Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

Financial statements for the financial year ended 30 June 2019

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

Directors' report for the financial year ended 30 June 2019

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 2019.

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.

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 and 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	327,085	296,801
Non-controlling interests	82,212	-
	409,297	296,801

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 27 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 2019 on 13 December 2018;

(ii) a second interim single tier dividend of 25.0 sen per share amounting to RM79,868,203 in respect of the financial year ended 30 June 2019 on 28 June 2019; and

(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 2019 on 28 June 2019.

Company No. 5486-P

Dividends (continued)

The Directors do not recommend a final dividend for the financial year ended 30 June 2019.

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

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

Directors' interests

The Director 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 2019 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, is as follows:

		Number of ordinary shares/ordinary shares to be issued arising from the conversion of redeemable convertible unsecured loan stocks*			
	Nominal value per share	**At 1.7.2018**	**Acquired**	**Sold**	**At 30.6.2019**
Shareholdings in which Director has 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
	(1)	-	2,017,142*	-	2,017,142*

Company No. 5486-P

Directors' interests (continued)

	Nominal value per share	Number of ordinary shares/ordinary shares to be issued arising from the conversion of redeemable convertible unsecured loan stocks* At 1.7.2018	Acquired	Sold	At 30.6.2019
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[(2)]	-	-	10,661[(2)]

Legend:
(1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016.
(2) 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, remunerations, other benefits and benefit-in-kind included in the aggregate amount of remuneration received or due and receivable by Directors as shown in Note 31.2 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.

Indemnity and insurance costs

During the financial year, Directors and Officers of Hong Leong Manufacturing Group Sdn Bhd, together with its subsidiaries (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 is 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 RM11,335.

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, the financial performance of the Group and of the Company for the financial year ended 30 June 2019 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.

Auditors

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

The auditors’ remuneration is disclosed in Note 24 to the financial statements.

On behalf of the Board,

Datuk Kwek Leng San

Peter Ho Kok Wai

29 August 2019

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

Statements of financial position as at 30 June 2019

		Group		Company	
	Note	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Assets					
Property, plant and equipment	4	296,017	322,108	6	18
Investment property	5	4,000	4,000	-	-
Investments in subsidiary companies	6	-	-	293,766	293,746
Investments in associated companies	7	163,788	179,510	26,898	26,898
Intangible assets	8	18,225	14,982	-	-
Other investments	9	34,026	39,296	30,541	37,006
Deferred tax assets	10	10,929	13,105	-	-
Tax credit receivable	11	5,370	5,370	-	-
Total non-current assets		532,355	578,371	351,211	357,668
Inventories	12	223,203	210,344	-	-
Trade and other receivables, including derivatives	13	370,704	373,614	166	504
Current tax assets		12,841	19,835	2,674	10,415
Cash and cash equivalents	14	1,039,941	831,340	662,076	517,750
Total current assets		1,646,689	1,435,133	664,916	528,669
Total assets		2,179,044	2,013,504	1,016,127	886,337

Company No. 5486-P

Statements of financial position as at 30 June 2019 (continued)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Equity					
Share capital	15	321,217	321,217	321,217	321,217
Reserves	16	1,369,354	1,202,377	757,292	626,627
Treasury shares - at cost	17	(63,318)	(63,318)	(63,318)	(63,318)
Total equity attributable to owners of the Company		1,627,253	1,460,276	1,015,191	884,526
Non-controlling interests		136,062	124,496	-	-
Total equity		1,763,315	1,584,772	1,015,191	884,526
Liabilities					
Deferred tax liabilities	10	9,034	8,740	-	-
Deferred income	18	3,191	3,793	-	-
Employee benefits	20(a)	23,913	26,723	142	342
Total non-current liabilities		36,138	39,256	142	342
Loans and borrowings	19	38,730	70,630	-	-
Trade and other payables, including derivatives	21	309,155	295,701	794	1,469
Tax payable		31,706	23,145	-	-
Total current liabilities		379,591	389,476	794	1,469
Total liabilities		415,729	428,732	936	1,811
Total equity and liabilities		2,179,044	2,013,504	1,016,127	886,337

The notes on pages 17 to 103 are an integral part of these financial statements.

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

Statements of profit or loss and other comprehensive income for the year ended 30 June 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Revenue					
Sales of goods and services	22	2,727,687	2,488,246	-	-
Dividend income		22,695	14,720	302,482	291,806
		2,750,382	2,502,966	302,482	291,806
Cost of sales		(2,174,250)	(2,004,854)	-	-
Gross profit		576,132	498,112	302,482	291,806
Distribution expenses		(111,028)	(127,953)	-	-
Administration expenses		(85,927)	(83,352)	(5,505)	(6,730)
Net other operating income/(expense)	23	30,154	57,749	(816)	52,612
Results from operations		409,331	344,556	296,161	337,688
Interest income		3,763	3,511	983	693
Finance costs		(3,191)	(5,303)	-	-
Share of profit in associated companies, net of tax		90,871	121,643	-	-
Profit before taxation	24	500,774	464,407	297,144	338,381
Taxation	25	(91,477)	(62,045)	(343)	(195)
Profit for the year		409,297	402,362	296,801	338,186
Profit attributable to:					
Owners of the Company		327,085	334,603	296,801	338,186
Non-controlling interests		82,212	67,759	-	-
		409,297	402,362	296,801	338,186
Basic/Diluted earnings per ordinary share (sen)	26	104.20	107.77		

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Statements of profit or loss and other comprehensive income for the year ended 30 June 2019 (continued)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Profit for the year		409,297	402,362	296,801	338,186
Other comprehensive (expense)/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		(6,441)	(23,830)	(6,400)	(21,285)
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences from foreign operations		267	(462)	-	-
Share of other comprehensive income/(expense) of equity-accounted associates, net of tax		545	(14,352)	-	-
Cash flow hedge		(572)	221	-	-
		240	(14,593)	-	-
Total other comprehensive expense for the year	27	(6,201)	(38,423)	(6,400)	(21,285)
Total comprehensive income for the year		403,096	363,939	290,401	316,901
Total comprehensive income attributable to:					
Owners of the Company		321,061	296,107	290,401	316,901
Non-controlling interests		82,035	67,832	-	-
		403,096	363,939	290,401	316,901

The notes on pages 17 to 103 are an integral part of these financial statements.

