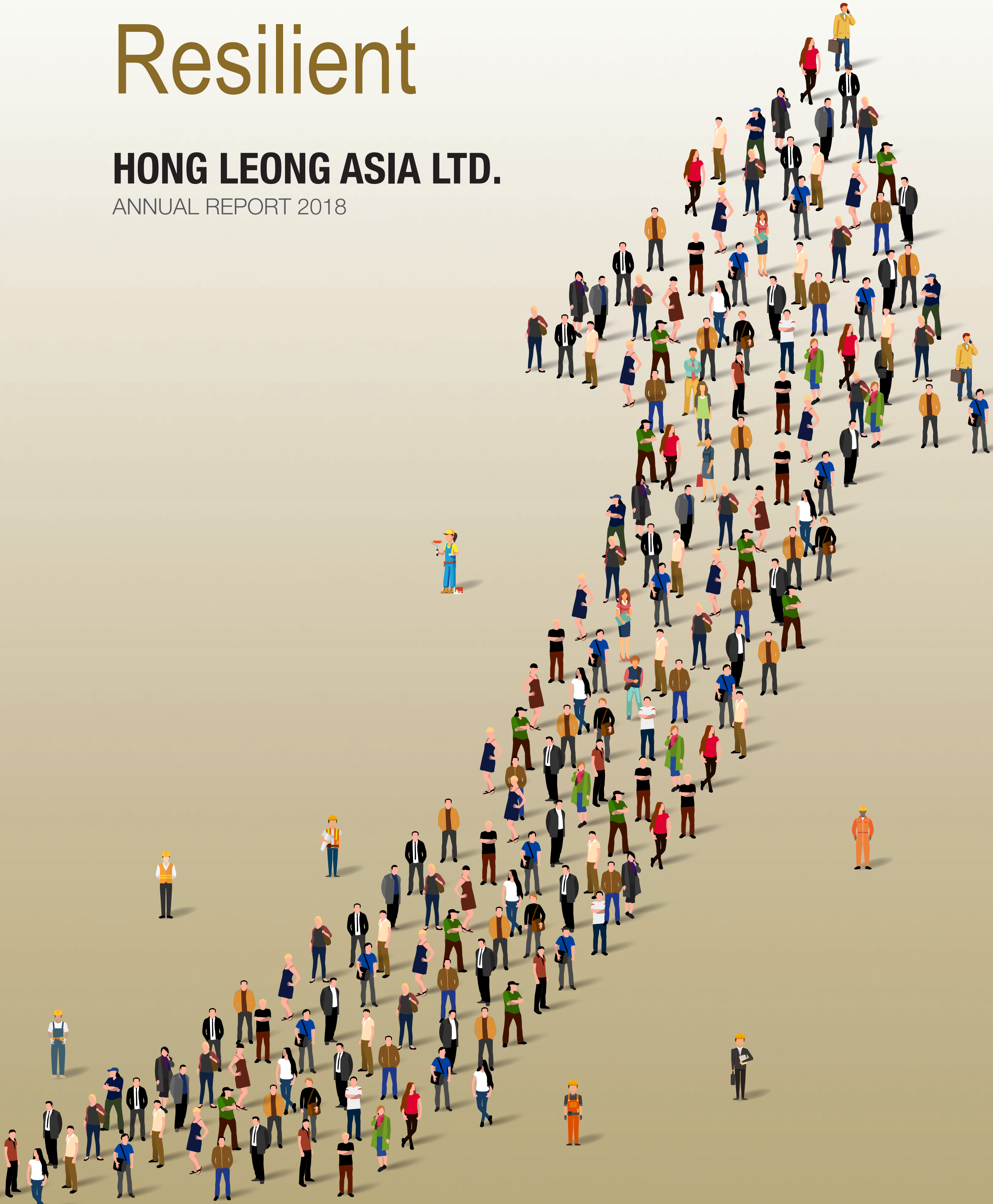
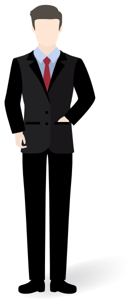
Staying Resilient

HONG LEONG ASIA LTD.

ANNUAL REPORT 2018





Vision

To be a market leader by creating sustainable growth through diversification, innovation and organization excellence, contributing to all our stakeholders - our customers, our people, our shareholders, our environment and our society.

Introduction

Achieving our vision will only be through the combined effort of each member of the Group, steered by our six core values. Together, these sum up our attitude towards tackling challenges in an ever-changing economic environment: “I-ACE-IT”.

I-ACE-IT

Integrity	To uphold the right values through acting responsibly and honestly.
Accountability	To be responsible and take ownership of whatever we commit to do.
Customer focus	To meet customer needs, wants and expectations by providing outstanding products and services.
Embrace change	To accept change with an open mind and leverage on it as an opportunity to improve.
Innovation	To be creative and adopt a market leader mentality in the way we manage our products, services and processes.
Teamwork	To support group decisions and work together cohesively to achieve agreed goals and objectives.

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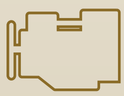
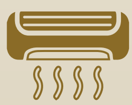
Profile of Hong Leong Asia

Hong Leong Asia (HLA) is the industrial manufacturing and distribution division of Hong Leong Group Singapore. It is one of the largest diversified industrial conglomerates in China and Southeast Asia. Listed on the Singapore Stock Exchange since 1998, HLA's core businesses are:


Diesel Engines


Building Materials


Industrial Packaging


Air-conditioning Systems

GROUP PROFILE

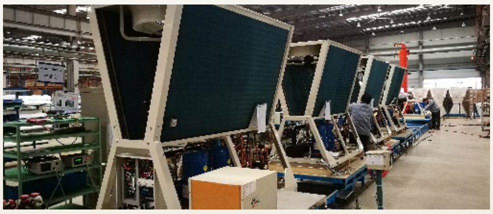
From being Singapore's leading integrated building materials supplier to its current standing as one of the region's major manufacturing and distribution players, Hong Leong Asia's success is intricately linked to its diversification into the manufacturing and distribution industries in China and Southeast Asia. With over 90% of its market beyond the shores of Singapore, Hong Leong Asia is well placed to leverage on its current position to scale greater heights.

Hong Leong Asia has major operations in China and is well-positioned to take advantage of booming markets driven by the Asian giant. With its head office based in Singapore and its Asia management team, the Group combines the best of management practices with a deep understanding of Asia culture and local sensibilities.

Its diverse management portfolio includes key sectors in diesel engines and capabilities across the supply chain in building materials. Each portfolio is led by a seasoned team of professionals who steer the business towards continued growth and profitability.

DIESEL ENGINES

BUILDING MATERIALS



INDUSTRIAL PACKAGING & AIR-CONDITIONING SYSTEMS

Diesel Engines Unit

China Yuchai International Limited is listed on the New York Stock Exchange. Its principal operating subsidiary Guangxi Yuchai Machinery Company Limited is one of the largest engine manufacturers in China. It is located in Yulin City, Guangxi Zhuang Autonomous Region in southern China. Yuchai engages in the manufacture, assembly and sale of a wide variety of light-duty, medium-duty and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment and marine and agriculture applications in China. Yuchai also produces engines for diesel power generators. The engines produced by Yuchai range from diesel to natural gas and hybrid engines. Through its regional sales offices and authorized customer service centers, Yuchai distributes its engines directly to original equipment manufacturers and retailers and provides maintenance and retrofitting services throughout China.

Building Materials Unit

Building Materials Unit is one of the largest suppliers of essential building materials to the construction industry in Singapore. It sells all grades of ready mixed concrete and is the largest producer of precast concrete elements for public housing construction. It imports and distributes cement in Singapore and operates a granite quarry in Johor. The Group offers customers "one-stop" convenience with its ability to supply a wide range of building material products at competitive pricing resulting from the Group's internal synergies. In Malaysia, Hong Leong Asia's subsidiary, Tasek Corporation is the 5th largest cement producer.

Industrial Packaging Unit

Rex manufactures and distributes a wide range of rigid plastic packaging products to serve both industrial and consumer packaging markets. Rex covers key markets such as personal care, household, food and beverage, lubricant and chemicals. Its manufacturing operations are in China.

Air-Conditioning Systems Unit

Airwell is engaged in the design, manufacture and distribution of air-conditioning systems, offering central AC systems, residential heat pump, floor heating, and fan coil unit. Its products are used in private households, large residential, commercial and industrial applications. Its production facility is based in Taicang, Jiangsu, China. It exports its products overseas to Asia and to Europe. The Group markets under the brand name of Airwell and Fedders.

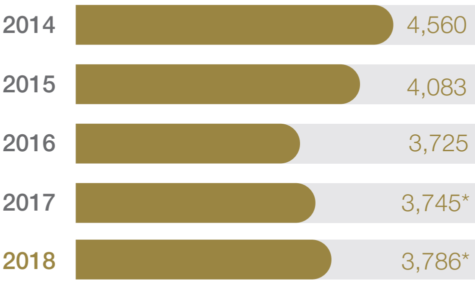
REVENUE DISTRIBUTION

REVENUE BY BUSINESS SEGMENT
(in S$ million)

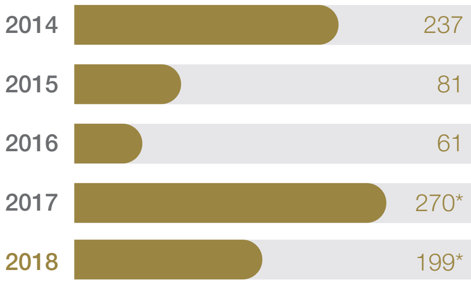
REVENUE BY COUNTRY
(in S$ million)

FINANCIAL HIGHLIGHTS

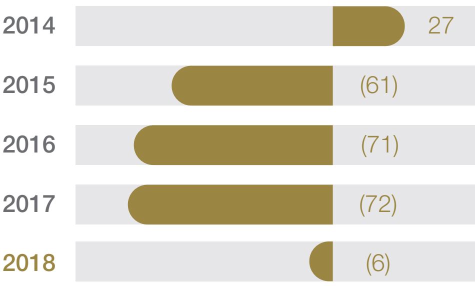
REVENUE (in S$ million)



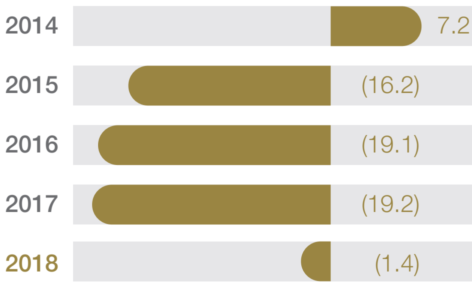
PROFIT BEFORE TAX (in S$ million)



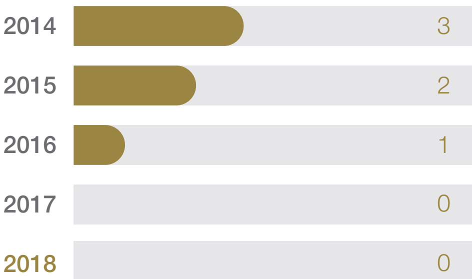
ATTRIBUTABLE PROFIT/(LOSS) (in S$ million)



EARNINGS/(LOSS) PER SHARE (in cents)



DIVIDEND PER SHARE (in cents)



* Encompasses continuing operations only.

DIVIDEND POLICY

The Group aims to maintain a strong capital position to ensure market confidence, to support its on-going business and to meet the expectations of its stakeholders. The Board of Directors aims to pay dividends to shareholders at least once a year, balancing returns to shareholders with prudent capital management and consistent with the Company's overall governing objective of maximising shareholder value over time. Before proposing any dividends, the Board of Directors will consider a range of factors, including the Group's results of operations, long-term and short-term capital requirements, current balance sheet, future investment plans and the general business conditions and other macro environment factors.

Shareholders and potential investors should note that past dividend distributions should not be taken as an indication of future dividend distributions, and this statement is a statement of our present intention and shall not constitute a legally binding commitment in respect of the Company's future dividends which may be subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion.

CHAIRMAN'S MESSAGE

We will continue to pursue growth through strategic acquisitions and potential alliance opportunities, as well as improve current business operational performances through continuous productivity and process improvements.

DEAR SHAREHOLDERS

On behalf of the Board of Directors, I wish to present the Annual Report for the year ended 31 December 2018 ("FY2018").

YEAR IN REVIEW

2018 was a challenging year beleaguered with volatility and major geo-political tensions.

The US and China have been locked in an escalating trade battle with tariffs imposed on imports from both countries. Fears over a further escalation have rattled investors and hit stock markets. The International Monetary Fund warned that a full-blown trade war would weaken the global economy. The global market sentiment has remained weak since.

In the US, the Federal Reserve raised interest rates four times during the year.

In China, the growth of its economy slowed to 6.6% in 2018, the slowest pace since 1990.

In Malaysia, the 14th general election resulted in a change of government after six decades from the ruling coalition, Barisan Nasional, to an opposition alliance, Pakatan Harapan.

2018 KEY HIGHLIGHTS

Despite the challenges faced in our key operating markets, the Group remained resilient and focused.

The Group completed the restructuring exercise of its Consumer Products Unit in 2018. The divestment of an under-performing and unprofitable asset has allowed the Group to reduce its exposure to the highly competitive China consumer products market and improved the Group's cashflow position.

The Group has undertaken a rights issue exercise to cater to its working capital and business expansion needs in 2018. The renounceable non-underwritten rights issue of 373,908,559 new ordinary shares in the capital of the Company, at an issue price of $0.54 for each rights share, has been fully subscribed. I would like to thank the shareholders for their trust in the Group, which provided tremendous encouragement to the Group to build momentum and pursue opportunities.

DIESEL ENGINES

The China diesel engines industry for commercial vehicles contracted by close to 2% year-on-year on the back of the Chinese government's push towards engine electrification, the gradual introduction of tighter emission standards and general uncertainty caused by the economic climate. This contraction was largely felt in the public transportation sector where sales of diesel engine powered buses declined by more than 5% year-on-year. As the Group's Diesel Engines Unit ("Yuchai") has one of the highest market shares in this engine segment in China, it bore the brunt of the shrinking demand. Notwithstanding that, Yuchai continues to maintain the leadership position in the industry.

Well-known in the industry for its strength in diesel engine technology, Yuchai continually strives to improve. It has entered into collaboration with international players to enhance its engine manufacturing process capability and expedite the mastering of more superior technology on diesel and alternative energy powered engines. This is supplemented by considerable manpower and financial resources devoted to in-house research and development. Its latest initiatives are expected to continue to anchor Yuchai's position as a major player in the China diesel engines industry.

BUILDING MATERIALS

The property cooling measures introduced by the Singapore government in July 2018 curbed demand for private residential homes. Buyers started adopting a cautious approach to home purchases and purchases by foreigners have declined. Data published by the Singapore Building and Construction Authority ("BCA") indicated that about $30.5 billion of construction contracts were awarded in 2018, largely supported by public sector projects in civil engineering and industrial sectors. This was an increase from $24.8 billion in 2017, and is the first rise in value of construction contracts awarded since 2014. However, this increase did not translate to better pricing and margins due to time lag between the award and execution of construction contracts, excess capacity in the building materials industry, as well as rising raw material costs. The Group's Building Materials Unit ("BMU") in Singapore faced similar pricing and margin pressures. BCA has indicated that the value of construction contracts will be in the range of $27 billion to $32 billion in 2019, with the public sector being again the main demand driver, estimating to contribute between $16.5 billion and $19.5 billion. Construction of private residential properties is expected to decline from $5.2 billion in 2018 to between $4.3 billion and $4.7 billion in 2019.

The Malaysian cement industry continues to face low demand and severe over-capacity. The slowdown in the property sector compounded by stringent loan requirements, cut-backs on infrastructure spending and the deferment or cancellation of key projects such as the Kuala Lumpur-Singapore High Speed Rail and the East Coast Rail Link all contributed to the woes faced by the Malaysian cement manufacturers. Low pricing through the use of high rebates and commissions became the norm, causing cement manufacturers in the country to incur losses. The Group's Malaysian cement operation was no exception.

Despite the challenges faced by the Group's BMUs in both Singapore and Malaysia, they were able to maintain their respective market shares. This is a demonstration of the Group's resilience and capability to withstand competitive pressures. The Group remains steadfast in exploring ways to improve its competitiveness in the industry.

INDUSTRIAL PACKAGING

The Group has two plastic packaging plants ("Rex") in China. While demand for plastic packaging products is strong globally and in China, sales growth of Rex is limited by proximity to customers and pricing constraints. Purchase prices of resins had risen by an average of about 9.5% year-on-year which eroded margins. Nonetheless, over the last 4 years, Rex has seen productivity improvements with increases in its revenue and production tonnage, measured on a per-man basis.

AIR-CONDITIONING

China is the largest manufacturing and consumer market for air-conditioners globally. Ownership per 100 households in urban areas is estimated to be 107.4 units, and 34.2 units for rural areas. In the past, export sales were the mainstay of the Group's air-conditioning

Workers inspecting equipment parts in a Guangxi Yuchai Machinery Company Limited factory, a subsidiary of China Yuchai International Limited.

CHAIRMAN'S MESSAGE

systems unit but given the slow export sales coupled with the higher growth potential of the Chinese market, the emphasis has now shifted to the domestic market. As we are facing stiff competition from the domestic market, the outlook continues to be challenging.

THE WAY FORWARD

With the escalating trade tensions between the US and China, the Group maintains a cautious business outlook for 2019.

We will continue to pursue growth through strategic acquisitions and potential alliance opportunities, as well as improve current business operational performances through continuous productivity and process improvements.

The Board and the Management will continually review the Group's growth strategy to ensure that it remains relevant to our vision and mission.

DIVIDENDS

In view of the Group's loss attributable to shareholders of the Company for FY2018, the Board is not recommending any dividend for FY2018.

AWARDS

In 2018, the Group was presented with the Most Transparent Company Award by the Securities Investors Association (Singapore) for the fourth time since 2012, and it is also the third consecutive year we have won this award. The Group takes pride in the efforts made to provide our shareholders with a clear understanding of our performance through balanced disclosures.

SUSTAINABILITY REPORT

This year marks the Group's transition from the Global Reporting Initiative ("GRI") G4 reporting framework to the GRI Standards. The Group strengthened its approach to business conduct through formal notification to its suppliers of acceptable ethical business practices and expects its own employees and all its business partners to abide by them. This includes a reminder to our employees and suppliers of the Group's whistle-blowing channel and policy.

We are pleased to advise that our customers and employees have responded positively to the Group's approach in active engagement with them. Employee retention rates have increased compared to last year and we are optimistic that this result will be sustained.

APPRECIATION

On behalf of the Board, I would like to commend the Management team and staff for their hard work and dedication. I would like to thank my fellow Directors for their invaluable guidance and contributions. I would also like to acknowledge and express my appreciation to our business partners and loyal shareholders for their continued support and trust in Hong Leong Asia.

KWEK LENG PECK
Executive Chairman

A concrete batching facility of Island Concrete Pte Ltd.

主席报告书

各位股东，

我谨代表董事会发表截至2018年12月31日的年度报告。

业务回顾

2018年国际经济波动大，也被主要地缘政治紧张局势困扰。

美国和中国陷入了升级式的贸易战，两国不断加剧进口产品征收的关税。投资者担心情势进一步恶化令股市受到冲击。国际货币基金组织发布警惕，全面开打贸易战将令全球经济更衰弱。全球经济、股市因此持续低迷。

美国联邦储备局在该年四次升息。

在中国，2018年的经济增长率为6.6%，是自1990年以来最缓慢的经济增长。

马来西亚第14届全国大选结果将执政权从国民阵线转移到希望联盟反对党手里。

2018财年摘要

尽管我们的主要经营市场面对挑战，集团仍保持持之以恒的信念和专注力。

集团于2018年完成了消费产品业务重整计划。在剥离表现欠佳和盈利不足的资产后，集团减少其对竞争激烈的中国消费产品市场的影响，并改善了现金流量状况。

集团在2018年为筹集营运资本和扩展业务共发售了373,908,559可弃权、非包销附加股，每股发售价为0.54元，获得全额认购。我很感谢股东对集团的信任，这也给予集团莫大的动力创建新的里程碑和把握新增长良机。

柴油发动机业务(“玉柴”)

在中国政府推动发动机电气化、逐步出台更严格的排放标准和经济普遍不确定性的背景下，中国商用车柴油发动机行业同比收缩近2%。这种收缩主要体现在公共交通部门，柴油发动机动力公交车的销量同比下滑了 5% 以上。由于集团的柴油发动机业务(“玉柴”) 是中国发动机市场份额最高的企业之一，因此在需求萎缩中首当其冲。尽管如此，玉柴仍保持行业领导地位。

以其在柴油发动机技术方面的实力在业内享有盛誉，玉柴不断努力改进。它已与国际参与者进行了合作，以提高其发动机制造过程的能力，并加快掌握更先进的柴油和替代能源动力发动机技术。此外，玉柴投入大量人力和财政资源专门用于内部研究和开发。其最新举措预计将继续巩固玉柴作为中国柴油发动机行业主要参与者的地位。

建筑材料业务(“BMU”)

新加坡政府于2018年7月实施的房地产降温措施抑制了私宅需求。有意买家开始采取观望态度、谨慎方式购买房屋，而外国房产买家也减少。新加坡建设局公布的数据显示，2018年颁发的建筑合同约305亿元，主要来自公共建设及工业工程项目。合同价值比2017年的248亿元来得高，也是自2014年以来首次取得增长。然而由于建筑合约的授予和执行之间存在的时间差、建筑材料行业产能过剩、以及原材料成本上涨，这个增幅并未转化为更好的定价和利润。集团在新加坡的建筑材料业务也面对类似的价格和利润压力。建设局预计2019年的建筑合约价值介于270亿至320亿元，而公共建设将继续是主要需求来源，估计值165亿至195亿元。私宅建筑预计将从2018年的52亿元，滑落至2019年的43亿至47亿元之间。

马国水泥行业继续面对需求低迷和严重产能过剩问题。贷款条件收紧、基础建设开支削减、主要项目如新隆高铁和东海岸铁路推迟或取消等因素，导致房地产行业放缓，令马国水泥生产商雪上加霜。使用高回扣和佣金导致价格偏低已成为常态，马国水泥生产商因此蒙受损失。集团在马国的水泥业务也无法幸免。

虽然集团在新马的建筑材料业务面对重重挑战，它们仍然能够保有各自的市场份额。这体现集团的韧性和抵御竞争压力的能力。集团会坚持不懈地探索如何提升业内竞争力。

主席报告书

工业包装业务
集团在中国拥有两家塑料包装工厂（“Rex”）。全球和中国国内对塑料包装产品的需求虽强，但是Rex的销量增长受到了与客户的邻近度和价格因素限制。树脂的采购价平均每年上涨约9.5%，削薄了利润。尽管如此，Rex在过去四年平均各人营收和生产吨数都有提高。

冷气系统业务
中国是全球最大的冷气制造商和消费市场。城市每100家安装率估计为107.4台冷气，郊区则是34.2台。过去，集团的冷气系统以出口销售为主，但鉴于出口销量放缓，加上中国市场具有较高的增长潜能，集团现在把焦点转向国内市场。由于我们面临来自国内市场的激烈竞争，前景仍然充满挑战。

展望未来
随着中美贸易紧张局势升温，集团对2019年的业务前景保持谨慎态度。

我们将通过战略收购和联盟机会继续追求增长，并不断提高生产力和优化流程以改善现有的业务运营绩效。

董事会和管理层会继续检讨集团的增长策略，以确保它紧扣我们的愿景和使命。

股息
基于集团于2018财年的归属股东亏损，董事会不建议派发任何股息。

奖项
集团在2018年荣获新加坡证券投资者协会颁发的最透明公司奖。这是集团连续第三年、自2012年第四次获得这项殊荣。集团通过平衡披露、提供清晰资讯，让股东更加理解我们的表现，对此努力我们感到自豪。

可持续发展报告
今年集团从全球报告倡议组织（“GRI”）的G4报告框架，过渡到GRI准则。集团为进一步加强商业行为规范，已正式通知供应商接纳这项商业道德操作，并要求自家员工和供应商遵守规范。这包括了提醒集团员工和供应商本集团的举报渠道和政策。

我们很高兴汇报客户和员工对集团这一年里与他们的互动有正面反应。和去年相比，员工保留率有所提高，我们有信心这个趋势将持续下去。

感言
我谨代表董事会赞扬管理团队和员工的努力和奉献。我也要感谢董事给予的宝贵指导和贡献，以及商业伙伴和忠诚股东对丰隆亚洲的持续支持和信任。

郭令栢
执行主席

CEO'S REVIEW

The Group believes in investing for the future and is poised to capture opportunities by embracing new technologies.

DEAR SHAREHOLDERS

I am pleased to present a review of our performance for the year ended 31 December 2018 ("FY2018").

MACROECONOMIC ENVIRONMENT

2018 was a challenging year for the Group as the regional economies in which the Group has substantial operations reported slower GDP growth rates for the year than in 2017. This created uncertainty and generally dampened consumption in the domestic markets in all industry sectors where the Group operates.

2018 FINANCIAL HIGHLIGHTS

The year was fraught with global economic uncertainties which resulted in tough business conditions in many sectors. In particular, with nearly 90% of the Group's revenue being generated from China, the slowdown in the growth of the China economy to 6.6% in FY2018 had an adverse impact on our operations.

Despite these economic conditions, the Group was still able to achieve a year-on-year revenue growth of 1.1% to reach $3.8 billion in FY2018, representing an increase of $40.6 million.

The loss attributable to the owners of the Company in FY2018 decreased by $65.8 million to $6.0 million, compared to $71.8 million in FY2017 (Restated). Profit from continuing operations attributable to the owners of the Company decreased by $12.1 million to $24.8 million, as compared to $36.9 million in FY2017 (Restated).

At the Group level, the net asset value per share for FY2018 was $1.00 compared to $1.65 in FY2017 (Restated). Loss per share, both on a weighted and on a fully diluted basis, in FY2018 was 1.37 cents per share compared to 19.19 cents per share in FY2017.

DIESEL ENGINES UNIT ("YUCHAI")

The Diesel Engines Unit remained as one of China's leading independent engine makers. It has expanded its footprint in the diesel engine market include to Africa, Central and South America and the Middle East.

In April 2018, 800 buses manufactured by Anhui Ankai Automobile Co. Ltd., fitted with Yuchai's engines, were exported to Saudi Arabia. Furthermore, the first batch of school buses powered by Yuchai engine model YCS04160-60 have passed the new National VI emission tests and are now operating in the city of Shenzhen. 14 new engine models which are compliant with the National VI emissions standards, and 10 new engine models which are compliant with China's Tier 4 emission standards were introduced in 2018. The National VI emission standards are expected to be fully implemented in mid-2020 throughout China.

In FY2018, Yuchai sold 375,731 units of engines, 2.4% more units than FY2017, translating to an annual revenue of $3.3 billion, comparable to FY2017. The higher engine unit sales in the truck and off-road segments were partially offset by lower engine unit sales in the bus segment arising from the early adoption of electrification by the public transportation sector. Statistics from the China Association of Automobile Manufacturers reported a decline of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) by 1.7% in 2018.

CEO'S REVIEW

BUILDING MATERIALS UNIT ("BMU")

The Singapore Ministry of Trade and Industry reported in a press release on 15 February 2019 that the local construction industry declined by a further 3.4% in FY2018, a second year decline after a 10.2% contraction in FY2017. The contraction was attributable to a decline in the public sector construction works even as private sector construction works rose marginally.

In Malaysia, Tasek Corporation Berhad ("Tasek") continued to be impacted by the prolonged pricing competition in the domestic market that resulted in a lower average net selling price for both the cement and ready-mixed concrete segments. Tasek recorded a higher loss after tax as compared to 2017 primarily due to higher price rebates.

The Group believes in investing for the future and is poised to capture opportunities by embracing new technologies. Through a concept and price tender exercise with its joint venture partner, a subsidiary of Sunway Group, BMU Singapore invested in an integrated construction and pre-fabrication hub (ICPH). Upon completion in 2021, the ICPH will be a fully automated offsite manufacturing facility for producing prefabricated construction elements, and will be fitted with automated and integrated production, storage and racking systems, through which BMU Singapore can offer efficient precast solutions to the built environment.

Even with the adverse market conditions, BMU Singapore was able to achieve higher revenue as compared to FY2017 due to stronger ready-mix sales but this was partially offset by lower precast sales.

OTHER BUSINESS UNITS

The performance of the Industrial Packaging Unit ("Rex") remains weak due to price competition which adversely affected sales. Rex posted a revenue of $32.6 million, a decrease of 19.5% or $7.9 million as compared to FY2017. The business and assets of Rex are in Dongguan and Tianjin in China.

The Air-conditioning Systems Unit ("Airwell") operates mainly in China. Airwell's revenue decreased by 24.3% (or $4.6 million) to $14.3 million. FY2018 export sales to Europe were negatively impacted by the on-going trade war tensions.

A precast concrete facility of Hong Leong Building Materials Group in Singapore.

首席执行官・回顾

各位股东，

我很荣幸能在此对截至2018年12月31日的财政结果进行结论。

宏观经济环境

2018年对于集团是个充满挑战的一年。集团在区域拥有大量业务，而2018年区域经济增长率都低于2017年。区域经济的不确定性对集团各业务在当地市场的消费能力造成冲击。

2018 财务摘要

全球经济不确定导致多个行业前景艰难，尤其集团将近90%营收来自中国，而中国经济增长在2018年放缓至6.6%，对我们的业务造成负面影响。

虽然经济环境欠佳，集团在2018财年的营收仍取得1.1%增长，增加4,060万元至38亿元。

2018财年归属股东亏损从2017财年的7,180万元（重列）减少了6,580万元至600万元，而来自持续经营业务归属股东的利润从2017财年的3,690万元（重列）减少了1,210万元至2,480万元。

集团2018年的每股净资产值是1元，2017年是1.65元（重列）。加权和全面摊薄的每股亏损都是1.37分，2017年是19.19分。

柴油发动机业务（“玉柴”）

集团的柴油发动机业务仍是中国领先的独立发动机制造商之一。它扩大了在柴油发动机市场的足迹，包括非洲、中美洲 、南美洲和中东。

2018年4月，安徽安凯汽车有限公司生产的800辆客车，配备玉柴发动机，出口到沙特阿拉伯。此外，由玉柴发动机车型 YCS04160-60 驱动的首批校车已通过新的国六排放测试，目前正在深圳市运营。2018年推出了14种符合国六排放标准的新发动机型号，以及10种符合中国四级排放标准的新发动机型号。新的国六排放标准预计将于2020年年中在中国全面实施。

2018财年，玉柴的发动机销量为 375,731台， 比2017财年增长2.4%，年收入为33亿元，与2017财年相近。由于公共交通部门提前采用电气化，公交客车发动机单位销量下滑，部分抵消了卡车和非道路段发动机单位销量的增加。中国汽车制造商协会的统计数据显示，2018年商用车（不包括汽油动力和电动汽车）下滑了1.7%。

建筑材料业务（“*BMU*”）

在2019年2月15日新加坡贸易与工业部发布的调查报告显示，2018年建筑业下滑3.4%。这是2017年萎缩10.2%之后连续第二年下滑。这个趋势主因是公共建筑工程减少，部分抵消了私宅市场的微升。

集团在马国的建筑材料业务（“大石”）继续受到国内市场长期定价竞争的影响，导致水泥和预拌混凝土业务的平均净销售价格都较低。与2017财年同比，大石的税后损失较高，主因是价格回扣较高。

集团秉持投资未来的信念，并准备采用新技术把握良机。通过与其合资伙伴（双威集团的子公司）进行概念和价格招标，集团在新加坡的建筑材料业务投资建设一座综合建筑和预制中心（“ICPH”）。该项目于2021年完成后，ICPH将成为生产预制建筑构件的全自动场外制造设施。此外，ICPH将安装自动化和综合的生产、仓储和架货系统。集团的新加坡建筑材料业务可通过该系统为建筑环境提供高效的预制建材解决方案。

即使在不利的市场环境，与2017财年同比，集团在新加坡的建筑材料业务仍取得收入增长，主因是预拌混凝土的强劲销售，但这被预制建材销售的减少部分抵消。

其他业务

由于价格竞争对销售产生不利影响，工业包装业务（“Rex”）的表现持续疲弱。与2017财年同比，Rex的营收为3,260万元，下滑了20%或790万元。Rex的业务和资产位于中国东莞和天津。

冷气系统业务主要集中在中国。2018财年的营收下滑24.3%或460万元至1,430万元。持续的贸易战紧张局势也影响到欧洲的出口销量。

BOARD OF DIRECTORS

KWEK LENG PECK, 62
Executive Chairman

TAN ENG KWEE, 65
Executive Director and
Chief Executive Officer

ERNEST COLIN LEE, 78
Non-Executive and
Lead Independent Director

KWONG KA LO @
CAROLINE KWONG, 60
Non-Executive and
Independent Director

NG SEY MING, 44
Non-Executive and
Independent Director

TAN CHIAN KHONG, 63
Non-Executive and
Independent Director

KWEK LENG PECK, 62

Executive Chairman

Appointed to the Board since 1 September 1982, Mr Kwek was appointed Executive Chairman of Hong Leong Asia Ltd. ("HLA") on 28 April 2017. Mr Kwek also sits on the Nominating Committee ("NC") and the Hong Leong Asia Share Option Scheme 2000 Committee ("SOSC"). He was last re-elected as a Director of HLA on 28 April 2017.

Mr Kwek has in-depth knowledge of the HLA Group's business, having worked closely with the senior management of the HLA Group and has overseen the growth of the HLA Group over the last 3 decades from an integrated building materials group in the 1980s and 1990s to being also a major player in the consumer products and diesel engines industries in China beginning in the 2000s.

Mr Kwek has many years of experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

Mr Kwek is the Non-Executive Chairman of Tasek Corporation Berhad ("TCB"), and an Executive Director of Hong Leong Corporation Holdings Pte Ltd and Hong Leong Investment Holdings Pte. Ltd. ("HLIH") (the immediate and ultimate holding companies of HLA respectively). He is also a Non-Executive Director of City Developments Limited ("CDL"), Hong Leong Finance Limited ("HLF"), Millennium & Copthorne Hotels plc ("M&C") and China Yuchai International Limited ("CYI"). HLF, CDL, M&C, TCB and CYI are subsidiaries of HLIH and thus, related companies under the Hong Leong Group of companies.

TAN ENG KWEE, 65

Executive Director and Chief Executive Officer

Appointed as Director and Chief Executive Officer ("CEO") - Designate of HLA on 10 December 2018, Mr Tan assumed the full responsibilities of CEO on 7 January 2019. In accordance with the Company's Constitution, he will stand for election as Director at the 2019 Annual General Meeting ("AGM"). He is also the Non-Executive Director of TCB, CYI and HL Global Enterprises Limited ("HLGE"). TCB and CYI are subsidiaries of HLA and HLGE is an associated company of HLA.

Mr Tan was formerly the Chief Financial Officer ("CFO") of HLA from 2008 to 2011. He has more than 30 years of operations, corporate, accounting and financial experience arising from his senior management positions previously held at the Gold Coin Group, Perennial China Retail Trust Management Pte. Ltd., Dynapack Asia Pte. Ltd. and Epsilon Global Communications Pte. Ltd.

Mr Tan graduated with a Bachelor of Accountancy (Honours) from The University of Singapore and a Master of Business Administration from Cranfield School of Management, United Kingdom. He successfully completed all examinations of the Chartered Association of Certified Accountants, the Institute of Chartered Secretaries & Administrators (now known as Chartered Secretaries Institute of Singapore) and the Chartered Association of Management Accountants and was a Fellow Member of the former and an Associate Member of the latter two.

BOARD OF DIRECTORS

ERNEST COLIN LEE, 78

Non-Executive and Lead Independent Director

Appointed a Non-Executive Director of HLA since 3 April 2000, Mr Lee was last re-appointed on 22 April 2016. He is due to retire by rotation at the 2019 AGM and will be seeking re-election as Director at the 2019 AGM. He is also the chairman of the NC, Remuneration Committee ("RC") and SOSC as well as a member of the Audit and Risk Committee ("ARC") of HLA. He was appointed as Lead Independent Director of HLA on 26 February 2013.

Mr Lee is a professional project consultant and has extensive experience in management, engineering and business development as well as experience in financial management in Singapore and Australia arising from his senior management positions previously held at Humes Ltd, Australia. Currently, he is an Executive Director of Compact Engineers Pty. Ltd., Australia, where he is responsible for the oversight of its financial management and business operations.

Mr Lee holds a Bachelor of Civil Engineering (Honours) degree from the University of Queensland, Australia.

KWONG KA LO @ CAROLINE KWONG, 60

Non-Executive and Independent Director

Appointed a Non-Executive Director of HLA since 22 February 2016, Ms Kwong was last re-elected on 22 April 2016. She is due to retire by rotation at the 2019 AGM and will be seeking re-election as Director at 2019 AGM. She is also a member of the ARC and NC of HLA.

Ms Kwong is currently the Managing Director of The Global Value Investment Portfolio Management Pte Ltd, an investment management company based in Singapore with its investment focus on commercialization of leading edge technology beneficial to a clean environment and sustainable living.

Ms Kwong has extensive experience in fund raising, corporate finance, capital markets and debt restructuring arising from her senior management positions previously held at Laurel Capital Kingsway LLP, United Kingdom; HL Bank (which is the Singapore branch of Hong Leong Bank Berhad); Mycom Berhad (now Dutaland) and Olympia Industries Berhad Group, Malaysia; PrimeEast Capital Ltd (now BNP Paribas Hong Kong), Hong Kong; and Deutsche Morgan Grenfell (Asia) Ltd (now Deutsche Bank), Singapore and Hong Kong.

Ms Kwong holds a Bachelor of Science in Business Administration with Major in Finance and Human Resources Management, and Minor in French, from the California State University, Sacramento, and a Master of Science in Finance and Accounting from the London School of Economics and Political Science.

NG SEY MING, 44

Non-Executive and Independent Director

Appointed a Non-Executive Director of HLA since 8 May 2017, Mr Ng also sits on the ARC, RC and SOSC of HLA. He was last re-elected on 27 April 2018. He is also a Non-Executive Director of XMH Holdings Ltd. In the preceding 3-year period, he was a Non-Executive Director of Hiap Tong Corporation Ltd. and Gaylin Holdings Limited.

Mr Ng is currently a partner in the Banking & Finance Practice Group in Rajah & Tann Singapore LLP ("R&T") and a partner in Christopher & Lee Ong, a member of the R&T Asia network of law firms. He commenced his legal practice in R&T in 2000 and became a partner in 2007. His main areas of practice are banking, project finance, debt capital markets, securities regulations and debt restructurings. He has also advised on cross border transactions, joint ventures, investments, restructurings, mergers and acquisitions, listings on Singapore Exchange and shareholders' disputes.

Mr Ng was admitted as an Advocate and Solicitor of the Supreme Court in Singapore in 2000, and a Solicitor of England and Wales and an Advocate and Solicitor of the High Court of Malaya, in 2007. He holds a Bachelor of Laws (Honours) degree from the National University of Singapore.

TAN CHIAN KHONG, 63

Non-Executive and Independent Director

Appointed a Non-Executive Director of HLA since 1 March 2018, Mr Tan was last re-elected on 27 April 2018. He is also the chairman of the ARC and a member of the RC and SOSC of HLA. Mr Tan is also a Non-Executive Director of Alliance Bank Malaysia Berhad, CSE Global Limited, Xinghua Port Holdings Ltd. and The Straits Trading Company Limited.

Mr Tan joined Ernst & Young LLP ("EY") (then known as Ernst & Whinney) in 1981 and became a partner in 1996. He has approximately 35 years of experience in providing audit and business advisory services to clients in a wide range of industries. He retired as an audit partner of EY in June 2016.

Mr Tan holds a Bachelor of Accountancy degree from the National University of Singapore. He is a member of the American Institute of Certified Public Accountants, a Fellow of the Institute of Singapore Chartered Accountants and of CPA Australia. Mr Tan contributes to the non-profit sector, serving as an Honorary Executive Director of Trailblazer Foundation Ltd.

CORPORATE STRUCTURE

HONG LEONG ASIA

DIESEL ENGINES

Bermuda
- China Yuchai International Limited

China
- Guangxi Yuchai Machinery Company Limited

BUILDING MATERIALS

Ready-Mix Concrete Division

Singapore
- Island Concrete (Private) Limited

Pre-Cast Concrete Division

Singapore
- HL Building Materials Pte. Ltd.

Malaysia
- HL-Manufacturing Industries Sdn. Bhd.

Cement Division

Singapore
- Singapore Cement Manufacturing Company (Private) Limited

Malaysia
- Tasek Corporation Berhad

Trading & Granite Division

Singapore
- HL Building Materials Pte. Ltd.

Malaysia
- Hayford Holdings Sdn. Bhd.

