

(continued)

**12 PROPERTY, PLANT AND EQUIPMENT** (continued)

(c) Fair value measurements using significant unobservable inputs (Level 3)

| | 2016<br>RM | 2015<br>RM |
|---|---|---|
| Plant, machinery and electrical installation | | |
| Opening balance | 210,127,451 | 171,696,988 |
| Acquisition of subsidiary | - | 42,078,092 |
| Additions | 2,784,344 | 5,836,491 |
| Disposals | (159,697) | (58,044) |
| Write offs | (630) | (25,765) |
| Revaluation during the financial year | 182,730 | 192,240 |
| Impairment charge for the financial year | (8,057,174) | (3,463,316) |
| Effects of elimination of accumulated depreciation on revaluation | (13,636,260) | (9,931,649) |
| Transfer from construction in progress | 196,000 | 3,802,414 |
| Closing balance | 191,436,764 | 210,127,451 |

The following table presents the valuation techniques and key inputs that were used to determine the fair value of plant and machinery categorised under Level 3 of the fair value hierarchy.

| Description | Fair value as at 30 June 2016 RM | Valuation technique | Unobservable inputs | Range of unobservable inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Plant, machinery and electrical installation | 191,436,764 | Depreciated replacement cost method | Useful life | 16 years – 39 years (28) | The longer the useful life, the higher the fair value |

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's plant and machinery. As at 30 June 2016, the fair value of the land and building have been determined by C H Williams Talhar & Wong Sdn Bhd.

The external valuation of the Level 3 plant and machinery have been performed using depreciated replacement cost approach. The external valuer, in discussion with the Group's management, has determined the unobservable input based on the useful life of the plant and machinery.

If the unobservable input based on the useful life of the plant and machinery increase by one year, the fair value of the plant and machinery would increase by approximately RM13.6 million.

If the unobservable input based on the useful life of the plant and machinery decrease by one year, the fair value of the plant and machinery would decrease by approximately RM13.6 million.

# Notes to the Financial Statements

30 June 2016

(continued)

## 13 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2016 | 2015 |
| | RM | RM |
| Unquoted shares, at cost | | |
| Mycron Steel CRC Sdn Bhd ("MSCRC") | 134,061,998 | 134,061,998 |
| Melewar Steel Tube Sdn Bhd ("MST") | 55,201,472 | 55,201,472 |
| Amount owing by MSCRC | 35,027,209 | 41,027,209 |
| | 224,290,679 | 230,290,679 |

The amount owing by MSCRC was reclassified since financial year 2009 as part of the Company's interest in the subsidiary as it is the intention of the Company to treat this amount as a long-term source of capital to the subsidiary. During the financial year, the Company rebalanced the capital deployment in MSCRC by reducing the aforementioned amount by RM6 million and correspondingly reducing the amount owing by the Company to MST by the same amount which arose from the assumed debts pursuant to its acquisition of MST in the preceding financial year (see Notes 18).

The details of the subsidiaries are as follows:

| | | Group's equity interest | |
|---|---|---|---|
| **Name** | **Principal activities** | **2016** | **2015** |
| | | % | % |
| Mycron Steel CRC Sdn. Bhd. ("MSCRC") | Manufacturing and trading of steel cold rolled coiled sheets | 100 | 100 |
| Melewar Steel Tube Sdn. Bhd. ("MST") | Manufacturing and trading of steel tubes and pipes | 100 | 100 |
| Subsidiary of MSCRC | | | |
| Silver Victory Sdn. Bhd. | Dormant | 100 | 100 |

All subsidiaries are incorporated in Malaysia and are audited by PricewaterhouseCoopers, Malaysia.

(a) Investment in Mycron Steel CRC Sdn. Bhd. ("MSCRC")

The cost of investment amounting to RM169 million (inclusive of amount owing by the subsidiary company which the Company treats as a long-term source of capital) has been assessed for any indication of impairment which the Company concludes that there is none. For the current financial year ended 30 June 2016, MSCRC recorded a net profit of RM17.5 million with a shareholders' fund of RM238.3 million. The indicative recoverable amount (based on fair value less cost to sell) of the investment is higher than its carrying amount.

(b) Investment in Melewar Steel Tube Sdn Bhd ("MST")

The Company acquired MST on 1 April 2015 in the preceding financial year from its ultimate holding company Melewar Industrial Group Bhd ("MIG") for a consideration sum fair-valued on acquisition date at RM54.3 million which comprised of 104,545,455 new ordinary shares of the Company (then marked-to-market at quoted price of 29 sens per share for a total fair value of around RM30.3m) and its assumption of trade-debt owing by MIG to MST amounting to RM24 million. This coupled with incurred direct attributable costs of RM0.9 million, the carrying cost of its investment in MST was recognised at RM55.2 million. The fair valuation of the acquired assets and liabilities of MST on acquisition date resulted in the recognition of a 'gain from bargain purchase' of RM21.3 million in the preceding finance year 2015.

This cost of investment has been assessed for any indication of impairment which the Company concludes that there is none. For the current financial year ended 30 June 2016, MST recorded a net profit of RM6.9 million with a shareholders' fund of RM89.3 million. The indicative recoverable amount (based on fair value less cost to sell) of the investment is higher than its carrying amount.

# Notes to the Financial Statements

30 June 2016

(continued)

## 14 INTANGIBLE ASSETS

The Group's intangible assets amounting to RM20 million represent the fair value of registered tradenames with the rights to use and sell under the tradenames of Aurora and MIG-Melewar which are duly held by Melewar Steel Tube Sdn Bhd ("MST").

These trademarks have indefinite useful lives, and as such are not subjected to periodic amortisation but annual impairment tests. In this regard, an impairment test using Value-in-Use ("VIU") has been performed and it was determined that no impairment was necessary as the indicative recoverable amount is higher than its carrying amount.

The VIU computation adopted the following assumptions:

| Assumption | Rate | Approach used to determining value |
|---|---|---|
| Royalty in-lieu rate | 1.19% of revenue | Based on the agreed rate between seller and buyer, taken into consideration of industry average rate |
| Discount rate | 9.50% | Reflect specific risk relating to the relevant industries and country in which the company operates |
| Growth rate | 0% | Conservative scenario |

The Directors and management have considered and assessed reasonable variations in the underlying key assumptions used in the computation of the recoverable amount and is satisfied with the headroom of the intangible asset's carrying amount.