Hong Leong Industries Berhad

(Incorporated in Malaysia)
(Company No. 5486-P)

and its subsidiaries

Statements of changes in equity for the year ended 30 June 2019

	<--- 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**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
Group											
At 1 July 2017	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/(expense)											
Foreign currency translation differences	-	-	(462)	-	-	-	-	-	(462)	-	(462)
Share of other comprehensive expense 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 28)	-	-	-	-	-	-	-	(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

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Statements of changes in equity for the year ended 30 June 2019 (continued)

	<------------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	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Group											
At 1 July 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
Profit for the year	-	-	-	-	-	-	-	327,085	327,085	82,212	409,297
Other comprehensive income/(expense)											
Foreign currency translation differences	-	-	267	-	-	-	-	-	267	-	267
Share of other comprehensive income of equity-accounted associates, net of tax	-	-	545	-	-	-	-	-	545	-	545
Loss on fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	-	(6,441)	(6,441)	-	(6,441)
Cash flow hedge	-	-	-	-	(395)	-	-	-	(395)	(177)	(572)
Total comprehensive income/ (expense) for the year	-	-	812	-	(395)	-	-	320,644	321,061	82,035	403,096
Contributions by and distribution to owners of the Company											
Share-based payments/transactions	-	-	-	-	-	-	1,841	-	1,841	812	2,653
ESS shares exercised	-	-	-	-	-	754	(230)	542	1,066	-	1,066
Dividends (Note 28)	-	-	-	-	-	-	-	(156,991)	(156,991)	(71,281)	(228,272)
Total transactions with owners of the Company	-	-	-	-	-	754	1,611	(156,449)	(154,084)	(70,469)	(224,553)
At 30 June 2019	321,217	(63,318)	21,694	3,714	(212)	(16,469)	4,563	1,356,064	1,627,253	136,062	1,763,315

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Statements of changes in equity for the year ended 30 June 2019 (continued)

	<------*Attributable to owners of the Company*------>						
	<------*Non-distributable*------>					*Distributable*	
	Share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Reserve for own shares**	**Retained earnings**	**Total equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Company							
At 1 July 2017	321,217	-	(63,318)	3,943	(15,234)	416,377	662,985
Profit for the year	-	-	-	-	-	338,186	338,186
Other comprehensive expense							
Loss on fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	(21,285)	(21,285)
Total comprehensive income for the year	-	-	-	-	-	316,901	316,901
Distributions to owners of the Company							
Dividends (Note 28)	-	-	-	-	-	(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 2018/1 July 2018	321,217	-	(63,318)	3,943	-	622,684	884,526
Profit for the year	-	-	-	-	-	296,801	296,801
Other comprehensive expense							
Loss on fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	(6,400)	(6,400)
Total comprehensive income for the year	-	-	-	-	-	290,401	290,401
Distributions to owners of the Company							
Dividends (Note 28)	-	-	-	-	-	(159,736)	(159,736)
Total transactions with owners of the Company	-	-	-	-	-	(159,736)	(159,736)
At 30 June 2019	321,217	-	(63,318)	3,943	-	753,349	1,015,191

The notes on pages 17 to 103 are an integral part of these financial statements.

Hong Leong Industries Berhad
(Incorporated in Malaysia)
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Statements of cash flows for the year ended 30 June 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash flows from operating activities					
Profit before taxation		500,774	464,407	297,144	338,381
Adjustments for:					
Amortisation of deferred income		(602)	(602)	-	-
Amortisation of intangible assets		12,568	13,846	-	-
Depreciation of property, plant and equipment		47,327	55,521	12	40
Dividend income		(32,820)	(22,526)	(302,482)	(291,806)
Interest income		(3,763)	(3,511)	(983)	(693)
Finance costs		3,191	5,303	-	-
Fair value (gain)/loss on derivative instruments		(2)	57	-	-
Gain on disposal of property, plant and equipment		(274)	(80)	-	-
Others		(635)	-	(635)	-
Gain on fair value of financial assets at fair value through profit or loss		(2,473)	-	(2,000)	-
Impairment loss on property, plant and equipment		340	-	-	-
Write back on investment in an associated company		-	(53,481)	-	(53,481)
Write back on amounts due from an associated company		-	(6,703)	-	-
Impairment loss on goodwill		-	8,252	-	-
Property, plant and equipment written off		662	437	-	-
(Write back)/Provision of retirement benefits		(2,031)	1,552	(200)	-
Share-based payments		2,653	2,020	-	-
Share of profit in associated companies		(90,871)	(121,643)	-	-
Unrealised loss/(gain) on foreign exchange		1,110	(1,672)	-	-
Operating profit/(loss) before working capital changes		435,154	341,177	(9,144)	(7,559)
Inventories		(12,859)	16,640	-	-
Trade and other receivables		1,535	12,260	338	(397)
Trade and other payables		16,370	11,013	(675)	635
Cash generated from/(used in) operations		440,200	381,090	(9,481)	(7,321)

Company No. 5486-P

Statements of cash flows for the year ended 30 June 2019 (continued)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash generated from/(used in) operations (continued)		440,200	381,090	(9,481)	(7,321)
Dividends received from					
- Subsidiary companies		-	-	175,102	138,746
- Associated companies		107,147	140,565	107,147	140,565
- Other investments		32,820	22,526	20,233	12,495
Interest income received		3,763	3,511	983	693
Finance costs paid		(3,191)	(5,303)	-	-
Retirement benefits paid		(779)	(321)	-	-
Tax (paid)/refund		(76,673)	(63,574)	7,398	(195)
Net cash generated from operating activities		503,287	478,494	301,382	284,983
Cash flows from investing activities					
Addition of development expenditure		(15,284)	(10,630)	-	-
Addition of other intangible assets		(527)	(529)	-	-
Addition of investment in a subsidiary company		-	-	(20)	-
Addition of other investments		(5,263)	-	(4,500)	-
Proceeds from disposal of other investments		7,200	-	7,200	-
Purchase of property, plant and equipment		(22,515)	(26,700)	-	-
Proceeds from disposal of property, plant and equipment		555	644	-	-
Proceeds from disposal of investment in an associated company		-	60,184	-	53,481
Net cash (used in)/generated from investing activities		(35,834)	22,969	2,680	53,481
Cash flows from financing activities					
Dividends paid to					
- Owners of the Company		(156,991)	(146,889)	(159,736)	(149,691)
- Non-controlling shareholders of subsidiary companies		(71,281)	(55,986)	-	-
Disposal of Trust shares		1,066	38,225	-	54,331
Drawdown of borrowings	(ii)	116,865	236,029	-	-
Repayment of borrowings	(ii)	(148,765)	(278,528)	-	-
Net cash used in financing activities		(259,106)	(207,149)	(159,736)	(95,360)

Company No. 5486-P

Statements of cash flows for the year ended 30 June 2019 (continued)

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Net change in cash and cash equivalents		208,347	294,314	144,326	243,104
Effect of exchange rate fluctuations on cash held		254	(457)	-	-
Cash and cash equivalents at 1 July 2018/2017		831,340	537,483	517,750	274,646
Cash and cash equivalents at 30 June	(i)	1,039,941	831,340	662,076	517,750

(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 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Deposits with licensed banks	977,768	778,159	597,000	517,010
Cash and bank balances	62,173	53,181	65,076	740
	1,039,941	831,340	662,076	517,750

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

	At 1 July 2017 RM'000	Net changes in financing cash flows RM'000	At 30 June/ 1 July 2018 RM'000	Net changes in financing cash flows RM'000	At 30 June 2019 RM'000
Group					
Bankers acceptance	44,579	(17,349)	27,230	(13,200)	14,030
Revolving credit	68,550	(25,150)	43,400	(18,700)	24,700
	113,129	(42,499)	70,630	(31,900)	38,730

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

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 2019 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 2019 do not include other entities.

