Hong Leong Industries Berhad

A Member of the Hong Leong Group

ANNUAL REPORT **2018**

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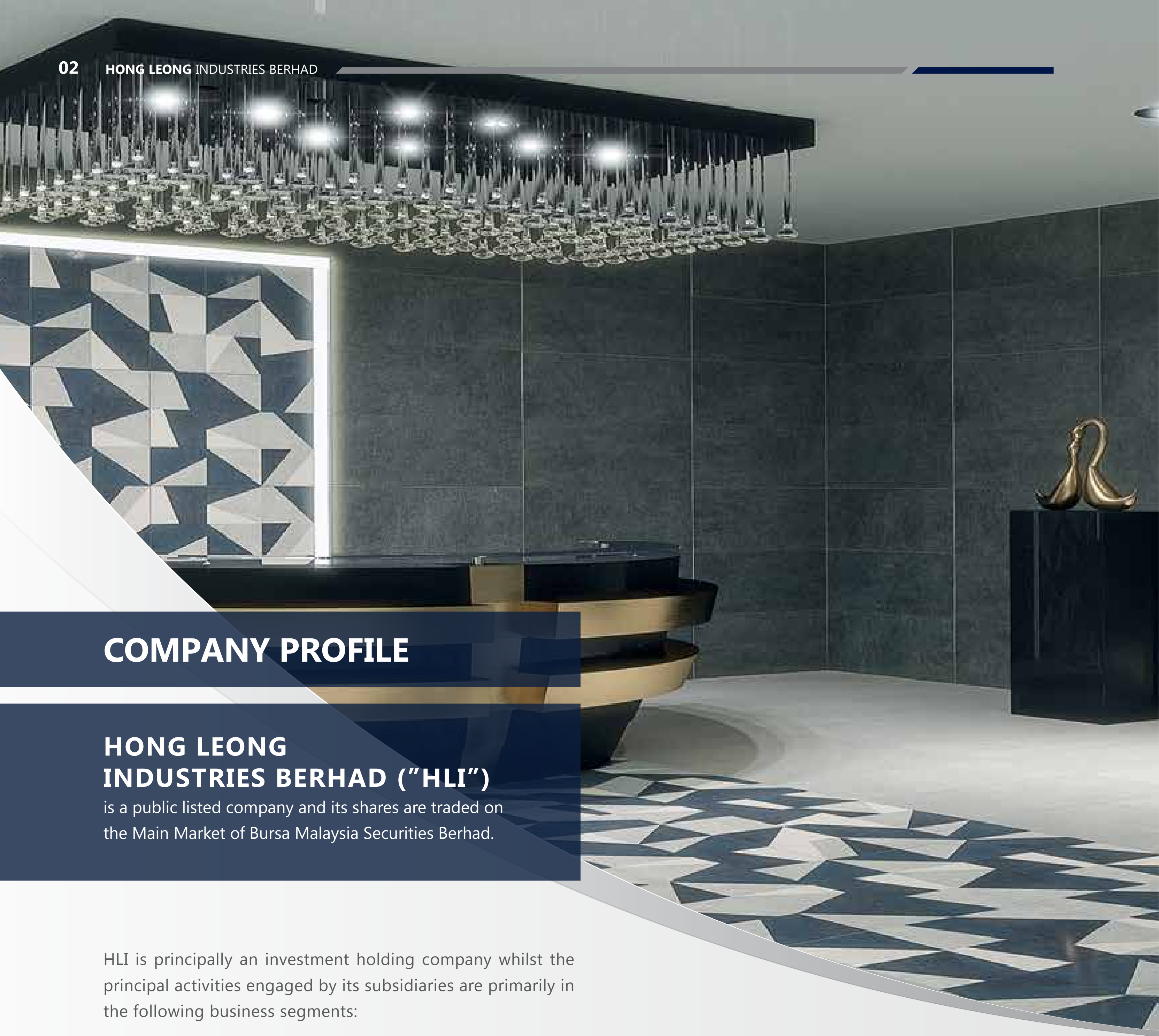


COMPANY PROFILE

HONG LEONG INDUSTRIES BERHAD ("HLI")

is a public listed company and its shares are traded on the Main Market of Bursa Malaysia Securities Berhad.

HLI is principally an investment holding company whilst the principal activities engaged by its subsidiaries are primarily in the following business segments:

- Consumer Products – manufacturing, assembling and distribution of motorcycles, scooters and related parts and products, manufacturing and sale of ceramic tiles as well as distribution, trading and provision of services in marine related products.

- Industrial Products – manufacturing and sale of fibre cement and concrete roofing products.

HLI also has associated companies which are involved in the manufacturing, assembling and distribution of motorcycles, motorcycle engines and spare parts.

CORPORATE INFORMATION

DIRECTORS

YBhg Datuk Kwek Leng San
(Chairman)

YBhg Dato' Dr Zaha Rina binti Zahari

Mr Peter Ho Kok Wai

Ms Quek Sue Yian

YBhg Datuk Noharuddin bin Nordin @ Harun

COMPANY SECRETARIES

Ms Joanne Leong Wei Yin

Ms Valerie Mak Mew Chan

AUDITORS

KPMG PLT
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Tel: 03-7721 3388
Fax: 03-7721 3399

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel: 03-2164 1818
Fax: 03-2164 3703

REGISTERED OFFICE

Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 03-2080 9200
Fax: 03-2080 9238

COUNTRY OF INCORPORATION/ DOMICILE

A public limited liability company, incorporated and domiciled in Malaysia

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-fifth Annual General Meeting of Hong Leong Industries Berhad ("the Company") will be held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Thursday, 25 October 2018 at 11.00 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2018.

2. To approve the payment of Director fees of RM504,958/- (2017: RM542,000/-) for the financial year ended 30 June 2018 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM34,000/- from the Fifty-fifth Annual General Meeting ("AGM") to the Fifty-sixth AGM of the Company. **Resolution 1**

3. To re-elect the following Directors:

   (a) YBhg Datuk Kwek Leng San **Resolution 2**
   (b) Ms Quek Sue Yian **Resolution 3**
   (c) YBhg Datuk Noharuddin bin Nordin @ Harun. **Resolution 4**

4. To re-appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 5**

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions:

5. **Ordinary Resolution**
   - Authority To Directors To Allot Shares

   "**THAT** subject to the Companies Act 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company's Constitution and approval of the relevant governmental regulatory authorities, if required, the Directors be and are hereby empowered pursuant to Sections 75 and 76 of the Companies Act 2016 to allot shares in the Company, grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so allotted on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 6**

NOTICE OF ANNUAL GENERAL MEETING
cont'd

6. **Ordinary Resolution**
   - Proposed Renewal Of And New Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Company (Malaysia) Berhad ("HLCM") And Persons Connected With HLCM

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(A) of the Circular to Shareholders dated 26 September 2018 with HLCM and persons connected with HLCM ("Hong Leong Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all 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." **Resolution 7**

7. **Ordinary Resolution**
   - Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Bee Hardware Company, Sdn Berhad ("Hong Bee Hardware") And Hong Bee Motors Sdn Bhd ("Hong Bee Motors")

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 26 September 2018 with Hong Bee Hardware and Hong Bee Motors provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to Hong Bee Hardware and Hong Bee Motors than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

NOTICE OF ANNUAL GENERAL MEETING
cont'd

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all 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." **Resolution 8**

8. **Ordinary Resolution**
- Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Yamaha Motor Co., Ltd ("YMC") And Its Subsidiaries

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 26 September 2018 with YMC and its subsidiaries ("YMC Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the YMC Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all 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." **Resolution 9**

9. **Ordinary Resolution**
- Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature With Hong Leong Investment Holdings Pte. Ltd. ("HLIH") And Persons Connected with HLIH

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 26 September 2018 with HLIH and persons connected with HLIH ("HLIH Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the HLIH Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

NOTICE OF ANNUAL GENERAL MEETING
cont'd

(b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all 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." **Resolution 10**

10. To consider any other business of which due notice shall have been given.

By Order of the Board

Joanne Leong Wei Yin
Valerie Mak Mew Chan
Company Secretaries

Kuala Lumpur
26 September 2018

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 17 October 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*

2. *Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend, participate, speak and vote in his stead. A proxy may but need not be a member of the Company. A member who is an authorised nominee may appoint not more than two (2) proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*

3. *Where two (2) or more proxies are appointed, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid.*

4. *The Form of Proxy must be deposited at the Registered Office of the Company at Level 31, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.*

5. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to a vote by way of a poll.*

NOTICE OF ANNUAL GENERAL MEETING
cont'd

Explanatory Notes:

1. Resolution 1 - Director Fees And Other Benefits

   Director Fees of RM504,958/- are inclusive of Board Committees Fees of RM142,000/-; and Directors' Other Benefits refer to Directors and Officers Liability Insurance coverage based on premium paid/payable and Directors' training benefits of up to an amount of RM34,000/-.

2. Resolution 6 - Authority To Directors To Allot Shares

   The proposed ordinary resolution, if passed, will renew the general mandate given to the Directors of the Company to allot ordinary shares of the Company from time to time and expand the mandate to grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being ("Renewed General Mandate"). In computing the aforesaid 10% limit, shares issued or agreed to be issued or subscribed pursuant to the approval of shareholders in a general meeting where precise terms and conditions are approved shall not be counted. The Renewed General Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting ("AGM") of the Company.

   As at the date of this Notice, no new shares in the Company were issued and allotted pursuant to the general mandate given to the Directors at the last AGM held on 27 October 2017 and which will lapse at the conclusion of the Fifty-fifth AGM. The Renewed General Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issuance and allotment of new shares, grant of rights to subscribe for shares, conversion of any security into shares, or allotment of shares under an agreement or option or offer, and to avoid delay and cost in convening general meetings to approve the same.

3. Resolutions 7 to 10 - Proposed Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature

   The proposed ordinary resolutions, if passed, will empower the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Hong Leong Industries Berhad Group, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to and/or from the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company ("Proposed Shareholders' Mandate").

   Detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 26 September 2018 which is despatched together with the Company's Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING
(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

1. Details of individuals who are standing for election as Directors

   No individual is seeking election as a Director at the Fifty-fifth Annual General Meeting of the Company.

2. Statement relating to general mandate for issue of securities in accordance with Paragraph 6.03(3) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

   Details of the general mandate to allot shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note 2 of the Notice of the Fifty-fifth Annual General Meeting.

BOARD OF DIRECTORS

YBHG DATUK KWEK LENG SAN

Chairman; Non-Executive/Non-Independent
Aged 63, Male, Singaporean

Datuk Kwek Leng San graduated from University of London with a Bachelor of Science (Engineering) degree. He also holds a Master of Science (Finance) degree from City University London. He has extensive business experience in various business sectors, including financial services and manufacturing.

Datuk Kwek was appointed to the Board of Directors ("Board") of Hong Leong Industries Berhad ("HLI") on 1 September 1990 and assumed the position of President & Chief Executive Officer in 1993. He was appointed as Chairman of HLI on 9 February 2012. He is a member of the Nominating Committee of HLI.

He is the Chairman of Malaysian Pacific Industries Berhad, Hume Industries Berhad and Southern Steel Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). He is also a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation, both public companies.

YBHG DATO' DR ZAHA RINA BINTI ZAHARI

Non-Executive Director/Independent
Age 56, Female, Malaysian

Dato' Dr Zaha Rina binti Zahari received her Bachelor of Arts (Honours) degree in Accounting and Finance from Leeds Metropolitan University, United Kingdom ("UK") and Master in Business Administration from University of Hull, UK. She also holds a Doctorate in Business Administration from University of Hull, focusing on capital markets research and specialising in derivatives.

Dato' Dr Zaha Rina was Consultant to Financial Technologies Middle East based in Bahrain for the set up of Bahrain Financial Exchange launched in January 2009. Prior to this, she was with Royal Bank of Scotland Group in Singapore from August 2007 to May 2008. Dato' Dr Zaha Rina has 25 years experience in the financial, commodities and securities industry and the development of the Malaysian Capital Market which includes managing a futures broking company. She was the Chief Executive Officer of RHB Securities Sdn Bhd from 2004 to 2006. She has previous Board appointments at the Commodity and Monetary Exchange of Malaysia ("COMMEX") from 1993 to 1996, and then as the Chief Operating Officer ("COO") of Kuala Lumpur and Financial Futures Exchange ("KLOFFE") in 2001.

She was instrumental in the merger of COMMEX and KLOFFE which ultimately led to the creation of Malaysian Derivatives Exchange ("MDEX") and the subsequent appointment as COO of MDEX in June 2001. Dato' Dr Zaha Rina was then appointed Head of Exchanges, managing the operations of Bursa Securities, Malaysian Exchange of Securities Dealings & Automated Quotation, MDEX and Labuan International Financial Exchanges in September 2003 prior to Bursa Securities's demutualisation. Presently, she is a member of the Market Participations Committee of Bursa Securities.

Dato' Dr Zaha Rina was appointed to the Board of HLI on 9 February 2012. She is the Chairman of the Nominating Committee and a member of the Board Audit & Risk Management Committee of HLI.

She is the Chairman of Manulife Holdings Berhad and a Director of Pacific & Orient Berhad, Hibiscus Petroleum Berhad and IGB Berhad, companies listed on the Main Market of Bursa Securities. She is also a Director of Pacific & Orient Insurance Co Berhad, a public company.

BOARD OF DIRECTORS
cont'd

MR PETER HO KOK WAI
Non-Executive Director/Independent
Age 59, Male, Malaysian

Mr Peter Ho Kok Wai is a Member of the Malaysian Institute of Accountants, Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Malaysian Institute of Certified Public Accountants.

Mr Peter Ho forged his early career with Everett Pinto & Co., a central London Firm of Chartered Accountants, and qualified as a Chartered Accountant in 1984. Subsequently, in 1987, Mr Peter Ho joined KPMG Kuala Lumpur ("KPMG KL"), where he progressed to Head of Department in 1992. He was transferred to KPMG Ipoh in 1993 to head the branch and was admitted as Partner in 1995. He was transferred back to KPMG KL in 2005 where he had, at various times, headed the Technical Committee, Audit Function And Marketing Department. He has more than 35 years of auditing experience in a wide range of companies including public listed companies and multinationals, with particular emphasis in manufacturing, distribution and financial services. Mr Peter Ho retired from KPMG in December 2014.

Mr Peter Ho was appointed to the Board of HLI on 3 June 2015. He is the Chairman of the Board Audit & Risk Management Committee and a member of the Nominating Committee of HLI.

He is a Director of GuocoLand (Malaysia) Berhad and Sapura Resources Berhad, companies listed on the Main Market of Bursa Securities. He is also a Director of HPMT Holdings Berhad, Allianz General Insurance Company (Malaysia) Berhad and Allianz Life Insurance Malaysia Berhad, all public companies.

MS QUEK SUE YIAN
Non-Executive Director/Non-Independent
Age 43, Female, Malaysian

Ms Quek Sue Yian graduated from Brunel University London with a Bachelor of Law degree and qualified as a Barrister-at-Law from Middle Temple. She also holds a Master of Science in Poverty Reduction and Development Management from University of Birmingham and a Diploma in Child Psychology and Learning Disorders.

She has been called to the Malaysian Bar and has worked in the law office of Wong & Partners as Legal Executive. She joined the Hong Leong Group in 2005 where she held management positions in various companies. She is the Executive Director of Hong Leong Foundation.

Ms Quek is the Founder of Wisdom Club for Children, a charity that promotes stories and reading and getting quality stories to children in underserved areas via Reading Spaces. Ms Quek is a founding member of Anyaman Preschool, a kindergarten. She is also a Director and Shareholder of Beyond Academics, an inclusive school. She helped start up 'Voice of the Children', a children's rights advocacy NGO. She is a committee member of the Selangor Society for the Prevention of Cruelty to Animals. Ms Quek is a published author of several children books. Her book, Kailash, was a recipient of the White Raven Award 2014. She is a gold medalist in the 2017 Sea Games.

Ms Quek was appointed to the Board of HLI on 4 January 2017. She does not sit on any committee of HLI.

BOARD OF DIRECTORS
cont'd

YBHG DATUK NOHARUDDIN BIN NORDIN @ HARUN
Non-Executive Director/Independent
Age 62, Male, Malaysian

Datuk Noharuddin bin Nordin @ Harun graduated with a Master of Business Administration from University of Birmingham, UK and a Member of the Chartered Institute of Transport (United Kingdom). He completed the Advance Management Programme in Harvard Business School, the United States of America ("USA") and Leaders in Governance Programme in School of Public Policy, Singapore. He also holds a Diploma in Public Administration from National Institute of Public Administration, Malaysia and a Diploma in Trade Policy from GATT, Geneva, Switzerland.

Datuk Noharuddin has vast working experience with the Ministry of International Trade and Industry ("MITI"), Malaysia External Trade Development Corporation ("MATRADE") and Malaysian Investment Development Authority (MIDA). He was the Assistant Director of MITI from 1986 to 1993. He joined MATRADE in 1993 and thereupon served as the Malaysian Trade Commissioner in New York City, USA, from 1994 to 2000. He was the Chief Executive Officer of MATRADE from 2006 to 2011 and then as Chief Executive Officer of MIDA until his retirement in February 2014.

Datuk Noharuddin was appointed to the Board of HLI on 13 March 2018. He is a member of the Board Audit & Risk Management Committee of HLI.

He is a Director of Apex Healthcare Berhad, a company listed on the Main Market of Bursa Securities, and the Chairman of Malaysia Venture Capital Management Berhad, a public company. He is also currently a Director and Chairman of the Strategic Planning and Business Development Committee of Kulim Technology Park Corporation Sdn Bhd.

Notes:

1. ***Family Relationship with Director and/or Major Shareholder***
   Ms Quek Sue Yian is the daughter of YBhg Tan Sri Quek Leng Chan ("YBhg Tan Sri LC Quek"), a major shareholder of HLI. YBhg Datuk Kwek Leng San and YBhg Tan Sri LC Quek are brothers. Save as disclosed herein, none of the Directors has any family relationship with any other Director and/or major shareholder of HLI.

2. ***Conflict of Interest***
   None of the Directors has any conflict of interest with HLI.

3. ***Conviction of Offences***
   None of the Directors has been convicted of any offences (excluding traffic offences) within the past five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2018.

4. ***Attendance of Directors***
   Details of Board meeting attendance of each Director are disclosed in the Corporate Governance Overview Statement, Risk Management and Internal Control in the Annual Report.

KEY SENIOR MANAGEMENT

MR GOH ENG TATT

Chief Financial Officer, Hong Leong Industries Berhad
Age 45, Male, Malaysian

Mr Goh graduated from University Utara Malaysia with a Bachelor (Honours) Degree in Accountancy. He holds a professional accountancy qualification from the Malaysian Institute of Certified Public Accountants and is a Member of the Malaysian Institute of Accountants ("MIA").

Mr Goh is the Chief Financial Officer of Hong Leong Industries Berhad ("HLI") while concurrently holds the position of Group Chief Financial Officer of Hong Leong Manufacturing Group Sdn Bhd, the holding company. He has over 7 years of auditing experience before joining Southern Steel Berhad ("SSB") in 2004 where he held various financial positions for more than 10 years within SSB Group.

MR ALBERTO BONILAURI

Managing Director, Guocera Holdings Sdn Bhd
Age 60, Male, Italian

Mr Alberto Bonilauri graduated from University of Bologna, Italy with a Bachelor of Natural Sciences.

Mr Bonilauri started his career as Sales Manager in Marazzi Ceramiche of Italy and held various sales and marketing, general management and chief executive officer roles in the Ceramic Tiles Field in Italy and worldwide (CISA CERDISA, IRIS, RIWAL, RIWAL USA, RIWAL FRANCE, FLORIM, FLORIM USA, BONET SPAIN and worldwide) before being appointed as President Director General of DESVRES CARRELAGES in France in 2012 until end of 2016. Then he acted as Consultant for various Italian companies until end of July 2018.

Mr Bonilauri joined Guocera Holdings Sdn Bhd on 28 August 2018 as Managing Director.

YBHG DATO' JIM KHOR MUN WEI

Managing Director, Hong Leong Yamaha Motor Sdn Bhd
Age 54, Male, Malaysian

Dato' Jim Khor Mun Wei graduated with a Bachelor of Engineering (Mechanical) degree from Glamorgan University, United Kingdom ("UK"). He further obtained his Master in Business Administration from University of South Australia in 2009. Dato' Jim Khor is a Committee Member of the Federation of Malaysian Manufacturers, Selangor Branch.

Dato' Jim Khor joined Hong Leong Yamaha Motor Sdn Bhd ("HLYM") on 11 November 1991 as its Quality Assurance Engineer and subsequently promoted to Quality Assurance Manager in 1992. He was transferred to the Parts & Service Department in 2004 until 2007 when he was transferred to head the Manufacturing Department as Head of Production.

In 2010, Dato' Jim Khor assumed the position of General Manager, Manufacturing, overseeing the whole manufacturing operations. Subsequently, he was promoted as Managing Director of HLYM on 15 June 2015.

KEY SENIOR MANAGEMENT
cont'd

MR LAI YUN YIN
Managing Director, Hume Marketing Co Sdn Bhd
Age 57, Male, Malaysian

Mr Lai Yun Yin is a Member of the MIA and a Fellow of CIMA (UK).

Mr Lai joined HLI as Management Trainee in 1984. In the early years, he was attached to the Finance Department of the tiles manufacturing operation. In 1987, Mr Lai was transferred to Hong Leong Management Co Sdn Bhd where he progressed to become an Accountant. He was then transferred to the tiles operation in 1989 and served as Finance Manager in various subsidiaries of HLI.

In 1994, Mr Lai was transferred to head the Sales and Marketing department of Hume Marketing Co Sdn Bhd ("HMKT") and subsequently promoted as General Manager in 1996. He has acquired over 20 years of working experience in the trading and distribution of building materials. Subsequently, he was promoted to Managing Director of HMKT on 1 January 2017.

Notes:

1. ***Family Relationship with Director and/or Major Shareholder***
   None of the Key Senior Management has any family relationship with any Director and/or major shareholder of HLI.

2. ***Conflict of Interest***
   None of the Key Senior Management has any conflict of interest with HLI.

3. ***Conviction of Offences***
   None of the Key Senior Management has been convicted of any offences (excluding traffic offences) within the past five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2018.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Hong Leong Industries Berhad (the "Company"), I am pleased to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2018 ("FY2018").

For FY2018, the Group achieved a revenue of RM2,503 million against the previous financial year ended 30 June 2017 ("FY2017") of RM2,282 million. Profit before tax for FY2018 was RM464 million against RM192 million for FY2017. The Company declared and paid a total dividend of RM150 million for FY2018 as a result of healthy cash generation.

On behalf of the Board, I warmly welcome YBhg Datuk Noharuddin bin Nordin @ Harun who was appointed as an Independent Non-Executive Director of the Company during the financial year and I look forward to his support and contribution.

I also extend our sincere thanks to YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar, YBhg Dato' Ahmad Johari bin Tun Abdul Razak and Mr Chuah Chuan Thye who resigned as Directors of the Company during the financial year for their invaluable guidance and contributions towards the growth of the Group. I wish them well in their future endeavours.

Lastly, I would like to extend my sincere appreciation to the Board of Directors, our management team and all our employees for their contribution, dedication and commitment to the Group. My sincere appreciation goes also to our valued customers, business associates, shareholders, financiers and the Government for their continuous support and confidence in the Group.

DATUK KWEK LENG SAN
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

Hong Leong Industries Berhad ("HLI"), a public company listed on the Main Market of Bursa Malaysia Securities Berhad, is a member of the Hong Leong Group Malaysia. Hong Leong Group is a leading conglomerate based in Malaysia with diversified businesses in banking and financial services, manufacturing and distribution, property development and investments, hospitality and leisure, and principal investment with presence in North and Southeast Asia, Western Europe, United Kingdom, North America and Oceania.

HLI is principally engaged in 2 business segments –

- Consumer products: Manufacturing, assembling and distribution of motorcycles, scooters and related parts and products, manufacturing and sale of ceramic tiles as well as distribution, trading and provision of services in marine related products.

- Industrial products: Manufacturing and sale of fibre cement and concrete roofing products.

HLI also has associated companies which are involved in the manufacturing, assembling and distribution of motorcycles, motorcycle engines and spare parts in Malaysia, and distribution of motorcycles in Vietnam.