## 15 INVENTORIES

| | Group | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Raw materials | 59,869,200 | 49,917,785 |
| Consumables | 2,101,010 | 2,042,627 |
| Work-in-progress | 1,898,505 | 2,763,404 |
| Finished goods | 32,871,382 | 34,215,616 |
| | 96,740,097 | 88,939,432 |

## 16 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Current | | | | |
| Trade receivables | 97,256,475 | 99,121,348 | - | - |
| Less: Accumulated impairment loss | (248,301) | (248,301) | - | - |
| | 97,008,174 | 98,873,047 | - | - |
| Other receivables | 10,675,427 | 10,079,106 | 9,148,606 | 9,150,878 |
| Less: Accumulated impairment loss | (9,622,484) | (9,147,117) | (9,147,117) | (9,147,117) |
| | 1,052,943 | 931,989 | 1,489 | 3,261 |
| Staff loans | 173,408 | 282,578 | - | - |
| Deposits | 1,078,178 | 967,373 | 4,500 | 5,000 |
| Prepayments | 1,547,652 | 2,910,698 | - | - |
| Total trade and other receivables | 100,860,355 | 103,965,685 | 5,989 | 8,261 |

## 17 AMOUNT OWING BY ULTIMATE HOLDING COMPANY

Amount owing by ultimate holding company are mainly due to payments on behalf and are unsecured, interest free and repayable upon demand.

# Notes to the Financial Statements

30 June 2016

(continued)

## 18 AMOUNTS OWING BY/(TO) SUBSIDIARIES

Amounts owing by subsidiaries arising mainly from management fee charges and reimbursable payments are unsecured, interest free and repayable upon demand.

The amount owing to subsidiaries also include the assumed debt owing to the Steel tube subsidiary being part of the purchase consideration for the acquisition of the former in the preceding financial year (see Notes 13b). This amount owing is unsecured, interest free and repayable upon demand.

## 19 AMOUNTS OWING BY RELATED COMPANIES/(TO) A RELATED COMPANY

Amounts owing by related companies arising mainly from trade are unsecured and subject to credit terms of 30 days (2015: 30 days). Amounts owing to a related company are arising from expenditures paid-on-behalf which are unsecured and not subject to specific credit terms.

## 20 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

| | Group | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Assets RM | Liabilities RM | Assets RM | Liabilities RM |
| Forward foreign currency exchange contract – fair value through profit and loss | 73,142 | (34,265) | 306,412 | (40,650) |
| Forward foreign currency exchange contract – fair value hedge | 631,472 | (3,229,707) | 1,764,818 | - |
| | 704,614 | (3,263,972) | 2,071,230 | (40,650) |

The Group's derivatives comprise solely of Currency Exchange Forward Contracts incepted to hedge its foreign currency exposures arising mainly from forward purchases of raw materials in USD and partially from export sales in SGD. See Note 4(e). These Currency Exchange Forward Contracts generally have a maturity period of less than 6 months and their fair values are classified under current assets/(liabilities) by way of marking-to-market.

Foreign currency hedges which meet qualifying criteria under MFRS139 are designated on inception for fair value hedge accounting where the changes in fair value for both the hedge items and the hedge instruments are charged to the Statement of Comprehensive Income, and closing fair values are recognised in the Statement of Financial Position as either current financial assets or liabilities.

Details on the Group's unrealised currency derivatives are outlined below:

(i) Derivatives designated and fair value hedge accounted as at 30 June 2016

| Forward foreign currency exchange contracts as hedge instrument | | | | | Contracted payment obligation and/or a/c payables as hedge item | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Fair value | | | | | Fair value | |
| Maturity period of contract | Notional value long USD | Average contracted rate USD/RM | Financial assets RM | Financial liabilities RM | Maturity period of contract | Notional value short USD | Average basis rate USD/RM | Financial assets RM | Financial liabilities RM |
| July 2016 | 9,777,524 | 4.2108 | 45,300 | (1,820,037) | July 2016 | 9,777,524 | 4.2108 | 1,820,037 | (45,300) |
| August 2016 | 4,638,616 | 4.1159 | - | (363,782) | August 2016 | 4,638,616 | 4.1159 | 363,782 | - |
| September 2016 | 5,153,112 | 4.1239 | 109,528 | (521,699) | September 2016 | 5,153,112 | 4.1239 | 521,699 | (109,528) |
| October 2016 | 4,923,570 | 3.9634 | 476,644 | - | October 2016 | 4,923,570 | 3.9634 | - | (476,644) |
| November 2016 | 7,205,373 | 4.1113 | - | (358,586) | November 2016 | 7,205,373 | 4.1113 | 358,586 | - |
| December 2016 | 3,007,752 | 4.1206 | - | (165,603) | December 2016 | 3,007,752 | 4.1206 | 165,603 | - |
| Total | 34,705,947 | | 631,472 | (3,229,707) | Total | 34,705,947 | | 3,229,707 | (631,472) |

Net fair value loss from the hedging instruments of RM2.6 million and the corresponding net fair value gain from the hedged item of RM2.6 million are taken-up in the statement of profit or loss.

The designated hedges are within 85% to 120% effective range using the 'dollar off-set' method.

# Notes to the Financial Statements

30 June 2016

(continued)

## 20 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

(i) Derivatives designated and fair value hedge accounted as at 30 June 2015

| Forward foreign currency exchange contracts as hedge instrument | | | | | Contracted payment obligation and/or a/c payables as hedge item | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Fair value | | | | | Fair value | |
| Maturity period of contract | Notional value long USD | Average contracted rate USD/RM | Financial assets RM | Financial liabilities RM | Maturity period of contract | Notional value short USD | Average basis rate USD/RM | Financial assets RM | Financial liabilities RM |
| July 2015 | 9,440,000 | 3.6977 | 809,080 | - | July 2015 | 9,440,000 | 3.6977 | - | (809,080) |
| August 2015 | 3,442,300 | 3.7401 | 212,063 | - | August 2015 | 3,442,300 | 3.7401 | - | (212,063) |
| September 2015 | 3,050,000 | 3.6921 | 330,570 | - | September 2015 | 3,050,000 | 3.6921 | - | (330,570) |
| October 2015 | 1,480,000 | 3.6760 | 193,880 | - | October 2015 | 1,480,000 | 3.6760 | - | (193,880) |
| November 2015 | 3,700,000 | 3.7554 | 219,225 | - | November 2015 | 3,700,000 | 3.7554 | - | (219,225) |
| Total | 21,112,300 | | 1,764,818 | - | Total | 21,112,300 | | - | (1,764,818) |

Fair value gain from the hedging instruments of RM1.8 million and the corresponding fair value loss from the hedged item of RM1.8 million are taken-up in the statement of profit or loss.