The principal activity of the Company is investment holding, 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 29 August 2019.

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 requirements of the Companies Act 2016 in Malaysia.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

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.

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*

The management applied judgements to determine that financial instruments of the Group and the Company are recognised and measured in accordance to MFRS 9 as described in Note 2.2(c). The carrying amounts of trade and other receivables, including derivatives are shown in Note 13.

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. Significant accounting policies (continued)

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.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers,* there are changes to the accounting policies for revenue recognition as compared to those adopted in previous financial statements. However, there was no significant financial impact arising from the adoption of MFRS 15 except for the extended disclosures in Note 22.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) Associates (continued)

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 the 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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vii) Non-controlling interests (continued)

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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(b) Foreign currency (continued)

(i) Foreign currency transactions (continued)

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. 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.

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments

(i) Recognition and initial measurement

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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Group and the 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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(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)).

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

At initial recognition, all financial liabilities are measured at cost and 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.

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(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).

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Hedge accounting (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Hedge accounting (continued)

(b) Cash flow hedge (continued)

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(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.

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

(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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(g) Investment property (continued)

(i) Investment property carried at fair value (continued)

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 Group'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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(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

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, 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 cash and bank balance 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, if any, are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

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.

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.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost 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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(j) Impairment (continued)

(ii) Other assets (continued)

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(k) Equity instruments (continued)

(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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

(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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(n) Revenue and other income

During the financial year, the Group and the Company adopted MFRS 15, *Revenue from contracts with customers*, which replaces MFRS 118 *Revenue*.

Unless specifically disclosed below the Group and the Company generally applied the requirements of this accounting standards with cumulative effects as allowed by MFRS 15.

(i) Revenue from contract with customers

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;

(b) the Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Rental income

Rental income is recognised in profit or loss over the period of the lease on a straight line basis.

(iii) 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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(n) Revenue and other income (continued)

(iv) 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.

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(p) Taxation (continued)

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.

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 are recognised as a tax credit receivable to the extent that they are probable that future taxable profit will be available against which the unutilised reinvestment allowance or investment tax allowance can be utilised.

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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(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.

2. Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

(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.

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. Significant accounting policies (continued)

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 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 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 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- 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 Benefits – Plan Amendment, 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 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements and* MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

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

- MFRS 17, *Insurance Contracts*

2. Significant accounting policies (continued)

2.3 Statement of compliance (continued)

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 accounting standards, amendments and interpretations:

- from the annual period beginning on 1 July 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, where applicable; and

- from the annual period beginning on 1 July 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020, where applicable.

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 and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group, except as mentioned below:

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 currently assessing the financial impact that may arise from the adoption of this standard.

Company No. 5486-P

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 2019 %	Effective interest 2018 %	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	Malaysia	100	100	In member's voluntary liquidation.
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	Malaysia	100	100	In member's voluntary liquidation.

3. Companies in the Group (continued)

Name of Company	Country of incorporation	Effective interest 2019 %	Effective interest 2018 %	Principal activities
Subsidiary Companies (continued)				
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.
Stonenet Sdn Bhd (formerly known as 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	Dormant.
HLI Trading Limited*	Hong Kong	100	100	Investment holding.
• Avenues Zone Inc*	Malaysia	100	100	Investment holding.
Jersen Limited (formerly known as HLI Overseas Limited)*	Jersey, Channel Islands	-	100	Dissolved.
Varinet Sdn Bhd	Malaysia	-	60	Dissolved.
Century Touch Sdn Bhd	Malaysia	-	70	Dissolved.

3. Companies in the Group (continued)

Name of Company	Country of incorporation	Effective interest 2019 %	Effective interest 2018 %	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.

Notes:

- • Sub-subsidiary companies.
- * The financial statements of these subsidiary and associated companies are not audited by KPMG PLT, Malaysia or other KPMG International member firms.

Company No. 5486-P

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 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 2018/1 July 2018	45,356	197,177	24,270	5,058	826,417	8,349	1,106,627
Additions	-	408	-	-	9,029	13,078	22,515
Reclassification	-	2,790	-	-	13,542	(16,332)	-
Disposals	-	(32)	-	-	(7,195)	-	(7,227)
Write off	-	(366)	-	-	(43,111)	-	(43,477)
Effect of movements in exchange rates	-	-	-	-	16	-	16
At 30 June 2019	45,356	199,977	24,270	5,058	798,698	5,095	1,078,454

Company No. 5486-P

4. Property, plant and equipment (continued)

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 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 2018/1 July 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
Charge for the year	-	6,351	565	353	40,058	-	47,327
Impairment loss	-	-	-	-	340	-	340
Disposals	-	(8)	-	-	(6,938)	-	(6,946)
Write off	-	(361)	-	-	(42,454)	-	(42,815)
Effect of movements in exchange rates	-	-	-	-	12	-	12
At 30 June 2019							
Accumulated depreciation	-	84,082	4,228	3,114	689,718	-	781,142
Accumulated impairment losses	-	-	-	-	1,295	-	1,295
	-	84,082	4,228	3,114	691,013	-	782,437

4. Property, plant and equipment (continued)

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
Carrying amounts							
At 1 July 2017	45,356	122,054	21,172	2,650	159,217	1,481	351,930
At 30 June 2018/1 July 2018	45,356	119,077	20,607	2,297	126,422	8,349	322,108
At 30 June 2019	45,356	115,895	20,042	1,944	107,685	5,095	296,017

4. Property, plant and equipment (continued)

Company	Office equipment and motor vehicles RM'000
Cost	
At 1 July 2017/30 June 2018/1 July 2018	148
Additions	-
Disposal	-
At 30 June 2019	148
Accumulated depreciation	
At 1 July 2017	90
Charge for the year	40
At 30 June 2018/1 July 2018	130
Charge for the year	12
At 30 June 2019	142
Carrying amounts	
At 1 July 2017	58
At 30 June 2018/1 July 2018	18
At 30 June 2019	6

5. Investment property

	Group 2019 RM'000	Group 2018 RM'000
At fair value:		
Leasehold land with unexpired lease period of more than 50 years	4,000	4,000