The Group's businesses are largely in Malaysia which accounted for 88% (2017: 85%) of the total Group's revenue for the financial year ended 30 June 2018 ("FY2018").

During the previous financial year ended 30 June 2017 ("FY2017"), HLI Group made a full impairment provision of RM171 million which represented HLI Group's remaining carried amount of investment in and advance to Malaysian Newsprint Industries Sdn Bhd ("MNI"), an associated company as at 30 June 2017. The impairment provision was made consequent to MNI being placed under creditors' voluntary winding-up proceedings in accordance with Section 440(1) of the Companies Act 2016 on 1 August 2017. Subsequently on 2 May 2018, with the consent of the liquidator, HLI together with other shareholders of MNI, entered into a Shares Sale Agreement ("SSA") to sell their entire interests in MNI to Asia Honour (Hong Kong) Limited. The SSA was completed on 17 May 2018 and consequently RM60 million of the impairment of the Group's investment in and amount due from MNI was written back during the fourth quarter of FY2018.

GROUP'S FINANCIAL PERFORMANCE

The Group's revenue increased from RM2,282 million to RM2,503 million during FY2018, an increase of 10% as compared with FY2017.

The increase in revenue was mainly due to the increase in revenue of the motorcycle segment by 19% coupled with the commencement of a new business in the distribution of marine related products in FY2018. The increase was however partly negated by the weaker demand for building materials products in the domestic market. Operating expenses increased by 8% to RM211 million during FY2018 as compared with RM195 million for FY2017. The Group will continue to undertake efforts to streamline processes and enhance operational efficiency to sustain profitability.

Profit before tax for FY2018 was RM464 million against RM192 million for FY2017. The overall improvement of the Group's operating profit was mainly attributable to the higher profit from our motorcycle business.

CONSUMER SEGMENT

The consumer division sells motorcycles and marine related products under the Yamaha brand while ceramic tiles are distributed and sold under the Guocera brand. Sales and distribution of consumer products are undertaken generally through strategic partnership with key distributors and dealers.

Motorcycle – Overview

Hong Leong Yamaha Motor Sdn Bhd ("HLYM") commenced operation in 1978 with the signing of the franchise agreement between HLI and Yamaha Motor Corporation ("YMC") to venture into the manufacture, assembly and marketing of Yamaha motorcycles in Malaysia. The company currently operates from its factory located in Sungai Buloh, Selangor, Malaysia and distributes its motorcycles through a well-established nationwide network of dealers, including exclusive dealers of HLYM products. Over the years, HLYM has established itself as a significant domestic player in Malaysia.

In Vietnam, HLI has a 24% shareholding in Yamaha Motor Vietnam Co. Ltd ("YMVN"). The other two joint venture shareholders in YMVN are YMC and Vietnam Forest Corporation.

MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

Motorcycle – Performance Review

Total motorcycle industry sales volume for FY2018 continued on an upward trend with an increase of 5% to 496,000 units in FY2018 where Yamaha continued to retain its market leadership. To secure the market leading position, HLYM provides the Malaysian consumers with a range of latest and most innovative motorcycles from mopeds to automatic bikes to street and big bikes.

HLYM also focused on creating a strong competitive differentiation by enhancing customers' experience, preserving the value of the premium Yamaha brand, and setting it apart from competitors. In the local AAM Petronas Cub Prix, Yamaha has been dominating both the CP150 and CP115 categories, various activities like riding convoys and customer days have been organised as appreciation to customers for their support. In the pipeline is also the Yamaha Genuine Parts Centre in Sungai Buloh. The parts centre incorporates a lifestyle store concept that is designed to revolutionise the Yamaha dealer – customer experience of the brand.

In April 2018, HLYM celebrated its roll out of the 4,000,000th Yamaha motorcycle from its Sungai Buloh factory assembly line. This momentous accomplishment is the result of its commitment in delivering premium and high quality motorcycles since 1979, which has made Yamaha the brand of choice of Malaysian motorcyclists.

HLYM has set the Vision to be the leading manufacturer in the motorcycle industry and delivering quality products and services for customers pride of ownership. In pursuit of this goal, the manufacturing team of HLYM benchmarks the best practices in the world and adopts the differentiating strategies in all aspects of our manufacturing systems by having a clear and deliberate Learning and Development programme for all level of employees, that stir and provoke Kaizen and innovation in their daily work routine. With the customer focus mindset, the manufacturing team of HLYM is set to expand its production capacity and incorporating innovative solutions, such as robotics and automation, that drives product reliability, competitive cost, agility towards the market changes, strengthen vendors landscape by adopting the partnership approach in cost optimisation across the supply chain.

In Vietnam, the total motorcycle industry demand in FY2018 increased slightly by 3% to 3,300,000 units as compared with 3,200,000 in FY2017. Sales of YMVN decreased to 764,500 units as compared with 858,800 units for FY2017 mainly due to lower sales of scooter models, as well as the drop in demand of low end moped with intense competition from the main competitor. Nevertheless, the Vietnam motorcycle industry is still having good potential and is expected to continue to contribute significant results to the Group.

Marine Related Products – Overview

HLY Marine Sdn Bhd ("HLY Marine"), a wholly-owned subsidiary of HLI, was appointed as the exclusive re-seller and distributor of Yamaha outboard motor products since April 2017 with the signing of an agreement with YMC. The company currently operates from Sungai Buloh, Selangor, Malaysia and 3 branches in Malaysia offering sales, services and spare parts of Yamaha outboard motor products to nationwide through a network of dealers.

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

Marine Related Products – Performance Review

HLY Marine was the market leader in FY2018. The company continues to improve sales and customers' confidence via enhancement of dealership coverage and after sales service support. Other than setting up mobile service fleets and service branches, HLY Marine has also conducted several 3S campaigns to promote awareness for after sales service and genuine spare parts of Yamaha outboard motor products.

Ceramic Tiles – Overview

Guocera Holdings Sdn Bhd ("GHSB") is the holding company for the tiles business of HLI. GHSB, through its two manufacturing facilities located in Kluang and Meru ("GHSB Group"), manufactures and distributes a full range of ceramic and porcelain tiles. Since 1993, GHSB Group has been promoting and marketing its tiles under the common brand name "Ceramiche Guocera".

GHSB Group exports its tiles worldwide to customers in Asia Pacific, Middle East, Europe and North America. Through its export presence over the past 40 years, Guocera is a globally recognised brand in the industry. Over the years, GHSB Group has been transforming the living and work spaces of its customers with innovative products and inspiring designs. Inspired by quality Italian craftsmanship and its artisan ethos, Guocera is a recognised household brand in Malaysia.

Ceramic Tiles – Performance Review

Global over supply of tiles, market price competition and increasing energy cost continued to be the main challenges for local tiles manufacturers. In FY2018, while domestic sales experienced a slow-down primarily from the project segment, international sales showed strong growth in the Middle East and Vietnam markets, but offset by lower prices in terms of Ringgit Malaysia due to the weakening of the US Dollar.

To stay competitive in the global market, a series of cost down programmes have been embarked into to improve plant efficiency and to mitigate rising energy cost.

On the sales and marketing front, GHSB Group is increasing its focus on international sales by exploring new markets growth, launching of new products to meet new market needs and strengthening its distribution channels. The domestic focus will be mainly in the retail market segment.

INDUSTRIAL SEGMENT

The industrial division manufactures and distributes fibre cement board under the brand name "PRIMABOARD", concrete roofing tiles as well as distributions of other building material products. Products are distributed to both local and overseas markets via retail as well as project segment.

Fibre Cement Board – Overview

Hume Cemboard Industries Sdn Bhd ("HCI") was first incorporated as Cemboard (M) Sdn Bhd and started commercial production in 1982. HCI manufactures and distributes the PRIMABOARD family of products, comprising cellulose fibre cement boards in various dimensions that provide internal lining and external architectural cladding solutions for buildings and their surrounds. Fibre cement board products are made from high grade cellulose fibre, quality cement, sand and water and can be used in myriad applications in the residential, industrial and commercial markets.

The fibre cement board products are manufactured in HCI's plants located in Petaling Jaya, Selangor and Kanthan, Perak. HCI is the leading domestic player in the fibre cement board industry and distributes its products both locally and internationally. Its export markets include Australia, Taiwan, South Korea, Middle East, Vietnam and the Philippines.

MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

Fibre Cement Board – Performance Review

Revenue for FY2018 was 2% lower than FY2017 mainly due to the strengthening of the Ringgit Malaysia against the USD Dollar. The escalated price of key raw materials especially pulp and the increase of energy cost have been weighing hard on the performance of HCI.

To ensure cost competitiveness, HCI had streamlined the number of stock keeping unit ("SKU") in respective products and also rationalised the production lines in the second half of FY2018.

With continuous cost down efforts, the company is expected to perform better in the financial year ending 30 June 2019 ("FY2019") despite the challenging market condition.

Concrete Roofing Tiles – Overview

Founded in 2002, Hume Roofing Products Sdn Bhd ("HRP") is a wholly owned subsidiary of HLI and its factories are located at Bandar Tenggara, Johor and Kanthan, Perak. HRP manufactures and markets premium concrete roofing tiles. The concrete roofing tiles produced by HRP are designed with bold, aesthetically pleasing profiles and a wide range of attractive and vibrant colours. These are complemented with a range of roofing accessories.

Concrete Roofing Tiles – Performance Review

The concrete roof tile market remains challenging due to stiff competition in the market with a stagnant economy trend and declining market prices. With the focus on affordable housing schemes and middle to high end landed property segments in FY2018, sales volume and sales revenue increased by 8% and 3% respectively as compared with FY2017.

Continuous cost improvement activities remain a key focus to ensure the products are price competitive, with high quality and reliability. On the market front, the focus is to continuously provide service excellence and support to our business partners in addition to expanding the market network to deliver further growth in terms of volume and revenue.

For the upcoming year, HRP is expected to increase in the overall market share by strengthening its presence as one of the key players in the concrete roof tile industry.

RISKS AND OPPORTUNITIES

The slow domestic construction industry ahead remains the key challenge and risk to the Group's building material products. To mitigate this, the Group will focus on expanding the Group's export market and balancing its reliance on the domestic market. This would include building a stronger sales and marketing team to focus on developing new markets as well as applying new products into the markets.

On the consumer sector, the focus would be to improve its distribution channels by strengthening the stickiness of customers to secure and expand the Group's position. Meanwhile, to remain competitive and sustainable in the long term, the initiatives include continuous investment in training and development of staff at various levels as well as application of technology for products and process improvements.

Significant efforts have also been put into the streamlining of production and structural cost savings to improve the performance of the business.

The Group's businesses in both consumer and industrial segments are exposed to foreign currency fluctuations with the imports of raw materials and exports of finished goods. The Group manages and minimises this risks through non-speculative foreign currency hedging which is an operational activity for businesses exposed to foreign currency fluctuations.

DIVIDEND

The Company declared and paid a first, second and special interim single tier dividends totalling RM47 sen per share for FY2018.

Dividend payout is one of the important elements considered by the Company in enhancing its shareholders value. Earnings, capital expenditure requirements, borrowings repayment, capital adequacy, dividend yield and other relevant factors are considered by the Board in determining the actual dividend payout.

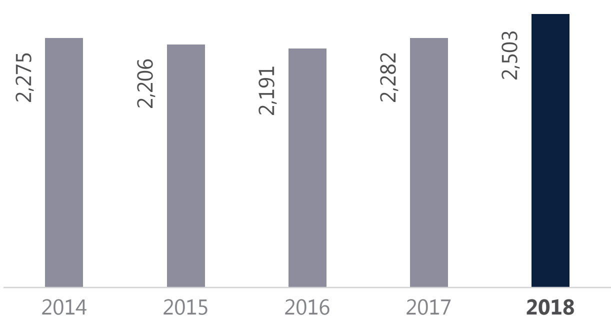
MOVING FORWARD

Moving forward into FY2019, the key focus of the Group is to continue to strengthen our market position through new product development, innovation and adoption of new technologies to enhance operational processes.

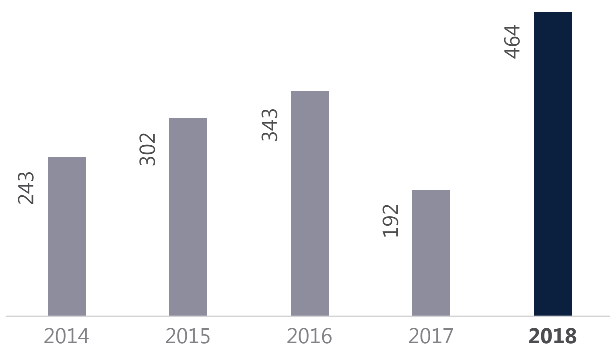
GROUP FINANCIAL HIGHLIGHTS

RM'Million	FY 2014	FY 2015	FY 2016	FY 2017	**FY 2018**
Revenue	2,275	2,206	2,191	2,282	**2,503**
Profit before taxation	243	302	343	192	**464**
Profit attributable owners of the Company	168	173	247	103	**335**
Net earnings per share (sen)	54	56	80	33	**108**
Net dividend per share (sen)	25	29	42	45	**47**
Total equity	1,377	1,294	1,400	1,383	**1,585**
Total assets	2,414	1,780	1,881	1,837	**2,014**
Capital expenditure	51	56	55	58	**38**

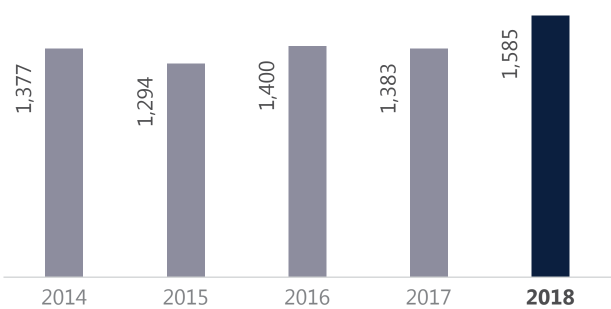
REVENUE
(RM'Million)



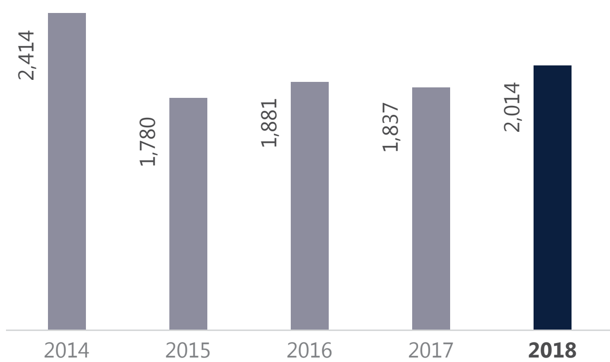
PROFIT BEFORE TAXATION
(RM'Million)



TOTAL EQUITY
(RM'Million)



TOTAL ASSETS
(RM'Million)



SUSTAINABILITY STATEMENT

Hong Leong Group is built on the strong heritage of value creation for our stakeholders and communities within which we operate. Over the years, we have taken a progressive approach in integrating sustainability into our businesses, towards a stronger, more resilient group. We are committed to growing our businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact for our stakeholders and contributing to our communities.

Our sustainability efforts reflect our commitment towards maximising opportunities for strong fiscal growth and optimising operational efficiency while at the same time creating long-term value in accordance to economic, environmental and social considerations.

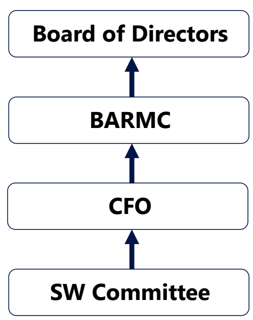
We work closely with a broad spectrum of stakeholders where businesses are always conducted with integrity and full cognisance of its impact in the community and society as a whole. In the course of developing this report for our work in the area of sustainability, we have methodically applied distinct, forward-looking value, namely quality, entrepreneurship, innovation, honour, human resources, unity, progress and social responsibility. These values serve to focus us on a long-term view of the social and environmental business imperatives that help shape our future.

Honour	To conduct business with honour
Human Resources	To enhance the quality of human resources as the essence of management excellence
Entrepreneurship	To pursue management vision and foster entrepreneurship
Innovation	To nurture and be committed to innovation
Quality	To consistently provide goods and services of the highest quality at competitive prices
Progress	To continuously improve existing operations and to position for expansion and new opportunities
Unity	To ensure oneness in purpose, harmony and friendship in the pursuit of prosperity for all
Social Responsibility	To create wealth for the betterment of society

We are committed to ensuring that we are guided by the Hong Leong Group's core values and remain cognisant of our responsibility towards society and environment.

Governance Structure

The sustainability governance structure of Hong Leong Industries Bhd ("HLI") and its operating companies ("HLI Group") comprises the Board of Directors ("Board") as the highest governing body and they play an important role in approving sustainability framework and deliberate reports from the Board Audit & Risk Management Committee ("BARMC") on sustainability and risk governance issues. The Sustainability Working ("SW") Committee comprises Operating Managers and Heads of Department of operating companies. The Chief Financial Officer ("CFO") acts as a guiding role and bridge between the SW Committee and the Board. This structure enables us to continue to add value to our stakeholders in all aspects of our business.



Scope of this Statement:

This sustainability statement focuses on the collective sustainability efforts undertaken by our key operating companies. This sustainability reporting covers the material economic, environmental, and social aspects of our key operations within the HLI Group in Malaysia covering from 1 July 2017 to 30 June 2018 ("FY2018") ("Sustainability Statement" or "the Statement").

SUSTAINABILITY STATEMENT
cont'd

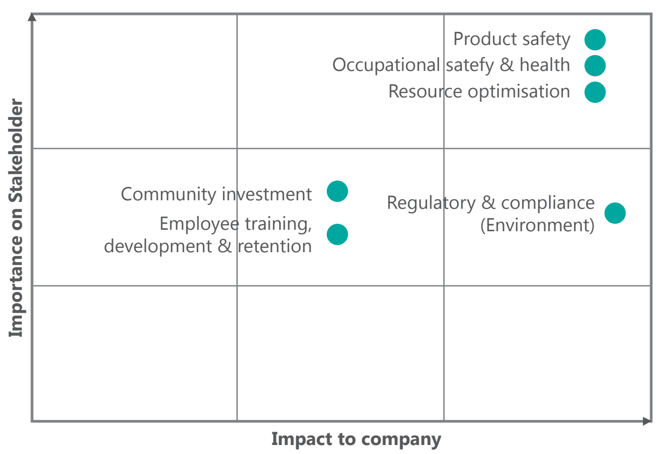
Key operations within the HLI Group in Malaysia:

Operating Companies	Manufacturing Plant Location	Principal Business
Hong Leong Yamaha Motor Sdn Bhd ("HLYM")	Selangor	Manufacture and distribution of motorcycles and other components, assembly of motorcycles and investment holding.
Guocera Holdings Sdn Bhd ("Guocera")	Selangor and Johor	Manufacture of ceramic tiles and investment holding.
Hume Cemboard Industries Sdn Bhd ("HCI")	Selangor and Perak	Manufacture and sale of fibre cement products.

The Statement was prepared in accordance with Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Statement in Annual Reports.

Our Materiality Matrix:

We are taking a progressive approach in our sustainability reporting. As a start, we have engaged our internal stakeholders to assess and identify the material sustainability issues to our HLI Group. Through communications and dialogue sessions with internal stakeholder representatives from various divisions of the HLI Group who have first-hand knowledge as well as visibility over the issues at operational level, we have identified sustainability matters that are close to all stakeholders' heart across the economic, environmental and social aspects.



1. Product Safety

i. Product Safety Education (Training on safe use of products):

Operating Companies	Initiatives
HLYM	• Yamaha Balik Kampung Road Safety Campaign • Yamaha Safety Riding Science
Guocera	• Technical training on properties and applications of ceramic tiles to ensure safe use.

Beyond meeting relevant safety standards and requirements, we take product safety and quality further by adopting best practices throughout the design/planning, production, and supply stages of our products, including educating our consumers on the safe-use of our products. Some of our initiatives in this area include the following:

HLYM

HLYM, a subsidiary company which is the franchise holder for CKD and CBU Yamaha motorcycles in Malaysia since 1978, has consistently carried out programmes to remind motorcyclists on the importance of road safety.

SUSTAINABILITY STATEMENT
cont'd

1. Product Safety *cont'd*

i. Product Safety Education (Training on safe use of products): *cont'd*

Yamaha Balik Kampung Road Safety Campaign is a joint effort between HLYM and the Malaysian Motorcycle & Scooter Dealers Association. This annual event has been held for the past 20 years during the Hari Raya festive period. Emphasis is on raising road safety awareness for motorcyclists preparing to travel to their hometown for Hari Raya. Every year, the campaign focuses on the importance of proper maintenance of motorcycles. The campaign also involved various government departments that are working towards a common goal in reducing road accidents and fatality on Malaysian roads. A 7-point safety check on motorcycles with Yamaha safety leaflets was conducted by HLYM trained service technicians who helped motorcyclists understand the condition of their vehicles.

Another campaign is the Yamaha Safety Riding Science demonstration ("YSRS") that is aimed at educating motorcyclists on safety riding skills from a scientific approach. The YSRS programme organised by HLYM, fully complements the Government's initiative to further promote riding safety. The YSRS programme is divided into two sessions, one on theory and the other on the practical usage of motorcycles. The target audience are public sector and corporate office workers as well as college and university students.

Additionally, HLYM provides educational programmes for mechanics who are graded based on Basic, Bronze and Silver level. The programmes are conducted to educate, amongst others, the training on new models of Yamaha's motorcycles as well as to educate the use of Yamaha Diagnostic tools. Programmes are carried out throughout the year which is aimed at HLYM's authorised dealers. With this programme, HLYM seeks to promote safety through improving the skill of the mechanics.

SUSTAINABILITY STATEMENT
cont'd

1. Product Safety *cont'd*

i. Product Safety Education (Training on safe use of products): *cont'd*

Guocera

Guocera is dedicated to provide quality tiles with safety measures in mind through stringent measures of testing and research. The operation conducts regular technical training on the properties and applications of ceramic tiles for developers, contractors, specifiers, distributors as well as the sales team on safe usage of products. The training content covers education on the properties of tiles which explains, amongst others, how ceramic tiles are produced by firing clays and other naturally occurring mineral substances under extremely high temperature, thereby forming the final inorganic products that do not contain any hazardous chemicals or volatile organic compounds.

Physical properties such as the slip resistance of the tiles are made known to the customers and the slip resistance rating is specified in the product brochures. Guocera also provides guidance on the choice and the suitability of the tiles for the right application, e.g. tiles with anti-slip properties to be specified for wet areas. Guocera's accredited Ceramic Research Centre provides anti-slip testing for the ceramic industry in conformance to international standards.

ii. Product Improvement (Commitment to safe products):

To ensure that we consistently produce quality products, we have set in place policies to ensure that products are safe prior to distribution. For HLYM, upon completion of the motorcycles from assembly, they will undergo a list of inspection such as electrical inspection, performance test of the drum, speedometer, brake test, head light inspection, emission test as well as appearance test. These tests are carried out in a rigorous manner in order to achieve the intended purpose of ensuring a quality product with safety in mind.

HLYM

- ISO9001:2008 (Quality Management System)
- ISO14001:2015 (Environment Management System)
- ECE Compliance for motorcycle

Guocera

- ISO9001:2015 (Quality Management System)
- ISO14001:2015 (Environment Management System)
- OHSAS 18001 (Occupational Health and Safety)
- GREENGUARD
- SIRIM Eco Label
- Singapore Green Label

HCI

- ISO9001:2015 (Quality Management System)
- ISO14001:2015 (Environment Management System)
- Singapore Green Label
- Australia Eco Label
- Korea Eco Label
- SIRIM Eco Label
- Class 'O' Certification by the Fire and Rescue Department of Malaysia (Jabatan Bomba & Penyelamat Malaysia)

5S Programme

All operating companies within the HLI Group are required to embrace 5S as our culture. 5S is a workplace organisation method which consist of *seiri*, *seiton*, *seiso*, *seiketsu*, and *shitsuke* which is translated to *sort*, *set in oder*, *shine*, *standardise*, and *sustain*. It describes how to organise a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order. This programme serves as the foundation to our operating companies in maintaining a sustainable environment to continuously improve in processes including those relating to product safety and productivity gains. Annually, operating companies must review and plan ahead the yearly activities, including training, security measures, improvement plans and periodic self-audit exercises as well as third party independent audit to sustain the 5S programme.