INDUSTRIAL PACKAGING

China
- Tianjin Rex Packaging Co., Ltd.
- Dongguan Rex Packaging Company Limited

AIR-CONDITIONING SYSTEMS

China
- Airwell Air-conditioning Technology (China) Co., Ltd.

S.E.A.
- Fedders International Pte. Ltd.

OTHERS

Hospitality & Property Development
- HL Global Enterprises Limited

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Executive Directors

Kwek Leng Peck - *Executive Chairman*

Tan Eng Kwee - *Chief Executive Officer*

Lead Independent Director

Ernest Colin Lee

Non-Executive Directors

Kwong Ka Lo @ Caroline Kwong - *Independent*

Ng Sey Ming - *Independent*

Tan Chian Khong - *Independent*

AUDIT AND RISK COMMITTEE

Tan Chian Khong - *Chairman*

Ernest Colin Lee

Kwong Ka Lo @ Caroline Kwong

Ng Sey Ming

NOMINATING COMMITTEE

Ernest Colin Lee – *Chairman*

Kwek Leng Peck

Kwong Ka Lo @ Caroline Kwong

REMUNERATION COMMITTEE

Ernest Colin Lee - *Chairman*

Ng Sey Ming

Tan Chian Khong

HONG LEONG ASIA SHARE OPTION SCHEME 2000 COMMITTEE

Ernest Colin Lee - *Chairman*

Kwek Leng Peck

Ng Sey Ming

Tan Chian Khong

SECRETARIES

Ng Siew Ping, Jaslin

Yeo Swee Gim, Joanne

INVESTOR RELATIONS

Leong Sook Han
Chief Financial Officer
Email : investor_relations@corp.hla-grp.com
Tel : (65) 6220 8411
Fax : (65) 6226 0502

SUSTAINABILITY FEEDBACK

Email : sustainability@hla-grp.com

REGISTERED OFFICE

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SHARE REGISTRAR & SHARE TRANSFER OFFICE

M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902
Tel : (65) 6227 6660
Fax : (65) 6225 1452

AUDITORS

Ernst & Young LLP
Public Accountants and Chartered Accountants
One Raffles Quay
North Tower, Level 18
Singapore 048583

(Partner-in-charge : Tan Swee Ho, appointed from commencement of audit of financial statements for the year ended 31 December 2016)

PRINCIPAL BANKERS

CIMB Bank Berhad

DBS Bank Ltd

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Hongkong and Shanghai Banking Corporation Limited

United Overseas Bank Limited

CORPORATE GOVERNANCE REPORT

Hong Leong Asia Ltd. ("**HLA**" or the "**Company**") is committed to maintaining good corporate governance and business integrity in all its business activities, which is essential for the long-term sustainability of the Group's businesses and the enhancement of shareholders' value.

The Company has complied with the transitional arrangement under Rule 710 of the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**") ("**Listing Rules**") by describing in this report its corporate governance practices with specific reference to the principles and guidelines of the Code of Corporate Governance 2012 ("**2012 Code**"). Where the Company's practices differ from the principles and guidelines under the 2012 Code, these differences and the Company's position in respect of the same are explained in this report. The Company has also taken note of the updated principles and provisions in the revised Code of Corporate Governance 2018 ("**2018 Code**"), and where the Company's practices are already aligned with the new principles and provisions under the 2018 Code, these are highlighted within this report.

BOARD MATTERS

Principle 1: The Board's Conduct of Affairs

The Primary Functions of the Board

The Board oversees the Company's business and its performance under its collective responsibility for the long-term success of the Company, working with the Senior Management to achieve the strategic objectives of the Company.

The Board's primary functions are to provide leadership, set broad policies, provide guidance on and approve strategic objectives, ensure that necessary financial and human resources are in place for the Company to meet its objectives, review the Group's and Management's performance, satisfy itself as to the adequacy and effectiveness of the framework and processes for internal controls (including financial, operational, compliance and information technology ("**IT**") controls) and risk management for the safeguarding of shareholders' interests and the Company's assets. The Board assumes responsibility for good corporate governance and sets the Company's corporate values and ethical standards through the Company's policies with a view to ensuring that its obligations to shareholders and stakeholders are clearly understood and met.

Sustainability

The Board is committed to the Company's strategic approach to integrating sustainability in its business and operations, and to advance the Company's sustainability efforts and achievements. In this regard, the Board has delegated to the Audit and Risk Committee ("**ARC**") the general oversight on sustainability issues and sustainability reporting. Since 2017, the Company published its annual Sustainability Reports which met SGX-ST's sustainability reporting requirements. The Sustainability Committee comprising representatives from the Group's key business units is responsible for identifying, evaluating, monitoring and managing the Group's material environmental, social and governance ("**ESG**") factors, and reports to the ARC. Details on the Company's sustainability practices are presented in the Sustainability Report on pages 45 to 57 of this Annual Report 2018 ("**AR**").

Directors' Objective Discharge of Duties & Declaration of Interests

All Directors being fiduciaries, are required to objectively discharge their duties and responsibilities in the interests of the Company. This ability to exercise objectivity is one of the assessment criteria in the Nominating Committee's ("**NC**") annual evaluation of the Directors.

Directors who are in any way, directly or indirectly, interested in a transaction or proposed transaction will declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50, and voluntarily abstain from participating in the deliberation on the same, with abstention duly recorded in the minutes and/or the resolutions of the Board and/or the committees established by the Board.

Delegation by the Board

The primary functions of the Board are either carried out directly by the Board or through committees established by the Board, namely, the ARC, the NC, the Remuneration Committee ("**RC**"), and the Hong Leong Asia Share Option Scheme 2000 ("**SOS**") Committee ("**SOSC**"), all collectively referred to hereafter as the Board Committees.

Specific written terms of reference for each of these Board Committees set out the composition, authority and responsibilities of the Board Committees and that each Board Committee is required to submit at least an annual report of its activities to the Board *(Note: aligned with Provision 1.4 of the 2018 Code)*. All terms of reference for the Board Committees are approved by the Board and reviewed periodically to ensure their continued relevance taking into consideration the changes in the governance and regulatory environment.

Board Committee	Composition
Audit and Risk Committee	Tan Chian Khong (chairman) Ernest Colin Lee Kwong Ka Lo @ Caroline Kwong Ng Sey Ming
Nominating Committee	Ernest Colin Lee (chairman) Kwek Leng Peck Kwong Ka Lo @ Caroline Kwong
Remuneration Committee	Ernest Colin Lee (chairman) Ng Sey Ming Tan Chian Khong
Hong Leong Asia Share Option Scheme 2000 Committee	Ernest Colin Lee (chairman) Kwek Leng Peck Ng Sey Ming Tan Chian Khong

The delegation of authority by the Board to the Board Committees enables the Board to achieve operational efficiency by empowering these Board Committees to decide, review and/or make recommendations on matters within their respective terms of reference and/or limits of delegated authority, and yet without abdicating the Board's overall responsibility.

Please refer to the sections on Principles 4, 5, 7, 8, 11 and 12 in this report for further information on the activities of the ARC, NC and RC. Information on the activities of the SOSC is set out in the Directors' Statement on pages 61 to 65 and the Financial Statements on pages 185 to 188 of the AR.

Board Processes

Meetings of the Board and Board Committees are held regularly, with the Board and ARC meetings no less than four times a year. At the regular quarterly Board meetings, the agenda includes presentations by the Senior Management on the performance and operations of each business unit of the Group, and the Group's quarterly and full year financial performance. Five Board meetings were held in 2018.

During the year, the Lead Independent Director ("**Lead ID**") held discussions with non-executive Directors ("**NEDs**") who are all also the independent Directors ("**IDs**") of the Company, without the presence of Management, as and when necessary.

The proposed meetings for the Board and all Board Committees for each new calendar year are set out in a schedule of meetings and notified to all Board members before the start of that calendar year. Additional meetings are convened as and when circumstances warrant. Records of all such meetings including key deliberations and decisions taken are maintained by the Company Secretary. The Company's Constitution allows for the meetings of its Board and the Board Committees to be held *via* teleconferencing. The Board and Board Committees may also make decisions by way of circulating written resolutions.

The attendance of the Directors at the annual general meeting ("**AGM**"), extraordinary general meeting and at meetings of the Board and the Board Committees as well as the frequency of such meetings during the financial year ended 31 December 2018 ("**FY 2018**"), is disclosed below. Notwithstanding such disclosure, the Board is of the view that the contribution of each Director should not be focused only on his attendance at the general meetings and at meetings of the Board and/or the Board Committees. A Director's contribution also extends beyond the confines of the formal environment of such meetings, through the sharing of views, advice and experience with other Directors and the Company's Management, and strategic networking relationships which would further the interests of the Group.

The Directors also, whether individually or collectively, engage with the Senior Management/Management team to better understand the challenges faced by the Group and the inputs of the Directors, through such engagement, provide valuable perspective to the Management.

Directors' Attendance at the General Meetings ("GM"), and Meetings of the Board and Board Committees in 2018

Number of meetings held in 2018:	Board	ARC	NC	RC	SOSC	GM
	5	6	4	3	1	2
Name of Director	**Number of meetings attended in 2018**					
Kwek Leng Peck	5	N.A.	4	3[a]	1	2
Philip Ting Sii Tien @ Yao Sik Tien	4	6[a]	N.A.	1[a]	1[a]	2
Ernest Colin Lee	5	6	4	3	1	2
Kwong Ka Lo @ Caroline Kwong	5	5	3	1[a]	N.A.	1
Ng Sey Ming	5	5	1[a]	3	1	2
Tan Chian Khong[b]	4	4	1[a]	2	-	1
Tan Eng Kwee[c]	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Tan Huay Lim[d]	1	3	N.A.	1	1	0

Notes:
(a) Attendance by invitation for all or part of the meeting.
(b) Mr Tan Chian Khong was appointed as a Director and a member of the ARC, RC and SOSC on 1 March 2018. He became the chairman of ARC following the retirement of the former ARC chairman, Mr Tan Huay Lim at the 2018 AGM.
(c) Mr Tan Eng Kwee was appointed as a Director on 10 December 2018 in place of Mr Philip Ting who resigned from the Board on 6 January 2019.
(d) Mr Tan Huay Lim retired from the Board at the AGM held on 27 April 2018.

Board Approval

The Board has in place an internal guide wherein certain key matters are specifically reserved for approval by the Board and this includes the setting of strategic direction or policies or financial objectives which have or may have material impact on the profitability or performance of the relevant business units, decisions to commence, discontinue or modify significantly any business activity or to enter into or withdraw from a particular market sector, corporate or financial restructuring, decisions over new borrowings or significant amendments to the terms and conditions of existing borrowings, material acquisition and disposal of assets, adoption of corporate governance policies and any other matters which require Board approval as prescribed under the relevant legislations as well as the provisions of the Company's Constitution. Management is fully apprised of such matters.

Board Orientation and Training

Every newly appointed Director receives a formal letter, setting out his general duties and obligations as a Director pursuant to the relevant legislations. The new Director will also receive an induction pack containing information and documents relating to the role, duties and responsibilities of a director and a member of the Board Committees, the Group's businesses, the Company's Board processes, corporate governance practices, relevant company policies and procedures as well as a Board and the Board Committees meeting calendar for the year with a brief of the routine agenda for each meeting.

The Company also conducts a comprehensive induction programme for newly appointed Directors and for existing Directors pursuant to their appointments to any of the Board Committees, which seeks to familiarise Directors with the Group's businesses, board processes, internal controls and governance practices and in the case of appointments to any of the Board Committees, the role and responsibilities of such Board Committees. The induction programme includes meetings with various key executives of the Management team to allow the new Directors to be acquainted with the Management team and to facilitate their independent access to the Management team in future. The programme also includes briefings by the Management team on key areas of the Group's operations.

Mr Tan Chian Khong, who was appointed to the Board on 1 March 2018, was given briefings by key Management on the Group's business and operations including an overview of the organizational structure, key internal controls, roles and responsibilities of the various departments, and by the Company Secretary on the Company's internal corporate governance practices, and the directors' duties and responsibilities pursuant to the relevant legislation. In addition, Mr Tan, who were also appointed a member of the ARC, RC and SOSC, were also briefed on the scope and responsibilities of these Board Committees by the chairmen of the respective Board Committees. He was also briefed by the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**"), the Head of Internal Audit, the Head of IT on the Group's risk management, financial, internal and IT controls matter respectively, and by the Head of Group Human Resources ("**HR Head**") on the Company's remuneration and SOS policies.

Mr Tan Eng Kwee, the former CFO of the Company, was appointed to the Board and as CEO-Designate on 10 December 2018. He was given update by key Management on the Group's business and operations including key internal controls and briefing by the Company Secretary on the Company's internal corporate governance practices, and the directors' duties and responsibilities pursuant to the relevant legislation.

For a first time Director who has no prior experience as a director of a listed company, in addition to the induction as detailed above, he or she will be encouraged to also attend the Listed Entity Director ("**LED**") Programme conducted by the Singapore Institute of Directors ("**SID**") in order to acquire relevant knowledge of what is expected of a listed company director. Completion of the LED Programme Module 1 which focuses on comprehensive training of company directors on compliance, regulatory and corporate governance matters, should provide the first time Director with a broad understanding of the roles and responsibilities of a director of a listed company under the requirements of the Companies Act, Chapter 50, the Listing Rules and the 2012 Code. The Company has noted that such training for first-time directors is now mandatory under the revised Listing Rules.

The Company Secretary will co-ordinate with such Director to endeavor to complete the LED Programme within one year from his date of appointment subject to SID's training schedule and the Director's availability. Although Mr Tan Chian Khong and Mr Tan Eng Kwee are not first time Directors, they had attended certain relevant modules of the LED Programme since their appointments to the Board.

The Directors are also provided with updates and/or briefings from time to time by professional advisers, auditors, Management and the Company Secretary in areas such as directors' duties and responsibilities, corporate governance practices, relevant legislation, risk management and financial reporting standards. The Directors are regularly kept informed by the Company Secretary of the availability of appropriate courses, conferences and seminars such as those run by SID, and the Directors are encouraged to attend such training at the Company's expense. The NC and the Board are kept informed of the trainings attended by the Directors during the year. As part of the NC's annual assessment of the skills set of the Board and the Board Committees, the NC would also recommend further training for the Directors in specific areas, if so required, to supplement the regular updates/ briefings provided to the Directors from time to time.

In-house seminars were conducted by invited speakers in 2018 on the following topics:

1. Intelligent Automation in the Digital Age;
2. Innovation in the Marketplace: Emerging Trends and Insights, with focus on Blockchain technology, Fintech and Smart Buildings;
3. Ethical Standards and Culture: The Role of the Board;
4. Unlocking Business Value from Sustainable Development Goals Integration;
5. Driving Business Performance through Sustainability Reporting; and
6. Sustainability Reporting by SGX-ST listed companies.

More than 80% of the Board members attended various training seminars and workshops in 2018 which accounted for more than 160 training hours in aggregate.

In addition to the training courses/programs, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Group's operations.

Key Management Team
The Board through the NC reviews the appointments and reasons for resignations and terminations of the Executive Chairman, the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**") and other relevant key Management staff.

Principle 2: Board Composition and Guidance

Board Independence
The Board currently comprises six members, two of whom are executive Directors, while the other four members of the Board are NEDs. The NC has determined all four NEDs, being more than half of the Board, to be independent ("**4 IDs**"), thus providing for a strong and independent element on the Board capable of exercising objective judgment on the corporate affairs of the Company. No individual or small group of individuals dominates the Board's decision making. The Board concurred with the NC's determination of the independence of the 4 IDs, namely, Mr Ernest Colin Lee, Ms Kwong Ka Lo @ Caroline Kwong, Mr Ng Sey Ming and Mr Tan Chian Khong. No alternate Directors have been appointed in respect of any of the Directors.

When reviewing the independence of the 4 IDs, the NC has considered the guidelines for independence set out in Guidelines 2.3 and 2.4 of the 2012 Code. As part of the consideration, the NC also took into account their other directorships, declaration regarding their independence, disclosure of interest in transactions in which they have a direct/indirect interest (if any), their ability to avoid any apparent conflicts of interests especially by abstaining from deliberation and decision-making on such transactions, and their ability to maintain objectivity in their conduct as Directors of the Company.

In accordance with Listing Rule 210(5)(d), none of the 4 IDs are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations. None of the 4 IDs have immediate family members who are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations, and whose remuneration is determined by the RC. For purposes of determination of independence, the 4 IDs have also provided confirmation that they are not related to the Directors and substantial shareholders of the Company. The NC is satisfied that there is no other relationship which could affect their independence. The Board concurred with the NC's determination of the independence of the 4 IDs. Each of the 4 IDs abstained from deliberation of their own independence.

Mr Ng Sey Ming, an ID, is a partner of a legal firm, Rajah & Tann Singapore LLP ("**R&T**") (with less than 5% stake) which rendered professional legal services to the Group from time to time. The amount of the fees paid to R&T for FY 2018 was more than $200,000, which was largely for the legal services rendered by R&T to the Company in relation to the Company's rights issue. Mr Ng had abstained from the deliberation and decision-making in the engagement of R&T as solicitors for this transaction. The NC has determined, and the Board has concurred, that Mr Ng's independence is not affected by this relationship of the Group with R&T.

Of the 4 IDs, only Mr Ernest Colin Lee has served on the Board for more than nine years since his appointment to the Board on 3 April 2000, and he will be seeking re-election at the Company's AGM in April 2019. The Board members had individually provided their views on the independence of Mr Lee by taking into consideration factors such as whether he has expressed his individual viewpoints and debated issues constructively during meetings of the Board and Board Committees, whether he has constructively challenged and sought clarification from Management as and when necessary and whether he has avoided apparent conflicts of interest by abstaining from deliberation on matters in which he has an interest in. Having considered the feedback from the individual Board members, Mr Lee's other directorships, annual declaration regarding his independence, and his ability to maintain objectivity in his conduct as Director of the Company, the Board (with Mr Lee abstaining in respect of the deliberation of his own independence) has determined him to be independent notwithstanding that he has served on the Board beyond nine years as he has continued to demonstrate independence in character and judgment in the discharge of his responsibilities as Director of the Company. The Company has also benefitted from his years of experience in his field of expertise and his extensive knowledge and familiarity with the business of the Group. The NC and the Board therefore recommend the re-election of Mr Lee as an ID of the Company at the 2019 AGM.

The 4 IDs had also avoided apparent conflicts of interests especially by abstaining from deliberation on transactions in which they had a direct/indirect interest, and were able to maintain objectivity in their conduct as Directors of the Company. They have objectively raised issues and sought clarification as and when necessary from the Board, Management and the Group's external advisers on matters pertaining to their area of responsibilities whether on the Board or on the Board Committees.

Board Composition and Size

The NC reviews the size and composition mix of the Board and Board Committees annually. At the recommendation of the NC, the Board had approved in 2018 a formal Board Diversity Policy, setting out its policy and framework for promoting diversity on the Board *(Note: aligned with Provision 2.4 of the 2018 Code)*. The Board recognises that a diverse Board is an important element which will better support the Company's achievement of its strategic objectives for sustainable development by enhancing the decision-making process of the Board through the perspectives derived from the various skills, business experience, industry discipline, gender, age, ethnicity and culture, geographical background and nationalities, tenure of service and other distinguishing qualities of the Directors.

The Board has adopted the NC's recommended target to achieve a level of at least 20% female representation on its Board by 2021. It further agreed that the new female Director to be appointed be preferably one with human resource ("**HR**") experience who could assist the Board in reviewing the Group's succession planning. In this regard, the NC will strive to ensure that:

(a) if external search consultants are used to search for candidates for Board appointments, the brief will include a requirement to also present female candidates;

(b) when seeking to identify a new Director for appointment to the Board, the NC will request for female candidates to be fielded for consideration;

(c) female representation on the Board be continually improved over time based on the set objectives of the Board; and

(d) at least one female Director be appointed to the NC.

The final decision on selection of Directors will be based on merit against an objective criterion that complements and expands the skills and experience of the Board as a whole, and after having given due regard to the overall balance and effectiveness of a diverse Board.

When reviewing and assessing the composition of the Board and making recommendations to the Board for the appointment of Directors, the NC will consider all aspects of diversity to arrive at an optimum balanced composition of the Board.

The Board currently comprises business leaders and professionals with financial (including audit and accounting), legal and business management backgrounds. The Board currently includes one female member, Directors with ages ranging from early-40s to more than 70 years old, who have served on the Board for different tenures including the latest members of the Board being an ID and an Executive Director who were just appointed in 2018. The members of the Board with their combined business, management and professional experience, knowledge and expertise, provide the core competencies to allow for diverse and objective perspectives on the Group's business and direction. Further information on the individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR.

Having considered the scope and nature of the operations of the Group, the Board is satisfied that the current composition mix and size of the Board provide for sufficient diversity and allow for informed and constructive discussion and effective decision making by the Board and Board Committees. The Board will however continue to review opportunities to refresh the Board with a view to expanding the skills, experience and diversity of the Board as a whole.

NEDs' Participation
NEDs are encouraged to participate actively at Board meetings in the development of the Group's strategic plans and direction, and in the review and monitoring of Management's performance against budgets. To facilitate this, they are kept informed of the Group's businesses and performance through monthly and quarterly reports from Management, and have unrestricted access to Management. They also sit on various Board Committees to provide unbiased and independent views, constructive input and the independent review and monitoring of performance of the Group and Management.

During the year, the Lead ID held discussions with NEDs who are all also the IDs of the Company, without the presence of Management as and when the need arose.

Principle 3: Chairman and CEO

Role of Chairman and the CEO
Mr Kwek Leng Peck, the Executive Chairman of the Board ("**Board Chairman**") plays an instrumental role in providing the Company with strong leadership and vision, assisting the Board to develop policies and strategies, and ensuring that these are implemented effectively. As the Board Chairman, Mr Kwek Leng Peck bears primary responsibility for the workings of the Board, by ensuring effectiveness in all aspects of its role including setting agenda for Board meetings with inputs from Management, ensuring that sufficient time is allocated for discussion of each agenda item at Board meetings, promoting an open environment within the Board room for constructive debate, encouraging the NEDs to speak freely and contribute effectively, and exercising control over the quality, quantity and timeliness of information flow between the Board and Management. As the Board Chairman, he also promotes and leads the Company in its commitment to achieve and maintain good corporate governance. At AGMs and other shareholder meetings, he plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management. As the Executive Chairman, he is the most senior executive in the Company and bears overall executive responsibility for the Group's business. He is assisted by the CEO, Mr Tan Eng Kwee and other members of the senior management team which comprises:

- Ms Leong Sook Han, Chief Financial Officer
- Mr Ponnu Jeyasingam, Chief Operating Officer (Building Materials Unit)
- Mr Hoh Weng Ming, President (Diesel Engines Unit, China Yuchai International Limited)
- Mr Lian Ka Siew, Group Chief Operating Officer (Tasek Corporation Berhad)
- Mr Raymond Lim Nguang Seng, General Manager (Air-Conditioning Systems Unit)
- Mr Kwek Ken Wee, General Manager (Group HR)

Mr Tan Eng Kwee joined the Company on 10 December 2018 as the CEO-Designate pending the former CEO, Mr Philip Ting's departure from the Company on 6 January 2019 to allow for a smooth transition in the role of the CEO. Mr Tan assumes the CEO responsibilities in full with effect from 7 January 2019. Ms Leong Sook Han joined the Company on 1 October 2018 as the Company's CFO in place of Mr Leong Kok Ho who resigned on 31 July 2018.

The CEO who is a key management staff, bears executive responsibility for the performance of the Group and the achievement of the corporate goals set for the Group. There is a clear division of responsibilities between the Board Chairman and the CEO. The CEO is not related to the Board Chairman.

The Board considered Mr Kwek Leng Peck's role as an executive Board Chairman, the written terms of reference for the Board Chairman approved by the Board, and the strengths he brings to such a role by virtue of his in-depth knowledge of the Group's business. Through the appointment of Lead ID and the establishment of various Board Committees with power and authority to perform key functions without the undue influence from the Board Chairman, and the putting in place of internal controls for proper accountability and to allow for effective oversight by the Board of the Group's business, the Board ensures there is appropriate balance of power which allows the Board to exercise objective decision making in the interests of the Company. The Board is of the view that Mr Kwek Leng Peck's role as an executive Board Chairman would facilitate the Group's decision making and implementation process.

Lead Independent Director
In view that the Board Chairman is not an ID, the Board in line with the recommendation under the 2012 Code has appointed Mr Ernest Colin Lee as Lead ID on 26 February 2013 to serve as a sounding board for the Board Chairman and as an intermediary between the NEDs and the Board Chairman. The role of the Lead ID is set out under the written terms of reference of the Lead ID, which has been approved by the Board. The Lead ID is available to shareholders where they have concerns and for which contact through the normal channels of the Board Chairman or the key Management has failed to resolve or is inappropriate. No query or request on any matter which requires the Lead ID's attention was received from the shareholders in 2018.

During the year, the Lead ID held discussions with the NEDs who are all also the IDs of the Company, as and when the need arose without the presence of Management or the Board Chairman, and feedback from the NEDs was provided by the Lead ID to the Board Chairman and the Management, as appropriate.

Principle 4: Board Membership

NC Composition and Role
Two out of the three members of the NC are independent. The NC chairman is also the Lead ID. Please refer to the 'Corporate Directory' section on page 17 of the AR, for the composition of the NC.

The NC's responsibilities as set out in its written terms of reference, approved by the Board, are to examine the Board size, review all Board and Board Committees composition and membership, board succession plans for the Directors, determine each Director's independence annually and as and when circumstances require, evaluate performance of the Board as a whole, its Board Committees and the individual Directors, review appointments and the reasons for resignations and termination of key Management which includes the Executive Chairman, the CEO, the Chief Operating Officer, the CFO and other relevant key management staff, review and confirm the induction programme for newly appointed Directors and for existing Directors in respect of their appointments to any of the Board Committees, and review the training and continuous professional development programme for the Directors. Four NC meetings were held in 2018. The Company Secretary maintains records of all NC meetings including records of key deliberations and decisions taken.

For the financial year under review, the NC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("**NC Self-Assessment Checklist**").

The NC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the NC under its terms of reference, and considered also the contribution of NC members to the deliberation and decision-making process at NC meetings.

Based on the self-assessment, the NC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

Re-nomination of Directors

The NC reviews annually the nomination of the relevant Directors for election/re-election as well as the independence of Directors. When considering the nomination of Directors for election/re-election, the NC takes into account their contribution to the effectiveness of the Board (which include their participations and candour at Board and Board Committees' meetings) as well as their time commitment especially for Directors who have multiple listed company board representations and/or other principal commitments, and also reviews their independence. The recommendation of the NC on the annual nomination of the Directors for election/re-election is submitted to the Board for decision and thereafter put to the shareholders for approval at the AGM.

The Constitution of the Company provides that not less than one-third of the Directors for the time being shall retire as Directors at each AGM of the Company. All new Directors appointed by the Board shall hold office until the next AGM, and be eligible for election at the said AGM. Excluding the new Directors who are seeking appointment at the AGM or who will be seeking election at the first AGM immediately after their initial appointment, the remaining Directors of the Company will retire about once in every two to three years.

In accordance with the Company's Constitution, Mr Ernest Colin Lee and Ms Caroline Kwong will be retiring by way of rotation while Mr Tan Eng Kwee who was appointed by the Board on 10 December 2018, will also be retiring, at the 2019 AGM. They being eligible, and have offered themselves for election/re-election at the 2019 AGM. The NC has considered Mr Tan's extensive operations, corporate, accounting and financial experience, and Mr Lee's and Ms Kwong's contribution and performance, and recommended to the Board to nominate their election/re-election at the 2019 AGM.

As mentioned on page 23 of this report, Mr Lee has served on the Board for more than nine years since his appointment to the Board and will be seeking re-election at the Company's AGM in April 2019. The NC and the Board concurred that Mr Lee had maintained his independence throughout his service on the Board, having observed his objectivity in the review and evaluation of actions taken by or proposals from Management and their seeking of clarification, as and when necessary, to make informed decisions whilst remaining open to other viewpoints. The Company has also benefitted from his years of experience in his field of expertise. The NC and the Board therefore recommend the re-election of Mr Lee as an ID of the Company.

Criteria and Process for Nomination and Selection of New Directors

The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees. Searches for and selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, Management or external parties including the Company's contacts in the related industries, finance, legal and accounting professions. Assistance may also be obtained from SID and professional executive search firms engaged to source for suitable candidates for the NC's consideration.

Shortlisted candidates would be required to furnish their curriculum vitae containing information on their academic/ professional qualification, work experience, employment history and experience (if any) as directors of listed companies.

In reviewing and recommending to the Board any new Director appointments, the NC considers: (a) the candidate's track record, experience and capabilities or such other factors including age and gender, as may be determined by the NC to be relevant and which would contribute to the Board's collective skills; (b) any competing time commitments if the candidate has multiple listed company board representations and/or other principal commitments; (c) the candidate's independence, in the case of the appointment of an independent NED; and (d) the composition requirements for the Board and Board Committees after matching the candidate's skill set to the requirement of the relevant Board Committees (if the candidate is proposed to be appointed to any of the Board Committees).

The NC had recommended the appointment of Mr Tan Chian Khong and Mr Tan Eng Kwee as Directors and further, Mr Tan Eng Kwee as the CEO taking into consideration Mr Tan Chian Khong's audit and business advisory experience and Mr Tan Eng Kwee's extensive operations, corporate, accounting and financial experience respectively. The NC felt that with their experience, it could provide further diversity to the core competencies of the Board. The Board concurred with the NC's recommendation and its determination of Mr Tan Chian Khong's independence. As recommended by the NC and approved by the Board, Mr Tan Chian Khong was appointed as independent NEDs and also as a member of the ARC, RC and SOSC on 1 March 2018. He was also appointed the chairman of the ARC following the retirement of the former ARC chairman, Mr Tan Huay Lim at the 2018 AGM. On 10 December 2018, the Board also approved the appointment of Mr Tan Eng Kwee as a Director and CEO of the Company. Pending the departure of Mr Philip Ting from the Company on 6 January 2019, Mr Tan joined the Company as CEO-Designate on 10 December 2018 to allow for a smooth transition in the role of the CEO, which responsibilities he assumed in full with effect from 7 January 2019.

Directors' Time Commitments

When considering the re-nomination of Directors for election/re-election, the NC also considers the competing time commitments faced by Directors with multiple listed company board representations and/or other principal commitments. An analysis of the directorships (which includes directorships within corporate groups and executive appointments) held by the Directors is reviewed annually by the NC. Each Director is also required to confirm annually to the NC as to whether he or she has any issue with competing time commitments which may impact his or her ability to provide sufficient time and attention to his or her duties as a Director of the Company. Based on the analysis, the Directors' annual confirmation and the Directors' commitments and contributions to the Company which is also evident in their level of attendance and participation at Board and Board Committees' meetings, the NC is satisfied that all Directors are able to carry out and have been adequately carrying out their duties as Directors of the Company.

It is recommended under the 2012 Code that the Board consider providing guidance on the maximum number of listed company representations which each Director of the Company may hold to address competing time commitments faced by Directors serving on multiple boards. The NC noted that, excluding the directorship held in the Company, the number of listed company board representations currently held by:

- each ID did not exceed four, and
- each ED, Mr Kwek Leng Peck and Mr Tan Eng Kwee, did not exceed five, all being representations on the boards of related corporations of the Company including three listed subsidiaries of the Group.

Having considered this issue, the NC does not recommend setting a maximum number of listed company board representations that a Director may hold. The Board considers an assessment of the individual Directors' participation as described above to be more effective for the Company than to prescribe a numerical limit on the number of listed company directorships that a Director may hold. It would not wish to omit from consideration suitable individuals who, despite the demands on their time, have the capacity to participate and contribute as members of the Board.

In addition to the current review procedures of the attendance records and analysis of directorships/principal commitments, a policy has also been put in place for Directors to consult the Board Chairman and the chairman of the NC prior to accepting any new listed company board appointments or principal commitments and to notify the Board of any changes in their external appointments. This would allow the Director to review his or her time commitments with the proposed new appointment and in the case of an ID, to also ensure that his or her independence would not be affected.

Key Information on Directors

Please refer to the 'Board of Directors' section in the AR for key information on the Directors, including the date of their first appointment and last election/re-election to the Board (if applicable), their academic/professional qualification, major appointments, directorships held in listed companies both currently and in the preceding three years, and other relevant information, in the notice of AGM, and additional information for Directors proposed for election/re-election at the 2019 AGM.

Succession Planning for the Board, the Board Chairman and KMP

The Board believes in carrying out succession planning for itself, the Board Chairman and the CEO to ensure continuity of leadership. Board renewal is a continuing process and in this regard, the NC reviews annually the composition of the Board and Board Committees, which includes size and mix, and recommends to the Board the selection and appointment of new Directors, whether in addition to existing Board members or as replacement of retiring Board members, with a view to identifying any gaps in the Board's skills sets taking into account the Group's business operations. The Board will be able to function smoothly notwithstanding any resignation or retirement of any Director given the present number of members and mix of competencies on the Board.

As part of the succession planning for the Board and Board Committees, Mr Tan Chian Khong was appointed a Director and a member of the ARC, RC and SOSC on 1 March 2018 in view of the impending retirement of Mr Tan Huay Lim at the 2018 AGM. Mr Tan Chian Khong had also been appointed to succeed Mr Tan Huay Lim as the ARC chairman following the conclusion of the 2018 AGM.

In December 2018, the Board announced the resignation of Mr Philip Ting as a Director and CEO of the Company, and his effective date of departure on 6 January 2019. At the same time, the Board also announced the appointment of Mr Tan Eng Kwee (the former CFO of the Company) as a Director and CEO of the Company, having considered his extensive operations, corporate, accounting and financial experience. Pending Mr Ting's departure, Mr Tan joined the Company as the CEO-Designate on 10 December 2018 to allow for a smooth transition and continuity of leadership at the Senior Management level. He assumed full responsibilities as the CEO of the Company on 7 January 2019.

In July 2018, the Board announced the resignation of Mr Leong Kok Ho as the CFO of the Company with effect from 31 July 2018. The Board had in August 2018, announced the appointment of Ms Leong Sook Han as the Company's CFO with effect from 1 October 2018, having considered her more than 20 years of working experience in the areas of financial planning and reporting, fund raising, corporate strategy, treasury, merger and acquisition, audit and control.

Board Development

The NC reviews the training and development of the Directors to ensure that Directors receive appropriate development on a continuing basis, to perform their roles on the Board and where applicable, the Board Committees. The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the Company's expense. Further training for the Directors in specific areas are also being recommended by the NC, where required, based on the NC's review of the annual evaluation checklists from the Board and the Board Committees. A separate programme is established for new Directors, details of which together with details of the internal briefing and updates provided to the Directors in 2018 are set out in the paragraph above under the subject heading "Board Orientation and Training".

The Board is kept apprised twice yearly on a list of training programmes attended by the Directors during the year.

Principle 5: Board Performance

Board Evaluation Process

The Company has in place a formal process for assessment of the effectiveness of the Board as a whole, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The NC assesses the Board's performance as a whole annually using objective and appropriate criteria which were recommended by the NC and approved by the Board. When assessing the overall Board performance, the NC takes into consideration the Board composition, the Directors' independence, feedback from individual Directors on areas relating to the Board's strategy and performance, process, governance (including risk management and internal controls) and the effectiveness of the Board Chairman. The results of the overall evaluation of the Board by the NC including its recommendations, if any, for improvements are presented to the Board.

The NC also undertook an evaluation of the performance of the NC, RC and ARC with the assistance of self-assessment checklists completed by these Board Committees as well as a report provided by the chairman of the SOSC.

The annual evaluation process for each individual Director's performance comprises two parts: (a) background information concerning the Directors including their attendance records at Board and Board Committee meetings; and (b) NC's evaluation based on certain assessment parameters. The assessment parameters were recommended by the NC and approved by the Board.

When deliberating on the performance of a particular Director who is also a member of the NC, that member abstains from the discussions in order to avoid any conflict of interests.

The results of the individual evaluation of each of the Directors are also used by the NC, in its consultation with the Board Chairman (who is also a member of the NC), to review, where appropriate, the composition of the Board and Board Committees, and to support its proposals, if any, for appointment of new members and its recommendations for the election/re-election of retiring Directors. Comments from the Directors, if any, concerning the Board as a whole and the general performance of the Directors, are also presented to the Board.

Board Evaluation Criteria
The qualitative criteria used by the NC to evaluate the Board covers six areas relating to Board composition, Directors' independence, the Board's review of the Company's strategy and performance, the Board's oversight on the Company's governance including risk management and internal controls, and the effectiveness of the Board Chairman and Board processes.

The quantitative criteria used to evaluate the overall Board performance comprise quarterly performance indicators which include a comparison of the Group's performance (including segmental performance) for the financial period under review against the Group's performance for the corresponding period in preceding year and the budget, and also other indicators such as the Company's share price performance over a historical period.

Individual Director Evaluation Criteria
Factors taken into account in the assessment of a Director's performance include his or her abilities and competencies, his or her objectivity and the level of participation at Board and Board Committees' meetings including his or her contributions to Board processes and the business strategies and performance of the Group.

Principle 6: Access to Information

Complete, Adequate and Timely Information and Access to Management and Company Secretary
Prior to each meeting, members of the Board and the Board Committees are provided with the meeting agenda and the relevant papers submitted by Management, containing where possible and practicable, complete, adequate and timely information such as reports from the CEO and the CFO on the operations and financial performances of the various business units respectively, reports from the Risk Committee, Sustainability Committee, internal auditors ("**IA**") and external auditors ("**EA**"), regulatory updates, and/or significant projects/events updates, to enable full deliberation on the issues to be considered at the respective meetings.

Management also provides all Directors with monthly reports of the Group's performance including analysis of the same. Any material variances between the results and the budget and year-on-year for the periods under review are explained in the monthly reports.

Management, the Company's auditors and professional advisers who can provide additional insight into the matters for discussion are also invited from time to time to attend Board and/or Board Committees' meetings. Directors have separate and independent access to Management.

Draft agendas for Board and Board Committee meetings are circulated to the Board Chairman and the chairmen of the Board Committees, in advance, for them to review and suggest items for the agenda. The Board and the Board Committees are also furnished with routine reports, where applicable from the various departments of the Company. Each of the chairmen of the ARC, NC, RC and SOSC provides an annual report of the respective committees' activities during the year under review to the Board. The minutes of meetings of the Board Committees are circulated to all Board members.

Company Secretary

The Company Secretaries' appointment and removal are subject to the Board's approval. At least one of the Company Secretaries attends all Board and Board Committee meetings and ensures that all Board procedures are followed. The Company Secretaries, together with Management, also ensure that the Company complies with all the applicable statutory and regulatory rules. Together with Management, the Company Secretaries also advise the Board Chairman, the Board and the Board Committees on corporate governance matters and assist to implement and strengthen corporate governance practices and processes, including ensuring adequate and timely information flows within the Board and the Board Committees and between Management and the Directors, facilitating the induction for newly appointed Directors and newly appointed Board Committee members, and assisting in the continuing training and development programmes for the Directors.

On an ongoing basis, the Directors have separate and independent access to the Company Secretaries.

Independent Professional Advice

The Directors, whether as a group or individually, are entitled to take independent professional advice at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant the same. The Company has in place internal guidelines allowing the Directors to seek independent professional advice.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

RC Composition and Role

The RC comprises three NEDs, all of whom including the chairman of the RC are independent.

The RC's principal responsibilities as set out in its written terms of reference approved by the Board are to review and recommend, for the endorsement of the Board, a framework of remuneration and the specific remuneration packages for each Board member and the Company's key management personnel ("**KMP**").

The Company has in place a remuneration framework for the Directors and the KMP. The Company currently identifies its Executive Chairman, the CEO and the CFO as its KMP. On an annual basis, the RC reviews and recommends the remuneration packages (including the annual increments, mid-year and year-end variable bonuses, special bonus, if any, and share options for the KMP) for the Board approval. The KMP's contracts of service have been reviewed by the RC and it is of the view that the said contracts contain fair and reasonable termination clauses.

All the members of the RC also sit on the SOSC and the chairman of the RC is also the chairman of the SOSC. The RC has access to appropriate advice from the HR Head, who attends all RC and SOSC meetings. No remuneration consultants from outside the Company were appointed. The Company Secretary maintains records of all RC and SOSC meetings including records of key deliberations and decisions taken. Three meetings of the RC were convened during 2018.

For the financial year under review, the RC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("**RC Self-Assessment Checklist**"). The RC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the RC under its terms of reference, and considered also the contribution of RC members to the deliberation and decision-making process at RC meetings.

Based on the self-assessment, the RC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

Principle 8: Level and Mix of Remuneration

Remuneration of Directors and KMP
The Company's remuneration policy for Directors comprises the following distinct objectives:

- to ensure that the procedure for determining remuneration for Directors is formal and transparent;
- to ensure that the level of remuneration is sufficient (without being excessive) to attract and retain Directors to exercise oversight responsibility over the Company; and
- to ensure that no Director is involved in deciding on his own remuneration.