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 by reference to past sale transactions. 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 2019 RM'000	Company 2018 RM'000
At cost:		
Unquoted shares	383,824	383,804
Less: Impairment loss	(90,058)	(90,058)
	293,766	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:

	2019 RM'000	2018 RM'000
As at 30 June		
Statements of financial position		
Total assets	716,175	640,537
Total liabilities	(253,723)	(213,497)
Net assets	462,452	427,040
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Profit for the year	269,063	221,144
Total comprehensive income	268,491	225,820
Statements of cash flows		
Net cash flow generated from operating, investing and financing activities	45,397	45,220
Dividends paid to NCI	71,281	55,986

7. Investments in associated companies

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At cost:				
Unquoted shares	27,306	27,306	26,898	26,898
Share of post-acquisition reserves	136,472	152,204	-	-
	163,788	179,510	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:

	2019	2018
	RM'000	RM'000
As at 30 June		
Statements of financial position		
Non-current assets	335,500	286,120
Current assets	712,225	949,790
Non-current liabilities	(30,487)	(1,936)
Current liabilities	(362,286)	(507,318)
Net assets	654,952	726,656
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Total comprehensive income	369,468	502,055
Included in the total comprehensive income is		
Revenue	3,912,642	4,334,005
Reconciliation of net assets to carrying amount		
As at 30 June		
Group's share of net assets other than goodwill of the associated company	163,507	179,229
Premium on acquisition	281	281
Carrying amount in the statement of financial position	163,788	179,510
Year ended 30 June		
Group's share of results		
Group's share of total comprehensive income	90,871	121,643
Other information		
Dividends received by the Group	107,147	140,565

8. Intangible assets

Group	Goodwill RM'000	Development costs RM'000	Computer software RM'000	Total RM'000
Cost				
At 1 July 2017	66,975	45,339	5,141	117,455
Additions	-	10,630	529	11,159
At 30 June 2018/1 July 2018	66,975	55,969	5,670	128,614
Additions	-	15,284	527	15,811
At 30 June 2019	66,975	71,253	6,197	144,425
Amortisation and impairment loss				
At 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 2018/1 July 2018				
Accumulated amortisation	-	42,637	4,020	46,657
Accumulated impairment loss	66,975	-	-	66,975
	66,975	42,637	4,020	113,632
Amortisation for the year	-	12,120	448	12,568
At 30 June 2019				
Accumulated amortisation	-	54,757	4,468	59,225
Accumulated impairment loss	66,975	-	-	66,975
	66,975	54,757	4,468	126,200
Carrying amounts				
At 1 July 2017	8,252	15,896	1,773	25,921
At 30 June 2018/1 July 2018	-	13,332	1,650	14,982
At 30 June 2019	-	16,496	1,729	18,225

9. Other investments

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Non-current					
Financial assets at fair value through profit or loss					
- Redeemable convertible unsecured loan stocks		7,737	-	6,500	-
Fair value through other comprehensive income					
- Shares in related companies, quoted in Malaysia	**9.1**	26,289	39,296	24,041	37,006
		34,026	39,296	30,541	37,006

Note 9.1
The Group and the Company intend to hold these equity securities for long-term strategic purposes.

10. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2019 RM'000	Assets 2018 RM'000	Liabilities 2019 RM'000	Liabilities 2018 RM'000	Net 2019 RM'000	Net 2018 RM'000
Property, plant and equipment	-	-	(483)	(5,874)	(483)	(5,874)
Inventory, trade and other receivables and payables	11,103	17,004	(8,725)	(6,765)	2,378	10,239
Deferred tax assets/ (liabilities)	11,103	17,004	(9,208)	(12,639)	1,895	4,365
Set off of tax	(174)	(3,899)	174	3,899	-	-
Net deferred tax assets/(liabilities)	10,929	13,105	(9,034)	(8,740)	1,895	4,365

10. Deferred tax assets/(liabilities) (continued)

Unrecognised deferred tax assets

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

	Group	
	2019	**2018**
	RM'000	**RM'000**
Unabsorbed capital allowances	1,767	1,767
Unutilised tax losses	33,781	33,758
	35,548	35,525

The unabsorbed capital allowances 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.

Under the Finance Act 2018, the unutilised tax losses up to year of assessment 2019 shall be deductible against aggregate of statutory income until year of assessment 2026. Any amount not deducted at the end of year of assessment 2026 shall be disregarded. 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 Group entities can utilise the benefits therefrom.

10. Deferred tax assets/(liabilities) (continued)

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

	At 1.7.2017 RM'000	Recognised in profit or loss (Note 25) RM'000	Recognised in other comprehensive income (Note 27) RM'000	At 30.6.2018/ 1.7.2018 RM'000	Recognised in profit or loss (Note 25) RM'000	Recognised in other comprehensive income (Note 27) RM'000	At 30.6.2019 RM'000
Group							
Property, plant and equipment	(8,639)	2,765	-	(5,874)	5,392	-	(483)
Inventory, trade and other receivables and payables	9,487	752	-	10,239	(7,861)	-	2,378
Others	(13)	(27)	40	-	-	-	-
	835	3,490	40	4,365	(2,469)	-	1,895

11. Tax credit receivable

This represents unutilised reinvestment allowance recognised by a subsidiary. 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	
	2019	**2018**
	RM'000	**RM'000**
Raw materials and consumables	122,489	85,229
Work-in-progress	12,591	12,697
Finished goods	88,123	112,418
	223,203	210,344
Recognised in profit or loss:		
Inventories recognised as cost of sales	2,040,407	1,866,247

13. Trade and other receivables, including derivatives

		Group		Company	
	Note	**2019**	**2018**	**2019**	**2018**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Trade					
Trade receivables		320,138	338,967	-	-
Amount due from related companies		4,243	3,581	-	-
Amount due from associated companies		386	319	-	-
		324,767	342,867	-	-
Less: Allowance for impairment losses	32.3(a)	(11,185)	(15,827)	-	-
		313,582	327,040	-	-
Non-trade					
Amount due from related companies	13.1	-	167	-	-
Other receivables and deposits		34,086	29,237	131	457
Prepayments		23,036	16,906	35	47
Derivative financial assets					
- Forward exchange contract designated as hedge instruments		-	264	-	-
		370,704	373,614	166	504

13. Trade and other receivables, including derivatives (continued)

Note 13.1
The amounts due from related companies are unsecured, interest free and are repayable on demand.

14. Cash and cash equivalents

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Deposits with licensed banks	977,768	778,159	597,000	517,010
Cash and bank balances	62,173	53,181	65,076	740
	1,039,941	831,340	662,076	517,750

Included in the cash and cash equivalents are the following balances maintained with a related company.

