Hong Leong Industries Berhad

A Member of the Hong Leong Group

Annual Report 2020

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HONG LEONG INDUSTRIES BERHAD

COMPANY **PROFILE**

Hong Leong Industries Berhad ("HLI") is a public listed company and its shares are traded on the Main Market of Bursa Malaysia Securities Berhad.

HLI is principally an investment holding company whilst the principal activities engaged by its subsidiaries are primarily in the consumer products segment involving in the manufacturing, assembling and distribution of motorcycles, scooters and related parts and products, and manufacturing and sale of ceramic tiles. Other businesses include manufacturing and sale of fibre cement products, and distribution and trading of marine related products.

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

CORPORATE INFORMATION

DIRECTORS

YBhg Datuk Kwek Leng San
(Chairman)

YBhg Dato' Jim Khor Mun Wei
(Group Managing Director)

YBhg Dato' Dr Zaha Rina binti Zahari

Mr Peter Ho Kok Wai

Ms Quek Sue Yian

YBhg Datuk Noharuddin bin Nordin @ Harun

COMPANY SECRETARIES

Ms Joanne Leong Wei Yin
Ms Valerie Mak Mew Chan

AUDITORS

KPMG PLT
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

Tel : 03-7721 3388
Fax : 03-7721 3399

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
Level 25, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur

Tel : 03-2088 8818
Fax : 03-2088 8990

REGISTERED OFFICE

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

Tel : 03-2080 9200
Fax : 03-2080 9238

COUNTRY OF INCORPORATION/DOMICILE

A public limited company, incorporated and domiciled in Malaysia

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-seventh Annual General Meeting of Hong Leong Industries Berhad ("the Company") will be held at Wau Bulan Ballroom, Level 2, Sofitel Kuala Lumpur Damansara, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Wednesday, 4 November 2020 at 10.30 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2020.

2. To approve the payment of Director Fees of RM382,000/- (2019: RM382,000/-) for the financial year ended 30 June 2020 to be divided amongst the Directors in such manner as the Directors may determine and Directors' Other Benefits of up to an amount of RM39,000/- from the Fifty-seventh Annual General Meeting ("AGM") to the Fifty-eighth AGM of the Company. **Resolution 1**

3. To re-elect YBhg Dato' Jim Khor Mun Wei as a Director. **Resolution 2**

4. To re-appoint KPMG PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 3**

SPECIAL BUSINESS

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

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

"**THAT** subject to the Companies Act 2016, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Company's Constitution and approval of the relevant governmental regulatory authorities, if required, the Directors be and are hereby empowered pursuant to Sections 75 and 76 of the Companies Act 2016 to allot shares in the Company, grant rights to subscribe for shares in the Company, convert any security into shares in the Company, or allot shares under an agreement or option or offer at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so allotted on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 4**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(A) of the Circular to Shareholders dated 6 October 2020 with HLCM and persons connected with HLCM ("Hong Leong Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the Hong Leong Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

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

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

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **Resolution 5**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 6 October 2020 with Hong Bee Hardware and Hong Bee Motors provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to Hong Bee Hardware and Hong Bee Motors than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

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

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

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **Resolution 6**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 6 October 2020 with YMC and its subsidiaries ("YMC Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the YMC Group than those generally available to and/ or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

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

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

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **Resolution 7**

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

"**THAT** approval be and is hereby given for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature as set out in Section 2.3(B) of the Circular to Shareholders dated 6 October 2020 with HLIH and persons connected with HLIH ("HLIH Group") provided that such transactions are undertaken in the ordinary course of business, on commercial terms which are not more favourable to the HLIH Group than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders;

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

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

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

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

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution." **Resolution 8**

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

By Order of the Board

Joanne Leong Wei Yin
SSM PC No. 202008002079
MAICSA 0877466

Valerie Mak Mew Chan
SSM PC No. 202008002623
MAICSA 7017944

Company Secretaries

Kuala Lumpur
6 October 2020

Notes:

1. For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 27 October 2020 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.

2. Save for a member who is an exempt authorised nominee, a member entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend, participate, speak and vote in his stead. A proxy may but need not be a member of the Company. A member who is an authorised nominee may appoint not more than two (2) proxies in respect of each securities account it holds. A member who is an exempt authorised nominee for multiple beneficial owners in one (1) securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.

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

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

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

Explanatory Notes:

1. Resolution 1 - Director Fees And Directors' Other Benefits

   Director Fees of RM382,000/- are inclusive of Board Committee Fees of RM142,000/-; and Directors' Other Benefits refer to Directors and Officers Liability Insurance coverage based on premium paid/payable and Directors' training benefits of up to an amount of RM39,000/-.

2. Resolution 4 - Authority To Directors To Allot Shares

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

   As at the date of this Notice, no new shares in the Company were issued and allotted pursuant to the general mandate given to the Directors at the last AGM held on 6 November 2019 and which will lapse at the conclusion of the Fifty-seventh AGM. The Renewed General Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issuance and allotment of new shares, grant of rights to subscribe for shares, conversion of any security into shares, or allotment of shares under an agreement or option or offer, and to avoid delay and cost in convening general meetings to approve the same.

3. Resolutions 5 to 8 - Proposed Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature

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

   Detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 6 October 2020 which is available on the Company's website at www.hli.com.my/gm_current.php .

STATEMENT ACCOMPANYING NOTICE OF **ANNUAL GENERAL MEETING**

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

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

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

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

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

YBHG DATUK KWEK LENG SAN
Chairman; Non-Executive/Non-Independent
Age 65, Male, Singaporean

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

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

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

YBHG DATO' JIM KHOR MUN WEI
Group Managing Director/Non-Independent
Age 56, Male, Malaysian

Dato' Jim Khor Mun Wei graduated with a Bachelor of Engineering (Mechanical) from Glamorgan University, United Kingdom ("UK"). He further obtained his Master in Business Administration from University of South Australia in 2009.

Dato' Jim Khor is concurrently the Managing Director of Hong Leong Yamaha Motor Sdn Bhd ("HLYM"), a role he was promoted into in 2015. He has invested almost three (3) decades of his career with HLYM. He joined the company on 11 November 1991 as Quality Assurance Engineer and has developed his career with the HLI Group. At HLYM, Dato' Jim Khor has well-rounded experience in various parts of the business, including parts and service department, manufacturing operations and sales and marketing.

Dato' Jim Khor was promoted as Group Managing Director of HLI on 1 August 2020. He does not sit on any committee of HLI.

YBHG DATO' DR ZAHA RINA BINTI ZAHARI
Non-Executive Director/Independent
Age 58, Female, Malaysian

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

Dato' Dr Zaha Rina was Consultant to Financial Technologies Middle East based in Bahrain for the set up of Bahrain Financial Exchange launched in January 2009. Prior to this, she was with Royal Bank of Scotland Coutts in Singapore from August 2007 to May 2008. Dato' Dr Zaha Rina has twenty-eight (28) years experience in the financial, commodities and securities industry and the development of the Malaysian Capital Market which includes managing a futures broking company. She was the Chief Executive Officer ("CEO") of RHB Securities Sdn Bhd from 2004 to 2006. She has previous Board appointments at the Commodity and Monetary Exchange of Malaysia ("COMMEX") from 1993 to 1996, and then as the Chief Operating Officer ("COO") of Kuala Lumpur and Financial Futures Exchange ("KLOFFE") in 2001.

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

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

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

MR PETER HO KOK WAI
Non-Executive Director/Independent
Age 61, Male, Malaysian

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

Mr Peter Ho forged his early career with Everett Pinto & Co., a central London Firm of Chartered Accountants, and qualified as a Chartered Accountant in 1984. Subsequently, in 1987, Mr Peter Ho joined KPMG Kuala Lumpur ("KPMG KL"), where he progressed to Head of Department in 1992. He was transferred to KPMG Ipoh in 1993 to head the branch and was admitted as Partner in 1995. He was transferred back to KPMG KL in 2005 where he had, at various times, headed the Audit Technical Committee, Audit Function and Marketing Department. He has more than thirty (30) years of auditing experience in a wide range of companies including public listed companies and multinationals, with particular emphasis in manufacturing, distribution and financial services. Mr Peter Ho retired from KPMG in December 2014.

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

He is a director of GuocoLand (Malaysia) Berhad, Hong Leong Capital Berhad, HPMT Holdings Berhad and Allianz Malaysia Berhad, companies listed on the Main Market of Bursa Securities. He is also a director of Allianz Life Insurance Malaysia Berhad, a public company.

MS QUEK SUE YIAN
Non-Executive Director/Non-Independent
Age 45, Female, Malaysian

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

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

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

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

YBHG DATUK NOHARUDDIN BIN NORDIN @ HARUN
Non-Executive Director/Independent
Age 64, Male, Malaysian

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

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

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

He is a director of Apex Healthcare Berhad, a company listed on the Main Market of Bursa Securities and the Chairman of Malaysia Venture Capital Management Berhad, a public company.

Notes:

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

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

3. ***Conviction of Offences***
   None of the Directors has been convicted of any offences (excluding traffic offences) within the past five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2020.

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

KEY SENIOR **MANAGEMENT**

MR GOH ENG TATT
Chief Financial Officer, Hong Leong Industries Berhad
Age 47, Male, Malaysian

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

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

Notes:

1. ***Family Relationship with Director and/or Major Shareholder***
   Mr Goh Eng Tatt ("Mr Goh") has no family relationship with any Director and/or major shareholder of HLI.

2. ***Conflict of Interest***
   Mr Goh has no conflict of interest with HLI.

3. ***Conviction of Offences***
   Mr Goh has not been convicted of any offences (excluding traffic offences) within the past five (5) years and there were no public sanctions or penalties imposed by the relevant regulatory bodies during the financial year ended 30 June 2020.

Dear valued shareholders,

I am grateful for the opportunity to write to you again as Chairman of Hong Leong Industries Berhad (the "Company") to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2020 ("FY2020").

On behalf of the Board, I would like to congratulate YBhg Dato' Jim Khor Mun Wei on his promotion as Group Managing Director on 1 August 2020 and I look forward to his support and contribution to the Group.

The coronavirus pandemic and the consequent of the movement control measures imposed by the Malaysian Government from March 2020 have adversely affected the Group's operations for FY2020. In view of uncertain market conditions caused by the pandemic, the Group has taken steps to streamline and rationalise some of its operations including closing down some of the non-core and non-profitable operations ("Discontinued Operations"). The Group will continue to take necessary measures to conserve cash and continue to explore ways to reduce cost to mitigate the adverse impact of the pandemic on the Group's performance. We are also committed to ongoing initiatives to drive efficiencies and automation and promote customer relationships across all our business segments.

For FY2020, the Group (excluding Discontinued Operations) recorded lower revenue of RM2,313 million as compared with RM2,528 million for the previous financial year ended 30 June 2019 ("FY2019"). This was mainly due to the movement control measures. Profit before tax for FY2020 was also lower at RM323 million as compared with RM498 million for FY2019.

I would like to thank our shareholders for their continuous confidence and support in our Group. My thanks also go out to our Board of Directors and our management team for their contributions. I am grateful to all our employees who have worked very hard and given their best to our Group throughout the year. My sincere appreciation also goes to our valued customers, business associates, shareholders, financiers and the Government for their continuous support and confidence in the Group. I look forward to our ongoing collaboration in the years to come.

DATUK KWEK LENG SAN
Chairman

MANAGEMENT DISCUSSIONS AND ANALYSIS

OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

Hong Leong Industries Berhad ("HLI") is a public company listed on the Main Market of Bursa Malaysia Securities Berhad.

HLI is principally engaged in the Consumer Products segment which comprises manufacturing, assembling and distribution of motorcycles, scooters and related parts and products and manufacturing and sale of ceramic tiles.

HLI is also involved in other businesses including manufacturing and sale of fibre cement products and distribution, trading and provision of services in marine related products.

Associated companies of HLI are involved in the manufacturing, assembling and distribution of motorcycles and related parts in Vietnam and manufacturing and assembling of motorcycle engines and spare parts in Malaysia.

The Group's businesses are largely in Malaysia which accounted for 93% (2019: 91%) of the total Group's revenue for the financial year ended 30 June 2020 ("FY2020").

GROUP'S FINANCIAL PERFORMANCE

The coronavirus ("COVID-19") pandemic and the consequent movement control measures ("MCO") imposed by the Malaysian Government from March 2020 have adversely affected the Group's operations for FY2020. In view of the uncertain market condition caused by the pandemic, the Group has taken steps to streamline and rationalise some of its operations including closing down some of the non-core and non-profitable operations ("Discontinued Operations").

For FY2020, the Group (excluding Discontinued Operations) recorded lower revenue of RM2,313 million as compared with RM2,528 million for the previous financial year ended 30 June 2019 ("FY2019"). Profit before tax ("PBT") for FY2020 was also lower at RM323 million as compared with RM498 million for FY2019. The lower PBT was due to the lower sales recorded across all product segments which were impacted by the COVID-19 pandemic and the MCO, coupled with lower profit contribution from associated companies in FY2020.

The Group has put in significant efforts to streamline processes, enhance operational efficiencies and reduce costs structurally to mitigate the adverse impact from the COVID-19 pandemic. These efforts have contributed to a decrease in operating expenses by 13%, from RM175 million in FY2019 to RM153 million in FY2020.

CONSUMER PRODUCTS SEGMENT

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

Motorcycle - Overview

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

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

CONSUMER PRODUCTS SEGMENT (cont'd)

Motorcycle – Performance Review

Total motorcycle industry sales volume declined by 8%, from 572,000 units in FY2019 to 527,000 units in FY2020 largely due to the COVID-19 pandemic and MCO. Yamaha continued to uphold its market leader position for FY2020 and is currently well represented in all segments of the motorcycle industry. This was made possible with the continued investment into brand building activities which had further entrenched Yamaha brand as a Premium brand with high quality products. It also reflected the confidence on HLYM as an established manufacturer and distributor of motorcycles in Malaysia.

HLYM will continue its untiring drive towards transforming the organisation to automate and widespread application of information technology across its after sales services in order to sustain a highly responsive and cost effective service base that continually evolving the business in attaining a higher level of after sales service to its dealers and customers.

To support the increasing demand for Yamaha motorcycles, the manufacturing operation had taken quick and proactive measures to gear up its capacity and improve its productivity, to ensure timely delivery of our products to customers. As an ISO and TPM award company and company embarking on manufacturing excellence, HLYM is well positioned to take full advantage of the latest manufacturing know-how to further enhance its capacity and productivity to improve operational efficiency and product quality.

Yamaha continues its efforts in 1C3S (Customer, Sales, Service and Spare parts) concept to serve its customers and secure its premium branding image. During FY2020, HLYM rolled out a new Extended Warranty programme for all Yamaha models which allows its customers to enjoy a better product value and a longer protection terms.

To serve customers better, HLYM has opened its first Yamaha Lifestyle Station at the HLYM complex in Sungai Buloh during FY2020. It is an ideal space to carry out Yamaha group activities. It has a well-equipped service station, training centre and a Yamaha products showroom which displays Yamaha motorcycles and merchandise like apparels and bags. There is also a Gen Blu café within this station where customers could relax and enjoy light meals.

Yamaha dominates the local AAM Petronas Cub Prix in both the CP150 and CP115 categories and actively involved in organising various activities like Gen Blu carnival, riding convoys and events to thank customers for their support. In FY2020, Yamaha had attained the Malaysia Book of Records based on the highest number of bikes gathered in the Gen Blu Carnival.

Total motorcycle industry demand in Vietnam contracted by 10%, from 3,290,000 units in FY2019 to 2,971,000 in FY2020 mainly resulted from the COVID-19 pandemic and economic slowdown in Vietnam in the second half of FY2020.

Consequently, YMVN sales also dropped from 618,700 units in FY2019 to 510,200 units in FY2020. Yamaha market share in Vietnam declined slightly during FY2020 as there was no launching of new models, coupled with stiff competition from the competitors and importation of new motorcycle models.

The motorcycle industry in Vietnam remains challenging in the short term but still positive in the longer term.

CONSUMER PRODUCTS SEGMENT (cont'd)

Ceramic Tiles – Overview

Guocera Holdings Sdn Bhd ("GHSB") is the holding company for the tiles business of HLI. GHSB, through its two manufacturing facilities located in Kluang, Johor and Meru, Selangor respectively ("GHSB Group"), manufactures and distributes a full range of ceramic and porcelain tiles.

Inspired by the quality Italian craftsmanship and its artisan ethos, Guocera is a well-recognised household brand in Malaysia. GHSB Group, through its presence in Asia Pacific, Middle East and Europe over the past 40 years, has also been a globally-recognised brand. In FY2020, GHSB Group launched its new branding, "LET'S REIMAGINE" with a collection of tiles named "InMagine".

Ceramic Tiles – Performance Review

The performance of GHSB Group has been adversely affected by the COVID-19 pandemic especially in the second half of FY2020. To mitigate this, GHSB Group had streamlined and rationalised some of its products and operations during FY2020.

GHSB Group will continue to enhance its manufacturing efficiency, entrench into key export markets and improve its margin by expanding its new products, the InMagine series.

OTHER BUSINESSES

Fibre Cement Board

Fibre cement board are distributed and sold under the brand name "PRIMABOARD". The products are distributed to both local and overseas markets via retail as well as projects.

Fibre Cement Board - Overview

Hume Cemboard Industries Sdn Bhd ("HCI"), a wholly-owned subsidiary of HLI, started its commercial production in 1982. HCI manufactures and distributes the PRIMABOARD family of products, comprising cellulose fibre cement boards in various dimensions that provide internal lining and external architectural cladding solutions for buildings and permanent solution for bridges and flyovers. Fibre cement board products are made of high grade cellulose fibre, quality cement, sand and water and can be used in myriad applications in the residential, industrial and commercial markets.

The fibre cement board products are manufactured in 2 plants located in Petaling Jaya, Selangor and Kanthan, Perak. respectively. HCI is the leading domestic player in the fibre cement board industry and distributes products both locally and internationally. Its export markets include Australia, New Zealand, Taiwan, South Korea, Middle East, Vietnam and the Philippines.

Fibre Cement Board – Performance Review

The performance of HCI was also adversely affected by the COVID-19 pandemic and MCO in FY2020. Remedial actions taken include product rationalisation and production efficiencies improvement.