In reviewing the remuneration packages of the KMP, the RC, with the assistance of the HR Head, considers the level of remuneration based on the Company's remuneration policy which comprises the following three distinct objectives:

- to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Company's needs;
- to reward employees for achieving corporate and individual performance targets in a fair and equitable way; and
- to ensure that the remuneration reflects employees' duties and responsibilities.

The Company advocates a performance-based remuneration system that is flexible and responsive to the market, and the performance of the Group's business units and individual employees. In designing the compensation structure, the Company seeks to ensure that the level and mix of remuneration are competitive, relevant and appropriate in finding a balance between the current and longer-term objectives of the Company.

Based on the Remuneration Framework, the compensation packages for a KMP comprise a fixed component (in the form of a base salary, annual wage supplement, and where applicable fixed allowances determined by the Company's Human Resource policies), a variable component (comprising short-term incentives in the form of mid-year and year-end variable bonuses, and special bonus, and long-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, where applicable. The variable components take into account amongst other factors, the KMP's performance, the Group's performance, the business unit's performance and industry practices. The Company exercises broad discretion and independent judgment in ensuring that the amount and mix of compensation are aligned with the interests of shareholders and promote the long-term success of the Company.

The mix of fix and variable reward is considered appropriate for the Group and for each individual role. The overall level of remuneration is not considered to be at a level which is likely to promote behaviour contrary to the Group's risk profile. The compensation structure is directly linked to corporate and individual performance, both in terms of financial, non-financial performance and the creation of shareholder wealth.

The Company currently has in place a long-term incentive scheme, which is the SOS. KMP who have a greater ability to influence the Group's outcomes have a greater proportion of overall reward at risk. It is put in place to increase the Group's flexibility and effectiveness in its continuing efforts to reward, retain and motivate key good employees to achieve superior performance and to motivate them to continue to strive for the Group's long-term shareholder value. It also aims to strengthen the Group's competitiveness in attracting and retaining talented key management employees. The Company does not require the EDs and KMP to continue to hold their shares upon exercise of the options after the vesting period. Options granted under the SOS to EDs and KMP vest progressively over a period of three years. To-date, the Company has granted only Market Price Options and Incentive Price Options (both as defined in the SOS). Information on the SOS is set out in the Directors' Statement on pages 61 to 65 and the Financial Statements on pages 185 to 188 of the AR.

The Company does not discourage Directors from holding shares in the Company. There is however no requirement under the Company's Constitution for Directors to hold shares in order to be qualified to act as a Director. The NEDs are eligible to participate in the SOS. The grant of options under the SOS to the NEDs is subject to the SOSC's recommendation and the Board's endorsement.

Since 2014, the letter of offer of options to eligible participants (including EDs and KMP) under the SOS includes a claw-back provision which gives the Company the right to recover or cancel the options (whether in whole or in part, before they are exercised) in the event of exceptional circumstances involving a misstatement of the financial results of the Company and the Hong Leong Asia Group for the financial year on which the grant is based, or any misconduct by an employee of the Company, resulting in financial loss to the Group.

When reviewing the structure and level of Directors' fees, which comprise base director's fee and additional fees for services rendered under the various Board Committees, the RC takes into consideration the Directors' respective roles and responsibilities in the Board and Board Committees and the changes in the business, corporate governance practices and regulatory rules. The RC also compared the Company's fee structure against industry practices. Other factors taken into consideration in the fee review includes the frequency of Board and Board Committee meetings, corporate performance for the financial year under review as well as the corporate and economic outlook in the new financial year, and the interval since the last fee review and changes. The RC is mindful that the remuneration for IDs should not be excessive so as to compromise or reasonably be perceived to compromise their independence. No Director is involved in deciding his or her own remuneration.

Each of the Directors receives a base Director's fee with the Executive Chairman receiving an additional fee for serving as the Board Chairman. The Lead ID also receives an additional fee to reflect his expanded responsibility. Directors who serve on the various Board Committees (other than the SOSC) also receive additional fees in respect of each Board Committee that they serve on, with the chairmen of the Board Committees receiving a higher fee in respect of their service as chairman of the respective committees.

The structure of fees paid or payable to Directors of the Company for FY 2018 is as follows:

Appointment	**Fees per annum ($)**
Director	50,000 (Basic fee)
	Additional Fees:
Board Chairman	20,000
Audit and Risk Committee (ARC) - ARC Chairman - ARC Member	 58,000 38,000
Nominating Committee (NC) - NC Chairman - NC Member	 18,000 12,000
Remuneration Committee (RC) - RC Chairman - RC Member	 18,000 12,000
Lead Independent Director	10,000

Principle 9: Disclosure of Remuneration

Disclosure of Remuneration

The compensation packages for the KMP comprise a fixed component (in the form of a base salary and fixed allowances), a variable component (comprising short-term incentives in the form of mid-year and year-end variable bonuses, and special bonus, if any, and longer-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, where applicable, taking into account amongst other factors, the individual's performance, the Group's performance, the business unit's performance and industry practices. There were no termination, retirement and post-employment benefits granted to any Director or KMP in 2018.

The Company's remuneration policies, level and mix of remuneration, as well as the link between the remuneration paid to Directors and the KMP, and performance are as set out under Principle 8 above. Information on the SOS is set out in the Directors' Statement on pages 61 to 65 and the Financial Statements on pages 185 to 188 of the AR.

Directors' Remuneration for FY 2018

The remuneration of each Director including a breakdown (in percentage terms) earned through base salary, variable bonuses/allowances, fees, share option grants and other benefits for FY 2018 is set out below:

	Total Remuneration (nearest thousand)	Base Salary[1]	Variable Bonuses/ Allowances[1]	Board/ Board Committee Fees[2]	Share Option Grants	Other Benefits	Total
	$'000	%	%	%	%	%	%
Executive Directors							
Kwek Leng Peck (Executive Chairman)	867	56.0[3]	11.4[3]	24.9[4]	0	7.7	100
Philip Ting Sii Tien @ Yao Sik Tien (CEO)	891	74.8[3]	7.5[3]	10.5[4]	0	7.2	100
Tan Eng Kwee[5]	37	77.3	5.4	11.2	0	6.1	100
Non-executive Directors							
Ernest Colin Lee	134	0	0	100	0	0	100
Tan Huay Lim[6]	39	0	0	100	0	0	100
Kwong Ka Lo @ Caroline Kwong	100	0	0	100	0	0	100
Ng Sey Ming	100	0	0	100	0	0	100
Tan Chian Khong[7]	97	0	0	100	0	0	100

Notes:

1. The salary and variable bonuses/allowances are inclusive of employer's central provident fund contributions.
2. These fees comprise Board and Board Committee fees (excluding ARC fees) for FY 2018, which are subject to approval by shareholders as a lump sum at the 2019 AGM, and the ARC fees for FY 2018 that had already been approved by shareholders at the 2018 AGM.
3. Include salary and variable bonuses/allowances for FY 2017 paid or payable by subsidiary(ies) of the Company.
4. Includes Directors' fees paid or payable by subsidiaries of the Company.
5. Mr Tan Eng Kwee was appointed a Director and the CEO-Designate on 10 December 2018 and the Board fee payable to him for FY 2018 is pro-rated accordingly. Mr Tan assumed full responsibilities as the CEO after Mr Philip Ting's departure from the Company on 6 January 2019.
6. Mr Tan Huay Lim retired from the Board following the conclusion of the AGM held on 27 April 2018. Consequent thereto, he ceased to be the ARC chairman and a member of the RC and SOSC. The Board and Board Committee fees payable to him for FY 2018 are pro-rated accordingly.
7. Mr Tan Chian Khong was appointed a Director and a member of ARC, RC and SOSC on 1 March 2018. He became the ARC chairman following the retirement of Mr Tan Huay Lim at the 2018 AGM. The Board and Board Committee fees payable to him for FY 2018 are pro-rated accordingly.

Remuneration of Key Management Personnel (not being a Director or CEO) for FY 2018
The Board does not believe it to be in the interest of the Company to disclose the FY 2018 remuneration of its CFO, Ms Leong Sook Han (the former CFO was Mr Leong Kok Ho), being currently identified as the only Company's KMP (not being a Director), having regard to the highly competitive human resource environment.

Remuneration of Director's Immediate Family Member for FY 2018
During FY 2018, none of the Directors had immediate family members who were or are employees of the Company.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

Accountability of Board and Management
The Board provides shareholders with quarterly and annual financial results. Results for the first, second and third quarters are released to shareholders within 45 days of the end of each quarter whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and quarterly results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

For FY 2018, the CEO and the CFO provided assurance to the Board on the integrity of the quarterly and the full year unaudited financial statements. The CEO and the CFO also received similar representation letters from the various business units within the Group. The Board in turn provided a negative assurance confirmation in respect of the unaudited financial statements for the first, second and third quarters to the shareholders in accordance with the regulatory requirements.

Management provides all Directors with monthly report of the Group's performance including analysis of the same.

The Board and Senior Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Company has established various corporate policies as necessary which provide a communicable and understandable framework for staff to observe the Company's principles on honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Company's business in their relationships with the Company's stakeholders, including customers, suppliers and employees. Further details of these policies are described in the segment entitled "Corporate Values and Conduct of Business" at the end of this report.

Principle 11: Risk Management and Internal Controls

Risk Management
The Group's approach to risk management is to proactively identify, evaluate and manage significant risks inherent in the business to facilitate a balanced, responsible and informed risk taking. Risk management activities are aligned to the Group's strategic objectives and priorities while protecting the interest of the Board and shareholders.

An Enterprise Risk Management ("**ERM**") framework has been established by Management to formalise and document the internal processes to enable significant strategic, financial, operational, compliance and IT risks within the relevant Group companies to be identified, assessed, monitored, managed and evaluated. The Board determines the Group's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. Strong emphasis is placed on creating risk awareness, promoting accountability and setting the appropriate tone at the top. Risk management training is conducted to communicate and enhance the Group's risk culture.

A risk management oversight and reporting structure has been established to enable the management team to effectively carry out their roles and responsibilities under the ERM framework. The risk committees (consisting of cross functional personnel), at both corporate and business unit levels, implement and maintain risk management policies and initiatives across the Group. To maintain internal audit's ("**IA**") independence, the Head of IA has been involved in risk management matters in an advisory/consulting role. The risk management processes at the key business units are driven by their respective risk committees, with regular reporting to the corporate risk committee (comprising members of senior management and headed by the CEO), who in turn reports to the ARC. The key steps in the risk management process are risk identification, risk assessment, risk treatment and risk monitoring. On an ongoing basis, Management reviews the Group's business operations to identify key risk areas and risk mitigating strategies so as to ensure that risks are adequately managed within the Group's risk tolerance limits.

Reports on risk management issues are presented by the ERM Manager to the ARC on a regular basis. The IA's role includes independent review of the Group's risk management policies and systems.

A summary of the Group's top risks and risk mitigation plans is set out below:

No.	Risk Category	Risk Name	Risk Description	Risk Mitigation Plans
1	Strategic	Concentration risk - China	Majority of the Group's businesses are based in China.	• Regular review of business strategies and performance of business units in China. • Evaluate new investments opportunities in other geographical regions besides China, when the opportunities arise.
2	Strategic	Market dynamics risk – Market complexity and competition	The Group's performance is affected by current economic slowdown and market overcapacity.	• Monitor market conditions and key external indicators which may affect the Group's businesses. • Continuously strengthen ability to respond to changes in market, customer needs, competition and market pricing.
3	Strategic, Operational and Compliance	Human capital risk - Succession planning - Recruitment & retention, leadership	Human Resource continues to be a top priority for the Group. The Group minimizes the impact of loss of key employees and critical knowledge by constantly reviewing succession plans and grooming talents with needed skill sets.	• Succession planning framework is in place for succession of key positions. • Training and development program for employees.
4	Operational	Product pricing risk – price pressure	Keen market competition resulting in increased price pressure for the Group's businesses.	• Develop new sales strategies and implement marketing activities to maintain price advantage. • Monitor competitors' pricing and continue to strengthen quality and service level to meet customers' requirements. • Review of product and operational costs.
5	Operational	Business interruption risk – Business continuity planning	Business operations are to be adequately prepared to handle major disruption and resume operations within the optimum timeframe and minimise losses.	• Develop and implement disaster recovery plans for business operations. • Conduct regular safety drills and audits.

Internal Controls

The Directors recognise that they have overall responsibility to ensure proper financial reporting for the Group and effectiveness of the Group's system of internal controls including financial, operational, compliance and IT controls, and risk management policies and systems. The Group's separately listed subsidiaries, namely Tasek Corporation Berhad and China Yuchai International Limited ("**CYI**"), including CYI's listed subsidiary HL Global Enterprises Limited, have separate boards and audit and risk committees which are responsible for the oversight of their respective groups' internal control and risk management systems and the ARC relied on the board of directors and the various board committees of these listed subsidiaries to provide oversight on the adoption and implementation of appropriate corporate governance practices, internal control and risk management systems. These listed subsidiaries, which operate under the governance regime of their respective stock exchanges, provide the relevant assurances on the effectiveness and adequacy of their internal controls and risk management systems in their respective annual reports.

The internal controls structure of the Group has been designed and put in place by management of the Group's business units to provide reasonable assurance against material financial misstatements or loss, for the safeguarding of assets, for the maintenance of proper accounting records, for the provision of financial and other information with integrity, reliability and relevance, and in compliance with applicable laws and regulations. However, no internal controls system can provide absolute assurance in view of inherent limitations of any internal controls system against the occurrence of human and system errors, poor judgment in decision-making, losses, fraud or other irregularities.

Taking into account Provision 9.2 of the 2018 Code, written assurance was received from the CEO and the CFO, all being also identified as the Company's KMP, that:

(i) the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(ii) the system of internal controls and risk management systems in place are adequate and effective to address in all material respects the financial, operational, compliance and IT risks within the current scope of the Group's business operations.

The ARC reviewed the adequacy of the Group's key internal controls that address the Group's financial, operational, compliance and IT controls, and risk management systems, with the assistance of the IA and EA and Management, who provide regular reports during the year to the ARC in addition to the briefings and updates provided at the ARC meetings. The management action plans are initiated to address the deficiencies identified by IA and EA, especially in the Group's China operations.

Based on the work performed by IA and the risk committees during the financial year, as well as the statutory audit by the EA, Ernst & Young LLP ("**EY**"), and the written assurance from the CEO and the CFO, the Board, with the concurrence of the ARC, is of the opinion that the system of internal controls and risk management systems in place as at 31 December 2018 are adequate and effective to address in all material aspects the financial, operational, compliance and IT risks within the current scope of the Group's business operations.

The Board wishes to highlight that the majority of the Group's businesses are located in China, which is a challenging control environment to operate in.

The Board noted that CYI, a subsidiary listed on the New York Stock Exchange, had in its FY 2017 annual report filing on Form 20F on 16 April 2018, disclosed that its Independent Public Accountants, EY, had concluded in their opinion, that CYI maintained, in all material respects, effective internal control over financial reporting as of 31 December 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As of the date of this report, CYI is still in the process of evaluating its internal controls over financial reporting. The SOX program will be subject to final review by the auditors, and is currently on-going. To date, CYI's management has not received any report on material weaknesses from its auditors. The full results will not be known until the finalization of CYI's FY 2018 annual report filing on Form 20F in mid April 2019.

As part of internal audit program for FY 2018, audit findings identified control weaknesses at some of the Group's subsidiaries. Management action plans based on IA's recommendations were developed to address these weaknesses. EY, during the audit of the financial statements of the Group, have also identified certain deficiencies in internal controls, which have been reported to the ARC and are currently in the process of being rectified by Management. Management has assessed and determined that the deficiencies do not have significant financial impact on the financial statements of the Group for FY 2018.

Management will continue to review and strengthen the Group's control environment, and further refine its internal policies and procedures. Management continues to devote resources and expertise towards improving the level of governance and internal controls, in particular for the Group's subsidiaries in China.

Principle 12: Audit and Risk Committee

Composition of ARC

The ARC comprises four NEDs, all of whom including the chairman of the ARC are independent. Three members including the ARC chairman, namely Mr Tan Chian Khong, Mr Ernest Colin Lee and Ms Caroline Kwong possess the relevant audit, accounting or related financial management expertise and experience whilst the remaining member, Mr Ng Sey Ming possesses a legal background.

Based on the terms of reference of the AC, a former partner or director of the Company's existing external auditing firm or corporation ("**EA**") should not act as a member of the ARC: (a) within a period of two years commencing on the date of his or her ceasing to be a partner or director of the EA; and (b) in any case for as long as he or she has any financial interest in the EA. Mr Tan Chian Khong had ceased to be a partner of EY, the EA of the Company, in June 2016 and has no financial interest in EY. Besides Mr Tan, none of the remaining ARC members were former partners or directors of or have any financial interest in the Company's existing EA. Please refer to the 'Board of Directors' section in the AR for the academic/professional qualification and experience of the members of the ARC.

With the current composition, the ARC believes that it has the relevant accounting or related financial management expertise and experience to discharge its functions within its written terms of reference which has been approved by the Board.

Powers and Duties of the ARC

The ARC is authorised by the Board to review or investigate any matters it deems appropriate within its terms of reference and has direct and unrestricted access to the EA, the IA, Management and any officer and employee of the Group. It may invite any Director, Management, any officer or employee of the Group, the EA and IA to attend its meetings. It is also authorised to engage any firm of accountants, lawyers or other professionals as it sees fit to provide independent counsel and advice to assist in the review or investigation on such matters within its terms of reference as it deems appropriate, at the Company's expense.

The principal responsibility of the ARC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Group's financial reporting process (including reviewing the accounting policies and practices of the Company and the Group on a consolidated basis) and key internal controls, including financial, operational, compliance, IT and risk management controls. Other duties within its written terms of reference include:

- to review significant financial reporting issues and judgements so as to ensure the integrity of the Company's and the Group's financial statements, and of announcements on the Company's and the Group's financial performance and recommend changes, if any, to the Board;

- to review the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance and IT controls and report to the Board;

- to assess the effectiveness of the IA function;

- to review annually the scope and results of the external audit and the independence and objectivity of the EA, and make recommendations to the Board on the proposal to the Company's shareholders on the appointment, re-appointment and/or removal of the EA, and to approve their remuneration;

- to review interested person transactions ("**IPTs**") to ensure that they are entered on normal commercial terms and are not prejudicial to the interests of the Company or its minority shareholders;

- to oversee the establishment and operation of the whistle-blowing process in the Group;

- to provide oversight of the risk management framework for the purpose of guiding and providing direction to build up risk management capability within the Group; and

- to provide oversight on the Group's compliance relating to sustainability governance and reporting including reviewing the framework put in place by Management for the identification, assessment, management and monitoring of the material ESG factors, and setting of the targets and key performance indicators for the achievement of the Group's sustainability strategy.

The ARC held six meetings during the year and carried out its duties as set out within its terms of reference. For details of the activities performed by the ARC during the year, please refer to the "Directors' Statement" section on page 68 of the AR. The Company Secretary maintains records of all ARC meetings including records of key deliberations and decisions taken. The ARC meets with the IA and EA, each separately without the presence of Management, at least once annually.

The ARC members continually keep themselves abreast of changes to accounting standards and issues which have a direct impact on financial statements.

For the financial year under review, the ARC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities. The assessment was facilitated through the use of a self-assessment checklist ("**ARC Self-Assessment Checklist**").

The ARC Self-Assessment Checklist covered, *inter alia,* the responsibilities of the ARC under its terms of reference, and also considered the contribution of ARC members to the ARC's deliberation and decision-making process.

Based on the self-assessment, the ARC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

ARC's Commentary on significant financial reporting matters
In the review of the financial statements for the FY 2018, the ARC had discussed with both the Management and the EA the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with Management and the EA:

Significant Matters	How did the ARC address these
Impairment of property, plant and equipment and intangible assets	The ARC received reports from the Management on the assessment of the recoverable amounts of property, plant and equipment. The ARC had discussed with the Management and the external auditors and assessed the indicators of impairment and also reviewed the appropriateness of the valuation methodologies and reasonableness of the key assumptions used by an independent valuer in determining the fair value of the property, plant and equipment.
Impairment of investments in subsidiaries	The ARC held discussions with the Management and the external auditors to review the reasonableness of the Management's assumptions in estimating the recoverable amount of the investments in certain loss-making subsidiaries. This resulted in the recognition of an impairment loss of $39.4 million in the Company's income statement for FY 2018.

Significant Matters	How did the ARC address these
Allowance for inventory obsolescence	The ARC reviewed the significant assumptions and estimates used by Management in their assessment of the measurement and valuation of inventory including the amount of the allowance for inventory obsolescence required to be recorded. The ARC noted that about 89% of the inventory relates to CYI. From discussion with Management, the ARC noted that CYI performed an assessment of the measurement and valuation of inventory.
Capitalisation of development costs	The ARC reviewed the significant assumptions and estimates used by Management in the capitalisation of development expenditure. The ARC noted that about 89% of the intangible assets relates to development expenditure capitalised by CYI during 2018. From discussion with Management, the ARC noted that CYI obtained an understanding from management on the recognition criteria and basis for capitalisation and performed an assessment of the appropriateness of development expenditure capitalised in accordance with CYI's R&D capitalisation policy.

The above significant matters were also areas of focus for EA who have included these as key audit matters in their audit report set out in this AR.

External Auditors
Taking cognizance that the EA should be free from any business or other relationships with the Group that could materially interfere with their ability to act with integrity and objectivity, the ARC undertook a review of the independence of EY and gave careful consideration to the Group's relationships with them during 2018. In determining the independence of EY, the ARC reviewed the Group's relationships with them and considered the nature and volume of the provision of the non-audit services in 2018 and the corresponding fees. The ARC is of the opinion that the nature and amount of such non-audit services and fees, which had not exceeded 50% of the aggregate audit fees paid/payable to EY in 2018, did not impair or threaten the audit independence. EY's confirmation of their audit independence was further noted. Based on the review, the ARC is of the opinion that EY is, and is perceived to be, independent for the purpose of the Group's statutory financial audit. For details of the fees paid and/or payable to EY in respect of audit and non-audit services for FY 2018, please refer to note 25 of the Notes to the Financial Statements on page 181.

In reviewing the nomination of EY for re-appointment for the financial year ending 31 December 2019, the ARC had considered the adequacy of the resources, experience and competence of EY, and had taken into account the Audit Quality Indicators relating to the experience of the engagement partner and key team members' experience in handling the audit of multi-listed entities under different jurisdictions. The size and complexity of the audit of the Group, the level of audit fee, and the number and experience of the supervisory and professional staff assigned were taken into account. The ARC had also considered the audit team's ability to work in a co-operative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed time-lines.

EY has confirmed that they are registered with the Accounting and Corporate Regulatory Authority. The Company is thus in compliance with Rule 712 and Rule 715 (read with Rule 716) of the SGX-ST Listing Manual in relation to the appointment of the Group's auditors.

On the basis of the above, the ARC has recommended to the Board the nomination of EY for re-appointment as EA of the Company at the 2019 AGM.

Interested Person Transactions ("IPTs")

On 30 May 2003, the Company obtained shareholders' approval for the Company, its subsidiaries and its associated companies not listed on SGX-ST or an approved exchange, over which the Company, its subsidiaries and/or interested persons ("**IPs**") have control, to enter into transactions within the categories of IPTs set out in the Company's circular to shareholders dated 5 May 2003, with such persons within the class or classes of IPs as described in the said circular, provided that such transactions are entered into in accordance with the review procedures set out in the said circular (the "**IPT Mandate**"). The IPT Mandate was last renewed at the AGM held on 27 April 2018. As such IPTs may occur at any time, and to allow the Group to undertake such transactions in an expeditious manner, shareholders' approval will be sought at the 2019 AGM for the renewal of the IPT Mandate.

The ARC has confirmed that an independent financial adviser's opinion is not required for the renewal of the IPT Mandate as the methods and procedures for determining the transaction prices of the IPTs conducted under the IPT Mandate have not changed since the IPT Mandate was obtained on 30 May 2003, and such methods and procedures continue to be sufficient to ensure that these IPTs will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

Particulars of IPTs required to be disclosed under Rule 907 of the SGX-ST Listing Manual are as follows:

Name of IP	**Aggregate value of all IPTs in FY 2018 (excluding transactions less than $100,000 and transactions conducted under the IPT Mandate pursuant to Rule 920)**	**$'000**	**Aggregate value of all IPTs conducted in FY 2018 under the IPT Mandate pursuant to Rule 920 (excluding transactions less than $100,000)**	**$'000**
Hong Leong Investment Holdings Pte. Ltd. group of companies	Provision of the following services by IPs to the Group:		Construction-related Transaction – Purchase of raw materials by the Group from IPs:	1,590
	(i) Legal and trademark services:	175	General Transaction – Renewal of sub-lease of office premises by the Company for a lease tenure of three years:	1,452
	(ii) Corporate secretarial services:	317		
	Total	492	Total	3,042

The above IPTs were carried out on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders.

Whistle-blowing Policy
HLA has in place a whistle-blowing policy where staff of the Group or other persons can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties in matters relating to accounting, financial reporting or other matters such as improper business conduct, fraud or any unlawful practices. The ARC has the responsibility of overseeing this policy which is administered by the Head of IA. Under these procedures, arrangements are in place for independent investigation of such matters raised (where appropriate) and for appropriate follow up action to be taken.

A dedicated whistle-blowing email account at hla999@hla-grp.com has been set up to receive complaints and information from all employees of the Group or other persons in order to facilitate and encourage the reporting of such matters. Details on the dedicated channels of communication (email and postal address) have also been made available on the Company's website and intranet.

The whistle-blowing policy is reviewed by the ARC from time to time to ensure that it remains current.

Anti-fraud, Anti-bribery and Anti-corruption Policy
HLA has adopted an Anti-fraud, Anti-bribery and Anti-corruption Policy. This policy sets out the responsibilities of the Group functions and business units in observing and upholding the Company's position on fraud, bribery and corruption, and it applies to the Group, its affiliates, agents, consultants, business partners as well as officers and employees of the Group (collectively, the "Employees"). It provides guidance to the Employees on matters relating to the prevention, detection and reporting of fraudulent or corrupt conduct through the Company's whistle-blowing channel. The Anti-fraud, Anti-bribery and Anti-corruption Policy is posted to the Company's website and incorporated into the existing Code of Business Conduct and Ethics which Employees are required to confirm compliance with on a regular basis.

Principle 13: Internal Audit

Reporting Line and Qualifications
The IA function is independent of the activities it audits. The Head of IA's primary reporting line is to the ARC chairman with an administrative line of reporting to the CEO of the Company. The appointment, resignation and dismissal of the Head of IA is reviewed and approved by the ARC. The ARC also provides input on the annual performance appraisal of the Head of IA and the ARC chairman is consulted on all bonus payments and salary adjustments for this position. The ARC meets the Head of IA at least once annually without the presence of Management. The Head of IA has unfettered access to the ARC, the Board and Management as well as the Group's documents, records, and properties except for those under the Group's separately listed subsidiaries.

IA operates within the framework stated in its IA Charter which is approved by the ARC, and reviewed on an annual basis. The standards of the IA Charter are consistent with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The Head of IA and IA team members are members of the Institute of Internal Auditors of Singapore and/or chartered member of professional bodies.

Role and Activities of IA
The primary role of the IA is to assist the Board and the ARC to evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the Group (other than the Group's separately listed subsidiaries which have their own IA functions). IA's coverage extends to the review and testing of controls in areas of key risks which include sales and channels operations, procurement, inventory management, information systems and compliance with company policies and procedures.

The ARC approved the annual IA plan and received regular reports during 2018 on the progress of the audit work under the IA plan. Copies of IA reports are extended to relevant members of Management. IA reports are also provided to the external auditors. Processes are in place such that recommendations raised in IA reports are followed up to ensure that they are dealt with within a reasonable time frame, taking into account the severity and nature of the control weaknesses identified. The ARC is apprised regularly on the implementation by Management of the recommendations of IA.

The Company has a well-established IA function with formal procedures for the IA to report their audit findings to the ARC and to Management. The IA attends outside training programmes to keep abreast of developments. As the IA team members are members of the Institute of Internal Auditors of Singapore and/or chartered member of professional bodies, the team receives regular updates on the latest development of IA policies and practices, accounting pronouncements, risk-based audit information and other audit related knowledge from time to time. The ARC reviewed the effectiveness and adequacy of the IA function including its resources through a review of the IA activities on a quarterly basis as well as its annual assessment of the IA function. The assessment was facilitated through the use of an evaluation framework modeled on the framework recommended in the Guidebook for Audit Committees in Singapore. The evaluation framework covers IA organisation, resources and continuing training, audit plans, work scope, quality of reports and recommendations, IA Charter and IA internal control assessment. Based on the assessment, the ARC is satisfied that the IA function has adequate resources and appropriate standing within the Group to perform its functions properly, and the ARC has continually emphasized the importance of ensuring that the IA function is adequately staffed, especially to handle the review and testing of controls in key risk areas in the Group's operations in China.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights

Being committed to good corporate practices, the Company treats all shareholders fairly and equitably. To facilitate the exercise of shareholders' rights, the Company ensures that all material information relating to the Group and its financial performance is disclosed in an accurate and timely manner *via* SGXNET.

All shareholders are entitled to attend and vote at general meetings in person or by proxy. The rules for the appointment of proxies, including information that the voting will be conducted by way of poll, are set out in the notice of general meetings. In accordance with the Company's Constitution, shareholders who are not relevant intermediaries may appoint not more than two proxies each to attend, speak and vote at general meetings in their absence. In the case of shareholders who are relevant intermediaries, more than two proxies each may be appointed. The proxy forms must be deposited at such place or places specified in the notice or documents accompanying the notice convening the general meetings not less than seventy-two (72) hours before the time set for the general meetings.

Principle 15: Communication with Shareholders

The Company ensures that shareholders are notified of all material information in an accurate and timely manner. Should there be an inadvertent disclosure made to a select group, the Company will release the same information promptly via SGXNET. The Company notifies its investors in advance of the date of release of its financial results *via* SGXNET. The Company's quarterly and full year results are announced within the mandatory period. The financial statements and other presentation materials presented at the Company's general meetings, including material and price-sensitive information, are disseminated and publicly released *via* SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of AGM, which notice is also advertised in the press and released *via* SGXNET.

The Company has in place an investor relations ("**IR**") policy (available on the Company's website) which outlines the principles and framework for the Company to provide investors, analysts and other IR stakeholders with balanced, clear and pertinent information on matters pertaining to and/or affecting the Group. Shareholders and investors can contact the Company or access information on the Company at its website at www.hlasia.com.sg which provides, *inter alia*, information on the Board of Directors, key Management team, and the Group's key business units, Annual Reports, corporate announcements, press releases and quarterly/full year financial results as released by the Company on SGXNET, and contact details of its IR.

Shareholders are also encouraged to attend the Company's general meetings where the Board Chairman and the chairmen of the respective Board Committees will be present to engage shareholders in dialogues and to address their queries.

The Company has a dividend policy in place. For more details on the policy, please refer to page 3 of the AR. After taking into consideration the Group's loss attributable to shareholders of the Company for FY 2018, the Board had recommended that no dividend be paid in respect of FY 2018.

Principle 16: Conduct of Shareholder Meetings

At general meetings of the Company, shareholders are given the opportunity to communicate their views and encouraged to ask the Directors and Management questions regarding matters affecting the Group. The Board Chairman, the chairmen of all the Board Committees, certain members of the Senior Management team together with the EA were present at the last AGM and will endeavor to be present at the 2019 AGM to assist the Board in addressing queries raised by the shareholders. All Directors attended the 2018 AGM.

Shareholders are given the opportunity to vote at general meetings. However, as the authentication of shareholder identity information and other related integrity issues still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail or electronic means.

The Company provides for separate resolutions at general meetings on each substantial issue, including treating the election/re-election of each Director as a separate subject matter. Detailed information on each item in the AGM agenda is provided in the explanatory notes to the notice of AGM in the annual report. The Company also maintains minutes of AGM, which includes the key comments and queries raised by shareholders and the responses from the Board, Management and/or the EA, and the Company will furnish the minutes of the AGM upon request of any shareholder.

Pursuant to Listing Rule 730A(2), all resolutions to be proposed at the 2019 AGM and at any adjournment thereof shall be put to the vote by way of poll and an external scrutineer which is independent of the firm appointed to undertake the poll voting process, will be appointed to ensure that satisfactory procedures of the voting process are in place before the general meeting, and to supervise the count of the votes cast through proxies and in person.

In support of greater transparency and to allow for a more efficient voting system, the Company had been conducting electronic poll voting instead of by show of hands since its 2014 AGM and would continue to do so in respect of all resolutions to be proposed at the 2019 AGM. With electronic poll voting, shareholders present in person or represented by proxy at the meeting will be entitled to vote on a 'one-share, one-vote' basis. The voting results of all votes cast in respect of each resolution will also be instantaneously displayed at the meeting and announced *via* SGXNET after the 2019 AGM. The detailed voting procedures for the electronic poll voting would be explained at the AGM.

Corporate Values and Conduct of Business

The Board and Key Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Company has in place an internal code of business and ethical conduct crystallising the Company's business principles and practices with respect to matters which may have ethical implications. The code provides a communicable and understandable framework for staff to observe the Company's principles such as honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Group's businesses in their relationships with customers, suppliers and amongst employees, including situations where there are potential conflicts of interests.

The code which incorporates the Anti-fraud, Anti-bribery and Anti-corruption Policy provides guidance on issues such as:

- conflicts of interest and the appropriate disclosures to be made;
- the Company's stance against corruption and bribery;
- compliance with applicable laws and regulations;
- compliance with Company's policies and procedures, including those on internal controls and accounting;

- safeguarding and proper use of Company's assets, confidential information and intellectual property rights, including the respect of the intellectual property rights of third parties;
- competition and fair dealing in the conduct of the Company's business, in its relationships with customers, suppliers, competitors and towards its employees; and
- prevention, detection and reporting of fraudulent or corrupt conduct through the Company's whistle-blowing channel.

In line with the Board's commitment to maintain high ethical standards which are integral to our corporate identity and business, the Company also has the following corporate policies and procedures in place:

(i) Whistle-blowing Policy, which provides guidance to the Group's officers, employees and non-employees of the Group that may have any legitimate *bona fide* concerns about any possible improprieties in financial reporting or any other matters, the same may be raised without fear of reprisals in any forms, discriminating or adverse consequences; and

(ii) Policy on transactions with IPs which provides guidance to the Group's officers and employees to conduct IPTs on an arm's length basis and on normal commercial terms consistent with its usual business practices and policies, not prejudicial to the interest of the Company and its minority shareholders and on terms which are not more favourable to the IP than those extended to other unrelated third parties under similar circumstances.

Internal Code on Dealing in Securities

The Company has in place an internal code on securities trading which sets out the implications of insider trading and provides guidance and internal regulation with regard to dealings in the Company's securities by its Directors and officers. These guidelines prohibit dealing in the Company's securities (a) on short-term considerations, (b) while in possession of unpublished material price-sensitive information in relation to such securities, and (c) during the "closed period" which is defined as two weeks before the date of announcement of results for the first, second and third quarters of the Company's financial year and one month before the date of announcement of the full year financial results, and ending on the date of the announcement of the relevant results. The Directors and employees of the Group are notified prior to the commencement of the "closed periods" relating to dealing in the Company's securities.

Rights Issue

During FY 2018, the Company had pursuant to a renounceable non-underwritten rights issue raised net proceeds of $201.1 million. As at the date of this AR, there has not been any utilisation of the net proceeds for the intended uses as stated in the Offer Information Statement dated 3 October 2018. Pending such deployment, funds have been used in the interim to repay short-term revolving facilities and the balance has been deposited with financial institutions. The Company will make periodic announcements via SGXNET on the actual deployment of the proceeds.

SUSTAINABILITY REPORT

Board Statement

As we progress on our sustainability reporting journey, the Group has set in place systematic reviews of its business practices to assess the impact on stakeholders who may be affected by its activities, or whose actions can affect the ability of the Group to conduct its activities. In the long term, our focus on sustainability will place the Group in a better position to create long-term value for shareholders while taking into account the interests of our material stakeholders.

The Board has set a strategic direction to achieve this through good corporate governance, prudent financial management, upholding health and safety standards, limiting environmental impact, utilising resources efficiently, and engaging communities we operate in. At HLA, the Board sets the tone and direction for all sustainability efforts, supported by the Sustainability Committee. Together, we continually identify, manage and address environmental, social and governance ("ESG") factors material to our businesses. This sustainability journey takes constant effort and we look forward to your continued support in creating a sustainable future for generations to come.

CEO's Message

This year marks the Group's transition from the Global Reporting Initiative ("GRI") G4 reporting framework to the GRI Standards. Given the GRI framework transition and the deconsolidation of our consumer products unit in 2018, we took the opportunity to review our material sustainability matters. This has allowed our report to be more streamlined and focused on the Management's approach in addressing our key sustainability issues.

The Group strengthened its approach to business conduct through formal notification to its suppliers of acceptable ethical business practices and expects its own employees and all its business partners to abide by them. This includes a reminder to our employees and suppliers of the Group's whistle-blowing channel and policy.

We are pleased to advise that our customers and employees have responded positively to the Group's approach in active engagement with them. Customer satisfaction results through surveys have exceeded our internal targets, even in the business unit where the benchmark was raised. Employee retention rates have increased compared to last year and we are optimistic that this result will be sustained.

By continuously tracking the indicators for our material sustainability issues, the Group is able to monitor and remain accountable to its key stakeholders on the sustainable development of the business. We are hopeful that this on-going effort will result in improvements year-on-year.

About This Report

This report has been prepared in accordance with the internationally recognized GRI Standards: Core option, and complies with the SGX requirements on sustainability reporting. It focuses on the sustainability performance of our building materials and diesel engines units.

Unless otherwise stated, this report contains data of the Group's building materials and diesel engines units from 1 January 2018 to 31 December 2018. The Group had ceased reporting on the consumer products unit since 1 October 2017 following the completion of its restructuring, and subsequent deconsolidation from the Group as of 21 May 2018[1]. A historical comparison to the previous year has also been presented where possible. We seek to continue to assess and improve our data collection systems over time.

Sustainability Framework & Governance

As a means to ensure reliability, adequacy and effectiveness of the internal controls and risk management processes over our sustainability practices and reporting aspects, the Group developed a framework to formalise the oversight procedures (Figure 1).

The Sustainability Committee is tasked to identify the material ESG issues and manage them, including target-setting and reporting aspects. The internal control and risk management processes of the Group's operations are managed by the Management, led by the CEO.

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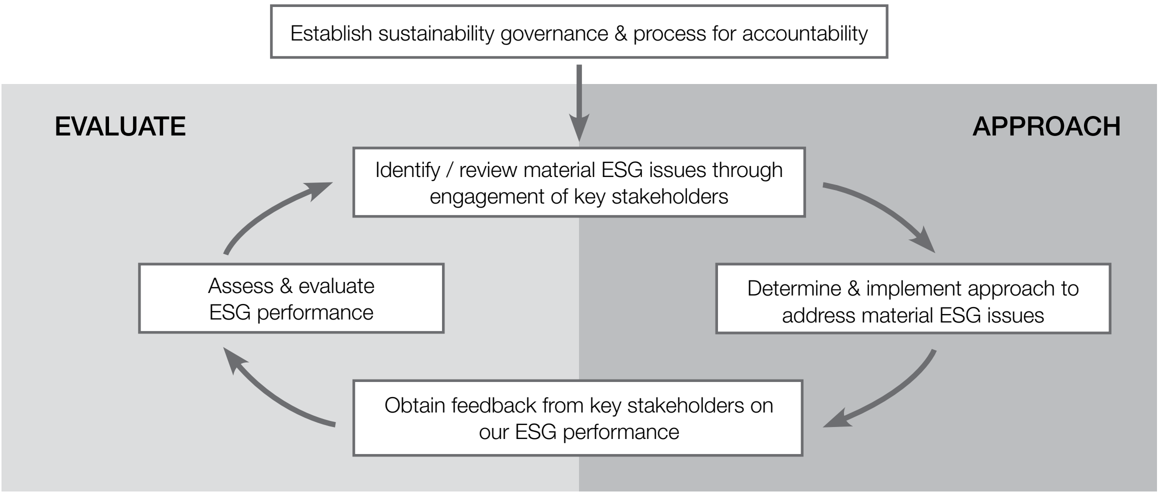
1 Announcement on deconsolidation of the consumer products unit: www.hlasia.com.sg/news/HLA_20180626_1.pdf.

Figure 1: The Group's Sustainability Framework



On a quarterly basis, the Sustainability Committee provides a progress update on performance to the Audit and Risk Committee ("ARC"), and makes recommendations to improve the sustainability of the business. Every year, this process and performance are evaluated and reviewed by the ARC. The ARC in turn reports to the Board to ensure that all requirements for sustainability compliance are met, and assists the Board in considering sustainability issues as part of strategic formulation for the Group (Figure 2).