	Group		Company	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Deposits with licensed banks	883,650	770,508	597,000	517,010
Cash and bank balances	21,736	22,582	65,012	659
	905,386	793,090	662,012	517,669

15. Share capital

	Group and Company			
	Number of shares 2019 '000	**Amount 2019 RM'000**	**Number of shares 2018 '000**	**Amount 2018 RM'000**
Issued ordinary shares:				
At 1 July 2018/30 June 2019 and 1 July 2017/30 June 2018	327,905	321,217	327,905	321,217

15. Share capital (continued)

The issued share capital of the Company, before adjusting for the treasury shares of 8,432,500 held (see Note 17), is RM321,217,000 comprising 327,905,310 ordinary shares. The treasury shares are held in accordance with the requirement of Section 127 of the Companies Act 2016.

16. Reserves

		Group		Company	
	Note	**2019 RM'000**	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Reserves consist of:					
Exchange fluctuation reserve	16.1	21,694	20,882	-	-
Other reserves	16.2	3,714	3,714	3,943	3,943
Reserve for own shares	16.3	(16,469)	(17,223)	-	-
Executive share scheme reserve	16.4	4,563	2,952	-	-
Hedging reserve	16.5	(212)	183	-	-
Retained earnings		1,356,064	1,191,869	753,349	622,684
		1,369,354	1,202,377	757,292	626,627

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.

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16. Reserves (continued)

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 2019, the total number of HLI Shares held by the ESS Trusts at the Group level was 5,480,000 (2018: 5,732,000) HLI Shares.

At the Group level, during the financial year-to-date, a total of 252,000 (2018: 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.

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 2019 '000	**Amount 2019 RM'000**	**Number of shares 2018 '000**	**Amount 2018 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.

18. Deferred income

	Group	
	2019	2018
	RM'000	RM'000
Non-current		
Reinvestment allowance	3,191	3,793

The tax benefits arising from reinvestment allowance are being amortised over the estimated useful lives of the underlying plant and equipment for which reinvestment allowance was claimed. During the financial year, a total of RM602,000 (2018: RM602,000) has been amortised and recognised as other operating income in the profit or loss of the Group.

19. Loans and borrowings

	Group	
	2019	2018
	RM'000	RM'000
Current (unsecured)		
Bankers acceptances	14,030	27,230
Revolving credit	24,700	43,400
	38,730	70,630

20. Employee benefits

(a) Retirement benefits

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At 1 July 2018/2017	26,723	25,492	342	342
Provision	(2,031)	1,552	-	-
Payments	(779)	(321)	(200)	-
At 30 June	23,913	26,723	142	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 have been renamed as Executive Share Scheme ("ESS"). The ESS will be in force for a period of 10 years from the Effective Date.

20. Employee benefits (continued)

(b) Executive Share Scheme ("ESS") (continued)

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.

20. Employee benefits (continued)

(b) Executive Share Scheme ("ESS") (continued)

(i) 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 were vested during the previous financial year ended 30 June 2017, 2,088,000 HLI Shares in the ESS Trust were transferred to the Guocera Option holders arising from the exercise of the Guocera Options during the previous financial years and another 252,000 HLI Shares in the financial year ended 30 June 2019. None of the Guocera Options granted remain outstanding as at 30 June 2019.

- Hong Leong Yamaha Motor Sdn Bhd, a 69.41% subsidiary of the Company ("HLYM"), 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 2019. HLYM Options over 4,000,000 HLI Shares remain outstanding as at 30 June 2019.

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

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 2,340,000 Options had been exercised, with 4,000,000 Options remaining outstanding as at 30 June 2019 ("FY2019"). 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 2019. 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 2019.

20. Employee benefits (continued)

(b) Executive Share Scheme ("ESS") (continued)

(i) ESOS (continued)

	Group 2019 RM'000	Group 2018 RM'000
(i) Value of employee services received for Options		
Share options granted	2,501	2,020

	Group 2019	Group 2018
(ii) Options - Weighted average fair value and assumptions		
Weighted average fair value at grant date	RM2.12	RM2.47
At grant date:		
Weighted average share price	RM9.79	RM11.15
Weighted average exercise price	RM9.71	RM9.39
Expected volatility (weighted average volatility)	25.43%	25.13%
Option life (expected weighted average life)	5 years	5 years
Weighted average expected dividends	3.61%	3.08%
Weighted average risk-free interest rate (based on Malaysian government bonds)	3.85%	3.59%

20. Employee benefits (continued)

(b) Executive Share Scheme ("ESS") (continued)

(ii) ESGS

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

During FY2019, HLYM granted 54,054 free HLI Shares to an eligible executive of HLYM and none of the said HLI Shares had been vested as at 30 June 2019.

Since the commencement of the ESS, a total of 249,054 HLI Shares had been granted, 195,000 HLI Shares had been vested, and 54,054 HLI Shares remain outstanding as at 30 June 2019. The aggregate HLI Shares granted to a director/chief executive of the Group amounted to 54,054 HLI Shares and none of the said HLI Shares had been vested. The actual percentage of total HLI Shares granted to a director/senior management of the Group was 0.02% based on the total number of issued ordinary shares (excluding treasury shares) of the Company as at 30 June 2019.

The aggregate allocation of Options and HLI 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.

	Group	
	2019	**2018**
	RM'000	**RM'000**
(i) Value of employee services received for HLI Shares grant		
HLI Shares Grant	152	-

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20. Employee benefits (continued)

(b) Executive Share Scheme ("ESS") (continued)

(ii) ESGS (continued)

	Group 2019	Group 2018
(ii) HLI Shares grant - Weighted average fair value and assumptions		
Fair value at grant date	RM9.09	-

21. Trade and other payables

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Trade					
Trade payables		162,908	143,921	-	-
Amount due to related companies	21.1	22,854	29,122	-	-
Amount due to associated companies	21.1	29,593	27,907	-	-
		215,355	200,950	-	-
Non-trade					
Amount due to related companies	21.1	148	2,993	-	-
Amount due to associated companies	21.1	522	975	-	-
Other payables		10,960	5,569	-	-
Accrued liabilities		81,873	85,214	794	1,469
Derivative financial liability					
- Forward exchange contract designated as hedge instruments		305	-	-	-
		309,155	295,701	794	1,469

Note 21.1
The amounts due to related companies and associated companies are unsecured, interest free and are repayable on demand.