In FY2020, HCI had developed a new product series named "Fremento" with good aesthetic image which fetches good margin. The company will strategise to launch this new product series effectively for wide market acceptance in the financial year ending 30 June 2021 ("FY2021").

OTHER BUSINESSES (cont'd)

Marine Related Products

Marine related products are distributed and sold under the Yamaha brand. Sales and distribution of these products are undertaken generally through strategic partnership with key distributors and dealers.

Marine Related Products - Overview

HLY Marine Sdn Bhd ("HYM"), a wholly-owned subsidiary of HLI, was appointed as the exclusive distributor of Yamaha outboard motor products since April 2017. The company currently operates from Sungai Buloh, Selangor and 4 branches in Malaysia offering sales, service and spare parts of Yamaha outboard motor products nationwide through a network of dealers.

Marine Related Products – Performance Review

HYM is well positioned in all segments of marine market in West Malaysia. To maintain its market leader position, HYM has embarked on a branding programme through social media marketing and promotion via education programmes under the Yamaha Technical Academy. To enhance customers stickiness, HYM has increased its efforts in on-the-ground promotional activities during FY2020.

RISKS AND OPPORTUNITIES

The adverse impact of the COVID-19 pandemic will stretch to FY2021 and the market recovery remains uncertain. Although the Malaysia motorcycles registration has improved since the relaxation of MCO, its sustainability remains a concern. Demand for building material products is likely to remain weak in FY2021.

As the COVID-19 pandemic is affecting the whole world, the management is concerned with the global supply disruption risk and is taking all steps to ensure minimum disruptions to productions.

On the consumer products segment, the focus is to improve its distribution channels by strengthening the stickiness of customers to secure and expand the Group's position. To remain competitive and sustainable in the longer term, the Group's initiatives include continuous investment in training and development of staffs at various levels as well as adoption of new manufacturing technologies for products and process improvements.

Steps have been taken to streamline and rationalise some of the operations including closing down some of the non-core and non-profitable operations in FY2020. Significant efforts have also been put in place to streamline the production processes to improve the cost and operational efficiencies.

The Group's businesses are exposed to foreign currency fluctuations with the imports of raw materials and exports of finished goods. The Group manages and minimises foreign currency fluctuation risk through non-speculative hedging in forward contracts.

DIVIDEND

The Company declared and paid a first and second interim single tier dividends totalling 42 sen per share for FY2020, as compared to the total dividends of 50 sen per share (including a special interim dividend of 10 sen per share) in FY2019.

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

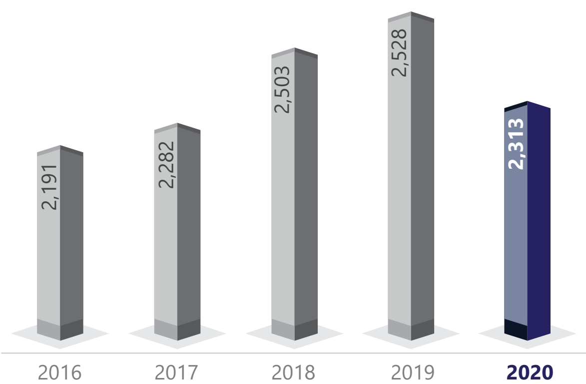
MOVING FORWARD

In view of the uncertain market condition ahead, the Group will continue to take necessary measures to conserve cash and continue to explore ways to reduce cost to mitigate the adverse impact of the COVID-19 pandemic on the Group's performance.

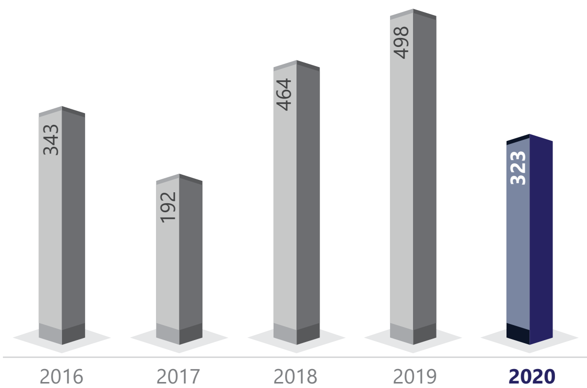
GROUP
FINANCIAL HIGHLIGHTS

RM'Mil	2016	2017	2018	2019	2020
Revenue	2,191	2,282	2,503	2,528	**2,313**
Profit Before Taxation	343	192	464	498	**323**
Profit attributable to Owners of the Company	247	103	335	327	**169**
Net Earnings Per Share (sen)	80	33	108	104	**54**
Net Dividend Per Share (sen)	42	45	47	50	**42**
Total Equity	1,400	1,383	1,585	1,763	**1,838**
Total Assets	1,881	1,837	2,014	2,179	**2,199**
Capital Expenditure	55	58	38	38	**57**

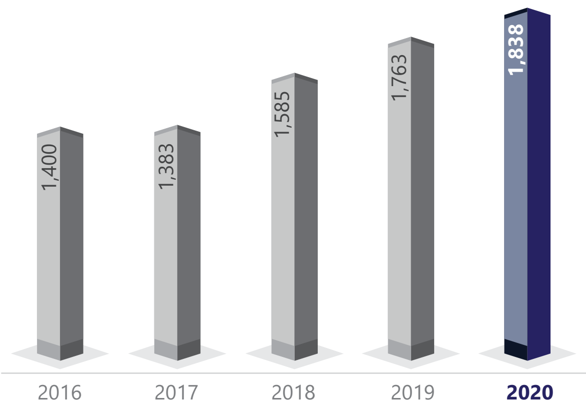
REVENUE
(RM'million)



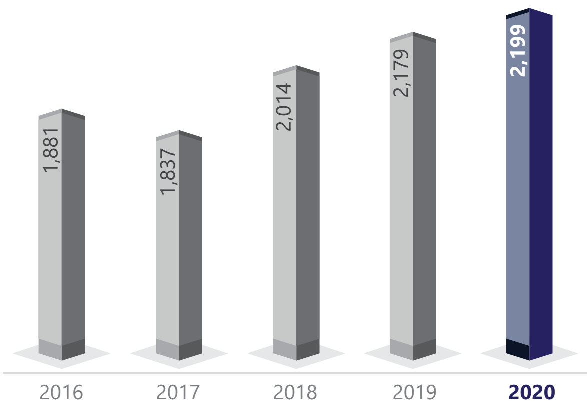
PROFIT BEFORE TAXATION
(RM'million)



TOTAL EQUITY
(RM'million)



TOTAL ASSETS
(RM'million)



Hong Leong Group is built on the strong heritage of value creation for the stakeholders and communities within which Hong Leong Industries Berhad and its subsidiaries (the "Group") operates. Over the years, the Group has taken a progressive approach in integrating sustainability into its businesses, towards a stronger and more resilient Group. The Group is committed to grow its businesses responsibly, balancing environmental with economic considerations, as well as creating a positive impact to the stakeholders and contributing to the communities.

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

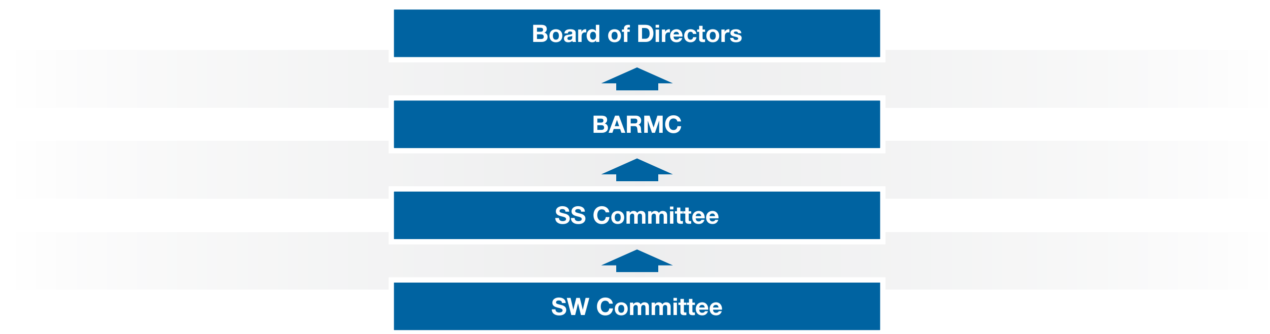
The Group works closely with a broad spectrum of stakeholders where businesses are always conducted with integrity and full cognisance of its impact in the community and society as a whole. In the course of developing this report for the work in the area of sustainability, the Group methodically applied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

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

The Group are committed to ensure that the responsibility towards society and environment is guided by the Hong Leong Group's core values.

Governance Structure

The sustainability governance structure of The Group comprises the Board of Directors ("Board") as the highest governing body and play an important role in approving sustainability framework and deliberate reports from the Board Audit and Risk Management Committee ("BARMC") on sustainability and risk governance issues. The Sustainability Steering ("SS") Committee which includes the Group Managing Director and the Chief Financial Officer acts as a guiding role and bridge between the Sustainability Working ("SW") Committee and the Board and BARMC. The SW Committee comprises Operating Managers and Heads of Department of operating companies. This structure enables the Group to continue to add value to its stakeholders in all aspects of its businesses.



Scope of this Statement

This sustainability statement focuses on the collective sustainability efforts undertaken by the Group's key operating companies. This sustainability reporting covers the material economic, environmental, and social aspects of the key operations within the Group in Malaysia covering from 1 July 2019 to 30 June 2020 ("Sustainability Statement" or "the Statement").

Key operations within the Group in Malaysia:

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

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

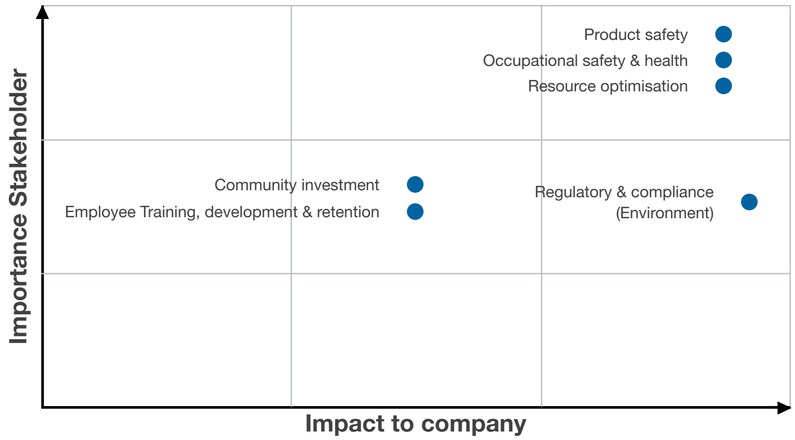
Stakeholder Engagement

The Group understands the importance of stakeholder engagement in the success, growth and survival of the businesses. The Group strives to foster strong and long-term relationships with its stakeholders at all levels. Through dedicated communication mechanisms, the Group has collected and incorporated important stakeholder feedback into the sustainability strategies. The table below summarises the stakeholder engagement approaches and the main sustainability concerns identified.

Stakeholder Group	Type of Engagement	Sustainability Topics
Customers	• Customer feedback • Showroom	• Product safety • Quality assurance
Employees	• Annual performance evaluation sessions • Training	• Training, development & retention • Occupational safety & health • Employees' reward and compensation packages
Shareholders	• Annual General Meeting	• Corporate governance • Shareholders returns • Economic performance
Regulators	• On-site inspection • Correspondance on regulation	• Regulatory & compliance (environment)
Local communities	• Community programme	• Community investment • Resource optimisation

The Materiality Matrix

The Group appllies a progressive approach in the sustainability reporting. Through communications and feedback from stakeholders, the Group has identified sustainability matters that are close to all stakeholders' heart across the economic, environmental and social aspects.



1. PRODUCT SAFETY

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

Operating Companies	Initiatives
HLYM	• Yamaha Balik Kampung Road Safety Campaign • Yamaha Safety Riding Science ("YSRS") • Yamaha Technical Academy ("YTA") and Yamaha Parts & Accessories Academy ("YPA")
Guocera	• Technical training on properties and applications of ceramic tiles to ensure safe use.

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

HLYM

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

Yamaha Balik Kampung Road Safety Campaign

Yamaha Balik Kampung Road Safety Campaign is a pioneer programme by embarked by HLYM in collaboration with Malaysian Motorcycle & Scooter Dealers Association ("MMSDA"). This campaign emphasises on raising road safety awareness for motorcyclists preparing to travel to their hometown for Hari Raya. This annual event has been held for the past 21 years during the Hari Raya festive period.

1. PRODUCT SAFETY (CONT'D)

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

HLYM (CONT'D)

Yamaha Balik Kampung Road Safety Campaign (cont'd)

During the financial year ended 30 June 2020 ("FY2020"), this campaign could not be carried out due to the coronavirus ("COVID-19") pandemic. As an alternative, an interactive online "Yamaha Cares Safety Campaign" was launched and hosted on official Facebook page of Yamaha Motor Malaysia in April 2020. It served to create road safety awareness for motorcyclists preparing to travel once the interstate travel ban was lifted.

During the period of the Conditional Movement Control Order ("CMCO"), HLYM together with MMSDA also launched a free Service Campaign to all Yamaha customers. Besides no labour charge was imposed, HLYM also distributed hygiene kits which comprised face masks and hand-sanitiser to customers. This free Service Campaign was conducted at Sungai Buloh's plant as well as all branches in Johor, Perak, Penang and Kuantan.

YSRS and YSRS KIDS campaigns

YSRS is a safety programme introduced since year 2005 where the target audiences are public servants, corporate office workers as well as college and university students. YSRS aims to educate motorcyclists on safe riding skills from a scientific approach. It is divided into two sessions, i.e. theory and practical usage of motorcycles.

YSRS KIDS is a road safety education programme for primary school students aged between 10 and 12 years old. During FY2020, these campaigns were held in seven schools and reached up to more than 1,500 students.

YTA and YPA education programmes

The on-going technology advancement in the motorcycle industry demands for upskilling of technicians for after-sales service purposes. Hence, HLYM provides Yamaha Diagnostic Tools training to technicians under the YTA and YPA education programmes.

Guocera

Guocera is dedicated to provide quality tiles with safety measures in mind through stringent measures of testing and research. The operation conducts regular technical training on the properties and applications of ceramic tiles for developers, contractors, specifiers, distributors as well as the sales team on the correct selection and safe usage of products. The training content covers education on the properties of tiles which explains, amongst others, the importance of using suitable materials and proper installation methods to prevent potential tiling failures which could pose safety hazard.

Physical properties such as the slip resistance of the tiles are made known to the customers and the slip resistance rating is specified in product brochures. Guocera also provides guidance on the choice and the suitability of the tiles for the right application, e.g. tiles with anti-slip properties to be specified for wet areas. Guocera's testing facility in Ceramic Research Company Sdn Bhd ("CRC"), a subsidiary of GHSB, which is accredited with ISO/IEC 17025, provides ISO anti-slip testing as well as all relevant dimensional, physical and chemical properties for the tile industry in conformance to international standards.

1. PRODUCT SAFETY (CONT'D)

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

HCI

HCI is committed in inculcating good quality and product safety into the manufacturing processes of PRIMA products which are made safe to value customers and also the environment. PRIMA products are made of raw materials that are sourced from Forest Stewardship Council certified sources. The manufacturing methods and processes are ISO certified and the PRIMA products are manufactured in a 100% asbestos free environment.

ii. Product Improvement (Commitment to safe products):

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

For Guocera, every piece of tile goes through a state-of-the-art sorting process which consists of auto inspection by surface quality machine to detect and segregate tiles with surface imperfections, followed by surface flatness and size measuring machine. Before shipment, the tiles will be inspected by the quality assurance inspectors. Besides, tiles which involve safety criteria such as slip resistance are tested and rated to ensure compliance to slip resistance requirements. The critical properties such as water absorption, breaking strength, and chemical resistance are tested on a daily basis whilst CRC conducts regular test on tiles for confirmation purposes. Guocera also ensures that all raw materials used in the manufacturing process are free from hazardous substance like lead, cadmium and asbestos. Hence, the tiles are safe for use on table-tops and food preparation areas. Guocera tiles are certified with a CE Mark, a certification mark of conformity with health, safety and environmental protection standards for products sold within the European Economic Area. In addition, Guocera tiles are Greenguard certified which signifies the product met the world's most rigorous and comprehensive standards for low emissions of Volatile Organic Compounds ("VOC").

HLYM

- ISO9001:2015 (Quality Management System)
- ISO14001:2015 (Environment Management System)
- UNR Compliance for motorcycles

Guocera

- MS ISO 13006 (Product Certification)
- EN14411:2012 (CE Mark)
- ISO9001:2015 (Quality Management System)
- ISO14001:2015 (Environment Management System)
- OHSAS 18001:2007 (Occupational Health and Safety Management System)
- GREENGUARD
- SIRIM Eco Label
- Singapore Green Label

1. PRODUCT SAFETY (CONT'D)

ii. Product Improvement (Commitment to safe products): (cont'd)

HCI

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

5S Programme

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

2. RESOURCE OPTIMISATION

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

Key activities include:

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

HLYM has initiated 3Rs Kaizen competition to encourage and to cultivate 3Rs practices. Participants came out with various creative ideas to reuse and recycle scrap into usable tools.

2. RESOURCE OPTIMISATION (CONT'D)

i. Water recycling

The operating companies mainly draw their water source from the municipal water supplies. Some companies have invested in water treatment and recycling facilities to ensure efficient use of water which are both environmentally friendly as well as part of cost saving initiatives.

Water Recycled & Reused (Guocera)	Water Recycled & Reused (HCI)
2020 : **95%**	2020 : **70%**
2019 : 95%	2019 : 70%

Guocera uses closed loop water recycling system where the wastewater from Raw Material Body ("RMB") and Raw Material Glaze departments will be treated by Waste Water Treatment Plant ("WWTP") and the treated water from WWTP will be reused in RMB. Therefore, the water loss will be less than 5% due to evaporation. In addition, Guocera also recycled the excess water from the spraying application at the glazing line for usage at its ball mill.