Figure 2: HLA's Sustainability Governance Structure

Board of Directors

	Roles	Members
Audit and Risk Committee ("ARC")	Assist the Board in considering sustainability issues as part of strategic formulation	ARC members
Sustainability Committee ("SC")	Responsible for identifying, evaluating, monitoring and managing ESG risks and opportunities	CEO as Chairman, Sustainability Manager, Management Representatives from Corporate Office, Diesel Engines Unit ("CYI"), and Building Materials Unit ("BMU")
Sustainability Working Group ("SWG")	Responsible for assisting the SC in executing and implementing necessary activities, action plans	Led by Sustainability Manager; Representatives from Corporate Office, CYI, and BMU

The Group's Key Stakeholders & Materiality Assessment Process

Key Stakeholders

The main purpose of any business is to create value for its shareholders. Value is commonly generated by providing products and services to customers, and this is supported by the business' employees and suppliers. The impact of the business on these stakeholders and the local communities affected is managed by regulations from the government. The Group's business is typical of such a model, therefore our key stakeholders are identified as shareholders, customers, employees, government agencies, suppliers, and local communities.

Understanding issues affecting our relationship with our key stakeholders is important for the business to create value. As our manufacturing business segments are diverse in industry and geography, a significant amount of input on material issues is obtained from the respective business unit Management teams. They have the most interaction with our key stakeholders on the ground, and are in the best position to assess the material ESG issues which are then addressed by the Group Management.

Materiality Assessment

The Group formalised the materiality assessment process and conducted our first assessment in 2016, guided by external consultants (Figure 3). The process helped to verify the Group's key stakeholders and derive their significant ESG concerns. With the adoption of the new GRI Standards in 2018, the Group took the opportunity to reassess the material issues using the same process. Our focus remains on stakeholder inclusiveness and sustainability context just as it was the first time the materiality assessment was conducted.

To facilitate the exercise, the Management of the business units were first informed on the requirements of the GRI Standards, along with the updated sustainability reporting peer benchmarking review. Interviews were also conducted with representatives of the business units on the potential relevant items to internal stakeholders. A universe of relevant sustainability issues was established through the benchmarking reviews and Management-representative interviews, on which the Heads of Departments ("HODs") voted for the priority sustainability issues to the Group. The HODs have the insights to both internal and external key stakeholders through regular engagement, and have the capacity to represent them.

Figure 3: Materiality Assessment Process

Education	→	**Research**	→	**Corroboration**	→	**Prioritisation**
Awareness session for senior management and HODs to equip them with knowledge on sustainability, SGX sustainability reporting requirements and GRI Standards reporting framework		Peer benchmarking review was done to identify a broad range of potential and relevant sustainability issues as well as observing good reporting practices		Interviews with senior management to obtain feedback on potential sustainability issues, as well as tapping on their engagement with external stakeholders		Ranking of sustainability issues by senior management, in alignment to HLA's business focus and strategy (Table 1)

From a pool of 22 relevant sustainability issues, 8 issues were identified as material and significant to the Group's operations and are reported in accordance with the GRI Standards Reporting Framework (Table 1). Our Sustainability Report centres on the Management's approach towards addressing our material ESG issues within the boundaries of the key stakeholder impacts, including gaps identified and our plans to address them.

Table 1: Key stakeholders, their respective impacts, sustainability concerns and boundaries

Key Stakeholders	Boundary, Impact & Significance	Material Sustainability Issues
Customers	Our customers are the reason for our business existence. Our customers' feedback and concerns are important inputs for our business decisions.	• Customer Satisfaction • Product & Service Quality
Employees	Our employees are the backbone of the Group's success. The sustainability of our business is reliant upon their running of our day-to-day business.	• Employee Health & Safety • Fair Employment • Business Succession Plan
Government Agencies	Beyond meeting regulatory requirements, we recognize the importance of building working relationships with government agencies and strive to engage them both positively and regularly.	• Dust Emissions Management • Employee Health & Safety • Energy & Carbon Footprint • Regulatory Compliance • Ethical Business Conduct
Local Communities	Local communities are directly affected by our business operations. With such immediate reach, we strive to create positive impact on the local communities through our business.	• Dust Emissions Management • Regulatory Compliance
Shareholders	Shareholders are owners of our company, and their views are crucial in determining the future directions of the Group.	• Ethical Business Conduct • Regulatory Compliance • Employee Health & Safety • Customer Satisfaction • Business Succession Plan
Suppliers	We recognise the part we play in influencing the business practices of our suppliers. Right collaborations with our suppliers help to create a more sustainable value chain for the Group.	• Regulatory Compliance

Our Business Environment

Ethical Business Conduct

Management Approach

To ensure the accountability of the Group to its shareholders, it is integral that our practices take a stringent approach towards anti-corruption and that we conduct business with the highest ethical standard. Our commitment is reiterated through HLA's "I – ACE – IT" corporate values[2] and Code of Business Conduct ("COBC"). We expect our employees to be exemplary in maintaining ethical behaviour when conducting the Group's operations. The COBC is available to our employees, who are required to agree with it on joining the Group, and they make an annual declaration that they have abided by the COBC during the year. The policy governs aspects including avoiding potential conflicts of interests, compliance with legal requirements, and ensuring proper internal controls within the organisation. Any breaches or misconduct not in line with the COBC may result in termination of the employee. This policy is managed and reviewed periodically by the Human Resource ("HR") Department and approved by the Group CEO.

Our suppliers and business partners are also expected to adhere to the Group's ethical requirements when we enter into a contract with them. HLA has in place a whistle-blowing policy[3] overseen by the ARC, where employees or any other persons can raise concerns on possible breach of ethical business conduct.

Performance

The Group takes credible whistle-blowing reports very seriously. In 2018, despite the Group's best efforts in reinforcing our zero-tolerance policy to unethical behaviour within the organisation, there were two confirmed incidents raised through the whistle-blowing channel, where employees were determined to have breached the ethical requirements of the Group following investigation. Appropriate disciplinary actions have been taken against these employees, including reporting to the relevant law enforcement agency.

In addition, the Group has implemented the COBC for Suppliers throughout most of the organisation, and our suppliers have been informed of our ethical conduct policy. They have been reminded of the various business units' whistle-blowing channels and we hope that this will send a strong message about our determination to ensure ethical practice across our value chain. There have been no cases of legal actions for non-competitive behaviour, anti-trust and monopoly practices in 2018.

Regulatory & Environmental Compliance

Management Approach

As seen in Table 1, most of our key stakeholders are concerned about the Group's adherence to government regulations. In order to maintain the Group's license to operate, it is critical for us to meet our regulatory requirements. This responsibility principally lies with the heads of each of the Group's business units, and is delegated to the respective HODs to ensure that regulations within their scope of work are complied with. They liaise with the relevant government agencies and coordinate periodic inspections as required. The HODs will then report to the head of the business unit for an annual evaluation, or as and when there are regulatory changes.

Through the COBC for Suppliers, the Group communicates to our business partners and vendors the importance for them to also comply with regulations when dealing with us.

Performance

The Group did not incur any material fines and sanctions related to environmental, social or economic aspects during the year. Our employees across the business units have put in a great amount of effort in ensuring that this is our business culture norm.

2 Refer to the cover page of the Annual Report for more information on our "I – ACE – IT" corporate values.
3 Refer to the Corporate Governance Report for more on the Group's Whistle-blowing Policy.

Understanding Our Customers' Needs

Management Approach

Our customers are diverse across geography in the building materials and diesel engines industries. Therefore, the respective business unit Management teams, who know the customers the best, set their own individual benchmarks on delivering quality products and services to achieve a high level of customer satisfaction. Customer satisfaction is mostly influenced by the quality of the product and the associated services received.

The ability to provide quality products to our customers begins with ensuring that our supply chain, spanning mainly across China, Malaysia and Singapore, is well-managed. Our major suppliers, such as providers of raw materials and fuels, are evaluated at least once a year by the Procurement Departments for quality of goods and services provided, and ad hoc visits to our suppliers' sites are part of the evaluation, especially for new suppliers. When necessary, we also perform due diligence on our suppliers. Suppliers who do not meet the minimum benchmarks set are counselled or issued warning letters to improve; those found with serious lapses may be terminated. Throughout our manufacturing process, we have established strict standard operating procedures on quality assurance and control, using the ISO 9001 standard on quality management systems, to safeguard the level of quality of our outputs.

Our Sales & Marketing teams are proactive in engaging our customers to ensure that the products as well as pre and post order services meet or exceed our customers' requirements. This close interaction allows our Sales & Marketing teams, together with the Project teams, to address any issues promptly. The Marketing Departments of each business unit conduct formal surveys to obtain an understanding of our customers' satisfaction with our products and services. Depending on the business units, some surveys are performed monthly, at the end of each project, or annually. Through these surveys, we are able to assess the success of our previous strategies and identify areas for improvement.

Feedback on the need of new product features are captured in the surveys which are then passed onto the Research & Development ("R&D") teams for further action. For the diesel engines unit, the R&D team continually innovates to improve the safety and environmental aspects of the design of our engines, and we provide detailed user manual and after-sales service to guide our customers in this regard. Furthermore, we conduct maintenance trainings for Original Equipment Manufacturers and large customers, as preventive measures for machine failures and reminders on safety. In the event that our customers need to visit our sites, they have to be appropriately dressed and be equipped with the necessary personal protective equipment ("PPE"). In addition, our cement plant and precast concrete facilities have obtained the OHSAS 18001 certification, which is the international occupational health and safety management system that covers any person on the site, including employees and visitors.

Performance

Upon evaluating the 2018 survey results for our various business units, we are pleased to report that all of them had surpassed the internal benchmarks set for customer satisfaction. Outstanding customer service has been highlighted across the business units which is a reflection of the strong relationships our Sales & Marketing teams have built with our customers over the years. On the other hand, a common feedback received is the decrease in on-time delivery for our products largely due to greater traffic congestion in the cities where our customers are located. The respective business unit Management teams have incentive programmes in place to recognise well-performing Sales & Marketing team members, and are also working to enhance existing order and delivery systems to provide more timely products to our customers.

As a validation to the diesel engines unit's efforts in ensuring high-quality products, the Guangxi Quality Association awarded Yuchai with the "Guangxi Most Improved Quality Management Award" in 2018. Yuchai also won the coveted award of "China's Leading Enterprise for Bus Industry" as recognition of our R&D, joint venture and innovation efforts.

During the year, the Group did not receive any reports regarding any incidents from the users of our products or visitors to our sites. The Group endeavours to improve on our customer satisfaction year on year and will continue to work with our customers and suppliers to increase the value creation for all parties.

Looking After Our People

Fair Employment Practices

Management Approach

Employees are essential to our value chain. As a responsible business, we endeavour to treat all our employees equally and provide opportunities for their development within the organisation. We hope to retain high-performing employees to progress with the business, and keep our people motivated as motivated employees tend to achieve more.

The Group's COBC for Employees clearly states the Group's commitment to respecting everyone in our culturally diverse workforce. This document is agreed by all employees at the beginning of their employment and acknowledged once every year. Recruitment, training and career opportunities within the Group are based on merit. Employees are encouraged to voice any concerns and feedback in a timely manner to the Management through their supervisors, HODs, unions or during annual appraisals. For more serious grievances, our employees can use the whistle-blowing channel managed by the Group Head of Internal Audit who investigates the validity of each incident[3].

The HR Departments along with the business units' senior Management teams are responsible for creating a positive working environment for our employees. Part of the growth of our employees is linked to the organisation's business succession plan. Key positions and employees are identified by the senior management in the event where the key position becomes vacant. The Group has a formal process in place to ensure a smooth transition and continued business operations as part of our business succession plan.

Continuous training aids the Group in building a pool of employees who can develop into management roles which forms part of the business succession plan. Training begins when an employee joins a business unit within the Group and is given a welcome orientation. Thereafter, their supervisors will go through with them their work objectives and provide on-the-job ("OTJ") training for their respective positions. Other than OTJ training, there are trainings conducted by in-house specialists and by external experts on-site or off-site. Our employees can also suggest to their supervisors on the external trainings they want to attend which are relevant to their work.

Performance

As at the end of the year, the Group employed 8,116 full-time staff (Table 2), of whom approximately 86% are covered by collective bargaining agreements. The decrease in headcount from 2017 of about 29% is mainly due to the exclusion of the consumer products unit[1]. Aside from that, the headcount in the rest of the business units has remained stable during the year at less than 5% variance from the previous year. Following restructuring exercises within the Group in 2017, the turnover rate in 2018 was relatively lower as the Group operated at an optimal size for the business growth. The business units monitored labour productivity along with business growth plans to make adjustments to new headcount on top of replacement positions.

During the year, the Group organised more than 200 training sessions, translating to more than 8,500 hours of training for its employees in areas such as environmental management, health and safety, accounting and finance, as well as green technology.

In the coming year, the Group will review our business succession plans for the business units to ensure continued smooth running of our operations even with key personnel changes.

Table 2: Summary of People Performance

Employee Profile						
Employment Type	**China**		**Malaysia**		**Singapore**	
	Male	**Female**	**Male**	**Female**	**Male**	**Female**
Permanent	4,223	805	742	91	487	49
Temporary	1,487	206	21	3	2	0

Employee Movements										
Region	**New Hires**					**Departures**				
	Age Group			**Gender**		**Age Group**			**Gender**	
	<30	**30-50**	**>50**	**Male**	**Female**	**<30**	**30-50**	**>50**	**Male**	**Female**
China	305	154	16	417	58	187	252	69	431	77
(Rate[4])	4%	2%	0%	5%	1%	2%	3%	1%	5%	1%
Malaysia	108	62	10	154	26	65	70	10	127	18
(Rate[4])	1%	1%	0%	2%	0%	1%	1%	0%	2%	0%
Singapore	21	40	4	57	8	18	53	8	68	11
(Rate[4])	0%	0%	0%	1%	0%	0%	1%	0%	1%	0%

Health & Safety

Management Approach

One of the common vital ESG issues of the manufacturing industry is the safety of employees as there are machineries and equipment heavily involved in the operations. Employees operating the equipment need to be well-trained in using them, and employees on-site need to be aware of the risk and safe zones. In addition to following local rules and regulations, our cement plant and precast concrete facilities have obtained the OHSAS 18001 certification, which is the international occupational health and safety management system that covers any person on the site, including employees and visitors.

A risk assessment of the severity and likelihood of an injury is performed for each major work site and work step. Using the risk prioritisation matrix, work steps with a higher severity and likelihood of injury are required to implement risk controls. This includes assessing risk of developing occupational diseases which are common in the Group's manufacturing industries, such as respiratory diseases and hearing loss health hazards. The Safety, Health & Environment ("SHE") Departments work with the teams involved in the work step to reduce the risk level to an acceptable range such that with appropriate PPE and safety training, that work step is safe enough for our employees to operate.

Basic safety trainings to employees are conducted upon joining the business units as part of the induction programme which involves overall site training and the respective posting trainings. There are further OTJ trainings as and when necessary, and refresher training courses periodically depending on the posting. Employees working at high-risk areas, which may impact their health, typically undergo a health check before starting at their posts, and a health review is conducted annually for them. Common occupational diseases which occur in the Group's manufacturing industries include respiratory diseases and hearing loss health hazards. Wearing the correct PPE is a major part in mitigating both health and safety risks. Any employees caught not wearing the appropriate PPE are given warnings. Repeated offenders face disciplinary actions including termination.

4 According to GRI Standards 401-1 requirement, the reporting organization shall use the total employee numbers at the end of the reporting period to calculate the rates of new employee hires and employee turnover.

All the business units have their respective SHE Departments and they are responsible for the identification of health and safety risks, the corresponding mitigating actions and conducting trainings as required. Our employees are encouraged to speak up whenever they observe any risks, hazards or offenders as we want all our employees to have a safe environment to work in.

Performance

The Group experienced a decrease in employee workplace injury rate (Table 3) as there has been a joint effort within the organisation, from senior management reinforcing safety as a top priority, to workers on the ground making it a point to raise any health and safety hazards to the SHE Departments for taking preventive and mitigative actions.

We have made it clear to our contractors that it is imperative that they report to us any injuries sustained on any of our work sites so that mitigation actions can be taken to prevent recurrence. Therefore, 2018 saw a significant increase in injury rate of our contractors, however, most of the injuries were very minor, requiring only on-site first aid. Common injuries sustained by employees and contractors included cuts by equipment and bruises or fractures from falls or traffic accidents. There were no fatalities reported within the Group.

Every health and safety incident regardless of whether anyone has been injured is investigated thoroughly so that the Group can take actions to prevent it from occurring again. Health and safety remains a key focus area for the Group and we continue to make great efforts to increase awareness of our practices through training and regular communication to employees and contractors alike.

Table 3: HLA Safety Statistics

Year	Employees				Contractors			
	Number of Injuries	Hours Worked	Injury Rate (per mil hours)	Fatalities	Number of Injuries	Hours Worked[5]	Injury Rate (per mil hours)	Fatalities
2018	16	20,041,142	0.80	0	10	1,620,579	6.17	0
2017	33	25,645,352	1.29	0	7	7,618,878	0.92	1

Caring for the Physical Environment

Energy & Carbon Footprint[6,7,8]

Management Approach

As a manufacturer, the Group is concerned about our footprint on the environment. The more significant components of our environmental impact are the Group's energy consumption, carbon emissions and dust emissions. As such, we have put in place key indicators to measure and monitor the business units' performance efficiency. There are systems in place to track and alert the relevant personnel in the event that the indicator exceeds our internal benchmark, as there is a risk that it might then go beyond the government's regulations.

The Production and Electrical & Energy Departments work together to manage our energy consumption. Consumption trends are compared to our production levels and anomalies are reported to the Management for further investigation.

5 The main reason for the decrease in contractors' hours worked is due to the deconsolidation of the consumer products unit: www.hlasia.com.sg/news/HLA_20180626_1.pdf.
6 Source of default net calorific values for fuels used: 2006 IPCC Guidelines for National Greenhouse Gas Inventories.
7 Source of Scope 1 emissions factors: 2006 IPCC Guidelines for National Greenhouse Gas Inventories, GHG Protocol and Cement Sustainability Initiative database.
8 Source of Scope 2 emissions factors: 2006 IPCC Guidelines for National Greenhouse Gas Inventories, Singapore Energy Statistics, and International Energy Agency's CO_2 Emissions from Fuel Combustion Highlights.

The Group's carbon emissions are closely linked to the energy consumed, as well as from the calcination process in manufacturing clinker, a key component of cement. Infrastructure and construction are integral to any economy, and these require the use of cement and concrete. Until now, greatest efficacy is obtained in cement production when coal is used as a fuel source to fire up the kiln for making clinker. The calcination process of clinker manufacturing is a significant contributor to a cement manufacturer's greenhouse gas ("GHG") emissions. Therefore, it is inevitable that there is use of coal and release of carbon dioxide by our industry.

The Management at the cement plant is keenly aware of our environmental impact and established the Industrial Ecology Department ("IED") in 2016. The IED is tasked to explore alternative raw materials to manufacture cement with as well as alternative fuel sources. The intention of the former is to decrease the proportion of clinker consumed in cement production which will reduce carbon emissions from calcination, while the latter is our contribution towards being part of the circular economy by using the by-products of another industrial manufacturing process. We have been using ISO 14064 to measure our GHG emissions as a means to evaluate existing and new approaches towards managing our emissions.

Working with the local government, our diesel engines unit has been successful in implementing solar panels at the roofs of our factory buildings. We have been harvesting solar energy at zero carbon emissions amounting to approximately 10% of total electricity consumed annually by the business unit. While we are limited in the amount of space to expand solar-harvesting areas on our premises, the business unit continues to explore cleaner fuel sources. This is especially so as the global economy moves towards electric cars and the EURO 6 standards for diesel-fuelled vehicles. This trend decreases our consumption of diesel in our testing and R&D phases, using more electricity which can be produced in a more environmentally-friendly manner.

Performance

The cement plant in the BMU is the Group's largest consumer of energy. In the 2 years since the establishment of the IED at our cement plant, the Group tried numerous alternative raw materials such as fly ash and copper slag, as well as alternative fuels including waste oil, refuse-derived fuels ("RDF"), saw dust and soap sludge. The alternative raw materials reduce the proportion of clinker required in cement production which in turn reduces carbon dioxide emissions, while the use of alternative fuels involve burning industrial waste which would otherwise be dumped into the landfills.

During the year, we scaled back on the burning of waste oil and saw dust due to their scarcity as it has become more commonplace for the cement industry to use alternative burning resources, leading to a 40% decrease in "Others" fuel type (Table 4). Coupled with an increase in production of cementitious products and clinker production by 11% in the past year, the business unit had to revert to using traditional coal. Correspondingly, the energy and Scope 1 emissions intensities increased by approximately 10%, and it is the priority of the IED to explore other alternative materials going forward.

The diesel engines unit consumed a relatively stable amount of energy over the past 3 years, though electricity consumption spiked in 2017 due to unprecedented growth in the business unit. The decrease in total electricity consumed was mainly due to the deconsolidation of the consumer products unit in 2018 which had been excluded from sustainability reporting since October 2017.

The Group aims to stablise our energy, electricity and emissions intensities over the next year by searching for alternative raw materials and further streamlining our manufacturing processes.

Table 4: HLA's Energy and Carbon Footprint, by Fuel Type and Business Unit

Energy Consumption (Non-renewable)			
	2018	**2017[9]**	**2016**
By Business Unit			
BMU (TJ)	8,099	8,399	7,773
Consumer Products (TJ)	NA[10]	32	47
Diesel Engines (TJ)	375	370	375
By Fuel Type			
Coal (TJ)	6,962	6,727	6,560
Gasoline and Diesel (TJ)	629	586	552
Others (TJ)	883	1,488	1,083
Total Energy Consumption (TJ)	**8,474**	**8,801**	**8,195**
Overall Energy Intensity (TJ / S$ million)	**2.24**	**2.22**	**2.24**

Scope 1 Emissions (By Business Unit)			
	2018	**2017[9]**	**2016**
BMU (tCO_2)	1,841,504	1,740,384	1,703,990
Consumer Products (tCO_2)	NA[10]	1,798	2,642
Diesel Engines (tCO_2)	27,425	26,841	27,013
Scope 1 Total Emissions (tCO_2)	**1,868,929**	**1,769,023**	**1,733,645**
Scope 1 Emissions Intensity (tCO_2 / S$ million)	**494**	**446**	**474**

Electricity Consumption (By Business Unit)			
	2018	**2017[9]**	**2016**
BMU (MWh)	256,899	230,672	245,415
Consumer Products (MWh)	NA[10]	21,154	34,361
Diesel Engines (MWh)	244,376	268,553	246,634
– *Electricity Generated from Solar Energy (%)*	*9.9*	*9.1*	*10.7*
Total Electricity Consumption (MWh)	**501,275**	**520,379**	**526,410**
Overall Electricity Intensity (MWh / S$ million)	**132**	**131**	**144**

Scope 2 Emissions (By Business Unit)			
	2018	**2017[9]**	**2016**
BMU (tCO_2)	176,737	158,581	168,787
Consumer Products (tCO_2)	NA[10]	16,309	26,493
Diesel Engines (tCO_2)	169,728	188,249	169,808
Scope 2 Total Emissions (tCO_2)	**346,465**	**363,139**	**365,088**
Scope 2 Emissions Intensity (tCO_2 / S$ million)	**92**	**91**	**100**

9 Some 2017 figures have been retrospectively adjusted following an internal verification exercise as data collection process and accuracy are being refined.

10 The consumer products unit had been scaled down since October 2017, and completely deconsolidated from the Group as of 21 May 2018, hence it had been excluded from sustainability reporting since October 2017.

Dust Emissions

Management Approach

Dust emissions is a by-product of our building materials units as there is grinding and mixing of clinker, cement, concrete and other raw materials in the production process. The heads of the plants are responsible for ensuring that dust emission mitigation actions are efficient and effective to reduce the impact of the dust emissions on our employees and the local communities around our work sites. We always work towards an internal benchmark that meets the requirements set by the local government.

Specifically for our cement manufacturing business unit, priority had been placed on reducing dust emissions in the past year as we worked towards meeting the upcoming revised mandatory regulations, limiting dust emissions from 100 mg/Nm^3 to 50 mg/Nm^3, effective from 1 June 2019. As these projects require expertise across departments, the business unit established multi-department collaborations to implement and review the different fuel and raw material combinations as well as dust emissions mitigating technologies to control dust emissions more effectively.

The local community near our cement plant has a direct communication channel with the plant's SHE Manager such that any inconvenience caused by our plant to the community can be rectified and addressed in a timely manner. The dust emissions readings are also captured periodically by the plant's Continuous Emission Monitoring System ("CEMS") which is linked to the local authority's monitoring system. Any dust emissions exceeding the internal limit set by the plant will trigger an alert to the Production Department for investigation.

Performance

The Group placed significant emphasis across the business units to ensure that our processes and maintenance of equipment to control dust emissions were working as required, and we will continue to do so. The cement plant in particular is in the midst of upgrading the dust collectors at the cement plant from electrostatic precipitator ("ESP") to an Italian filter bag technology which will reduce dust emissions to below 50 mg/Nm^3. The conversion to filter bag system commenced in January 2019, and the first phase of installation and result of its operation has been very satisfactory. The Group will monitor the performance of the equipment already in place and execute the second phase of the installation during the year, enabling us to meet the new regulatory requirements.

Moving Forward

This sustainability report is an overview of our performance for the year, as well as a plan to continuously improve our processes by setting targets and moving towards them. We look forward to reporting on our progress in the following year and grow the business sustainably for the long-run. All sustainability-related queries and feedback can be sent to: sustainability@hla-grp.com.

GRI Standards Content Index for 'In Accordance' – Core

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Organizational Profile		
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102-3	Location of headquarters	17
102-4	Location of operations	1-2
102-5	Ownership and legal form	Cover page
102-6	Markets served	2
102-7	Scale of the organization	2, 50-51
102-8	Information on employees and other workers	50-51
102-9	Supply chain	49
102-10	Significant changes to the organization and its supply chain	45
102-11	Precautionary Principle or approach	46-47
102-12	External initiatives	Nil
102-13	Membership of associations	Cement & Concrete Association of Malaysia
Strategy		
102-14	Statement from senior decision-maker	45
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	Cover page
Governance		
102-18	Governance structure	46-47
Stakeholder Engagement		
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Reporting Practice		
102-45	Entities included in the consolidated financial statements	Notes 7, 8 and 9 of the financial statements
102-46	Defining report content and topic Boundaries	47
102-47	List of material topics	47
102-48	Restatements of information	54
102-49	Changes in reporting	Nil
102-50	Reporting period	45
102-51	Date of most recent report	2017
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	sustainability@hla-grp.com
102-54	Claims of reporting in accordance with the GRI Standards	45
102-55	GRI content index	56-57
102-56	External assurance	We have not sought external assurance for our 2018 sustainability report

GRI Standards Disclosure Number	Description	Page Reference / Reasons for Omission, if Applicable
TOPIC SPECIFIC DISCLOSURES		
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Understanding Our Customers' Needs		
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DIRECTORS' STATEMENT

The directors present their statement to the members of Hong Leong Asia Ltd. (the "Company") together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

In our opinion:

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company set out on pages 74 to 214 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International); and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Kwek Leng Peck
Tan Eng Kwee (appointed on 10 December 2018)
Ernest Colin Lee
Kwong Ka Lo @ Caroline Kwong
Ng Sey Ming
Tan Chian Khong

Directors' interests

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, share options, warrants and/or debentures of the Company, or of its related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

According to the register of directors' shareholdings kept by the Company under Section 164 of the Act, particulars of interests of directors who held office at the end of the financial year (including those of their spouses and children below 18 years of age) in shares and/or share options in the Company and in related corporations are as follows:

DIRECTORS' STATEMENT

Directors' interests (cont'd)

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year or date of appointment	At end of the year
The Company		
<u>Ordinary Shares</u>		
Kwek Leng Peck	1,913,300	3,826,600
Tan Eng Kwee	1,000	1,000
Ernest Colin Lee	40,000	80,000
Ting Sii Tien @ Yao Sik Tien, Philip	280,000	560,000
<u>Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000</u>		
Kwek Leng Peck	470,000	300,000
Ting Sii Tien @ Yao Sik Tien, Philip	500,000	–
Ultimate Holding Company		
Hong Leong Investment Holdings Pte. Ltd.		
<u>Ordinary Shares</u>		
Kwek Leng Peck	10,921	10,921
Subsidiary		
Tasek Corporation Berhad		
<u>Ordinary Shares</u>		
Ting Sii Tien @ Yao Sik Tien, Philip	51,200	51,200
Related Corporations		
Hong Leong Finance Limited		
<u>Ordinary Shares</u>		
Kwek Leng Peck	517,359	517,359
Hong Leong Holdings Limited		
<u>Ordinary Shares</u>		
Kwek Leng Peck	381,428	381,428

Directors' interests (cont'd)

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year or date of appointment	At end of the year
Related Corporations (cont'd)		
Hong Realty (Private) Limited		
<u>Ordinary Shares</u>		
Kwek Leng Peck	150	150
City Developments Limited		
<u>Ordinary Shares</u>		
Kwek Leng Peck	43,758	43,758
Tan Eng Kwee	4,400	4,400

The directors' interests in the Company as at 31 December 2018 disclosed above remained unchanged as at 21 January 2019 except for Mr Ting Sii Tien @ Yao Sik Tien, Philip who had resigned as a director of the Company on 6 January 2019.

Except as disclosed under the section on "Share options" in this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangements whose objects are, or one of whose objects is, to enable the 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.

Share options

<u>By the Company</u>

(a) **Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme")**

The HLA Share Option Scheme was approved by the shareholders at the extraordinary general meeting of the Company held on 30 December 2000 for an initial duration of 10 years (from 30 December 2000 to 29 December 2010). At the annual general meeting ("AGM") of the Company held on 29 April 2010, the shareholders approved the extension of the duration of the HLA Share Option Scheme for a further period of 10 years from 30 December 2010 to 29 December 2020. Other than the extension of the duration of the HLA Share Option Scheme, all other rules of the HLA Share Option Scheme remain unchanged.

The HLA Share Option Scheme is administered by a committee comprising the following members:

Ernest Colin Lee – Chairman
Kwek Leng Peck
Ng Sey Ming
Tan Chian Khong

Share options (cont'd)

By the Company (cont'd)

(a) **Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme") (cont'd)**

The HLA Share Option Scheme provides the Company with the flexibility of granting options to participants at Market Price (as defined in the HLA Share Option Scheme) and/or with a discount (either up-front or on a deferred basis) to the Market Price. All options granted to date are Market Price Options and Incentive Price Options which are at Market Price under the HLA Share Option Scheme.

Under the HLA Share Option Scheme,

Market Price Options (as defined in the HLA Share Option Scheme) granted to:

(i) Group Employees and Parent Group Employees (both as defined in the HLA Share Option Scheme) may be exercised one year after the date of the grant and will have a term of ten years from the date of the grant; and

(ii) Group Non-Executive Directors, Parent Group Non-Executive Directors and Associated Company Employees (all three as defined in the HLA Share Option Scheme) may be exercised one year after the date of the grant and will have a term of five years from the date of the grant.

Incentive Price Options (as defined in the HLA Share Option Scheme) granted to:

(i) Group Employees and Parent Group Employees may be exercised two years after the date of the grant and will have a term of ten years from the date of the grant; and

(ii) Group Non-Executive Directors, Parent Group Non-Executive Directors and Associated Company Employees may be exercised two years after the date of the grant and will have a term of five years from the date of the grant.

The aggregate number of ordinary shares in the capital of the Company ("Shares") over which options may be granted under the HLA Share Option Scheme on any date, when added to the number of Shares issued and issuable in respect of all options granted under the HLA Share Option Scheme shall not exceed 15% of the total number of issued Shares excluding treasury shares, if any, on the day preceding the relevant date of grant. The aggregate number of Shares which may be offered by way of grant of options to Parent Group Employees and Parent Group Non-Executive Directors collectively under the HLA Share Option Scheme shall not exceed 20% of the total number of Shares available under the HLA Share Option Scheme.

Share options (cont'd)

By the Company (cont'd)

(b) **Options granted under the HLA Share Option Scheme**

(i) No options were granted under the HLA Share Option Scheme during the financial year under review.

(ii) Details of Market Price Options granted to the directors of the Company who held office at the end of the financial year are as follows:

Name of director	Aggregate Shares under option granted since commencement of the HLA Share Option Scheme to end of financial year	Aggregate Shares under option exercised since commencement of the HLA Share Option Scheme to end of financial year	Aggregate Shares under option lapsed/ cancelled since commencement of the HLA Share Option Scheme to end of financial year	Aggregate Shares under option outstanding as at end of financial year
Kwek Leng Peck	2,150,000	1,680,000	170,000	300,000
Ting Sii Tien @ Yao Sik Tien, Philip	960,000	460,000	500,000	–
Ernest Colin Lee	150,000	150,000	–	–

There was no grant of options, issuance of new Shares or transfer of existing Shares to the directors during the financial year.

(iii) None of the participants were regarded by the directors as controlling shareholders of the Company.

(iv) None of the participants were granted options representing 5% or more of the total number of Shares under option available under the HLA Share Option Scheme.

(v) None of the Parent Group Employees were granted options representing 5% or more of the total number of Shares under option available under the HLA Share Option Scheme to all Parent Group Employees and Parent Group Non-Executive Directors. A total of 1,080,000 Shares under option were granted to Parent Group Employees since the commencement of the HLA Share Option Scheme to the end of the financial year under review.

(vi) Except for options granted to persons in their capacity as Group Employees or Group Non-Executive Directors or Parent Group Employees, no other options have been granted by the Company to any other categories of persons since the commencement of the HLA Share Option Scheme.

DIRECTORS' STATEMENT

Share options (cont'd)

By the Company (cont'd)

(b) **Options granted under the HLA Share Option Scheme (cont'd)**

(vii) All options granted under the HLA Share Option Scheme are subject to a vesting schedule as follows:

Market Price Options:

(1) one year after the date of grant for up to 33% of the Shares over which the options are exercisable;

(2) two years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and

(3) three years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.

Incentive Price Options:

(1) two years after the date of grant for up to 33% of the Shares over which the options are exercisable;

(2) three years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and

(3) four years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.

(viii) The persons to whom these options have been granted do not have the right to participate by virtue of the options in any share issue of any other company.

DIRECTORS' STATEMENT

Share options (cont'd)

By the Company (cont'd)

(c) **Unissued Shares under option**

There were a total of 570,000 unissued Shares under option granted pursuant to the HLA Share Option Scheme at the end of the financial year. Details of the options to subscribe for Shares including those granted to the directors of the Company are as follows:

Date of grant	Exercise price per Share	Number of options outstanding at 1 January 2018	Options granted	Options exercised	Options cancelled/ lapsed	Options outstanding at 31 December 2018	Number of option holders at 31 December 2018	Exercise period
15/5/2008	$2.36	470,000*	–	–	(470,000)	–	–	15/5/2009 to 14/5/2018
5/1/2011	$3.17	380,000	–	–	–	380,000	3	5/1/2012 to 4/1/2021
28/1/2014	$1.31	440,000	–	–	(250,000)	190,000	4	28/1/2015 to 27/1/2024
Total		1,290,000	–	–	(720,000)	570,000		

* Included 300,000 options granted to a Group Non-Executive Director who became an Executive Director of the Company in year 2013. The said Executive Director was granted an extension of time up till 14 May 2018 to exercise his outstanding 300,000 options, which would have lapsed on 14 May 2013.

DIRECTORS' STATEMENT

Share options (cont'd)

By Subsidiary

(a) **China Yuchai International Limited ("CYI") Equity Incentive Plan ("CYI Equity Plan")**

The CYI Equity Plan was approved by the shareholders at the annual general meeting of CYI held on 4 July 2014. It is administered by CYI's Compensation Committee comprising the following members:

Kwek Leng Peck – Chairman
Neo Poh Kiat
Raymond Ho Chi-Keung

The CYI Equity Plan contains the following key terms:

(i) only awards of share options, restricted stock and stock payments (the "Awards") may be granted to employees of CYI or a subsidiary of CYI ("CYI Group Employees");

(ii) the maximum aggregate number of shares that may be issued under the CYI Equity Plan shall not exceed 1,800,000 ordinary shares of US$0.10 each ("Ordinary Shares") subject to adjustment under the CYI Equity Plan;

(iii) the maximum aggregate number of Ordinary Shares with respect to one or more Awards that may be granted to any one eligible person during any calendar year is 300,000;

(iv) CYI's Compensation Committee shall administer the CYI Equity Plan and it has full power and authority to (a) select grantees from eligible individuals to receive the Awards and determine the time when Awards will be granted; (b) determine the number of Awards and the number of Ordinary Shares covered by each Award; (c) determine the terms and conditions of each Award; (d) approve the forms of agreement for use under the CYI Equity Plan; (e) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the CYI Equity Plan; and (f) take any and all other action as it deems necessary or advisable for the operation or administration of the CYI Equity Plan and the Awards;

(v) the price per Ordinary Share at which a holder may subscribe for the Ordinary Shares issuable upon the exercise of the option granted pursuant to the CYI Equity Plan shall be determined by CYI's Compensation Committee and shall not be less than:

- the Fair Market Value of the Ordinary Shares on the date the option is granted; and
- the par value of the Ordinary Shares;

(vi) Options granted under the CYI Equity Plan shall become exercisable ("vest") in the manner and subject to such conditions provided by CYI's Compensation Committee and set forth in the written Award agreement with respect to such options; and

(vii) the CYI Equity Plan shall terminate automatically ten years after its effective date unless terminated earlier. Awards outstanding at the time of the CYI Equity Plan's termination may continue to be exercised in accordance with their terms and shall continue to be governed by and interpreted consistent with the terms of the CYI Equity Plan.

Share options (cont'd)

By Subsidiary (cont'd)

(b) **Options granted under the CYI Equity Plan**

No option was granted under the CYI Equity Plan during the financial year under review. As at the end of the year, there were a total of 470,000 unissued Ordinary Shares under option granted pursuant to the CYI Equity Plan. Details of the options to subscribe for Ordinary Shares in CYI are as follows:

Date of grant	Exercise price per Ordinary Share	Balance at 1 January 2018	Options granted	Options exercised	Options cancelled/ lapsed	Balance at 31 December 2018	Exercise Period
29/7/2014	US$21.11	470,000	–	–	–	470,000	29/7/2015 to 28/7/2024

The above options are subject to a vesting period of three years from the date of grant with one-third of the options vesting on each 12-month anniversary of the date of grant.

The persons to whom these options have been granted have not been granted any right to participate by virtue of the options, in any share issue of any other company.

Except as disclosed above, during the financial year, there were:

(i) no options granted by the Company or its subsidiaries to any person to take up unissued shares of the Company or its subsidiaries; and

(ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

DIRECTORS' STATEMENT

Audit and Risk Committee

The Audit and Risk Committee ("ARC") comprises four members who are independent. The members of the ARC at the date of this statement are:

Tan Chian Khong – Chairman
Ernest Colin Lee
Kwong Ka Lo @ Caroline Kwong
Ng Sey Ming

The ARC performs the functions of an audit and risk committee under its terms of reference including those specified in the Act, the Listing Manual of Singapore Exchange Securities Trading Limited ("Listing Manual") and the Code of Corporate Governance 2012.

The ARC held six meetings during the financial year. In the performance of its functions, the ARC met with the Company's internal and external auditors to discuss the scope of their work, the results of their examination and their evaluation of the Group's system of internal controls.

The ARC also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly and annual financial statements of the Group and of the Company prior to their submission to the directors of the Company for approval; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual)

The ARC has full access to management and is given the resources required by it to discharge its functions. It has full authority and the discretion to invite any director or executive officer or third party advisor to attend its meetings. The ARC also reviews the nature and level of audit and non-audit fees, and recommends the appointment/re-appointment of external auditor.

The ARC is satisfied with the independence and objectivity of the external auditor and has recommended to the directors that the auditor, Ernst & Young LLP, be nominated for re-appointment as auditor at the forthcoming AGM of the Company.

In appointing the auditors for the Company and its subsidiaries, the Company has complied with Rules 712 and 715 (read with Rule 716) of the Listing Manual.

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor of the Company.

On behalf of the Board of Directors

Kwek Leng Peck
Executive Chairman

Tan Eng Kwee
Director

22 March 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of Hong Leong Asia Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hong Leong Asia Ltd (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matters (cont'd)

Impairment of property, plant and equipment

As at 31 December 2018, the carrying amount of the Group's property, plant and equipment is $894.0 million. Given the magnitude of the amount and the significant management judgements involved in the impairment assessment, we have identified this as a key audit matter.

We carried out procedures to understand management's process for identifying impairment triggers, and considered management's impairment assessment of property, plant and equipment. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amount determined by management and the valuation method used.