SUSTAINABILITY STATEMENT
cont'd

2. Resource optimisation

Every operating company within the HLI Group has an energy saving programme led by its management team to reduce energy usage year on year basis. For manufacturing plants which have achieved MS ISO 14001 certification in recognition for its compliance to the standards and efforts in minimising negative impact to the environment, the compliance processes and activities have raised the level of awareness of the importance of conservation of energy, reduction in emissions, prudent disposal of waste and the fulfilment of legal and statutory requirements. In line with that, numerous procedures have been implemented to preserve the environment and fulfil the requirements of the standards while promoting the concept of 3Rs – Reduce, Reuse and Recycle.

Key activities include:

- Heat recovery systems to reduce natural gas consumption
- Material waste recovery systems
- Recycling of waste water
- Electricity efficiency initiatives

i. Water usage and recycling

Our operating companies mainly draw their water source from the municipal water supplies. Some companies have invested in water treatment and recycling facilities to ensure efficient use of water which are both environmentally friendly as well as part of cost saving initiatives. For example, Guocera and HCI achieved 90% and 80% respectively on water recycled and reused in FY2018. HLYM reduced its water usage by 13% in FY2018 through improving its underground pipe leakages.

ii. Energy consumption and energy efficiency

Energy is a significant component for our operation as our manufacturing plants are energy extensive, hence we strive to ensure that energy is consumed responsibly and efficiently to reduce our carbon emissions as well as costs. HLI Group maintained the use of fuel from non-renewable source which is closely monitored to avoid wastages.

In FY2018, HLYM initiated a factory-wide energy saving project by doing a re-layout of its wiring, zoning and replacing conventional Hi-bays lights to LED lights, thus resulting in savings in electricity.

3. Regulatory & Compliance (Environment)

Operating Companies	Initiatives
HLYM	■ ISO14001 (Environmental Management system) accredited
Guocera	■ Engages third party independent consultancy firms to collect data for submission to Department of Environment
HCI	■ Adheres to strict regulations of Department of Environment

Our objectives is to achieve high standards in environmental management by evaluating our businesses and operations periodically and take active steps to reduce environmental impact wherever possible. The activities undertaken during FY2018 include:

- Upgrade heat recovery system of the ceramic tiles plants to conserve energy usage
- Replacing normal flood lights to LED lights
- Recover and recycle glaze losses
- Recover components of off-cuts of boards back to products
- Minimisation of fresh water intake by recycling process water in production
- Reuse treated water as replacement of fresh town water supply in the process
- Soft starters and inverters to reduce power demand
- Recycle of sludge by products from process cleaning back to products
- Installation on capacitor banks to enable power recovery and effective usage
- Dust containment, management and recycling back to products
- Upgrade of sewage treatment plant to meet latest regulation
- Install a system for recovery and recycling of washing thinner
- Use of groundwater extracted from tube well in production

SUSTAINABILITY STATEMENT
cont'd

3. Regulatory & Compliance (Environment) *cont'd*

i. Emissions

In order to monitor the impact to the environment, operating companies engage third party consultancy firms for collection of data for submission to the Department of Environment Malaysia on emissions released to the environment from the manufacturing plants.

HCI, for instance, will conduct an annual monitoring on its Boiler Air Emission and Chemical Exposure. In addition, HCI also provides internal training and education to workers.

HLYM conducts annually the Local Exhaust Ventilation assessment to assess the working conditions for employees. This is part of the activities to prevent, control, maintain and monitor dust and fume exposure in the workplace.

HLYM also undertakes the Scheduled Stack Air Emission Monitoring, testing of chimney stack gas and particulate emissions.

Guocera undertakes a different set of tests and certifications that includes:

- Ambient Air Monitoring on monthly basis;
- Stack emission for dust collector and for chimney (three times a year); and
- Generator Set monitoring on annual basis.

From these tests, operating companies would obtain confirmation that emissions are within the requirement set by the Department of Environment.

ii. Waste and Effluent

HCI, being a fibre cement board manufacturer, utilises significant amount of water for its production activities and the resulting waste water is treated prior to discharge. The waste water treatment plant discharge point is tested on a monthly basis to ensure that it is working as intended as well as to monitor the amount of waste water discharged.

HCI operation's scheduled waste is collected by a third party which is carried out every 180 days from first generation date or whenever it reaches 20 mt which strictly follows the procedures set by the Department of Environment. Programmes to monitor hazardous and non-hazardous waste are also stipulated in our ISO 14001 procedures.

Guocera segregates hazardous and non-hazardous waste into two disposal methods, for recycling as well as to be sent to landfills. These are determined based on the nature of the items disposed wherein for instance scrap metal and reject cartons are sold for recycling purposes.

For HLYM, all its waste and effluent are systematically controlled and monitored in accordance with ISO 14001. HLYM has an industrial wastewater treatment plant which was upgraded in FY2018 to adhere to the latest regulation. HLYM also initiated a recovery and recycling of its washing thinner activity.

4. Employee training, development, retention

i. Training, Development and Retention

Human capital is the key driver of our success, hence it is an area where we have and will invest continually. Employees within the Hong Leong Group are exposed to a diverse and comprehensive range of learning and development opportunities. HLI Group provides training on a need basis. Upon assessment via our Training Needs Analysis on each individual to identify the skills and knowledge gaps, training with relevant programmes and content will be provided to fill in the gaps. Most training focuses on employees who are performing work relating to product quality whereby competencies are tantamount to customer satisfaction. Training programmes cover technical skills, sales, communications, regulation updates and soft skills.

SUSTAINABILITY STATEMENT
cont'd

4. Employee training, development, retention *cont'd*

i. Training, Development and Retention *cont'd*

We recognise that developing a professional begins at the entry point of one's career and requires a structured approach. Our Graduate Development Programme ("GDP") provides an opportunity for fresh graduates to gain valuable experience and knowledge. The programme includes specific training activities such as 5S culture and initiatives, Total Quality Assurance programme as well as project presentation which requires graduates under the GDP to review innovative processes and present their own ideas and proposals after a period of time in their workplace. Upon completion of the programme, these individuals are subsequently transitioned to key roles in the manufacturing companies within the Hong Leong Group.

Operating Companies	Retention rate from GDP
HLYM	57%
Guocera	80%
HCI	75%

We encourage direct engagement between workers and management. Workers openly communicate and share grievances with management about their working conditions and management practices without fear of reprisal, intimidation and harassment. This is an effective way of resolving workplace issues.

Guocera

To stay competitive in the industry, we have to ensure that we are constantly improving in all aspects. In realising it, we need to ensure that our workers' competencies are at par with both current and future developing technologies. Thus, Guocera established a programme known as Upskilling Workforce. In collaboration with Jabatan Pembangunan Kemahiran Malaysia and reference to the National Occupational Skills Standard, a complete training modules and relevant curricular were successfully produced. Workers will go through all the Upskilling modules for a 8-month period and upon completion, they will be certified as competent personnel with Sijil Kemahiran Malaysia.

5. Occupational Safety and Health

Operating Companies	Initiatives
HLYM	■ Safety and Health training to employees ■ Safety and Health committees
Guocera	■ Safety and Health assessment and monitoring ■ Monitoring of work-related injuries ■ 5S Committees ■ Awareness programme to employees
HCI	■ Employee Annual medical check up ■ DOSH Machinery Inspections and Certifications

We have active Occupational Safety and Health ("OSH") committees at our operating companies. At the same time, we also have 5S committees which have practices and procedures that complement the safety and health efforts advocated by the OSH committees.

We monitor the types of injury, injury rate, types of occupational diseases and rate, lost day rate, absentee rate and work-related fatalities or illness, for the total workforce. We also monitor the frequency of these injuries and the resulting down time, if any.

We conduct regular OSH meetings to serve as an avenue to discuss and improve OSH related processes within our organisation. We also provide regular training to create awareness on the importance of OSH while OSH audit is conducted on a periodic basis.

SUSTAINABILITY STATEMENT
cont'd

6. Community investment

Operating Companies	Initiatives
HLYM	• Yamaha Literacy Classroom ("Kelas Celik Yamaha")
Guocera	• Internship programmes for local universities and colleges (USM, UTHM, UiTM, UTAR, UNIMAS, UniKL, APU, PIS, PMS) • Career guidance programmes (UTEM , UTHM, UTP)
HCI	• Internship programmes for local universities and colleges (UiTM, UniKL, UMP, KPTM, PSMZA, GMI)

HLYM conducts training sessions for the teachers and students of Celik Yamaha at SMK Bukit Rahman Putra under the school's Special Education Integrated Programme ("SEIP"). Through SEIP, HLYM jointly works with the school in setting up a technical classroom, equipped with complete sets of educational tools and materials. HLYM also shares their expertise and collaborates with the school in developing a series of systematic syllabus. During FY2018, the basic to Mechanic programme were conducted three times, comprising theory and practical sessions.

At the heart of Kelas Celik Yamaha, there is a vision to encourage and train these students to achieve their dreams that are deemed impossible for most. HLYM will continue to drive this programme.

During FY2018, Guocera welcomed a number of interns from various local universities and colleges, namely USM, UTHM, UiTM, UTAR, UNIMAS, UniKL, APU, PIS and PMS. HCI also hosted a number of interns from various local universities and colleges, namely UiTM, UniKL, UMP, KPTM, PSMZA and GMI. We provide students with numerous opportunities and valuable experiences. During their on-the-job training period, students were exposed to the actual working environment. This eventually helps them to gain first-hand industry knowledge as well as develop both technical and personal skills, while acknowledging their personal interests and abilities.

Guocera was cordially invited by UTEM, UTHM and UTP for career guidance programmes. We had the opportunity to share a professionally constructive advice and guidance and at the same time inspired students to be more focused on their professional goals. The sharing session was also intended to enable students to get a clearer picture of their future career development and direction.

LOOKING FORWARD

In alignment with business growth and enhancement of operational processes, we shall progressively implement initiatives in and across the full spectrum of our business operations which reflect our commitment to responsible and sustainable business practices.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

"CORPORATE GOVERNANCE IS THE PROCESS AND STRUCTURE USED TO DIRECT AND MANAGE THE BUSINESS AND AFFAIRS OF THE COMPANY TOWARDS ENHANCING BUSINESS PROSPERITY AND CORPORATE ACCOUNTABILITY WITH THE ULTIMATE OBJECTIVE OF REALISING LONG TERM SHAREHOLDER VALUE, WHILST TAKING INTO ACCOUNT THE INTEREST OF OTHER STAKEHOLDERS."

~ Finance Committee on Corporate Governance

The Board of Directors ("Board") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Group which supports the three key principles of the Malaysian Code on Corporate Governance ("MCCG"), namely board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The CG Report 2018 of the Company in relation to this statement is published on the Company's website, www.hli.com.my ("Website").

BOARD LEADERSHIP AND EFFECTIVENESS

A. Roles And Responsibilities Of The Board

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board has established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed annually by the Board and published on the Website. The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.

The day-to-day business of the Group is managed by the Managing Directors ("MDs") of their respective businesses. The MDs are accountable to the Board for the performance of their respective businesses. In addition, the Board delegates certain of its responsibilities to Board Committees, which operate within clearly defined TOR primarily to support the Board in the performance of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions, internal controls and risk management to the Board Audit & Risk Management Committee ("BARMC"). The Nominating Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and chief executive appointments and/or re-elections, and assess and evaluate the performance of the Board, Board Committees and Chief Financial Officer ("CFO"). Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the MDs. This division of responsibilities between the Chairman and the MDs ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The MDs are responsible for formulating the vision and recommending policies and the strategic direction of their respective businesses for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations and tracking compliance and business progress of their respective businesses.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

A. Roles And Responsibilities Of The Board *cont'd*

Independent Non-Executive Directors ("ID" or "IDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of IDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Group continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Group takes a progressive approach in integrating sustainability into its businesses as set out in the Sustainability Statement which forms part of the Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia, which has been adopted by the Board and published on the Website.

B. Board Composition

The Board currently comprises five (5) Directors, three (3) of whom are IDs. The profiles of the members of the Board are set out in the Annual Report.

The Company is guided by the Policy on Board Composition adopted by the Company and the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa") in determining its board composition. The policy includes the following:

- The board shall determine the appropriate size of the board to enable an efficient and effective conduct of Board deliberation.
- The board shall have a balance of skills and experience to commensurate with the complexity, size, scope and operations of the Company and shall have an appropriate balance of IDs comprising at least half of the board.
- The board shall include a balanced composition of executive and non-executive directors.
- Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Company has in place a Board Diversity Policy. The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. In line with gender diversity, there are two (2) women Directors on the Board. The Board will consider appropriate targets in Board diversity including gender, ethnicity and age balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the Board composition in August 2018, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

C. Board Committees

Board Committees have been established by the Board to assist in the discharge of its duties.

- BARMC

  The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year ("FY") are set out in the Board Audit & Risk Management Committee Report in this Annual Report.

  The TOR of the BARMC are published on the Website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- NC

The NC was established on 30 April 2013. The NC has been re-constituted as follows:

YBhg Dato' Dr Zaha Rina binti Zahari
Chairman, Independent Non-Executive Director

Mr Peter Ho Kok Wai
Independent Non-Executive Director
(Appointed on 30 March 2018)

YBhg Datuk Kwek Leng San
Non-Independent Non-Executive Director

YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar
Independent Non-Executive Director
(Resigned on 30 March 2018)

The TOR of the NC are published on the Website.

(i) New Appointments

All candidates to the Board are assessed by the NC prior to their appointments, taking into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired Board composition including Board diversity and the required mix of skills, expertise, knowledge and experience in the industry, market and segment to enhance the Board's overall effectiveness and having regard to the candidates' attributes, qualifications, management, leadership, independence and time commitment, before they are recommended to the Board for approval. The Company maintains a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with director databases in its search for suitable Board candidates.

In evaluating any new appointment of senior management, the Company is guided by the Hong Leong Group Recruitment Policy where all potential candidates are given equal opportunity regardless of gender, race, and religion and/or whether or not one has disability, and senior management positions are awarded based on qualifications, experience and potential.

In the case of chief executive, the NC will take into account the candidate's knowledge and experience in the industry, market and segment.

(ii) Re-election/Retention

The nomination and approval process for re-election/retention of directors shall be as follows:

• Assessment against Assessment Criteria and Guidelines • Recommendation by the NC	→	Deliberation by the Board and decision thereof

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- NC *cont'd*

(ii) Re-election/Retention *cont'd*

The Chairman, Directors and chief executive will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, and for IDs, their continued independence.

(iii) Removal

For removal of directors, the Company shall carry out such removal in accordance with the provisions of the Companies Act 2016 and any other relevant regulatory requirements. The NC may recommend to the Board the removal of a director who is ineligible, disqualified, incapacitated or who has failed in the discharge of fiduciary duties.

(iv) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees ("Board Committee Appointments") is as follows:

Identification of directors for Board Committees	→	• Assessment against Assessment Criteria and Guidelines • Recommendation by the NC	→	Deliberation by the Board and decision thereof

The assessment for Board Committee Appointments will be based on the Directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, Board Committees as a whole and the contribution and performance of each individual director, Board Committee member, chief executive and chief financial officer on an annual basis ("Annual Board Assessment"). For newly appointed chairman, directors, chief executive and chief financial officer, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service.

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each FY and additional meetings may be called at any time as and when necessary.

The NC met once during the FY ended 30 June 2018 ("FY 2018") where all the NC members attended. Recommendations and decisions were also taken by way of Circular Resolutions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- NC *cont'd*

  The NC carried out its duties in accordance with its TOR during FY 2018. The NC considered and reviewed the following:

  - revised NC Charter, revised Process and Procedure of Assessment for New Appointment, Re-Election or Retention of Directors or Chief Executive and Removal of Directors and revised policies on Board Composition, Independence of Directors, Board Diversity and Directors' Training;
  - composition of the Board and Board Committees;
  - mix of skills, professional qualification, experience and other qualities of Directors including gender, ethnicity and age balance;
  - independence of IDs and their tenure;
  - trainings undertaken by Directors and recommendation of training programmes for Directors; and
  - appointment and re-election of Directors.

  Having reviewed the Board composition, the NC was satisfied that the current Board comprises a good mix of skills and that the current size and composition of the Board are appropriate and effective in discharging its functions. The NC took cognisance of the merits of Board diversity, including gender, ethnicity and age balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

  The NC has also evaluated the performance of the Board, Board Committees, each individual director, and each Board Committee member, benchmarking their respective TOR and assessment criteria, and through the annual assessment conducted during FY 2018. The NC was satisfied that they have continued to operate effectively in discharging their duties and responsibilities. They have also fulfilled their responsibilities and are suitably qualified to hold their positions.

- Remuneration Committee ("RC")

  The Company does not have a RC. The Board is of the view that it is not necessary for the Company to establish a RC for the time being given the current size of the Board. The Board as a whole functions as the RC.

D. Remuneration

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of non-executive directors reflects the scope of responsibilities and commitment undertaken by them.

The remuneration packages of executive directors are reviewed by the entire Board. Executive directors shall not participate in the deliberations and shall vacate the meeting room during deliberations of their remuneration packages. The Board, in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

The fees of directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting ("AGM").

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

D. Remuneration *cont'd*

The detailed remuneration of each director is set out in the CG Report which is published on the Website.

Hong Leong Manufacturing Group adopts Hong Leong Group's total compensation philosophy which promotes high performing culture, alignment of corporate values and vertical and horizontal equity. The rewards strategy focuses on providing a competitive remuneration and benefits package, as well as ample career progression opportunities for employees.

The company's rewards framework focuses on a balanced and right pay mix to achieve the desired long term business performance. The framework includes base pay, cash allowances; performance based variable pay, long term incentives, benefits and other employees' programmes.

The rewards framework ensures that employees are paid competitively against the industry and talent market the company is operating in; delivered via a combination of cash and non-cash elements such as shares or share-linked instruments.

Key performance indicators and key results areas of employees are measured and tracked diligently to ensure strong alignment of employee output to the overall business strategy and direction of the company.

E. Independence

The Board takes cognisance of the provisions of the MCCG, which states that the tenure of an independent director should not exceed a cumulative term of 9 years and upon completion of the 9 years, an independent director may continue to serve on the Board subject to the director's re-designation as a non-independent director. It further states that in the event the Board wishes to retain an independent director who has served a cumulative term of 9 years and above, shareholders' approval shall be annually sought with justification. In the event the Board wishes to retain an independent director who has served a cumulative term of 12 years and above, shareholders' approval shall be annually sought through a two-tier voting process.

The Company has in place an Independence of Directors Policy ("ID Policy") which sets out the criteria for assessing the independence of IDs. The Board will apply these criteria upon admission, annually and when any new interest or relationship develops. In addition, the ID Policy states that the Company shall seek shareholders' approval at the AGM every year to retain IDs who have served on the Board for a period of 9 years continuously or more as IDs, with justifications and subject to favourable assessment of the NC and the Board.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board and the Company benefits from directors who have, over time, gained valuable insight into the Group, its market and the industry.

The IDs have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the IDs have continued to bring independent and objective judgment to Board deliberations and decision making.

Currently, the tenure of all the IDs on the Board does not exceed 9 years.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Commitment

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. In line with the MMLR, Directors are required to comply with the restrictions on the number of directorships in public listed companies. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. The Board meets quarterly with timely notices of issues to be discussed. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 50% of Board meetings held in each FY pursuant to the MMLR.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and of the Group and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016 and they are Associate Members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretaries support the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitate effective information flow amongst the Board, Board Committees and senior management. The Company Secretaries attend programmes and seminars to keep abreast with, inter alia, regulatory requirements, company law and CG.

All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. Any Director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

The Board met four (4) times for FY 2018 with timely notices of issues to be discussed. Details of attendance of each Director are as follows:

Directors	Attendance
YBhg Datuk Kwek Leng San	4/4
YBhg Dato' Dr Zaha Rina binti Zahari	4/4
Mr Peter Ho Kok Wai	4/4
Ms Quek Sue Yian	4/4
YBhg Datuk Noharuddin bin Nordin @ Harun *(Appointed on 13 March 2018)*	1/1*
YBhg Dato' Ahmad Johari bin Tun Abdul Razak *(Resigned on 30 March 2018)*	3/3*
YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar *(Resigned on 30 March 2018)*	3/3*
Mr Chuah Chuan Thye *(Resigned on 30 March 2018)*	2/3*

* *Reflects the attendance and the number of meetings held during the period the Director held office.*

The Company recognises the importance of continuous professional development and training for its Directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Commitment *cont'd*

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme which includes visits to the Group's various business operations and meetings with senior management is organised for newly appointed directors to assist them to familiarise and to get acquainted with the Group's businesses. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

All Directors of the Company have completed the Mandatory Accreditation Programme.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

In assessing the training needs of Directors, upon recommendation by the NC, the Board has determined that appropriate training programmes covering matters on CG, finance, legal, risk management, information technology, cyber security, internal control and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During FY 2018, the Directors received regular briefings and updates on the Group's businesses, strategies, operations, risk management and compliance, internal controls, CG, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised in-house programmes for its Directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During FY 2018, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- MCCG Update and Cyber Security Awareness Session
- Digital Transformation and Impact to Businesses
- Journey Toward Industry 4.0
- Mobilizing private sector capital in new and more efficient ways
- Financial Master Class A Simple Yet Practical Financial Plan Tool
- Case Study Workshop for Independent Directors "Rethinking – Independent Directors: A New Frontier"
- CG Briefing Sessions: MCCG Reporting & CG Guide
- Financial Master Class – A Simple Yet Practical Financial Plan Tool
- Offshore technology conference Asia 2018
- Digital Economy and Capital Market Series: Financial Technology (Fintech), Artificial Intelligence (AI), Big Data and Internet of Things (IOTs)
- Capital Market Conference 2017
- ACI Breakfast Roundtable 2018
- Half Day Seminar On Corporate Liability Provision 2018
- The Flexi Leader

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

G. Strengthening CG Culture

- **Code of Conduct and Ethics**

  The Group is committed to good business ethics and integrity as set out in the Hong Leong Manufacturing Group Code of Conduct and Ethics ("Code"). To this, the Group commits to a high standard of professionalism and ethics in the conduct of our business and professional activities.

  The Code is applicable to:

  ➢ all employees who work in the Group across the jurisdictions in which we operate – including but not limited to permanent, part-time and temporary employees; and

  ➢ any other persons permitted to perform duties or functions within the Group – including but not limited to vendors, service providers, contractors, secondees, interns, industrial attachment and agency staff.

- **Whistleblowing Policy**

  A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Group to report any concern on any improper conduct or wrongful act committed within the Group. The Whistleblowing Policy is published on the Website.

  The Board has identified the Chairman of the BARMC to whom reports of any such concerns may be conveyed.

EFFECTIVE AUDIT AND RISK MANAGEMENT

Accountability And Audit

The financial reporting and internal control system of the Group is overseen by the BARMC which comprises all IDs. The primary responsibilities of the BARMC are set out in the Board Audit & Risk Management Committee Report.

The BARMC is supported by the Internal Audit Department ("IAD") whose principal responsibilities are to conduct risk-based audits to ensure that adequate and effective controls are in place to mitigate risks; operational audits to identify opportunities for operational improvement; and also ensure compliance with standard operating procedures of the Group. Investigation or special review will be carried out at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC meetings where appropriate actions will be taken.

I. Financial Reporting

The Board has a fiduciary responsibility to ensure the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the integrity of financial statements with the assistance of the external auditors.

II. Directors' Responsibility In Financial Reporting

The MMLR requires the directors to prepare financial statements for each FY which give a true and fair view of the financial position of the Group and of the Company as at the end of the FY and of the financial performance and cash flows of the Group and of the Company for the FY.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

II. Directors' Responsibility In Financial Reporting *cont'd*

The Directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2018 have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 2016 in Malaysia and that the Group and the Company have adopted appropriate accounting policies and have applied them consistently.

III. Risk Management and Internal Control

The Statement on Risk Management and Internal Control ("SORMIC") provides an overview of the system of internal controls and risk management framework of the Group.