HCI has incorporated water recycling as part of the manufacturing process. Fresh water used in softeners, water jetting systems, pump seals and steam generation are recycled back to HCI's plant process water system and to be used in the raw material transportation during the wet process of product formation and in the machine spray systems.

ii. Energy consumption and energy efficiency

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

During FY2020, the operating companies have initiated some of the energy saving activities listed below:

HLYM

HLYM completed its first phase of solar panel installation during FY2020. The solar panel has a capacity of 36 kW to generate energy of 45,000 kWh annually which will reduce 34 metric ton of CO_2 emission. HLYM has also converted 1 unit of hydraulic type of injection moulding machine to energy saving type of electric servo motor. This replacement provides average saving of 70% of energy usage as compared with conventional machine.

Guocera

Guocera has replaced their conventional air compressor to the inverter type compressor and also installed inverters to spray dryer motor, ball mill motors, stirrer tank, kiln motor, horizontal dryer motor and underground tanks motor which are more energy efficient. Most of the conventional lights have been replaced with energy savings LED lights at the shop floor and offices. Guocera has rationalised the use of transformers and thus closed 3 unit of transformers amounted 45,000 KVA.

HCI

HCI is in the process of replacing, by stages, their conventional light bulb to LED bulb.

2. RESOURCE OPTIMISATION (CONT'D)

iii. Materials recycling

Guocera has increased the recycling of fired rejects and dosing of sludge into its tiles' body formulation.

3. REGULATORY & COMPLIANCE (ENVIRONMENT)

Operating Companies	Initiatives
HLYM	ISO14001 (Environmental Management system) accredited
Guocera	All the monitoring and analysis related to Environmental Management System will be carried out by accredited third party laboratories for submission to Department of Environment Malaysia ("DOE")
HCI	Adheres to strict regulations of DOE

The Group sets objectives to achieve high standards in environmental management by evaluating the businesses and operations periodically and take active steps to reduce environmental impact wherever possible. Hazardous and non-hazardous emissions as well as effluents, are generated from processes undertaken in the production. Therefore, the utmost priority is to reduce such emissions and wastes at source and perform recycling activities wherever possible.

i. Emissions

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

HLYM also undertakes the Scheduled Stack Air Emission monitoring, testing of chimney stack gas and particulate emissions as part of the compliance to Regulations of the Environmental Quality (Clean Air) Regulation 2014.

In order to monitor the impact on the environment, HLYM engage third party consultancy firms for collection of data for submission to the DOE on emissions released to the environment from the manufacturing plants.

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

- Ambient Air Monitoring on a monthly basis to identify the total suspended particulate generated from the surrounding areas;
- Stack emission monitoring for dust collector and for chimney (three times a year); and
- Generator Set monitoring on an annual basis.

HCI, for instance, will conduct an annual monitoring on its Boiler Air Emission and Chemical Exposure. The results from the data collected indicated that the emission and chemical exposure have met the standard limits set by local regulators.

In addition to this, HCI also provides internal training and education programme to employees to ensure common objectives and understanding on compliance matters are taken seriously.

From these tests, operating companies of the Group would obtain confirmation that emissions are within the requirement set by the DOE. All related reports will be submitted to the DOE.

3. REGULATORY & COMPLIANCE (ENVIRONMENT) (CONT'D)

ii. Waste and Effluent

For HLYM, all its waste and effluent are systematically controlled and monitored in accordance with ISO 14001. HLYM has initiated a recovery and recycling of its washing thinner which is being used to clean its painting equipment. This initiative will reduce the amount of Volatile Organic Compound discharged to the environment.

To reduce the waste disposal from the waste sludge generated by the production painting lines, HLYM has created a filtering system to extract the excess moisture and liquid from the sludge. This filter system will reduce 81% of waste disposal. The liquid is then treated in waste water treatment plant and discharged according to the regulations. This filtration and recovery process is the initiative in conserving the environment.

Guocera has successfully obtained the approval from DOE for special management of scheduled waste (waste recycling programme) to use the Filter Cake (Sludge) from WWTP as an alternative raw material for brick product. Other scheduled waste is segregated into hazardous and non-hazardous waste, for recycling as well as to be sent to landfills at prescribed premises licenced by DOE. These are determined based on the nature of the items disposed for instance, scrap metal and reject cartons are sold for recycling purposes.

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

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

4. EMPLOYEE TRAINING, DEVELOPMENT, RETENTION

i. Training, Development and Retention

Human capital is the key driver for success. Hence it is an area where the Group has and will invest in continually. Employees within the Group are exposed to a diverse and comprehensive range of learning and development opportunities. The Group provides training on a needs basis. Upon assessment via Training Needs Analysis to identify the skills and knowledge gaps, training with relevant programmes and content will be provided to bridge the gaps. Most training focuses on employees who are performing work relating to product quality whereby competencies are important to ensure customers' satisfaction. Training programmes fall under the following development pillars - Culture and Values, Leadership, Business Specific and General Management.

Due to the constraint of movement control measures during the COVID-19 pandemic, Hong Leong Manufacturing Group has adopted online training by way of video conference or self-paced learning for the employees.

Hong Leong Group recognises that developing a professional begins at the entry point of one's career and requires a structured approach. The Graduate Development Programme ("GDP") provides an opportunity for fresh graduates to gain valuable experience and knowledge. The programme includes specific training activities such as 5S culture and initiatives, Quality and Productivity Programme as well as project presentation which requires graduates under the GDP to review innovative processes and present their own ideas and proposals after a period of time in their workplace. Upon completion of the programmes, these individuals are subsequently transitioned to key roles in the manufacturing companies within the Hong Leong Group. The GDP is geared towards building a talent pipeline for the Group. The retention rate of graduated GDPs during FY2020 is outlined below:

Operating Companies	Retention rate from GDP
HLYM	75%
Guocera	40%

4. EMPLOYEE TRAINING, DEVELOPMENT, RETENTION (CONT'D)

i. Training, Development and Retention (cont'd)

The Group has also introduced a programme called Protégé to develop fresh graduates with the aim of accelerating their growth into leadership roles. Apart from going through similar training as those under the GDP, the Protégé is assigned to work on key projects with other companies under Hong Leong Group. The first batch of the Protégés are currently undergoing the 18-months training programme.

The Group encourages direct engagement between workers and management. Workers openly communicate and share grievances with management about their working conditions and management practices without fear of reprisal, intimidation and harassment. This is an effective way of resolving workplace issues. The Group practises bi-monthly "Management-Union" and monthly "HR-Union" meetings as a platform to create industrial harmony at the workplace.

HYLM

HLYM has collaborated with INPENS International College and GIATMARA Malaysia to initiate the Technician Apprenticeship Programme ("TAP") to bridge the skill gap between technical training institute and motorcycle industries. Through TAP, HLYM aims to develop a pool of skilled technicians for Yamaha Authorised Dealers and also to maintain a high level of after sales services to customers. The apprentice will undergo a selection process and 9 months of "On-The-Job" training programme which includes 3 months attachment at selected Yamaha authorised dealers. Upon completion, the apprentice will be awarded with a certificate from HLYM and will be employed by Yamaha Authorised Dealers nationwide. As of to date, a total of 22 apprentices were deployed to the dealers.

Guocera

To stay competitive in the industry, Guocera has to ensure the operation is constantly improving in all aspects. In realising it, Guocera needs to ensure that the workers' competencies are at par with both current and future developing technologies. Thus, Guocera established a programme known as Upskilling Workforce. In collaboration with Jabatan Pembangunan Kemahiran Malaysia ("JPK") and reference to the National Occupational Skills Standard, a complete training modules and relevant curricular were successfully produced. Workers will go through all the Upskilling modules for the 8-month period and upon completion, they will be certified as competent personnel with Sijil Kemahiran Malaysia ("SKM"). During FY2020, a total of 15 workers have gone through specific training on kiln operations. Once evaluated by JPK and successfully completed this programme, they will be awarded with the SKM certification.

5. OCCUPATIONAL SAFETY AND HEALTH

Operating Companies	Initiatives
HLYM	• Safety and Health training to employees
Guocera	• Monitoring of work-related injuries • 5S Committees • Awareness programme to employees
HCI	• Employee Annual health screening • DOSH Machinery Inspections and Certifications

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

5. OCCUPATIONAL SAFETY AND HEALTH (CONT'D)

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

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

6. HUMAN RIGHTS

As a responsible corporate entity, the Group understands the importance of upholding the rights of all employees. That leads to a desire to continuously improve the welfare and conditions of work. Similarly, the Group recognises the right to freedom of association and collective bargaining and allows trade unions to have access to employees.

In line with the Group's respect to human rights, the Group do not retain workers' passports/identity documents and withhold workers' wages other than as prescribed by law. The Group will also ensure that the statutory monthly minimum wage and overtime compensation for all the employees will be in accordance with Malaysia's labour regulations.

The Group is also committed to the elimination of all forms of illegal, forced, bonded, compulsory or child labour. The Group operates an open, transparent, and collaborative approach to resolving workers' and stakeholders' grievances.

As a firm believer that all employees should be treated fairly and everyone deserves a voice, The Group launched a whistle blowing hotline in 2019. This hotline provides a direct communication platform for employees to reach out directly to the Management should there be any work-related issues or grievances that the employees would wish to highlighted to the Management. Employees are happy with this hotline; various issues were highlight and improved upon successfully.

7. COMMUNITY INVESTMENT

Operating Companies	Initiatives
HLYM	• Yamaha Cares Club • International Women's Day 2020
Guocera	• Hong Leong Group SMARTAN Challenge 2019 • Tile donation to Simpang RenggamPrison, Johor (Ongoing) • Internship programmes for local universities and colleges (USM, UTHM, UiTM, UTAR, UNIMAS, UniKL, APU, PIS, PMS) • Career guidance programmes (UTEM , UTHM, UTP) • MOU with UTEM on Collaboration for Tiles Manufacturing
HCI	• Internship programmes for local universities and colleges (UiTM, UniKL, UMP, KPTM, PSMZA, GMI)

HLYM

Under the social initiatives, HLYM via its own Yamaha Cares Club ("YCC") has conducted several social engagement activities together with the Yamaha dealers and customers. During FY2020, YCC hosted a Free Market Programmes at PPR Beringin Kuala Lumpur to provide new/used consumer goods which were in good condition to people in the lower income group. Free health checks were also provided. This programme was estimated to benefit 20 poor families.

Other social engagement programmes that were carried out during FY2020 were as follows:

1. Yamaha Cares at Persatuan Kebajikan OKU Hati Berganda Selangor
2. Saiful's Make A Wish Day
3. Yamaha Cares with Anak-Anak Orang Asli SK Pos Raya

During the International Women's Day 2020, YCC together with authorised dealers have also jointly hosted a Yamaha Cares International Ladies Ride to various rumah anak yatim below:

1. Pusat Jagaan Anak Yatim dan Miskin Sri Kundang
2. Pusar Jagaan Kasih Abadi, Taman Sena Kepala Batas
3. Pertubuhan Kebajikan Anak-Anak Yatim Islam (PKAYI) Daerah Pontian, Johor
4. Pondok Anak Yatim Tok Bali, Semerak Pasir Puteh Kelantan
5. Hospital Daro, Sarawak

7. COMMUNITY INVESTMENT (CONT'D)

Guocera

During FY2020, Guocera supported a fundraising event for "We Care Journey" (WCJ-Ceriajaya PLT) which focused on creating awareness on Spinal Muscular Atrophy (SMA), a neuromuscular disease that takes away the ability for a person to move, walk, eat or breathe without assistance.

Simpang Renggam Prison has a partnership with Construction Industry Developement Board to conduct skills training programmes for inmates and detainees where they are trained in building and construction skills such as tiling, roofing, plastering, wiring and landscaping. Guocera plans to donate the tiles according to the specification and quantity required for the project to Simpang Renggam Prison.

Guocera & HCI

Over the years, Guocera welcomed a number of interns from various local universities and colleges, namely USM, UPM, UTHM, UiTM, UTAR, UNIMAS, UniKL, APU, PIS, PMS and etc. In October 2019, Guocera signed a memorandum of understanding with UTEM on a collaboration on "Research on Materials for Tiles Manufacturing".

HCI also hosted a number of interns from various local universities and colleges, namely UiTM, UniKL, UMP, KPTM, PSMZA and GMI. HCI provides students with numerous opportunities and valuable experiences.

During their on-the-job training period, students were exposed to the actual working environment. This eventually helps them to gain first-hand industry knowledge as well as develop both technical and personal skills, while acknowledging their personal interests and abilities.

LOOKING FORWARD

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

"Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

~ Finance Committee on Corporate Governance

The Board of Directors ("Board") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Group which supports the three (3) key principles of the Malaysian Code on Corporate Governance ("MCCG"), namely board leadership and effectiveness, effective audit and risk management, and integrity in corporate reporting and meaningful relationship with stakeholders.

The Corporate Governance Report 2020 of the Company in relation to this statement is published on the Company's website at www.hli.com.my ("Website").

BOARD LEADERSHIP AND EFFECTIVENESS

A. Roles And Responsibilities Of The Board

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

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

The day-to-day business of the Group is managed by the Group Managing Director ("GMD") who is assisted by the management team. The GMD and his management team are accountable to the Board for the performance of the Group. In addition, the Board delegates certain of its responsibilities to Board Committees, which operate within clearly defined TOR primarily to support the Board in the performance of its duties and responsibilities.

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

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

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

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

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

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

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

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

B. Board Composition

The Board currently comprises six (6) Directors, three (3) of whom are IDs. The profiles of the members of the Board are set out in the Annual Report.

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

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

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

Based on the review of the Board composition in August 2020, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees

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

- **BARMC**

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

The TOR of the BARMC are published on the Website.

- **NC**

The NC was established on 30 April 2013 and its TOR are published on the Website.

The composition of the NC is as follows:

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

Mr Peter Ho Kok Wai
Independent Non-Executive Director

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

(i) New Appointments

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

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

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- **NC** *cont'd*

(ii) Re-election

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

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

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

(iii) Removal

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

(iv) Board Committee Appointments

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

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

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

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, Board Committees as a whole and the contribution and performance of each individual Director, Board Committee member, Chief Executive and CFO on an annual basis ("Annual Board Assessment"). For newly appointed chairman, directors, chief executive and chief financial officer, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one (1) year of service.

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

The NC meets at least once in each FY and additional meetings may be called at any time as and when necessary. Recommendations and decisions may also be taken by way of Circular Resolutions.

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

C. Board Committees *cont'd*

- **NC** *cont'd*

The NC met once during FY ended 30 June 2020 ("FY 2020") where all the NC members attended.

The NC discharged its duties in accordance with its TOR during FY 2020. The NC considered and reviewed the following:

- Nominating Committee Charter and policies on Board Composition, Independence of Directors, Board Diversity and Directors' Training;
- Nominating Committee Report;
- composition of the Board and Board Committees;
- mix of skills, professional qualification, experience and other qualities of Directors including gender, ethnicity and age balance;
- independence of IDs and their tenure;
- trainings undertaken by Directors and recommendation of training programmes for Directors; and
- re-election of Directors.

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

The NC has also evaluated the performance of the Board, Board Committees, each individual Director, each Board Committee member and the CFO, benchmarking their respective TOR and assessment criteria, and through the annual assessment conducted during FY 2020. The NC was satisfied that they have continued to operate effectively in discharging their duties and responsibilities. They have also fulfilled their responsibilities and are suitably qualified to hold their positions.

- **Remuneration Committee ("RC")**

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

D. Remuneration

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

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

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

D. Remuneration *cont'd*

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

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

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

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

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

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

E. Independence

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

The Company has in place an Independence of Directors Policy ("ID Policy") which sets out the criteria for assessing the independence of IDs. The Board will apply these criteria upon admission, annually and when any new interest or relationship develops. The ID Policy states that the tenure of an ID shall not exceed a cumulative term of nine (9) years from the date of his or her first appointment in the Company.

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

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

F. Commitment

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

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Commitment *cont'd*

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

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

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

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

The Board met four (4) times for FY 2020 with timely notices of issues to be discussed. Details of attendance of each Director are as follows:

Directors	Attendance
YBhg Datuk Kwek Leng San	4/4
Mr Peter Ho Kok Wai	4/4
YBhg Dato' Dr Zaha Rina binti Zahari	4/4
Ms Quek Sue Yian	4/4
YBhg Datuk Noharuddin bin Nordin @ Harun	4/4

YBhg Dato' Jim Khor Mun Wei was appointed to the Board after the close of FY 2020.

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

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

All Directors of the Company have completed the Mandatory Accreditation Programme except for YBhg Dato' Jim Khor Mun Wei who was appointed to the Board after the close of FY 2020.

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Commitment *cont'd*

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

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

During FY 2020, the Directors received regular briefings and updates on the Group's businesses, strategies, operations, risk management and compliance, internal controls, CG, finance/accounting, anti-bribery and corruption management and any changes to relevant legislation, rules and regulations from in-house professionals. In-house programmes were also organised for the Directors and SM of the Company.

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

During FY 2020, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Awareness on ISO 37001:2016 Anti-Bribery Management System
- Tax Implications for Debt Restructuring
- Culture of Innovation
- Tropical Basic Offshore Safety Induction and Emergency Training (BOSIET) with EBS and Travel Safely by Boat (OPITO Approved)
- Basic Hydrogen Sulphide (H2S) Training on H2S Hazards including Practical Usage of Gas Detector and Escape Breathing Apparatus (EBA)
- Rebuilding Malaysia-Leaving No Stone Unturned
- Preparing for Corporate Liability on Corruption under MACC Act 2009
- How the US-China Trade War Will Move Forward
- The Business Normal
- Re-Inventing the Malaysian Business Landscape Post-MCO
- Executive Talk on Integrity and Governance
- FIDE Programme - Module A (Insurance)
- Actuarial Training for Directors - Risk Based Capital & Ordinary Life Insurance in Malaysia
- AMLA Training 2019
- MFRS 17: Understanding its Impact and Consequences
- Transfer Pricing Briefing for Directors
- Directors' Dialogue with Jonathan Labrey on Integrated Reporting
- Board Perspective On Cyber Resilience
- Business Continuity and Crisis Management Training for Directors
- BNM-FIDE Forum Dialogue on Innovation and Fintech in the Financial Services Industry
- Corporate Governance and Anti-Corruption
- KPMG-Integrated Reporting Awareness Training
- KPMG-COVID-19 Implication
- COVID-19 and Current Economic Reality: Implications for Financial Stability
- What Leadership Mindset Do I Need?
- Leadership Through Crisis: Strategy, Finance & Legal Insight to Handle Impact of COVID-19
- KPMG-Proofing Virtual AGM

BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

F. Commitment *cont'd*

- What is my Best Restructuring Option?
- Outthink the Competition: Excelling in a Post COVID-19 World
- KPMG-Audit Committee Institute (ACI)
- Singapore Institute of Directors LED1 Session
- Challenging Times: What Role Must the Board Play?
- Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements in relation to Anti-Corruption Measures
- Asian Economic Outlook Post COVID-19
- KPMG-Asia Pacific after COVID-19: New Forces, New Dynamics, New Era
- Malaysian Anti-Corruption for Directors
- Finding the Silver within the New Normal
- KPMG-Tax Measures for PENJANA
- Corruption Risk Management.