The designated hedges are within 85% to 120% effective range using the 'dollar off-set' method.

(ii) Derivatives not designated and not hedge accounted

As at 30 June 2016

**Forward foreign currency exchange contracts as hedge instrument**

| | | | Fair value | |
|---|---|---|---|---|
| **Maturity period of contract** | **Notional value long USD** | **Average contracted rate USD/RM** | **Financial assets RM** | **Financial liabilities RM** |
| July 2016 | 580,985 | 3.9875 | 24,725 | (1,860) |
| August 2016 | 1,062,049 | 4.0245 | 31,130 | (11,783) |
| September 2016 | 323,701 | 4.0898 | 9,271 | (4,252) |
| November 2016 | 294,272 | 4.0652 | 882 | - |
| Total | 2,261,007 | | 66,008 | (17,895) |

| | | | Fair value | |
|---|---|---|---|---|
| **Maturity period of contract** | **Notional value short SGD** | **Average contracted rate SGD/RM** | **Financial assets RM** | **Financial liabilities RM** |
| July 2016 | 160,000 | 2.9874 | 3,850 | (2,000) |
| August 2016 | 100,000 | 2.9639 | 1,763 | (3,250) |
| September 2016 | 100,000 | 2.9286 | 38 | (5,734) |
| October 2016 | 110,000 | 2.9826 | 1,483 | (2,198) |
| November 2016 | 75,000 | 2.9512 | - | (3,188) |
| Total | 545,000 | | 7,134 | (16,370) |

# Notes to the Financial Statements

30 June 2016

(continued)

## 20 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

(ii) Derivatives not designated and not hedge accounted (continued)

As at 30 June 2015

**Forward foreign currency exchange contracts as hedge instrument**

| | | | Fair value | |
|---|---|---|---|---|
| **Maturity period of contract** | **Notional value long USD** | **Average contracted rate USD/RM** | **Financial assets RM** | **Financial liabilities RM** |
| July 2015 | 4,172,386 | 3.7112 | 300,279 | - |
| August 2015 | 49,373 | 3.6850 | 5,184 | - |
| September 2015 | 8,491 | 3.6835 | 949 | - |
| Total | 4,230,250 | | 306,412 | - |

| | | | Fair value | |
|---|---|---|---|---|
| **Maturity period of contract** | **Notional value short SGD** | **Average contracted rate SGD/RM** | **Financial assets RM** | **Financial liabilities RM** |
| July 2015 | 150,000 | 2.7058 | - | (14,235) |
| August 2015 | 125,000 | 2.7127 | - | (11,553) |
| September 2015 | 125,000 | 2.7140 | - | (12,025) |
| October 2015 | 50,000 | 2.7570 | - | (2,837) |
| Total | 450,000 | | - | (40,650) |

These derivatives were not hedge accounted primarily due to the late inception of these hedging instruments which gave rise to mismatch between the intended hedge items' basis FX-rate and the contracted FX-rate; and as a result, this did not provide the required range of hedge-effectiveness.

Besides the abovementioned unrealised marked-to-market position of the currency derivatives as at the close of the financial year, the Group has recorded a total realised net gain of around RM1.5 million from its FX Forward Contracts incepted for hedging purposes over the current financial year (2015: gain RM4.2 million).

## 21 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 RM** | **2015 RM** | **2016 RM** | **2015 RM** |
| Cash in hand | 1,303 | 7,509 | 2 | 2 |
| Bank balances | 7,692,996 | 24,714,962 | 298,829 | 32,418 |
| Deposits with licensed banks | 19,936,096 | 15,118,856 | - | - |
| | 27,630,395 | 39,841,327 | 298,831 | 32,420 |

# Notes to the Financial Statements

30 June 2016

(continued)

## 21 CASH AND CASH EQUIVALENTS (continued)

The weighted average interest rates effective at the reporting date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 % per annum | 2015 % per annum | 2016 % per annum | 2015 % per annum |
| Bank balances | 2.81 | 2.76 | 2.81 | 2.76 |
| Deposits with licensed banks | 2.38 | 2.72 | - | - |

Deposits with licensed banks of the Group have an average maturity of 4 days (2015: 5 days). Bank balances are deposits held at call with licensed banks.

## 22 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Trade payables | 101,368,263 | 80,514,966 | - | - |
| Other payables | 8,440,691 | 6,709,944 | 127,996 | 220,943 |
| Prepayments received from customers | 1,005,706 | 535,637 | - | - |
| Accruals | 5,281,322 | 5,124,836 | 183,450 | 173,534 |
| GST payable | 22,890 | 334,504 | - | - |
| | 116,118,872 | 93,219,887 | 311,446 | 394,477 |

Trade payables include specific interest bearing suppliers' credit with balances amounting to RM99,474,756 (2015: RM79,330,303). These credit facilities have interest bearing credit periods up to 150 days (2015: 150 days).

The remaining trade and other payables are generally interest free and within accorded interest free credit periods ranging between 7 to 60 days (2015: 7 to 60 days).

## 23 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Deferred tax liabilities | | | | |
| - Defered tax liabilities to be recovered after more than 12 months | (15,864,769) | (10,084,882) | (4,738) | - |
| At 1 July | (10,084,882) | (2,238,908) | - | - |
| Acquisition of subsidiary (Note 13(b)) | - | (8,074,595) | - | - |
| (Charged)/credited to the profit or loss (Note 10): | | | | |
| - property, plant and equipment | (5,457,580) | 1,259,715 | (4,738) | - |
| - other liabilities | - | (8,650) | - | - |
| | (5,457,580) | 1,251,065 | (4,738) | - |
| Debited to assets revaluation reserve: | | | | |
| - property, plant and equipment | (322,307) | (1,022,444) | - | - |
| At 30 June | (15,864,769) | (10,084,882) | (4,738) | - |

# Notes to the Financial Statements

30 June 2016

(continued)