- The responsibility of the Board

  The Board recognises its overall responsibility for the adequacy and effectiveness of the Group's system of internal controls and risk management framework to safeguard shareholders' investment and the Group's assets. The Board adopts MS ISO 31000:2010 as its risk management framework.

  Accordingly, the Board has entrusted the BARMC to provide oversight of the system of internal controls and risk management framework. The BARMC is assisted by the Group's IAD in this role.

- The Risk Management Framework

  For FY 2018, management has structured the risk management framework using MS ISO 31000:2010. Based on the framework, management has carried out the following:

  - establish the context of risk in relation to the Group's risk appetite, i.e. how risks are perceived and the levels at which they are acceptable or otherwise;
  - identify risks in relation to the objectives of every business function of the Group's operating companies;
  - identify emerging risks faced by the Group in the operating environment of its various industries;
  - assess the likelihood and impact of such risks identified, using qualitative and also quantitative measures where applicable, to determine the risk level, i.e. "Severe", "Major", "Significant", "Minor" or "Trivial";
  - evaluate the severity of the risks and their treatment options to set priority of management's attention and devise appropriate actions to avoid, share, retain or mitigate risks within reasonable timeframes; and
  - record the details of risks and treatment plans in the risk registers and present to the BARMC quarterly to review the adequacy and effectiveness of the risk management measures.

  Further, on an on-going basis, each operating company's chief executive and authorised risk owners have clear accountabilities to:

  - monitor its existing risks, identify emerging risks and update the enterprise-wide risk registers;
  - maintain the adequacy, effectiveness and relevance of action plans and control systems to manage risks; and
  - prepare risk management report on a quarterly basis for reporting to the BARMC.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

III. Risk Management and Internal Control *cont'd*

- The System of Internal Controls

  The key elements of the Group's system of internal controls are described below:

  - A management structure exists with clearly defined delegation of responsibilities to the management of the Group's operating companies, including authorisation levels for all aspects of the business and operations. The management of the Group's operating companies own and manage risks and they are responsible for implementing controls to mitigate the risks pertaining to all aspects of the business and operations.
  - Documented corporate policies and procedures covering various aspects of the business and operations of the Group.
  - Promotion of a strong internal control culture through the Group's values and ethics and also the "tone at the top".
  - Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances.
  - Internal control assurance activities such as self-audits and completion of internal control questionnaires undertaken by management of the operating companies. These activities are part of the Group's risk & control assurance framework; provide the breadth in risk and control assurance; and demonstrate management's commitment to effective risk management.
  - Risk-based internal audits carried out by the Group's IAD focusing on key risk areas which are selected from the Group's audit universe. The key risk areas are documented in the annual audit plan which is approved by the BARMC. The risk-based internal audits in FY 2018 cover tender and procurement; production planning and management; inventory management; logistics management; scrap and waste management; human resource management and Information Technology General Controls (ITGC).
  - Quarterly reporting to the BARMC on the results of control assurance and audit activities and also the management of risks throughout the Group.

- Management and Decision-Making Processes

  The internal control and risk management processes of the Group are in place for the year under review and up to the date of approval of the SORMIC for inclusion in the annual report; and reviewed quarterly by the BARMC. The BARMC reviews the principal risks, significant audit observations and/or areas for improvement and ascertains that appropriate remedial actions or improvements are taken by the management of the Group's operating companies. These processes are intended to manage and not expected to eliminate all risks of failure to achieve business objectives. Accordingly, they can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

  The Board has received assurance from the CFO and chief executives of the respective businesses that the Group's system of internal controls and risk management framework are operating adequately and effectively, in all material aspects, based on the internal control system and risk management framework of the Group.

  The SORMIC has not dealt with or included the state of risk management and internal control of the associates.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL
cont'd

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

III. Risk Management and Internal Control *cont'd*

- Review of the SORMIC by External Auditors

  Pursuant to paragraph 15.23 of the MMLR, the external auditors have reviewed the SORMIC pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, (previously Recommended Practice Guide 5 (Revised 2015)), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the 2018 Annual Report, and reported to the Board that nothing has come to their attention that causes them to believe that the SORMIC is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control Guidelines for Directors of Listed Issuers, nor is the SORMIC factually inaccurate. AAPG 3 does not require the external auditors to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

- The Board's Opinion

  The Board, through the BARMC, is of the view that the Group's risk management framework and system of internal controls are adequate and effective in safeguarding the shareholders' investments and the Group's assets.

IV. Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, Messrs KPMG PLT. The appointment of external auditors is recommended by the BARMC which determines the remuneration of the external auditors. The BARMC reviews the performance, suitability, independence and objectivity of the external auditors annually. The BARMC also reviews the nature and fees of non-audit services provided by the external auditors in assessing the independence of the external auditors. In accordance with the MIA, Messrs KPMG PLT rotates its Engagement Partner and Concurring Partner once every five (5) years to ensure objectivity, independence and integrity of the audit opinions.

The external auditors meet with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit, including key audit matters, as well as the management letter after the conclusion of the audit.

At least twice a year, the BARMC will have a separate session with the external auditors without the presence of senior management.

For FY 2018, the BARMC members undertook an annual assessment on the performance, suitability, independence and objectivity of the external auditors. No major concerns were noted from the results of the assessment. The external auditors also gave their assurance confirming their independence and objectivity throughout the conduct of the audit engagement and the internal processes undertaken by them to determine their independence.

CORPORATE GOVERNANCE OVERVIEW STATEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

A. Disclosure

The Company has in place a Corporate Disclosure Policy for compliance with the disclosure requirements set out in the MMLR, and to raise awareness and provide guidance to the Board and management on the Group's disclosure requirements and practices.

All timely disclosure and material information documents will be posted on the Website after release to Bursa.

B. Shareholders

I. Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders, quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

Notices of general meetings and the accompanying explanatory notes are provided within the prescribed notice period on the Website, Bursa's website, in the media and by post to shareholders. This allows shareholders to make the necessary arrangements to attend and participate in general meetings either in person, by corporate representative, by proxy or by attorney.

Shareholders can access for information at the Website which includes the Board Charter, TORs of Board Committees, corporate information, announcements/press releases/briefings, financial information, products information and investor relations. A summary of the key pertinent matters discussed at the AGM is published on the Website.

In addition, shareholders and investors can have a channel of communication with the CFO to direct queries and provide feedback to the Group.

Queries may be conveyed to the following person:

Name	:	Mr Goh Eng Tatt
Tel No.	:	03-20809200
Fax No.	:	03-20809218
Email address	:	IRelations@hli.com.my

II. AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.

Pursuant to Paragraph 8.29A(1) of the MMLR, all resolutions tabled at general meetings will be put to a vote by way of a poll and the voting results will be announced at the meetings and through Bursa.

At the last AGM held on 27 October 2017 of which six (6) out of seven (7) Directors attended, the Company adopted electronic voting for the conduct of poll on all resolutions.

This Corporate Governance Overview Statement, Risk Management And Internal Control is made in accordance with the resolution of the Board of Directors.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

CONSTITUTION

The Board Audit & Risk Management Committee ("the Committee") of Hong Leong Industries Berhad ("HLI" or "the Company") has been established since 21 March 1994.

COMPOSITION

The Committee has been re-constituted as follows:

Mr Peter Ho Kok Wai
Chairman, Independent Non-Executive Director
(Redesignated as Chairman on 30 March 2018)

YBhg Dato' Dr Zaha Rina binti Zahari
Independent Non-Executive Director
(Appointed on 30 March 2018)

YBhg Datuk Noharuddin bin Nordin @ Harun
Independent Non-Executive Director
(Appointed on 30 March 2018)

YBhg Dato' Ahmad Johari bin Tun Abdul Razak
Independent Non-Executive Director
(Resigned on 30 March 2018)

YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar
Independent Non-Executive Director
(Resigned on 30 March 2018)

SECRETARY

The Secretary to the Committee is Ms Joanne Leong Wei Yin who is the Company Secretary of HLI.

AUTHORITY

The Committee is authorised by the Board of Directors ("Board") to review any activity of the Group within its Terms of Reference, details of which are available on the Company's website at www.hli.com.my. The Committee is authorised to seek any information it requires from any director or member of management and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The Committee meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance, head of internal audit, risk manager, chief executives and senior management may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

cont'd

MEETINGS *cont'd*

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from reviewing and deliberating on the subject matter.

Two (2) members of the Committee, who shall be independent, shall constitute a quorum and the majority of members present must be independent directors.

After each Committee meeting, the Chairman of the Committee shall report and update the Board on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

An annual assessment on the performance and effectiveness of the Committee and each of its members for the financial year ended 30 June 2018 ("FY 2018") was carried out by the Nominating Committee ("NC"). The NC and the Board are satisfied that the Committee and its members had carried out their duties in accordance with the Committee's Terms of Reference.

During FY 2018, four (4) Committee meetings were held and the attendance of the Committee members was as follows:

Members	Attendance
Mr Peter Ho Kok Wai	4/4
YBhg Dato' Dr Zaha Rina binti Zahari *(Appointed on 30 March 2018)*	1/1*
YBhg Datuk Noharuddin bin Nordin @ Harun *(Appointed on 30 March 2018)*	1/1*
YBhg Dato' Ahmad Johari bin Tun Abdul Razak *(Resigned on 30 March 2018)*	3/3*
YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar *(Resigned on 30 March 2018)*	3/3*

* *Reflects the attendance and the number of meetings held during the period the Committee member held office.*

The Committee carried out the following key activities during FY 2018:

- Reviewed the quarterly reports and annual financial statements of the Group prior to submission to the Board for consideration and approval.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Charter and Internal Audit Charter.
- Held two (2) separate sessions with the external auditors without the presence of senior management. During the separate sessions, no critical issues were raised and the external auditors conveyed that they had been maintaining a cordial Auditor-Client relationship.
- Met with the external auditors and discussed the audit plan 2018 on the nature and scope of the audit, considered significant changes in accounting and auditing issues, where relevant, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards.
- Discussed with the external auditors the potential key audit matters and other audit matters identified by the external auditors.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

cont'd

ACTIVITIES *cont'd*

- Reviewed and recommended to the Board for approval the audit fees and non-audit fees payable to the external auditors in respect of services provided to the Group. It also reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the auditors' independence or objectivity. Details of non-audit fees incurred by the Group for FY 2018 are stated in the Notes to the Financial Statements.
- Assessed the performance, suitability, independence and objectivity of the external auditors, taking into consideration factors such as quality of service, adequacy of experience and resources of the firm and the professional staff assigned to the audit, and communication and interaction, and made recommendation to the Board for shareholders' approval on the re-appointment of the external auditors.
- Reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.
- Reviewed and approved the Internal Audit Policy Manual.
- Met with the internal auditors and approved the annual audit plan and also reviewed the internal audit findings and recommendations.
- Assessed the performance of the internal audit function as well as the adequacy and competency of internal audit resources.
- Reviewed the Policy and Procedure of Recurrent Related Party Transactions and various recurrent related party transactions ("RRPT") carried out by the Group.
- Reviewed the proposed mandate for RRPT with various related parties prior to Board's recommendation for shareholders' approval.
- Reviewed the Statement on Risk Management and Internal Control ("SORMIC") of the Group, and received the report of the external auditors in respect of their review on the SORMIC prior to Board's approval for inclusion in the Company's Annual Report.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Report for inclusion in the Company's Annual Report.
- Reviewed and recommended to the Board for approval the appointment of Chairman and members of the Committee.
- Recommended to the Board for approval the appointment of a new risk manager.

INTERNAL AUDIT ("IA")

The IA function is carried out in-house by the IA Department of HLMG Management Co Sdn Bhd ("HLMGMC"), a wholly-owned subsidiary of Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). The provision of the IA services is part of the shared services of companies within the HLMG Group. There were eight (8) staff in the IA Department during FY 2018 and the total cost incurred by the IA Department amounted to RM1,625,538.

The IA Department, led by the Head of IA, reports to the Committee which has the authority to decide, among others, the appointment and removal; scope of work; and performance evaluation of the internal audit function. Mr Teh Boon Ang is Head of IA since 1 July 2017. Mr Teh holds the qualifications of Master of Criminal Justice, Advanced Diploma in Commerce, and is a Professional Member of the Institute of Internal Auditors Malaysia, Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators, and Certified Fraud Examiner from the Association of Certified Fraud Examiners, USA. The Committee is satisfied that the Head of IA has the relevant experience and sufficient standing and authority to discharge his duties as Head of IA.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT
cont'd

INTERNAL AUDIT ("IA") *cont'd*

The IA Department supports the Committee in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Group. The IA Department also challenges and adds value to the efficiency, effectiveness and economy of operating companies' operations; usage of assets and resources; and the integrity of management information systems. In doing so, the IA function is performed with impartiality, proficiency and due professional care.

All the IA personnel had declared to the Committee that they are free from any relationships or conflicts of interest which would impair their impartiality or objectivity. The Committee had undertaken an assessment on the performance of the IA Department for FY 2018 whereby it is satisfied with the performance of the IA Department. The Committee had also reviewed the IA Department's resources, in particular the qualifications, experience and designations of all the IA personnel. As their continuous professional development, the IA personnel had kept abreast with developments in the profession, industry and regulations by attending internal and external training courses. The Committee is hence satisfied with the competency of the IA Department and that it has adequate resources to carry out its functions.

The annual audit plan prepared by the IA Department is submitted to the Committee for review and approval. Internal audits are carried out as per the approved annual audit plan. IA reports are discussed and issued to management for their feedback and to formulate action plans with target implementation dates for improvements. Any resulting salient control concerns are reviewed by the Committee, and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis. The areas of IA's review during FY 2018 are described in the SORMIC.

The IA Department also facilitates the maintenance of the risk management framework of the Group on an on-going basis.

The IA Department applies appropriate auditing standards in assessing the integrity and effectiveness of internal controls and compliance with the established policies and procedures; and is committed to continuously monitoring and improving the internal audit function.

This Board Audit & Risk Management Committee Report is made in accordance with the resolution of the Board of Directors.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the financial year ended 30 June 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of the significant subsidiaries consist of manufacturing, assembling and distribution of motorcycles, scooters and related parts and products, manufacturing and sale of ceramic tiles, fibre cement and concrete roofing products as well as distribution, trading and provision of services in marine related products as disclosed in Note 3 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year except as disclosed in Note 3 to the financial statements.

ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company during the financial year until the date of this report.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 3 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	334,603	338,186
Non-controlling interests	67,759	-
	402,362	338,186

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in Note 16 and Note 26 to the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

(i) a first interim single tier dividend of 15.0 sen per share amounting to RM47,920,922 in respect of the financial year ended 30 June 2018 on 12 December 2017;

(ii) a second interim single tier dividend of 22.0 sen per share amounting to RM70,284,018 in respect of the financial year ended 30 June 2018 on 25 May 2018; and

DIRECTORS' REPORT

for the financial year ended 30 June 2018
cont'd

DIVIDENDS *cont'd*

(iii) a special interim single tier dividend of 10.0 sen per share amounting to RM31,947,281 in respect of the financial year ended 30 June 2018 on 25 May 2018.

The Directors do not recommend a final dividend for the financial year ended 30 June 2018.

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

YBhg Datuk Kwek Leng San, Chairman
YBhg Dato' Dr Zaha Rina binti Zahari
Mr Peter Ho Kok Wai
Ms Quek Sue Yian
YBhg Datuk Noharuddin bin Nordin @ Harun *(Appointed on 13 March 2018)*
YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar *(Resigned on 30 March 2018)*
YBhg Dato' Ahmad Johari bin Tun Abdul Razak *(Resigned on 30 March 2018)*
Mr Chuah Chuan Thye *(Resigned on 30 March 2018)*

The directors' name and their remuneration details are set out in the subsidiaries' financial statements and the said names and details is deemed incorporated herein by such reference and made a part hereof.

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who have beneficial interests in the ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2018 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, are as follows:

	Nominal value per share	Number of ordinary shares			
		At 1.7.2017	Acquired	Sold	At 30.6.2018
Shareholdings in which Directors have direct interests					
Interests of YBhg Datuk Kwek Leng San in:					
Hong Leong Company (Malaysia) Berhad	(1)	160,895	-	-	160,895
Hong Leong Industries Berhad	(1)	2,300,000	-	-	2,300,000
Malaysian Pacific Industries Berhad	(1)	1,260,000	-	-	1,260,000
Hong Leong Bank Berhad	(1)	536,000	-	-	536,000
Hong Leong Financial Group Berhad	(1)	654,000	-	-	654,000
Guoco Group Limited	US$0.50	209,120	-	-	209,120
The Rank Group Plc	GBP13$^{8/9}$p	45,800	-	-	45,800
Hume Industries Berhad	(1)	3,921,600	-	-	3,921,600

DIRECTORS' REPORT
for the financial year ended 30 June 2018
cont'd

DIRECTORS' INTERESTS *cont'd*

	Nominal value per share	At 1.7.2017	Number of ordinary shares Acquired	Sold	At 30.6.2018
Shareholdings in which Directors have direct interests cont'd					
Interest of Ms Quek Sue Yian in:					
GuocoLand Limited	(2)	1,333,333	-	-	1,333,333
Shareholding in which Director has indirect interest					
Interest of YBhg Datuk Kwek Leng San in:					
The Rank Group Plc	GBP13 8/9 p	10,661 (3)	-	-	10,661 (3)

Legend:
(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016.
(2) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005.
(3) Interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by a family member.

DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive any benefit (other than fees remuneration, other benefits and benefit-in-kind included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 30.2 to the financial statements or the fixed salary of full-time employees of the Company or of related corporations) 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.

There were no arrangements during and at the end of the financial year which has the object 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.

ISSUE OF SHARES AND DEBENTURES

There were no issue of shares and debentures of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

DIRECTORS' REPORT
for the financial year ended 30 June 2018
cont'd

INDEMNITY AND INSURANCE COSTS

During the financial year, Directors and Officers of Hong Leong Manufacturing Group Sdn Bhd, together with its subsidiaries companies (the "Group" which includes Hong Leong Industries Berhad and its subsidiaries and where applicable, associated companies) are covered under the Directors and Officers Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Group subject to the terms of the policy. The total amount of Directors and Officers Liability Insurance effected for the Directors and Officers of the Group was RM10 million. The total amount of premium paid for the Directors and Officers Liability Insurance by the Group was RM43,663 and the apportioned amount of the said premium paid by the Company was RM11,640.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts; and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

(i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent; or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or

(iii) 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; or

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

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

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

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, other than the write back of the investment in and amount due from Malaysian Newsprint Industries Sdn Bhd ("MNI") as disclosed in Notes 23 and 33 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 30 June 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT
for the financial year ended 30 June 2018
cont'd

SIGNIFICANT EVENT

The details of such event are disclosed in Note 33 to the financial statements.

AUDITORS

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 23 to the financial statements.

On behalf of the Board,

Datuk Kwek Leng San

Peter Ho Kok Wai

28 August 2018

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Assets					
Property, plant and equipment	4	**322,108**	351,930	**18**	58
Investment property	5	**4,000**	4,000	**-**	-
Investments in subsidiary companies	6	**-**	-	**293,746**	293,746
Investments in associated companies	7	**179,510**	212,788	**26,898**	26,898
Intangible assets	8	**14,982**	25,921	**-**	-
Other investments	9	**39,296**	63,126	**37,006**	58,291
Deferred tax assets	10	**13,105**	11,250	**-**	-
Tax credit receivable	11	**5,370**	5,646	**-**	-
Total non-current assets		**578,371**	674,661	**357,668**	378,993
Inventories	12	**210,344**	226,984	**-**	-
Trade and other receivables, including derivatives	13	**373,614**	384,037	**504**	107
Current tax assets		**19,835**	14,237	**10,415**	10,415
Cash and cash equivalents	14	**831,340**	537,483	**517,750**	274,646
Total current assets		**1,435,133**	1,162,741	**528,669**	285,168
Total assets		**2,013,504**	1,837,402	**886,337**	664,161
Equity					
Share capital	15	**321,217**	321,217	**321,217**	321,217
Reserves	16	**1,202,377**	1,013,569	**626,627**	405,086
Treasury shares - at cost	17	**(63,318)**	(63,318)	**(63,318)**	(63,318)
Total equity attributable to owners of the Company		**1,460,276**	1,271,468	**884,526**	662,985
Non-controlling interests		**124,496**	111,995	**-**	-
Total equity		**1,584,772**	1,383,463	**884,526**	662,985
Liabilities					
Deferred tax liabilities	10	**8,740**	10,415	**-**	-
Deferred income	18	**3,793**	4,395	**-**	-
Employee benefits	20(a)	**26,723**	25,492	**342**	342
Total non-current liabilities		**39,256**	40,302	**342**	342
Loans and borrowings	19	**70,630**	113,129	**-**	-
Trade and other payables, including derivatives	21	**295,701**	284,648	**1,469**	834
Tax payable		**23,145**	15,860	**-**	-
Total current liabilities		**389,476**	413,637	**1,469**	834
Total liabilities		**428,732**	453,939	**1,811**	1,176
Total equity and liabilities		**2,013,504**	1,837,402	**886,337**	664,161

The notes on pages 60 to 130 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue					
Sales of goods and services		**2,488,246**	2,272,208	**-**	-
Dividend income		**14,720**	9,907	**291,806**	247,916
		2,502,966	2,282,115	**291,806**	247,916
Cost of sales		**(2,004,854)**	(1,854,793)	**-**	-
Gross profit		**498,112**	427,322	**291,806**	247,916
Distribution expenses		**(127,953)**	(126,150)	**-**	-
Administration expenses		**(83,352)**	(68,487)	**(6,730)**	(6,066)
Net other operating income/(expense)	22	**57,749**	(170,907)	**52,612**	(135,505)
Results from operations		**344,556**	61,778	**337,688**	106,345
Interest income		**3,511**	2,628	**693**	394
Finance costs		**(5,303)**	(5,739)	**-**	-
Share of profit in associated companies, net of tax		**121,643**	133,642	**-**	-
Profit before taxation	23	**464,407**	192,309	**338,381**	106,739
Taxation	24	**(62,045)**	(41,350)	**(195)**	(196)
Profit for the year		**402,362**	150,959	**338,186**	106,543
Profit attributable to:					
Owners of the Company		**334,603**	103,087	**338,186**	106,543
Non-controlling interests		**67,759**	47,872	**-**	-
		402,362	150,959	**338,186**	106,543
Basic/Diluted earnings per ordinary share (sen)	25	**107.77**	33.37		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018
cont'd

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Profit for the year		**402,362**	150,959	**338,186**	106,543
Other comprehensive (expenses)/income, net of tax					
Items that will not be reclassified subsequently to profit or loss					
Net change in fair value of equity investments at fair value through other comprehensive income		**(23,830)**	-	**(21,285)**	-
Items that are or may be reclassified subsequently to profit or loss					
Loss on fair value of available-for-sale financial assets		**-**	(10,879)	**-**	(9,138)
Available-for-sale financial assets – reclassified to profit or loss		**-**	(178)	**-**	-
Foreign currency translation differences from foreign operations		**(462)**	413	**-**	-
Share of other comprehensive income of equity-accounted associates, net of tax		**(14,352)**	10,221	**-**	-
Cash flow hedge		**221**	(104)	**-**	-
		(14,593)	(527)	**-**	(9,138)
Total other comprehensive expenses for the year	26	**(38,423)**	(527)	**(21,285)**	(9,138)
Total comprehensive income for the year		**363,939**	150,432	**316,901**	97,405
Total comprehensive income attributable to:					
Owners of the Company		**296,107**	102,553	**316,901**	97,405
Non-controlling interests		**67,832**	47,879	**-**	-
		363,939	150,432	**316,901**	97,405