G. Strengthening CG Culture

- **Code of Conduct and Ethics**

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

  The HLMG Code is applicable to:

  - all employees who work in the Group across the jurisdictions in which the Group operates – including but not limited to permanent, part-time and temporary employees; and
  - any other persons permitted to perform duties or functions within the Group – including but not limited to vendors, service providers, contractors, secondees, interns, industrial attachment and agency staff.

- **Anti-Bribery and Corruption Policy**

  The Group has, during FY 2020, adopted MS ISO 37001:2016 as its Anti-Bribery and Corruption Management System to provide a strong framework to prevent its employees, directors, partners or persons who perform services for or on behalf of the Group from undertaking corrupt practices in relation to its business activities. The Anti-Bribery and Corruption Policy, published on the Website, outlines the Group's commitment to conducting business ethically in compliance with all applicable anti-bribery and corruption laws of every country in which the Group operates.

  Reports of any concern or suspicion may be made to the Head of Internal Audit or Head of Human Resources.

- **Whistleblowing Policy**

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

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

EFFECTIVE AUDIT AND RISK MANAGEMENT

Accountability And Audit

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

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

I. Financial Reporting

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

II. Directors' Responsibility In Financial Reporting

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

The Directors of the Company are satisfied that the financial statements of the Group and of the Company for FY 2020 have been prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 2016 in Malaysia and that the Group and the Company have adopted appropriate accounting policies and have applied them consistently.

III. Risk Management and Internal Control

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

- **Responsibility of the Board**

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

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

- **Risk Management Framework**

  For FY 2020, management has structured with the risk management framework using MS ISO 31000:2010. Based on the framework, management has carried out the following:

  - establish the context of risk in relation to the Group's risk appetite, i.e. how risks are perceived and the levels at which they are acceptable or otherwise;
  - identify risks in relation to the objectives of every business function of the Group's operating companies;
  - identify emerging risks faced by the Group in the operating environment of its various industries;

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

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

- **Risk Management Framework** *cont'd*

  - assess the likelihood and impact of such risks identified, using qualitative and also quantitative measures where applicable, to determine the risk level, i.e. "Severe", "Major", "Significant", "Minor" or "Trivial";
  - evaluate the severity of the risks and their treatment options to set priority of management's attention and devise appropriate actions to avoid, share, retain or mitigate risks within reasonable timeframes; and
  - record the details of risks and treatment plans in the risk registers and present to the BARMC quarterly to review the adequacy and effectiveness of the risk management measures.

  For bribery and corruption risks, the Group has, during FY 2020, adopted MS ISO 37001:2016 (Anti-Bribery Management Systems) and the Guidelines on Adequate Procedures pursuant to Subsection (5) of Section 17A under the Malaysian Anti-Corruption Commission (MACC) Act 2009 to prevent, detect and respond to bribery and corruption risks.

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

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

- **System of Internal Controls**

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

  - A management structure exists with clearly defined delegation of responsibilities to the management of the Group's operating companies, including authorisation levels for all aspects of the business and operations. The management of the Group's operating companies own and manage risks and they are responsible for implementing controls to mitigate the risks pertaining to all aspects of the business and operations.
  - Documented corporate policies and procedures covering various aspects of the business and operations of the Group.
  - Promotion of a strong internal control culture through the Group's values and ethics and also the "tone at the top".
  - Diligent review of the quarterly financial results and reports and identifying the reasons for any unusual variances.
  - Internal control assurance activities such as self-audits and completion of internal control questionnaires undertaken by management of the operating companies. These activities are part of the Group's risk and control assurance framework, provide the breadth in risk and control assurance, and demonstrate management's commitment to effective risk management.
  - Risk-based internal audits carried out by the GIAD focusing on key risk areas which are selected from the Group's audit universe. The key risk areas are documented in the annual audit plan which is approved by the BARMC. The risk-based internal audits in FY 2020 covered production planning and control management, sales operation and human resource management.
  - Quarterly reporting to the BARMC on the results of control assurance and audit activities, and also the management of risks throughout the Group.

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

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

- **Management and Decision-Making Processes**

The internal control and risk management processes of the Group are in place for FY 2020 and up to the date of approval of the SORMIC for inclusion in the annual report, and reviewed quarterly by the BARMC. The BARMC reviews the principal risks, significant audit observations and/or areas for improvement and ascertains that appropriate remedial actions or improvements are taken by the management of the Group's operating companies. These processes are intended to manage and not expected to eliminate all risks of failure to achieve business objectives. Accordingly, they can only provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

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

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

- **Review of the SORMIC by External Auditors**

Pursuant to Paragraph 15.23 of the MMLR, the external auditors have reviewed the SORMIC pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG") 3, *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the 2020 Annual Report, and reported to the Board that nothing has come to their attention that causes them to believe that the SORMIC is not prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control Guidelines for Directors of Listed Issuers, nor is the SORMIC factually inaccurate. AAPG 3 does not require the external auditors to consider whether the SORMIC covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

- **Board's Opinion**

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

EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

Accountability And Audit *cont'd*

IV. Relationship with Auditors

The Board, through the BARMC, maintains a formal and transparent professional relationship with the external auditors, KPMG PLT. The appointment of external auditors and their fees are recommended by the BARMC. The BARMC reviews the performance, suitability, independence and objectivity of the external auditors annually. The BARMC also reviews the nature and fees of non-audit services provided by the external auditors in assessing the independence of the external auditors. In accordance with the MIA, KPMG PLT rotates its Engagement Partner and Engagement Quality Control Review Partner once every seven (7) years to ensure objectivity, independence and integrity of the audit opinions.

The external auditors meet with the BARMC to:

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

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

For FY 2020, the BARMC members together with the CFO undertook an annual assessment on the performance, suitability, independence and objectivity of the external auditors. No major concerns were noted from the results of the assessment. The external auditors also gave their assurance confirming their independence and objectivity throughout the conduct of the audit engagement and the internal processes undertaken by them to determine their independence.

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

A. Disclosure

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

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

B. Shareholders

I. Dialogue between Companies and Investors

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

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

INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *cont'd*

B. Shareholders *cont'd*

I. Dialogue between Companies and Investors *cont'd*

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

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

Queries may be conveyed to the following person:

Name	:	Mr Goh Eng Tatt
Tel No.	:	03-2080 9200
Fax No.	:	03-2080 9218
Email address	:	IRelations@hli.com.my

II. AGM

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. SM and the external auditors are also available to respond to shareholders' queries during the AGM. All Directors attended the last AGM held on 6 November 2019 except for YBhg Dato' Jim Khor Mun Wei who was appointed to the Board after the close of FY 2020.

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

The Company has adopted electronic voting for the conduct of poll on all resolutions at the AGM.

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

BOARD AUDIT & RISK MANAGEMENT **COMMITTEE REPORT**

CONSTITUTION

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

COMPOSITION

The composition of the Committee is as follows:

Mr Peter Ho Kok Wai
Chairman, Independent Non-Executive Director

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

YBhg Datuk Noharuddin bin Nordin @ Harun
Independent Non-Executive Director

SECRETARY

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

AUTHORITY

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

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

MEETINGS

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

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

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

MEETINGS *cont'd*

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

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

ACTIVITIES

An annual assessment on the performance and effectiveness of the Committee and each of its members for the financial year ended 30 June 2020 ("FY 2020") was carried out by the Nominating Committee ("NC"). The NC and the Board are satisfied that the Committee and its members had carried out their duties in accordance with the Committee's TOR.

During FY 2020, four (4) Committee meetings were held and the attendance of the Committee members was as follows:

Members	Attendance
Mr Peter Ho Kok Wai	4/4
YBhg Dato' Dr Zaha Rina binti Zahari	4/4
YBhg Datuk Noharuddin bin Nordin @ Harun	4/4

The Committee carried out the following key activities during FY 2020:

- Reviewed and made recommendations to the Board for approval, the quarterly reports focusing on any changes in accounting policies and practices, significant adjustments arising from the audits and the going concern assumptions to ensure compliance with relevant accounting standards, laws and regulations.
- Reviewed and made recommendations to the Board for approval, the annual financial statements of the Group and to ensure that it was drawn up in accordance with the relevant accounting standards, laws and regulations so as to give a true and fair view of the financial position of the Company and of the Group.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Charter and Internal Audit Charter.
- Held two (2) separate sessions with the external auditors without the presence of senior management. During the separate sessions, no critical issues were raised.
- Met with the external auditors and discussed the audit plan 2020 on the nature and scope of the audit, considered significant changes in accounting and auditing issues, where relevant, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards.
- Discussed with the external auditors the potential key audit matters and other significant audit matters identified by the external auditors.
- Reviewed the impact of the COVID-19 pandemic in preparing the financial statements of the Group for FY 2020 and the external auditors' audit focus.
- Reviewed and recommended to the Board for approval the audit fees and non-audit fees payable to the external auditors in respect of services provided to the Group. Further reviewed the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the external auditors' independence or objectivity. Details of non-audit fees incurred by the Group for FY 2020 are stated in the Notes to the financial statements.
- Assessed the performance, suitability, independence and objectivity of the external auditors, taking into consideration factors such as quality of service, adequacy of experience and resources of the firm and the professional staff assigned to the audit, and communication and interaction, and made recommendation to the Board for shareholders' approval on the re-appointment of the external auditors.

ACTIVITIES *cont'd*

- Reviewed the adequacy and integrity of internal control systems, including risk management covering areas on strategic, compliance, operational and financial, and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.
- Met with the internal auditors and approved the annual audit plan and reviewed the internal audit findings and recommendations. Also reviewed the status updates of the outstanding management's corrective action plans on internal audit's findings and recommendations.
- Assessed the performance of the internal audit function as well as the adequacy and competency of internal audit resources.
- Reviewed the Policy and Procedure of Recurrent Related Party Transactions ("Procedures") and various recurrent related party transactions ("RRPT") carried out by the Group to ensure that the Procedures are adequate to monitor, track and identify RRPT in a timely and orderly manner, and are sufficient to ensure that the RRPT are conducted on commercial terms consistent with the Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public.
- Reviewed the proposed mandate for RRPT with various related parties prior to Board's recommendation for shareholders' approval.
- Reviewed the Statement on Risk Management and Internal Control ("SORMIC") of the Group, and received the report of the external auditors in respect of their review on the SORMIC prior to Board's approval for inclusion in the Company's Annual Report.
- Reviewed and recommended to the Board for approval the Board Audit & Risk Management Committee Report for inclusion in the Company's Annual Report.
- Recommended to the Board for approval the adoption of MS ISO 37001 as the Group's Anti-Bribery and Corruption Management System ("ABCMS") to provide adequate procedures to prevent bribery under Section 17A of the Malaysian Anti-Corruption Commission (Amendment) Act 2018.
- Reviewed the ABCMS activities, including the progress updates on the Group's MS ISO 37001 certification.
- Reviewed and recommended to the Board for approval the Anti-Bribery and Corruption Policy and revision thereto, Hong Leong Manufacturing Group ABCMS Manual and ABCMS Register, revised Whistleblowing Communication Plan and Investigation Procedures, and revised Hong Leong Manufacturing Group Risk Management Policy.

INTERNAL AUDIT

The internal audit ("IA") function is carried out in-house by the Group IA Department ("GIAD") of HLMG Management Co Sdn Bhd, a wholly-owned subsidiary of Hong Leong Manufacturing Group Sdn Bhd ("HLMG"). The provision of the IA services is part of the shared services of companies within the HLMG Group. There were seven (7) staff in the GIAD during FY 2020 and the total cost incurred by the GIAD amounted to RM1,919,540.

The purpose, authority, scope, independence and responsibilities of the IA function are provided in the Internal Audit Charter, which is approved by the Committee.

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

INTERNAL AUDIT *cont'd*

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

All the IA personnel had declared to the Committee that they are free from any relationships or conflicts of interest which would impair their impartiality or objectivity. The Committee had undertaken an assessment on the performance of the GIAD for FY 2020 whereby it is satisfied with the performance of the GIAD. The Committee had also reviewed the GIAD's resources, in particular the qualifications, experience and designations of all the IA personnel. As their continuous professional development, the IA personnel had kept abreast with developments in the profession, industry and regulations by attending internal and external training courses. The Committee is hence satisfied with the competency of the GIAD and that it has adequate resources to carry out its functions.

The annual audit plan prepared by the GIAD is submitted to the Committee for review and approval. Internal audits are carried out as per the approved annual audit plan. IA reports are discussed and issued to management for their feedback and to formulate action plans with target implementation dates for improvements. Any resulting salient control concerns are reviewed by the Committee, and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis. The areas of IA's review during FY 2020 are described in the SORMIC.

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

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

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

FINANCIAL **STATEMENTS**

HONG LEONG INDUSTRIES BERHAD

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 2020.

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 and fibre cement 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 except for the cessation of distribution of building materials, and manufacturing and sale of concrete roofing products operation 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	169,318	185,849
Non-controlling interests	70,033	–
	239,351	185,849

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in Note 17 and Note 28 to the financial statements.

DIVIDENDS

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

(i) a first interim single tier dividend of 17 sen per ordinary share amounting to RM54,310,378 in respect of the financial year ended 30 June 2020 on 27 December 2019; and

(ii) a second interim single tier dividend of 25 sen per ordinary share amounting to RM79,868,203 in respect of the financial year ended 30 June 2020 on 25 June 2020.

The Directors do not recommend a final dividend for the financial year ended 30 June 2020.

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' Khor Mun Wei, Group Managing Director (Appointed on 1 August 2020)
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 has beneficial interests in the ordinary shares and/or redeemable convertible unsecured loan stocks over ordinary shares of the Company and/or its related corporations during the financial year ended 30 June 2020 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, is as follows:

	Nominal value per share	Number of ordinary shares/ordinary shares to be issued arising from conversion of redeemable convertible unsecured loan stocks#/ ordinary shares received or to be received arising from vesting of share grant* At 1.7.2019	Acquired	Sold	At 30.6.2020
Shareholdings in which the 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	244,167(3)	–	2,544,167
		–	132,500*	44,167*(4)	88,333*
Malaysian Pacific Industries Berhad	(1)	1,260,000	74,167(4)	–	1,334,167
		–	222,500*	74,167*(4)	148,333*
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 8/9p	45,800	–	–	45,800
Hume Industries Berhad	(1)	3,921,600	–	–	3,921,600
		2,017,142#	–	–	2,017,142#
Shareholdings in which the Director has indirect interest					
Interests of YBhg Datuk Kwek Leng San in:					
The Rank Group Plc	GBP13 8/9p	10,661(2)	–	–	10,661(2)

DIRECTORS' INTERESTS *cont'd*

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.
(3) Inclusive of shares vested.
(4) Vesting of shares.

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 32.2 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 was RM10 million. The total amount of premium paid for the Directors and Officers Liability Insurance by the Group was RM50,209 and the apportioned amount of the said premium paid by the Company was RM9,824.

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.

OTHER STATUTORY INFORMATION *cont'd*

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.