## 23 DEFERRED TAX (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Subject to income tax: | | | | |
| Deferred tax assets (before offsetting): | | | | |
| - unutilised tax losses | 6,140,542 | 6,140,542 | - | - |
| - unutilised reinvestment allowance | 19,096,762 | 19,096,762 | - | - |
| | 25,237,304 | 25,237,304 | - | - |
| Offsetting | (25,237,304) | (25,237,304) | - | - |
| Deferred tax assets (after offsetting) | - | - | - | - |
| Deferred tax liabilities (before offsetting): | | | | |
| - property, plant and equipment | (34,361,560) | (28,856,673) | (4,738) | - |
| - intangible assets | (4,800,000) | (4,800,000) | - | - |
| Offsetting | 25,237,304 | 25,237,304 | - | - |
| | (13,924,256) | (8,419,369) | (4,738) | - |
| Subject to real property gain tax | | | | |
| Deferred tax liabilities: | | | | |
| - Freehold land | (1,940,513) | (1,665,513) | - | - |
| Deferred tax liabilities (after offsetting) | (15,864,769) | (10,084,882) | (4,738) | - |
| Deferred tax liabilities (cumulative amount charged to equity) | 1,924,005 | 1,601,698 | - | - |

## 24 BORROWINGS

The Group and Company does not have any overdue borrowings from financial institutions. The Group's and Company's borrowings are as disclosed below:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Current | | | | | |
| Bankers' acceptance | (i) | 68,960,000 | 152,921,451 | - | - |
| Revolving credits | (i) | 9,600,000 | 10,000,000 | - | - |
| Term Loan 1 | (i) | 3,100,078 | 3,000,000 | - | - |
| Term Loan 2 | (ii) | 2,338,092 | - | - | - |
| Hire-purchase creditors | (iii) | 340,433 | 257,308 | 40,869 | - |
| | | 84,338,603 | 166,178,759 | 40,869 | - |

# Notes to the Financial Statements

30 June 2016

(continued)

**24 BORROWINGS** (continued)

The Group and Company does not have any overdue borrowings from financial institutions. The Group's and Company's borrowings are as disclosed below: (continued)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | | RM | RM | RM | RM |
| Non-current | | | | | |
| Term Loan 1 | (i) | 6,750,000 | 9,750,000 | - | - |
| Term Loan 2 | (ii) | - | 2,202,081 | - | - |
| Hire-purchase creditors | (iii) | 491,264 | 177,868 | 234,914 | - |
| | | 7,241,264 | 12,129,949 | 234,914 | - |
| Bankers' acceptance | | 68,960,000 | 152,921,451 | - | - |
| Revolving credits | | 9,600,000 | 10,000,000 | - | - |
| Term Loan 1 | | 9,850,078 | 12,750,000 | - | - |
| Term Loan 2 | | 2,338,092 | 2,202,081 | - | - |
| Hire-purchase creditors | | 831,697 | 435,176 | 275,783 | - |
| Total | | 91,579,867 | 178,308,708 | 275,783 | - |

The Group's total interest cost attributed to the above borrowings for the current financial year is RM7.5 million (2015: RM7.5 million).

Contractual terms of borrowings

| | Contractual interest rate at reporting date (per annum) | Functional currency/ currency exposure | Total carrying amount | Maturity profile | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | > 4 years |
| | | | RM | RM | RM | RM | RM | RM |
| Group | | | | | | | | |
| At 30 June 2016 | | | | | | | | |
| Secured | | | | | | | | |
| Bankers' acceptance | 5.25% - 7.45% | RM/RM | 68,960,000 | 68,960,000 | - | - | - | - |
| Revolving credits | 5.45% | RM/RM | 9,600,000 | 9,600,000 | - | - | - | - |
| Term Loan 1 | 6.25% | RM/RM | 9,850,078 | 3,100,078 | 3,000,000 | 3,000,000 | 750,000 | - |
| Hire-purchase creditors | 2.44% - 3.38% | RM/RM | 831,697 | 340,433 | 237,888 | 100,200 | 40,869 | 112,307 |
| | | | 89,241,775 | 82,000,511 | 3,237,888 | 3,100,200 | 790,869 | 112,307 |
| Unsecured | | | | | | | | |
| Term Loan 2 | 6.00% | RM/RM | 2,338,092 | 2,338,092 | - | - | - | - |
| | | | 91,579,867 | 84,338,603 | 3,237,888 | 3,100,200 | 790,869 | 112,307 |

# Notes to the Financial Statements

30 June 2016

(continued)

**24 BORROWINGS** (continued)

Contractual terms of borrowings (continued)

| | Contractual interest rate at reporting date (per annum) | Functional currency/ currency exposure | Total carrying amount | Maturity profile | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | > 4 years |
| | | | RM | RM | RM | RM | RM | RM |
| Group | | | | | | | | |
| At 30 June 2015 | | | | | | | | |
| Secured | | | | | | | | |
| Bankers' acceptance | 5.45% - 6.05% | RM/RM | 152,921,451 | 152,921,451 | - | - | - | - |
| Revolving credits | 5.75% | RM/RM | 10,000,000 | 10,000,000 | - | - | - | - |
| Term Loan 1 | 6.25% | RM/RM | 12,750,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 750,000 |
| Hire-purchase creditors | 0.21% - 4.99% | RM/RM | 435,176 | 257,308 | 133,571 | 44,297 | - | - |
| | | | 176,106,627 | 166,178,759 | 3,133,571 | 3,044,297 | 3,000,000 | 750,000 |
| Unsecured | | | | | | | | |
| Term Loan 2 | 6.00% | RM/RM | 2,202,081 | - | 2,202,081 | - | - | - |
| | | | 178,308,708 | 166,178,759 | 5,335,652 | 3,044,297 | 3,000,000 | 750,000 |

| | Contractual interest rate at reporting date (per annum) | Functional currency/ currency exposure | Total carrying amount | Maturity profile | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | > 4 years |
| | | | RM | RM | RM | RM | RM | RM |
| Company | | | | | | | | |
| At 30 June 2016 | | | | | | | | |
| Secured | | | | | | | | |
| Hire-purchase creditors | 2.72% | RM/RM | 275,783 | 40,869 | 40,869 | 40,869 | 40,869 | 112,307 |

# Notes to the Financial Statements

30 June 2016

(continued)

**24 BORROWINGS** (continued)

(i) Term Loan 1 together with bankers' acceptance and revolving credits are secured via two separate debentures with fixed and floating charge on the assets of the respective steel subsidiaries and these banking facilities rank pari-passu with each other under the respective debentures (refer Note 12).

(ii) Term Loan 2 is unsecured and is subordinated to those secured borrowings under the mentioned debentures.