22. Revenue

Group	2019 RM'000	2018 RM'000
Revenue from contracts with customers	2,727,687	2,488,246
Other revenue		
- Dividend income	22,695	14,720
Total revenue	2,750,382	2,502,966
Company		
Other revenue		
- Dividend income	302,482	291,806

22.1 Disaggregation of revenue

Group	Total 2019 RM'000	 2018 RM'000
Major products		
Consumer products		
Motorcycles, marine related products and spare parts sales	1,883,334	1,543,321
Ceramic tiles	425,686	442,677
	2,309,020	1,985,998
Industrial products		
Fibre cement and others	418,667	502,248
	2,727,687	2,488,246
Timing and recognition		
At a point in time	2,727,687	2,488,246
Revenue from contracts with customers	2,727,687	2,488,246
Other revenue	22,695	14,720
Total revenue	2,750,382	2,502,966

22. Revenue (continued)

22.2 Nature of goods and services

The following information reflects the typical transactions of the Group:

Nature of goods or services	Timing of recognition or method used to recognise revenue	Significant payment terms	Variable element in consideration	Obligation for returns or refunds	Warranty
Motorcycles, marine related products and spare parts sales	Revenue is recognised at a point in time when the goods are delivered and accepted by customers.	Credit terms of 60 days from invoice date for motorcycles and cash term for marine products.	Not applicable.	Returns are only allowed for defect goods.	Assurance and service warranties are given to customers.
Ceramic tiles	Revenue is recognised at a point in time when the goods are delivered and accepted by customers.	Credit period of 30 - 90 days from invoice date.	Not applicable.	Allow customers to return defect products or products with quality issues through exchange of products or issuance of credit note.	Assurance warranty are given for certain range of products for ceramic tiles.
Fibre cement and others	Revenue is recognised at a point in time when the goods are delivered and accepted by customers.	Credit period of 14 - 90 days from invoice date.	Not applicable.	Allow customers to return defect products or products with quality issues through exchange of products or issuance of credit note.	Assurance warranty are given for certain range of products for fibre cement products.

23. Other operating income/(expense)

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other operating expense	(22,813)	(25,175)	(4,218)	(1,147)
Other operating income	52,967	82,924	3,402	53,759
	30,154	57,749	(816)	52,612

24. Profit before taxation

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before taxation is arrived at after charging/ (crediting):				
Auditors' remuneration				
Statutory audits				
- Company's auditors	508	508	100	100
- Overseas KPMG firms	57	57	-	-
- Other auditors	34	34	-	-
Other services				
- Company's auditors	4	4	4	4
- Overseas KPMG firms	64	64	64	64
Dividend income				
- Unquoted associated companies in Malaysia	-	-	(3,600)	(1,800)
- Unquoted associated company outside Malaysia	-	-	(103,547)	(138,765)
- Quoted investment in Malaysia	(658)	(706)	(658)	(706)
- Unquoted subsidiary companies	-	-	(175,102)	(138,746)
- Short term investments	(32,162)	(21,820)	(19,575)	(11,789)
Personnel expense				
- Staff salaries and other expenses	175,047	186,806	-	465
- Contribution to Employees Provident Fund	16,620	17,104	-	53
- Retirement benefits	2,031	1,552	-	-
- Share-based payments	2,653	2,020	-	-

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24. Profit before taxation (continued)

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before taxation is arrived at after charging/ (crediting): (continued)				
Loss/(Gain) on disposal of property plant and equipment	274	(80)	-	-
Impairment loss on goodwill	-	8,252	-	-
Gain on fair value of financial assets at fair value through profit or loss	(2,473)	-	(2,000)	-
Property, plant and equipment written off	662	437	-	-
Write back of impairment loss on investment in an associated company	-	(53,481)	-	(53,481)
Write back impairment loss on amount due from an associated company	-	(6,703)	-	-

25. Taxation

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current taxation				
Current year	88,078	64,691	361	194
Under/(Over) provision in prior years	930	570	(18)	1
	89,008	65,261	343	195
Deferred taxation				
Current year	876	(2,894)	-	-
Under/(Over) provision in prior years	1,593	(596)	-	-
	2,469	(3,490)	-	-
Utilisation of tax credit receivables arising from unutilised reinvestment allowances				
Prior year	-	274	-	-
	-	274	-	-
Total tax expense	91,477	62,045	343	195

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before taxation	500,774	464,407	297,144	338,381
Taxation at Malaysian statutory tax rates of 24%	120,186	111,458	71,315	81,211
Non allowable expenses	5,720	4,942	1,642	1,853
Non-taxable income	(11,475)	(20,076)	(72,596)	(82,870)
Tax attributable to associated companies	(21,809)	(29,194)	-	-
Tax incentive	(3,668)	(5,333)	-	-
	88,954	61,797	361	194
Under/(Over) provision in prior years	2,523	248	(18)	1
	91,477	62,045	343	195

26. 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 RM327,085,000 (2018: RM334,603,000) by the weighted average number of ordinary shares outstanding during the financial year of 313,916,000 (2018: 310,466,000) as follows:

	2019 RM'000	2018 RM'000
Profit attributable to owners of the Company	327,085	334,603

	2019 '000	2018 '000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July 2018/2017	327,905	327,905
Less:		
Treasury shares held at 1 July 2018/2017	(8,432)	(8,432)
Trust shares held at 1 July 2018/2017	(5,732)	(9,850)
	313,741	309,623
Effect of Trust shares vested	175	843
Weighted average number of ordinary shares	313,916	310,466

	2019	2018
Basic earnings per ordinary share (sen)	104.20	107.77

Diluted earnings per ordinary share

The Group's has no dilution in its earnings per share for the financial year as there were no dilutive potential ordinary shares.

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27. Other comprehensive income/(expense) for the year

Group	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
2019			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Fair value loss arising during the year	(6,441)	-	(6,441)
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
- Reclassification adjustments for the loss included in profit or loss	(572)	-	(572)
Foreign currency translation difference for foreign operations			
- Fair value gain arising during the year	267	-	267
- Share of other comprehensive income of equity-accounted associates	545	-	545
	(6,201)	-	(6,201)
2018			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Fair value 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			
- Fair value loss arising during the year	(462)	-	(462)
- Share of other comprehensive expense of equity-accounted associates	(14,352)	-	(14,352)
	(38,463)	40	(38,423)

27. Other comprehensive income/(expense) for the year (continued)

Company 2019	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Fair value loss arising during the year	(6,400)	-	(6,400)
2018			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Fair value loss arising during the year	(21,285)	-	(21,285)

28. Dividends

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
First interim				
15 sen per share single tier (2018: 15 sen per share single tier)	47,094	46,492	47,921	47,460
Second interim				
25 sen per share single tier (2018: 22 sen per share single tier)	78,498	69,023	79,868	70,284
Special interim				
10 sen per share single tier (2018: 10 sen per share single tier)	31,399	31,374	31,947	31,947
	156,991	146,889	159,736	149,691

Dividends received by the ESS Trusts amounting to RM2,745,000 (2018: RM3,263,000) and RM Nil (2018: RM461,000) 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).