The notes on pages 60 to 130 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Attributable to owners of the Company											Non-controlling interests RM'000	Total equity RM'000
	Non-distributable									Distributable			
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Exchange fluctuation reserve RM'000	Other reserves RM'000	Hedging reserve RM'000	Reserve for own shares RM'000	Executive share scheme reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	Total RM'000		
Group													
At 1 July 2016	163,953	152,953	(63,318)	35,073	21,914	146	(32,938)	2,537	32,303	990,163	1,302,786	97,163	1,399,949
Profit for the year	-	-	-	-	-	-	-	-	-	103,087	103,087	47,872	150,959
Other comprehensive income													
Loss on fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	(11,057)	-	(11,057)	-	(11,057)
Foreign currency translation differences	-	-	-	413	-	-	-	-	-	-	413	-	413
Share of other comprehensive income of equity-accounted associates, net of tax	-	-	-	10,221	-	-	-	-	-	-	10,221	-	10,221
Cash flow hedge	-	-	-	-	-	(111)	-	-	-	-	(111)	7	(104)
Total comprehensive income/ (expense) for the year	-	-	-	10,634	-	(111)	-	-	(11,057)	103,087	102,553	47,879	150,432
Transfer^	-	-	-	(10,011)	-	-	-	-	-	10,011	-	-	-
Contributions by and distribution to owners of the Company													
Share-based payments/ transactions	-	-	-	-	-	-	-	1,077	-	-	1,077	567	1,644
ESS shares exercised	-	-	-	-	-	-	3,335	(1,138)	-	2,221	4,418	-	4,418
Disposal of Trust shares	-	-	-	-	-	-	85	-	-	-	85	-	85
Dividends (Note 27)	-	-	-	-	-	-	-	-	-	(139,195)	(139,195)	(33,614)	(172,809)
Others	-	4,311	-	-	(4,311)	-	-	-	-	(256)	(256)	-	(256)
Total transactions with owners of the Company	-	4,311	-	-	(4,311)	-	3,420	(61)	-	(137,230)	(133,871)	(33,047)	(166,918)
Transfer in accordance with Section 618(2) of the Companies Act 2016*	157,264	(157,264)	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2017	321,217	-	(63,318)	35,696	17,603	35	(29,518)	2,476	21,246	966,031	1,271,468	111,995	1,383,463

^ *During the previous financial year, there was a revision in a subsidiary's functional currency from U.S. Dollar ("USD") to Ringgit Malaysia ("RM"), hence, the exchange fluctuation reserve of RM10,011,000 had been charged to retained earnings.*

* *Pursuant to Section 618(2) of the Companies Act 2016 ("CA 2016"), any outstanding share premium and capital redemption reserve accounts shall become part of share capital.*

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018
cont'd

	Attributable to owners of the Company — Non-distributable								Distributable			
	Share capital RM'000	**Treasury shares RM'000**	**Exchange fluctuation reserve RM'000**	**Other reserves RM'000**	**Hedging reserve RM'000**	**Reserve for own shares RM'000**	**Executive share scheme reserve RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
Group												
At 1 July 2017 – as previously stated	321,217	(63,318)	35,696	17,603	35	(29,518)	2,476	21,246	966,031	1,271,468	111,995	1,383,463
Changes in accounting policy (Note 34)	-	-	-	-	-	-	-	(21,246)	21,246	-	-	-
At 1 July 2017 – as restated	321,217	(63,318)	35,696	17,603	35	(29,518)	2,476	-	987,277	1,271,468	111,995	1,383,463
Profit for the year	-	-	-	-	-	-	-	-	334,603	334,603	67,759	402,362
Other comprehensive income												
Foreign currency translation differences	-	-	(462)	-	-	-	-	-	-	(462)	-	(462)
Share of other comprehensive income of equity-accounted associates, net of tax	-	-	(14,352)	-	-	-	-	-	-	(14,352)	-	(14,352)
Loss on fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(23,830)	(23,830)	-	(23,830)
Cash flow hedge	-	-	-	-	148	-	-	-	-	148	73	221
Total comprehensive income/(expense) for the year	-	-	(14,814)	-	148	-	-	-	310,773	296,107	67,832	363,939
Contributions by and distribution to owners of the Company												
Share-based payments/transactions	-	-	-	-	-	-	1,365	-	-	1,365	655	2,020
ESS shares exercised	-	-	-	-	-	3,131	(889)	-	2,174	4,416	-	4,416
Disposal of Trust shares	-	-	-	-	-	9,164	-	-	24,645	33,809	-	33,809
Dividends (Note 27)	-	-	-	-	-	-	-	-	(146,889)	(146,889)	(55,986)	(202,875)
Transfer of reserve upon disposal of an associated company	-	-	-	(13,889)	-	-	-	-	13,889	-	-	-
Total transactions with owners of the Company	-	-	-	(13,889)	-	12,295	476	-	(106,181)	(107,299)	(55,331)	(162,630)
At 30 June 2018	**321,217**	**(63,318)**	**20,882**	**3,714**	**183**	**(17,223)**	**2,952**	**-**	**1,191,869**	**1,460,276**	**124,496**	**1,584,772**

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2018
cont'd

	Attributable to owners of the Company							
	Non-distributable						*Distributable*	
	Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Other reserves RM'000	Reserve for own shares RM'000	Fair value reserve RM'000	Retained earnings RM'000	Total equity RM'000
Company								
At 1 July 2016	163,953	157,264	(63,318)	3,943	(15,320)	26,987	433,250	706,759
Profit for the year	-	-	-	-	-	-	106,543	106,543
Other comprehensive expenses								
Loss on fair value of available-for-sale financial assets	-	-	-	-	-	(9,138)	-	(9,138)
Total comprehensive income/(expense) for the year	-	-	-	-	-	(9,138)	106,543	97,405
Distributions to owners of the Company								
Dividends (Note 27)	-	-	-	-	-	-	(141,459)	(141,459)
Disposal of Trust shares	-	-	-	-	86	-	194	280
Total transactions with owners of the Company	-	-	-	-	86	-	(141,265)	(141,179)
Transfer in accordance with Section 618(2) of the Companies Act 2016*	157,264	(157,264)	-	-	-	-	-	-
At 30 June 2017 / 1 July 2017 – as previously stated	321,217	-	(63,318)	3,943	(15,234)	17,849	398,528	662,985
Change in accounting policy (Note 34)	-	-	-	-	-	(17,849)	17,849	-
At 30 June 2017 / 1 July 2017 – as restated	321,217	-	(63,318)	3,943	(15,234)	-	416,377	662,985
Profit for the year	-	-	-	-	-	-	338,186	338,186
Other comprehensive expenses								
Loss on fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	(21,285)	(21,285)
Total comprehensive income/(expense) for the year	-	-	-	-	-	-	316,901	316,901
Distributions to owners of the Company								
Dividends (Note 27)	-	-	-	-	-	-	(149,691)	(149,691)
Disposal of Trust shares	-	-	-	-	15,234	-	39,097	54,331
Total transactions with owners of the Company	-	-	-	-	15,234	-	(110,594)	(95,360)
At 30 June 2018	**321,217**	**-**	**(63,318)**	**3,943**	**-**	**-**	**622,684**	**884,526**

* *Pursuant to Section 618(2) of the Companies Act 2016 ("CA 2016"), any outstanding share premium and capital redemption reserve accounts shall become part of share capital.*

The notes on pages 60 to 130 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
Profit before taxation	**464,407**	192,309	**338,381**	106,739
Adjustments for:				
Amortisation of deferred income	**(602)**	(601)	**-**	-
Amortisation of intangible assets	**13,846**	13,707	**-**	-
Depreciation of property, plant and equipment	**55,521**	56,391	**40**	57
Dividend income	**(22,526)**	(14,386)	**(291,806)**	(247,916)
Interest income	**(3,511)**	(2,628)	**(693)**	(394)
Finance costs	**5,303**	5,739	**-**	-
Fair value loss on derivative instruments	**57**	-	**-**	-
Fair value loss on financial instrument designated as hedge instrument	**-**	192	**-**	-
Gain on disposal of property, plant and equipment	**(80)**	(722)	**-**	(97)
Gain on liquidation of subsidiary companies	**-**	-	**-**	(113)
Gain on fair value of financial assets at fair value through profit or loss	**-**	(14,372)	**-**	(14,372)
Impairment loss on property, plant and equipment	**-**	918	**-**	-
(Write back)/Impairment loss on investment in an associated company	**(53,481)**	164,121	**(53,481)**	149,851
(Write back)/Impairment loss on amounts due from an associated company	**(6,703)**	7,349	**-**	-
Impairment loss on goodwill	**8,252**	-	**-**	-
Property, plant and equipment written off	**437**	175	**-**	-
Provision of retirement benefits	**1,552**	1,877	**-**	1
Share-based payments	**2,020**	1,864	**-**	170
Share of profit in associated companies	**(121,643)**	(133,642)	**-**	-
Unrealised (gain)/loss on foreign exchange	**(1,672)**	1,983	**-**	-
Operating profit/(loss) before working capital changes	**341,177**	280,274	**(7,559)**	(6,074)
Inventories	**16,640**	(21,384)	**-**	-
Trade and other receivables	**12,260**	18,090	**(397)**	(25)
Trade and other payables	**11,013**	(9,947)	**635**	102
Cash generated from/(used in) operations	**381,090**	267,033	**(7,321)**	(5,997)

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018
cont'd

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash generated from/(used in) operations *cont'd*		**381,090**	267,033	**(7,321)**	(5,997)
Dividends received from					
- Subsidiary companies		**-**	-	**138,746**	87,852
- Associated companies		**140,565**	152,252	**140,565**	152,252
- Other investments		**22,526**	14,386	**12,495**	7,812
Interest income received		**3,511**	2,628	**693**	394
Finance costs paid		**(5,303)**	(5,739)	**-**	-
Retirement benefits paid		**(321)**	(427)	**-**	-
Tax paid		**(63,574)**	(51,912)	**(195)**	(196)
Net cash generated from operating activities		**478,494**	378,221	**284,983**	242,117
Cash flows from investing activities					
Addition of development expenditure		**(10,630)**	(23,360)	**-**	-
Addition of other intangible assets		**(529)**	(683)	**-**	-
Addition of investment in a subsidiary company		**-**	-	**-**	(5,000)
Cash distribution from subsidiary companies		**-**	-	**-**	113
Purchase of property, plant and equipment		**(26,700)**	(34,394)	**-**	(1)
Proceeds from disposal of property, plant and equipment		**644**	726	**-**	116
Proceeds from disposal of shares in an associated company		**60,184**	-	**53,481**	-
Net cash generated from/(used in) investing activities		**22,969**	(57,711)	**53,481**	(4,772)
Cash flows from financing activities					
Dividends paid to					
- Owners of the Company		**(146,889)**	(139,195)	**(149,691)**	(141,459)
- Non-controlling shareholders of subsidiary companies		**(55,986)**	(33,614)	**-**	-
Disposal of Trust shares		**38,225**	4,698	**54,331**	280
Drawdown of borrowings	(ii)	**236,029**	190,782	**-**	-
Repayment of borrowings	(ii)	**(278,528)**	(205,618)	**-**	-
Net cash used in financing activities		**(207,149)**	(182,947)	**(95,360)**	(141,179)

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2018
cont'd

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Net change in cash and cash equivalents		**294,314**	137,563	**243,104**	96,166
Effect of exchange rate fluctuations on cash held		**(457)**	417	**-**	-
Cash and cash equivalents at 1 July		**537,483**	399,503	**274,646**	178,480
Cash and cash equivalents at 30 June	(i)	**831,340**	537,483	**517,750**	274,646

(i) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits with licensed banks	**778,159**	481,819	**517,010**	274,280
Cash and bank balances	**53,181**	55,664	**740**	366
	831,340	537,483	**517,750**	274,646

(ii) Reconciliation between movements of liabilities to cash flows arising from financing activities

	At 1 July 2017	**Net changes in financing cash flows**	**At 30 June 2018**
	RM'000	**RM'000**	**RM'000**
Group			
Bankers acceptance	44,579	(17,349)	**27,230**
Revolving credit	68,550	(25,150)	**43,400**
	113,129	(42,499)	**70,630**

The notes on pages 60 to 130 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Hong Leong Industries Berhad ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is as follows:

Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur

The immediate and ultimate holding companies of the Company are Hong Leong Manufacturing Group Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated in Malaysia.

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2018 comprise the Company, its subsidiaries, special purpose entities (together referred to as "the Group") and the Group's interest in associates. The financial statements of the Company as at and for the financial year ended 30 June 2018 do not include other entities.

The principal activity of the Company is an investment holding company, whilst the principal activities of the subsidiaries are disclosed in Note 3 to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 August 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared on the historical cost basis, other than as those disclosed in Note 2.2 to the financial statements.

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the Companies Act 2016 in Malaysia.

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.1 Basis of preparation *cont'd*

There are no significant areas of estimation uncertainty and critical judgement in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than as disclosed in the following notes:

(i) Note 6 – Investments in subsidiary companies

Significant judgements are required when identifying impairment indicators. Where impairment indictors exist, judgements and assumptions are required to determine the recoverable amount of the investment in the subsidiaries.

(ii) Note 12 – Inventories

The management reviews for obsolescence and decline in net realisable value to below cost. This review requires judgements and estimates. Possible changes in these estimates could result in revision to the valuation of inventories.

(iii) Note 13 – Trade and other receivables, including derivatives and Note 34 – Changes in accounting policy

The management applied new judgements to determine that financial instruments of the Group and the Company are recognised and measured in accordance to the early adoption of accounting standard, MFRS 9 as described in Note 2.2(c). The carrying amounts of trade and other receivables, including derivatives are shown in Note 13. The new accounting policy is shown in Notes 2.2(c) and 2.2(j). The change in accounting policy is shown in Note 34.

These financial statements are presented in Ringgit Malaysia ("RM"), which is functional currency of the Company and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

2.2 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Special purpose entities

Special purpose entities ("SPE") are entities defined in MFRS 10 *Consolidated Financial Statements*, which may constitute a corporation, trust, partnership or unincorporated entity created to accomplish a narrow and well defined objective with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Accordingly, the ESS Trust set up as mentioned in Note 2.2(l)(iii) is amalgamated in the financial statements of the Company for the portion related to the Company and also consolidated in the financial statements of the Group.

(v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as a financial asset categorised at fair value through other comprehensive income (in the previous financial year, it is accounted as an available-for-sale financial asset) depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(vi) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution (or included in a disposal group that is classified as held for sale or distribution). The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less impairment losses, unless the investment is classified as held for sale or distribution. The cost of the investment includes transaction costs.

(vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of financial assets categorised as equity instruments designated upon initial recognition (available-for-sale equity instruments in the previous financial year) or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the exchange fluctuation reserve in equity.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia ("RM")

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 July 2011 which reported using the exchange rates at the date of acquisition. The income and expenses of foreign operations are translated to RM at average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve in equity. However, if the operation is a non wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the exchange fluctuation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(b) Foreign currency *cont'd*

(ii) Operations denominated in functional currencies other than Ringgit Malaysia ("RM") *cont'd*

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

During the year, the Group and the Company early adopted MFRS 9, *Financial Instruments* which replaces MFRS 139, *Financial Instruments: Recognition and Measurement*.

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, the Group and the Company have elected not to restate the comparatives. The financial effect of the changes in accounting policies are disclosed in Note 34 to the financial statements.

(i) Recognition and initial measurement

Current financial year

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

Financial asset (unless it is a trade receivable without significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a financing component is initially measured at the transaction price.

Previous financial year

A financial asset or a financial liability was recognised in the statement of financial position when, and only when, the Group or the Company became a party to the contractual provisions of the instrument.

Financial instrument was recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

The Group and Company categorise financial instruments as follows:

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(b) Fair value through other comprehensive income

I. Debt investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

II. Equity investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial assets *cont'd*

Current financial year *cont'd*

(c) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through comprehensive income, are subject to impairment assessment (see note 2.2(j)(i)).

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139 as follows:

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

Fair value through profit or loss category comprises financial assets that were held for trading, including derivatives (except for a derivative that was a designated and effective hedging instrument) or financial assets that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial assets *cont'd*

Previous financial year *cont'd*

(b) Loans and receivables

Loans and receivables category comprises debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables were subsequently measured at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that were not held for trading.

Investments in equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost.

Other financial assets categorised as available-for-sale were subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss were subject to impairment assessment (see Note 2.2(j)(i)).

Financial liabilities

Current financial year

At initial recognition, all financial liabilities are subsequently measured at fair value through profit or loss or at amortised cost.

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial liabilities *cont'd*

Current financial year *cont'd*

(a) Fair value through profit or loss *cont'd*

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognised the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch, and remaining amount of the change in fair value in the profit or loss.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured were measured at cost.

Financial liabilities categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting or settlement date in the current year.

Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Settlement date accounting refers to:

(a) the recognition of an asset on the day it is received by the entity, and

(b) derecognition of an asset and recognition of any gain or loss on disposal on the day that is delivered by the entity.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired asset.

Generally, the Group or the Company applies settlement date accounting unless otherwise stated for the specific class of asset.

(iv) Hedge accounting

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

(a) Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument which the Group or the Company has elected to present the subsequent changes in fair value of the investment in equity in other comprehensive income).

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(iv) Hedge accounting *cont'd*

(a) Fair value hedge *cont'd*

The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

(b) Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in profit or loss. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

The Group designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ("forward points") is separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(iv) Hedge accounting *cont'd*

(b) Cash flow hedge *cont'd*

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(d) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

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

(i) Recognition and measurement *cont'd*

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after making proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" or "other operating expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

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

(iii) Depreciation *cont'd*

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over period of lease
Buildings (Freehold and Leasehold)	10 - 50 years
Plant & equipment & motor vehicles	2 - 20 years

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate at the end of the reporting period.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating leases

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the statement of financial position.

Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(f) Intangible assets

(i) Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative periods are as follows:

Development costs	3 years
Computer software	5 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(g) Investment property

(i) Investment property carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any changes therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal of, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the items are derecognised.

(ii) Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(iii) Determination of fair value

The Directors estimate the fair values of the Company's investment property based on their judgement and, where available, made with reference to current price in an active market for similar properties from independent valuers.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Impairment

(i) Financial assets

During the year, the Group and the Company early adopted MFRS 9 *Financial Instruments* which replaces MFRS 139 *Financial Instruments: Recognition and Measurement*.

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, the Group and the Company elected not to restate the comparatives. The financial effect of the changes in accounting policy are disclosed in Note 34 to the financial statements.

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets and financial guarantees measured at amortised cost or fair value through comprehensive income, except for investments in equity instruments, and interest in subsidiaries and associates.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured as 12 months expected credit loss.

Loss allowances for trade receivable are always measured at an amount equal to lifetime expected credit loss.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12 months expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Impairment *cont'd*

(i) Financial assets *cont'd*

Current financial year *cont'd*

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses. The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and associates) were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost was an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Impairment *cont'd*

(i) Financial assets *cont'd*

Previous financial year *cont'd*

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and was measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset had been recognised in the other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that was carried at cost was recognised in profit or loss and was measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale was not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase could be objectively related to an event occurring after impairment loss was recognised in profit or loss, the impairment loss was reversed, to the extent that the asset's carrying amount did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for inventories, deferred tax assets, assets arising from employee benefits, investment property measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Impairment *cont'd*

(ii) Other assets *cont'd*

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or a group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(k) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares or reserve for own shares in the statement of changes in equity.

When treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of distributable reserves.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Defined benefit plan

The Group operates an unfunded defined benefit scheme for the eligible employees. The present value of the defined benefit obligation as required by MFRS 119, *Employee Benefits* has not been used in deriving at the provision, as the amount involved is not material to the Group and the Company. Accordingly, no further disclosure as required by the standard is made.

(iii) Share-based payments

The Group operates equity-settled, share-based compensation plans for the employees of the Group under the Hong Leong Industries Berhad ("HLI")'s Executive Share Scheme ("ESS").

In connection with the ESS, trusts have been set up and are administered by an appointed trustee ("ESS Trusts"). The trustee will be entitled from time to time, to accept advances from the Group, upon such terms and conditions as the Group and the trustee may agree to purchase the ordinary shares of the Company from the open market for the ESS Trusts ("Trust Shares").

The fair value of the share options or grant offers granted to employees is recognised as an employment cost with a corresponding increase in the executive share scheme reserve over the vesting period. When the share options are exercised or grant offers are completed, the amount from the executive share scheme reserve is transferred to retained earnings as applicable. When the share options not exercised or grant offers not completed are expired, the amount from the executive share scheme reserve is transferred to retained earnings.

The fair value of the share options or grant offers is measured using Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The ESS Trust Shares consolidated into the Group's consolidated financial statements as a deduction from equity and classified as reserves for own shares. Dividends received by the ESS Trusts are eliminated against the Company's dividend payment.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Services

Revenue from services rendered is recognised in the profit or loss when services are performed.

(iii) Rental income

Rental income is recognised in profit or loss on accrual basis.

(iv) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(o) Borrowings costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(p) Taxation

Taxation comprises current and deferred taxation. Current taxation and deferred taxation are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred taxation is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred taxation is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A tax incentive (other than investment tax credits) that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(p) Taxation *cont'd*

The Group and the Company regard reinvestment allowance and investment tax allowance as investment tax credits ("ITCs") and these ITCs are recognised as deferred income. Unutilised reinvestment allowance and investment tax allowance to the extent that they are probable that the future taxable profit will be available against which the unutilised reinvestment allowance or investment tax allowance can be utilised are recognised as a tax credit receivable.

The tax credit receivable will be charged out to the profit or loss based on the utilisation of reinvestment allowance in each financial period. Deferred income, on the other hand, will be amortised over the estimated remaining useful lives of the assets concerned to the profit or loss as other income.

(q) Earnings per ordinary share ("EPS")

The Group presents basic and diluted earnings per share data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding, adjusted to assume full conversion of all dilutive potential ordinary shares, which consists of share options granted to employee.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(s) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(t) Fair value measurements *cont'd*

When measuring the fair value measurement of an asset and liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2.3 Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with MFRSs, IFRSs and the requirements of the Companies Act 2016 in Malaysia.

The Group and the Company have early adopted MFRS 9, *Financial Instruments* for the financial year ended 30 June 2018. This standard replaces MFRS 139, *Financial Instruments: Recognition and Measurement*. The financial impacts of the early adoption of MFRS 9 during the current financial year ended are as disclosed in Note 34 to the financial statements.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

2.3 Statement of compliance *cont'd*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefit (Plan Amendments, Curtailment or Settlement)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

The Group and the Company plan to apply the abovementioned applicable accounting standards, amendments and interpretations:

- from the annual period beginning on 1 July 2018 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2018; except for amendments and interpretations which are not applicable to the Group and the Company; and

- from the annual period beginning on 1 July 2019 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2019; except for amendments and interpretations which are not applicable to the Group and the Company.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Group and the Company have assessed that the financial impact that may arise from the adoption of MFRS 15 is not material.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 Statement of compliance *cont'd*

(ii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group and the Company are assessing the financial impact that may arise from the adoption of MFRS 16.