For recoverable amounts determined based on fair value less cost to sell, we evaluated the objectivity, competence and capabilities of the external specialists engaged by management in determining the valuation. We reviewed their valuation reports, and involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology, which also included an assessment on the fair value based on the market comparable approach. We tested the reasonableness of certain key assumptions used in the valuation such as market rental rate, vacancy rate and discount rates.

For recoverable amounts determined based on value-in-use calculations, we evaluated the reasonableness of the key assumptions used by management in the underlying cash flow forecasts, which include the discount rate, long-term growth rates, budgeted revenue and expected margins by comparing against historical performance and macroeconomic information. We also involved our internal valuation specialists to assist us in reviewing the reasonableness of the discount rates used.

We further assessed the adequacy of the disclosures on the key assumptions and their sensitivity analysis in Note 38 Significant accounting judgements and estimates and Note 6 Impairment assessment of intangible assets and property, plant and equipment to the financial statements.

Allowance for inventory obsolescence

As at 31 December 2018, the carrying amount of inventories amounted to $562.7 million, net of allowance for inventory obsolescence of $21.1 million.

The assessment process in determining allowance for inventory obsolescence involved significant estimation of the net realisable value of the inventory as this is dependent on expected future market and economic conditions. Accordingly, we have identified this as a key audit matter.

We observed the inventory count performed by management at certain locations and observed the physical condition of the finished goods inventories at balance sheet date. We also assessed reasonableness of the allowance policy based on historical sales performance of the products in their life cycle, the outlook of the industries and the costs incurred historically and anticipated to sell the inventories. We further tested the ageing of the inventories and the computation of the obsolescence level.

We also assessed the adequacy of the Group's disclosures concerning this in Note 38 Significant accounting judgements and estimates and Note 14 Inventories to the financial statements.

Key Audit Matters (cont'd)

Impairment of investments in subsidiaries

As at 31 December 2018, the carrying amount of investments in subsidiaries amounted to $201.9 million, representing 39.5% of the total assets of the Company.

Management has considered that the continued losses suffered by certain subsidiaries, in particular those in the air-conditioning systems segment, provide indication that the investments in such subsidiaries may not be recoverable. Management has undertaken an impairment assessment and estimated the recoverable amount of the investments in subsidiaries based on fair value less cost to sell. Based on the estimated recoverable amount, impairment loss of $39.4 million was recorded during the year. Given the magnitude of the amount and the significant management judgements involved in the impairment assessment, we have identified this as a key audit matter.

Our audit procedures included, amongst others, assessing the objectivity, competence and capabilities of the external specialists engaged by management to determine the valuation of the major non-movable assets of the relevant subsidiary. We reviewed their valuation reports and involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology, which also included an assessment on the fair value based on the market comparable approach. We tested the reasonableness of certain key assumptions used in the valuation such as market rental rate, vacancy rate and discount rates.

Further, we considered the adequacy of the disclosures in respect of the impairment assessment of investments in subsidiaries in Note 7 to the financial statements.

Capitalisation of development costs

As at 31 December 2018, the carrying amount of the Group's intangible assets amounted to $43.9 million, of which $38.9 million pertained to development costs that were capitalised during the year by the diesel engines segment. There was significant management judgement involved in determining whether the development costs met the recognition criteria for capitalisation. This include assessing the technical feasibility, intention and ability to complete the development project and the ability to measure the costs reliably.

Our audit procedures included, amongst others, obtaining an understanding from management on the recognition criteria and basis for capitalisation. We tested the key assumptions made by management in the capitalisation assessment by checking that the engine prototypes developed to date have met the national emissions standards and authorisation of the stage of the project by appropriate personnel. We enquired and discussed with the engineers in the research and development department to obtain an understanding on the status and technical aspects of the project. For costs capitalised, on a sampling basis, we checked to underlying documents.

We also assessed the adequacy of the Group's disclosures concerning this in Note 38 Significant accounting judgements and estimates and Note 5 Intangible assets to the financial statements.

Other Information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, 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, 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 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 our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Tan Swee Ho.

Ernst & Young LLP
Public Accountants and
Chartered Accountants

Singapore

22 March 2019

BALANCE SHEETS
As at 31 December 2018

		Group			Company		
	Note	**31 December 2018**	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
		$'000	$'000 (Restated)	$'000 (Restated)	$'000	$'000	$'000
Non-current assets							
Property, plant and equipment	3	893,959	1,005,664	1,111,296	93	78	126
Land use rights	4	105,405	128,882	133,640	–	–	–
Intangible assets	5	43,942	52,293	61,589	109	138	152
Investment in subsidiaries	7	–	–	–	201,935	202,955	202,955
Interests in associates	8	45,380	47,043	48,339	13,726	13,726	13,726
Interests in joint ventures	9	59,509	40,153	21,464	–	–	–
Investment property	10	1,344	1,522	1,516	–	–	–
Other investments	11	2,914	5,202	1,434	–	–	–
Non-current receivables	12	4,897	8,375	6,645	20,000	166,843	171,118
Contract assets	24	8,825	–	–	–	–	–
Deferred tax assets	13	72,934	65,345	56,962	–	–	–
Long-term deposits	17	13,902	14,336	–	–	–	–
		1,253,011	1,368,815	1,442,885	235,863	383,740	388,077
Current assets							
Inventories	14	562,729	631,817	464,979	–	–	–
Development properties	15	4,025	4,881	4,858	–	–	–
Other investments	11	4,353	5,061	2,543	–	–	–
Trade and other receivables	16	1,684,345	1,714,744	1,790,977	245,506	216,088	225,841
Cash and short-term deposits	17	1,308,076	1,363,934	1,033,698	29,275	19,161	2,482
Assets of disposal group classified as held for sale	18	–	–	18,397	–	–	–
Derivatives		899	–	–	–	–	–
		3,564,427	3,720,437	3,315,452	274,781	235,249	228,323
Total assets		4,817,438	5,089,252	4,758,337	510,644	618,989	616,400

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

BALANCE SHEETS

As at 31 December 2018

		Group			Company		
	Note	**31 December 2018**	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
		$'000	$'000	$'000	$'000	$'000	$'000
			(Restated)	(Restated)			
Current liabilities							
Trade and other payables	22	1,479,583	1,792,866	1,671,049	9,160	18,865	5,201
Contract liabilities	24	56,956	40,667	38,633	–	–	–
Provisions	23	38,556	53,017	55,145	–	–	–
Loans and borrowings	21	544,657	677,709	537,888	66,324	175,075	182,142
Current tax payable		14,938	12,749	10,817	89	15	8
Derivatives		–	–	29	–	–	–
		2,134,690	2,577,008	2,313,561	75,573	193,955	187,351
Net current assets		1,429,737	1,143,429	1,001,891	199,208	41,294	40,972
Non-current liabilities							
Loans and borrowings	21	230,308	217,701	167,010	226,900	200,000	140,000
Deferred tax liabilities	13	34,741	41,497	43,369	2,333	2,100	2,037
Deferred grants		116,285	70,674	68,585	–	–	–
Other non-current payables	22	31,794	32,019	28,420	–	–	–
Contract liabilities	24	10,666	7,119	5,688	–	–	–
Retirement benefit obligations		2	1	259	–	–	–
		423,796	369,011	313,331	229,233	202,100	142,037
Total liabilities		2,558,486	2,946,019	2,626,892	304,806	396,055	329,388
Net assets		2,258,952	2,143,233	2,131,445	205,838	222,934	287,012
Equity attributable to owners of the Company							
Share capital	19	467,890	266,830	266,830	467,890	266,830	266,830
Reserves	20	278,962	349,101	431,102	(262,052)	(43,896)	20,182
Reserve of disposal group classified as held for sale	18	–	–	4,685	–	–	–
		746,852	615,931	702,617	205,838	222,934	287,012
Non-controlling interests		1,512,100	1,527,302	1,428,828	–	–	–
Total equity		2,258,952	2,143,233	2,131,445	205,838	222,934	287,012
Total equity and liabilities		4,817,438	5,089,252	4,758,337	510,644	618,989	616,400

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

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Continuing operations			
Revenue	24	3,785,641	3,745,077
Cost of sales		(3,085,031)	(2,992,711)
Gross profit		700,610	752,366
Other item of income			
Other income		48,774	110,622
Other items of expense			
Selling and distribution expenses		(247,115)	(240,284)
Research and development expenses		(92,734)	(125,619)
General and administrative expenses		(174,298)	(190,564)
Finance costs	26	(37,030)	(36,516)
Other expenses		(2,894)	(1,279)
Share of profit of associates and joint ventures, net of income tax		3,462	1,566
Profit before income tax from continuing operations	25	198,775	270,292
Income tax expense	28	(38,949)	(40,891)
Profit from continuing operations, net of tax		159,826	229,401
Discontinued operation			
Loss from discontinued operation, net of tax	7(g)	(33,162)	(120,702)
Profit for the year		126,664	108,699
Attributable to:			
Owners of the Company			
- Profit from continuing operations, net of tax		24,759	36,860
- Loss from discontinued operation, net of tax		(30,776)	(108,632)
		(6,017)	(71,772)
Non-controlling interests			
- Profit from continuing operations, net of tax		135,067	192,541
- Loss from discontinued operation, net of tax		(2,386)	(12,070)
		132,681	180,471
Earnings per share from continuing operations attributable to owners of the Company (cents per share)			
- Basic	29	5.63	9.86
- Diluted	29	5.63	9.86
Loss per share (cents per share)			
- Basic	29	(1.37)	(19.19)
- Diluted	29	(1.37)	(19.19)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Group	
	2018	**2017**
	$'000	$'000
		(Restated)
Profit for the year	126,664	108,699
Other comprehensive income		
Items that will not be subsequently reclassified to profit or loss		
Net fair value changes of equity instruments at fair value through other comprehensive income	(3,403)	–
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of foreign subsidiaries, associates and joint ventures	(62,014)	(36,498)
Net fair value changes of debt instruments at fair value through other comprehensive income	6,646	–
Net fair value changes of available-for-sale financial assets	–	613
Realisation of reserves upon de-consolidation of subsidiaries	(10,250)	–
Exchange differences on monetary items forming part of net investment in foreign entities	1,303	(3,367)
Realisation of foreign currency translation reserves upon disposal of foreign operation	–	(835)
Other comprehensive income for the year, net of income tax	(67,718)	(40,087)
Total comprehensive income for the year	58,946	68,612
Attributable to:		
Owners of the Company	(77,439)	(84,530)
Non-controlling interests	136,385	153,142
Total comprehensive income for the year	58,946	68,612
Attributable to:		
Owners of the Company		
- Total comprehensive income from continuing operations, net of tax	4,503	25,898
- Total comprehensive income from discontinued operation, net of tax	(81,942)	(110,428)
	(77,439)	(84,530)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Group	Note	Share capital $'000	Capital reserve $'000	Statutory reserve $'000	Fair value reserve $'000	Share option reserve $'000
At 1 January 2018 (FRS framework)		266,830	4,391	33,753	45,859	5,243
Cumulative effects of adopting SFRS(I)		–	–	–	(8,601)	–
At 1 January 2018 (SFRS(I) framework)		266,830	4,391	33,753	37,258	5,243
(Loss)/profit for the year		–	–	–	–	–
<u>Other comprehensive income</u>						
Exchange differences on translation of financial statements of foreign subsidiaries, associates and joint ventures		–	–	–	–	–
Net fair value changes of equity instruments at FVOCI		–	–	–	(2,654)	–
Net fair value changes of debt instruments at FVOCI		–	–	–	1,902	–
Exchange differences on monetary items forming part of net investment in foreign entities		–	–	–	–	–
Realisation of reserves upon de-consolidation of subsidiaries		–	(40)	(18,608)	(34,314)	–
Other comprehensive income for the year, net of tax		–	(40)	(18,608)	(35,066)	–
Total comprehensive income for the year		–	(40)	(18,608)	(35,066)	–
Transactions with owners, recorded directly in equity						
<u>Contributions by and distributions to owners</u>						
Shares issued during the year	19	201,911	–	–	–	–
Share issuance expenses	19	(851)	–	–	–	–
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–
<u>Changes in ownership interests in subsidiaries</u>						
Acquisition of non-controlling interests		–	–	–	–	–
<u>Others</u>						
Transfer to statutory reserve		–	–	280	–	–
At 31 December 2018		467,890	4,351	15,425	2,192	5,243

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

Translation reserve $'000	Surplus/ (deficit) on changes of non-controlling interests $'000	Reserve of disposal group classified as held for sale $'000	Accumulated profits $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
(60,354)	35,397	–	286,025	617,144	1,529,645	2,146,789
51,668	–	–	(52,881)	(9,814)	(21,856)	(31,670)
(8,686)	35,397	–	233,144	607,330	1,507,789	2,115,119
–	–	–	(6,017)	(6,017)	132,681	126,664
(23,058)	–	–	–	(23,058)	(38,956)	(62,014)
–	–	–	–	(2,654)	(749)	(3,403)
–	–	–	–	1,902	4,744	6,646
1,303	–	–	–	1,303	–	1,303
4,047	–	–	–	(48,915)	38,665	(10,250)
(17,708)	–	–	–	(71,422)	3,704	(67,718)
(17,708)	–	–	(6,017)	(77,439)	136,385	58,946
–	–	–	–	201,911	–	201,911
–	–	–	–	(851)	–	(851)
–	–	–	–	–	(102,871)	(102,871)
–	15,901	–	–	15,901	(29,203)	(13,302)
–	–	–	(280)	–	–	–
(26,394)	51,298	–	226,847	746,852	1,512,100	2,258,952

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Group	Note	Share capital	Capital reserve	Statutory reserve	Fair value reserve	Share option reserve
		$'000	$'000	$'000	$'000	$'000
At 1 January 2017 (FRS framework)		266,830	4,442	33,369	45,246	4,231
Cumulative effects of adopting SFRS(I)		–	–	–	–	–
At 1 January 2017 (SFRS(I) framework)		266,830	4,442	33,369	45,246	4,231
(Loss)/profit for the year		–	–	–	–	–
<u>Other comprehensive income</u>						
Exchange differences on translation of financial statements of foreign subsidiaries, associates and joint ventures		–	–	–	–	–
Net fair value changes of available-for-sale financial assets		–	–	–	613	–
Exchange differences on monetary items forming part of net investment in foreign entities		–	–	–	–	–
Realisation of foreign currency translation reserves upon disposal of foreign operation		–	–	–	–	–
Other comprehensive income for the year, net of tax		–	–	–	613	–
Total comprehensive income for the year		–	–	–	613	–
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Cost of share-based payments		–	–	–	–	1,012
Shares issued to non-controlling interests of subsidiaries		–	–	–	–	–
Dividends paid to shareholders	30	–	–	–	–	–
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–
Changes in ownership interests in subsidiaries						
Acquisition of non-controlling interests		–	(51)	–	–	–
Others						
Transfer to statutory reserve		–	–	384	–	–
At 31 December 2017		266,830	4,391	33,753	45,859	5,243

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

Translation reserve $'000	Surplus/ (deficit) on changes of non-controlling interests $'000	Reserve of disposal group classified as held for sale $'000	Accumulated profits $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
(51,741)	34,775	4,685	356,599	698,436	1,418,918	2,117,354
51,741	–	–	(47,560)	4,181	9,910	14,091
–	34,775	4,685	309,039	702,617	1,428,828	2,131,445
–	–	–	(71,772)	(71,772)	180,471	108,699
(9,582)	–	–	–	(9,582)	(26,916)	(36,498)
–	–	–	–	613	–	613
(3,367)	–	–	–	(3,367)	–	(3,367)
4,263	–	(4,685)	–	(422)	(413)	(835)
(8,686)	–	(4,685)	–	(12,758)	(27,329)	(40,087)
(8,686)	–	(4,685)	(71,772)	(84,530)	153,142	68,612
–	–	–	–	1,012	(136)	876
–	700	–	–	700	3,808	4,508
–	–	–	(3,739)	(3,739)	–	(3,739)
–	–	–	–	–	(56,774)	(56,774)
–	(78)	–	–	(129)	(1,566)	(1,695)
–	–	–	(384)	–	–	–
(8,686)	35,397	–	233,144	615,931	1,527,302	2,143,233

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

Company	Note	Share capital $'000	Capital reserve $'000	Share option reserve $'000	Accumulated (losses)/profits $'000	Total equity $'000
At 1 January 2018		266,830	9,199	2,467	(55,562)	222,934
Total comprehensive income for the year		–	–	–	(218,156)	(218,156)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Shares issued during the year	19	201,911	–	–	–	201,911
Share issuance expenses	19	(851)	–	–	–	(851)
At 31 December 2018		467,890	9,199	2,467	(273,718)	205,838
At 1 January 2017		266,830	9,199	2,467	8,516	287,012
Total comprehensive income for the year		–	–	–	(60,339)	(60,339)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid to shareholders	30	–	–	–	(3,739)	(3,739)
At 31 December 2017		266,830	9,199	2,467	(55,562)	222,934

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

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Operating activities			
Profit before income tax from continuing operations		198,775	270,292
Loss before income tax from discontinued operation		(33,162)	(120,702)
Adjustments for:			
Share of profit of associates and joint ventures, net of income tax		(3,462)	(1,566)
Cost of share-based payments		–	876
Depreciation and amortisation		112,106	129,777
Allowance (written back)/recognised for inventory obsolescence, net		(195)	8,230
Impairment losses (written back)/recognised for trade and other receivables		(1,793)	10,029
Impairment losses on property, plant and equipment and intangible assets		10,046	21,554
Property, plant and equipment written off	25	268	1,246
Finance costs		39,965	41,552
Dividend income from other investments	25	(466)	(560)
Interest income		(32,651)	(24,532)
Loss/(gain) on de-consolidation/disposal of:			
- subsidiaries		9,303	(44,107)
- joint venture (assets held for sale)	25	–	(22,213)
- property, plant and equipment		(1,805)	(2,266)
Fair value loss/(gain) on investments	25	700	(2,602)
Fair value gain on derivatives	25	(922)	–
Provisions for warranties and other costs, net		44,726	80,934
Operating cash flows before changes in working capital		341,433	345,942
Changes in working capital:			
Inventories and development properties		13,346	(181,320)
Trade and other receivables, and contract assets		(100,488)	22,950
Trade and other payables, and contract liabilities		(131,885)	145,628
Grant received from government		55,559	10,225
Provisions utilised	23	(52,216)	(82,712)
Cash flows from operations		125,749	260,713
Income taxes paid		(40,271)	(46,604)
Net cash flows generated from operating activities		85,478	214,109

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

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Investing activities			
Additional investment in joint ventures		(15,267)	(15,322)
Dividends received from:			
- associates and joint ventures		2,885	1,613
- other investments	25	466	560
Interest received		31,879	27,232
Net release/(placement) of deposits with banks		15,145	(29,201)
Purchase of:			
- property, plant and equipment		(100,554)	(77,314)
- intangible assets		(37,182)	(1,438)
- other investments		(1,124)	(3,139)
Net cash (outflow)/inflow from de-consolidation/disposal of:			
- subsidiaries, net of cash de-consolidated/disposed	7(g,h)	(5,201)	69,727
- associate		–	374
- property, plant and equipment		1,651	6,326
- joint venture (assets held-for-sale)		–	37,288
Repayment of loan from joint venture		–	2,858
Net cash flows (used in)/generated from investing activities		(107,302)	19,564
Financing activities			
Acquisition of non-controlling interests in subsidiaries		(13,302)	(1,695)
Dividends paid to:			
- non-controlling interests of subsidiaries		(102,871)	(56,774)
- shareholders of the Company	30	–	(3,739)
Interest paid		(39,179)	(43,085)
Net proceeds from shares issue		201,060	–
Proceeds from borrowings		517,410	564,035
Capital contribution by non-controlling interests of subsidiaries		–	4,508
Repayments of borrowings		(544,157)	(369,573)
Repayment of obligation under finance leases		(786)	(1,645)
Net cash flows from financing activities		18,175	92,032

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

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2018

		Group	
	Note	**2018**	**2017**
		$'000	$'000
			(Restated)
Net (decrease)/increase in cash and cash equivalents		(3,649)	325,705
Cash and cash equivalents at the beginning of the financial year	17	1,262,104	945,171
Effect of exchange rate changes on balances held in foreign currencies		(34,350)	(8,772)
Cash and cash equivalents at the end of the financial year	17	1,224,105	1,262,104

Note:

Cash and cash equivalents totalling $1,039,086,000 (2017: $979,380,000) are held in countries which have foreign exchange controls.

The cash flow effect of acquisitions and disposals of subsidiaries in 2018 and 2017 are shown in Note 7.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

1. Corporate information

Hong Leong Asia Ltd. (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on Singapore Exchange Securities Trading Limited ("Singapore Exchange"). The registered office of the Company is located at 16 Raffles Quay, #26-00 Hong Leong Building, Singapore 048581.

The principal activities of the Company have been those relating to investment holding.

The principal activities of the subsidiaries are those relating to the manufacturing and distribution of diesel engines and related products, building materials, industrial packaging products, air-conditioning systems, consumer products (discontinued operation – See Note 7(g)), and of investment holding and dealing.

The consolidated financial statements relate to the Company and its subsidiaries (referred to as the "Group") and the Group's interests in associates and joint venture entities.

The immediate and ultimate holding companies are Hong Leong Corporation Holdings Pte Ltd and Hong Leong Investment Holdings Pte. Ltd. respectively. These companies are incorporated in Singapore.

Related corporations relate to companies within the Hong Leong Investment Holdings Pte. Ltd. group.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore (FRS). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2.2 for information on how the Group adopted SFRS(I).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or $) and all values in the tables are rounded to the nearest thousand ($'000), except when otherwise indicated.

2.2 First-time adoption of SFRS(I)

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

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

2.2 First-time adoption of SFRS(I) (cont'd)

The principal adjustments made by the Group on adoption of SFRS(I) and the adoption of the new standards that are effective on 1 January 2018 are disclosed below.

<u>Exemptions applied on adoption of SFRS(I)</u>

SFRS(I) allows first-time adopters exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemptions:

- SFRS(I) 3 *Business Combinations* has not been applied to either acquisitions of subsidiaries that are considered businesses under SFRS(I), or acquisitions of interests in associates and joint ventures that occurred before 1 January 2017. The carrying amounts of assets and liabilities at the date of transition to SFRS(I) is the same as previously reported under FRS.

- SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* has not been applied retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I). Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

- Cumulative currency translation differences for all foreign operations are deemed to be zero at the date of transition, 1 January 2017. As a result, an amount of $51,741,000 was adjusted against the opening retained earnings as at 1 January 2017.

- The comparative information do not comply with SFRS(I) 9 *Financial Instruments* or SFRS(I) 7 *Financial Instruments: Disclosures* to the extent the disclosures relate to items within the scope of SFRS(I) 9.

<u>New accounting standards effective on 1 January 2018</u>

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. Except for the impact arising from the exemptions applied as described above and the adoption of SFRS(I) 9 and SFRS(I) 15 described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

<u>SFRS(I) 9 *Financial Instruments*</u>

On 1 January 2018, the Group adopted SFRS(I) 9 *Financial Instruments*, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of SFRS(I) 9 have been applied retrospectively. The Group has elected to apply the exemption in SFRS(I) 1 and has not restated comparative information in the year of initial application. The impact arising from SFRS(I) 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018. The comparative information was prepared in accordance with the requirements of FRS 39.

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

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) 9 *Financial Instruments* (cont'd)

Classification and measurement

SFRS(I) 9 requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. The Group has determined that for its bill receivables, its business model is to hold the debt instrument to collect contractual cash flows and sell, and has accordingly, measured its bill receivables at FVOCI when it applies SFRS(I) 9. As a result of the change in measurement of the Group's bill receivables previously measured at amortised cost to FVOCI, the carrying value of the bill receivables has decreased by $28,114,000, with an adjustment to fair value reserve of $8,601,000 and non-controlling interest of $19,513,000 as at 1 January 2018.

SFRS(I) 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income.

For equity securities, the Group continues to measure its currently held-for-trading equity securities at FVPL and has elected to measure its currently held available-for-sale quoted equity securities at FVOCI.

Impairment

SFRS(I) 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

The initial application of SFRS(I) 9 does not have any effect to the Group's and the Company's expected loss allowance.

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

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) 9 *Financial Instruments* (cont'd)

The Group and Company has assessed which business model applies to the financial assets held by the Group and Company at 1 January 2018 and has classified its financial instruments into the appropriate categories in accordance with SFRS(I) 9. The effects, before tax impact are as follow:

Financial assets:			Group			
Measurement category	**FRS 39 carrying amount on 31 December 2017**	**Re-classifications**	**Re-measurements**	**SFRS(I) 9 carrying amount on 1 January 2018**	**Fair value reserves effect on 1 January 2018**	**Non-controlling interests effect on 1 January 2018**
	$'000	$'000	$'000	$'000	$'000	$'000
FVPL as at 1 January 2018	5,061	–	–	5,061	–	–
FVOCI	5,202	–	–	5,202	–	–
Reclassified from bill receivables at amortised cost	–	1,422,887	(28,114)	1,394,773	(8,601)	(19,513)
FVOCI balances, reclassifications, remeasurements at 1 January 2018	5,202	1,422,887	(28,114)	1,399,975	(8,601)	(19,513)

Financial assets:		Company	
Measurement category	**FRS 39 carrying amount on 31 December 2017**	**Re-classifications**	**SFRS(I) 9 carrying amount on 1 January 2018**
	$'000	$'000	$'000
Non-current receivables as at 1 January 2018	166,843	–	166,843
Reclassified from non-current receivables at amortised cost	–	(33,868)	(33,868)
Non-current receivables balances, reclassifications at 1 January 2018	166,843	(33,868)	132,975

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

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) 15 *Revenue from Contracts with Customers*

The Group adopted SFRS(I) 15 which is effective for annual periods beginning on or after 1 January 2018.

The Group applied SFRS(I) 15 retrospectively and has elected to apply the exemption in SFRS(I) 1 to apply the following practical expedients in accordance with the transition provisions in SFRS(I) 15:

- For completed contracts, the Group has not restated contracts that begin and end within the same year or are completed contracts at 1 January 2017. Had the Group elected not to apply this practical expedient, the amount of revenue recorded for the prior year would have been lower;
- For the comparative year ended 31 December 2017, the Group has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the corresponding revenue is expected to be recognised.

The Group is in the business of manufacturing and distribution of diesel engines and related products, building materials, industrial packaging products and air-conditioning systems.

The key impact of adopting SFRS(I) 15 is detailed as follows:

(a) Sales of engines with service-type warranties

In addition to assurance-type warranty, the Group provides warranty services to customers after certain on-road mileage or running hours which were previously accounted for as provision for product warranty. Under SFRS(I) 15, such warranties are accounted for as service-type warranties and as separate performance obligations to which the Group allocates a portion of the transaction price. The portion of the transaction price allocated to the service-type warranty is initially recorded as a contract liabilities and recognised as revenue over the period the maintenance services are provided.

Upon the adoption of SFRS(I) 15, as at 1 January 2017, the Group recognised contract liabilities (current) of $38,633,000 and contract liabilities (non-current) of $5,688,000 related to unfulfilled service-type warranties, and decrease in provision for product warranty and trade and other payables by $14,514,000 and $25,361,000 respectively, increase in translation reserve by $100,000, and decrease in retained earnings and non-controlling interests by $1,393,000 and $3,153,000, respectively.

The Group's balance sheet as at 31 December 2017 was also restated, resulting in the recognition of contract liabilities (current) of $40,667,000, contract liabilities (non-current) of $7,119,000, decrease in provision for product warranty and trade and other payables by $20,171,000 and $24,059,000 respectively, and decrease in retained earnings, non-controlling interests and translation reserve by $1,140,000, $2,343,000 and $73,000, respectively. The consolidated statement of profit or loss for the financial year ended 31 December 2017 was also restated, resulting in decrease in revenue and selling and distribution expenses by $5,026,000 and $33,277,000, respectively, and increase in cost of sales by $27,423,000.

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

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) 15 *Revenue from Contracts with Customers* (cont'd)

The key impact of adopting SFRS(I) 15 is detailed as follows (cont'd):

(b) Performance obligation

In 2017, the Group transferred the technology know-how for the heavy-duty engine platform to its joint venture company upon completion of all the project milestones and recognised net income of $23,521,000 as other operating income.

With the adoption of SFRS(I) 15, the management concluded that the Group has significantly performed its performance obligation in 2015 and accordingly, the income of $23,521,000 has to be recognised in 2015. Therefore, it resulted in a decrease in other operating income of $23,521,000 and tax expense of $5,306,000 for the financial year ended 31 December 2017, and a corresponding restatement in the balance sheet as at 1 January 2017, resulting in decrease in intangible assets by $6,588,000, decrease in investment in joint venture by $15,182,000, decrease in deferred tax assets by $5,401,000, increase in trade and other receivables by $10,390,000, decrease in trade and other payables by $35,318,000, decrease in translation reserve by $283,000, and increase in retained earnings and non-controlling interests by $5,757,000 and $13,063,000, respectively.

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 1 January 2017 to the balance sheet of the Group.

	Group			
	1 January 2017 (FRS)	**SFRS(I) 1 adjustments**	**SFRS(I) 15 adjustments**	**1 January 2017 (SFRS(I))**
	$'000	$'000	$'000	$'000
Non-current assets				
Other non-current assets	1,302,870	–	–	1,302,870
Intangible assets	68,177	–	(6,588)	61,589
Interests in joint ventures	36,646	–	(15,182)	21,464
Deferred tax assets	62,363	–	(5,401)	56,962
	1,470,056	–	(27,171)	1,442,885
Current assets				
Trade and other receivables	1,780,587	–	10,390	1,790,977
Other current assets	1,524,475	–	–	1,524,475
	3,305,062	–	10,390	3,315,452
Total assets	4,775,118	–	(16,781)	4,758,337

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

2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 1 January 2017 to the balance sheet of the Group. (cont'd)

	Group			
	1 January 2017 (FRS)	**SFRS(I) 1 adjustments**	**SFRS(I) 15 adjustments**	**1 January 2017 (SFRS(I))**
	$'000	$'000	$'000	$'000
Current liabilities				
Trade and other payables	1,731,728	–	(60,679)	1,671,049
Contract liabilities	–	–	38,633	38,633
Provisions	69,659	–	(14,514)	55,145
Other current liabilities	548,734	–	–	548,734
	2,350,121	–	(36,560)	2,313,561
Non-current liabilities				
Other non-current liabilities	307,643	–	–	307,643
Contract liabilities	–	–	5,688	5,688
	307,643	–	5,688	313,331
Total liabilities	2,657,764	–	(30,872)	2,626,892
Equity attributable to owners of the Company				
Share capital	266,830	–	–	266,830
Accumulated profits	356,599	(51,924)	4,364	309,039
Other reserves	70,322	51,924	(183)	122,063
Reserve of disposal group classified as held for sale	4,685	–	–	4,685
	698,436	–	4,181	702,617
Non-controlling interests	1,418,918	–	9,910	1,428,828
Total equity	2,117,354	–	14,091	2,131,445
Total equity and liabilities	4,775,118	–	(16,781)	4,758,337

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 31 December 2017 and 1 January 2018 to the balance sheet of the Group.

	Group					
	31 December 2017 (FRS)	**SFRS(I) 1 adjust-ments**	**SFRS(I) 15 adjust-ments**	**31 December 2017 (SFRS(I))**	**SFRS(I) 9 adjust-ments**	**1 January 2018 (SFRS(I))**
	$'000	$'000	$'000	$'000	$'000	$'000
Non-current assets	1,368,815	–	–	1,368,815	–	1,368,815
Current assets						
Trade and other receivables	1,714,744	–	–	1,714,744	(28,114)	1,686,630
Other current assets	2,005,693	–	–	2,005,693	–	2,005,693
	3,720,437	–	–	3,720,437	(28,114)	3,692,323
Total assets	5,089,252	–	–	5,089,252	(28,114)	5,061,138
Current liabilities						
Other current liabilities	2,507,383	–	(24,059)	2,483,324	–	2,483,324
Contract liabilities	–	–	40,667	40,667	–	40,667
Provisions	73,188	–	(20,171)	53,017	–	53,017
	2,580,571	–	(3,563)	2,577,008	–	2,577,008
Non-current liabilities						
Other non-current liabilities	361,892	–	–	361,892	–	361,892
Contract liabilities	–	–	7,119	7,119	–	7,119
	361,892	–	7,119	369,011	–	369,011
Total liabilities	2,942,463	–	3,556	2,946,019	–	2,946,019
Equity attributable to owners of the Company						
Share capital	266,830	–	–	266,830	–	266,830
Accumulated profits	286,025	(51,741)	(1,140)	233,144	–	233,144
Other reserves	64,289	51,741	(73)	115,957	(8,601)	107,356
	617,144	–	(1,213)	615,931	(8,601)	607,330
Non-controlling interests	1,529,645	–	(2,343)	1,527,302	(19,513)	1,507,789
Total equity	2,146,789	–	(3,556)	2,143,233	(28,114)	2,115,119
Total equity and liabilities	5,089,252	–	–	5,089,252	(28,114)	5,061,138

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

2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards on 1 January 2018 to the balance sheet of the Company. The adoption of SFRS(I) does not have any impact to the balance sheet of the Company as at 1 January 2017.

	Company		
	31 December 2017 (FRS)	**SFRS(I) 9 adjustments**	**1 January 2018 (SFRS(I))**
	$'000	$'000	$'000
Non-current assets			
Investment in subsidiaries	202,955	33,868	236,823
Non-current receivables	166,843	(33,868)	132,975
Other non-current assets	13,942	–	13,942
	383,740	–	383,740
Current assets	235,249	–	235,249
Total assets	618,989	–	618,989
Current liabilities	193,955	–	193,955
Non-current liabilities	202,100	–	202,100
Total liabilities	396,055	–	396,055
Equity attributable to owners of the Company			
Share capital	266,830	–	266,830
Reserves	(43,896)	–	(43,896)
Total equity	222,934	–	222,934
Total equity and liabilities	618,989	–	618,989

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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

2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards to the comprehensive income of the Group for the year ended 31 December 2017.

		Group	
	2017 (FRS)	SFRS(I) 15 adjustments	2017 (SFRS(I))
	$'000	$'000	$'000 (Restated)
Continuing operations			
Revenue	3,750,103	(5,026)	3,745,077
Cost of sales	(2,965,288)	(27,423)	(2,992,711)
Gross profit	784,815	(32,449)	752,366
Other item of income			
Other income	134,143	(23,521)	110,622
Other items of expense			
Selling and distribution expenses	(273,561)	33,277	(240,284)
Research and development expenses	(125,619)	–	(125,619)
General and administrative expenses	(190,564)	–	(190,564)
Finance costs	(36,516)	–	(36,516)
Other expenses	(1,279)	–	(1,279)
Share of profit of associates and joint ventures, net of income tax	1,566	–	1,566
Profit before income tax from continuing operations	292,985	(22,693)	270,292
Income tax expense	(46,197)	5,306	(40,891)
Profit from continuing operations, net of tax	246,788	(17,387)	229,401
Discontinued operation			
Loss from discontinued operation, net of tax	(120,702)	–	(120,702)
Profit for the year	126,086	(17,387)	108,699
Attributable to:			
Owners of the Company			
- Profit from continuing operations, net of tax	42,181	(5,321)	36,860
- Loss from discontinued operation, net of tax	(108,632)	–	(108,632)
	(66,451)	(5,321)	(71,772)
Non-controlling interests			
- Profit from continuing operations, net of tax	204,607	(12,066)	192,541
- Loss from discontinued operation, net of tax	(12,070)	–	(12,070)
	192,537	(12,066)	180,471

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

2.2 First-time adoption of SFRS(I) (cont'd)

The following is the reconciliation of the impact arising from first-time adoption of SFRS(I) including application of the new accounting standards to the comprehensive income of the Group for the year ended 31 December 2017. (cont'd)

	Group		
	2017 (FRS)	**SFRS(I) 15 adjustments**	**2017 (SFRS(I))**
	$'000	$'000	$'000 (Restated)
Earnings per share from continuing operations attributable to owners of the Company (cents per share)			
- Basic	11.28	(1.42)	9.86
- Diluted	11.28	(1.42)	9.86
Earnings per share (cents per share)			
- Basic	(17.77)	(1.42)	(19.19)
- Diluted	(17.77)	(1.42)	(19.19)

2.3 Standards issued but not yet effective

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to SFRS(I) 1-28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019
Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined

Except for SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

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

2.3 Standards issued but not yet effective (cont'd)

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases;

- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

On the adoption of SFRS(I) 16, the Group expects to recognise right-of-use assets of $31,237,000 and lease liabilities of $34,993,000 for its leases previously classified as operating leases, with a corresponding decrease in trade and other payables and trade and other receivables by $4,134,000 and $378,000 respectively.

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

2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

2.4 Basis of consolidation and business combinations (cont'd)

(b) Business combinations

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with SFRS(I) 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another SFRS(I).

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.13(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

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

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

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

2.6 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment losses.

2.7 Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

Joint ventures

The Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.8.

The Group has not entered into any joint operation arrangement.

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

2.8 Associates and joint ventures

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

The Group accounts for its investments in associates and joint ventures using the equity method from the date on which it becomes an associate or joint venture.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities represents goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in associates or joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates or joint ventures. The profit or loss reflects the share of results of the operations of the associates or joint ventures. Distributions received from joint ventures or associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates or joint venture, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and associate or joint venture are eliminated to the extent of the interest in the associates or joint ventures.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associate or joint ventures. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates and joint ventures are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence or joint control over the associate or joint venture, the Group measures the retained interest at fair value. Any difference between the fair value of the aggregate of the retained interest and proceeds from disposal and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

If the Group's ownership interest in an associate or a joint venture is reduced, but the Group continues to apply the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

2.9 Foreign currency

The financial statements are presented in Singapore Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

(b) Consolidated financial statements

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly-controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

2.10 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land are measured at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.26. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

2.10 Property, plant and equipment (cont'd)

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and leasehold land	:	Over the period of the lease ranging from 3 to a maximum of 70 years
Leasehold improvements	:	3 to 50 years
Plant and machinery	:	3 to 30 years
Office furniture, fittings and equipment	:	3 to 20 years
Motor and transport vehicles	:	3.5 to 15 years

Construction-in-progress is not depreciated as it is not yet available for use.

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

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.11 Investment property

Investment property is a property owned by the Group that is held to lease to third parties and earn rentals, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs, and subsequently carried at cost less accumulated depreciation and impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the investment property. The estimated useful life is 30 years. Depreciation method, useful life and residual value of investment property are reassessed at each reporting date.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

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

2.12 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Deferred grants

Grants received for investment in machinery and equipment used for the development of diesel engines are recorded as deferred income and taken to income over the same period over which the machinery and equipment are being depreciated.

2.13 Intangible assets

(a) Goodwill

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

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

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.9.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in SGD at the rates prevailing at the date of acquisition.

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

2.13 Intangible assets (cont'd)

(b) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Trademarks

Trademarks acquired are assessed as either finite or indefinite. Trademark with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that trademark may be impaired. The amortisation expense and impairment loss are recognised in profit or loss in the expenses category consistent with the function of the trademarks.

Trademarks with indefinite useful lives are tested for impairment annually, if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level.

(ii) Research and development costs

Research costs are expensed as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development.

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

2.13 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

(ii) Research and development costs (cont'd)

Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs is amortised over the estimated useful lives of the period of expected pattern of future economic benefits embodied in the development. The amortisation expense is recognised in profit or loss. During the period of development, the asset is tested for impairment annually.

(iii) Technology know-how

Technology know-how is amortised on a straight line basis over its finite useful life of 10 years.

(iv) Club membership

Club membership was acquired separately and is amortised on a straight-line basis over its finite useful life of 10 years.

(v) Computer softwares

Computer softwares have a finite useful life and are amortised over the period of estimated useful life of 5 years on a straight-line basis.

2.14 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only, when the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

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

2.14 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Subsequent measurement

Investments in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

(ii) Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

(iii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

Investments in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in OCI, changes in fair value are recognised in profit or loss.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

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

2.14 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(ii) Financial liabilities at amortised cost

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

2.14 Financial instruments (cont'd)

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets when, and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.15 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.16 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in Note 2.19 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity but exclude borrowing costs.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

2.18 Development properties

Development properties are properties acquired or being constructed for sale in the ordinary course of business, rather than to be held for the Group's own use, rental or capital appreciation.

Development properties are held as inventories and are measured at the lower of cost and net realisable value.

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when incurred. Costs to complete development include cost of land and other direct and related development expenditure, including borrowing costs incurred in developing the properties.