Except for the business operations suspension during the COVID-19 pandemic lockdown from the period of 18 March 2020 to 3 May 2020, impairment losses on property, plant and equipment of the Group, impairment of investment in a subsidiary, gain on capital repayment of a subsidiary and gain on liquidation of subsidiaries of the Company as disclosed in Note 24, the financial performance of the Group and of the Company for the financial year ended 30 June 2020 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,

Dato' Khor Mun Wei

Peter Ho Kok Wai

Date: 4 September 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Assets					
Property, plant and equipment	4	**265,789**	296,017	**–**	6
Right-of-use assets	5	**33,195**	–	**–**	–
Investment property	6	**4,000**	4,000	**–**	–
Investments in subsidiary companies	7	**–**	–	**252,528**	293,766
Investments in associated companies	8	**155,354**	163,788	**26,898**	26,898
Intangible assets	9	**15,309**	18,225	**–**	–
Other investments	10	**32,282**	34,026	**28,640**	30,541
Deferred tax assets	11	**14,925**	10,929	**–**	–
Tax credit receivable	12	**1,929**	5,370	**–**	–
Total non-current assets		**522,783**	532,355	**308,066**	351,211
Inventories	13	**212,600**	223,203	**–**	–
Trade and other receivables	14	**244,148**	370,704	**245**	166
Current tax assets		**8,503**	12,841	**–**	2,674
Cash and cash equivalents	15	**1,211,109**	1,039,941	**765,171**	662,076
Total current assets		**1,676,360**	1,646,689	**765,416**	664,916
Total assets		**2,199,143**	2,179,044	**1,073,482**	1,016,127
Equity					
Share capital	16	**321,217**	321,217	**321,217**	321,217
Reserves	17	**1,420,321**	1,369,354	**813,332**	757,292
Treasury shares - at cost	18	**(63,318)**	(63,318)	**(63,318)**	(63,318)
Total equity attributable to owners of the Company		**1,678,220**	1,627,253	**1,071,231**	1,015,191
Non-controlling interests		**159,898**	136,062	**–**	–
Total equity		**1,838,118**	1,763,315	**1,071,231**	1,015,191
Liabilities					
Lease liabilities		**10,529**	–	**–**	–
Deferred tax liabilities	11	**5,766**	9,034	**–**	–
Deferred income	19	**–**	3,191	**–**	–
Employee benefits	21(a)	**24,890**	23,913	**142**	142
Total non-current liabilities		**41,185**	36,138	**142**	142
Loans and borrowings	20	**16,980**	38,730	**–**	–
Lease liabilities		**3,423**	–	**–**	–
Trade and other payables, including derivatives	22	**274,665**	309,155	**1,938**	794
Tax payable		**24,772**	31,706	**171**	–
Total current liabilities		**319,840**	379,591	**2,109**	794
Total liabilities		**361,025**	415,729	**2,251**	936
Total equity and liabilities		**2,199,143**	2,179,044	**1,073,482**	1,016,127

The notes on pages 64 to 139 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Revenue					
Sales of goods and services	23	**2,291,110**	2,505,001	**–**	–
Dividend income	23	**22,372**	22,695	**185,039**	302,482
		2,313,482	2,527,696	**185,039**	302,482
Cost of sales		**(1,864,745)**	(1,973,094)	**–**	–
Gross profit		**448,737**	554,602	**185,039**	302,482
Distribution expenses		**(75,119)**	(96,605)	**–**	–
Administration expenses		**(77,666)**	(78,447)	**(11,010)**	(5,505)
Other operating expenses		**(33,994)**	(14,074)	**(11,389)**	(4,221)
Other operating income		**19,531**	40,806	**22,291**	3,405
Results from operations		**281,489**	406,282	**184,931**	296,161
Interest income		**4,137**	3,600	**1,391**	983
Finance costs		**(3,001)**	(3,001)	**–**	–
Share of profit in associated companies, net of tax		**40,146**	90,871	**–**	–
Profit before taxation	24	**322,771**	497,752	**186,322**	297,144
Taxation	25	**(73,249)**	(90,410)	**(473)**	(343)
Profit from continuing operations		**249,522**	407,342	**185,849**	296,801
(Loss)/Profit from discontinued operations, net of tax	26	**(10,171)**	1,955	**–**	–
Profit for the year		**239,351**	409,297	**185,849**	296,801
Profit attributable to:					
Owners of the Company		**169,318**	327,085	**185,849**	296,801
Non-controlling interests		**70,033**	82,212	**–**	–
		239,351	409,297	**185,849**	296,801
Basic/Diluted earnings/(loss) per ordinary share (sen)	27				
from continuing operations		**57.16**	103.57		
from discontinued operations		**(3.24)**	0.63		
		53.92	104.20		

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Profit for the year		**239,351**	409,297	**185,849**	296,801
Other comprehensive income/(expense), 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		**4,412**	(6,441)	**4,370**	(6,400)
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences from foreign operations		**29**	267	**–**	–
Share of other comprehensive income of equity-accounted associates		**6,296**	545	**–**	–
Cash flow hedge		**302**	(572)	**–**	–
		6,627	240	**–**	–
Total other comprehensive income/(expense) for the year	28	**11,039**	(6,201)	**4,370**	(6,400)
Total comprehensive income for the year		**250,390**	403,096	**190,219**	290,401
Total comprehensive income attributable to:					
Owners of the Company		**180,265**	321,061	**190,219**	290,401
Non-controlling interests		**70,125**	82,035	**–**	–
		250,390	403,096	**190,219**	290,401

The notes on pages 64 to 139 are an integral part of these financial statements.

STATEMENTS OF
CHANGES IN EQUITY
for the year ended 30 June 2020

	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
	Attributable to owners of the Company										
	Non-distributable							*Distributable*			
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	–	–	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 29)	–	–	–	–	–	–	–	(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

	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
	Attributable to owners of the Company										
	Non-distributable							*Distributable*			
Group											
At 1 July 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
Profit for the year	–	–	–	–	–	–	–	169,318	169,318	70,033	239,351
Other comprehensive income/(expense)											
Foreign currency translation differences	–	–	29	–	–	–	–	–	29	–	29
Share of other comprehensive income of equity-accounted associates	–	–	6,296	–	–	–	–	–	6,296	–	6,296
Gain on fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	4,412	4,412	–	4,412
Cash flow hedge	–	–	–	–	210	–	–	–	210	92	302
Total comprehensive income/(expense) for the year	–	–	6,325	–	210	–	–	173,730	180,265	70,125	250,390
Contributions by and distribution to owners of the Company											
Share-based payments/transactions	–	–	–	–	–	–	1,530	–	1,530	672	2,202
ESS shares exercised	–	–	–	–	–	331	(2,443)	3,188	1,076	(1,076)	–
Dividends (Note 29)	–	–	–	–	–	–	–	(131,904)	(131,904)	(45,885)	(177,789)
Total transactions with owners of the Company	–	–	–	–	–	331	(913)	(128,716)	(129,298)	(46,289)	(175,587)
At 30 June 2020	**321,217**	**(63,318)**	**28,019**	**3,714**	**(2)**	**(16,138)**	**3,650**	**1,401,078**	**1,678,220**	**159,898**	**1,838,118**

	Attributable to owners of the Company				
	Non-distributable			Distributable	
	Share capital RM'000	Treasury shares RM'000	Other reserves RM'000	Retained earnings RM'000	Total equity RM'000
Company					
At 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 29)	–	–	–	(159,736)	(159,736)
Total transactions with owners of the Company	–	–	–	(159,736)	(159,736)
At 30 June 2019/1 July 2019	321,217	(63,318)	3,943	753,349	1,015,191
Profit for the year	–	–	–	185,849	185,849
Other comprehensive income					
Gain on fair value of equity investments at fair value through other comprehensive income	–	–	–	4,370	4,370
Total comprehensive income for the year	–	–	–	190,219	190,219
Distributions to owners of the Company					
Dividends (Note 29)	–	–	–	(134,179)	(134,179)
Total transactions with owners of the Company				(134,179)	(134,179)
At 30 June 2020	**321,217**	**(63,318)**	**3,943**	**809,389**	**1,071,231**

The notes on pages 64 to 139 are an integral part of these financial statements.

STATEMENTS OF
CASH FLOWS
for the year ended 30 June 2020

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Cash flows from operating activities					
Profit/(Loss)before taxation					
– Continuing operations		**322,771**	497,752	**186,322**	297,144
– Discontinued operations		**(8,859)**	3,022	**–**	–
		313,912	500,774	**186,322**	297,144
Adjustments for:					
Amortisation of deferred income		**–**	(602)	**–**	–
Amortisation of intangible assets		**12,222**	12,568	**–**	–
Depreciation of property, plant and equipment		**44,037**	47,327	**6**	12
Depreciation of right-of-use assets		**4,025**	–	**–**	–
Dividend income		**(33,045)**	(32,820)	**(185,039)**	(302,482)
Interest income		**(4,293)**	(3,763)	**(1,391)**	(983)
Finance costs		**3,087**	3,191	**–**	–
Gain on disposal of property, plant and equipment		**(1,290)**	(274)	**(62)**	–
Others		**250**	(637)	**–**	(635)
Gain on fair value of financial assets at fair value through profit or loss		**(291)**	(2,473)	**(177)**	(2,000)
Gain on capital repayment of a subsidiary		**–**	–	**(15,800)**	–
Gain on liquidation of subsidiaries		**–**	–	**(5,362)**	–
Impairment loss on property, plant and equipment		**11,830**	340	**–**	–
Impairment loss on investment in a subsidiary		**–**	–	**11,000**	–
Property, plant and equipment written off		**1,914**	662	**–**	–
Provision/(Write back) of retirement benefits		**1,314**	(2,031)	**–**	–
Share-based payments		**2,202**	2,653	**–**	–
Share of profit in associated companies		**(40,146)**	(90,871)	**–**	–
Unrealised loss on foreign exchange		**110**	1,110	**–**	–
Operating profit/(loss) before working capital changes		**315,838**	435,154	**(10,503)**	(8,944)
Inventories		**10,603**	(12,859)	**–**	–
Trade and other receivables		**126,445**	1,535	**(79)**	338
Trade and other payables		**(34,190)**	16,370	**1,144**	(675)
Cash generated from/(used in) operations		**418,696**	440,200	**(9,438)**	(9,281)
Dividends received from					
- Subsidiary companies		**–**	–	**109,123**	175,102
- Associated companies		**54,876**	107,147	**54,876**	107,147
- Other investments		**33,045**	32,820	**21,040**	20,233
Interest income received		**4,293**	3,763	**1,391**	983
Finance costs paid		**(3,087)**	(3,191)	**–**	–
Retirement benefits paid		**(337)**	(779)	**–**	(200)
Tax (paid)/refunded		**(84,421)**	(76,673)	**2,372**	7,398
Net cash generated from operating activities		**423,065**	503,287	**179,364**	301,382

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Cash flows from investing activities					
Addition of development costs		**(7,639)**	(15,284)	**–**	–
Addition of computer software		**(1,667)**	(527)	**–**	–
Addition of investment in a subsidiary company		**–**	–	**–**	(20)
Addition of other investments		**–**	(5,263)	**–**	(4,500)
Cash distribution from liquidation of subsidiaries		**–**	–	**30,600**	–
Proceeds from disposal of other investments		**6,448**	7,200	**6,448**	7,200
Purchase of property, plant and equipment		**(47,858)**	(22,515)	**–**	–
Proceeds from disposal of property, plant and equipment		**1,547**	555	**62**	–
Proceeds from capital reduction of a subsidiary		**–**	–	**20,800**	–
Net cash (used in)/generated from investing activities		**(49,169)**	(35,834)	**57,910**	2,680
Cash flows from financing activities					
Dividends paid to					
- Owners of the Company		**(131,904)**	(156,991)	**(134,179)**	(159,736)
- Non-controlling shareholders of subsidiary companies		**(45,885)**	(71,281)	**–**	–
Disposal of Trust shares		**–**	1,066	**–**	–
Drawdown of borrowings	(ii)	**111,599**	116,865	**–**	–
Repayment of borrowings	(ii)	**(133,349)**	(148,765)	**–**	–
Payment of lease liabilities	(i),(ii)	**(3,226)**	–	**–**	–
Net cash used in financing activities		**(202,765)**	(259,106)	**(134,179)**	(159,736)
Net increase in cash and cash equivalents		**171,131**	208,347	**103,095**	144,326
Effect of exchange rate fluctuations on cash held		**37**	254	**–**	–
Cash and cash equivalents at 1 July 2019/2018		**1,039,941**	831,340	**662,076**	517,750
Cash and cash equivalents at 30 June		**1,211,109**	1,039,941	**765,171**	662,076

(i) Cash outflows for leases as a lessee

	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Included in net cash from operating activities				
Interest paid in relation to lease liabilities	**547**	–	**–**	–
Included in net cash from financing activities				
Payment of lease liabilities	**3,226**	–	**–**	–
Total cash outflows for leases	**3,773**	–	**–**	–

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

	At 1 July 2018 RM'000	Drawdown RM'000	Repayment RM'000	At 30 June 2019 RM'000	Adjustment on initial application of MFRS 16 RM'000	At 1 July 2019 RM'000	Drawdown RM'000	Repayment RM'000	At 30 June 2020 RM'000
Group									
Bankers' acceptances	27,230	90,765	(103,965)	14,030	–	14,030	66,099	(73,849)	**6,280**
Revolving credit	43,400	26,100	(44,800)	24,700	–	24,700	45,500	(59,500)	**10,700**
Lease liabilities	–	–	–	–	17,178	17,178	–	(3,226)	**13,952**
	70,630	116,865	(148,765)	38,730	17,178	55,908	111,599	(136,575)	**30,932**

The notes on pages 64 to 139 are an integral part of these 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 2020 comprise the Company, its subsidiaries, special purpose entities (together referred to as "the Group" and individually referred to as "Group Entities") and the Group's interest in associates. The financial statements of the Company as at and for the financial year ended 30 June 2020 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. There have been no significant changes in the nature of these activities except for the cessation of distribution of building materials, and manufacturing and sale of concrete roofing products operation during the financial year.

The financial statements were approved and authorised for issue by the Board of Directors on 4 September 2020.

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.

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 7 – Investments in subsidiary companies*

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.1 Basis of preparation *cont'd*

(ii) Note 13 – Inventories

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

(iii) Note 14 – 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, *Financial Instruments* as described in Note 2.2(c) and (j).

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

2.2 Summary of significant accounting policies

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

Arising from the adoption of MFRS 16, *Leases*, on 1 July 2019, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 36.

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(ii) Business combinations *cont'd*

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

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

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

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

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

(iii) Acquisitions of non-controlling interests

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

(iv) Special purpose entities

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

(v) Loss of control

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(vi) Associates

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

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(a) Basis of consolidation *cont'd*

(viii) Transactions eliminated on consolidation

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

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value though other comprehensive income or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(b) Foreign currency *cont'd*

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

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

(c) Financial instruments

(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) or a financial liability 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

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.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2.2(j)(i)) where the effective interest rate is applied to the amortised cost.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

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

Financial assets *cont'd*

(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.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2.2(j)(i)) where the effective interest rate is applied to the amortised cost.

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.

(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 *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

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

Financial liabilities

The categories of financial liabilities at initial recognition are as follows:

(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 and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

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.

(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 or settlement date accounting 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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(iii) Regular way purchase or sale of financial assets *cont'd*

Settlement date accounting refers to:

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

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

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

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

(iv) Hedge accounting

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

(a) Fair value hedge

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

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

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 *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(iv) Hedge accounting *cont'd*

(b) Cash flow hedge

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(c) Financial instruments *cont'd*

(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 transferred, 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. On derecognition of a financial assets, the difference between the carrying amount of the financial assets and the sum of consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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

(vi) Offsetting

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

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

(i) Recognition and measurement *cont'd*

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date they are available for use. 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	10 - 50 years
Plant, equipment and motor vehicles	2 - 20 years

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

(e) Leases

The Group has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases* and related interpretations.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Leases *cont'd*

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group and the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group and the Company are lessees, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

(a) As a lessee

The Group and the Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Leases *cont'd*

Current financial year *cont'd*

(ii) Recognition and initial measurement *cont'd*

(a) As a lessee *cont'd*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

When the Group acts as lessors, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Leases *cont'd*

Current financial year *cont'd*

(ii) Recognition and initial measurement *cont'd*

(b) As a lessor *cont'd*

The Group recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent measurement

(a) As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(e) Leases *cont'd*

Previous financial year

(i) Finance lease

Leases in terms of which the Group or the Company assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, the leased asset was 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 was accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was 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 were accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment was confirmed.

Leasehold land which in substance was a finance lease was 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 did not assume substantially all the risks and rewards of ownership were classified as operating leases and, except for property interest held under operating lease, the leased assets were not recognised in the statement of financial position.

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

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(f) Intangible assets *cont'd*

(ii) Research and development

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

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

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

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

(iii) Computer software

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

(iv) Amortisation

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

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

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

Development costs	3 years
Computer software	5 years

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(g) Investment property

(i) Investment property carried at fair value

Investment properties are properties which are owned or right-of-use asset held under a lease contract 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 which are owned are measured initially at cost. 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. Right-of-use asset held under a lease contract that meets the definition of investment property is initially measured similarly as other right-of-use assets.

The fair value of investment properties held by the Group as a right-of-use asset reflects the expected cash flows. Accordingly, where valuation obtained for a property is net of all payments expected to be made, the Group added back any recognised lease liability to arrive at the carrying amount of the investment property using the fair value model.

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 *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(h) Inventories

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

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

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

(i) Cash and cash equivalents

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

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Impairment *cont'd*

(i) Financial assets *cont'd*

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.

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, 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(j) Impairment *cont'd*

(ii) Other assets *cont'd*

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

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

(k) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(l) Employee benefits

(i) Short term employee benefits

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

A liability is recognised for the amount expected to be paid under short term cash bonus if the Group and the Company have 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 and the Company have no further payment obligations.

(ii) Defined benefit plan

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

(iii) Share-based payments

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(l) Employee benefits *cont'd*

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(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.

(i) 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.

(ii) Restructuring

A provision for restructuring is recognised when the Group as approved a detailed formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(n) Revenue and other income

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(n) Revenue and other income *cont'd*

(ii) 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.

(iii) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(p) Taxation *cont'd*

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.

(q) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(r) 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.

(s) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.2 Summary of significant accounting policies *cont'd*

(t) 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.

(u) 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 and the Company use 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 and the Company 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 and the Company recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2.3 Statement of compliance

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

The 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 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*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

2.3 Statement of compliance *cont'd*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 June 2020

- Amendments to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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, interpretations and amendments, where applicable:

- from the annual period beginning on 1 July 2020 for those amendments that is effective for annual periods beginning on or after 1 January 2020 and 1 June 2020;

- from the annual period beginning on 1 July 2022 for those amendments that are effective for annual periods beginning on or after 1 January 2022; and

- from the annual period beginning on 1 July 2023 for the amendment that is effective for annual periods beginning on or after 1 January 2023.

The Group and the Company do not plan to apply MFRS 17, Insurance Contracts that is effective for annual period beginning on 1 January 2023 as it is not applicable to the Group and the Company.

The initial application of the accounting standards, interpretations and amendments are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company.

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 2020 %	Effective interest 2019 %	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	Dissolved.
Hume Roofing Products Sdn Bhd	Malaysia	**100**	100	Ceased operation during the financial year.
HLY Marine Sdn Bhd	Malaysia	**100**	100	Distribution, trading and provision of services in marine related products and investment holding.

3. COMPANIES IN THE GROUP *cont'd*

Name of Company	Country of incorporation	Effective interest 2020 %	Effective interest 2019 %	Principal activities
***Subsidiary Companies** cont'd*				
Hume Marketing Co Sdn Bhd	Malaysia	**100**	100	Ceased operation during the financial year.
Stonenet Sdn Bhd	Malaysia	**100**	100	In member's voluntary liquidation.
Stableview Sdn Bhd*	Malaysia	**100**	100	Investment holding.
Maxider Sdn Bhd*	Malaysia	**100**	100	In member's voluntary liquidation.
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.
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.

4. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 July 2018		45,356	24,270	202,235	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, as previously stated		45,356	24,270	205,035	798,698	5,095	1,078,454
Adjustment on initial application of MFRS 16	4.1, 36	-	(24,270)	–	–	–	(24,270)
At 1 July 2019, as restated		45,356	–	205,035	798,698	5,095	1,054,184
Additions		–	–	1,918	6,621	39,319	47,858
Reclassification		–	–	5,469	10,715	(16,184)	–
Disposals		–	–	–	(40,093)	–	(40,093)
Write off		–	–	(2,360)	(4,149)	(274)	(6,783)
At 30 June 2020		**45,356**	**–**	**210,062**	**771,792**	**27,956**	**1,055,166**

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

Group	Note	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Accumulated depreciation and impairment losses							
At 1 July 2018							
Accumulated depreciation		–	3,663	80,861	699,040	–	783,564
Accumulated impairment losses		–	–	–	955	–	955
		–	3,663	80,861	699,995	–	784,519
Charge for the year		–	565	6,704	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, as previously stated							
Accumulated depreciation		–	4,228	87,196	689,718	–	781,142
Accumulated impairment losses		–	–	–	1,295	–	1,295
		–	4,228	87,196	691,013	–	782,437
Adjustment on initial application of MFRS 16	4.1, 36	–	(4,228)	–	–	–	(4,228)
At 1 July 2019, as restated		–	–	87,196	691,013	–	778,209
Charge for the year		–	–	8,096	35,941	–	44,037
Impairment loss	4.2	–	–	–	7,891	3,939	11,830
Disposals		–	–	–	(39,836)	–	(39,836)
Write off		–	–	(1,424)	(3,445)	–	(4,869)
Effect of movements in exchange rates		–	–	–	6	–	6
At 30 June 2020							
Accumulated depreciation		–	–	93,868	683,250	–	777,118
Accumulated impairment losses		–	–	–	8,320	3,939	12,259
		–	–	93,868	691,570	3,939	789,377

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

Group	Note	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Carrying amounts							
At 1 July 2018		45,356	20,607	121,374	126,422	8,349	322,108
At 30 June 2019		45,356	20,042	117,839	107,685	5,095	296,017
At 30 June 2020		**45,356**	**–**	**116,194**	**80,222**	**24,017**	**265,789**

4.1 The net book value of leasehold land at 1 July 2019 of RM20,042,000 is classified as right-of-use assets on initial application of MFRS 16 (see Note 5).

4.2 During the financial year, cessation of certain business operations caused the respective Group entities to assess the recoverable amount of the related property, plant and equipment. The Group entities tested the related property, plant and equipment for impairment and accordingly, recognised an impairment loss of RM11.8 mil with respect to plant, equipment and motor vehicles and capital work-in-progress.

The management estimated the recoverable amount of the related property, plant and equipment based on value in use.

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

Company	Office equipment and motor vehicles RM'000
Cost	
At 1 July 2018/30 June 2019/1 July 2019	148
Disposal	(115)
At 30 June 2020	**33**
Accumulated depreciation	
At 1 July 2018	130
Charge for the year	12
At 30 June 2019/1 July 2019	142
Charge for the year	6
Disposal	(115)
At 30 June 2020	**33**
Carrying amounts	
At 1 July 2018	18
At 30 June 2019/1 July 2019	6
At 30 June 2020	–

5. RIGHT-OF-USE ASSETS

Group	Land RM'000	Building and equipment RM'000	Total RM'000
At 1 July 2019	20,042	17,178	37,220
Depreciation for the year	(564)	(3,461)	(4,025)
At 30 June 2020	**19,478**	**13,717**	**33,195**

5. RIGHT-OF-USE ASSETS *cont'd*

5.1 Extension options

Some leases of buildings and equipment contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where applicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

5.2 Significant judgements and assumptions in relation to lease

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. Group entities consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. Group entities first determine the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

6. INVESTMENT PROPERTY

	Group	
	2020	**2019**
	RM'000	**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).

7. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2020	**2019**
	RM'000	**RM'000**
At cost:		
Unquoted shares	**353,586**	383,824
Less: Impairment loss	**(101,058)**	(90,058)
	252,528	293,766

The cessation of certain business operations caused the Company to assess the recoverable amount of the related investments in subsidiary companies and test for impairment.

The management estimated the recoverable amount of the related investments in subsidiary companies based on fair value less costs of disposal ("FVLCD") by estimating the fair value of the underlying assets and liabilities of the subsidiary companies.

The carrying amount of the related investment in a subsidiary company was determined to be higher than its recoverable amount of RM34.0 million (2019: RM40.4 million) and an impairment loss of RM11 million (2019: RM Nil). was recognised in the current financial year's profit or loss.

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

7.1 Non-controlling interest in subsidiaries companies

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

	2020	**2019**
	RM'000	**RM'000**
As at 30 June		
Statements of financial position		
Total assets	**778,411**	716,175
Total liabilities	**(232,747)**	(253,723)
Net assets	**545,664**	462,452
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Profit for the year	**248,793**	269,063
Total comprehensive income	**233,694**	268,491
Statements of cash flows		
Net cash flow generated from operating, investing and financing activities	**75,841**	45,397
Dividends paid to NCI	**(45,885)**	(71,281)

8. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
At cost:				
Unquoted shares	**27,306**	27,306	**26,898**	26,898
Share of post-acquisition reserves	**128,048**	136,482	**–**	–
	155,354	163,788	**26,898**	26,898

The associated companies with their principal activities and countries of incorporation 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:

	2020 RM'000	**2019 RM'000**
As at 30 June		
Statements of financial position		
Non-current assets	**296,998**	335,500
Current assets	**719,790**	712,225
Non-current liabilities	**(36,912)**	(30,487)
Current liabilities	**(361,350)**	(362,286)
Net assets	**618,526**	654,952
Year ended 30 June		
Statements of profit or loss and other comprehensive income		
Total comprehensive income	**161,564**	369,468
Included in the total comprehensive income is		
Revenue	**3,190,036**	3,912,642
Reconciliation of net assets to carrying amount		
As at 30 June		
Group's share of net assets other than goodwill of the associated company	**155,073**	163,507
Premium on acquisition	**281**	281
Carrying amount in the statement of financial position	**155,354**	163,788
Year ended 30 June		
Group's share of results		
Group's share of profit or loss	**40,146**	90,871
Group's share of other comprehensive income	**6,296**	545
Group's share of total comprehensive income	**46,442**	91,416
Other information		
Dividends received by the Group	**54,876**	107,147

9. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development costs RM'000	Computer software RM'000	Total RM'000
Cost				
At 1 July 2018	66,975	55,969	5,670	128,614
Additions	–	15,284	527	15,811
At 30 June 2019/1 July 2019	66,975	71,253	6,197	144,425
Additions	–	7,639	1,667	9,306
At 30 June 2020	**66,975**	**78,892**	**7,864**	**153,731**
Amortisation and impairment loss				
At 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 2019/1 July 2019				
Accumulated amortisation	–	54,757	4,468	59,225
Accumulated impairment loss	66,975	–	–	66,975
	66,975	54,757	4,468	126,200
Amortisation for the year	–	11,679	543	12,222
At 30 June 2020				
Accumulated amortisation	–	66,436	5,011	71,447
Accumulated impairment loss	66,975	–	–	66,975
	66,975	66,436	5,011	138,422
Carrying amounts				
At 1 July 2018	–	13,332	1,650	14,982
At 30 June 2019/1 July 2019	–	16,496	1,729	18,225
At 30 June 2020	**–**	**12,456**	**2,853**	**15,309**

10. OTHER INVESTMENTS

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Non-current					
Financial assets at fair value through profit or loss - Redeemable convertible unsecured loan stocks in a related company		**4,028**	7,737	**2,676**	6,500
Fair value through other comprehensive income - Shares in related companies, quoted in Malaysia	10.1	**28,254**	26,289	**25,964**	24,041
		32,282	34,026	**28,640**	30,541

Note 10.1
The Group and the Company intend to hold these equity securities for long-term strategic purposes.

11. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2020 RM'000	Assets 2019 RM'000	Liabilities 2020 RM'000	Liabilities 2019 RM'000	Net 2020 RM'000	Net 2019 RM'000
Property, plant and equipment	**–**	–	**(11,780)**	(483)	**(11,780)**	(483)
Right-of-use assets	**–**	–	**(3,293)**	–	**(3,293)**	–
Inventory, trade and other receivables and payables	**21,095**	11,103	**(211)**	(8,725)	**20,884**	2,378
Lease liabilities	**3,348**	–	**–**	–	**3,348**	–
Deferred tax assets/(liabilities)	**24,443**	11,103	**(15,284)**	(9,208)	**9,159**	1,895
Set off of tax	**(9,518)**	(174)	**9,518**	174	**–**	–
Net deferred tax assets/(liabilities)	**14,925**	10,929	**(5,766)**	(9,034)	**9,159**	1,895

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

Unrecognised deferred tax assets

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

	Group	
	2020	**2019**
	RM'000	**RM'000**
Inventory, trade and other receivables and payables	**10,475**	–
Property, plant and equipment	**9,153**	–
Unabsorbed capital allowances	**5,934**	1,767
Unutilised tax losses	**46,088**	33,781
	71,650	35,548

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.

Unutilised tax losses of RM12,307,000 arising in year of assessment 2020 can be carried forward for seven consecutive years of assessment under current tax legislation and RM33,781,000 arising up to year assessment 2019 can be carried forward for six consecutive years of assessment 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 therefrom.

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

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

	At 1 July 2018 RM'000	Recognised in profit or loss (Note 25) RM'000	Included in discontinued operations (Note 25) RM'000	At 30 June 2019 RM'000	Adjustment on initial application of MFRS 16 RM'000	At 1 July 2019 RM'000	Recognised in profit or loss (Note 25) RM'000	Included in discontinued operations (Note 25) RM'000	At 30 June 2020 RM'000
Group									
Property, plant and equipment	(5,875)	5,334	58	(483)	–	(483)	(11,414)	117	**(11,780)**
Right-of-use assets	–	–	–	–	(4,123)	(4,123)	830	–	**(3,293)**
Inventory, trade and other receivables and payables	10,239	(8,001)	140	2,378	–	2,378	19,913	(1,407)	**20,884**
Lease liabilities	–	–	–	–	4,123	4,123	(775)	–	**3,348**
	4,364	(2,667)	198	1,895	–	1,895	8,554	(1,290)	**9,159**

12. 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.

13. INVENTORIES

	Group	
	2020 RM'000	**2019 RM'000**
Raw materials and consumables	**124,392**	122,489
Work-in-progress	**7,457**	12,591
Finished goods	**80,751**	88,123
	212,600	223,203
Recognised in profit or loss:		
Inventories recognised as cost of sales	**1,874,612**	2,040,407

14. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	**2020 RM'000**	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Trade					
Trade receivables		**208,033**	320,138	**–**	–
Amount due from related companies		**3,812**	4,243	**–**	–
Amount due from associated companies		**447**	386	**–**	–
		212,292	324,767	**–**	–
Less: Allowance for impairment losses	33.3(a)	**(11,322)**	(11,185)	**–**	–
		200,970	313,582	**–**	–
Non-trade					
Other receivables and deposits		**26,442**	34,086	**200**	131
Prepayments		**16,736**	23,036	**45**	35
		244,148	370,704	**245**	166

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Deposits with licensed banks	**1,150,261**	914,083	**764,600**	597,000
Cash and bank balances	**60,848**	125,858	**571**	65,076
	1,211,109	1,039,941	**765,171**	662,076

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

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Deposits with licensed banks	**1,144,355**	883,650	**764,600**	597,000
Cash and bank balances	**39,629**	85,421	**413**	65,012
	1,183,984	969,071	**765,013**	662,012

16. SHARE CAPITAL

	Group and Company			
	Number of shares 2020 '000	**Amount 2020 RM'000**	**Number of shares 2019 '000**	**Amount 2019 RM'000**
Issued ordinary shares:				
At 1 July 2019/30 June 2020 and 1 July 2018/30 June 2019	**327,905**	**321,217**	327,905	321,217

The issued share capital of the Company, before adjusting for the treasury shares of 8,432,500 held (see Note 18), is RM321,216,752 comprising 327,905,310 ordinary shares. The treasury shares are held in accordance with the requirement of Section 127 of the Companies Act 2016.

17. RESERVES

	Note	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Reserves consist of:					
Exchange fluctuation reserve	17.1	**28,019**	21,694	**–**	–
Other reserves	17.2	**3,714**	3,714	**3,943**	3,943
Reserve for own shares	17.3	**(16,138)**	(16,469)	**–**	–
Executive share scheme reserve	17.4	**3,650**	4,563	**–**	–
Hedging reserve	17.5	**(2)**	(212)	**–**	–
Retained earnings		**1,401,078**	1,356,064	**809,389**	753,349
		1,420,321	1,369,354	**813,332**	757,292

Note 17.1

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

Note 17.2

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.

Note 17.3

Reserve for own shares represents Trust Shares purchased by the ESS Trusts as disclosed in Note 2.2(l)(iii). As at 30 June 2020, the total number of HLI Shares held by the ESS Trusts at the Group level was 5,237,973 (2019: 5,480,000) HLI Shares.

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

(i) a total of 109,527 (2019: 252,000) 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; and

(ii) a total of 132,500 (2019: nil) existing ordinary shares held in the ESS Trusts were sold to a related company.

Note 17.4

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 17.5

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.

18. TREASURY SHARES - AT COST

	Group and Company			
	Number of shares 2020 '000	Amount 2020 RM'000	Number of shares 2019 '000	Amount 2019 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.

19. DEFERRED INCOME

	Group	
	2020 RM'000	2019 RM'000
Non-current		
Reinvestment allowance	**–**	3,191

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 tax benefits of RM3,191,000 has been reversed and in the previous financial year ended 30 June 2019, a total of RM602,000 has been amortised, and both were recognised as other operating income in the profit or loss of the Group.

20. LOANS AND BORROWINGS

	Group	
	2020 RM'000	2019 RM'000
Current (unsecured)		
Bankers' acceptances	**6,280**	14,030
Revolving credit	**10,700**	24,700
	16,980	38,730

21. EMPLOYEE BENEFITS

(a) Retirement benefits

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
At 1 July 2019/2018	**23,913**	26,723	**142**	342
Provision/(Write-back)	**1,314**	(2,031)	**–**	–
Payments	**(337)**	(779)	**–**	(200)
At 30 June	**24,890**	23,913	**142**	142

(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.

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.

21. EMPLOYEE BENEFITS *cont'd*

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

(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 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 By-Laws of the ESS.

(i) ESOS

During the previous financial years, conditional incentive share options ("Options") were granted and/or vested to certain eligible executives of the Group as follows:

- 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") at the exercise price of RM4.23 per share ("Guocera Options") to certain of their eligible executives, out of which, Guocera Options over 2,610,000 HLI Shares were vested and 2,340,000 HLI Shares in the ESS Trust were transferred to the Guocera Options holders during the previous financial years. The remaining Guocera Options over 270,000 HLI Shares had lasped.

- Hong Leong Yamaha Motor Sdn Bhd ("HLYM"), a 69.41% subsidiary of the Company, granted Options over 5,000,000 HLI Shares at the exercise price of RM9.71 per HLI Share ("HLYM Options") to certain eligible executives subject to the achievement of certain performance criteria by the option holders over the option performance period ("HLYM Options Period"). At the end of the HLYM Options Period, the performance tergets had been achieved.

During the financial year ended 30 June 2020:-

(a) HLYM granted 247,500 HLI Shares, free of consideration, to HLYM Options holders in lieu of the outstanding HLYM Options over 4,000,000 HLI Shares granted during the previous financial year. Accordingly, all the HLYM Options over 4,000,000 HLI Shares had ceased to be valid; and

(b) there were no grant or vesting of Options to eligible executives, directors and chief executive of the Group.

Since the commencement of the ESS, the Group granted a total of 8,820,000 Options, out of which, 2,610,000 Guocera Options had been vested, 2,340,000 Guocera Options had been exercised and 4,000,000 HLYM Options had ceased as at 30 June 2020. 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 during the previous financial years, and 2,000,000 Options had ceased as at 30 June 2020. No Options remain outstanding as at 30 June 2020. 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 2020.

21. EMPLOYEE BENEFITS *cont'd*

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

(i) ESOS *cont'd*

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

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

(ii) ESGS

During the previous financial years, HLI Shares were granted and/or vested to certain eligible executives of the Group as follows:

- Guocera Group granted and vested a total of 195,000 free HLI Shares to certain eligible executives.
- HLYM granted 54,054 free HLI Shares to an eligible executive of HLYM.

During the financial year ended 30 June 2020, HLYM granted a total of 354,089 free HLI Shares (out of which, 247,500 free HLI Shares were granted in lieu of the outstanding HLYM Options over 4,000,000 HLI Shares granted during the previous financial year) to certain eligible executives of HLYM. A total of 109,527 free HLI Shares had been vested and 298,616 HLI Shares remain outstanding as at 30 June 2020.

Since the commencement of the ESS, a total of 603,143 free HLI Shares had been granted (out of which, 247,500 free HLI Shares were granted in lieu of the outstanding HLYM Options over 4,000,000 HLI Shares granted during the previous financial year), 304,527 free HLI Shares had been vested and 298,616 HLI Shares remain outstanding as at 30 June 2020. The aggregate HLI Shares granted to a director/chief executive of the Group amounted to 284,143 HLI Shares, 68,194 free HLI Shares had been vested and 215,949 HLI Shares remain outstanding as at 30 June 2020. The actual percentage of total HLI Shares granted to a director of the Group was 0.09% based on the total number of issued ordinary shares (excluding treasury shares) of the Company as at 30 June 2020.

21. EMPLOYEE BENEFITS *cont'd*

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

(ii) ESGS *cont'd*

HLI Shares Grant *cont'd*

The aggregate allocation of Options and HLI Shares Grant 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	
	2020 RM'000	**2019 RM'000**
(i) Value of employee services received for HLI Shares Grant		
HLI Shares Grant	**2,202**	152
(ii) Weighted average fair value and assumptions for HLI Shares Grant		
Weighted average fair value at grant date	**RM8.52**	RM9.09

22. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	Note	Group		Company	
		2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Trade					
Trade payables		**120,372**	162,908	**–**	–
Amount due to related companies		**7,575**	22,854	**–**	–
Amount due to associated companies		**32,206**	29,593	**–**	–
		160,153	215,355	**–**	–
Non-trade					
Amount due to related companies	22.1	**1,144**	148	**–**	–
Amount due to associated companies	22.1	**851**	522	**–**	–
Other payables		**37,734**	10,954	**–**	–
Accrued liabilities		**74,779**	81,871	**1,938**	794
Derivative financial liability					
- *Forward exchange contract designated as hedge instruments*		**4**	305	**–**	–
		274,665	309,155	**1,938**	794

Note 22.1

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

23. REVENUE

	2020 RM'000	2019 RM'000
Group		
Revenue from contracts with customers	**2,291,110**	2,505,001
Other revenue		
- Dividend income	**22,372**	22,695
Total revenue	**2,313,482**	2,527,696
Company		
Other revenue		
- Dividend income	**185,039**	302,482

23.1 Disaggregation of revenue

Group	Total 2020 RM'000	Total 2019 RM'000
Major products		
Consumer products		
Motorcycles and spare parts sales	**1,804,057**	1,836,845
Ceramic tiles	**308,072**	444,370
	2,112,129	2,281,215
Other products		
Fibre cement and marine related products	**178,981**	223,786
	2,291,110	2,505,001
Timing and recognition		
At a point in time	**2,291,110**	2,505,001
Revenue from contracts with customers	**2,291,110**	2,505,001
Other revenue	**22,372**	22,695
Total revenue	**2,313,482**	2,527,696

23. REVENUE *cont'd*

23.2 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 30-60 days from invoice date for motorcycles 30-90 days from invoice date or cash term for spare parts sales and 30 days from invoice date or 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

The Group applies the practical expedient exemption on disclosure of information on remaining performance obligations that have original expected durations of one year or less.