3. COMPANIES IN THE GROUP

The principal activities of the companies in the Group, their country of incorporation and the effective interest of Hong Leong Industries Berhad are shown below:

Name of Company	Country of incorporation	Effective interest 2018 %	Effective interest 2017 %	Principal activities
Subsidiary Companies				
Guocera Holdings Sdn Bhd	Malaysia	**100**	100	Investment holding.
• Guocera Tile Industries (Meru) Sdn Bhd	Malaysia	**70**	70	Manufacture of ceramic tiles.
• Guocera Sdn Bhd	Malaysia	**100**	100	Manufacture and general trading in ceramic tiles and investment holding.
• • Guocera Marketing Singapore Pte Ltd*	Singapore	**100**	100	General trading in ceramic tiles.
• Ceramic Research Company Sdn Bhd	Malaysia	**100**	100	Research and development of ceramic tiles and related products.
• Guocera Tile Industries Sdn Bhd	Malaysia	**100**	100	Rental of properties.
• Glenex Sdn Bhd *(formerly known as Guocera Marketing (International) Sdn Bhd)*	Malaysia	**100**	100	In member's voluntary liquidation.
• Century Touch Sdn Bhd	Malaysia	**70**	70	In members' voluntary liquidation.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

3. COMPANIES IN THE GROUP *cont'd*

Name of Company	Country of incorporation	Effective interest 2018 %	Effective interest 2017 %	Principal activities
Subsidiary Companies *cont'd*				
Hong Leong Yamaha Motor Sdn Bhd	Malaysia	**69.4**	69.4	Manufacture and distribution of motorcycles and other components, assembly of motorcycles and investment holding.
Hume Cemboard Industries Sdn Bhd	Malaysia	**100**	100	Manufacture and sale of fibre cement products.
Malex Industrial Products Sdn Bhd	Malaysia	**100**	100	Investment holding.
● Flazer Sdn Bhd *(formerly known as Hume Cemboard Marketing Sdn Bhd)*	Malaysia	**100**	100	In member's voluntary liquidation.
Hume Roofing Products Sdn Bhd	Malaysia	**100**	100	Manufacture and sale of concrete roofing tiles.
HLY Marine Sdn Bhd	Malaysia	**100**	100	Distribution, trading and provision of services in marine related products and investment holding.
Hume Marketing Co Sdn Bhd	Malaysia	**100**	100	Distribution of building materials.
Hume Marketing (EM) Sdn Bhd	Malaysia	**100**	100	Ceased operation.
Stableview Sdn Bhd*	Malaysia	**100**	100	Investment holding.
Maxider Sdn Bhd*	Malaysia	**100**	100	Investment holding.
Megah Court Condominium Development Sdn Bhd*	Malaysia	**100**	100	Property management.
HLI Trading Limited*	Hong Kong	**100**	100	Investment holding.
● Avenues Zone Inc*	Malaysia	**100**	100	Investment holding.
HLI Overseas Limited*	Jersey, Channel Islands	**100**	100	Dormant.
Varinet Sdn Bhd	Malaysia	**60**	60	In members' voluntary liquidation.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

3. COMPANIES IN THE GROUP *cont'd*

Name of Company	Country of incorporation	Effective interest 2018 %	2017 %	Principal activities
Associated Companies				
HICOM-Yamaha Manufacturing Malaysia Sdn Bhd*	Malaysia	**30**	30	Manufacture and assembly of motorcycle engines and parts.
HL Yamaha Motor Research Centre Sdn Bhd	Malaysia	**34**	34	Provision of research and development services.
Yamaha Motor Vietnam Co., Ltd*	Vietnam	**24**	24	Procure and assemble motorcycles, motorcycle spare parts and components and provision of maintenance and repair service for motorcycles.
Malaysian Newsprint Industries Sdn Bhd	Malaysia	**-**	33.7	Disposed of during the financial year.

Notes:
- ● Sub-subsidiary companies.
- * The financial statements of these subsidiary and associated companies are not audited by KPMG PLT.

4. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Plant & equipment & motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 July 2016	45,356	193,647	24,270	5,058	775,671	15,867	1,059,869
Additions	-	102	-	-	25,390	8,902	34,394
Reclassification	-	523	-	-	22,711	(23,234)	-
Disposals	-	-	-	-	(5,743)	-	(5,743)
Write off	-	-	-	-	(657)	(54)	(711)
At 30 June 2017/1 July 2017	45,356	194,272	24,270	5,058	817,372	1,481	1,087,809
Additions	-	1,582	-	-	14,383	10,735	26,700
Reclassification	-	1,323	-	-	2,544	(3,867)	-
Disposals	-	-	-	-	(4,339)	-	(4,339)
Write off	-	-	-	-	(3,543)	-	(3,543)
At 30 June 2018	**45,356**	**197,177**	**24,270**	**5,058**	**826,417**	**8,349**	**1,106,627**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

Group	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Plant & equipment & motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Accumulated depreciation and impairment losses							
At 1 July 2016							
Accumulated depreciation	-	66,487	2,533	2,055	613,728	-	684,803
Accumulated impairment losses	-	-	-	-	37	-	37
	-	66,487	2,533	2,055	613,765	-	684,840
Charge for the year	-	5,731	565	353	49,742	-	56,391
Impairment	-	-	-	-	918	-	918
Disposals	-	-	-	-	(5,739)	-	(5,739)
Write off	-	-	-	-	(536)	-	(536)
Effect of movements in exchange rates	-	-	-	-	5	-	5
At 30 June 2017/1 July 2017							
Accumulated depreciation	-	72,218	3,098	2,408	657,200	-	734,924
Accumulated impairment losses	-	-	-	-	955	-	955
	-	72,218	3,098	2,408	658,155	-	735,879
Charge for the year	-	5,882	565	353	48,721	-	55,521
Disposals	-	-	-	-	(3,775)	-	(3,775)
Write off	-	-	-	-	(3,106)	-	(3,106)
At 30 June 2018							
Accumulated depreciation	**-**	**78,100**	**3,663**	**2,761**	**699,040**	**-**	**783,564**
Accumulated impairment losses	**-**	**-**	**-**	**-**	**955**	**-**	**955**
	-	**78,100**	**3,663**	**2,761**	**699,995**	**-**	**784,519**
Carrying amounts							
At 1 July 2016	45,356	127,160	21,737	3,003	161,906	15,867	375,029
At 30 June 2017/1 July 2017	45,356	122,054	21,172	2,650	159,217	1,481	351,930
At 30 June 2018	**45,356**	**119,077**	**20,607**	**2,297**	**126,422**	**8,349**	**322,108**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

4. PROPERTY, PLANT AND EQUIPMENT *cont'd*

Company	Office equipment and motor vehicles RM'000
Cost	
At 1 July 2016	605
Additions	1
Disposal	(458)
At 30 June 2017/1 July 2017/30 June 2018	**148**
Accumulated depreciation	
At 1 July 2016	472
Charge for the year	57
Disposal	(439)
At 30 June 2017/ 1 July 2017	90
Charge for the year	40
At 30 June 2018	**130**
Carrying amounts	
At 1 July 2016	133
At 30 June 2017/1 July 2017	58
At 30 June 2018	**18**

5. INVESTMENT PROPERTY

	Group	
	2018 RM'000	2017 RM'000
At 1 July/30 June	**4,000**	4,000
Included in the above is:		
At fair value:		
Leasehold land with unexpired lease period of more than 50 years	**4,000**	4,000

NOTES TO THE FINANCIAL STATEMENTS
cont'd

5. INVESTMENT PROPERTY *cont'd*

Fair value information

Fair value of investment property is categorised as Level 3.

Level 3 fair value of the leasehold land has been determined by Directors' valuation using sales comparison approach. Sales price of comparable properties are adjusted for differences in key attributes such as property size. The significant unobservable input included in the Directors' valuation is price per square feet of comparable properties. The estimated fair value would increase/(decrease) if the price per square feet is higher/(lower).

6. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2018	**2017**
	RM'000	**RM'000**
At cost:		
Unquoted shares	**383,804**	383,804
Less: Impairment loss	**(90,058)**	(90,058)
	293,746	293,746

The subsidiary companies and their principal activities are disclosed in Note 3 to the financial statements.

6.1 Non-controlling interest in subsidiaries

Summary financial information before intra-group elimination of the Group's subsidiaries that have non-controlling interest ("NCI"), not adjusted for the percentage ownership held by the NCI are as follows:

	2018	**2017**
	RM'000	**RM'000**
As at 30 June		
Statements of financial position		
Total assets	**640,537**	573,665
Total liabilities	**(213,497)**	(189,403)
Net assets	**427,040**	384,262
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Profit for the year	**221,144**	156,770
Total comprehensive income	**225,820**	159,639
Statements of cash flows for the financial year ended		
Net cash flow generated from operating, investing and financing activities	**45,220**	43,941
Dividends paid to NCI	**55,986**	33,614

NOTES TO THE FINANCIAL STATEMENTS
cont'd

7. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At cost				
- Unquoted shares	**27,306**	266,940	**26,898**	111,969
- Unquoted redeemable preference shares	**-**	64,780	**-**	64,780
	27,306	331,720	**26,898**	176,749
Share of post-acquisition reserves	**152,204**	45,189	**-**	-
Less: Impairment losses	**-**	(164,121)	**-**	(149,851)
	179,510	212,788	**26,898**	26,898

The associated companies and their principal activities are disclosed in Note 3 to the financial statements.

Summary financial information for associates, not adjusted for percentage ownership held by the Group are as follows:

	2018 RM'000	**2017 RM'000**
As at 30 June		
Statements of financial position		
Non-current assets	**286,120**	1,029,477
Current assets	**949,790**	1,187,876
Non-current liabilities	**(1,936)**	(77,629)
Current liabilities	**(507,318)**	(742,599)
Net assets	**726,656**	1,397,125
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Total comprehensive income	**502,055**	567,791
Included in the total comprehensive income is		
Revenue	**4,334,005**	5,483,383
Reconciliation of net assets to carrying amount		
As at 30 June		
Group's share of net assets other than goodwill of the associated company	**179,229**	212,507
Premium on acquisition	**281**	281
Carrying amount in the statement of financial position	**179,510**	212,788
Year ended 30 June		
Group's share of results		
Group's share of total comprehensive income	**121,643**	133,642
Other information		
Dividends received by the Group	**140,565**	152,252

NOTES TO THE FINANCIAL STATEMENTS
cont'd

7. INVESTMENTS IN ASSOCIATED COMPANIES *cont'd*

The remaining carrying amount of investment in Malaysian Newsprint Industries Sdn Bhd ("MNI") to the Group amounting to RM164.1 million was fully impaired during the previous financial year. The impairment provision was made consequent to MNI being placed under creditors' voluntary winding-up proceedings in accordance with Section 440(1) of the Companies Act 2016 on 1 August 2017. Subsequently on 2 May 2018, HLI together with other shareholders of MNI, entered into a Shares Sale Agreement ("SSA") to sell their entire interest in MNI to Asia Honour (Hong Kong) Limited. The disposal was completed on 17 May 2018 and consequently RM53.4 million of the investment in MNI was written back to its recoverable amount during the financial year. Refer to Note 23 and Note 33 to the financial statements.

8. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development costs RM'000	Computer software RM'000	Total RM'000
Cost				
At 1 July 2016	66,975	21,979	4,458	93,412
Additions	-	23,360	683	24,043
At 30 June 2017/1 July 2017	66,975	45,339	5,141	117,455
Additions	-	10,630	529	11,159
At 30 June 2018	**66,975**	**55,969**	**5,670**	**128,614**
Amortisation and impairment loss				
At 1 July 2016				
Accumulated amortisation	-	16,407	2,697	19,104
Accumulated impairment loss	58,723	-	-	58,723
	58,723	16,407	2,697	77,827
Amortisation for the year	-	13,036	671	13,707
At 30 June 2017/1 July 2017				
Accumulated amortisation	-	29,443	3,368	32,811
Accumulated impairment loss	58,723	-	-	58,723
	58,723	29,443	3,368	91,534
Amortisation for the year	-	13,194	652	13,846
Impairment charge for the year	8,252	-	-	8,252
At 30 June 2018				
Accumulated amortisation	**-**	**42,637**	**4,020**	**46,657**
Accumulated impairment loss	**66,975**	**-**	**-**	**66,975**
	66,975	**42,637**	**4,020**	**113,632**
Carrying amounts				
At 1 July 2016	8,252	5,572	1,761	15,585
At 30 June 2017/1 July 2017	8,252	15,896	1,773	25,921
At 30 June 2018	**-**	**13,332**	**1,650**	**14,982**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

9. OTHER INVESTMENTS

		Group		Company	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Non-current					
Available-for-sale financial assets					
- Unquoted shares		-	10	-	10
- Shares quoted in Malaysia in a related company		-	30,245	-	25,410
		-	30,255	-	25,420
Financial assets at fair value through profit or loss					
- Shares quoted in Malaysia in a related company		-	32,871	-	32,871
		-	32,871	-	32,871
Fair value through other comprehensive income	9.1				
- Shares quoted in Malaysia in related companies		**39,296**	-	**37,006**	-
		39,296	-	**37,006**	-
		39,296	63,126	**37,006**	58,291

Note 9.1

At 1 July 2017, the Group and the Company designated the other investments as equity securities at fair value through other comprehensive income, on adoption of MFRS 9. The Group and the Company intend to hold these equity securities for long-term strategic purposes. In the previous financial year, these investments were classified as available for sale and financial assets at fair value through profit or loss respectively.

There were no disposals of these equity securities during the current financial year.

NOTES TO THE FINANCIAL STATEMENTS
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10. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment	**-**	-	**(5,874)**	(8,639)	**(5,874)**	(8,639)
Inventory, trade and other receivables and payables	**17,004**	16,087	**(6,765)**	(6,613)	**10,239**	9,474
Deferred tax assets/(liabilities)	**17,004**	16,087	**(12,639)**	(15,252)	**4,365**	835
Set off of tax	**(3,899)**	(4,837)	**3,899**	4,837	**-**	-
Net deferred tax assets/(liabilities)	**13,105**	11,250	**(8,740)**	(10,415)	**4,365**	835

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group	
	2018	**2017**
	RM'000	**RM'000**
Property, plant and equipment	**-**	69
Inventory, trade and other receivables and payables	**-**	6,733
Unabsorbed capital allowances	**1,767**	37,203
Unabsorbed tax losses	**33,758**	46,366
	35,525	90,371

The unabsorbed capital allowances and unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the subsidiary companies can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

10. DEFERRED TAX ASSETS/(LIABILITIES) *cont'd*

Movements in temporary differences during the financial year are as follows:

	At 1.7.2016 RM'000	Recognised in profit or loss (Note 24) RM'000	Recognised in other comprehensive income (Note 26) RM'000	At 30.6.2017/ 1.7.2017 RM'000	Recognised in profit or loss (Note 24) RM'000	Recognised in other comprehensive income (Note 26) RM'000	At 30.6.2018 RM'000
Group							
Property, plant and equipment	(24,455)	15,816	-	(8,639)	2,765	-	**(5,874)**
Inventory, trade and other receivables and payables	14,848	(5,361)	-	9,487	752	-	**10,239**
Others	(46)	-	33	(13)	(27)	40	**-**
	(9,653)	10,455	33	835	3,490	40	**4,365**

11. TAX CREDIT RECEIVABLE

This represents unutilised reinvestment allowance recognised. The Group considered that it is probable that future taxable profits will be available against which the tax benefit can be utilised.

12. INVENTORIES

	Group 2018 RM'000	Group 2017 RM'000
Raw materials and consumables	**85,229**	86,797
Work-in-progress	**12,697**	12,785
Finished goods	**112,418**	127,402
	210,344	226,984
Recognised in profit or loss:		
Inventories recognised as cost of goods sold	**1,866,247**	1,739,488

NOTES TO THE FINANCIAL STATEMENTS
cont'd

13. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Trade					
Trade receivables		**338,967**	348,024	**-**	-
Amount due from related companies		**3,581**	8,515	**-**	-
Amount due from associated companies		**319**	3	**-**	-
		342,867	356,542	**-**	-
Less: Allowance for impairment losses	31.3(a)	**(15,827)**	(14,599)	**-**	-
		327,040	341,943	**-**	-
Non-trade					
Amount due from related companies	13.1	**167**	165	**-**	-
Amount due from an associated company	13.2	**-**	-	**-**	-
Other receivables and deposits		**29,237**	27,253	**457**	61
Prepayments		**16,906**	14,576	**47**	46
Derivative financial assets					
- Forward exchange contract designated as hedge instruments		**264**	100	**-**	-
		373,614	384,037	**504**	107

Note 13.1

The amounts due from related companies are unsecured, interest free and are repayable on demand.

Note 13.2

The amount due from an associated company, Malaysian Newsprint Industries Sdn Bhd ("MNI") to the Group amounting to RM7.3 million was fully impaired during the previous financial year. The impairment provision was made consequent to MNI being placed under creditors' voluntary winding-up proceedings in accordance with Section 440(1) of the Companies Act 2016 on 1 August 2017. Subsequently on 2 May 2018, HLI together with other shareholders of MNI, entered into a Shares Sale Agreement ("SSA") to sell their entire interest in MNI to Asia Honour (Hong Kong) Limited. The disposal was completed on 17 May 2018 and consequently RM6.7 million of the amount due from MNI was written back to its recoverable amount during the financial year. Refer to Note 23 and Note 33 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deposits with licensed banks	**778,159**	481,819	**517,010**	274,280
Cash and bank balances	**53,181**	55,664	**740**	366
	831,340	537,483	**517,750**	274,646

Included in the cash and cash equivalents are the following balances with a related company arising from normal business transactions:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deposits with licensed banks	**770,508**	468,874	**517,010**	274,280
Cash and bank balances	**22,582**	10,995	**659**	323
	793,090	479,869	**517,669**	274,603

15. SHARE CAPITAL

	Group and Company			
	Number of shares	Amount	Number of shares	Amount
	2018	2018	2017	2017
	'000	RM'000	'000	RM'000
Issued ordinary shares:				
At 1 July	**327,905**	**321,217**	327,905	163,953
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note 15.1)	**-**	**-**	-	157,264
At 30 June	**327,905**	**321,217**	327,905	321,217
		Note 15.2		Note 15.2

The issued share capital of the Company, before adjusting for the treasury shares of 8,432,500 held (see Note 17), is RM163,953,000 comprising 327,905,310 ordinary shares. The treasury shares are held in accordance with the requirement of Section 127 of the Companies Act 2016.

Note 15.1

In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has 24 months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit.

NOTES TO THE FINANCIAL STATEMENTS
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15. SHARE CAPITAL *cont'd*

Note 15.2

Included in the share capital is share premium amounting to RM157,264,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

16. RESERVES

		Group		Company	
	Note	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Reserves consist of:					
Exchange fluctuation reserve	16.1	**20,882**	35,696	**-**	-
Fair value reserve		**-**	21,246	**-**	17,849
Other reserves	16.2	**3,714**	17,603	**3,943**	3,943
Reserve for own shares	16.3	**(17,223)**	(29,518)	**-**	(15,234)
Executive share scheme reserve	16.4	**2,952**	2,476	**-**	-
Hedging reserve	16.5	**183**	35	**-**	-
Retained earnings		**1,191,869**	966,031	**622,684**	398,528
		1,202,377	1,013,569	**626,627**	405,086

Note 16.1

Exchange fluctuation reserve comprises all foreign currency differences arising from the translation of the financial statement of foreign operations.

Note 16.2

Other reserves of the Group represent the Group's interest in the subsidiary and associated companies' capital redemption reserve and gains on disposal of investments in the previous financial years. Other reserves of the Company represent gains on disposal of investments in the previous financial years.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

16. RESERVES *cont'd*

Note 16.3

Reserve for own shares represents Trust Shares purchased by the ESS Trusts as disclosed in Note 2.2 (l)(iii). As at 30 June 2018, the total number of HLI Shares held by the ESS Trusts at the Group was 5,732,000 (2017: 9,849,533) HLI Shares.

At the Group, during the financial year-to-date:

(i) a total of 3,073,533 existing ordinary shares in the Company held in the ESS Trusts were sold to market; and

(ii) a total of 1,044,000 existing ordinary shares in the Company held in the ESS Trusts were transferred to the option holders arising from the exercise of options pursuant to the Executive Share Option Scheme.

As at 30 June 2018, the total number of HLI Shares held by the ESS Trusts at the Company was nil (2017: 5,109,533).

At the Company, during the financial year-to-date:

(i) a total of 3,073,533 existing ordinary shares in the Company held in the ESS Trusts were sold to market; and

(ii) a total of 2,036,000 existing ordinary shares in the Company held in the ESS Trusts were transferred to the ESS Trust of a subsidiary company at market price.

Note 16.4

Executive share scheme reserve represents fair value of the share options and share grants to employees as disclosed in Note 2.2(l)(iii).

Note 16.5

Hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow related to hedged transactions that have not yet occurred.

17. TREASURY SHARES – AT COST

	Group and Company			
	Number of shares	Amount	Number of shares	Amount
	2018	2018	2017	2017
	'000	RM'000	'000	RM'000
At cost:				
Ordinary shares	**8,432**	**63,318**	8,432	63,318

The total number of shares bought back were 8,432,500 ordinary shares which are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act 2016. The rights attached to the treasury shares as to voting, dividends and participation in other distribution and otherwise are suspended.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

18. DEFERRED INCOME

	Group	
	2018	**2017**
	RM'000	**RM'000**
Non-current		
Reinvestment allowance	**3,793**	4,395

The tax benefits arising from reinvestment allowance are being amortised over the estimated useful lives of the underlying plant and equipment for which reinvestment allowances were claimed. During the financial year, a total of RM602,000 (2017: RM601,000) has been amortised and recognised as other operating income in the profit or loss of the Group.

19. LOANS AND BORROWINGS

	Group	
	2018	**2017**
	RM'000	**RM'000**
Current (unsecured)		
Bankers acceptances	27,230	44,579
Revolving credit	43,400	68,550
	70,630	113,129

20. EMPLOYEE BENEFITS

(a) Retirement benefits

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 July	**25,492**	24,042	**342**	341
Provision	**1,552**	1,877	**-**	1
Payments	**(321)**	(427)	**-**	-
At 30 June	**26,723**	25,492	**342**	342

(b) Executive Share Scheme ("ESS")

The Company has, on 28 February 2014, implemented an executive share grant scheme ("ESGS") of up to 10% of the total number of issued ordinary shares (excluding treasury shares) of the Company for the benefit of eligible executives. The ESGS together with the existing executive share option scheme ("ESOS") which was implemented on 8 March 2013 ("Effective Date") by the Company has been renamed as Executive Share Scheme ("ESS"). The ESS will be in force for a period of 10 years from the Effective Date.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

20. EMPLOYEE BENEFITS *cont'd*

(b) Executive Share Scheme ("ESS") *cont'd*

The main features of the ESS are, inter alia, as follows:

(i) Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors of the Group. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options or grants.

(ii) The aggregate number of shares comprised in:

(a) exercised options;
(b) unexercised options;
(c) unexpired option offers and unexpired grant offers pending acceptances by the eligible executives;
(d) outstanding grants;
(e) completed grants; and
(f) exercised options, unexercised options, outstanding grants, completed grants and unexpired offers pending acceptances, under any other executive share schemes established by the Company which are still subsisting,

shall not exceed 10% of the total number of issued ordinary shares (excluding treasury shares) of the Company at any one time ("Maximum Aggregate").

(iii) The option price shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than par value of the shares of the Company.

(iv) The exercise of the options or vesting of shares may, at the absolute discretion of the Board, be satisfied by way of issuance of new ordinary shares in the Company (unless otherwise adjusted); transfer of existing shares, or a combination of both new shares and existing shares.

(v) At any point in time during the existence of the ESS, the allocation to an eligible executive who, either singly or collectively through persons connected with the eligible executive, holds 20% or more of the total number of issued ordinary shares (excluding treasury shares) of the Company, must not exceed 10% of the Maximum Aggregate.

(vi) The option offered to an option holder under the ESOS is exercisable by the option holder or the shares to be vested to a grant holder under the ESGS will be vested to the grant holder only during his employment or directorship with the Group and within the option exercise period of the ESOS, subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESS.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

20. EMPLOYEE BENEFITS *cont'd*

(b) Executive Share Scheme ("ESS") *cont'd*

ESOS

During the previous financial years, conditional incentive share options ("Options") were granted to eligible executives of the following subsidiaries:

- Guocera Holdings Sdn Bhd, a wholly-owned subsidiary of the Company and certain of its subsidiaries ("Guocera Group") granted Options over 3,820,000 ordinary shares in HLI ("HLI Shares") ("Guocera Options") at an exercise price of RM4.23 per share to certain of their eligible executives. Out of the Guocera Options over 2,610,000 HLI Shares which had been vested during the previous financial year, 1,044,000 HLI Shares in the ESS Trust were transferred to the Guocera Option holders arising from the exercise of Guocera Options during the previous financial year and another 1,044,000 HLI Shares in financial year ended 30 June 2018 ("FY 2018"). Guocera Options over 252,000 HLI Shares remain outstanding as at 30 June 2018.

- Hong Leong Yamaha Motor Sdn Bhd, a 69.41% subsidiary of the Company, granted Options over 5,000,000 HLI Shares at the exercise price of RM9.71 per HLI Share ("HLYM Options") to certain eligible executives subject to the achievement of certain performance criteria by the HLYM Option holders over the option performance period. None of the HLYM Options had been vested or exercised as at 30 June 2018. HLYM Options over 4,000,000 HLI Shares remain outstanding as at 30 June 2018.

There were no grant or vesting of Options to eligible executives, directors and chief executive of the Group during FY 2018.