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

2.18 Development properties (cont'd)

Net realisable value of development properties is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

The costs of development properties recognised in profit or loss on disposal are determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

2.19 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For bill receivables at fair value through OCI, the Group assesses the credit risk of the financial institution, which issue the bills, at every reporting date. The Group evaluates whether the bills are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

The Group considers a financial asset in default when contractual payments are more than 360 days from the invoice date. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.20 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

2.20 Impairment of non-financial assets (cont'd)

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

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

Impairment losses of continuing operations are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.21 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Singapore and Malaysia companies in the Group make contributions to the Central Provident Fund scheme in Singapore and the Employee Provident Fund in Malaysia respectively, a defined contribution pension scheme. The companies in the People's Republic of China ("PRC") participate in and make contributions to the national pension schemes at a fixed proportion of the basic salary of the employee. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Employment benefits are classified as short term or non-current based on expected timing of settlement.

(c) Share-based payments

The share option programme allows Group employees to acquire shares of the Group companies. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in employee expense with a corresponding adjustment to equity over the remaining vesting period.

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

2.22 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(a) Claims

A provision for claims is recognised when delays arise or complaints from customers are received as the contract progresses. The provision is made based on management estimates from prior experience on similar projects with customers.

(b) Restoration costs

A provision is recognised for restoration costs associated with the obligations to restore the lands at the end of the tenancy period.

(c) Warranties

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

Costs incurred are charged against the provision and any over or under provision is recognised in profit or loss.

(d) Onerous contracts

A provision for onerous contracts is recognised when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

2.23 Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point of time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

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

2.23 Revenue from contracts with customers (cont'd)

(a) Sale of engines

Revenue from sale of engines is recognised when the engines are delivered to the customer and all criteria for acceptance have been satisfied.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties).

- Service-type warranty

  The Group provides certain warranties for both repairs and maintenance service as part of the sales of engines. For general repairs, such warranties will be assurance-type warranties which will continue to be accounted for under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. Warranty for maintenance service is a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specifications. Under SFRS(I) 15, the Group accounts for service-type warranty as a separate performance obligation to which the Group allocates a portion of the transaction price. The portion of the consideration allocated to the service-type warranty is initially recorded as a contract liability and recognised as revenue upon the service rendered.

- Variable consideration

  The Group provides certain customers with rebates based on the quantity of products sold during the period. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for each individual contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability in "Trade and other payables" for the expected future rebates to be utilised by the customers.

(b) Sale of cement and related products

Revenue from sale of cement and related products is recognised at the point in time when control of the goods is transferred to the customer. Sale of cement and related products are generally on 30 to 90 days terms.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of cement and related products, the Group considers the effects of variable consideration.

- Variable consideration

  If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which they will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of cement and related products provide customers with prompt payment rebates and volume rebates. The prompt payment rebates and volume rebates give rise to variable consideration.

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

2.23 Revenue from contracts with customers (cont'd)

(b) Sale of cement and related products (cont'd)

- Early payment rebates

  The Group provides prompt payment rebates to customers who settle the payments within certain period of time specified in the contract.

- Volume rebates

  The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract.

(c) Sale of industrial packaging products and air-conditioning systems

Revenue from sale of industrial packaging products and air-conditioning systems is recognised at the point in time when control of the goods is transferred to the customer.

(d) Rendering of services

Revenue from rendering services relates to project management contracts, and hotel room and restaurant operations. Revenue is recognised over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be performed.

(e) Development properties for sale

Revenue is recognised when control over property has been transferred to the customer, either over time or at a point in time, depending on the contractual terms and practices in the legal jurisdiction.

(f) Rental income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

(g) Dividend income

Dividend income from unquoted investments is recognised when the Group's right to receive payment is established.

Dividend income from quoted investments is recognised when dividends are received.

(h) Interest income

Interest income is recognised using the effective interest method.

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

2.23 Revenue from contracts with customers (cont'd)

Contract balances

Contract assets

The contract assets are costs which have been capitalised and are directly related to a contract, for which resources were used in satisfying the contract and are expected to be recovered.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional. Refer to Note 2.14 for details.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Assets and liabilities arising from rights of return

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities at the end of each reporting period.

2.24 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 15 to 50 years.

2.25 Leases

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

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

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

2.25 Leases (cont'd)

(a) As lessee

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

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

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in Note 2.23 (f). Contingent rents are recognised as revenue in the period in which they are earned.

2.26 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.27 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

2.27 Taxes (cont'd)

(b) Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

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

2.27 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

(c) Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.28 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.29 Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. A component of the Group is classified as a 'discontinued operation' when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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

2.30 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

- (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

- (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.31 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.32 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 37, including the factors used to identify the reportable segments and the measurement basis of segment information.

3. Property, plant and equipment

Group	Freehold land	Buildings and leasehold land
	$'000	$'000
Cost		
At 1 January 2017	58,545	643,074
Translation differences	429	(6,893)
Additions	–	1,300
Transfers	–	16,763
Disposals	–	(932)
Write-off	–	(486)
Disposal of a subsidiary (Note 7(h))	–	(16,651)
At 31 December 2017 and 1 January 2018	58,974	636,175
Translation differences	(4)	(13,000)
Additions	–	742
Transfers	–	4,603
Disposals	–	(448)
Write-off	–	(48)
De-consolidation of subsidiaries (Note 7(g))	–	(125,392)
At 31 December 2018	58,970	502,632
Accumulated depreciation and impairment losses		
At 1 January 2017	1,553	208,056
Translation differences	2	(1,116)
Charge for the year	–	20,677
Impairment losses made	–	–
Disposals	–	(421)
Write-off	–	(281)
Disposal of a subsidiary (Note 7(h))	–	(4,491)
At 31 December 2017 and 1 January 2018	1,555	222,424
Translation differences	–	(3,933)
Charge for the year	–	19,912
Impairment losses made	–	–
Disposals	–	(205)
Write-off	–	(47)
De-consolidation of subsidiaries (Note 7(g))	–	(81,263)
At 31 December 2018	1,555	156,888
Net book value		
At 1 January 2017	56,992	435,018
At 31 December 2017	57,419	413,751
At 31 December 2018	57,415	345,744

* An amount of $3,131,000 (2017: nil) and $1,080,000 (2017: nil) were capitalised as intangible assets and contract assets respectively.

Leasehold improvements	Plant and machinery	Office furniture, fittings and equipment	Motor and transport vehicles	Construction-in-progress	Total
$'000	$'000	$'000	$'000	$'000	$'000
7,350	1,026,915	63,861	44,545	78,883	1,923,173
(112)	(9,193)	166	(144)	(1,101)	(16,848)
–	7,283	4,065	2,847	56,730	72,225
–	48,416	301	(66)	(65,414)	–
–	(22,204)	(1,492)	(3,215)	–	(27,843)
(75)	(13,305)	(3,213)	(187)	(342)	(17,608)
(5,317)	(7,244)	(2,546)	(52)	–	(31,810)
1,846	1,030,668	61,142	43,728	68,756	1,901,289
–	(25,156)	(150)	(574)	(2,131)	(41,015)
70	4,465	4,595	2,274	86,089	98,235
–	38,379	556	5	(43,543)	–
–	(3,257)	(1,013)	(1,047)	(460)	(6,225)
–	(11,992)	(742)	(1,102)	(2,479)	(16,363)
–	(155,246)	(27,894)	(9,932)	(572)	(319,036)
1,916	877,861	36,494	33,352	105,660	1,616,885
2,194	516,704	48,147	35,168	55	811,877
(15)	(3,005)	209	(223)	(45)	(4,193)
259	94,252	6,634	3,605	–	125,427
–	8,009	1,371	643	3,046	13,069
–	(19,338)	(1,062)	(2,962)	–	(23,783)
(70)	(12,687)	(3,138)	(186)	–	(16,362)
(822)	(3,070)	(1,978)	(49)	–	(10,410)
1,546	580,865	50,183	35,996	3,056	895,625
–	(15,132)	(124)	(92)	(37)	(19,318)
144	83,794	5,045	2,986	–	111,881*
–	6,142	33	–	1,303	7,478
–	(3,039)	(826)	(970)	–	(5,040)
–	(11,668)	(785)	(1,030)	(2,479)	(16,009)
–	(135,820)	(25,097)	(8,939)	(572)	(251,691)
1,690	505,142	28,429	27,951	1,271	722,926
5,156	510,211	15,714	9,377	78,828	1,111,296
300	449,803	10,959	7,732	65,700	1,005,664
226	372,719	8,065	5,401	104,389	893,959

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For the financial year ended 31 December 2018

3. Property, plant and equipment (cont'd)

Company	Leasehold improvements	Office furniture, fittings and equipment	Total
	$'000	$'000	$'000
Cost			
At 1 January 2017	594	1,103	1,697
Additions	–	18	18
Disposals	–	(6)	(6)
At 31 December 2017 and 1 January 2018	594	1,115	1,709
Additions	65	5	70
Disposals	–	(2)	(2)
At 31 December 2018	659	1,118	1,777
Accumulated depreciation			
At 1 January 2017	548	1,023	1,571
Charge for the year	25	41	66
Disposals	–	(6)	(6)
At 31 December 2017 and 1 January 2018	573	1,058	1,631
Charge for the year	21	34	55
Disposals	–	(2)	(2)
At 31 December 2018	594	1,090	1,684
Net book value			
At 1 January 2017	46	80	126
At 31 December 2017	21	57	78
At 31 December 2018	65	28	93

Assets held under finance lease

The carrying amount of plant and equipment held under finance leases at the end of the reporting period was $7,000 (31 December 2017: $19,000, 1 January 2017: $28,000).

Leased assets are pledged as security for the related finance lease liabilities.

Assets pledged as security

The Group's fixed assets with a carrying amount of $7,000 (31 December 2017: $16,958,000, 1 January 2017: $17,560,000) are pledged to secure the Group's loans and borrowings (Note 21).

4. Land use rights

	Group	
	2018	**2017**
	$'000	$'000
Cost		
At 1 January	169,272	171,270
Translation differences	(3,258)	(1,998)
De-consolidation of subsidiaries (Note 7(g))	(24,818)	–
At 31 December	141,196	169,272
Accumulated amortisation		
At 1 January	40,390	37,630
Amortisation for the year	3,067	3,235
Translation differences	(954)	(475)
De-consolidation of subsidiaries (Note 7(g))	(6,712)	–
At 31 December	35,791	40,390
Net carrying amount	105,405	128,882

	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	**$'000**	**$'000**
Amount to be amortised:			
- Not later than one year	2,814	3,439	3,487
- Later than one year but not later than five years	11,219	13,848	14,083
- Later than five years	91,372	111,595	116,070
	105,405	128,882	133,640

The Group has land use rights over 45 (31 December 2017: 52, 1 January 2017: 52) plots of land in the PRC, Singapore and Malaysia where the Group's manufacturing and storage facilities reside. The transferable land use rights have a remaining tenure of 22 to 46 years (31 December 2017: 23 to 47 years, 1 January 2017: 24 to 48 years) and the non-transferable land use rights have a remaining tenure of 7 to 13 years (31 December 2017: 8 to 14 years, 1 January 2017: 9 to 15 years).

No land use rights have been mortgaged to any financial institution as at 31 December 2018 and 2017. As at 1 January 2017, land use rights with carrying amount of $14,758,000 were mortgaged to secure the Group's bank loans (Note 21).

5. Intangible assets

Group	Patents and development expenditure, technology know-how and computer software with finite useful lives	Trade-marks with indefinite useful lives	Trade-marks with finite useful lives	Club Membership	Goodwill	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
At 1 January 2017 (FRS framework)	52,031	64,400	7,503	313	11,567	135,814
Cumulative effects of adopting SFRS(I)	(6,588)	–	–	–	–	(6,588)
At 1 January 2017 (SFRS(I) framework)	45,443	64,400	7,503	313	11,567	129,226
Additions	1,438	–	–	–	–	1,438
Write-off	(179)	–	–	–	–	(179)
Translation differences	(334)	(1,192)	(100)	–	2	(1,624)
At 31 December 2017 and 1 January 2018	46,368	63,208	7,403	313	11,569	128,861
Additions	40,313	–	–	–	–	40,313
Write-off	(14)	–	–	–	–	(14)
Translation differences	(1,827)	40	(206)	–	–	(1,993)
De-consolidation of subsidiaries (Note 7(g))	(2,139)	(59,584)	–	–	–	(61,723)
At 31 December 2018	82,701	3,664	7,197	313	11,569	105,444

5. Intangible assets (cont'd)

Group	Patents and development expenditure, technology know-how and computer software with finite useful lives	Trade-marks with indefinite useful lives	Trade-marks with finite useful lives	Club Membership	Goodwill	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated amortisation and impairment losses						
At 1 January 2017	33,420	18,846	4,974	161	10,236	67,637
Amortisation charge for the year	861	–	172	31	–	1,064
Write-off	(179)	–	–	–	–	(179)
Impairment losses	8,485	–	–	–	–	8,485
Translation differences	(146)	(231)	(62)	–	–	(439)
At 31 December 2017 and 1 January 2018	42,441	18,615	5,084	192	10,236	76,568
Amortisation charge for the year	987	–	172	30	–	1,189
Write-off	(13)	–	–	–	–	(13)
Impairment losses	–	784	1,784	–	–	2,568
Translation differences	(752)	38	(184)	–	–	(898)
De-consolidation of subsidiaries (Note 7(g))	(2,139)	(15,773)	–	–	–	(17,912)
At 31 December 2018	40,524	3,664	6,856	222	10,236	61,502
Net carrying amount						
At 1 January 2017	12,023	45,554	2,529	152	1,331	61,589
At 31 December 2017	3,927	44,593	2,319	121	1,333	52,293
At 31 December 2018	42,177	–	341	91	1,333	43,942

5. Intangible assets (cont'd)

Patents and development expenditure

Patents and development expenditure relate to costs incurred for the following:
- exploration and evaluation expenditure of quarries.
- removal of waste to enable access to the mineral ore.
- design, construction and testing of new diesel engines.

The patents and development expenditure have remaining amortisation period of 1 to 6 years (31 December 2017: 1 to 7 years, 1 January 2017: 1 to 2 years). Development expenditure amounting to $38,902,000 (31 December 2017: $2,073,000, 1 January 2017: $17,003,000) was not amortised as the development has not been completed and is not available for use.

Technology know-how

Technology know-how relates to an intellectual property right of a technology for building of new heavy duty diesel engines and has remaining amortisation period of 10 years.

Trademarks

Trademarks belonging to the Group's consumer product segment (discontinued operation – see Note 7(g)) and lifestyle appliances unit are estimated to have an indefinite useful life because management believes that there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group. Trademark acquired in respect of the Group's air-conditioning systems segment are estimated to have remaining useful life of 14 years (31 December 2017: 15 years, 1 January 2017: 16 years).

Amortisation expense

The amortisation of trademark with finite useful lives and club membership are included in the "Selling and distribution expenses" and "General and administrative expenses" line items in the income statement respectively. The amortisation of patents and development expenditure and computer software is included mainly in the "Cost of sales" and "General and administrative expenses" line items in the income statement.

5. Intangible assets (cont'd)

Company	Computer software and related costs	Club Membership	Total
	$'000	$'000	$'000
Cost			
At 1 January 2017	1,477	313	1,790
Additions	18	–	18
At 31 December 2017 and 1 January 2018	1,495	313	1,808
Additions	7	–	7
At 31 December 2018	1,502	313	1,815
Accumulated amortisation and impairment losses			
At 1 January 2017	1,477	161	1,638
Amortisation charge for the year	1	31	32
At 31 December 2017 and 1 January 2018	1,478	192	1,670
Amortisation charge for the year	6	30	36
At 31 December 2018	1,484	222	1,706
Net carrying amount			
At 1 January 2017	–	152	152
At 31 December 2017	17	121	138
At 31 December 2018	18	91	109

6. Impairment assessment of intangible assets and property, plant and equipment

Diesel engines segment

The Group has an intangible asset representing technology development costs held by Jining Yuchai Engine Company Limited ("Jining Yuchai") with carrying amount of $2,073,000 (net of accumulated impairment losses and exchange difference) as at 31 December 2017 (1 January 2017: $10,415,000).

The impairment test was triggered in 2017 as the technology was still under development and modification had to be made to the existing technology that may delay the commercial deployment of this technology. Management performed the impairment assessment based on the updated business plan, which takes into consideration the slowdown in the PRC economy and the diesel engines industry performance.

The recoverable amount was determined based on their value in use using the discounted cash flow approach. Cash flows were projected based on historical growth and past experience, and did not exceed the estimated long-term average growth rate of the business in the PRC market.

6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

Diesel engines segment (cont'd)

In 2017, management performed the impairment assessment based on the updated business plan, which takes into consideration the reduction of useful life of intangible assets from 15 years to 10 years as a result of stringent emission standard requirements. As a result, an impairment loss of $8,165,000 was charged to the income statement under the line item "General and administrative expenses" in respect of the development costs held by Jining Yuchai. The Group used a 10 year forecast, using pre-tax discount rate of 13.69%. The revised business plan projected for commercial deployment of the technology to be reached in 6 years, in 2023. The revenue growth rate is estimated at 15.6% in 2023, and thereafter, management assumed no revenue growth from 2024 to 2027.

If the pre-tax discount rate increases by 1% from management's estimate, the Group's impairment loss on intangible asset in Jining Yuchai will increase by $1,557,000.

In 2018, the development of the engine platform was completed and the related technology development costs with carrying amount of $2,010,000 as at 31 December 2018 were recognised as technology know-how.

In late 2018, the Group had commenced production of the engines in view of the market demand. Management believes that there is no indicator for further impairment as at 31 December 2018.

During 2018, the Group capitalised technology development costs of $38,902,000 (net of exchange difference) for new engines that comply with National VI and Tier 4 emission standards.

Annually, the Group performs an impairment test on the development costs that have not yet been brought into use. No impairment has been identified in 2018.

The recoverable amount was determined based on its value in use using the discounted cash flow approach. Cash flows were projected based on historical growth, past experience and management best estimation of future business outlook. The Group used a 11 years forecast which is based on the financial budgets approved by the senior management covering 8 years period from 2019 to 2026, and a further 3 years of forecast with no terminal value. Management has assessed the useful life of the development costs to be 10 years commencing from 2020, the year which National VI and Tier 4 emission standards are expected to be implemented.

The assumptions used in the assessment for the development costs in 2018 are:

- Profit from operation is based on management's estimate with reference to historical revenue generated and growth rate. The revenue growth rate is estimated to be 5% year on year.

- Discount rate of 13.96% which reflects management's estimate of the risks specific to the CGU and is estimated based on weighted average cost of capital.

A decrease in demand can lead to a decline in profit from operation. If the demand decreases by 3.3% from management's estimate, it would result in impairment of the development costs. If the pre-tax discount rate increases by 12.34% from management's estimate, it would result in impairment of the development costs.

With regard to the assessment of value in use, management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to materially fall below the carrying value.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

Diesel engines segment (cont'd)

Separately, the Group recognised an impairment loss of $6,142,000 (2017: $4,255,000) in the income statement under the line item "Cost of sales" in respect of specific plant and equipment which are no longer in use.

Consumer products segment

On 30 October 2017, the Board of Directors has approved for the Group's consumer products segment to undertake a restructuring exercise ("Restructuring Exercise") involving the cessation of its manufacturing and production activities alongside the exploration of strategic participation with potential partners. As a result, an impairment test was triggered, which resulted in the consumer products segment recording certain write downs of assets to their recoverable amounts as at 31 December 2017.

As reported in the Company's announcement on 26 June 2018, the Group's consumer products segment was de-consolidated with effect from 21 May 2018 (Note 7(g)).

Trademarks

As at 31 December 2017, trademarks relate to the Group's consumer products segment, which has been identified as a separate cash-generating unit ("CGU") for impairment testing purposes. The carrying amount of trademarks for this CGU was $43,831,000 (net of accumulated impairment losses and exchange difference) as at 31 December 2017 (1 January 2017: $44,474,000).

The recoverable amount of trademarks was determined based on their fair value less cost to sell using the relief-from-royalty method (income approach). Management used an external valuation specialist to support the determination of the recoverable amount of the trademarks based on fair value less cost to sell.

In 2017, no further impairment was identified based on management's assessment.

The assumptions used in the assessment for the trademarks in 2017 are:

- Royalty rate of 3% (1 January 2017: 2%) based on assessment of royalty rates of similar trademarks.
- Discount rate of 17.5% (1 January 2017: 18.0%) which reflects the current market assessment of the risks specific to the CGU.
- Revenue decline of 70% in 2018, growth rate of 50% from 2019 to 2020 and thereafter 3% per annum perpetually (1 January 2017: revenue growth rate of 3% per annum perpetually).

For 2017, with regard to the valuation of the recoverable amount, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the trademarks to materially exceed its recoverable amount.

Separately, in 2017, the Group recognised an impairment loss of $320,000 in the income statement under the line item "Other expenses" in respect of certain intangible asset.

Property, plant and equipment

In view of the Restructuring Exercise in 2017, management assessed the recoverable amount of the segment's property, plant and equipment based on their fair value less cost to sell.

For land and buildings, no impairment was identified in 2017 based on management's assessment. Management used external specialists to support the determination of the recoverable amounts based on fair value less cost to sell.

6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

Consumer products segment (cont'd)

Property, plant and equipment (cont'd)

For plant and equipment, the Group had written down the related assets used in manufacturing and production activities to their residual values in 2017. As a result, the Group recognised an impairment loss of $8,814,000 in the income statement under the line item "Other expenses".

Air-conditioning systems segment

Trademark (air-conditioning appliances)

Trademark relates to the Group's air-conditioning systems unit, which has been identified as a separate cash-generating unit ("CGU") for impairment testing purposes. The carrying amount of trademark for this CGU was $341,000 (net of accumulated impairment losses, accumulated amortisation and exchange difference) as at 31 December 2018 (31 December 2017: $2,318,000, 1 January 2017: $2,529,000).

The impairment test was triggered in 2017 and 2018 in view of losses incurred and a slowdown in the PRC economy.

The recoverable amount of trademark was determined based on the fair value less cost to sell using the relief-from-royalty method (income approach). In 2017, management used an external valuation specialist to support the determination of the recoverable amount of the trademark based on fair value less costs to sell.

In 2018, management performed an impairment assessment based on its updated business plans and projections. As a result, the Group recognised an impairment loss of $1,784,000 in the income statement under the line item "General and administrative expenses".

The assumptions used in the assessment for the trademark in 2018 are:

- Royalty rate of 0.5% (31 December 2017: 2.5%, 1 January 2017: 2.5%) based on assessment of royalty rates of similar trademarks.

- Discount rate of 20.0% (31 December 2017: 18.5%, 1 January 2017: 18.5%) which reflects the current market assessment of the risks specific to the CGU.

- Revenue growth rate of 3% (31 December 2017: 3%, 1 January 2017: 3%) per annum perpetually.

For 2017 and 2018, with regard to the valuation of the recoverable amount, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the trademark to materially exceed its recoverable amount.

Trademark (lifestyle appliances)

Trademark (lifestyle appliances) has been identified as a separate cash-generating unit ("CGU") for impairment testing purposes. The carrying amount of trademark for this CGU was nil (net of accumulated impairment losses and exchange difference) as at 31 December 2018 (31 December 2017: $761,000, 1 January 2017: $1,080,000). The recoverable amount of the trademark was determined based on the value in use using the relief-from-royalty method.

In 2018, management performed an impairment assessment based on its updated business plans and projections. As a result, the Group recognised an impairment loss of $784,000 in the income statement under the line item "General and administrative expenses".

6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

Air-conditioning systems segment (cont'd)

Trademark (lifestyle appliances) (cont'd)

The recoverable amount of trademark was determined based on the value in use using the relief-from-royalty method (income approach). The Group used a revenue perpetual growth rate of 2% (31 December 2017: 2%, 1 January 2017: 2%) per annum from 2019 onwards. A royalty rate of 3% (31 December 2017: 3%, 1 January 2017: 3%) and a discount rate of 13% (31 December 2017: 13%, 1 January 2017: 13%) were used.

For 2017 and 2018, with regard to the valuation of the recoverable amount, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the trademark to materially exceed its recoverable amount.

Property, plant and equipment

In 2017 and 2018, management carried out a review of the recoverable amount of its property, plant and equipment, in view of losses incurred and a slowdown in the PRC economy. No further impairment was identified. The recoverable amount was based on its fair value less cost to sell. Management used external specialists to support the determination of the recoverable amounts based on fair value less cost to sell.

Separately, in 2018, the Group recognised impairment loss of $1,303,000 in the income statement under the line item "General and administrative expenses" in respect of plant and machineries, which are no longer in use or obsolete.

7. Investment in subsidiaries

		Company	
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Shares, at cost	232,387	232,387	232,387
Amounts due from subsidiaries	75,414	–	–
Impairment losses	(105,866)	(29,432)	(29,432)
	201,935	202,955	202,955

As at 1 January 2018, management has reassessed the nature and repayment terms of amounts due from certain subsidiaries. Accordingly, these amounts were reclassified from non-current receivables (Note 12) to investment in subsidiaries.

Impairment of investment in subsidiaries

During the financial year ended 31 December 2018, management performed an impairment review of its investment in subsidiaries, which have been incurring operating losses. As a result of the review, the Company recognised an impairment loss of $39,434,000.

The Company assessed the recoverable amount of its investment in subsidiaries based on the amounts estimated to be recoverable from the assets and liabilities of the subsidiaries.

7. Investment in subsidiaries (cont'd)

(a) Composition of the Group

The Group has the following significant investment in subsidiaries:

Names of subsidiaries	Country of incorporation	Effective equity interest Group 31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by the Company				
Hayford Holdings Sdn. Bhd.	Malaysia	100	100	100
HL Building Materials Pte. Ltd.	Singapore	100	100	100
HL-Manufacturing Industries Sdn. Bhd.	Malaysia	100	100	100
Hong Leong (China) Limited	Singapore	100	100	100
Island Concrete (Private) Limited	Singapore	100	100	100
Held by the Group				
Airwell Air-conditioning Technology (China) Co., Ltd.	The People's Republic of China	67	67	67
China Yuchai International Limited ("CYI") (1)	Bermuda	41.75	40.04	40.19
Dongguan Rex Packaging Company Limited (8)	The People's Republic of China	100	100	100
Fedders International Pte. Ltd.	Singapore	100	100	100
Guangxi Yuchai Accessories Manufacturing Company Limited (2)	The People's Republic of China	31.90	30.59	30.71
Guangxi Yuchai Equipment Mould Company Limited (2)	The People's Republic of China	31.90	30.59	30.71
Guangxi Yuchai Machinery Company Limited (2)	The People's Republic of China	31.90	30.59	30.71
Guangxi Yuchai Machinery Monopoly Development Co., Ltd (2)	The People's Republic of China	22.91	21.97	22.06
Guangxi Yulin Hotel Company Limited (2)	The People's Republic of China	31.90	30.59	30.71

7. Investment in subsidiaries (cont'd)

(a) Composition of the Group (cont'd)

The Group has the following significant investment in subsidiaries (cont'd):

Names of subsidiaries	Country of incorporation	Effective equity interest Group 31 December 2018	31 December 2017	1 January 2017
Held by the Group (cont'd)		%	%	%
Henan Xinfei Electric Co., Ltd. (7)	The People's Republic of China	–	90	90
Henan Xinfei Household Appliance Co., Ltd. (7)	The People's Republic of China	–	90	90
Henan Xinfei Refrigeration Appliances Co., Ltd. (7)	The People's Republic of China	–	90	90
HL Global Enterprises Limited ("HLGE") (2) (3)	Singapore	20.94	20.09	20.16
Jining Yuchai Engine Company Limited (2) (4)	The People's Republic of China	31.90	30.59	–
LKN Investment International Pte Ltd ("LKNII") (6)	Singapore	–	–	20.16
Rex Plastics (Malaysia) Sdn. Bhd.	Malaysia	100	100	100
Tasek Corporation Berhad (5)	Malaysia	74.28	74.28	74.28
Tianjin Rex Packaging Co., Ltd. (9)	The People's Republic of China	100	100	100
Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (2)	The People's Republic of China	31.90	30.59	30.71

7. Investment in subsidiaries (cont'd)

(a) Composition of the Group (cont'd)

Ernst & Young LLP, Singapore, is the auditor of all significant Singapore-incorporated subsidiaries while other member firms of Ernst & Young Global are auditors of significant foreign incorporated subsidiaries.

(1) The directors consider CYI as a subsidiary of the Company as the Group owns 17,059,154 (31 December 2017: 16,360,845, 1 January 2017: 16,360,845) or 41.75% (31 December 2017: 40.04%, 1 January 2017: 40.19%) of the ordinary shares and a special share of CYI that entitles the Group to elect a majority of directors in CYI. Accordingly, the Group is exposed to, and has rights, to variable returns from its involvement with CYI, and has the ability to affect those returns through its power over CYI.

(2) These companies are subsidiaries of CYI.

(3) The Group considers HLGE a subsidiary as it has the power to exercise effective control and direct the activities of HLGE that most significantly affect its economic performance and has the exposure or rights to receive benefits from HLGE from its involvement. CYI Group has effective equity interest in HLGE of 50.16% (31 December 2017: 50.17%, 1 January 2017: 50.17%), excluding the ordinary shares held by Amicorp Trustees (Singapore) Limited under the HL Global Enterprises Share Option Scheme 2006 Trust as of 31 December 2018.

(4) Jining Yuchai Engine Company Limited ("Jining Yuchai") was disposed by Guangxi Yuchai Machinery Company Limited ("GYMCL") on 28 September 2014 but through various contractual arrangements, retained the power to exercise effective control and was able to direct the activities of Jining Yuchai that most significantly affect its economic performance and had the exposure or rights to receive benefits from Jining Yuchai from its involvement. Accordingly, GYMCL had considered Jining Yuchai as a subsidiary and continued to consolidate its financial results in the past years.

On 27 November 2017, GYMCL had, pursuant to an irrevocable option granted to it, acquired the entire equity interest in Jining Yuchai, thereby making the latter its wholly-owned subsidiary. Please refer to Note 7(d) for details.

(5) The effective equity interest was computed based on the total number of ordinary shares excluding treasury shares.

(6) LKNII was a wholly-owned subsidiary of HLGE. It was disposed on 22 November 2017. Please refer to Note 7(h) for details.

(7) As reported in the Company's announcement on 26 June 2018, Henan Xinfei Household Appliance Co. Ltd., Henan Xinfei Refrigeration Appliances Co., Ltd. and Henan Xinfei Electric Co., Ltd. (collectively, the "Xinfei Companies") had ceased to be subsidiaries of the Group with effect from 21 May 2018. Please refer to Note 7(g) for details.

(8) Audited by Dongguan City Changxin Certified Public Accountants and is not considered a significant foreign incorporated subsidiary.

(9) Audited by Tianjin Zhonghua Hai Certified Public Accountants and is not considered a significant foreign incorporated subsidiary.

7. Investment in subsidiaries (cont'd)

(b) Interest in subsidiaries with material non-controlling interests (NCI)

The Group has the following subsidiaries that have NCI that are material to the Group.

Name of Subsidiary	Principal place of business	Proportion of ownership interest held by non-controlling interests	Profit/(loss) allocated to NCI during the reporting period $'000	Accumulated NCI at the end of reporting period $'000	Dividends paid to NCI $'000
31 December 2018:					
Guangxi Yuchai Machinery Company Limited	The People's Republic of China	68.10%	140,357	1,465,780	26,991
Tasek Corporation Berhad	Malaysia	25.72%	(1,876)	45,465	2,095
31 December 2017:					
Guangxi Yuchai Machinery Company Limited	The People's Republic of China	69.41%	140,624	1,467,212	20,263
Tasek Corporation Berhad	Malaysia	25.72%	(360)	50,153	6,039
1 January 2017:					
Guangxi Yuchai Machinery Company Limited	The People's Republic of China	69.29%	111,156	1,390,141	17,388
Tasek Corporation Berhad	Malaysia	25.72%	4,785	55,415	8,367

Significant restrictions

The nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of subsidiaries with material non-controlling interests are:

Cash and cash equivalents of $996,230,000 (31 December 2017: $964,640,000, 1 January 2017: $679,544,000) held in the PRC are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

7. Investment in subsidiaries (cont'd)

(c) Summarised financial information about subsidiaries with material NCI

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

Summarised balance sheets

	Guangxi Yuchai Machinery Company Limited			Tasek Corporation Berhad		
	As at 31 December 2018	**As at 31 December 2017**	**As at 1 January 2017**	**As at 31 December 2018**	**As at 31 December 2017**	**As at 1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
		(Restated)	(Restated)			
Current						
Assets	3,075,445	3,011,537	2,594,514	98,686	119,338	140,676
Liabilities	(1,884,614)	(1,911,775)	(1,616,962)	(26,767)	(29,746)	(32,107)
Net current assets	1,190,831	1,099,762	977,552	71,919	89,592	108,569
Non-current						
Assets	980,666	1,008,923	992,720	109,300	110,073	113,003
Liabilities	(164,638)	(107,070)	(101,632)	(5,585)	(5,805)	(7,253)
Net non-current assets	816,028	901,853	891,088	103,715	104,268	105,750
Net assets	2,006,859	2,001,615	1,868,640	175,634	193,860	214,319

Summarised income statement and statement of comprehensive income

	Guangxi Yuchai Machinery Company Limited		Tasek Corporation Berhad	
	2018	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000
		(Restated)		
Revenue	3,299,770	3,294,575	185,573	176,594
Profit/(loss) before income tax	241,921	236,192	(9,467)	(1,197)
Income tax (expense)/credit	(35,817)	(33,593)	2,174	(202)
Profit/(loss) after tax	206,104	202,599	(7,293)	(1,399)
Other comprehensive income	(65,616)	(26,734)	(34)	4,952
Total comprehensive income	140,488	175,865	(7,327)	3,553

7. Investment in subsidiaries (cont'd)

(c) Summarised financial information about subsidiaries with material NCI (cont'd)

Other summarised information

	Guangxi Yuchai Machinery Company Limited		Tasek Corporation Berhad	
	2018	**2017**	**2018**	**2017**
	$'000	$'000 (Restated)	$'000	$'000
Net cash flows from/ (used in) operations	201,098	303,165	(6,777)	7,747
Net cash flows (used in)/from investing activities	(125,720)	(54,277)	3,567	(2,007)
Net cash flows (used in)/from financing activities	(13,597)	45,245	(7,435)	(25,824)
Acquisition of significant property, plant and equipment	(82,447)	(58,603)	(12,211)	(9,506)

(d) Consolidation of subsidiary, Jining Yuchai Engine Company Limited

On 28 September 2014, the Group's subsidiary company, Guangxi Yuchai Machinery Company Limited ("GYMCL") transferred its entire 70% equity interests in Jining Yuchai Engine Company Limited ("Jining Yuchai") to an independent third party (the "Purchaser") for a consideration of RMB1. GYMCL also entered into contractual agreements (being the Loan Agreement and the Management Agreement mentioned below) with the Purchaser and Jining Yuchai, as part of the equity transfer transaction.

Through these contractual arrangements, GYMCL has the power to exercise effective control and is able to direct the activities of Jining Yuchai that most significantly affect its economic performance, and has the exposure or rights to receive benefits from Jining Yuchai from its involvement. Accordingly, GYMCL continues to consolidate the financial results of Jining Yuchai.

1. Loan Agreement

Under the terms of the loan agreement, GYMCL and its wholly-owned subsidiary, Guangxi Yulin Hotel Company Limited ("Yulin Hotel") ("Lenders") agreed to provide loans, of amounts not exceeding RMB70 million (equivalent to $14,882,000) with tenure of two years, to Jining Yuchai, by way of entrusted loans, and such loans are solely to be utilised for Jining Yuchai's working capital purpose. In 2016, Lenders further extended the loans to Jining Yuchai and provided financial support to its operation.

In addition, in consideration of the Lenders' financial support to Jining Yuchai, as long as the Purchaser remains a shareholder in Jining Yuchai, irrespective of whether the loans remain outstanding or not, the Purchaser is prohibited from transferring all or part of its equity interests in Jining Yuchai to another party without the prior written consent of the Lenders.

7. Investment in subsidiaries (cont'd)

(d) Consolidation of subsidiary, Jining Yuchai Engine Company Limited (cont'd)

1. Loan Agreement (cont'd)

The Purchaser has also granted the Lenders an irrevocable option to acquire all of its shareholding in Jining Yuchai at any time at a consideration amount not exceeding RMB250,000 (equivalent to $53,150). These two provisions are also contained in a separate undertaking letter issued and signed by the Purchaser to the Lenders.

The Purchaser as long as it remains a shareholder in Jining Yuchai, will consult with the Lenders prior to the exercise of any of its powers in relation to Jining Yuchai. The Lenders have the right to recommend for appointment Jining Yuchai's legal representative and executive director.

2. Management Agreement

Under the management agreement entered into between GYMCL and the Purchaser, GYMCL has been appointed by the Purchaser to manage Jining Yuchai in all matters relating to the running of its operations. The term of the agreement is for one year which may be extended upon mutual agreement and the management fee is RMB240,000 (equivalent to $51,024) per annum. On 13 October 2016, the agreement was renewed and extended for one more year.

On 27 November 2017, GYMCL acquired the entire equity interest in Jining Yuchai for a cash consideration of RMB250,000 from the Vendor. The acquisition was made pursuant to an irrevocable option to acquire the shares in Jining Yuchai granted to GYMCL.

(e) Acquisition of ownership in subsidiaries

In 2018, the Group's subsidiary company, Well Summit Investments Limited, acquired an additional 1.71% equity interest in CYI from its non-controlling interests for a cash consideration of $13,302,000.

The difference of $15,901,000 between the consideration and the carrying value of the additional interest acquired has been recognised as "surplus on changes of non-controlling interests" within equity.

The following summarises the effect of the change in the Group's ownership interest in subsidiary on the equity attributable to owners of the Company:

	2018 $'000
Consideration paid for acquisition of non-controlling interests	(13,302)
Decrease in equity attributable to non-controlling interests	29,203
Increase in equity attributable to owners of the Company	15,901

7. Investment in subsidiaries (cont'd)

(f) Changes of ownership in subsidiaries, without loss of control

In 2017, the Group elected to receive dividends from CYI in the form of cash, whilst certain non-controlling interests elected to receive dividends from CYI in the form of CYI shares in lieu of cash. In addition, certain share options were exercised under CYI's Equity Incentive Plan during the year (refer to Note 31 for details).

As a result, the issuance of new shares to non-controlling interests resulted in an overall 0.15% decrease in effective equity interest held in CYI by the Group.

The difference of $700,000 between the shares issued to non-controlling interests and the carrying value of the loss in interest has been recognised as surplus on changes of non-controlling interests within equity.

The following summarises the effect of the change in the Group's ownership interest in subsidiary on the equity attributable to owners of the Company:

	2017
	$'000
Shares issued to non-controlling interests	4,508
Increase in equity attributable to non-controlling interests	(3,808)
Increase in equity attributable to owners of the Company	700

(g) De-consolidation of subsidiaries and discontinued operation

As reported in the Company's announcement on 26 June 2018, Xinfei Companies had ceased to be subsidiaries of the Group with effect from 21 May 2018. Accordingly, the Xinfei Companies, which constitute the Group's Consumer Products Unit ("Xinfei") were de-consolidated with effect from 21 May 2018. On 6 August 2018, the Company further announced the completion of the equity transfer of the shares in each of the Xinfei Companies.

As required by SFRS(I) 10 *Consolidated Financial Statements*, the Xinfei Companies were de-consolidated from the Group. The de-consolidation involved de-recognition of the assets and liabilities of the Xinfei Companies and recognition of other related obligations. The financial effect of the de-consolidation was a loss of $9,303,000 which was recognised in the year ended 31 December 2018.

7. Investment in subsidiaries (cont'd)

(g) De-consolidation of subsidiaries and discontinued operation (cont'd)

The value of assets and liabilities de-consolidated in the consolidated financial statements, and the cash flow effect and effects of the de-consolidation of the Xinfei Companies were:

	2018
	$'000
Property, plant and equipment	67,345
Land use rights	18,106
Intangible asset	43,811
Inventories	38,103
Trade and other receivables	57,558
Cash and cash equivalents	5,201
	230,124
Trade and other payables	(114,446)
Provisions	(6,002)
Loans and borrowings	(81,289)
Deferred tax liabilities	(8,834)
Carrying value of net assets	19,553
Less: Non-controlling interests	38,665
Realisation of reserves	(48,915)
Net assets de-consolidated	9,303
Consideration	–
Less: Cash and cash equivalents of subsidiaries de-consolidated	(5,201)
Net cash outflow on de-consolidation of subsidiaries	(5,201)
Loss on de-consolidation:	
Consideration	–
Net assets de-consolidated	(9,303)
Loss on de-consolidation of subsidiaries	(9,303)

7. Investment in subsidiaries (cont'd)

(g) De-consolidation of subsidiaries and discontinued operation (cont'd)

The operating performance of the Xinfei Companies, together with the net loss on de-consolidation of $9,303,000, has been presented separately under "loss from discontinued operation, net of tax" on the income statement. Comparative figures have been restated to conform to the current period's presentation. The results of discontinued operation for the period are presented below:

	Group	
	2018	**2017**
	$'000	$'000
Revenue	7,873	276,567
Expenses	(31,732)	(397,269)
Loss from operations before tax	(23,859)	(120,702)
Income tax expense	–	–
Loss from operations after tax	(23,859)	(120,702)
Loss on de-consolidation of subsidiaries	(9,303)	–
Loss from discontinued operation, net of tax	(33,162)	(120,702)
Attributable to:		
Owners of the Company	(30,776)	(108,632)
Non-controlling interests	(2,386)	(12,070)
	(33,162)	(120,702)
Loss per share (cents per share) from discontinued operation		
- Basic	(7.00)	(32.28)
- Diluted	(7.00)	(32.28)

The net cash flows incurred by discontinued operation are as follows:

	Group	
	2018	**2017**
	$'000	$'000
Operating	(4,223)	(58,305)
Investing	(137)	(4,879)
Financing	(225)	56,631
Net cash outflow	(4,585)	(6,553)

7. Investment in subsidiaries (cont'd)

(h) Disposal of interest in subsidiary

On 22 November 2017, the Group's subsidiary company, HL Global Enterprises Limited ("HLGE") disposed of its entire shareholding interest in its wholly owned subsidiary LKN Investment International Pte Ltd ("LKNII") together with LKNII's wholly-owned subsidiary, Shanghai Hutai Real Estate Development Co., Ltd ("Hutai"), to a third party for a cash consideration of RMB395 million (equivalent to $80,896,000).