24. PROFIT BEFORE TAXATION

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Profit before taxation is arrived at after charging/(crediting):				
Auditors' remuneration				
Audit fees:				
- KPMG PLT	**521**	521	**100**	100
- Overseas affiliates of KPMG PLT	**58**	57	**–**	–
- Other auditors	**31**	34	**–**	–
Non-audit fees:				
- KPMG PLT	**4**	4	**4**	4
- Overseas affiliates of KPMG PLT	**56**	64	**56**	64
Material expenses/(income)				
Dividend income				
- Unquoted associated companies in Malaysia	**–**	–	**(1,800)**	(3,600)
- Unquoted associated company outside Malaysia	**–**	–	**(53,076)**	(103,547)
- Quoted investment in Malaysia	**(658)**	(658)	**(658)**	(658)
- Unquoted subsidiary companies in Malaysia	**–**	–	**(109,123)**	(175,102)
- Short term investments	**(32,387)**	(32,162)	**(20,382)**	(19,575)
Personnel expenses				
- Staff salaries and other expenses	**189,031**	175,047	**–**	–
- Contribution to Employees Provident Fund	**13,371**	16,620	**–**	–
- Retirement benefits provision/(write-back)	**1,314**	(2,031)	**–**	–
- Share-based payments	**2,202**	2,653	**–**	–
Gain on disposal of property, plant and equipment	**(1,290)**	(274)	**(62)**	–
Gain on fair value of financial assets at fair value through profit or loss	**(291)**	(2,473)	**(177)**	(2,000)
Inventories written off	**515**	2,198	**–**	–
Provision for/(reversal of) slow moving inventories	**19,612**	(11,420)	**–**	–
Property, plant and equipment				
- written off	**1,914**	662	**–**	–
- impairment loss	**11,830**	340	**–**	–
Gain on capital repayment of a subsidiary	**–**	–	**(15,800)**	–
Gain on liquidation of subsidiaries	**–**	–	**(5,362)**	–
Impairment loss on investment in subsidiary	**–**	–	**11,000**	–
Expenses/(income) arising from leases				
Expenses relating to short-term leases	**(4,503)**	–	**–**	–
Rental expense	**–**	(10,515)	**–**	–
Net loss/(gain) on impairment of financial instruments and contract assets				
Financial assets at amortised cost	**137**	(4,642)	**–**	–

25. TAXATION

	Group 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Continuing Operations:				
Current taxation				
Current year	**73,417**	86,817	**490**	361
Under/(Over) provision in prior year	**8,386**	926	**(17)**	(18)
	81,803	87,743	**473**	343
Deferred taxation				
Current year	**(2,952)**	1,071	**–**	–
(Over)/Under provision in prior year	**(5,602)**	1,596	**–**	–
	(8,554)	2,667	**–**	–
Taxation attributable to continuing operations	**73,249**	90,410	**473**	343
Discontinued Operations:				
Current taxation				
Current year	**–**	1,261	**–**	–
Under provision in prior year	**22**	4	**–**	–
	22	1,265	**–**	–
Deferred taxation				
Current year	**1,290**	(195)	**–**	–
Over provision in prior year	**–**	(3)	**–**	–
	1,290	(198)	**–**	–
Taxation attributable to discontinued operations	**1,312**	1,067	**–**	–
Total tax expense	**74,561**	91,477	**473**	343

25. TAXATION *cont'd*

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

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Profit/(Loss) before taxation				
- Continued operations	**322,771**	497,752	**186,322**	297,144
- Discontinued operations	**(8,859)**	3,022	**–**	–
Total profit before taxation	**313,912**	500,774	**186,322**	297,144
Taxation at Malaysian statutory tax rates of 24%	**75,339**	120,186	**44,717**	71,315
Non allowable expenses	**7,094**	5,720	**5,373**	1,642
Non-taxable income	**(8,235)**	(11,475)	**(49,600)**	(72,596)
Effect of deferred tax not recognised	**8,664**	–	**–**	–
Tax attributable to associated companies	**(9,635)**	(21,809)	**–**	–
Tax incentive	**(1,472)**	(3,668)	**–**	–
	71,755	88,954	**490**	361
Under/(Over) provision in prior years	**2,806**	2,523	**(17)**	(18)
	74,561	91,477	**473**	343

26. DISCONTINUED OPERATIONS

In June 2020, the Group has ceased some of its businesses under industrial operating segment. The Group ceased its distribution of building materials and manufacturing and sale of concrete roofing products. The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operations separately from continuing operations.

Profit attributable to the discontinued operations were as follows:

Results of discontinued operations

	Group	
	2020 RM'000	**2019 RM'000**
Revenue	**160,660**	235,148
Cost of sales	**(146,834)**	(213,584)
Gross profit	**13,826**	21,564
Distribution expenses	**(13,212)**	(14,425)
Administration expenses	**(7,094)**	(7,480)
Other operating expenses	**(5,355)**	(16)
Other operating income	**2,906**	3,406
Results from operations	**(8,929)**	3,049
Interest income	**156**	163
Finance costs	**(86)**	(190)
(Loss)/Profit before taxation	**(8,859)**	3,022
Taxation (Note 25)	**(1,312)**	(1,067)
(Loss)/Profit from discontinued operations, net of tax	**(10,171)**	1,955

Cash flows from/(used in) discontinued operations

	2020 RM'000	**2019 RM'000**
Net cash from operating activities	**19,855**	13,788
Net cash from/(used in) investing activities	**106**	(107)
Net cash used in financing activities	**(1,100)**	(12,450)
Effect on cash flows	**18,861**	1,231

27. 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 RM169,318,000 (2019: RM327,085,000) by the weighted average number of ordinary shares outstanding during the financial year of 314,026,000 (2019: 313,916,000) as follows:

	Group	
	2020 RM'000	**2019 RM'000**
Profit from continuing operations	**179,489**	325,130
(Loss)/Profit from discontinued operations	**(10,171)**	1,955
Profit attributable to owners of the Company	**169,318**	327,085

	Group	
	2020 '000	**2019 '000**
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July 2019/2018	**327,905**	327,905
Less:		
Treasury shares held at 1 July 2019/2018	**(8,432)**	(8,432)
Trust shares held at 1 July 2019/2018	**(5,480)**	(5,732)
	313,993	313,741
Effect of Trust shares vested	**33**	175
Weighted average number of ordinary shares	**314,026**	313,916

	Group	
	2020	**2019**
From continuing operations (sen)	**57.16**	103.57
From discontinued operations (sen)	**(3.24)**	0.63
Basic earnings per ordinary share (sen)	**53.92**	104.20

Diluted earnings per ordinary share

The Group diluted earnings per ordinary share for the financial year approximates its basic earnings per ordinary share.

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

	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
Group			
2020			
Items that will not be reclassified subsequently to profit or loss			
Equity investments measured at fair value through other comprehensive income			
- Fair value gain arising during the year	**4,412**	**–**	**4,412**
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	**302**	**–**	**302**
Foreign currency translation differences for foreign operations			
- Fair value gain arising during the year	**29**	**–**	**29**
- Share of other comprehensive income of equity-accounted associates	**6,296**	**–**	**6,296**
	11,039	**–**	**11,039**
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 differences 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)

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

	tax	Before (expense) RM'000	Tax benefit/ tax RM'000	Net of RM'000
Company				
2020				
Items that will not be reclassified subsequently to profit or loss				
Equity investments measured at fair value through other comprehensive income				
- Fair value gain arising during the year		**4,370**	**–**	**4,370**
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		(6,400)	–	(6,400)

29. DIVIDENDS

	Group		Company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
First interim				
17 sen per share single tier (2019: 15 sen per share single tier)	**53,379**	47,094	**54,311**	47,921
Second interim				
25 sen per share single tier (2019: 25 sen per share single tier)	**78,525**	78,498	**79,868**	79,868
Special interim				
Nil per share single tier (2019: 10 sen per share single tier)	**–**	31,399	**–**	31,947
	131,904	156,991	**134,179**	159,736

Dividends received by the ESS Trusts amounting to RM2,275,000 (2019: RM2,745,000) for the Group is eliminated against the dividend expense of the Company upon consolidation of the ESS Trusts as disclosed in Note 2.2(l)(iii).

30. 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 continuing and discontinued operations in each of the Group's reportable segments:

a) Continuing operations

Consumer products – Manufacture and sale of consumer products comprises motorcycles, spare parts and ceramic tiles.

b) Discontinued operations

Manufacture and sale of concrete roofing products and distribution of building materials.

Other non-reportable segment comprises operations related to manufacturing and sale of fibre cement products and distribution of marine related products.

Segment profit

Performance is measured based on segment profit before interest income, finance costs, 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.

	Continuing operations Consumer products		Discontinued operations Industrial products		Total	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**	**2020 RM'000**	**2019 RM'00**
Group						
Segment profit/(loss)	**324,604**	474,705	**(8,929)**	3,049	**315,675**	477,754
Included in the measure of segment profit/(loss) are:						
Revenue from external customers	**2,112,129**	2,281,215	**160,660**	235,148	**2,272,789**	2,516,363
Depreciation and amortisation	**(48,330)**	(48,256)	**(1,392)**	(1,530)	**(49,722)**	(49,786)
Impairment loss on property, plant and equipment	**(9,994)**	–	**(1,836)**	–	**(11,830)**	–
Share of profit in associated companies	**40,146**	90,871	**–**	–	**40,146**	90,871

30. OPERATING SEGMENTS *cont'd*

Reconciliations of reportable segment profit or loss

	Group 2020 RM'000	Group 2019 RM'000
Profit/(Loss)		
Total profit for reportable segment	**315,675**	477,754
Non-reportable segments	**(2,969)**	22,448
Loss/(Profit) from discontinued operations	**8,929**	(3,049)
Interest income	**4,137**	3,600
Finance costs	**(3,001)**	(3,001)
Consolidated profit (excluding taxation and discontinued operations)	**322,771**	497,752

	2020		2019	
	External revenue RM'000	Depreciation & amortisation RM'000	External revenue RM'000	Depreciation & amortisation RM'000
Group				
Total reportable segments	**2,272,789**	**49,722**	2,516,363	49,786
Non-reportable segments	**201,353**	**10,562**	246,481	10,109
Discontinued operations	**(160,660)**	**(1,392)**	(235,148)	(1,530)
Consolidated total	**2,313,482**	**58,892**	2,527,696	58,365

Geographical information

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

	Revenue 2020 RM'000	Revenue 2019 RM'000
Group		
Malaysia	**2,304,195**	2,527,948
Australia	**35,768**	52,594
Vietnam	**31,448**	45,323
Thailand	**26,784**	29,980
Singapore	**15,300**	22,161
Taiwan	**12,298**	21,841
Others	**48,349**	62,997
Discontinued operations	**(160,660)**	(235,148)
	2,313,482	2,527,696

30. OPERATING SEGMENTS *cont'd*

Geographical information *cont'd*

Non-current assets (except for investments in associated companies, financial instruments, deferred tax assets and tax credit receivable) of the Group by geographical locations of the assets are as follows:

	Non-current assets	
	2020	**2019**
	RM'000	**RM'000**
Group		
Malaysia	**317,755**	318,002
Singapore	**538**	240
	318,293	318,242

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.

31. CAPITAL COMMITMENTS

	Group	
	2020	**2019**
	RM'000	**RM'000**
Property, plant and equipment		
Authorised but not contracted for	**66,990**	60,851
Authorised and contracted for	**13,860**	15,395

32. RELATED PARTIES

32.1 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;

32. RELATED PARTIES *cont'd*

32.1 Significant related party transactions *cont'd*

(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;

(iii) Hong Bee Hardware Company Sdn Berhad ("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").

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

	Transactions	Related party	Group 2020 RM'000	Group 2019 RM'000
(a)	Sale of goods and services	Subsidiary and associated companies of HLCM	**2,157**	2,142
		Hong Bee Hardware and Hong Bee Motors	**42,108**	56,502
		YMC Group	**3,128**	2,630
(b)	Purchase of goods and services	Subsidiary and associated companies of HLCM	**66,709**	101,082
		YMC Group	**567,499**	531,121
		Tasek and subsidiary and associated companies of Tasek	**6,434**	9,258
		Associated companies of HLI	**344,207**	359,383
(c)	Rental of properties	Subsidiary and associated companies of HLCM	**1,851**	1,625
(d)	Receipt of services	Subsidiary and associated companies of HLCM	**874**	1,103
(e)	Receipt of Group management and/or support services	Subsidiary and associated companies of HLCM	**29,827**	22,580

32. RELATED PARTIES *cont'd*

32.1 Significant related party transactions *cont'd*

	Transactions	Related party	Group 2020 RM'000	Group 2019 RM'000
(f)	Payment of royalties and technical fees for usage of the Yamaha trademark and technical support	YMC	**31,606**	35,048
(g)	Receipt of research and development services	YMC	**3,542**	3,076
(h)	Receipt of logistics related services	Subsidiary companies of HLCM	**2,361**	–

Significant balances with related parties at the reporting date are disclosed in Note 14, Note 15 and Note 22.

The above transactions were established on negotiated basis on business practices and policies of the Group and of the Company.

32.2 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 and the Company 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 2020 RM'000	Group 2019 RM'000	Company 2020 RM'000	Company 2019 RM'000
Executive Directors				
Remuneration and other benefits	**–**	–	**–**	–
Non-Executive Directors				
Fees*	**452**	452	**382**	382

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

33. FINANCIAL INSTRUMENTS

33.1 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").

2020	Carrying amount RM'000	FAAC/ FLAC RM'000	FVOCI- EIDUIR RM'000	FVTPL- DUIR RM'000	Derivatives used for hedging RM'000
Financial assets					
Group					
Other investments	**32,282**	**–**	**28,254**	**4,038**	**–**
Trade and other receivables,					
(excluding prepayments)	**227,412**	**227,412**	**–**	**–**	**–**
Cash and cash equivalents	**1,211,109**	**1,211,109**	**–**	**–**	**–**
	1,470,803	**1,438,521**	**28,254**	**4,028**	**–**
Company					
Other investments	**28,640**	**–**	**25,964**	**2,676**	**–**
Trade and other receivables,					
(excluding prepayments)	**200**	**200**	**–**	**–**	**–**
Cash and cash equivalents	**765,171**	**765,171**	**–**	**–**	**–**
	794,011	**765,371**	**25,964**	**2,676**	**–**
Financial liabilities					
Group					
Loans and borrowings	**16,980**	**16,980**	**–**	**–**	**–**
Trade and other payables,					
including derivatives	**274,665**	**274,661**	**–**	**–**	**4**
	291,645	**291,641**	**–**	**–**	**4**
Company					
Trade and other payables,					
including derivatives	**1,938**	**1,938**	**–**	**–**	**–**
	1,938	**1,938**	**–**	**–**	**–**

33. FINANCIAL INSTRUMENTS *cont'd*

33.1 Categories of financial instruments *cont'd*

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, (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, (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	–	–	–

33. FINANCIAL INSTRUMENTS *cont'd*

33.2 Net gains and losses arising from financial instruments

	Group		Company	
	2020	**2019**	**2020**	**2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net gains/(losses) on financial instruments carried at:				
Amortised cost				
- Dividend income from short term investments	**32,387**	32,162	**20,382**	19,575
- Interest income	**4,293**	3,763	**1,391**	983
- Unrealised forex loss	**(110)**	(1,110)	**–**	–
- Finance costs	**(2,540)**	(3,191)	**–**	–
Fair value through profit or loss:				
- Fair value gain on loan stock investment	**291**	2,473	**177**	2,000
- Others	**176**	(2)	**138**	–
Fair value through other comprehensive income:				
- Fair value gain/(loss) on equity investments	**4,412**	(6,441)	**4,370**	(6,400)
- Dividend income	**658**	658	**658**	658
	39,567	28,312	**27,116**	16,816

33.3 Financial risk management

The Group and the Company have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and bank balances. The Company's exposure to credit risk arises principally from bank balances.

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

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.

Concentration of credit risk

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	
	2020 RM'000	**2019 RM'000**
Domestic	**185,538**	283,412
Asia	**6,908**	25,557
Europe	**1,177**	1,144
Others	**7,347**	3,469
	200,970	313,582

Expected credit loss ("ECL") assessment for trade receivables

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 2020 and 30 June 2019.

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

Expected credit loss ("ECL") assessment for trade receivables *cont'd*

Group	Gross carrying amount RM'000	Loss allowance RM'000	Net carrying amount RM'000
2020			
Not past due	**178,144**	**(2,464)**	**175,680**
Past due 1 - 30 days	**4,674**	**–**	**4,674**
Past due 31 – 60 days	**11,720**	**(738)**	**10,982**
Past due 61 – 90 days	**6,718**	**(12)**	**6,706**
Past due 91 – 120 days	**2,802**	**(86)**	**2,716**
Past due more than 120 days	**8,234**	**(8,022)**	**212**
	212,292	**(11,322)**	**200,970**
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

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

	2020 RM'000	2019 RM'000
Group		
Balance at 1 July 2019/2018	**11,185**	15,827
Net measurement of loss allowance	**137**	(4,642)
Balance at 30 June	**11,322**	11,185

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.

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(a) Credit risk *cont'd*

Receivables *cont'd*

ECL of other receivables

ECL 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.