(iii) The hire-purchase creditors at the reporting date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Analysis of hire-purchase creditors: | | | | |
| Payable within one year | 374,162 | 282,439 | 48,648 | - |
| Payable between one and two years | 258,356 | 172,389 | 48,648 | - |
| Payable between two and three years | 111,386 | 47,504 | 48,648 | - |
| Payable later than three years | 182,347 | - | 182,347 | - |
| | 926,251 | 502,332 | 328,291 | - |
| Less: Future finance charges | (94,554) | (67,156) | (52,508) | - |
| Present value | 831,697 | 435,176 | 275,783 | - |
| Present value of hire-purchase creditors: | | | | |
| Payable within one year | 340,433 | 257,308 | 40,869 | - |
| Payable between one and two years | 237,888 | 133,571 | 40,869 | - |
| Payable between two and three years | 100,200 | 44,297 | 40,869 | - |
| Payable later than three years | 153,176 | - | 153,176 | - |
| | 831,697 | 435,176 | 275,783 | - |

The weighted average interest rates of borrowings at the reporting date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 % per annum | 2015 % per annum | 2016 % per annum | 2015 % per annum |
| Bankers' acceptance | 5.84 | 5.65 | - | - |
| Revolving credits | 5.45 | 5.75 | - | - |
| Term loan 1 | 6.25 | 6.25 | - | - |
| Term loan 2 | 6.00 | 6.00 | - | - |
| Hire-purchase creditors | 2.83 | 3.08 | 2.72 | - |

The Group and the subsidiaries complied with all the covenant clauses set out in the facilities agreements for the current financial year. Refer to Notes 4 (a) and (b) for further details.

# Notes to the Financial Statements

30 June 2016

(continued)

## 25 SHARE CAPITAL

| | Group/Company | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number of shares | Nominal value RM | Number of shares | Nominal value RM |
| Authorised | | | | |
| Ordinary shares of RM0.25/RM1.00 each - At 1 July | 2,000,000,000 | 500,000,000 | 500,000,000 | 500,000,000 |
| Ordinary shares of RM0.25/RM1.00 each - At 30 June | 2,000,000,000 | 500,000,000 | 2,000,000,000 | 500,000,000 |
| Issued and fully paid | | | | |
| Ordinary shares of RM0.25/RM1.00 each - At 1 July | 283,545,455 | 70,886,364 | 179,000,000 | 179,000,000 |
| Par value reduction | - | - | - | (134,250,000) |
| Issue of new shares | - | - | 104,545,455 | 26,136,364 |
| Ordinary shares of RM0.25/RM1.00 each - At 30 June | 283,545,455 | 70,886,364 | 283,545,455 | 70,886,364 |

The Company did not issue any new shares during the current financial year 2016. In the preceding financial year 2015, the Company undertook a par value reduction exercise on 12 February 2015 followed by the issuance of 104,545,455 new ordinary shares on 1 April 2015 as partial consideration for the acquisition of the Steel Tube subsidiary.

## 26 SHARE PREMIUM AND NON-DISTRIBUTABLE CAPITAL RESERVE

| | Group/Company | |
|---|---|---|
| | 2016 RM | 2015 RM |
| Share Premium [(a)] | 19,100,456 | 19,100,456 |
| Non-Distributable Capital Reserve [(b)] | 115,753,842 | 115,753,842 |

*(a) The Share Premium relates to the Company's ordinary shares.*

*(b) The Non-Distributable Capital Reserve arose from the par value reduction exercise undertaken in financial year 2015.*

# Notes to the Financial Statements

30 June 2016

(continued)

## 27 TREASURY SHARES

The shareholders of the Company, by an ordinary resolution passed at the last Annual General Meeting on 30 November 2015, approved the renewal of authority for the Company to purchase its own shares. The Directors of the Company are committed to enhancing the value of the Company and its shareholders.

The shares repurchased in the prior financial years are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965 in Malaysia and carried at historical cost of repurchase. The Company has the right to reissue these shares at a later date. As treasury shares, the rights attached as to voting, dividends and participation in other distribution are suspended. During the current financial year, the Company did not repurchase any of its own shares. Instead, the Company has on 12 May 2016 sold 40,300 of its Treasury Shares in the open market at 58.5 sen per share. Details on the Treasury shares movement for the financial year are as follows:

| | Treasury Shares | |
|---|---|---|
| | **Number** | **Average sen/share** |
| Opening 1 July 2015 | 1,040,300 | 36.8 |
| Less Disposal on 12 May 2016 | (40,300) | 58.5 |
| Closing 30 June 2016 | 1,000,000 | 35.9 |

At the reporting date, the number of outstanding shares in issue after excluding treasury shares is 282,545,455 (2015: 282,505,155).

## 28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions which were carried out on terms and conditions negotiated between the related parties.

The Group has related party transactions with the following related companies:

| | **Relationship** |
|---|---|
| Melewar Industrial Group Berhad | Ultimate holding company |
| Melewar Steel Mills Sdn. Bhd. | Related company |
| Melewar Integrated Engineering Sdn. Bhd. | Related company |
| Melewar Steel Services Sdn. Bhd. | Related company |
| Mycron Steel CRC Sdn. Bhd. | Subsidiary |
| Melewar Steel Tube Sdn. Bhd. | Subsidiary |
| Silver Victory Sdn. Bhd. | Subsidiary |
| MAA Takaful Berhad | A company which certain Directors have financial interests |
| Trace Management Services Sdn. Bhd. | A company which certain Directors have financial interests |

(a) Significant transactions with related parties during the financial year are as follows:

| | | Group | |
|---|---|---|---|
| **Entities** | **Type of transaction** | **2016 RM** | **2015 RM** |
| Trade: received/receivable | | | |
| Melewar Steel Mills Sdn. Bhd. | Sales of scrap | 4,003,974 | 9,998,886 |
| Melewar Steel Tube Sdn. Bhd. | Sales of cold roll coils | - | 16,930,233 |
| The related party transaction with Melewar Steel Tube Sdn. Bhd. in the previous financial period is only up to the date of business combination or the acquisition date. | | | |
| Non-trade: received/receivable | | | |
| Melewar Industrial Group Berhad | Advances given | 2,565,165 | 1,916,481 |

# Notes to the Financial Statements

30 June 2016

(continued)