The value of assets and liabilities of the disposal recorded in the consolidated financial statements and the cash flow effect, and the effects of the disposals were:

	2017
	$'000
Property, plant and equipment	21,400
Trade and other receivables	665
Cash and cash equivalents	1,868
	23,933
Trade and other payables	(765)
Provision for taxation	(9)
Deferred tax liabilities	(118)
Carrying value of net assets	23,041
Consideration less cost of disposal	70,924
Add: Transaction cost unpaid	6,817
Less: Retention sum receivables	(6,146)
Cash and cash equivalents of a subsidiary	(1,868)
Net cash inflow on disposal of a subsidiary	69,727
Gain on disposal:	
Consideration less cost of disposal	70,924
Net assets derecognised	(23,041)
Realisation of translation differences	(3,776)
Gain on disposal of a subsidiary	44,107

8. Interests in associates

The Group and Company's material investments in associates are summarised below:

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Singapore Cement Manufacturing Company (Private) Limited	20,052	20,196	19,914	13,726	13,726	13,726
Cement Industries (Sabah) Sdn. Bhd.	23,305	24,717	24,177	–	–	–
Other associates	2,023	2,130	4,248	–	–	–
	45,380	47,043	48,339	13,726	13,726	13,726

Name of significant associate	Country of incorporation	Principal activities	Effective equity interest		
			31 December 2018	**31 December 2017**	**1 January 2017**
			%	%	%
Held by the Company					
Singapore Cement Manufacturing Company (Private) Limited [(1)]	Singapore	Storage, packaging and distribution of cement	50	50	50
Held by the Group					
Cement Industries (Sabah) Sdn. Bhd. [(2)] [(3)]	Malaysia	Manufacture and sale of cement	22.28	22.28	22.28

(1) Audited by Ernst & Young LLP, Singapore.

(2) Audited by member firms of Ernst & Young Global.

(3) Proportion of ownership interest held by the Group in Cement Industries (Sabah) Sdn. Bhd. is 30% (31 December 2017 and 1 January 2017: 30%) as at 31 December 2018.

8. Interests in associates (cont'd)

The summarised financial information in respect of Singapore Cement Manufacturing Company (Private) Limited and Cement Industries (Sabah) Sdn. Bhd., based on its FRS financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Summarised balance sheets

	Singapore Cement Manufacturing Company (Private) Limited			Cement Industries (Sabah) Sdn. Bhd.			Total		
	As at 31 December 2018	**As at 31 December 2017**	**As at 1 January 2017**	**As at 31 December 2018**	**As at 31 December 2017**	**As at 1 January 2017**	**As at 31 December 2018**	**As at 31 December 2017**	**As at 1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current assets	29,543	31,441	28,988	47,799	45,949	47,887			
Non-current assets	17,228	17,171	18,381	40,381	42,441	44,837			
Total assets	46,771	48,612	47,369	88,180	88,390	92,724			
Current liabilities	(6,184)	(7,821)	(7,366)	(8,015)	(4,565)	(8,724)			
Non-current liabilities	(483)	(399)	(175)	(2,483)	(1,435)	(3,411)			
Total liabilities	(6,667)	(8,220)	(7,541)	(10,498)	(6,000)	(12,135)			
Net assets	40,104	40,392	39,828	77,682	82,390	80,589			
Proportion of the Group's ownership	50%	50%	50%	30%	30%	30%			
Carrying amount of significant associates	20,052	20,196	19,914	23,305	24,717	24,177	43,357	44,913	44,091
Carrying amount of other associates							2,023	2,130	4,248
Carrying amount of the investment in associates							45,380	47,043	48,339

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

8. Interests in associates (cont'd)

Summarised income statement and statement of comprehensive income

	Singapore Cement Manufacturing Company (Private) Limited		Cement Industries (Sabah) Sdn. Bhd.			Total
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	76,331	69,452	121,343	107,733		
Profit after tax	212	1,564	3,634	3,144		
Group's share of profit of significant associates	106	782	1,090	943	1,196	1,725
Group's share of loss of other associates					(94)	(2,195)
Group's share of profit/ (loss) of associates for the year					1,102	(470)
Other comprehensive income of significant associates	–	–	–	–	–	–
Other comprehensive income of other associates					–	–
Group's share of profit/ (loss) for the year representing the Group's share of total comprehensive income for the year					1,102	(470)

9. Interests in joint ventures

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000 (Restated)
Y&C Engine Co., Ltd.	30,918	25,034	19,950
MTU Yuchai Power Company Limited	11,843	13,622	–
Other joint ventures	16,748	1,497	1,514
	59,509	40,153	21,464

Particulars of the significant joint venture entities are as follows:

Names of significant joint venture entity	Country of incorporation	Principal activities	Effective equity interest		
			31 December 2018	31 December 2017	1 January 2017
			%	%	%
Joint venture entity of China Yuchai International Limited ("CYI")					
MTU Yuchai Power Company Limited ("MTU Yuchai") [(1) (2)]	The People's Republic of China	Manufacture off-road diesel engines	15.95	15.30	–
Y&C Engine Co., Ltd. [(1) (3)]	The People's Republic of China	Manufacture and sale of heavy duty diesel engines, spare parts and after-sales services	14.36	13.77	13.82

(1) Audited by member firms of Ernst & Young Global.

(2) Proportion of ownership interest held by the Group in MTU Yuchai Power Company Limited is 50% (31 December 2017: 50%, 1 January 2017: nil) as at 31 December 2018.

(3) Proportion of ownership interest held by the Group in Y&C Engine Co., Ltd. is 45% (31 December 2017 and 1 January 2017: 45%) as at 31 December 2018.

9. Interests in joint ventures (cont'd)

In 2017, the Group, together with another company in the engine industry, established MTU Yuchai, a manufacturer of off-road diesel engines. The Group's contribution to set up the investment was $15,309,000, and resulted in the Group obtaining a 50% investment in MTU Yuchai.

As at 31 December 2018, the Group's share of joint ventures' capital commitment that are contracted but not paid for was $7,540,000 (31 December 2017: $8,816,000, 1 January 2017: $2,282,000).

As at 31 December 2018, there were no contingent liabilities relating to the Group's joint ventures (31 December 2017: nil, 1 January 2017: Group's share of contingent liabilities were $2,699,000).

As at 31 December 2018, the Group's share of outstanding bill receivables endorsed to suppliers for which a joint venture retained a recourse obligation were $330,000 (31 December 2017: $4,769,000, 1 January 2017: $1,063,000).

Significant restrictions

As at 31 December 2018, the nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of joint ventures are:

- The Group's share of cash and cash equivalents of $5,413,000 (31 December 2017: $13,770,000, 1 January 2017: $5,494,000) held in the PRC that are subject to local exchange control regulations. These regulations places restriction on the amount of currency being exported other than through dividends, trade and service related transactions.

- There is no restricted cash (31 December 2017: The Group's share of restricted cash of $16,477,000, 1 January 2017: The Group's share of restricted cash of $3,765,000) was used as collateral by the banks for the issuance of bills to suppliers. The Group's share of bill receivables of $6,716,000 (31 December 2017: $2,488,000, 1 January 2017: nil) was used as collateral by the banks for the issuance of bills to suppliers.

- The Group's share of restricted trade receivables of $134,000 (31 December 2017: $1,386,000, 1 January 2017: $7,149,000) that were factored to large banks in China. The Group's joint ventures have obligation to the banks for its trade receivables with recourse.

9. Interests in joint ventures (cont'd)

Summarised financial information, in respect of Y&C Engine Co., Ltd. and MTU Yuchai Power Company Limited, based on its FRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Summarised balance sheets

	Y&C Engine Co., Ltd.		
	As at 31 December 2018	**As at 31 December 2017**	**As at 1 January 2017**
	$'000	$'000 (Restated)	$'000 (Restated)
Cash and short-term deposits	22,454	40,945	20,575
Other current assets	128,445	75,222	44,728
Total current assets	150,899	116,167	65,303
Non-current assets	150,076	160,618	138,477
Total assets	300,975	276,785	203,780
Current financial liabilities (excluding trade and other payables and provisions)	(10,235)	(6,597)	(14,297)
Other current liabilities	(187,142)	(179,006)	(98,866)
Non-current liabilities	(9,255)	(2,774)	(12,547)
Total liabilities	(206,632)	(188,377)	(125,710)
Net assets	94,343	88,408	78,070
Proportion of the Group's ownership	45%	45%	45%
Group's share of net assets	42,454	39,784	35,132
Unrealised profit on transactions with joint venture	(11,536)	(14,750)	(15,182)
Carrying amount of significant joint ventures	30,918	25,034	19,950
Carrying amount of other joint ventures			
Carrying amount of the investment in joint ventures			

MTU Yuchai Power Company Limited			Total		
As at 31 December 2018	**As at 31 December 2017**	**As at 1 January 2017**	**As at 31 December 2018**	**As at 31 December 2017**	**As at 1 January 2017**
$'000	$'000	$'000	$'000	$'000	$'000
					(Restated)
4,311	23,154	–			
41,512	4,664	–			
45,823	27,818	–			
14,367	6,557	–			
60,190	34,375	–			
–	–	–			
(34,604)	(7,131)	–			
–	–	–			
(34,604)	(7,131)	–			
25,586	27,244	–			
50%	50%	–			
12,793	13,622	–			
(950)	–	–			
11,843	13,622	–	42,761	38,656	19,950
			16,748	1,497	1,514
			59,509	40,153	21,464

9. Interests in joint ventures (cont'd)

Summarised income statement and statement of comprehensive income

	Y&C Engine Co., Ltd.		MTU Yuchai Power Company Limited		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	293,783	271,850	32,687	–		
Depreciation and amortisation	(9,212)	(4,252)	(762)	(46)		
Interest income	434	–	39	–		
Interest expense	(5,442)	(5,851)	(344)	(70)		
Profit/(loss) after tax	8,826	11,427	(854)	(3,464)		
Group's share of profit/(loss)	3,972	5,142	(427)	(1,732)		
Unrealised profit on transactions with joint venture	(387)	(1,518)	(974)	–		
Group's share of profit/(loss) of significant joint ventures	3,585	3,624	(1,401)	(1,732)	2,184	1,892
Group's share of profit of other joint ventures					176	144
Group's share of profit of joint ventures for the year					2,360	2,036
Other comprehensive income of significant joint ventures	–	–	–	–	–	–
Other comprehensive income of other joint ventures					(163)	–
Group's share of profit for the year representing the Group's share of total comprehensive income for the year					2,197	2,036

10. Investment property

	Group 2018 $'000	Group 2017 $'000
Cost		
At 1 January	6,747	6,603
Translation differences	–	144
At 31 December	6,747	6,747
Accumulated depreciation		
At 1 January	5,225	5,087
Charge for the year	180	51
Translation differences	(2)	87
At 31 December	5,403	5,225
Net carrying amount	1,344	1,522
Fair value	2,162	2,162
Income statement:		
Rental income	89	76
Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property	(233)	(104)

The Group has no restrictions on the realisability of its investment property and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The fair value is determined by independent professional valuers that has the appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. In valuing the investment property, due consideration is given to factors such as location and size of building, building infrastructure, market knowledge, historical transactions and other relevant factors to arrive at their opinion of value.

The following table shows information about fair value measurement of the investment property using significant unobservable inputs (Level 3):

	Valuation techniques	Unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
2018	Market comparison and cost method	Comparable price: - Land: $5 to $7 per square foot - Retail: $72 to $180 per square foot	The estimated fair value increases with higher comparable price
2017	Market comparison and cost method	Comparable price: - Land: $5 to $7 per square foot - Retail: $72 to $180 per square foot	The estimated fair value increases with higher comparable price

11. Other investments

(a) Financial instruments as at 31 December 2018

	Group 2018 $'000
Non-current	
At fair value through other comprehensive income	
Quoted equity securities	
- related corporations (quoted in Singapore)	1,532
- other companies (quoted in Singapore and Malaysia)	1,382
	2,914
Current	
At fair value through profit or loss	
Quoted equity securities	
- other company (quoted in Singapore)	4,353

<u>Investment in equity instruments designated at fair value through other comprehensive income</u>

The Group has elected to measure these equity securities at FVOCI due to the Group's intention to hold these equity instruments for long-term appreciation.

(b) Financial instruments as at 31 December 2017 and 1 January 2017

	Group 31 December 2017 $'000	Group 1 January 2017 $'000
Non-current		
Available-for-sale financial assets		
Quoted equity securities		
- related corporations	2,022	1,434
- other companies	3,180	–
	5,202	1,434
Current		
Held for trading		
Quoted equity securities		
- other companies	5,061	2,531
Available-for-sale financial assets		
Quoted equity securities		
- other company	–	12
	5,061	2,543

12. Non-current receivables

	Group			Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Amounts due from subsidiaries	–	–	–	318,744	311,643	252,118
Amounts due from associate and joint ventures	–	127	330	–	–	–
Lease receivables	401	1,085	2,021	–	–	–
Retention sums	4,388	7,083	3,909	–	–	–
Others	108	80	385	–	–	–
Less: Impairment losses	–	–	–	(298,744)	(144,800)	(81,000)
	4,897	8,375	6,645	20,000	166,843	171,118

Group

The amounts due from associate and joint ventures and retention sums are unsecured, non-interest bearing and not expected to be repaid within the next 12 months.

Lease receivables relate to receivables from the lease of cement trucks to ownership drivers under the owner driver scheme. The lease receivables are unsecured and are to be settled in cash. Full payment of the purchase price of cement trucks will be made over a period of approximately five years.

	Group					
	31 December 2018		31 December 2017		1 January 2017	
	Gross lease receivables	Present value of minimum lease payments receivables	Gross lease receivables	Present value of minimum lease payments receivables	Gross lease receivables	Present value of minimum lease payments receivables
	$'000	$'000	$'000	$'000	$'000	$'000
Within 1 year (Note 16)	967	903	1,060	998	1,761	1,699
After 1 year but within 5 years	422	401	1,161	1,085	2,157	2,021
Total gross lease receivables	1,389	1,304	2,221	2,083	3,918	3,720
Less: Amounts representing unearned finance income	(85)	–	(138)	–	(198)	–
Present value of minimum lease payments receivables	1,304	1,304	2,083	2,083	3,720	3,720

Other non-current receivables include non-trade amounts due from third parties for the disposal of vehicles under the lorry-owned driver schemes on a deferred payment basis.

12. Non-current receivables (cont'd)

Company

The amounts due from subsidiaries are non-trade in nature, unsecured and non-interest bearing except for an amount of $20,000,000 which bears interest at weighted average rate of 3.4% per annum and is due in 2021. The settlement of the other amounts is neither planned nor likely to occur in the foreseeable future.

As at 1 January 2018, management has reassessed the nature and repayment terms of amounts due from certain subsidiaries. Accordingly, these amounts were reclassified from non-current receivables to investment in subsidiaries (note 7).

During the year ended 31 December 2018, management has performed an impairment review of non-current amounts due from certain subsidiaries in view of continued operating losses incurred by these business units in the PRC. As a result of the review, the Company recognised an impairment loss on amounts due from subsidiaries of $190,944,000 (2017: $63,800,000) for the year ended 31 December 2018.

The impairment assessment process is complex and involved significant judgements and estimates of expected future market and economic conditions that may have an impact on the valuation of the business.

Consumer products segment

As at 1 January 2017, the Company assessed the recoverable amount of the non-current amounts due from subsidiaries based on the value in use calculation of the relevant cash generating units ("CGUs"), using the discounted cash flow approach covering a five year period. Cash flow projections prepared by management have taken into consideration factors such as historical growth and industry outlook in the PRC.

The key assumptions used in the 2016 assessment are:

- Discount rate of 15.5% which reflects the current market assessment of the risks specific to the CGU.

- Revenue growth rate per annum of 22% - 35% in the first four years and 9% in fifth year.

If the discount rate increases by 1% from management's estimate, the Company's impairment loss on receivables will increase by $3,150,000.

As at 31 December 2017, in view of the Restructuring Exercise, management has assessed the recoverable amount of this subsidiary against the total debts of the consumer products segment and recognised an impairment loss of $63,800,000 in the Company's income statement for the year ended 31 December 2017. An additional impairment loss of $190,944,000 was recognised in the Company's income statement for the year ended 31 December 2018.

The impairment was made having considered the estimated recovery rate of the receivables by the Company. The estimated recovery rate was based on the net realisable amounts of the underlying assets and liabilities of the Consumer products segment.

Air-conditioning systems segment

As at 31 December and 1 January 2017, the Company assessed the recoverable amount of the non-current amounts due from subsidiaries based on the value in use calculation of the relevant cash generating units ("CGUs"), using the discounted cash flow approach covering a five year period. Cash flow projections prepared by management have taken into consideration factors such as historical growth and industry outlook in the PRC.

In 2017, no further impairment was identified based on management's assessment.

12. Non-current receivables (cont'd)

Company (cont'd)

Air-conditioning systems segment (cont'd)

The key assumptions used in the assessment are:

- Discount rate of 15.0% (1 January 2017: 15.0%) which reflects the current market assessment of the risks specific to the CGU.

- Revenue ramp up in first year, followed by growth rate of 20% - 40% per annum for the next 4 years (1 January 2017: 20% - 60% per annum for first 5 years).

If the discount rate increases by 1% from management's estimate, the Company's impairment loss on receivables will increase by $320,000 (1 January 2017: $330,000).

13. Deferred tax

Movements in deferred tax assets and liabilities during the year are as follows:

Group	At 1 January 2018	Recognised in income statement	Withholding taxes paid on remittance of dividends	De-consolidation of subsidiaries	Translation differences	At 31 December 2018
	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax liabilities						
Property, plant and equipment	(11,269)	(66)	–	–	158	(11,177)
Unremitted income	(3,962)	(222)	–	1,852	–	(2,332)
Withholding tax on dividend income	(18,733)	(7,938)	4,782	–	657	(21,232)
Indefinite life intangible assets	(6,982)	–	–	6,982	–	–
Other items	(551)	538	–	–	13	–
Total	(41,497)	(7,688)	4,782	8,834	828	(34,741)
Deferred tax assets						
Property, plant and equipment	3,305	(571)	–	–	(76)	2,658
Inventories	3,648	(288)	–	–	(108)	3,252
Intangible assets	1,083	551	–	–	(47)	1,587
Trade and other receivables	1,529	(397)	–	–	(35)	1,097
Provisions	38,629	3,182	–	–	(1,272)	40,539
Deferred grants	10,583	2,525	–	–	(381)	12,727
Other items	6,568	4,777	–	–	(271)	11,074
Total	65,345	9,779	–	–	(2,190)	72,934

13. Deferred tax (cont'd)

Movements in deferred tax assets and liabilities during the year are as follows:

Group	At 1 January 2017 (FRS framework)	Cumulative effects of adopting SFRS(I)	At 1 January 2017 (SFRS(I) framework)
	$'000	$'000	$'000
Deferred tax liabilities			
Property, plant and equipment	(12,082)	–	(12,082)
Unremitted income	(4,019)	–	(4,019)
Withholding tax on dividend income	(19,613)	–	(19,613)
Indefinite life intangible assets	(6,982)	–	(6,982)
Other items	(673)	–	(673)
Total	(43,369)	–	(43,369)
Deferred tax assets			
Property, plant and equipment	1,371	–	1,371
Inventories	4,477	–	4,477
Intangible assets	789	–	789
Trade and other receivables	1,959	–	1,959
Provisions	33,793	–	33,793
Deferred grants	9,337	–	9,337
Other items	10,637	(5,401)	5,236
Total	62,363	(5,401)	56,962

Recognised in income statement $'000	Withholding taxes paid on remittance of dividends $'000	Disposal of a subsidiary $'000	Translation differences $'000	At 31 December 2017 $'000
931	–	–	(118)	(11,269)
(63)	–	118	2	(3,962)
(5,924)	6,492	–	312	(18,733)
–	–	–	–	(6,982)
117	–	–	5	(551)
(4,939)	6,492	118	201	(41,497)
1,927	–	–	7	3,305
(761)	–	–	(68)	3,648
304	–	–	(10)	1,083
(401)	–	–	(29)	1,529
5,381	–	–	(545)	38,629
1,376	–	–	(130)	10,583
1,412	–	–	(80)	6,568
9,238	–	–	(855)	65,345

13. Deferred tax (cont'd)

The following table represents the classification of the Group's net deferred tax assets:

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000 (Restated)
Deferred tax assets	72,934	65,345	56,962
Deferred tax liabilities	(34,741)	(41,497)	(43,369)
	38,193	23,848	13,593

Deferred tax assets and liabilities of the Company (prior to offsetting of balances) are attributable to the following:

	Company		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Deferred tax liabilities			
Property, plant and equipment	(16)	(12)	(15)
Unremitted income	(2,325)	(2,103)	(2,034)
	(2,341)	(2,115)	(2,049)
Deferred tax assets			
Provisions	8	15	12

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting included in the balance sheet are as follows:

	Company		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Deferred tax assets	8	15	12
Deferred tax liabilities	(2,341)	(2,115)	(2,049)
	(2,333)	(2,100)	(2,037)

13. Deferred tax (cont'd)

Deferred tax assets have not been recognised in respect of the following items:

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Unutilised tax losses	140,495	641,140	619,215
Unutilised capital allowances and investment allowances	34,099	21,968	22,189
Other unrecognised temporary differences relating to provisions and deferred grants	44,262	105,204	104,884
	218,856	768,312	746,288

Unutilised tax losses and unabsorbed capital allowances for the Group are subject to agreement with the tax authorities and compliance with tax regulations in the respective countries in which the Group operates. The unabsorbed capital allowances do not expire under current tax legislation. The unutilised tax losses will expire within the next 5 to 7 years, except for an amount of $11,239,000 (31 December 2017: $23,022,000, 1 January 2017: $21,302,000) with no expiry date. 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 Group can utilise the benefits.

14. Inventories

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Raw materials and consumables	289,893	298,199	239,777
Manufacturing work-in-progress	16,278	18,011	11,864
Finished goods	256,558	315,607	213,338
Total inventories at the lower of cost and net realisable value	562,729	631,817	464,979

	2018	2017
	$'000	$'000 (Restated)
Inventories recognised as an expense in cost of sales (Note 25)	2,530,848	2,435,884
Inclusive of the following charge/(credit):		
- Inventory obsolescence	5,566	4,691
- Reversal of inventory obsolescence	(6,888)	(7,715)

The reversal of inventory obsolescence was made when the related inventories were sold above their carrying value.

15. Development properties

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Freehold land	2,931	3,791	3,720
Development costs	11,086	11,082	10,887
Allowance for anticipated losses	(9,992)	(9,992)	(9,749)
	4,025	4,881	4,858

Movements in the carrying amounts of development properties are as follows:

	Group	
	2018	2017
	$'000	$'000
At 1 January	4,881	4,858
Sale of development property	(860)	(77)
Work-in-progress	4	–
Translation adjustment	–	100
At 31 December	4,025	4,881

No borrowing cost has been capitalised in 2018 and 2017.

The change in allowance for anticipated losses in respect of development properties during the year is as follows:

	Group	
	2018	2017
	$'000	$'000
At 1 January	9,992	9,749
Translation differences	–	243
At 31 December	9,992	9,992

16. Trade and other receivables

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000 (Restated)
Trade receivables	181,410	191,314	227,083
Bill receivables	1,386,734	1,422,887	1,441,785
Less: Impairment losses	(3,201)	(19,862)	(12,561)
Net trade receivables	1,564,943	1,594,339	1,656,307
Amounts receivable from:			
- ultimate holding company (non-trade)	34	42	43
- immediate holding company (non-trade)	–	10	15
- associates and joint ventures (trade)	35	2,699	44,200
- associates and joint ventures (non-trade)	11,184	156	4,189
- other related corporations (trade)	8,174	7,466	1,924
- other related corporations (non-trade)	434	1,482	59
Advances paid to suppliers	21,885	18,507	11,715
Prepaid expenses	4,586	5,241	4,458
Refundable deposits	3,061	3,256	3,236
Tax recoverable	33,171	53,339	34,329
Lease receivables (Note 12)	903	998	1,699
Other receivables	335,270	28,840	30,069
Less: Impairment losses - other receivables	(299,335)	(1,631)	(1,266)
Net other receivables	119,402	120,405	134,670
Total trade and other receivables	1,684,345	1,714,744	1,790,977

	Company		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Amounts receivable from:			
- ultimate holding company (non-trade)	34	42	43
- immediate holding company (non-trade)	9	9	8
- subsidiaries (non-trade)	247,299	215,971	225,707
- other related corporations (non-trade)	6	5	6
Prepaid expenses	30	33	49
Refundable deposits	36	28	28
Other receivables	13,251	–	–
Less: Impairment losses	(15,159)	–	–
Total trade and other receivables	245,506	216,088	225,841

16. Trade and other receivables (cont'd)

Group

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Bill receivables have contractual maturities of up to 12 months from the date of bills issuance.

The non-trade balances due from ultimate and immediate holding companies, associates, joint ventures and other related corporations are unsecured, interest-free, repayable on demand and are to be settled in cash.

As at 31 December 2018, other receivables included an amount of approximately $321,761,000 (31 December 2017 and 1 January 2017: nil) due from subsidiaries of the consumer products segment. Upon the de-consolidation of these subsidiaries in 2018 (Note 7(g)), the amount, which had been largely provided for, was reported as other receivables on the Group's balance sheet.

As at 31 December 2017, other receivables included an amount of approximately $4,500,000 (1 January 2017: $4,566,000) which was the subject of litigation, instituted by a PRC-based subsidiary of the Group, against a major bank in the PRC.

The maximum exposure to credit risk for trade receivables at the reporting date is as follows:

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Diesel engines	1,467,477	1,440,059	1,466,497
Consumer products	–	68,989	95,811
Building materials	90,517	76,041	85,424
Industrial packaging	6,457	7,645	8,084
Air-conditioning systems	492	1,605	491
	1,564,943	1,594,339	1,656,307

Company

The non-trade balances due from subsidiaries include loans and advances of $110,879,000 (31 December 2017: $94,768,000, 1 January 2017: $104,456,000) which bear interest at rates ranging from 2.08% to 3.19% (31 December 2017: 1.67% to 2.71%, 1 January 2017: 1.00% to 2.91%) per annum. The weighted average effective interest rate per annum at the balance sheet date in respect of the interest-bearing balances is 2.30% (31 December 2017: 2.03%, 1 January 2017: 1.43%) per annum. Interest rates will be repriced within 12 months. These balances are repayable on demand and are to be settled in cash.

The remaining non-trade balances are unsecured, interest-free, repayable on demand and are to be settled in cash.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2018

16. Trade and other receivables (cont'd)

Ageing analysis

The ageing of trade and other receivables (excluding advances paid to suppliers, prepaid expenses, refundable deposits and tax recoverable), non-current receivables (Note 12) and amounts due from subsidiaries at reporting date is as follows:

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000 (Restated)	$'000	$'000	$'000
Neither past due nor impaired	1,535,686	1,547,784	1,664,465	28,224	2,023	22,459
Past due but not impaired						
- Past due 0 to 30 days	26,726	32,591	30,509	13,863	120	139
- Past due 31 to 120 days	24,263	43,001	29,956	4,998	21,331	31,322
- Past due 121 days to one year	12,150	3,817	4,752	2,055	42,745	68,337
- More than one year	27,714	15,583	14,202	216,300	316,651	274,625
Impaired	302,536	21,493	13,827	313,903	144,800	81,000
	1,929,075	1,664,269	1,757,711	579,343	527,670	477,882

The Group's and Company's movement in allowances for trade and other receivables and non-current receivables at the end of the reporting period is as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000
At 1 January	21,493	13,827	144,800	81,000
Impairment losses (written back)/made	(2,050)	10,029	206,103	63,800
Amounts written off	(475)	(2,205)	–	–
Transfer to investment in subsidiaries (Note 7)	–	–	(37,000)	–
Reclassified due to de-consolidation of subsidiaries	288,442	–	–	–
Translation differences	(4,874)	(158)	–	–
At 31 December	302,536	21,493	313,903	144,800

The Group's historical experience in the collection of trade and other receivables falls within the recorded allowances. Due to this factor, management believes that no additional credit risks beyond the amount provided for collection losses are inherent in the Group's trade and other receivables.

16. Trade and other receivables (cont'd)

Ageing analysis (cont'd)

The movement in allowance for expected credit losses of trade and other receivables computed based on lifetime ECL are as follow:

	Company
	2018
	$'000
At 1 January	–
Impairment losses made	2,790
At 31 December	2,790

The Group receives financial guarantees given by banks, shareholders or directors of customers in managing exposure to credit risks. At the reporting date, the Group received financial guarantees up to a limit of $29,972,000 (31 December 2017: $27,420,000, 1 January 2017: $23,258,000) for certain trade receivables. These guarantees included cash collateral held from certain customers of $10,449,000 (31 December 2017: $6,502,000, 1 January 2017: $4,609,000). The remaining balance of trade receivables are not secured by any collateral or supported by any other credit enhancements.

As at 31 December 2018, outstanding bill receivables endorsed to suppliers with recourse obligation were $323,216,000 (31 December 2017: $303,740,000, 1 January 2017: $215,724,000).

Assets pledged as security

As at 31 December 2018, the Group's bill receivables with a carrying value of $104,092,000 (31 December 2017 and 1 January 2017: nil) were pledged to secure the Group's bank loans (Note 21).

16. Trade and other receivables (cont'd)

Receivables subject to offsetting arrangements

The Company had certain counterparties with receivables and payables that are off-set as follows:

	Gross carrying amounts $'000	Gross amounts offset in the balance sheet $'000	Net amounts in the balance sheet $'000
Company			
31 December 2018			
Current			
Amounts due from subsidiaries	448	(136)	312
Amounts due to subsidiaries	(136)	136	–
31 December 2017			
Current			
Amounts due from subsidiaries	94,174	(181)	93,993
Amounts due to subsidiaries	(181)	181	–
1 January 2017			
Current			
Amounts due from subsidiaries	145	(33)	112
Amounts due to subsidiaries	(1,132)	33	(1,099)

16. Trade and other receivables (cont'd)

Receivables subject to an enforceable master netting arrangement that are not otherwise set-off

The Group had certain counterparties with receivables and payables subject to an enforceable master netting arrangement that are not otherwise set-off as follows:

	Gross carrying amounts	Related amounts not set off in the balance sheet	Net amounts
	$'000	$'000	$'000
Group			
31 December 2018			
Trade and other receivables	13,854	(2,516)	11,338
Trade and other payables	(5,568)	2,516	(3,052)
31 December 2017			
Trade and other receivables	13,462	(2,422)	11,040
Trade and other payables	(3,722)	2,422	(1,300)
1 January 2017			
Trade and other receivables	17,394	(5,414)	11,980
Trade and other payables	(5,818)	5,414	(404)

17. Cash, short-term deposits and long-term deposits

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Short-term fixed deposits	239,248	347,910	314,334	14,360	17,814	1,500
Cash at banks and in hand	1,068,828	1,016,024	719,364	14,915	1,347	982
	1,308,076	1,363,934	1,033,698	29,275	19,161	2,482
Long-term fixed deposits	13,902	14,336	–	–	–	–
	1,321,978	1,378,270	1,033,698	29,275	19,161	2,482
Long-term fixed deposits	(13,902)	(14,336)	–			
Bank overdraft (Note 21)	–	–	(387)			
Short-term deposits*	(70,891)	(85,560)	(75,571)			
Restricted deposits	(13,080)	(16,270)	(12,569)			
Cash and cash equivalents in the cash flow statement	1,224,105	1,262,104	945,171			

* Relate to certain bank deposits with initial maturities of more than three months and subject to more than insignificant risk of changes in value upon withdrawal before maturity.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group and the Company, and earn interests at the respective short-term deposit rates.

Restricted deposits represent bank balances of certain subsidiaries placed with banks to obtain credit facilities and loans. Long-term deposits are placed with banks with tenure above 12 months and earn interest at the respective long-term deposit rates.

The weighted average effective interest rates per annum of the fixed deposits at the balance sheet date are as follows:

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	%	%	%	%	%	%
Fixed deposits	1.62	1.66	2.15	0.84	1.18	0.60

Interest rates will be repriced within 12 months.

18. Assets of disposal group classified as held for sale

On 19 October 2017, LKNII has completed the sale of its 60% equity interest in Copthorne Hotel Qingdao Co., Ltd. and recognised gain on disposal of $22,213,000 in the Group's income statement for the year ended 31 December 2017.

The value of asset and related reserves of the disposal recorded in the consolidated financial statements, and the cash flow effect of the disposal was:

	2017
	$'000
Interests in joint ventures, representing assets of disposal group classified as held for sale	18,397
Consideration less cost of disposal, representing net cash inflow on disposal of the joint venture	37,288
Gain on disposal:	
Consideration less cost of disposal	37,288
Interests in joint ventures derecognised	(18,397)
Realisation of foreign currency translation reserves upon disposal	4,685
Waiver of amount due from joint venture	(1,671)
Exchange differences	308
Gain on disposal of a joint venture	22,213

19. Share capital

	Group and Company			
	2018		**2017**	
	No. of shares	**Amount**	**No. of shares**	**Amount**
	'000	$'000	'000	$'000
Issued and fully paid ordinary shares, with no par value				
At 1 January	373,908	266,830	373,908	266,830
Shares issued during the year	373,909	201,911	–	–
Share issuance expenses	–	(851)	–	–
At 31 December	747,817	467,890	373,908	266,830

During the year, the Company allotted and issued 373,908,559 ordinary shares at $0.54 per share for an aggregate cash consideration of $201,911,000 pursuant to a Rights Issue exercise. There was no option exercised under its Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme") (Note 31).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

20. Reserves

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000 (Restated)	$'000 (Restated)	$'000	$'000	$'000
Capital reserve	4,351	4,391	4,442	9,199	9,199	9,199
Statutory reserve	15,425	33,753	33,369	–	–	–
Fair value reserve	2,192	45,859	45,246	–	–	–
Share option reserve	5,243	5,243	4,231	2,467	2,467	2,467
Translation reserve	(26,394)	(8,686)	–	–	–	–
Surplus on changes of non-controlling interests	51,298	35,397	34,775	–	–	–
Accumulated profits/ (losses)	226,847	233,144	309,039	(273,718)	(55,562)	8,516
	278,962	349,101	431,102	(262,052)	(43,896)	20,182

(a) Capital reserve comprises:

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Merger reserve	392	392	392	–	–	–
Business participation fee and realised capital gain on disposal of investments	3,046	3,046	3,046	9,199	9,199	9,199
Adjustment relating to shares of the Company issued to an associate for assets transferred to the Company	(11,380)	(11,380)	(11,380)	–	–	–
Others	12,293	12,333	12,384	–	–	–
	4,351	4,391	4,442	9,199	9,199	9,199

The merger reserve relates to reserve arising from certain acquisitions accounted for under the pooling of interests method.

20. Reserves (cont'd)

(b) Statutory reserve comprises the Group's share of general reserves of its subsidiaries in the PRC which are not available for dividends or other payments. The transfers are required to be made at the rate of 10% (2017: 10%) of profit after tax of subsidiaries arrived at under generally accepted accounting principles applicable in the PRC. The transfer to the statutory reserve is mandatory until the cumulative total of the statutory reserve reaches 50% of the subsidiary's registered capital. Subject to the approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The statutory reserve is not available for dividend distribution to shareholders.

c) The fair value reserve includes:

- the cumulative net change in the fair value of equity instruments designated at fair value through OCI (2017: available-for-sale investments);
- the cumulative net change in the fair value of debt instruments at fair value through OCI until the assets are derecognised or reclassified; and
- the Group's share of the post-acquisition fair value adjustments arising from the allocation of purchase price to the identifiable net assets and contingent liabilities of subsidiaries.

(d) The share option reserve comprises the cumulative value of employee services received for the issue of share options. The amount in the reserve is retained when the option is exercised or expired.

(e) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of monetary items used to form part of the Group's net investments in foreign entities.

21. Loans and borrowings

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Current liabilities						
Unsecured bank overdraft	–	–	387	–	–	–
Unsecured bank loans	444,250	665,821	523,815	66,324	175,075	182,142
Secured bank loans	99,501	10,883	11,979	–	–	–
Obligations under finance leases (Note 32)	906	1,005	1,707	–	–	–
	544,657	677,709	537,888	66,324	175,075	182,142
Non-current liabilities						
Unsecured bank loans	229,900	203,000	140,000	226,900	200,000	140,000
Secured bank loans	–	13,607	24,974	–	–	–
Obligations under finance leases (Note 32)	408	1,094	2,036	–	–	–
	230,308	217,701	167,010	226,900	200,000	140,000
Total loans and borrowings	774,965	895,410	704,898	293,224	375,075	322,142

The obligations under finance leases are secured by a charge over the leased assets (Note 3). The average discount rate implicit in the leases is 1.32% (31 December 2017: 1.32%, 1 January 2017: 1.33%) per annum.

21. Loans and borrowings (cont'd)

The secured bank loans are secured on assets with the following carrying values:

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Property, plant and equipment (Note 3)	7	16,958	17,560
Land use rights (Note 4)	–	–	14,758
Investment in a subsidiary	–	34,235	33,456
Bill receivables (Note 16)	104,092	–	–

These loans and borrowings have externally imposed capital requirements on certain subsidiaries of the Group which have been complied with or waiver of compliance obtained by the respective subsidiaries before reporting dates for the financial years ended 31 December 2018 and 2017.