29. Operating segments

The Board of Directors reviews financial reports 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 and 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 assets.

Segment liabilities

Segment liabilities information is not presented to the Board of Directors and hence, no disclosure is made on the segment liabilities.

29. Operating segments (continued)

	Consumer products		Industrial products		Total	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment profit/(loss)	391,214	297,743	(7,013)	(12,971)	384,201	284,772
Included in the measure of segment profit/(loss) are:						
Revenue from external customers	2,309,120	1,985,998	418,667	502,248	2,727,687	2,488,246
Depreciation and amortisation	(48,538)	(57,967)	(11,344)	(11,360)	(59,882)	(69,327)
Impairment loss on goodwill	-	(8,252)	-	-	-	(8,252)

29. Operating segments (continued)

Reconciliation of reportable segment profit or loss

	2019 RM'000	2018 RM'000
Profit		
Total profit for reportable segment	384,201	284,772
Unallocated income/(expense)	25,130	59,784
Interest income	3,763	3,511
Finance costs	(3,191)	(5,303)
Share of profit in associated companies	90,871	121,643
Consolidated profit before taxation	500,774	464,407

	2019		2018	
	External revenue RM'000	Depreciation & amortisation RM'000	External revenue RM'000	Depreciation & amortisation RM'000
Total reportable segments	2,727,687	59,882	2,488,246	69,327
Non-reportable segments	22,695	13	14,720	40
Consolidated total	2,750,382	59,895	2,502,966	69,367

Geographical information

Revenue of the Group by geographical locations of the customers are as follows:

	Revenue	
	2019 RM'000	2018 RM'000
Malaysia	2,474,603	2,212,839
Australia	52,594	77,691
Vietnam	45,323	31,184
Thailand	35,083	29,884
Singapore	40,547	32,836
Taiwan	21,946	19,293
Qatar	1,970	4,565
The United States of America	266	1,193
Others	78,050	93,481
	2,750,382	2,502,966

29. Operating segments (continued)

Geographical information (continued)

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	
	2019	**2018**
	RM'000	**RM'000**
Malaysia	318,002	340,981
Singapore	240	109
	318,242	341,090

Major customer

During the financial year, there was no revenue from one single customer that contributed to more than 10% of the Group's revenue.

30. Capital commitments

	Group	
	2019	**2018**
	RM'000	**RM'000**
Property, plant and equipment		
Authorised but not contracted for	60,851	31,338
Authorised and contracted for	15,395	6,465

31. Related parties

31.1 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;

(iii) Hong Bee Hardware Company Sdn Bhd (“Hong Bee Hardware”) and Hong Bee Motors Sdn Bhd (“Hong Bee Motors”) are persons connected with 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”).

31. Related parties (continued)

31.1 Significant related party transactions (continued)

Significant transactions with related parties, other than those disclosed elsewhere in the financial statements, are as follows:

Transactions	Related Party	Group 2019 RM'000	Group 2018 RM'000
(a) Sale of goods and services	Subsidiary and associated companies of HLCM	2,142	8,514
	Hong Bee Hardware and Hong Bee Motors	56,502	56,060
	YMC Group	2,630	3,246
(b) Purchase of goods and services	Subsidiary and associated companies of HLCM	101,082	159,741
	YMC Group	531,121	381,917
	Tasek and subsidiary and associated companies of Tasek	9,258	9,479
	Associated companies of HLI	359,383	315,008
(c) Rental of properties	Subsidiary and associated companies of HLCM	1,625	1,247
	YMC Group	148	148
(d) Receipt of services	Subsidiary and associated companies of HLCM	1,103	1,125
(e) Receipt of Group management and/ or support services	Subsidiary and associated companies of HLCM	22,580	19,041
(f) Payment for usage of the Hong Leong logo and trade mark	A subsidiary company of HLCM	117	103
(g) Payment of royalties and technical fees for usage of the Yamaha trademark and technical support	YMC	35,048	25,423
(h) Receipt of research and development services	YMC	3,076	3,370
(i) Provision of advertising and provisional services	YMC	453	190

31. Related parties (continued)

31.1 Significant related party transactions (continued)

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.

31.2 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 comprises all the Directors of the Company.

The fees, remuneration and other benefits of the Directors of the Group and the Company are as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Executive Directors				
Remuneration and other benefits	-	-	-	-
Non-Executive Directors				
Fees*	452	575	382	505

* This includes the fees for a Director which has been assigned in favour of the company where the Director is employed.

32. Financial instruments

32.1 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");

(c) Financial liabilities measured at amortised cost ("FLAC"); and

(d) Fair value through profit or loss ("FVTPL") – Designated upon initial recognition ("DUIR").

32. Financial instruments

32.1 Categories of financial instruments (continued)

2019	Carrying amount RM'000	FAAC/ FLAC RM'000	FVOCI- EIDUIR RM'000	FVTPL RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	34,026	-	26,289	7,737	-
Trade and other receivables, including derivatives (excluding prepayments)	347,668	347,668	-	-	-
Cash and cash equivalents	1,039,941	1,039,941	-	-	-
	1,421,635	1,387,609	26,289	7,737	-
Company					
Other investments	30,541	-	24,041	6,500	-
Trade and other receivables, including derivatives (excluding prepayments)	131	131	-	-	-
Cash and cash equivalents	662,076	662,076	-	-	-
	692,748	662,207	24,041	6,500	-
Financial liabilities					
Group					
Loans and borrowings	38,730	38,730	-	-	-
Trade and other payables, including derivatives	309,155	308,850	-	-	305
	347,885	347,580	-	-	305
Company					
Trade and other payables, including derivatives	794	794	-	-	-
	794	794	-	-	-

32. Financial instruments (continued)

32.1 Categories of financial instruments (continued)

	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, including derivatives	295,701	295,701	-	-
	366,331	366,331	-	-
Company				
Trade and other payables, including derivatives	1,469	1,469	-	-
	1,469	1,469	-	-

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32. Financial instruments (continued)

32.2 Net gains and losses arising from financial instruments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net gains/(losses) on:				
Financial assets carried at amortised cost	34,815	26,648	18,505	11,418
Fair value through profit or loss:				
Gain on fair value of financial assets at fair value through profit or loss	2,473	-	2,000	-
Write back of impairment loss on investment in an associated company	-	53,481	-	53,481
Others	(2)	57	-	-
Fair value through other comprehensive income:				
Fair value loss on equity investments	(6,441)	(23,830)	(6,400)	(21,285)
Dividend income	658	706	658	706
Other liabilities	(3,191)	(5,303)	-	-
	28,312	51,759	14,763	44,320

32.3 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

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(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 required to be performed on customers requiring credit over a certain amount.