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 maintained with licensed financial institutions (of which majority is placed with a related company) as disclosed in Note 15 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.

(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.

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(b) Liquidity risk *cont'd*

Maturity analysis

The table below summarises the maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:-

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
Group							
2020							
Non-derivative financial liabilities							
Trade and other payables	274,665	–	274,665	274,665	–	–	–
Loans and borrowings	16,980	2.9%-3.9%	17,825	17,825	–	–	–
Lease liabilities	13,952	3.5%-4.0%	15,713	3,804	3,211	6,588	2,110
	305,597		308,203	296,294	3,211	6,588	2,110
Derivative financial liabilities							
Forward exchange contract (gross settled):							
Outflow	4	–	8,362	8,362	–	–	–
Inflow	–	–	(8,358)	(8,358)	–	–	–
	305,601		308,207	296,298	3,211	6,588	2,110

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(b) Liquidity risk *cont'd*

Maturity analysis cont'd

The table below summarises the maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:-

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
Group				
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		348,863	348,863
Company				
2020				
Non-derivative financial liabilities				
Trade and other payables	**1,938**	**–**	**1,938**	**1,938**
2019				
Non-derivative financial liabilities				
Trade and other payables	794	–	794	794

(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.

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(c) Market risk *cont'd*

(i) Currency risk

The Group and the Company are exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currency giving rise to this risk is primarily U.S. Dollar ("USD").

Risk management objectives, policies and processes for managing the risk

Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts, on a case by case basis.

Exposure to foreign currency risk

The Group and the Company's exposure to foreign currency (a currency other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period is not material.

Currency risk sensitivity analysis

The exposure to currency risk is not material and hence, sensitivity analysis is not presented.

(ii) Interest rate risk

Risk management objectives, policies and processes for managing the risk

The Group and the Company manage their interest rate exposure by maintaining available lines of fixed and floating rate borrowings. Investments in deposits with licensed banks are not significantly exposed to interest rate risk.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2020 RM'000	**2019 RM'000**	**2020 RM'000**	**2019 RM'000**
Fixed rate instruments				
Deposits with licensed banks	**1,150,261**	914,083	**764,600**	597,000
Loans and borrowings	**(6,280)**	(14,030)	**–**	–
Lease liabilities	**(13,952)**	–	**–**	–
	1,130,029	900,053	**764,600**	597,000
Floating rate instruments				
Loans and borrowings	**(10,700)**	(24,700)	**–**	–

33. FINANCIAL INSTRUMENTS *cont'd*

33.3 Financial risk management *cont'd*

(c) Market risk *cont'd*

(ii) Interest rate risk *cont'd*

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Group and the Company do 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.

33.4 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.

33. FINANCIAL INSTRUMENTS *cont'd*

33.4 Fair value information *cont'd*

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:-

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
Group										
2020										
Financial assets										
Investment in quoted shares and loan stocks	**32,282**	**–**	**–**	**32,282**	**–**	**–**	**–**	**–**	**32,282**	**32,282**
Financial liabilities										
Forward foreign exchange contracts	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
2019										
Financial assets										
Investment in quoted shares and loan stocks	34,026	–	–	34,026	–	–	–	–	34,026	34,026
Financial liabilities										
Forward foreign exchange contracts	–	(305)	–	(305)	–	–	–	–	(305)	(305)

33. FINANCIAL INSTRUMENTS *cont'd*

33.4 Fair value information *cont'd*

	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 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
Company										
2020										
Financial assets										
Investment in quoted shares and loan stocks	**28,640**	**–**	**–**	**28,640**	**–**	**–**	**–**	**–**	**28,640**	**28,640**
2019										
Financial assets										
Investment in quoted shares and loan stocks	30,541	–	–	30,541	–	–	–	–	30,541	30,541

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.

34. 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 2020 and 30 June 2019 were as follows:-

	Group	
	2020 RM'000	**2019 RM'000**
Loans and borrowings	**16,980**	38,730
Lease liabilities	**13,952**	–
Less: Cash and cash equivalents	**(1,211,109)**	(1,039,941)
Net cash	**(1,180,177)**	(1,001,211)
Total equity	**1,838,118**	1,763,315
Debt-to-equity ratios	**Nil**	Nil

35. CONTINGENT LIABILITY

During the financial year, a subsidiary of the Company has received bills of demand from the Royal Malaysian Customs Department in respect of sales tax amounting to RM27.9 million. The said subsidiary has appointed an external solicitor to appeal against the sales tax imposed.

Based on the legal advice, the subsidiary has good grounds under the Sales Tax Act 2018 to be exempted from this sales tax.

36. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

On 1 July 2019, the Group and the Company adopted MFRS 16.

Definition of a lease

On transition to MFRS 16, the Group and the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

36. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

As a lessee

Where the Group and the Company are a lessee, the Group and the Company applied the requirements of MFRS 16 using the modified retrospective approach under which the Group and the Company had chosen to measure the right-of-use asset equal to lease liability as at 1 July 2019.

At 1 July 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group entities' incremental borrowing rate as at 1 July 2019. The weighted-average rate applied is between 3.5% and 4.0%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group and the Company used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:
- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 July 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of the right-of-use asset and the lease liability at 1 July 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date.

36.1 Impact on financial statements

Since the Group and the Company applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 July 2019, there are no adjustments made to the prior period balances.

The impact on the statement of financial position at 1 July 2019 as follows:

		Group 1 July 2019 RM'000
Right-of-use assets	– Land	20,042
	– Building and equipment	17,178
		37,220
Lease liabilities		17,178

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 55 to 139 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 2020 and of their financial performance and cash flows for the financial year then ended.

On behalf of the Board,

Dato' Khor Mun Wei

Peter Ho Kok Wai

Date: 4 September 2020

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 55 to 139 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 4 September 2020.

Goh Eng Tatt

Before me

Mohan A.S.Maniam
Kuala Lumpur

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 2020 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 55 to 139.

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 2020, and of their financial performances 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' *International Code of Ethics for Professional Accountants* (including International Independence Standard) ("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 financial 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Key Audit Matters *cont'd*

Valuation of inventories	
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 13 – Inventories, to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Inventories are carried at the lower of cost and net realisable value. Inventories that are consumer products, especially for 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 tiles and motorcycles net inventories represent 31% and 56% of the Group's inventory balance respectively, and it required significant judgement from us to evaluate management's assessment.	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.

Impairment assessment of cost of investment in subsidiary companies – Company	
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 7 – Investments in subsidiary companies, to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
As disclosed in Note 7 to the financial statements, the Company has material interests in subsidiaries. It is approximately 24% 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.	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 tests carried out by the Company by comparing these with the requirements of the relevant accounting standards; - Read the financial information of the subsidiaries and challenged that the derived recoverable amounts supporting the costs of investments were reflective of the values of the underlying assets and liabilities of the subsidiaries; and - Determined the adequacy of disclosures in the financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

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 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, 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS *cont'd*

Auditors' Responsibilities for the Audit of the Financial Statements *cont'd*

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 and of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

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 MATTERS

This report is made solely to the member 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: 02867/08/2022 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 4 September 2020

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2020

Location	Tenure	Existing use	Year of last Revaluation / Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2020 (RM'000)
Lot 57 Persiaran Bukit Rahman Putra 3 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Office and factory building	1994	1,577,316	24	51,646
5 ¼ miles Jalan Kapar Rantau Panjang 42100 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1982	39,463	38	683
5 ½ miles Jalan Meru 41050 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1991	871,600	29-39	20,593
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	261,633	35	4,977
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	1,061,775	30	4,071
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	747,108	27	13,739
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and factory building	1985	256,187	11	35,394
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	1985	907,790	25	12,085
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	2007	418,447	24	8,636
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Vacant industrial land	2014	43,560	–	793

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2020 *cont'd*

Location	Tenure	Existing use	Year of last Revaluation / Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2020 (RM'000)
Lot 312490, 127221, 127222 Kawasan Perusahaan Kanthan, Chemor, Perak Darul Ridzuan	Freehold	Industrial land with office and factory buildings	1990	3,159,821	29	7,339
No.12, Jalan Tandang, Petaling Jaya, Selangor Darul Ehsan	Leasehold 99 years expiring 2066	Industrial land with office and factory buildings	2000	319,730	60	17,104
Lot 52, Kawasan Perusahaan Bakar Arang, Sungei Petani, Kedah Darul Aman	Leasehold 60 years expiring 2081	Industrial land with office, store and factory buildings	2000	510,000	38	2,203
Lot 353, Kawasan Perindustrian Peringkat 2, Bandar Tenggara Kulai, Johor	Leasehold 60 years expiring 2056	Industrial land with office, store and factory buildings	2002	189,704	18	1,563
PT 30238 Mukim Setul, Nilai Industrial Estate Negeri Sembilan Darul Khusus	Leasehold 60 years expiring 2043	Industrial land with vacant office and factory buildings	1983	545,934	23	200
P.T.531 to 534 & P.T.552 to 560 Taman Panchor Industrial Area, Negeri Sembilan Darul Khusus	Leasehold 99 years expiring 2096	Vacant land	1998	1,117,627	–	4,000

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2020

Class of Shares : Ordinary shares
Voting Rights : 1 vote for each share held

Distribution Schedule Of Shareholders As At 28 August 2020

Size of Holdings	No. of Shareholders	%	No. of Shares*	%
Less than 100	485	11.19	9,834	0.00
100 – 1,000	1,641	37.86	1,066,954	0.33
1,001 – 10,000	1,711	39.48	6,322,586	1.98
10,001 – 100,000	406	9.37	12,064,961	3.78
100,001 – less than 5% of issued shares	90	2.08	61,791,440	19.34
5% and above of issued shares	1	0.02	238,217,035	74.57
	4,334	100.00	319,472,810	100.00

* Excluding 8,432,500 shares bought back and retained by the Company as treasury shares.

List Of Thirty Largest Shareholders As At 28 August 2020

	Name of Shareholders	No. of Shares	%
1.	Hong Leong Manufacturing Group Sdn Bhd	238,217,035	74.57
2.	AmanahRaya Trustees Berhad - Public Smallcap Fund	5,349,533	1.67
3.	HLIB Nominees (Tempatan) Sdn Bhd - Exempt AN for Hong Leong Industries Berhad (HLYM-ESOS)	3,890,473	1.22
4.	Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	3,779,800	1.18
5.	Woo Khai Yoon	3,250,000	1.02
6.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Eastspring Investments Small-Cap Fund	2,767,800	0.87
7.	Soft Portfolio Sdn. Bhd.	2,512,000	0.78
8.	AmanahRaya Trustees Berhad - Public Strategic Smallcap Fund	2,163,300	0.68
9.	HSBC Nominees (Tempatan) Sdn Bhd - HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (AFF HWG6939-403)	1,993,833	0.62
10.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Norges Bank (FI 17)	1,978,100	0.62

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2020 *cont'd*

List Of Thirty Largest Shareholders As At 28 August 2020 *cont'd*

	Name of Shareholders	No. of Shares	%
11.	Hong Bee Hardware Company, Sdn. Berhad	1,971,333	0.62
12.	Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for Union Bancaire Privee, UBP SA, Hong Kong Branch	1,800,000	0.56
13.	Cartaban Nominees (Tempatan) Sdn Bhd - PAMB for Prulink Equity Income Fund	1,416,500	0.44
14.	Hong Leong Assurance Berhad - As Beneficial Owner (Life Par)	1,371,210	0.43
15.	HLIB Nominees (Tempatan) Sdn Bhd - Exempt AN for Hong Leong Industries Berhad (GSB-ESOS)	1,347,500	0.42
16.	RHB Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Chut Nyak Isham Bin Nyak Ariff	1,000,000	0.31
17.	Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (F Templeton)	980,200	0.31
18.	AmanahRaya Trustees Berhad - PB Smallcap Growth Fund	949,500	0.30
19.	Maybank Nominees (Tempatan) Sdn Bhd - National Trust Fund (IFM Kenanga) (410196)	921,100	0.29
20.	Maybank Nominees (Tempatan) Sdn Bhd - MTrustee Berhad for Tenaga Nasional Berhad Retirement Benefit Trust Fund (RB-TNB-AHAM) (420317)	920,500	0.29
21.	Cartaban Nominees (Tempatan) Sdn Bhd - RHB Trustees Berhad for Manulife Investment Shariah Progress Fund	906,500	0.28
22.	Cartaban Nominees (Tempatan) Sdn Bhd - PAMB for Participating Fund	858,600	0.27
23.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad - Deutsche Trustees Malaysia Berhad for Eastspring Investments Equity Income Fund	825,600	0.26
24.	AmanahRaya Trustees Berhad - Public Index Fund	744,600	0.23
25.	Datuk Kwek Leng San	744,167	0.23
26.	Tung Seok Hooi	700,000	0.22

2. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2020 *cont'd*

List Of Thirty Largest Shareholders As At 28 August 2020 *cont'd*

	Name of Shareholders	No. of Shares	%
27.	Maybank Nominees (Tempatan) Sdn Bhd - Maybank Private Wealth Management for Wong Tuck Meng (PW-M00714) (420211)	650,000	0.20
28.	Citigroup Nominees (Asing) Sdn Bhd - CBNY for Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	539,900	0.17
29.	CIMB Group Nominees (Tempatan) Sdn Bhd - Exempt AN for Petroliam Nasional Berhad (Affin)	538,800	0.17
30.	Chan Y Kheng	533,700	0.17
		285,621,584	89.40

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 28 August 2020 are as follows:

		Direct Interest		Indirect Interest	
	Name of Shareholders	No. of Shares	%	No. of Shares	%
1.	Hong Leong Manufacturing Group Sdn Bhd	238,217,035	74.57	88,333	0.03#
2.	Hong Leong Company (Malaysia) Berhad ("HLCM")	–	–	240,242,003#	75.20#
3.	YBhg Tan Sri Quek Leng Chan	–	–	242,788,803**	76.00**
4.	HL Holdings Sdn Bhd	–	–	240,242,003*	75.20*
5.	Hong Realty (Private) Limited	–	–	242,213,336^	75.82^
6.	Hong Leong Investment Holdings Pte. Ltd.	–	–	242,213,336^	75.82^
7.	Kwek Holdings Pte Ltd	–	–	242,213,336^	75.82^
8.	Mr Kwek Leng Beng	–	–	242,213,336^	75.82^
9.	Mr Kwek Leng Kee	–	–	242,213,336^	75.82^
10.	Davos Investment Holdings Private Limited	–	–	242,213,336^	75.82^

Notes:

Held through subsidiaries.
* *Held through HLCM.*
** *Held through HLCM and companies in which YBhg Tan Sri Quek Leng Chan and his children have interests.*
^ *Held through HLCM and a company in which the substantial shareholder has interest.*

3. DIRECTORS' INTERESTS AS AT 28 AUGUST 2020

Subsequent to the financial year end, there was no change, as at 28 August 2020, to the Directors' interests in the ordinary shares of the Company and/or its related corporations appearing in the Directors' Report on pages 52 to 53 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 except for the following:

	No. of ordinary shares/ordinary shares to be received arising from vesting of share grant*
Direct Interests of YBhg Dato' Jim Khor Mun Wei in:	
Hong Leong Industries Berhad	68,861 215,949*
Malaysian Pacific Industries Berhad	250
Hume Industries Berhad	3,220

4. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors, chief executives and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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HongLeong Industries Berhad

Registration No. 196401000167 (5486-P)
A Member of the Hong Leong Group

FORM OF PROXY

I/We____
NRIC/Passport/Company No. ____
of____
being a member of **HONG LEONG INDUSTRIES BERHAD** ("the Company"), hereby appoint _______________________
____
NRIC/Passport No. ____
of____
____
or failing him/her____
NRIC/Passport No. ____
of____
____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fifty-seventh Annual General Meeting of the Company to be held at Wau Bulan Ballroom, Level 2, Sofitel Kuala Lumpur Damansara, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Wednesday, 4 November 2020 at 10.30 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote on a poll as indicated below with an "X":

RESOLUTIONS		FOR	AGAINST
1	To approve the payment of Director Fees and Directors' Other Benefits		
2	To re-elect YBhg Dato' Jim Khor Mun Wei as a Director		
3	To re-appoint KPMG PLT as Auditors and to authorise the Directors to fix their remuneration		
Special Business			
4	To approve the ordinary resolution on authority to Directors to allot shares		
5	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and persons connected with HLCM		
6	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Bee Hardware Company, Sdn Berhad and Hong Bee Motors Sdn Bhd		
7	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Yamaha Motor Co., Ltd and its subsidiaries		
8	To approve the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature with Hong Leong Investment Holdings Pte. Ltd. ("HLIH") and persons connected with HLIH		

Dated this ____________________ day of __________________ 2020

Number of shares held:________________________

CDS Account No.: ___________________________

____
Signature(s) of Member

Notes:

1. *For the purpose of determining members' eligibility to attend this meeting, only members whose names appear in the Record of Depositors as at 27 October 2020 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on their behalf.*
2. *If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.*
3. *If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.*
4. *A proxy may but need not be a member of the Company.*
5. *Save for a member who is an exempt authorised nominee, a member shall not be entitled to appoint more than two (2) proxies to attend, participate, speak and vote at the same meeting. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A member who is an exempt authorised nominee for multiple beneficial owners in one (1) securities account ("Omnibus Account") may appoint any number of proxies in respect of the Omnibus Account.*
6. *Where two (2) or more proxies are appointed, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies, failing which the appointments shall be invalid (please see note 9 below).*
7. *In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.*
8. *All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 31, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur or lodged electronically via email at cosec-hlmg@hongleong.com.my, not less than forty-eight (48) hours before the time appointed for holding of the meeting or adjourned meeting.*
9. *In the event two (2) or more proxies are appointed, please fill in the ensuing section:*

Name of proxies	*% of shareholdings to be represented*

10. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in the Notice of the Fifty-seventh Annual General Meeting will be put to a vote by way of a poll.*

Fold this flap for sealing

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AFFIX
STAMP

The Company Secretaries
Hong Leong Industries Berhad
Registration No. 196401000167 (5486-P)
Level 31, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Malaysia

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Hong Leong Industries Berhad
Registration No. 196401000167 (5486-P)

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No. 6, Jalan Damanlela
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50490 Kuala Lumpur
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Fax : 03-2080 9238

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