**28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES** (continued)

(a) Significant transactions with related parties during the financial year are as follows: (continued)

| Entities | Type of transaction | Group 2016 RM | Group 2015 RM |
|---|---|---|---|
| Trade: paid/payable | | | |
| Melewar Integrated Engineering Sdn. Bhd. | Technical advisory fees | (288,000) | (216,000) |
| Melewar Steel Mills Sdn. Bhd. | Scrap handling commission | (528,756) | - |
| Non-trade: paid/payable | | | |
| Melewar Industrial Group Berhad | Management fees | (2,640,000) | (1,566,000) |
| Melewar Industrial Group Berhad | Rental of buildings | (4,963,860) | (1,187,010) |
| Melewar Industrial Group Berhad | Assumed debts | - | (24,000,000) |
| Melewar Steel Services Sdn. Bhd. | Rental of buildings | (500,940) | (119,790) |
| MAA Takaful Berhad | Insurance expense | (1,290,520) | (1,126,339) |
| Trace Management Services Sdn. Bhd. | Corporate secretarial services | (181,584) | (157,401) |

| Entity | Type of transaction | Company 2016 RM | Company 2015 RM |
|---|---|---|---|
| **Trade: received/receivable** | | | |
| Mycron Steel CRC Sdn. Bhd. | Management fee income | 2,288,789 | 2,209,616 |

(b) Significant outstanding balances arising from the above are as follows:

| | Group 2016 RM | Group 2015 RM | Company 2016 RM | Company 2015 RM |
|---|---|---|---|---|
| Amounts owing by/(to) subsidiaries | | | | |
| Mycron Steel CRC Sdn. Bhd. | - | - | (878,906) | (565,891) |
| Melewar Steel Tube Sdn. Bhd. | - | - | (18,000,000) | (24,000,000) |
| Silver Victory Sdn. Bhd. | - | - | 63,903 | 55,899 |
| Amounts owing by/(to) related companies | | | | |
| Melewar Steel Mills Sdn. Bhd. | 5,284,060 | 6,577,724 | - | - |
| Melewar Integrated Engineering Sdn. Bhd. | (22,323) | 273,840 | - | - |
| Amounts owing by ultimate holding company | | | | |
| Melewar Industrial Group Berhad | 6,992,246 | 5,377,080 | - | - |
| | 12,253,983 | 12,228,644 | (18,815,003) | (24,509,992) |

# Notes to the Financial Statements

30 June 2016

(continued)

## 28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Key management personnel are those persons, having the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly and thus are considered related parties of the Company. Key management personnel of the Company refer to the Directors of the Company. The compensation range for these key management personnel is as disclosed in Note 9 of the financial statements.

## 29 SEGMENTAL ANALYSIS

The steel tube manufacturing segment is in the business of manufacturing and sales of steel pipes and tubes.

The cold rolled segment is in the business of manufacturing and sales of cold rolled coils.

'Non-segment' comprise of investment holding companies and dormant companies and accordingly they are not a segment.

The strategic business units offer different products and services, and are managed separately. The Group's Executive Committee comprising of key management personnel monitors the operating results of the strategic business units as well as relying on the segmental information as disclosed below for purposes such as resource allocation and performance assessment.

The Directors are of the opinion that all inter segment transactions are entered into in the normal course of business and are established on terms and conditions agreed between the related parties.

Geographic segment is not applicable as the businesses of the Group are substantially carried out in Malaysia.

| | Cold rolled coil<br>RM | Steel tube<br>RM | Non-segment<br>RM | Total<br>RM |
|---|---|---|---|---|
| **2016** | | | | |
| **Revenue** | | | | |
| Total revenue | 383,560,898 | 206,096,735 | 2,288,789 | 591,946,422 |
| Inter segment | (22,848,178) | - | (2,288,789) | (25,136,967) |
| External revenue | 360,712,720 | 206,096,735 | - | 566,809,455 |
| **Segment results** | | | | |
| Profit before tax | 22,806,095 | 9,399,739 | 194,593 | 32,400,427 |
| Tax | (5,591,707) | (2,510,219) | (120,659) | (8,222,585) |
| Net profit after tax | 17,214,388 | 6,889,520 | 73,934 | 24,177,842 |
| **Segment assets** | 407,959,499 | 154,175,370 | 623,150 | 562,758,019 |
| **Other information** | | | | |
| Depreciation of property plant and equipment | 13,025,083 | 2,979,098 | 10,908 | 16,015,089 |
| Impairment losses: | | | | |
| - property, plant and equipment | 7,948,310 | 108,864 | - | 8,057,174 |
| Additions of property, plant and equipment | 2,823,888 | 857,528 | 333,420 | 4,014,836 |

# Notes to the Financial Statements

30 June 2016

(continued)

## 29 SEGMENTAL ANALYSIS (continued)

| | Cold rolled coil RM | Steel tube RM | Non-segment RM | Total RM |
|---|---|---|---|---|
| **2015** | | | | |
| **Revenue** | | | | |
| Total revenue | 467,273,666 | 57,846,502 | 2,209,616 | 527,329,784 |
| Inter segment | (6,778,355) | - | (2,209,616) | (8,987,971) |
| External revenue | 460,495,311 | 57,846,502 | - | 518,341,813 |
| **Segment results** | | | | |
| (Loss)/Profit before tax | (8,971,791) | (934,676) | 20,416,487 | 10,510,020 |
| Tax | 1,241,035 | 76,250 | (144,135) | 1,173,150 |
| Net (loss)/profit after tax | (7,730,756) | (858,426) | 20,272,352 | 11,683,170 |
| Segment assets | 436,843,376 | 147,984,142 | 37,420 | 584,864,938 |
| **Other information** | | | | |
| Depreciation of property plant and equipment | 11,349,272 | 750,526 | 10,530 | 12,110,328 |
| Gain from bargain purchase | - | - | 21,280,272 | 21,280,272 |
| Impairment losses: | | | | |
| - property, plant and equipment | 3,043,470 | 419,846 | - | 3,463,316 |
| Additions of property, plant and equipment | 8,310,146 | 827,371 | - | 9,137,517 |

A reconciliation of the segment assets to the total assets is as follows:

| | 2016 RM | 2015 RM |
|---|---|---|
| Segment assets | 562,758,019 | 584,864,938 |
| Derivatives | 704,614 | 2,071,230 |
| Tax recoverable | 226,101 | 604,811 |
| | 563,688,734 | 587,540,979 |

Information about major customers

Revenue from two major customers totalling RM146.3 million contributed to more than 10% each to the Group's revenue. These two major customers are each from the cold rolled segment and the steel tube segment.

## 30 FINANCIAL GUARANTEES

As at 30 June 2016, the Company has corporate guarantees issued to lenders for credits/borrowings extended to its principal subsidiaries, Mycron Steel CRC Sdn. Bhd. and Melewar Steel Tube Sdn. Bhd. amounting to RM145.7 million (2015: RM154.8 million) and RM57.1 million (2015: RM70.0 million) respectively.