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. 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	
	2019	**2018**
	RM'000	**RM'000**
Domestic	283,412	318,653
Asia	25,557	4,701
Europe	1,144	324
Others	3,469	3,362
	313,582	327,040

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(a) Credit risk (continued)

Receivables (continued)

Expected credit loss ("ECL") assessment for trade receivables as at 1 July 2018 and 30 June 2019

The Group uses an allowance matrix to measure the ECLs of trade receivables from customers taking into account days past due and credit evaluation as applicable, which comprise a very large number of insignificant balances outstanding.

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.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 30 June 2019 and 30 June 2018.

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
2019			
Not past due	257,711	(2,591)	255,120
Past due 1 - 30 days	40,914	(396)	40,518
Past due 31 – 60 days	17,077	(989)	16,088
Past due 61 – 90 days	3,572	(1,963)	1,609
Past due 91 – 120 days	2,573	(2,399)	174
Past due more than 120 days	2,920	(2,847)	73
	324,767	(11,185)	313,582
2018			
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

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(a) Credit risk (continued)

Receivables (continued)

Expected credit loss ("ECL") assessment for trade receivables as at 1 July 2018 and 30 June 2019 (continued)

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	2019 RM'000	2018 RM'000
Group		
Balance at 1 July 2018/2017	15,827	14,599
Net measurement of loss allowance	(4,642)	1,228
Balance at 30 June	11,185	15,827

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.

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.

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(a) Credit risk (continued)

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 (of which majority is placed with a related company) 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. Accordingly, no impairment allowance is required.

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32. Financial instruments (continued)

32.3 Financial risk management (continued)

(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.

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:

Group	**Carrying amount RM'000**	**Contractual interest rate %**	**Contractual cash flows RM'000**	**Under 1 year RM'000**
2019				
Non-derivative financial liabilities				
Trade and other payables	308,850	-	308,850	308,850
Loans and borrowings	38,730	4.2%-4.8%	39,708	39,708
	347,580		348,558	348,558
Derivative financial liabilities				
Forward exchange contract (gross settled):				
Outflow	305	-	64,099	64,099
Inflow	-	-	(63,794)	(63,794)
	347,885		348,871	348,871
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

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32. Financial instruments (continued)

32.3 Financial risk management (continued)

(b) Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
Company				
2019				
Non-derivative financial liabilities				
Trade and other payables	794	-	794	794
2018				
Non-derivative financial liabilities				
Trade and other payables	1,469	-	1,469	1,469

(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.

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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	
	2019 RM'000	**2018 RM'000**	**2019 RM'000**	**2018 RM'000**
Fixed rate instruments				
Deposits with licensed banks	977,768	778,159	597,000	517,010
Loans and borrowings	(14,030)	(27,230)	-	-
	963,738	750,929	597,000	517,010
Floating rate instruments				
Loans and borrowings	(24,700)	(43,400)	-	-

32. Financial instruments (continued)

32.3 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

No disclosure of sensitivity analysis is presented as a reasonable change in interest rate would not be material.

(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

No disclosure of sensitivity analysis is presented as a reasonable change in market value would not be material.

32. Financial instruments (continued)

32.4 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their 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.

32. Financial instruments (continued)

32.4 Fair value information (continued)

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				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019										
Financial assets										
Investment in quoted shares	34,026	-	-	34,026	-	-	-	-	34,026	34,026
Financial liabilities										
Forward foreign exchange contracts	-	(305)	-	(305)	-	-	-	-	(305)	(305)
2018										
Financial assets										
Investment in quoted shares	39,296	-	-	39,296	-	-	-	-	39,296	39,296
Forward foreign exchange contracts	-	264	-	264	-	-	-	-	264	264
Company										
2019										
Financial assets										
Investment in quoted shares	30,541	-	-	30,541	-	-	-	-	30,541	30,541
2018										
Financial assets										
Investment in quoted shares	37,006	-	-	37,006	-	-	-	-	37,006	37,006

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.

33. 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. There was no change in the Group's approach to capital management during the financial year.

The debt-to-equity ratios at 30 June 2019 and 30 June 2018 were as follows:-

	Group	
	2019	**2018**
	RM'000	**RM'000**
Total loans and borrowings	38,730	70,630
Less: Cash and cash equivalents	(1,039,941)	(831,340)
Net cash	(1,001,211)	(760,710)
Total equity	1,763,315	1,584,772
Debt-to-equity ratios	Nil	Nil

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

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 7 to 103 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 2019 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

29 August 2019

Hong Leong Industries Berhad
(Incorporated in Malaysia)
(Company No. 5486-P)
and its subsidiaries

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 7 to 103 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 29 August 2019.

Goh Eng Tatt

Before me

Mohan A.S. Maniam

Kuala Lumpur

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG INDUSTRIES BERHAD

(Company No. 5486-P)
(Incorporated in Malaysia)

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 2019 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 7 to 103.

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 2019, 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><td colspan="2">Valuation of inventories</td></tr>
<tr><td colspan="2">Refer to the accounting policy on Note 2.1(ii) 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 continued changes in design to meet trends and consumer demands.

Management applied significant judgement to identify and determine the requisite quantum of allowances for slow moving and obsolete inventories to derive net realisable values.

This is a key audit matter because ceramic tile inventories represent 36% of the Group's inventory balance and it required significant judgement from 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 identification process;

- Challenged management's process in determining the net realisable value of these inventories by considering whether the process considered sufficient latest and reliable information of net realisable value; and

- Selected sample items of inventories and tested these against unit sales price close to the year-end to determine that these are stated at the lower of cost and net realisable value.</td></tr>
</table>

Key Audit Matters (continued)

<table>
<tr><th colspan="2">Impairment assessment of cost of investment in subsidiaries – Company</th></tr>
<tr><td colspan="2">Refer to the accounting policy on Note 2.1(i) 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.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As disclosed in Note 6 to the financial statements, the Company has material interests in subsidiaries. It is approximately 29% of the total assets of the Company.

Where there are indicators of impairment assessed for any of the subsidiaries, management will perform impairment tests which will require management to estimate their recoverable amounts and to provide impairment loss when required.

This is a key audit matter because it required significant judgement from us to evaluate management's assessment.</td><td>Our audit procedures, amongst others include:
- In management's assessment of impairment indicators, we challenged whether internal and external factors were considered;

- Assessed the appropriateness of the impairment test carried out by the Company by comparing it with the requirements of the relevant accounting standard;

- Evaluated the key assumptions adopted in the subsidiary's cash flow projections used to determine recoverable amounts, 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 to corroborate the recoverable value of the cost of investment in the subsidiaries; 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.</td></tr>
</table>

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, 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 relevant sections of the annual report, which are expected to be made available to us after the audit report 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 relevant sections 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.

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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.

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: 29 August 2019