Since the commencement of the ESS, the Group granted a total of 8,820,000 Options, out of which, 2,610,000 Options had been vested and 2,088,000 Options had been exercised, with 4,252,000 Options remain outstanding as at 30 June 2018. The aggregate Options granted to directors/chief executives (including a past director/chief executive) of the Group amounted to 3,850,000 Options, out of which, 1,350,000 Options had been vested and 1,080,000 Options had been exercised. 2,000,000 Options remain outstanding as at 30 June 2018. The actual percentage of total Options granted to directors/senior management (including a past director/senior management) of the Group was 1.21% based on the total number of issued ordinary shares (excluding treasury shares) of the Company as at 30 June 2018.

	Group	
	2018	**2017**
	RM'000	**RM'000**
(i) Value of employee services received for Options		
Share options granted	**2,020**	1,864

NOTES TO THE FINANCIAL STATEMENTS
cont'd

20. EMPLOYEE BENEFITS *cont'd*

(b) Executive Share Scheme ("ESS") *cont'd*

ESOS *cont'd*

	Group 2018	Group 2017
(ii) Options - Weighted average fair value and assumptions		
Weighted average fair value at grant date	**RM2.47**	RM1.83
At grant date:		
Weighted average share price	**RM11.15**	RM8.47
Weighted average exercise price	**RM9.39**	RM8.40
Expected volatility (weighted average volatility)	**25.13%**	28.37%
Option life (expected weighted average life)	**5 years**	5 years
Weighted average expected dividends	**3.08%**	4.38%
Weighted average risk-free interest rate (based on Malaysian government bonds)	**3.59%**	3.81%

ESGS

During the previous financial years, Guocera Group granted and vested a total of 195,000 free HLI Shares ("Grant") to certain eligible executives.

During FY 2018, there were no grant or vesting of HLI Shares to eligible executives, directors and chief executives of the Group.

Since the commencement of the ESS, a total of 195,000 HLI Shares had been granted and vested. None of the HLI Shares granted remain outstanding as at 30 June 2018. There were no grant or vesting of HLI Shares to directors, chief executives and senior management of the Group.

The aggregate allocation of shares to directors and senior management of the Group pursuant to the ESS is at the discretion of the Board provided that such allocation does not exceed the Maximum Aggregate.

During the previous financial year, the Company awarded a total of 1,500,000 ordinary shares in Hume Industries Berhad ("HIB"), free of consideration to an executive of the Group. All the HIB shares had been vested during the previous financial year.

	Group and Company 2018 RM'000	Group and Company 2017 RM'000
(i) Value of employee services received for HIB Shares grant		
HIB Shares Grant	-	170
At 1 July	-	1,253
Provision	-	170
Settlement of liability by exchanging free shares	-	(1,423)
At 30 June	-	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

20. EMPLOYEE BENEFITS *cont'd*

(b) Executive Share Scheme ("ESS") *cont'd*

ESGS *cont'd*

Ceramic Tiles Division *cont'd*

	Group and Company	
	2018	2017
(ii) HIB Shares grant - Weighted average fair value and assumptions		
Weighted average fair value at grant date	-	RM3.17
At reporting date:		
Weighted average share price	-	RM3.10
Weighted average exercise price	-	Nil
Expected volatility (weighted average volatility)	-	22.99%
Grant life (expected weighted average life)	-	3 years
Weighted average expected dividends	-	Nil
Weighted average risk-free interest rate (based on Malaysian government bonds)	-	3.78%

21. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

		Group		Company	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Trade					
Trade payables		**143,921**	133,814	**-**	-
Amount due to related companies		**29,122**	24,010	**-**	-
Amount due to associated companies		**27,907**	25,987	**-**	-
		200,950	183,811	**-**	-
Non-trade					
Amount due to related companies	21.1	**2,993**	51	**-**	-
Amount due to associated companies	21.1	**975**	178	**-**	-
Other payables		**5,569**	11,386	**-**	-
Accrued liabilities		**85,214**	89,222	**1,469**	834
		295,701	284,648	**1,469**	834

Note 21.1

The amounts due to related companies and associated companies are unsecured, interest free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

22. OTHER OPERATING INCOME/(EXPENSE)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other operating expense	**(25,175)**	(185,221)	**(1,147)**	(150,657)
Other operating income	**82,924**	14,314	**53,759**	15,152
	57,749	(170,907)	**52,612**	(135,505)

23. PROFIT BEFORE TAXATION

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before taxation is arrived at after charging/ (crediting):				
Auditors' remuneration				
Statutory audits				
- Company's auditors and its affiliates	**628**	588	**118**	110
- Other auditors	**34**	35	**-**	-
Other services				
- Company's auditors and its affiliates	**68**	63	**68**	63
Dividend income				
- Unquoted associated companies in Malaysia	**-**	-	**(1,800)**	(2,700)
- Unquoted associated company outside Malaysia	**-**	-	**(138,765)**	(149,552)
- Quoted investment in Malaysia	**(706)**	(925)	**(706)**	(881)
- Unquoted subsidiary companies	**-**	-	**(138,746)**	(87,852)
- Short term investments	**(21,820)**	(13,461)	**(11,789)**	(6,931)
Personnel expense				
- Staff salaries and other expenses	**186,806**	189,535	**465**	729
- Contribution to Employees Provident Fund	**17,104**	16,236	**53**	78
- Retirement benefits	**1,552**	1,877	**-**	1
- Share-based payments	**2,020**	1,864	**-**	170
Gain on disposal of property plant and equipment	**(80)**	(722)	**-**	(97)
Loss/(Gain) on foreign exchange				
- Realised	**396**	3,887	**-**	388
- Unrealised	**(1,672)**	1,983	**-**	-
Impairment loss on goodwill	**8,252**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

23. PROFIT BEFORE TAXATION *cont'd*

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/ (crediting): *cont'd*				
Gain on fair value of financial assets at fair value through profit or loss	**-**	(14,372)	**-**	(14,372)
Property, plant and equipment written off	**437**	175	**-**	-
(Write back)/Impairment loss on investment in an associated company	**(53,481)**	164,121	**(53,481)**	149,851
(Write back)/Impairment loss on amount due from an associated company	**(6,703)**	7,349	**-**	-
Rental income	**(158)**	(185)	**-**	-
Rental of plant and equipment	**2,397**	4,194	**-**	-
Rental of premises				
- Related companies	**299**	299	**299**	299
- Others	**9,016**	6,956	**-**	-
Research and development expenditure	**4,067**	3,863	**-**	-

24. TAXATION

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Current taxation				
Current year	**64,691**	52,920	**194**	185
Under/(Over) provision in prior years	**570**	(1,115)	**1**	11
	65,261	51,805	**195**	196
Deferred taxation				
Current year	**(2,894)**	(8,252)	**-**	-
Over provision in prior years	**(596)**	(2,203)	**-**	-
	(3,490)	(10,455)	**-**	-
Utilisation of tax credit receivables arising from unutilised reinvestment allowances				
Prior year	**274**	-	**-**	-
	274	-	**-**	-
Income tax	**62,045**	41,350	**195**	196

NOTES TO THE FINANCIAL STATEMENTS
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24. TAXATION *cont'd*

The reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax at the effective tax rate of the Group and of the Company are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before taxation	**464,407**	192,309	**338,381**	106,739
Taxation at Malaysian statutory tax rates of 24%	**111,458**	46,154	**81,211**	25,617
Difference of tax rates in foreign jurisdictions	**-**	(9)	**-**	-
Non allowable expenses	**4,942**	43,091	**1,853**	34,068
Non-taxable income	**(20,076)**	(3,494)	**(82,870)**	(59,500)
Difference attributable to associated companies	**(29,194)**	(32,074)	**-**	-
Tax incentive	**(5,333)**	(9,000)	**-**	-
	61,797	44,668	**194**	185
Under/(Over) provision in prior years	**248**	(3,318)	**1**	11
	62,045	41,350	**195**	196

25. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the Group's profit attributable to owners of the Company of RM334,603,000 (2017: RM103,087,000) by the weighted average number of ordinary shares outstanding during the financial year of 310,466,000 (2017: 308,949,000) as follows:

	2018	**2017**
	RM'000	**RM'000**
Profit attributable to owners of the Company	**334,603**	103,087

	2018	**2017**
	'000	**'000**
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July	**327,905**	327,905
Less:		
Treasury shares held at 1 July	**(8,432)**	(8,432)
Trust shares held at 1 July	**(9,850)**	(10,990)
	309,623	308,483
Effect of Trust Shares vested	**843**	466
Weighted average number of ordinary shares	**310,466**	308,949

NOTES TO THE FINANCIAL STATEMENTS
cont'd

25. EARNINGS PER ORDINARY SHARE *cont'd*

Basic earnings per ordinary share *cont'd*

	2018	2017
Basic earnings per ordinary share (sen)	**107.77**	33.37

Diluted earnings per ordinary share

The Group's diluted earnings per ordinary share approximates its basic earnings per ordinary share.

26. OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR

Group	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
2018			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- *Loss arising during the year*	**(23,830)**	**-**	**(23,830)**
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- *Reclassification adjustments for the gain included in profit or loss*	**181**	**40**	**221**
Foreign currency translation difference for foreign operations			
- *Loss arising during the year*	**(462)**	**-**	**(462)**
- *Share of other comprehensive income of equity-accounted associates*	**(14,352)**	**-**	**(14,352)**
	(38,423)	**-**	**(38,423)**
2017			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- *Gain arising during the year*	55	(13)	42
- *Reclassification adjustments for the gain included in profit or loss*	(192)	46	(146)
	(137)	33	(104)
Fair value of available-for-sale financial assets			
- *Loss arising during the year*	(11,057)	-	(11,057)
Foreign currency translation difference for foreign operations			
- *Gain arising during the year*	413	-	413
- *Share of other comprehensive income of equity-accounted associates*	10,221	-	10,221
	(560)	33	(527)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

26. OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR *cont'd*

Company	Before tax	Tax benefit/ (expense)	Net of tax
	RM'000	RM'000	RM'000
2018			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Loss arising during the year	**(21,285)**	**-**	**(21,285)**
2017			
Items that are or may be classified subsequent to profit or loss			
Fair value of available-for-sale financial assets			
- Loss arising during the year	(9,138)	-	(9,138)

27. DIVIDENDS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
First interim				
15 sen per share single tier (2017: 15 sen per share single tier)	**46,492**	46,328	**47,460**	47,150
Second interim				
22 sen per share single tier (2017: 20 sen per share single tier)	**69,023**	61,911	**70,284**	62,873
Special interim				
10 sen per share single tier (2017: 10 sen per share single tier)	**31,374**	30,956	**31,947**	31,436
	146,889	139,195	**149,691**	141,459

Dividends received by the ESS Trusts amounting to RM3,263,000 (2017: RM4,568,000) and RM461,000 (2017: RM2,304,000) for the Group and the Company respectively are eliminated against the dividend expense of the Company upon consolidation of the ESS Trusts as disclosed in Note 2.2(l)(iii).

NOTES TO THE FINANCIAL STATEMENTS
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28. OPERATING SEGMENTS

The Board of Directors reviews financial reports at least on a quarterly basis. Operating segments are components in which separate financial information that is available and is evaluated by the Board of Directors on resource allocation and in assessing performance.

The following summary describes the operations in each of the Group's reportable segments:

(a) Consumer products – Manufacture and sale of consumer products comprising motorcycles and ceramic tiles. Distribution of consumer products comprising outboard motor products.

(b) Industrial products – Manufacture and sale of industrial products comprising fibre cement and concrete roofing products.

Segment profit

Performance is measured based on segment profit before interest income, finance costs, share of profit of associated companies and taxation as included in the internal management reports that are reviewed by the Board of Directors.

Segment assets

Segment assets information is not presented to the Board of Directors and hence, no disclosure is made on the segment asset.

Segment liabilities

Segment liabilities information is not presented to the Board of Directors and hence, no disclosure is made on the segment liabilities.

	Consumer Products		**Industrial Products**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Segment profit	**297,743**	212,150	**(12,971)**	9,938	**284,772**	222,088
Included in the measure of segment profit are:						
Revenue from external customers	**1,986,040**	1,725,002	**502,248**	547,266	**2,488,288**	2,272,268
Depreciation and amortisation	**57,967**	56,858	**11,360**	13,176	**69,327**	70,034
Impairment loss on goodwill	**8,252**	-	**-**	-	**8,252**	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

28. OPERATING SEGMENTS *cont'd*

Reconciliation of reportable segment profit

	2018 RM'000	2017 RM'000
Profit		
Total profit for reportable segment	**284,772**	222,088
Unallocated income/(expense)	**59,784**	(160,310)
Interest income	**3,511**	2,628
Finance costs	**(5,303)**	(5,739)
Share of profit in associated companies	**121,643**	133,642
Consolidated profit before taxation	**464,407**	192,309

	2018		2017	
	External revenue RM'000	Depreciation & amortisation RM'000	External revenue RM'000	Depreciation & amortisation RM'000
Total reportable segments	**2,488,288**	**69,327**	2,272,268	70,034
Non-reportable segments	**14,678**	**40**	9,847	64
Consolidated total	**2,502,966**	**69,367**	2,282,115	70,098

Geographical information

Revenue of the Group by geographical locations of the customers is as follows:

	Revenue	
	2018 RM'000	2017 RM'000
Malaysia	**2,212,839**	1,943,817
Australia	**77,691**	86,478
Vietnam	**31,184**	43,010
Thailand	**29,884**	37,492
Singapore	**32,836**	23,484
Taiwan	**19,293**	22,009
Qatar	**4,565**	15,790
The United States of America	**1,193**	8,029
Others	**93,481**	102,006
	2,502,966	2,282,115

NOTES TO THE FINANCIAL STATEMENTS
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28. OPERATING SEGMENTS *cont'd*

Geographical information *cont'd*

Non-current assets (except for investments in associated companies, financial instruments, deferred tax assets and tax credit receivable) of the Group by geographical locations of the assets are as follows:

	Non-current assets	
	2018	**2017**
	RM'000	**RM'000**
Malaysia	**340,981**	381,704
Singapore	**109**	147
	341,090	381,851

Major customer

During the financial year, there were no revenue from one single customer that contributed to more than 10% of the Group's revenue.

29. CAPITAL COMMITMENTS

	Group	
	2018	**2017**
	RM'000	**RM'000**
Property, plant and equipment		
Authorised but not contracted for	**31,338**	32,711
Authorised and contracted for	**6,465**	6,806

30. RELATED PARTIES

30.1 Significant related party transactions

The Group has related party transactions with corporations which are related to the Directors and/or major shareholders of the Company and/or related corporations and/or persons connected with them as follows:

(i) Hong Leong Company (Malaysia) Berhad ("HLCM") is a major shareholder of the Company through Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). YBhg Tan Sri Quek Leng Chan, the father of Ms Quek Sue Yian, who is a Director of the Company, is a major shareholder of the Company, and a Director and a major shareholder of HLMG and HLCM. YBhg Datuk Kwek Leng San is a Director of the Company, HLMG and HLCM, and a shareholder of the Company and HLCM. Mr Kwek Leng Beng is a director of HLCM and a major shareholder of the Company and HLCM. Mr Kwek Leng Kee is a major shareholder of the Company and HLCM. YBhg Tan Sri Quek Leng Chan and YBhg Datuk Kwek Leng San are brothers. HLCM is a person connected with YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Kwek Leng Kee and Mr Kwek Leng Beng;

(ii) Tasek Corporation Berhad ("Tasek") is a person connected with Mr Kwek Leng Kee and Mr Kwek Leng Beng, both major shareholders of the Company. YBhg Tan Sri Quek Leng Chan is a major shareholder of the Company and a past major shareholder of Tasek;

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30. RELATED PARTIES *cont'd*

30.1 Significant related party transactions *cont'd*

(iii) Hong Bee Hardware Company Sdn Bhd ("Hong Bee Hardware") and Hong Bee Motors Sdn Bhd ("Hong Bee Motors") are companies connected with Mr Chuah Chuan Thye, who was a past Director of the Company, and Mr Kwek Leng Kee and Mr Kwek Leng Beng, both major shareholders of the Company; and

(iv) Yamaha Motor Co., Ltd ("YMC") is a major shareholder of a subsidiary of the Company. Yamaha Motor Asia Pte Ltd ("Yamaha Asia"), Yamaha Motor Distribution Singapore Pte Ltd ("YDS"), Thai Yamaha Motor Co, Ltd ("TYM"), P.T. Yamaha Indonesia Motor Manufacturing ("YIM"), Yamaha Motor Taiwan Trading Co Ltd ("YMTT"), Sunward International Inc ("SII"), Yamaha Motor (China) Co Ltd ("YMCC") and Yamaha Motor Vietnam Co., Ltd ("YMVN") are persons connected with YMC (Yamaha Asia, YDS, TYM, YIM, YMTT, SII, YMCC and YMVN are collectively referred to as "YMC Group").

Significant transactions with related parties, other than disclosed in the financial statements, are as follows:

			Group	
			2018	**2017**
Transactions		**Related Party**	**RM'000**	**RM'000**
(a)	Sale of goods and services	Subsidiary and associated companies of HLCM	**8,514**	7,775
		Hong Bee Hardware and Hong Bee Motors	**56,060**	55,557
		YMC Group	**3,246**	3,012
(b)	Purchase of goods and services	Subsidiary and associated companies of HLCM	**159,741**	181,667
		YMC Group	**381,917**	312,198
		Tasek and subsidiary and associated companies of Tasek	**9,479**	4,740
		Associated companies of HLI	**315,008**	271,095
(c)	Rental of properties	Subsidiary and associated companies of HLCM	**1,247**	299
		YMC Group	**148**	148
(d)	Receipt of services	Subsidiary and associated companies of HLCM	**1,125**	963
(e)	Receipt of Group management and/or support services	Subsidiary and associated companies of HLCM	**19,041**	15,476
(f)	Payment for usage of the Hong Leong logo and trade mark	A subsidiary company of HLCM	**103**	103
(g)	Payment of royalties and technical fees for usage of the Yamaha trademark and technical support	YMC	**25,423**	32,312
(h)	Receipt of research and development services	YMC	**3,370**	3,094

NOTES TO THE FINANCIAL STATEMENTS
cont'd

30. RELATED PARTIES *cont'd*

30.1 Significant related party transactions *cont'd*

		Group	
		2018	**2017**
Transaction	**Related Party**	**RM'000**	**RM'000**
(i) Provision of advertising and provisional services	YMC	**190**	125

Significant balances with related parties at the reporting date are disclosed in Note 13 and Note 21.

The above transactions were based on terms which have been established on negotiated basis consistent with the usual business practices and policies of the Group and of the Company.

30.2 Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Company.

The fees, remuneration and other benefits of the Directors of the Company are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Executive Directors				
Remuneration and other benefits	**-**	-	**-**	-
Non-Executive Directors				
- Fees*	**575**	612	**505**	542

* This includes fees for a Director who has been assigned in favour of the companies where the Director is appointed.

NOTES TO THE FINANCIAL STATEMENTS
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31. FINANCIAL INSTRUMENTS

31.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised under MFRS 9 as follows:

(a) Fair value through other comprehensive income ("FVOCI"):
- Equity instrument designated upon initial recognition ("EIDUIR");

(b) Financial assets measured at amortised cost ("FAAC"); and
(c) Financial liabilities measured at amortised cost ("FLAC").

	Carrying amount RM'000	FAAC/ FLAC RM'000	FVOCI- EIDUIR RM'000	Derivatives used for hedging RM'000
2018				
Financial assets				
Group				
Other investments	39,296	-	39,296	-
Trade and other receivables, including derivatives (excluding prepayments)	356,708	356,444	-	264
Cash and cash equivalents	831,340	831,340	-	-
	1,227,344	1,187,784	39,296	264
Company				
Other investments	37,006	-	37,006	-
Trade and other receivables, including derivatives (excluding prepayments)	457	457	-	-
Cash and cash equivalents	517,750	517,750	-	-
	555,213	518,207	37,006	-
Financial liabilities				
Group				
Loans and borrowings	70,630	70,630	-	-
Trade and other payables	295,701	295,701	-	-
	366,331	366,331	-	-
Company				
Trade and other payables	1,469	1,469	-	-
	1,469	1,469	-	-

NOTES TO THE FINANCIAL STATEMENTS
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31. FINANCIAL INSTRUMENTS *cont'd*

31.1 Categories of financial instruments *cont'd*

The table below provides an analysis of financial instruments categorised under MFRS 139 as follows:

(a) Loans and receivables ("L&R")
(b) Fair value through profit or loss ("FVTPL")
- Designated upon initial recognition ("DUIR");
(c) Available-for-sale financial assets ("AFS"); and
(d) Financial liabilities measured at amortised cost ("FL").

2017	Carrying amount RM'000	L&R/ FL RM'000	FVTPL- DUIR RM'000	AFS RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	63,126	-	32,871	30,255	-
Trade and other receivables, including derivatives (excluding prepayments)	369,461	369,361	-	-	100
Cash and cash equivalents	537,483	537,483	-	-	-
	970,070	906,844	32,871	30,255	100
Company					
Other investments	58,291	-	32,871	25,420	-
Trade and other receivables, including derivatives (excluding prepayments)	61	61	-	-	-
Cash and cash equivalents	274,646	274,646	-	-	-
	332,998	274,707	32,871	25,420	-
Financial liabilities					
Group					
Loans and borrowings	113,129	113,129	-	-	-
Trade and other payables	284,648	284,648	-	-	-
	397,777	397,777	-	-	-
Company					
Trade and other payables	834	834	-	-	-
	834	834	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.2 Net gains and losses arising from financial instruments

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net gains/(losses) on:				
Financial assets carried at amortised cost	**26,648**	10,238	**11,418**	6,937
Fair value through profit or loss:				
Gain on fair value of financial assets at fair value through profit or loss	**-**	14,372	**-**	14,372
Write back of impairment on investment in an associated company	**53,481**	-	**53,481**	-
Others	**57**	(96)	**-**	-
Fair value through other comprehensive income:				
Fair value loss on equity investments	**(23,830)**	-	**(21,285)**	-
Dividend income	**706**	924	**706**	881
Available-for-sale financial assets:				
Loss recognised in other comprehensive income	**-**	(11,057)	**-**	(9,138)
Other liabilities	**(5,303)**	(5,739)	**-**	-
	58,462	8,642	**44,320**	13,052

31.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and bank balances. The Company's exposure to credit risk arises principally from bank balances.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

NOTES TO THE FINANCIAL STATEMENTS
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31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

Exposure to credit risk and credit quality

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables net of impairment loss as at the end of the reporting period by geographic region was:

	Group	
	2018	**2017**
	RM'000	**RM'000**
Domestic	**318,653**	322,440
Asia	**4,701**	6,233
Europe	**324**	285
Others	**3,362**	12,985
	327,040	341,943

Expected credit loss ("ECL") assessment for trade receivables as at 1 July 2017 and 30 June 2018

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of insignificant balances outstanding.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its ECL is assessed individually by considering historical payment trends and financial strength of the receivable.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

Expected credit loss ("ECL") assessment for trade receivables as at 1 July 2017 and 30 June 2018 *cont'd*

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June 2018.

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
Not past due	262,172	(2,157)	260,015
Past due 1 - 30 days	46,982	(559)	46,423
Past due 31 – 60 days	18,998	(1,802)	17,196
Past due 61 – 90 days	4,304	(2,201)	2,103
Past due 91 – 120 days	2,593	(2,438)	155
Past due more than 120 days	7,818	(6,670)	1,148
	342,867	(15,827)	327,040

Comparative under MFRS 139 Financial Instruments

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the aging of trade receivables that were past due but not impaired as at 1 July 2017 is as follows:

Group	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
2017				
Not past due	269,535	(2,572)	-	266,963
Past due 1 - 30 days	48,294	(584)	-	47,710
Past due 31 - 120 days	26,432	(2,000)	(2,479)	21,953
Past due more than 120 days	12,281	(4,159)	(2,805)	5,317
	356,542	(9,315)	(5,284)	341,943

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

Expected credit loss ("ECL") assessment for trade receivables as at 1 July 2017 and 30 June 2018 *cont'd*

Movements in the allowance for impairment in respect of trade receivables

On the date of initial application of MFRS 9, there was no adjustment on the ending balance of the allowance for impairment reported under the previous MFRS 139 to derive the opening balance allowance for impairment loss determined in accordance with MFRS 9.