# Notes to the Financial Statements

30 June 2016

(continued)

## 31 LITIGATION, COMMITMENT AND CONTINGENCY

(a) The Company had in 2005 acquired a 20% associate stake in a galvanised steel producer for RM17 million from the controlling stake vendor with specific performance guarantee. The associate company's performance failed to meet the guaranteed performance, and the Company initiated legal recovery from the vendor in February 2010. The investment is fully impaired.

The case was litigated from mid-2010 until the final appeal outcome on 12 February 2015 in favour of the Company on the RM17million claimed together with interest (at 6% p.a.) and cost (RM70,000) against the Vendor. The Company sought to enforce the legal award during the current financial year but was futile; hence, no reversal of past impairments has been recognised in the current financial year. The Company concludes that the probability of any monetary recovery continues to be remote, and the continuing disclosure of this case shall cease from the next reporting period.

(b) There are no material capital expenditures approved but not contracted for at the close of the current financial year. However, there are imminent plans to upgrade certain production lines in the Cold Rolled subsidiary which will incur capital expenditure commitment in the near term. (See Note 12). At the issuance date of this financial statement, these have not been approved or contracted.

(c) The Directors are not aware of any circumstances or developments giving rise to contingent liabilities or assets warranting disclosure.

(d) The future aggregate minimum lease payments under non-cancellable operating leases relating to the rental of the factories' land and buildings by the Steel Tube operations (with a combined area of 826,881 sq.ft.) are as follows:

| | 2016<br>RM | 2015<br>RM |
|---|---|---|
| No later than 1 year | 5,464,800 | 5,464,800 |
| Later than 1 year and no later than 5 years | 4,554,000 | 10,018,800 |
| Total | 10,018,800 | 15,483,600 |

## 32 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Loans and receivables<br>RM | Derivative financial assets<br>RM | Loans and receivables<br>RM | Derivative financial assets<br>RM |
| Group | | | | |
| Financial assets per statement of financial position: | | | | |
| Current assets: | | | | |
| Derivative financial assets | - | 704,614 | - | 2,071,230 |
| Trade and other receivables (excluding prepayments) | 99,312,703 | - | 101,054,987 | - |
| Cash and cash equivalents | 27,630,395 | - | 39,841,327 | - |
| Amount owing by ultimate holding company | 6,992,246 | - | 5,377,080 | - |
| Amounts owing by related companies | 5,796,422 | - | 6,851,563 | - |
| Total financial assets | 139,731,766 | 704,614 | 153,124,957 | 2,071,230 |

# Notes to the Financial Statements

30 June 2016

(continued)

## 32 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| | 2016 RM | 2015 RM |
|---|---|---|
| Group (continued) | | |
| Financial liabilities per statement of financial position: | | |
| Other financial liabilities at amortised cost | | |
| Current liabilities: | | |
| Trade and other payables (excluding prepayments) | 115,113,166 | 92,684,250 |
| Borrowings | 84,338,603 | 166,178,759 |
| Amount owing to a related company | 534,597 | 24,120 |
| Derivative financial liabilities | 3,263,972 | 40,650 |
| | 203,250,338 | 258,927,779 |
| Non-current liability: | | |
| Borrowings | 7,241,264 | 12,129,949 |
| Total financial liabilities | 210,491,602 | 271,057,728 |

| | 2016 RM | 2015 RM |
|---|---|---|
| Company | | |
| Financial assets per statement of financial position: | | |
| Loans and receivables | | |
| Current assets: | | |
| Trade and other receivables (excluding prepayments) | 5,989 | 8,261 |
| Cash and cash equivalents | 298,831 | 32,420 |
| Amounts owing by subsidiaries | 63,903 | 55,899 |
| Total financial assets | 368,723 | 96,580 |
| Financial liabilities per statement of financial position: | | |
| Other financial liabilities at amortised cost | | |
| Current liabilities: | | |
| Trade and other payables | 311,446 | 394,477 |
| Amounts owing to subsidiaries | 18,878,906 | 24,565,891 |
| Borrowings | 40,869 | - |
| | 19,231,221 | 24,960,368 |
| Non-current liability: | | |
| Borrowings | 234,914 | - |
| Total financial liabilities | 19,466,135 | 24,960,368 |

# Supplementary Information

## 33 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised retained earnings at the Company level is prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM** | **RM** |
| Total retained earnings of Mycron Steel Berhad and its subsidiaries: | | |
| - realised | 123,361,973 | 91,714,074 |
| - unrealised | (15,631,646) | (8,161,589) |
| | 107,730,327 | 83,552,485 |
| Add: Consolidation adjustments | (217,532) | (217,532) |
| Total Group's consolidated retained earnings | 107,512,795 | 83,334,953 |

| | Company | |
|---|---|---|
| | **2016** | **2015** |
| | **RM** | **RM** |
| Total retained earnings of Mycron Steel Berhad: | | |
| - realised | 191,267 | 109,793 |
| - unrealised | - | - |
| Total retained earnings | 191,267 | 109,793 |

The disclosure of realised and unrealised retained earnings above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

# Properties Owned

## By Mycron Steel Berhad and Its Subsidiaries

| Address of Property | Lease expiry date | Brief description and existing use | Land/built-up area | Approximate age of buildings (years) | Net book value (RM) |
|---|---|---|---|---|---|
| Lot 717,<br>Jalan Sungai Rasau,<br>Seksyen 16,<br>40200 Shah Alam,<br>Selangor. | Freehold | Factory cum office building | 861,407 sq.ft.<br>(17.94 acres) | 27 | 108,700,000 |

Note: The above property was revalued in 2016.

**MYCRON STEEL BERHAD**
(622819-D)

# FORM OF PROXY
(please refer to the notes below)

| No. of ordinary shares held |
|---|
| |

I/We _____ NRIC No./Co. No./CDS No.: _____
(Full Name in block letters)

of _____
(Full address)

_____

being a member/members of **MYCRON STEEL BERHAD** hereby appoint *Chairman of the meeting or

_____ of _____ or failing him/her
(Name of proxy, NRIC No.) (Full Address)

_____ of _____ as *my/our proxy
(Name of proxy, NRIC No.) (Full Address)

to vote for *me/us and on *my/our behalf at the **13th Annual General Meeting ("AGM")** of the Company to be held at the **Crystal Function Room, 4th Floor, Mutiara Complex, 3½ Miles, Jalan Ipoh, 51200 Kuala Lumpur** on **Thursday, 8 December 2016 at 10.00 a.m.** or at any adjournment thereof on the following resolutions referred to in the Notice of the 13th AGM. My/our proxy is to vote as indicated below:

| | | FIRST PROXY | | SECOND PROXY | |
|---|---|---|---|---|---|
| | | **For** | **Against** | **For** | **Against** |
| RESOLUTION 1 | TO APPROVE THE PAYMENT OF DIRECTORS' FEES FOR THE PERIOD FROM 1 JULY 2016 TO 31 DECEMBER 2017 TO BE PAYABLE QUARTERLY IN ARREARS. | | | | |
| RESOLUTION 2 | TO RE-ELECT TAN SRI DATUK SERI RAZMAN MD HASHIM WHO IS RETIRING PURSUANT TO SECTION 129(6) OF THE COMPANIES ACT, 1965. | | | | |
| RESOLUTION 3 | TO RE-ELECT TUNKU DATO' KAMIL IKRAM BIN TUNKU TAN SRI ABDULLAH WHO IS RETIRING PURSUANT TO ARTICLE 113(1). | | | | |
| RESOLUTION 4 | TO RE-ELECT AZLAN BIN ABDULLAH WHO IS RETIRING PURSUANT TO ARTICLE 113(1). | | | | |
| RESOLUTION 5 | TO RE-APPOINT MESSRS PRICEWATERHOUSECOOPERS AS AUDITORS OF THE COMPANY. | | | | |
| RESOLUTION 6 | TO APPROVE THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY. | | | | |
| RESOLUTION 7 | TO APPROVE THE PROPOSED RENEWAL AND NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS. | | | | |
| RESOLUTION 8 | AUTHORITY TO ISSUE AND ALLOT SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965. | | | | |

(Please indicate with a "✓" or "**X**" in the spaces provided above on how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion).

The proportion of my holdings to be represented by my *proxy/proxies are as follows:

| | Number of Shares | Percentage |
|---|---|---|
| First proxy | | % |
| Second proxy | | % |
| **Total** | | **100%** |

Dated this _____ day of _____ 2016

_____
Signature of Shareholder(s) / Common Seal

***NOTES:***

1. *Applicable to shares held through a nominee account.*
2. *A member entitled to attend, speak and vote at a meeting of the Company is entitled to appoint not more than two (2) proxies to attend, speak and vote in his/her stead. A proxy may but need not be a member of the Company, and the provision of Section 149(1)(a) & (b) of the Act, shall not apply to the Company.*
3. *Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy.*
4. *Where a member is an Exempt Authorised Nominee which holds shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.*
5. *The instrument appointing a proxy, shall be in writing under the hand of the appointer or his attorney duly authorised in writing, and in the case of a corporation, either under seal or under hand of an officer or attorney duly authorised.*
6. *The instrument appointing a proxy must be deposited at the Company's Registered Office, Suite 12.03, 12th Floor, No. 566, Jalan Ipoh, 51200 Kuala Lumpur, not less than forty eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.*
7. *Any alteration in the Form of Proxy must be initialled.*
8. *Form of Proxy sent through facsimile transmission shall not be accepted.*
9. *For the purpose of determining a member who shall be entitled to attend this 13th AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Articles 79(a), 79(b) and 79(c) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 2 December 2016. Only a depositor whose name appears on the Record of Depositors as at 2 December 2016 shall be entitled to attend, speak and vote at the said meeting or appoint proxy(ies) to attend, speak and/or vote on his/her behalf.*
10. *(i) Explanatory Note to Ordinary Business of Agenda 1 (Explanatory Note A):*
    *This Agenda item is meant for discussion only as the provision of Section 169(1) of the Act, does not require a formal approval of the shareholders and hence, is not put forward for voting.*
    *(ii) Explanatory Notes to Special Business of Agenda 6:*
    *(a) **Proposed Renewal of Share Buy-Back Authority***
    *The Proposed Resolution 6, if passed, would empower the Directors to exercise the power of the Company to purchase its own shares ("the Proposal") by utilising its financial resources not immediately required. The Proposal may have a positive impact on the market price of the Company's shares. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.*
    *(b) **Proposed Renewal and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("RRPTs")***
    *The Proposed Resolution 7, if passed, will empower the Company to conduct recurrent related party transactions of a revenue or trading nature which are necessary for the Group's day-to-day operations, and will eliminate the need to convene separate general meetings from time to time to seek shareholders' approval. This will substantially reduce administrative time, inconvenience and expenses associated with the convening of such meetings, without compromising the corporate objectives of the Group or adversely affecting the business opportunities available to the Group.*
    *(c) **Authority to Issue and Allot Shares Pursuant to Section 132D of the Act***
    *The Ordinary Resolution proposed under Resolution 8 of the Agenda is a renewal of the General Mandate for the Directors to issue and allot shares pursuant to Section 132D of the Act. This mandate will provide flexibility for the Company to undertake future possible fund raising activities, including but not limited to placement of shares for purpose of funding the Company's future investment projects, working capital and/or acquisition(s) without having to convene another general meeting.*

    *The Proposed Resolution 8, if passed, will give authority to the Directors of the Company, from the date of the above AGM, to issue and allot shares in the Company up to an amount not exceeding in total ten percent (10%) of the issued and paid-up share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next AGM of the Company.*

    *As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the 12th AGM held on 30 November 2015 and which will lapse at the conclusion of the 13th AGM to be held on 8 December 2016.*

*The detailed information on Special Business of Agenda 6 except for Ordinary Resolution 8 as mentioned above is set out in the Circular to Shareholders of the Company dated 31 October 2016 which is dispatched together with the Company's 2016 Annual Report.*

---

** Please strike out whichever is not desired. (Unless otherwise instructed, the proxy may vote as he/she thinks fit).*

*Fold This Flap For Sealing*

*Then Fold Here*

**STAMP**

The Secretary
Mycron Steel Berhad
Suite 12.03, 12th Floor
No. 566 Jalan Ipoh
51200 Kuala Lumpur

*1st Fold Here*

**NOTICE**

There will be no distribution of door gifts.

**MYCRON STEEL BERHAD**
(622819-D)

Lot 717, Jalan Sungai Rasau, Seksyen 16,
P. O. Box 7168, 40706 Shah Alam, Selangor, Malaysia.
Tel : 603 - 5510 6608 Fax : 603 - 5510 3720
crc@mycronsteel.com
www.mycronsteel.com