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	2018	2017	
		Individual impairment	Collective impairment
Group	RM'000	RM'000	RM'000
Balance at 1 July per MFRS 9	14,599	9,315	5,284
Net measurement of loss allowance	1,228	-	-
Balance at 30 June	15,827	9,315	5,284

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the trade receivable directly.

Comparative amounts for 2017 represent the allowance account for impairment losses under MFRS 139, *Financial Instruments*.

Expected credit loss of other receivables

Expected credit loss of other receivable is determined individually after considering the financial strength of the other receivable. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

Intercompany balances

Risk management objectives, policies and processes for managing the risk

The Group or the Company provide unsecured loans and advances to subsidiaries and associates. The Group or the Company monitor the results of the subsidiaries and associates regularly.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Intercompany balances *cont'd*

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Cash and cash equivalents

Risk management objectives, policies and processes for managing the risk

The Group's and the Company's short term deposits are placed as fixed rates investments and upon which management endeavours to obtain the best rate available in the market.

Cash and cash equivalents of the Group and the Company are placed with licensed financial institutions which are mainly placed with a related company licensed financial institutions as disclosed in Note 14 to the financial statements.

Exposure to credit risk and credit quality

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

The Group and the Company consider that their cash and cash equivalents have low credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arise principally from their various payables, loans and borrowings, while the Company's exposure to liquidity risk arise from various payables.

The Group and the Company actively manage their operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Group and the Company maintain sufficient levels of cash to meet their working capital requirements.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(b) Liquidity risk *cont'd*

Maturity analysis

The table below summarises the maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount	Contractual interest rate	Contractual cash flows	Under 1 year	1 – 5 years
	RM'000	%	RM'000	RM'000	RM'000
Group					
2018					
Non-derivative financial liabilities					
Trade and other payables	**295,701**	**-**	**295,701**	**295,701**	**-**
Loans and borrowings	**70,630**	**3.9%-4.8%**	**70,954**	**70,954**	**-**
	366,331		**366,655**	**366,655**	**-**
2017					
Non-derivative financial liabilities					
Trade and other payables	284,648	-	284,648	284,648	-
Loans and borrowings	113,129	3.1%-4.5%	113,356	113,356	-
	397,777		398,004	398,004	-
Company					
2018					
Non-derivative financial liabilities					
Trade and other payables	**1,469**	**-**	**1,469**	**1,469**	**-**
2017					
Non-derivative financial liabilities					
Trade and other payables	834	-	834	834	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group and the Company's financial position or cash flows.

(i) Currency risk

The Group and the Company are exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currency giving rise to this risk is primarily U.S. Dollar ("USD").

Risk management objectives, policies and processes for managing the risk

Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts, on a case by case basis.

Exposure to foreign currency risk

The Group and the Company's exposure to foreign currency (a currency other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period is not material.

Currency risk sensitivity analysis

The exposure to currency risk is not material and hence, sensitivity analysis is not presented.

(ii) Interest rate risk

Risk management objectives, policies and processes for managing the risk

The Group and the Company manage their interest rate exposure by maintaining available lines of fixed and floating rate borrowings. Investments in deposits with licensed banks are not significantly exposed to interest rate risk.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Fixed rate instruments				
Deposits with licensed banks	**778,159**	481,819	**517,010**	274,280
Loans and borrowings	**(27,230)**	(44,579)	**-**	-
	750,929	437,240	**517,010**	274,280
Floating rate instruments				
Loans and borrowings	**(43,400)**	(68,550)	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.3 Financial risk management *cont'd*

(c) Market risk *cont'd*

(ii) Interest rate risk *cont'd*

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for floating rate instruments

An increase/(decrease) of 50 basis points ("bp") in interest rates at the end of the reporting period would have (decreased)/increased the profit before tax and equity of the Group by RM217,000 (2017: RM343,000). This analysis assumes that all other variables remain constant.

(iii) Other price risk

Equity price risk arises from the Group's and the Company's investment in equity securities.

Risk management objectives, policies and processes for managing securities

Management of the Group monitors the equity investments on an individual basis and are approved by the Risk Management Committee of the Group.

Equity price risk sensitivity analysis

This analysis assumes that all other variables remain constant and the Group's equity investments moved in correlation with FTSE Bursa Malaysia KLCI ("FBMKLCI").

A 10% (2017: 10%) strengthening in FBMKLCI at the end of the reporting period would have increased profit before taxation by RM Nil (2017: RM3,287,000) and equity (other comprehensive income) by RM3,929,700 (2017: RM3,024,500) respectively. A 10% (2017: 10%) weakening in FBMKLCI would have had equal but opposite effect on profit before taxation and equity, respectively.

31.4 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate fair values due to the relatively short term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

31. FINANCIAL INSTRUMENTS *cont'd*

31.4 Fair value information *cont'd*

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group										
2018										
Financial assets										
Investment in quoted and unquoted shares	**39,296**	**-**	**-**	**39,296**	**-**	**-**	**-**	**-**	**39,296**	**39,296**
Forward foreign exchange contracts	**-**	**264**	**-**	**264**	**-**	**-**	**-**	**-**	**264**	**264**
2017										
Financial assets										
Investment in quoted and unquoted shares	63,116	-	-	63,116	-	-	-	-	63,116	63,116
Forward foreign exchange contracts	-	100	-	100	-	-	-	-	100	100
Company										
2018										
Financial assets										
Investment in quoted and unquoted shares	**37,006**	**-**	**-**	**37,006**	**-**	**-**	**-**	**-**	**37,006**	**37,006**
2017										
Financial assets										
Investment in quoted and unquoted shares	58,281	-	-	58,281	-	-	-	-	58,281	58,281

Derivatives

The fair value of derivatives are obtained from observable market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

32. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio.

The debt-to-equity ratios at 30 June 2018 and 30 June 2017 were as follows:-

	Group	
	2018	**2017**
	RM'000	**RM'000**
Total loans and borrowings	**70,630**	113,129
Less: Cash and cash equivalents	**(831,340)**	(537,483)
Net cash	**(760,710)**	(424,354)
Total equity	**1,584,772**	1,383,463
Debt-to-equity ratios	**Nil**	Nil

33. SIGNIFICANT EVENT

Malaysian Newsprint Industries Sdn Bhd ("MNI"), a 33.65% owned associated company of the Company, had on 1 August 2017, appointed Mr Lim San Peen of PricewaterhouseCoopers Advisory Services Sdn Bhd as the interim liquidator of MNI to commence the creditors' voluntary winding-up proceedings of MNI in accordance with Section 440(1) of the Companies Act 2016. On 21 August 2017, the shareholders and creditors of MNI have passed a special resolution appointing Mr Lim San Peen as liquidator of MNI ("Liquidator").

On 2 May 2018, with the consent of the Liquidator, HLI together with other shareholders of MNI, entered into a Shares Sale Agreement ("SSA") to sell their entire interests in MNI to Asia Honour (Hong Kong) Limited. The SSA was completed on 17 May 2018 and consequently a total of RM60.2 million of the Group's investment in and amount due from MNI were written back to their recoverable amounts during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

34. CHANGES IN ACCOUNTING POLICY

Classification of financial assets and financial liabilities upon early adoption of MFRS 9

The following table shows the initial measurement under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group and Company's financial assets and financial liabilities as at 1 July 2017 based on the business model assessment done.

Group

Notes	Financial assets	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
9	Quoted and unquoted shares	Available-for-sale	FVOCI-EIDUIR	30,255	30,255
9	Quoted shares	Fair value through profit or loss – designated upon initial recognition ("FVTPL-DUIR")	FVOCI-EIDUIR	32,871	32,871
13	Trade and other receivables	Loans and receivables	Amortised cost	369,361	369,361
13	Derivative financial assets – forward foreign exchange contracts	Cash flow hedge	Cash flow hedge	100	100
14	Cash and cash equivalents	Loans and receivables	Amortised cost	537,483	537,483
	Total financial assets			970,070	970,070

Company

Notes	Financial assets	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
9	Quoted and unquoted shares	Available-for-sale	FVOCI-EIDUIR	25,420	25,420
9	Quoted shares	FVTPL	FVOCI-EIDUIR	32,871	32,871
13	Trade and other receivables	Loans and receivables	Amortised cost	61	61
14	Cash and cash equivalents	Loans and receivables	Amortised cost	274,646	274,646
	Total financial assets			332,998	332,998

NOTES TO THE FINANCIAL STATEMENTS
cont'd

34. CHANGES IN ACCOUNTING POLICY *cont'd*

Classification of financial assets and financial liabilities upon early adoption of MFRS 9 *cont'd*

Group

Notes	Financial liabilities	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
19	Loans and borrowings	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	113,129	113,129
21	Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	284,648	284,648
	Total financial liabilities			397,777	397,777

Company

Notes	Financial liabilities	Classification under MFRS 139	New classification under MFRS 9	Carrying amount under MFRS 139 RM'000	Carrying amount under MFRS 9 RM'000
19	Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	834	834
	Total financial liabilities			834	834

(a) Reclassification from available-for-sale and FVTPL to FVOCI-EIDUIR

Investments in quoted and unquoted shares are investments that the Group and the Company intend to hold for long term strategic purposes. As permitted by MFRS 9, the Group and the Company have designated these investments as measured at FVOCI at the date of initial application.

(b) Reclassification from loans and receivables to amortised cost

Trade and other receivables are reclassified from loan and receivables to amortised cost under MFRS 9. There are no changes in the allowance for impairment of trade receivables that was recognised in opening retained earnings at 1 July 2017.

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 51 to 130 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2018 and of their financial performance and cash flows for the financial year then ended.

On behalf of the Board,

Datuk Kwek Leng San

Peter Ho Kok Wai

28 August 2018

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Goh Eng Tatt, the person primarily responsible for the financial management of Hong Leong Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 51 to 130 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, Goh Eng Tatt (MIA Number: 17152) at Kuala Lumpur in the Federal Territory on 28 August 2018.

Goh Eng Tatt

Before me

Mohan A.S. Maniam
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Hong Leong Industries Berhad, which comprise the statements of financial position as at 30 June 2018 of the Group and of the Company, and the statements of profit or loss and other 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 130.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2018, and of their financial performance and their 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 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Valuation of inventories</th></tr>
<tr><td colspan="2">Refer to the accounting policy on Note 2.1 Basis of preparation – use of estimates and judgements, Note 2.2(h) – Inventories and Note 12 – Inventories, to the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Inventories are carried at the lower of cost and net realisable value. Inventories that are consumer products, especially for ceramic tiles are subject to risk of obsolescence because of changes in design to meet trends and consumer demands.

The management applied significant judgement to identify and write down slow moving and obsolete inventories to their net realisable values.

This is one of the key audit matters because ceramic tile inventories represent 47% of the Group's inventory balance and it required significant judgement by us to evaluate management's assessment.</td><td>Our audit procedures, amongst others include:

- Challenged management's process in identifying inventories that were having risk of obsolescence and also considered whether there were elements of biasness in the process;

- Challenged management's process in determining the net realisable value of these inventories by considering whether the process factors sufficient latest and reliable information of net realisable value; and

- Selected sample items of inventories and tested them against sales price close to the year-end to determine these are stated at the lower of cost and net realisable value.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

<table>
<tr><td colspan="2">Write back of investment in and amount due from Malaysian Newsprint Industries Sdn Bhd ("MNI") to their recoverable values</td></tr>
<tr><td colspan="2">Refer to the accounting policy on Note 2.2(c) – Financial instruments, Note 7 – Investments in associated companies, Note 13.2 – Amount due from an associated company, Note 23 – Profit before taxation and Note 33 – Significant event, to the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In the previous financial year, the Group and the Company had accounted for an impairment loss of RM171.4 million and RM149.8 million respectively on the investment in and amount due from MNI.

During the year, in the process of liquidating MNI, the Group disposed its entire equity interests in MNI that resulted in a material write back to their recoverable amounts.

This is one of the key audit matters because it is a material transaction that resulted in a significant other income recognised.</td><td>Our audit procedures, amongst others include:

- Read the terms of the share sales agreement;

- Checked the accuracy of the amount of the gain arising from the transaction by considering whether all relevant inputs are appropriately supported and reflected the terms of the agreement; and

- Assessed the adequacy of the Group's and the Company's disclosures in the financial statements.</td></tr>
<tr><td colspan="2">Early adoption of MFRS 9, Financial Instruments</td></tr>
<tr><td colspan="2">Refer to the accounting policy on Note 2.1 Basis of preparation – use of estimates and judgements, Note 2.2(c) Financial instruments, Note 2.2(j)(i) – Impairment of financial assets, Note 31 – Financial Instruments, and Note 34 – Changes in accounting policy, to the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group and the Company early adopted MFRS 9 in the current financial year ended 30 June 2018. MFRS 9 requires the Group and the Company to change the accounting policies to account for financial instruments. New judgements were applied to classify financial assets and to measure impairment loss using the expected credit loss model. In addition, additional disclosures were made to comply with the requirements of MFRS 7, Financial Instruments: Disclosures.

This is one of the key audit matters because of the complexities and subjective judgements surrounding classification and measurement which increased the risks of material misstatements.</td><td>Our audit procedures, amongst others include:

- Evaluated the appropriateness of the accounting policies adopted based on the requirements of MFRS 9;

- Evaluated the appropriateness of the classification and measurement of financial assets of the Group and the Company;

- Challenged the adequacy of the impairment losses recorded by the Group and the Company by comparing them with our expectation pursuant to the new standard; and

- Assessed the disclosures made by comparing them with the requirements of MFRS 7.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Impairment assessment of cost of investment in subsidiaries – Company	
Refer to the accounting policy on Note 2.1 Basis of preparation – use of estimates and judgements, Note 2.2(j)(ii) – Impairment of other assets and Note 6 – Investments in subsidiary companies, to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
As disclosed in Note 6 to the financial statements, the Company has material interests in subsidiaries. It is approximately 33% of the total assets of the Company. Where there are indicators of impairment, the Company will perform impairment tests which will require the Company to estimate their recoverable amounts. This is one of the key audit matters because it required assessments of indicator of impairments and recoverable amounts determination involved significant judgement.	Our audit procedures, amongst others include: - In the assessment of impairment indicators, we challenged whether internal and external factors were considered; - Assessed the impairment test model by comparing it with the requirements of the relevant accounting standard; - Evaluated the key assumptions adopted, in particular, those relating to sales growth, gross profit margin and terminal growth rates, to determine reasonableness by comparing them with historical performance, and internal and external sources of information; and - Challenged the discount rate applied in the model by comparing it with weighted average cost of capital of other entities in the similar industry.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, Chairman's Statement, Management Discussion and Analysis and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Auditors' Responsibilities for the Audit of the Financial Statements *cont'd*

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 3 to the financial statements.

OTHER MATTER

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

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Thong Foo Vung
Approval Number: 02867/08/2020 J
Chartered Accountant

Petaling Jaya,

Date: 28 August 2018

OTHER INFORMATION

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2018

Location	Tenure	Existing Use	Year of last Revaluation/ Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2018 (RM'000)
Lot 57 Persiaran Bukit Rahman Putra 3 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Office and factory building	1994	1,577,316	22	49,226
5 1/4 miles Jalan Kapar Rantau Panjang 42100 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1982	39,463	36	695
5 1/2 miles Jalan Meru 41050 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1991	871,600	27-37	21,881
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	261,633	33	5,358
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	1,061,775	28	4,371
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	747,108	25	14,736
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	256,187	9	36,219
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	1985	907,790	23	12,584
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	2007	418,447	22	8,933
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Vacant industrial land	2014	43,560	-	793
Lot 312490, 127221, 127222 Kawasan Perusahaan Kanthan, Chemor, Perak Darul Ridzuan	Freehold	Industrial land with office and factory buildings	1990	3,159,821	27	9,637
No. 12, Jalan Tandang, Petaling Jaya, Selangor Darul Ehsan	Leasehold 99 years expiring 2066	Industrial land with office and factory buildings	2000	319,730	58	18,221

OTHER INFORMATION
cont'd

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2018 *cont'd*

Location	Tenure	Existing Use	Year of last Revaluation/ Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2018 (RM'000)
Lot 52, Kawasan Perusahaan Bakar Arang, Sungei Petani, Kedah Darul Aman	Leasehold 99 years expiring 2081	Industrial land with office, store and factory buildings	2000	510,000	36	2,749
Lot 353, Kawasan Perindustrian Peringkat 2, Bandar Tenggara Kulai, Johor	Leasehold 60 years expiring 2056	Industrial land with office, store and factory buildings	2002	189,704	16	1,551
PT 30238 Mukim Setul, Nilai Industrial Estate Negeri Sembilan Darul Khusus	Leasehold 60 years expiring 2043	Industrial land with vacant office and factory buildings	1983	545,934	21	383
P.T.531 to 534 & P.T.552 to 560 Taman Panchor Industrial Area, Negeri Sembilan Darul Khusus	Leasehold 99 years expiring 2096	Vacant land	1998	1,117,627	-	4,000

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018

Class of Shares : Ordinary shares
Voting Rights : 1 vote for each share held

Distribution Schedule Of Shareholders As At 30 August 2018

Size of Holdings	No. of Shareholders	%	No. of Shares*	%
Less than 100	486	14.91	9,877	0.00
100 – 1,000	994	30.49	701,222	0.22
1,001 – 10,000	1,301	39.91	5,000,265	1.57
10,001 – 100,000	382	11.72	12,152,658	3.80
100,001 – less than 5% of issued shares	96	2.94	63,391,753	19.84
5% and above of issued shares	1	0.03	238,217,035	74.57
	3,260	100.00	319,472,810	100.00

* *Excluding 8,432,500 shares bought back and retained by the Company as treasury shares.*

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018 *cont'd*

List Of Thirty Largest Shareholders As At 30 August 2018

	Name of Shareholders	No. of Shares	%
1.	Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Manufacturing Group Sdn Bhd	238,217,035	74.57
2.	AmanahRaya Trustees Berhad - Public Smallcap Fund	5,349,533	1.67
3.	Assets Nominees (Tempatan) Sdn Bhd - Exempt AN for Hong Leong Industries Berhad (HLYM-ESOS)	4,000,000	1.25
4.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	3,886,800	1.22
5.	AmanahRaya Trustees Berhad - Public Strategic Smallcap Fund	3,027,500	0.95
6.	Woo Khai Yoon	2,754,100	0.86
7.	Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	2,512,000	0.79
8.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Eastspring Investments Islamic Small-Cap Fund	2,334,700	0.73
9.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Eastspring Investments Small-Cap Fund	2,064,900	0.65
10.	Hong Bee Hardware Company, Sdn. Berhad	2,019,333	0.63
11.	Grandeur Holdings Sdn Bhd	1,900,000	0.59
12.	Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for Union Bancaire Privee, UBP SA, Hong Kong Branch	1,800,000	0.56
13.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (AFF HWG6939-403)	1,613,833	0.51
14.	Assets Nominees (Tempatan) Sdn Bhd - Exempt AN for Hong Leong Industries Berhad (GHSB-ESOS)	1,508,000	0.47
15.	Cartaban Nominees (Tempatan) Sdn Bhd - PAMB for Prulink Equity Income Fund	1,416,500	0.44

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018 *cont'd*

List Of Thirty Largest Shareholders As At 30 August 2018 *cont'd*

	Name of Shareholders	No. of Shares	%
16.	Hong Leong Assurance Berhad - As Beneficial Owner (Life Par)	1,371,210	0.43
17.	AmanahRaya Trustees Berhad - PB Smallcap Growth Fund	1,061,600	0.33
18.	AmanahRaya Trustees Berhad - Public Index Fund	998,900	0.31
19.	AmanahRaya Trustees Berhad - PMB Shariah Aggressive Fund	952,300	0.30
20.	AmanahRaya Trustees Berhad - PB Islamic Equity Fund	848,500	0.27
21.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Amundi)	820,000	0.26
22.	Tung Seok Hooi	700,000	0.22
23.	Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (Diperbadankan) (I-VCap)	686,966	0.21
24.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Eastspring Investments Equity Income Fund	675,600	0.21
25.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for DFA Emerging Markets Small Cap Series	622,600	0.19
26.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Dimensional Emerging Markets Value Fund	581,000	0.18
27.	AmanahRaya Trustees Berhad - Affin Hwang Growth Fund	572,400	0.18
28.	Wong Tuck Meng	560,000	0.18
29.	AmanahRaya Trustees Berhad - Public Select Treasures Equity Fund	539,400	0.17
30.	CIMB Group Nominees (Tempatan) Sdn Bhd - Exempt AN for Petroliam Nasional Berhad (Affin)	538,800	0.17
		285,933,510	89.50

OTHER INFORMATION
cont'd

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2018 *cont'd*

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2018 are as follows:

		Direct Interest		Indirect Interest	
		No. of Shares	%	No. of Shares	%
1.	Hong Leong Manufacturing Group Sdn Bhd	238,217,035	74.57	-	-
2.	Hong Leong Company (Malaysia) Berhad ("HLCM")	-	-	240,153,670#	75.17#
3.	YBhg Tan Sri Quek Leng Chan	-	-	242,700,470**	75.97**
4.	HL Holdings Sdn Bhd	-	-	240,153,670*	75.17*
5.	Hong Realty (Private) Limited	-	-	242,173,003^	75.80^
6.	Hong Leong Investment Holdings Pte. Ltd.	-	-	242,173,003^	75.80^
7.	Kwek Holdings Pte Ltd	-	-	242,173,003^	75.80^
8.	Mr Kwek Leng Beng	-	-	242,173,003^	75.80^
9.	Mr Kwek Leng Kee	-	-	242,173,003^	75.80^
10.	Davos Investment Holdings Private Limited	-	-	242,173,003^	75.80^

Notes:

\# *Held through subsidiaries.*
* *Held through HLCM.*
** *Held through HLCM and companies in which YBhg Tan Sri Quek Leng Chan and his children have interests.*
^ *Held through HLCM and a company in which the substantial shareholder has interest.*

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2018

Subsequent to the financial year end, there was no change, as at 30 August 2018, to the Directors' interests in the ordinary shares of the Company and/or its related corporations appearing in the Directors' Report on pages 47 to 48 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016.

4. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors, chief executives and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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HongLeong Industries Berhad (5486-P)
A Member of the Hong Leong Group

FORM OF PROXY

I/We ____

NRIC/Passport/Company No. ______________________________

of ____

being a member of **HONG LEONG INDUSTRIES BERHAD** ("the Company"), hereby appoint ______________________

____

NRIC/Passport No. ______________________________

of ____

____

or failing him/her ______________________________

NRIC/Passport No. ______________________________

of ____

____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fifty-fifth Annual General Meeting of the Company to be held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Thursday, 25 October 2018 at 11.00 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

	RESOLUTIONS	FOR	AGAINST
1	To approve the payment of Director fees and Directors' Other Benefits		
2	To re-elect YBhg Datuk Kwek Leng San as a Director		
3	To re-elect Ms Quek Sue Yian as a Director		
4	To re-elect YBhg Datuk Noharuddin bin Nordin @ Harun as a Director		
5	To re-appoint Messrs KPMG PLT as Auditors and to authorise the Directors to fix their remuneration		
	Special Business		
6	To approve the ordinary resolution on authority to Directors to allot shares		
7	To approve the ordinary resolution on the proposed renewal of and new shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
8	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Bee Hardware Company, Sdn Berhad and Hong Bee Motors Sdn Bhd		
9	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Yamaha Motor Co., Ltd and its subsidiaries		
10	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Investment Holdings Pte. Ltd. ("HLIH") and persons connected with HLIH		

Dated this __________ day of ______________________ 2018

______________________ Number of shares held

______________________ Signature(s) of Member

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 17 October 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
2. *If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.*
3. *If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.*
4. *A proxy may but need not be a member of the Company.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
6. *Where two (2) or more proxies are appointed, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).*
7. *In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.*
8. *All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 31, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.*
9. *In the event two (2) or more proxies are appointed, please fill in the ensuing section:*

Name of proxies	*% of shareholdings to be represented*

10. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the notice of the Fifty-fifth Annual General Meeting will be put to a vote by way of a poll.*

Fold this flap for sealing

Then fold here

Affix
Stamp

The Company Secretaries
Hong Leong Industries Berhad (5486-P)
Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Malaysia

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Hong Leong Industries Berhad (5486-P)

Level 31, Menara Hong Leong
No.6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9200
Fax : 03-2080 9238

www.hli.com.my