Terms and conditions of outstanding loans and borrowings are as follows:

	31 December 2018		
Group	**Weighted average interest rate**	**Year of maturity**	**Carrying amount**
	%		$'000
Secured bank loans:			
- USD floating rate loans	3.5	2019	99,501
Unsecured bank loans:			
- RMB floating rate loans	4.4	2019	338,083
- HKD floating rate loans	3.6	2019	262
- SGD floating rate loans	2.4	2019	102,159
- SGD floating rate loans	3.0	2020	189,900
- SGD floating rate loans	3.4	2021	40,000
- MYR fixed rate loans	3.7	2019	3,746
			674,150
Obligations under finance leases:			
- SGD fixed rate loans	1.3	2019	906
- SGD fixed rate loans	1.4	2020	289
- SGD fixed rate loans	1.3	2021	10
- SGD fixed rate loans	1.4	2022	109
			1,314
			774,965
Company			
Unsecured bank loans:			
- SGD floating rate loans	2.8	2019	66,324
- SGD floating rate loans	3.0	2020	186,900
- SGD floating rate loans	3.4	2021	40,000
			293,224

21. Loans and borrowings (cont'd)

	31 December 2017		
Group	**Weighted average interest rate**	**Year of maturity**	**Carrying amount**
	%		$'000
Secured bank loans:			
- MYR floating rate loans	5.1	2018	10,883
- MYR floating rate loans	5.1	2019	11,213
- MYR floating rate loans	6.0	2020	2,394
			24,490
Unsecured bank loans:			
- RMB floating rate loans	4.2	2018	430,762
- HKD floating rate loans	2.3	2018	257
- MYR floating rate loans	5.2	2018	1,649
- SGD floating rate loans	1.9	2018	149,445
- SGD floating rate loans	1.9	2019	60,000
- SGD floating rate loans	2.2	2020	143,000
- RMB fixed rate loans	5.0	2018	30,720
- MYR fixed rate loans	3.8	2018	2,988
- SGD fixed rate loans	4.6	2018	50,000
			868,821
Obligations under finance leases:			
- MYR fixed rate loans	2.6	2018	4
- SGD fixed rate loans	1.3	2018	1,001
- SGD fixed rate loans	1.3	2019	113
- SGD fixed rate loans	1.3	2020	972
- SGD fixed rate loans	1.3	2021	9
			2,099
			895,410
Company			
Unsecured bank loans:			
- RMB floating rate loans	4.8	2018	64,205
- SGD floating rate loans	1.8	2018	110,870
- SGD floating rate loans	2.3	2019	60,000
- SGD floating rate loans	2.2	2020	140,000
			375,075

21. Loans and borrowings (cont'd)

	1 January 2017		
Group	**Weighted average interest rate**	**Year of maturity**	**Carrying amount**
	%		$'000
Secured bank loans:			
- RMB floating rate loans	8.3	2017	779
- MYR floating rate loans	5.1	2017	11,200
- MYR floating rate loans	5.1	2019	21,594
- MYR floating rate loans	5.9	2020	3,380
			36,953
Unsecured bank loans:			
- RMB floating rate loans	4.5	2017	218,967
- USD floating rate loans	2.4	2017	63,527
- HKD floating rate loans	2.2	2017	279
- MYR floating rate loans	5.4	2017	3,600
- SGD floating rate loans	2.0	2017	151,818
- SGD floating rate loans	1.7	2018	80,000
- SGD floating rate loans	2.0	2019	60,000
- RMB fixed rate loans	5.0	2017	31,170
- SGD fixed rate loans	4.6	2017	50,000
- MYR fixed rate loans	3.8	2017	4,454
- Bank overdraft	7.8	2017	387
			664,202
Obligations under finance leases:			
- MYR fixed rate loans	2.6	2017	5
- MYR fixed rate loans	2.6	2018	3
- SGD fixed rate loans	1.3	2017	1,702
- SGD fixed rate loans	1.3	2019	367
- SGD fixed rate loans	1.3	2020	1,654
- SGD fixed rate loans	1.3	2021	12
			3,743
			704,898
Company			
Unsecured bank loans:			
- USD floating rate loans	1.7	2017	41,905
- RMB floating rate loans	6.8	2017	31,170
- SGD floating rate loans	2.1	2017	109,067
- SGD floating rate loans	1.7	2018	80,000
- SGD floating rate loans	2.0	2019	60,000
			322,142

21. Loans and borrowings (cont'd)

A reconciliation of liabilities arising from financing activities is as follows:

	2017	Cash flows	Non-cash changes			2018
			Foreign exchange movement	De-consolidation of subsidiaries	Other	
	$'000	$'000	$'000	$'000	$'000	$'000
Loans						
- current	676,704	(100,040)	(11,624)	(81,289)	60,000	543,751
- non-current	216,607	73,293	–	–	(60,000)	229,900
Obligations under finance leases						
- current	1,005	(786)	–	–	687	906
- non-current	1,094	–	1	–	(687)	408
	895,410	(27,533)	(11,623)	(81,289)	–	774,965

	2016	Cash flows	Non-cash changes		2017
			Foreign exchange movement	Other	
	$'000	$'000	$'000	$'000	$'000
Bank overdraft	387	(387)	–	–	–
Loans					
- current	535,794	146,541	(2,485)	(3,146)	676,704
- non-current	164,974	48,307	180	3,146	216,607
Obligations under finance leases					
- current	1,707	(1,644)	–	942	1,005
- non-current	2,036	–	–	(942)	1,094
	704,898	192,817	(2,305)	–	895,410

The 'other' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time.

21. Loans and borrowings (cont'd)

The following are the expected contractual undiscounted cash outflows of financial liabilities, including interest payments and excluding the impact of netting agreements:

Group	Carrying amount	Contractual cash flows	Cash flows Within 1 year	1 to 5 years	More than 5 years
	$'000	$'000	$'000	$'000	$'000
31 December 2018					
Floating interest rate loans	769,905	801,574	562,944	238,630	–
Fixed interest rate loans	3,746	3,884	3,884	–	–
Obligations under finance leases	1,314	1,399	970	429	–
Trade and other payables	1,479,583	1,479,583	1,479,583	–	–
Non-current payables	31,794	31,794	–	31,794	–
	2,286,342	2,318,234	2,047,381	270,853	–
31 December 2017					
Floating interest rate loans	809,603	839,398	615,615	223,783	–
Fixed interest rate loans	83,708	87,674	87,674	–	–
Obligations under finance leases	2,099	2,237	1,063	1,174	–
Trade and other payables	1,792,866	1,792,866	1,792,866	–	–
Non-current payables*	30,369	30,369	–	30,369	–
	2,718,645	2,752,544	2,497,218	255,326	–
1 January 2017					
Floating interest rate loans	615,144	636,370	465,074	171,296	–
Fixed interest rate loans	85,624	89,668	89,668	–	–
Obligations under finance leases	3,743	3,942	1,770	2,172	–
Bank overdraft	387	387	387	–	–
Trade and other payables	1,671,049	1,671,049	1,671,049	–	–
Non-current payables*	27,830	27,830	–	27,830	–
	2,403,777	2,429,246	2,227,948	201,298	–

* Excludes deferred income.

<u>**Company**</u>

	Carrying amount	Contractual cash flows	Within 1 year	1 to 5 years	More than 5 years
31 December 2018					
Floating interest rate loans	293,224	310,331	75,128	235,203	–
Trade and other payables	9,160	9,160	9,160	–	–
	302,384	319,491	84,288	235,203	–
31 December 2017					
Floating interest rate loans	375,075	392,071	184,608	207,463	–
Trade and other payables	18,865	18,865	18,865	–	–
	393,940	410,936	203,473	207,463	–
1 January 2017					
Floating interest rate loans	322,142	333,131	189,732	143,399	–
Trade and other payables	5,201	5,201	5,201	–	–
	327,343	338,332	194,933	143,399	–

22. Trade and other payables

	Group			Company		
	31 December 2018 $'000	31 December 2017 $'000 (Restated)	1 January 2017 $'000 (Restated)	31 December 2018 $'000	31 December 2017 $'000	1 January 2017 $'000
Trade payables	934,855	1,234,495	1,150,856	–	–	–
Accrued expenses	258,173	281,959	248,860	2,278	3,560	2,481
Other payables [(i)]	28,595	66,121	66,963	4,147	12,713	35
Refund liabilities	151,271	147,037	156,908	–	–	–
Deferred grants	4,386	4,637	4,641	–	–	–
Amounts due to:						
- immediate holding company (non-trade)	228	100	100	137	–	–
- subsidiaries (trade)	–	–	–	301	302	401
- subsidiaries (non-trade)	–	–	–	2,297	2,290	2,284
- associates and joint ventures (trade)	66,719	29,962	17,547	–	–	–
- associates and joint ventures (non-trade)	13	2,873	94	–	–	–
- other related corporations (trade)	28,945	19,220	23,441	–	–	–
- other related corporations (non-trade)	6,398	6,462	1,639	–	–	–
Total trade and other payables (current)	1,479,583	1,792,866	1,671,049	9,160	18,865	5,201

(i) As at 31 December 2018 and 2017, other payables for the Company included an obligation to a bank on behalf of subsidiaries pursuant to a guarantee arrangement.

	Group		
	31 December 2018 $'000	31 December 2017 $'000	1 January 2017 $'000
Provision for bonus	31,794	30,369	27,830
Deferred income	–	1,650	590
Other payables (non-current)	31,794	32,019	28,420

Trade payables / other payables

Current trade and other payables are normally settled on agreed credit terms ranging from 7 to 90 days' terms and are non-interest bearing.

Amounts due to related corporations

The balances with the immediate holding company, subsidiaries, associates, joint ventures and other related corporations are unsecured, interest-free, repayable on demand and are to be settled in cash.

Purchases from related corporations are made at terms agreed between the parties.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

23. Provisions

Group	Claims and restoration costs	Warranties	Onerous contracts	Total
	$'000	$'000	$'000	$'000
At 1 January 2017 (FRS framework)	10,406	58,148	1,105	69,659
Cumulative effects of adopting SFRS(I)	–	(14,514)	–	(14,514)
At 1 January 2017 (SFRS(I) framework)	10,406	43,634	1,105	55,145
Provision made	318	89,715	1,246	91,279
Provision utilised	(2,179)	(80,533)	–	(82,712)
Provision reversed	(3,975)	(5,998)	(372)	(10,345)
Translation differences	13	(363)	–	(350)
At 31 December 2017 and 1 January 2018	4,583	46,455	1,979	53,017
Provision made	464	46,129	83	46,676
Provision utilised	(379)	(51,837)	–	(52,216)
Provision reversed	(1,368)	(130)	(452)	(1,950)
De-consolidation of subsidiaries (Note 7(g))	–	(6,002)	–	(6,002)
Translation differences	(11)	(958)	–	(969)
At 31 December 2018	3,289	33,657	1,610	38,556

Claims and restoration costs

The provision for claims consists of costs arising from delays in the completion of contracts or complaints from customers. The provision is made based on estimates from prior experience on similar projects with customers.

The provision for restoration costs relates to costs associated with the obligations to restore the lands at the end of the tenancy period.

Warranties

The provision for warranties relates to products sold over the warranty period. The provision is made based on estimates from historical warranty data.

Onerous contracts

The provision for onerous contracts relates to the expected losses arising from existing customers' contracts, whereby the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received.

24. Revenue

Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2018					
Segments	**Diesel Engines**	**Building materials**	**Industrial packaging**	**Air-conditioning systems**	**Others**	**Consolidated total**
	$'000	$'000	$'000	$'000	$'000	$'000
Major product or service lines						
Sale of heavy-duty engines	1,004,444	–	–	–	–	1,004,444
Sale of medium-duty engines	1,127,134	–	–	–	–	1,127,134
Sale of light-duty engines	505,140	–	–	–	–	505,140
Sale of pre-cast concrete products	–	53,417	–	–	–	53,417
Sale of ready-mix concrete	–	170,917	–	–	–	170,917
Sale of cement	–	183,356	–	–	–	183,356
Sale of other goods	–	20,501	–	–	–	20,501
Sale of industrial packaging products	–	–	32,604	–	–	32,604
Sale of air-conditioning systems	–	–	–	14,332	–	14,332
Hospitality operations	–	–	–	–	7,444	7,444
Sale of development properties	–	–	–	–	3,300	3,300
Others [(1)]	663,052	–	–	–	–	663,052
	3,299,770	428,191	32,604	14,332	10,744	3,785,641

(1) Included sales of power generator sets, engine components, maintenance services and others.

Geographical markets						
The PRC	3,280,735	–	30,157	7,300	–	3,318,192
Singapore	–	238,937	1,575	–	3,300	243,812
Malaysia	166	189,254	766	–	7,444	197,630
Others	18,869	–	106	7,032	–	26,007
	3,299,770	428,191	32,604	14,332	10,744	3,785,641
Timing of revenue recognition						
Goods and services transferred at a point in time	3,299,770	428,191	32,604	14,332	10,744	3,785,641

24. Revenue (cont'd)

Disaggregation of revenue (cont'd)

Set out below is the disaggregation of the Group's revenue from contracts with customers (cont'd):

	2017					
Segments	**Diesel Engines**	**Building materials**	**Industrial packaging**	**Air-conditioning systems**	**Others**	**Consolidated total**
	$'000	$'000	$'000	$'000	$'000	$'000
Major product or service lines						
Sale of heavy-duty engines	1,057,924	–	–	–	–	1,057,924
Sale of medium-duty engines	1,147,179	–	–	–	–	1,147,179
Sale of light-duty engines	438,388	–	–	–	–	438,388
Sale of pre-cast concrete products	–	30,978	–	–	–	30,978
Sale of ready-mix concrete	–	148,613	–	–	–	148,613
Sale of cement	–	175,092	–	–	–	175,092
Sale of other goods	–	24,680	–	–	–	24,680
Sale of industrial packaging products	–	–	40,542	–	–	40,542
Sale of air-conditioning systems	–	–	–	18,922	–	18,922
Hospitality operations	–	–	–	–	11,531	11,531
Sale of development properties	–	–	–	–	144	144
Others [1]	651,084	–	–	–	–	651,084
	3,294,575	379,363	40,542	18,922	11,675	3,745,077

[1] Included sales of power generator sets, engine components, maintenance services and others.

Geographical markets						
The PRC	3,284,596	–	31,705	6,828	–	3,323,129
Singapore	–	185,245	452	–	–	185,697
Malaysia	8,369	194,118	8,202	–	–	210,689
Others	1,610	–	183	12,094	11,675	25,562
	3,294,575	379,363	40,542	18,922	11,675	3,745,077

Timing of revenue recognition						
Goods and services transferred at a point in time	3,294,575	379,363	40,542	18,922	11,675	3,745,077

24. Revenue (cont'd)

Contract balances

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Trade receivables (Note 16)	178,209	171,452	214,522
Contract assets	8,825	–	–
Contract liabilities	67,622	47,786	44,321
Refund liabilities (Note 22)	151,271	147,037	156,908

The Group has recognised impairment losses on receivables arising from contracts with customers amounting to $2,018,000 (2017: $316,000)

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms.

Contract assets are the costs incurred in fulfilling a contract for the development of technology know-how for heavy-duty engines platforms for a joint venture company of the Group, which have met the SFRS(I) capitalisation criteria. Contract assets will be expensed off when the Group performs the contract.

The transaction price allocated to the remaining performance obligation pursuant to this contract committed at the reporting date but not recognised as liabilities amounted to $29,591,000 and is expected to be realised within the next three years upon the completion of services.

Contract liabilities comprise short-term advances from customers and unfulfilled maintenance services. The advances from customers are recognised as revenue upon the delivery of goods, and the contract liability arising from unfulfilled service-type warranty is recognised upon the completion of the maintenance services. According to the business customary practice, the remaining performance obligations (unfulfilled maintenance service) at the year-end is expected to be satisfied within 1-3 years.

Refund liabilities arise from sales rebates granted to the customers.

25. Profit before income tax from continuing operations

Profit before income tax from continuing operations includes the following:

	Note	Group 2018 $'000	Group 2017 $'000 (Restated)
Impairment losses written back for trade and other receivables		(2,050)	(2,115)
Inventories recognised as an expense in cost of sales	14	2,530,848	2,435,884
Amortisation of intangible assets		1,189	980
Depreciation of property, plant and equipment		107,015	115,311
Depreciation of investment property	10	180	51
Amortisation of land use rights		2,936	2,852
Property, plant and equipment written off		268	1,246
Intangible assets written off		1	–
Audit fees paid/payable:			
- auditors of the Company		1,492	1,309
- other auditors		1,407	1,428
Non-audit fees paid/payable to:			
- auditors of the Company		73	66
- other auditors		227	287
Exchange gain, net		(350)	(4,812)
Fair value loss/(gain) on investments		700	(2,602)
Fair value gain on derivatives		(922)	–
Operating lease expense		15,928	12,042
Gain on disposal of property, plant and equipment		(1,805)	(2,652)
Gain on disposal of a subsidiary		–	(44,107)
Gain on disposal of an associate		–	(41)
Gain on disposal of joint venture (assets held for sale)		–	(22,213)
Provisions made, net		44,524	75,885
Written back for inventory obsolescence, net		(1,322)	(3,024)
Impairment losses on property, plant and equipment		7,478	4,255
Impairment losses on intangible assets		2,568	8,165
Dividend income from other investments		(466)	(560)
Interest income:			
- cash and short-term deposits		(32,586)	(24,403)
- joint ventures		–	(67)
- other related corporations		(52)	(33)
Sale of scrap		(1,368)	(938)
Government grant		(6,616)	(7,008)

26. Finance costs

	Group	
	2018	**2017**
	$'000	$'000
		(Restated)
Bank term loans	28,290	26,413
Bank overdrafts	–	38
Finance lease	–	1
Bills and other discounting	7,496	8,609
Bank charges	1,124	1,060
Facilities fees	120	395
	37,030	36,516

27. Employee benefits

	Group	
	2018	**2017**
	$'000	$'000
		(Restated)
Wages and salaries	298,349	312,912
Cost of share-based payments	–	326
Contributions to defined contribution plans	64,663	54,915
	363,012	368,153

28. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	Group	
	2018	**2017**
	$'000	$'000
Consolidated income statement:		(Restated)
Current tax charge		
- Current year	44,328	42,784
- (Over)/under provision in respect of prior years	(3,288)	2,406
	41,040	45,190
Deferred tax expense		
- Movements in temporary differences	(9,676)	(10,296)
- (Over)/under provision in respect of prior years	(353)	73
	(10,029)	(10,223)
Withholding tax expense	7,938	5,924
Income tax expense recognised in profit or loss	38,949	40,891

28. Income tax expense (cont'd)

Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 are as follows:

	Group	
	2018	**2017**
	$'000	$'000 (Restated)
Profit before income tax	198,775	270,292
Income tax using the PRC tax rate of 25% (2017: 25%)	49,694	67,573
Adjustments:		
Effect of different tax rates in other countries	1,287	(440)
Effect of tax concessions	(19,273)	(21,754)
Non-deductible expenses	9,045	6,915
Tax-exempt income	(2,515)	(12,082)
Utilisation of deferred tax benefits previously not recognised	(1,123)	(3,945)
Deferred tax benefits not recognised	3,952	4,053
Tax credits for research and development expense	(4,561)	(7,027)
(Over)/under provision in respect of prior years:		
- current	(3,288)	2,406
- deferred	(353)	73
Withholding tax expense	7,938	5,924
Others	(1,854)	(805)
	38,949	40,891

Certain subsidiaries of the Group in the PRC have been granted a concessionary tax rate under the Corporate Income Tax ("CIT") Law of the PRC. Income from these entities is subject to tax at the concessionary rate of 15% instead of the national standard income tax rate of 25% (2017: 25%). This concession is available subject to certain conditions including these entities remain engaged in advanced and new technology.

The CIT law also provides for a tax of 10% to be withheld from dividends paid to foreign investors of the PRC enterprises. This withholding tax provision does not apply to dividends paid out of profits earned prior to 1 January 2008. Beginning on 1 January 2008, a 10% withholding tax is imposed on dividends paid to the Group, as a non-resident enterprise, unless an applicable tax treaty provides for a lower tax rate and the Group will recognise a provision for withholding tax payable for profits accumulated after 31 December 2007 for the earnings that the Group does not plan to indefinitely reinvest in the PRC enterprises. As of 31 December 2018, the amount of deferred tax liability recognised in respect of withholding tax payable was $21,232,000 (2017: $18,733,000). The amount of unrecognised deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be $49,496,000 (2017: $46,962,000).

29. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on:

		Group	
		2018	**2017**
		$'000	$'000 (Restated)
(i)	Net loss attributable to owners of the Company	(6,017)	(71,772)
	Add back: Loss from discontinued operation, net of tax attributable to owners of the Company	30,776	108,632
	Profit from continuing operations, net of tax, attributable to owners of the Company used in the computation of basic earnings per share from continuing operations	24,759	36,860

		2018	**2017**
		No. of shares	No. of shares
(ii)	Number of issued ordinary shares at beginning of the year	373,908,559	373,908,559
	Shares issued during the year	373,908,559	–
	Number of issued ordinary shares at end of the year	747,817,118	373,908,559

Diluted (loss)/earnings per share

The weighted average number of ordinary shares adjusted for the effect of unissued ordinary shares under the HLA Share Option Scheme is determined as follows:

	Group	
	2018	**2017**
	No. of shares	No. of shares
Weighted average number of shares issued, used in the calculation of basic (loss)/earnings per share	439,470,608	373,908,559
Dilutive effect of share options	–	–
Weighted average number of ordinary shares (diluted)	439,470,608	373,908,559

570,000 (2017: 1,290,000) share options granted to employees under the existing employee share option plans have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

30. Dividends

	Group	
	2018	**2017**
	$'000	$'000
No dividend in respect of year 2017 (2017: First and final tax exempt dividend paid of 1 cent per share in respect of year 2016)	–	3,739

31. Share options

By the Company

Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme")

The HLA Share Option Scheme was approved by the shareholders at the extraordinary general meeting of the Company held on 30 December 2000 for an initial duration of 10 years (from 30 December 2000 to 29 December 2010). At the annual general meeting ("AGM") of the Company held on 29 April 2010, the shareholders approved the extension of the duration of the HLA Share Option Scheme for a further period of 10 years from 30 December 2010 to 29 December 2020. Other than the extension of the duration of the HLA Share Option Scheme, all other rules of the HLA Share Option Scheme remain unchanged.

The HLA Share Option Scheme is administered by a committee comprising the following members:

Ernest Colin Lee – Chairman
Kwek Leng Peck
Ng Sey Ming
Tan Chian Khong

All options granted under the HLA Share Option Scheme are subject to a vesting schedule as follows:

Market Price Options:

(1) one year after the date of grant for up to 33% of the Shares over which the options are exercisable;

(2) two years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and

(3) three years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.

Incentive Price Options:

(1) two years after the date of grant for up to 33% of the Shares over which the options are exercisable;

(2) three years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and

(3) four years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.

31. Share options (cont'd)

By the Company (cont'd)

Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme") (cont'd)

Details of the options granted under the HLA Share Option Scheme to subscribe for ordinary shares of the Company as at the end of the financial year are as follows:

Date of grant	Exercise price per Share	Number of options outstanding at 1 January 2018	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year
15/5/2008	$2.36	470,000*	–	–	(470,000)
5/1/2011	$3.17	380,000	–	–	–
28/1/2014	$1.31	440,000	–	–	(250,000)
Total		1,290,000	–	–	(720,000)

* Included 300,000 options granted to a Group Non-Executive Director who became an Executive Director of the Company in year 2013. The said Executive Director was granted an extension of time up till 14 May 2018 to exercise his outstanding 300,000 options, which would have lapsed on 14 May 2013. The financial impact of extending the exercisable period was not material.

Number of options outstanding at 31 December 2018	Number of options exercisable at 1 January 2018	Number of options exercisable at 31 December 2018	Proceeds on options exercised during the year credited to share capital	Market price of Shares at exercise date of option	Exercise period
–	470,000*	–	–	–	15/5/2009 to 14/5/2018
380,000	380,000	380,000	–	–	5/1/2012 to 4/1/2021
190,000	440,000	190,000	–	–	28/1/2015 to 27/1/2024
570,000	1,290,000	570,000	–		

31. Share options (cont'd)

By the Company (cont'd)

Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme") (cont'd)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is estimated at the date of the grant using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Fair value of share options and assumptions:

Date of grant of options	On 15 May 2008	On 5 January 2011	On 28 January 2014
Fair value at measurement date ($)	0.53 – 0.66	1.18 – 1.44	0.13 – 0.25
Share price ($)	2.36	3.17	1.31
Exercise price ($)	2.36	3.17	1.31
Expected volatility (%)	43.9 – 45.2	72.0 – 79.0	21.1 – 34.0
Expected option life (years)	2 – 4	2 – 4	2 – 4
Expected dividends (%)	2.5	3.0	3.1
Risk-free interest rate (%)	1.1 – 1.4	0.9 – 1.4	0.6 – 0.8

The expected volatility is based on the historic volatility (calculated based on the weighted average expected life of the share options), adjusted for any expected changes to future volatility.

There are no market conditions associated with the share option grants. Service conditions and non-market performance conditions are not taken into account in the measurement of the fair value of the services to be received at the grant date.

The range of exercise prices for options outstanding at the end of the year was $1.31 to $3.17 (2017: $1.31 to $3.17). The weighted average remaining contractual life for these options is 3.03 years (2017: 3.09 years).

By Subsidiary

China Yuchai International Limited ("CYI") Equity Incentive Plan ("CYI Equity Plan")

The CYI Equity Plan was approved by the shareholders at the annual general meeting of CYI held on 4 July 2014. It is administered by CYI's Compensation Committee comprising the following members:

Kwek Leng Peck – Chairman
Neo Poh Kiat
Raymond Ho Chi-Keung

31. Share options (cont'd)

By Subsidiary (cont'd)

China Yuchai International Limited ("CYI") Equity Incentive Plan ("CYI Equity Plan") (cont'd)

The CYI Equity Plan contains the following key terms:

(i) only share options, restricted stock and stock payments (the "Awards") may be granted to employees of CYI or a subsidiary of CYI ("CYI Group Employees");

(ii) the maximum aggregate number of shares that may be issued under the CYI Equity Plan shall not exceed 1,800,000 ordinary shares of US$0.10 each ("Ordinary Shares") subject to adjustment under the CYI Equity Plan;

(iii) the maximum aggregate number of Ordinary Shares with respect to one or more Awards that may be granted to any one eligible person during any calendar year is 300,000;

(iv) CYI's Compensation Committee shall administer the CYI Equity Plan and it has full power and authority to (a) select grantees from eligible individuals to receive the Awards and determine the time when Awards will be granted; (b) determine the number of Awards and the number of Ordinary Shares covered by each Award; (c) determine the terms and conditions of each Award; (d) approve the forms of agreement for use under the CYI Equity Plan; (e) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the CYI Equity Plan; and (f) take any and all other action as it deems necessary or advisable for the operation or administration of the CYI Equity Plan and the Awards;

(v) the price per Ordinary Share at which a holder may subscribe for the Ordinary Shares issuable upon the exercise of the option granted pursuant to the CYI Equity Plan shall be determined by CYI's Compensation Committee and shall not be less than:

- the Fair Market Value of the Ordinary Shares on the date the option is granted; and

- the par value of the Ordinary Shares;

(vi) Options granted under the CYI Equity Plan shall become exercisable ("vest") in the manner and subject to such conditions provided by CYI's Compensation Committee and set forth in the written Award agreement with respect to such options; and

(vii) the CYI Equity Plan shall terminate automatically ten years after its effective date unless terminated earlier. Awards outstanding at the time of the CYI Equity Plan's termination may continue to be exercised in accordance with their terms and shall continue to be governed by and interpreted consistent with the terms of the CYI Equity Plan.

31. Share options (cont'd)

By Subsidiary (cont'd)

China Yuchai International Limited ("CYI") Equity Incentive Plan ("CYI Equity Plan") (cont'd)

No option was granted under the CYI Equity Plan during the financial year under review. As at the end of the year, there were a total of 470,000 unissued Ordinary Shares under option granted pursuant to the CYI Equity Plan. Details of the options to subscribe for Ordinary Shares in CYI are as follows:

Date of grant	Exercise price per Ordinary Share	Balance at 1 January 2018	Options granted	Options exercised	Options cancelled/ lapsed	Balance at 31 December 2018	Exercise Period
29/7/2014	US$21.11	470,000	–	–	–	470,000	29/7/2015 to 28/7/2024

The above options are subject to a vesting period of three years from the date of grant with one-third of the options vesting on each 12-month anniversary of the date of grant.

The persons to whom these options have been granted have not been granted any right to participate by virtue of the options, in any share issue of any other company.

32. Commitments

Capital commitments

Capital expenditure contracted for as at the end of the year but not recognised in the financial statements is as follows:

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000
Capital commitments in respect of property, plant and equipment	169,469	87,165	98,757

Operating lease commitments as lessee

Commitments for future minimum lease payments under non-cancellable operating leases at the end of the reporting period are as follows:

	Group			Company		
	31 December 2018	**31 December 2017**	**1 January 2017**	**31 December 2018**	**31 December 2017**	**1 January 2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Within 1 year	12,831	9,384	9,587	533	352	594
After 1 year but within 5 years	21,238	7,133	9,935	786	–	352
After 5 years	534	1,256	1,569	–	–	–
	34,603	17,773	21,091	1,319	352	946

32. Commitments (cont'd)

Operating lease commitments as lessee (cont'd)

Annual rentals payable for the leases of land by the Group under non-cancellable operating leases are subjected to revision at fixed intervals ranging from one to three years. Any increase will not exceed 5.5% (31 December 2017: 5.5%, 1 January 2017: 5.5%) on an annualised basis, provided that any rent after such increase shall not exceed the prevailing market rent. The leases expire between 2019 and 2025 (31 December 2017: 2018 and 2025, 1 January 2017: 2017 and 2025).

Operating lease commitments as lessor

The Group has entered into commercial property leases on its surplus office and manufacturing buildings. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The future minimum lease receivables under non-cancellable operating leases are as follows:

	Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Within 1 year	982	278	284
After 1 year but within 5 years	2,300	528	64
After 5 years	1,932	268	–
	5,214	1,074	348

Finance lease commitments

The Group has finance leases for various plant and machinery. The leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Group					
	31 December 2018		31 December 2017		1 January 2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$'000	$'000	$'000	$'000	$'000	$'000
Within 1 year	970	906	1,063	1,005	1,770	1,707
After 1 year but within 5 years	429	408	1,174	1,094	2,172	2,036
Total minimum lease payments	1,399	1,314	2,237	2,099	3,942	3,743
Less: Amounts representing finance charges	(85)	–	(138)	–	(199)	–
Present value of minimum lease payments	1,314	1,314	2,099	2,099	3,743	3,743

33. Related party transactions

(a) Compensation of key management personnel

	Group	
	2018	**2017**
	$'000	$'000
Short-term employee benefits	10,442	11,428
Defined contribution plans	133	149
	10,575	11,577

Directors' remuneration included in key management personnel compensation amounted to $2,265,000 (2017: $2,443,000).

Hong Leong Asia Share Option Scheme 2000 (the "HLA Share Option Scheme")

Key management personnel of the Group participate in the HLA Share Option Scheme as described in Note 31. No options were granted to key management personnel pursuant to the HLA Share Option Scheme during the year (2017: no options). All Options are subject to a vesting schedule.

As at the end of the year, 400,000 (2017: 1,070,000) options granted to key management personnel were outstanding, of which 300,000 (2017: 970,000) were Options granted to the Executive Directors of the Company.

China Yuchai International Limited ("CYI") Equity Incentive Plan ("CYI Equity Plan")

Awards of share options, restricted stock and stock payments may be granted to key management personnel of the Group who are employees of CYI or a subsidiary of CYI pursuant to the CYI Equity Plan as described in Note 31. In 2018 and 2017, no award was granted to key management personnel under the CYI Equity Plan during the financial years under review. As at the end of the year, 430,000 (2017: 430,000) options granted to key management personnel were outstanding. These options are subject to a vesting period.

33. Related party transactions (cont'd)

(b) Sale and purchase of goods and services

During the year, the Group made payments to a firm, in which a director has an interest, in respect of professional services rendered. This amounted to $299,152 (2017: $485,890). No balance was outstanding at the balance sheet date (2017: nil).

Significant transactions with related parties made at terms agreed between the parties, other than those disclosed elsewhere in the financial statements, are as follows:

	Group	
	2018	**2017**
	$'000	$'000
Sale of engines and materials		
- associates and joint ventures	89,384	84,217
- related corporations	84,451	94,872
Purchase of materials, supplies and engines		
- associates and joint ventures	290,082	229,756
- related corporations	324,338	250,067
Management services income		
- an associate	444	444
Management services paid and payable		
- related corporations	426	726
Rental paid and payable (include general expenses)		
- immediate holding company	581	484
General and administrative expenses		
- joint ventures	348	519
- related corporations	16,677	12,387
Delivery, storage, distribution and handling expenses		
- related corporations	46,451	42,948
Hospitality, restaurant and consultancy service income		
- a joint venture	703	2,907
- related corporations	4,739	5,251
Rental income		
- related corporations	1,185	915
Purchase of vehicles and machineries		
- related corporations	1,251	10,705

(c) Outstanding balances with a related party

As at 31 December 2018, fixed deposits held with a related party amounted to $5,000,000 (2017: nil).

34. Financial risk management objectives and policies

Risk management is integral to the whole business of the Group and the Company. The management continually monitors the Group's and the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. The Group's and the Company's policies and financial authority limits are documented and reviewed periodically. The financial authority limits seek to limit and mitigate operational risk by setting threshold of approvals required for the entry into contractual obligations and investments.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets, the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The Group and the Company require collateral in respect of financial assets in certain circumstances.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the customer is unlikely to pay its contractual obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating;
- External credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligation;
- Actual or expected significant changes in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- Signficant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

34. Financial risk management objectives and policies (cont'd)

(a) Credit risk (cont'd)

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulties of the issuer or the debtor;

- A breach of contract, such as a default or past due event;

- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

- There is a disappearance of an active market for that financial asset because of financial difficulty.

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 360 days from the invoice date. Financial assets are written off when there is no reasonable expectation of recovery, such as debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The following are credit risk management practices and quantitative and qualitative information about amount arising from expected credit losses for each class of financial assets.

Trade eceivables and contract assets

The Group provides for lifetime expected credit losses for all trade receivables, and contract assets using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due. The loss allowance provision as at 31 December 2018 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Information regarding loss allowance movement of trade and other receivables and contract assets are disclosed in Note 16 and 24.

As at 31 December 2018 and 31 December 2017, there was no significant concentration of credit risk.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and short-term deposits, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

(b) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings and short-term deposits.

34. Financial risk management objectives and policies (cont'd)

(b) Interest rate risk (cont'd)

The Group's and the Company's policy is to maintain an efficient and optimal interest cost structure using a mix of fixed and variable rate debts. The Group's and the Company's debt obligations are mainly denominated in Singapore Dollar, United States Dollar, Chinese Renminbi, Ringgit Malaysia and Hong Kong Dollar, and at fixed and floating rates of interest. For variable rate financial instruments, a change of 100 bp in interest rate at the reporting date would increase/(decrease) profit before income tax by the amounts shown below.

	Profit before income tax	
	100 bp Increase	**100 bp Decrease**
	$'000	$'000
Group		
31 December 2018		
Floating rate instruments	(5,307)	5,307
31 December 2017		
Floating rate instruments	(4,617)	4,617

	Profit before income tax	
	100 bp Increase	**100 bp Decrease**
	$'000	$'000
Company		
31 December 2018		
Floating rate instruments	(2,789)	2,789
31 December 2017		
Floating rate instruments	(3,573)	3,573

(c) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank credit facilities.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows, and having adequate amounts of committed credit facilities.

The Group assesses the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

The maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash outflows are disclosed in Note 21.

34. Financial risk management objectives and policies (cont'd)

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily the Singapore Dollar, Chinese Renminbi, United States Dollar, Ringgit Malaysia, Euro and Hong Kong Dollar.

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimising the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

The Group does not apply hedge accounting for such foreign currency denominated sales, purchases and borrowings.

The Group's and the Company's financial assets and liabilities balances that have exposures to foreign currencies are as follows:

			2018			
Group	**Singapore Dollar**	**Chinese Renminbi**	**United States Dollar**	**Ringgit Malaysia**	**Euro**	**Hong Kong Dollar**
	$'000	$'000	$'000	$'000	$'000	$'000
Other investments	4,403	–	–	–	–	–
Trade and other receivables	1,193	64,398	53,152	–	5,338	134
Cash and bank balances	45,868	7,235	6,879	5	320	–
Loans and borrowings	(3,010)	–	(99,965)	–	–	–
Trade and other payables	(74,026)	(8,846)	(79,279)	(21)	(3,615)	(1,076)
	(25,572)	62,787	(119,213)	(16)	2,043	(942)
Add/(less): Loan payables/ (receivables) forming part of net investment in foreign entities	48,974	(46,457)	–	–	–	–
	23,402	16,330	(119,213)	(16)	2,043	(942)

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2018

34. Financial risk management objectives and policies (cont'd)

(d) Foreign currency risk (cont'd)

Group	2017 Singapore Dollar	Chinese Renminbi	United States Dollar	Ringgit Malaysia	Euro	Hong Kong Dollar
	$'000	$'000	$'000	$'000	$'000	$'000
Other investments	5,061	–	–	–	–	–
Trade and other receivables	1,272	175,499	70,047	–	1,407	473
Cash and bank balances	87,776	497	7,664	118	1,087	–
Loans and borrowings	(53,012)	(64,205)	–	–	–	–
Trade and other payables	(63,108)	(7,827)	(64,062)	(8,949)	(2,282)	(1,047)
	(22,011)	103,964	13,649	(8,831)	212	(574)
Add/(less): Loan payables/ (receivables) forming part of net investment in foreign entities	44,971	(174,506)	–	–	–	–
	22,960	(70,542)	13,649	(8,831)	212	(574)

Company	2018 Chinese Renminbi	2018 United States Dollar	2017 Chinese Renminbi	2017 United States Dollar
	$'000	$'000	$'000	$'000
Trade and other receivables	–	49,429	–	61,565
Cash and bank balances	63	660	57	3,078
Loans and borrowings	–	(464)	(64,205)	–
Trade and other payables	–	(4)	–	–
	63	49,621	(64,148)	64,643

34. Financial risk management objectives and policies (cont'd)

(d) Foreign currency risk (cont'd)

Sensitivity analysis

A 10% strengthening of the following major currencies against the functional currency of each of the Group's entities at the reporting date would increase/(decrease) profit before income tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit before income tax	
	2018	**2017**
Group	$'000	$'000
Singapore Dollar	2,340	2,296
Chinese Renminbi	1,633	(7,054)
United States Dollar	(11,921)	1,365
Ringgit Malaysia	(1)	(883)
Euro	204	21
Hong Kong Dollar	(94)	(57)
Company		
Chinese Renminbi	6	(6,415)
United States Dollar	4,962	6,464

A 10% weakening of the above would have equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

35. Fair value of assets and liabilities

(a) Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date,

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

- Level 3 – Unobservable inputs for the assets or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

35. Fair value of assets and liabilities (cont'd)

(b) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

	Group			
31 December 2018	**Quoted prices in active markets for identical instruments (Level 1)**	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	$'000	$'000	$'000	$'000
Financial assets				
Other investments	7,267	–	–	7,267
Derivatives	–	899	–	899
Bill receivables	–	1,386,734	–	1,386,734
At 31 December 2018	7,267	1,387,633	–	1,394,900
31 December 2017				
Financial assets				
Other investments	10,263	–	–	10,263
At 31 December 2017	10,263	–	–	10,263
1 January 2017				
Financial assets				
Other investments	3,977	–	–	3,977
At 1 January 2017	3,977	–	–	3,977
Financial liabilities				
Derivatives	–	(29)	–	(29)
At 1 January 2017	–	(29)	–	(29)

35. Fair value of assets and liabilities (cont'd)

(c) Level 2 fair value measurements

The Group's derivatives at the end of the reporting period consist of the following:

i. On 21 December 2016, the Group entered into a non-deliverable forward foreign exchange contract ("NDF") with a bank to purchase US$15.3 million at the forward exchange rate (RMB/US$) of 7.0439 on 20 December 2017. The Group accounted for this NDF at fair value through "Other expenses" line in the income statement. As at 1 January 2017, the carrying amount of this financial liability is $29,000. The contract has been fully settled in 2017.

ii. On 19 September 2018, the Group entered into a NDF with a bank to purchase US$73.0 million at the forward exchange rate (RMB/US$) of 6.8599 on 13 September 2019. The Group accounted for this NDF at fair value through "Other income" in the income statement. As at 31 December 2018, the carrying amount of this financial asset is $899,000.

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves.

The fair value of the Group's bill receivables are measured based on quoted market interest rates of similar instruments.

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of current trade and other receivables (Note 16), cash and short-term deposits (Note 17), trade and other payables (Note 22), and current loans and borrowings (Note 21) are reasonable approximation of fair values due to their short-term nature.

The carrying amounts of non-current receivables (Note 12) and other non-current payables (Note 22) are reasonable approximation of fair values as the consideration of time value of money is not material.

The carrying amounts of long term deposits (Note 17) and non-current loans and borrowings (Note 21) are reasonable approximation of fair values as they are floating rate instruments that are re-priced to market interest rates on or near the reporting period or their interest rates approximate the market lending rate.

Set out below is a comparison by category of carrying amounts of the Group's and the Company's financial instruments that are carried in the financial statements:

35. Fair value of assets and liabilities (cont'd)

(d) *Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value (cont'd)*

Classification of financial instruments

Group 31 December 2018	Financial assets at amortised cost $'000	Fair value through profit or loss $'000	Fair value through OCI $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets					
Other investments	–	4,353	2,914	–	7,267
Non-current receivables	4,496	–	–	–	4,496
Trade receivables	178,209	–	–	–	178,209
Bill receivables	–	–	1,386,734	–	1,386,734
Due from related corporations	19,861	–	–	–	19,861
Deposits	3,061	–	–	–	3,061
Lease receivables	1,304	–	–	–	1,304
Other receivables	35,935	–	–	–	35,935
Cash and bank balances	1,321,978	–	–	–	1,321,978
Derivatives	–	899	–	–	899
	1,564,844	5,252	1,389,648	–	2,959,744
Liabilities					
Trade payables	–	–	–	934,855	934,855
Accrued expenses	–	–	–	258,173	258,173
Other payables	–	–	–	28,595	28,595
Refund liabilities	–	–	–	151,271	151,271
Due to related corporations	–	–	–	102,303	102,303
Loans and borrowings	–	–	–	774,965	774,965
Provision for bonus	–	–	–	31,794	31,794
	–	–	–	2,281,956	2,281,956

35. Fair value of assets and liabilities (cont'd)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value (cont'd)

Classification of financial instruments (cont'd)

Group **31 December 2017**	**Loans and receivables** $'000	**Fair value through profit or loss** $'000	**Available-for-sale** $'000	**Liabilities at amortised cost** $'000	**Total** $'000
Assets					
Other investments	–	5,061	5,202	–	10,263
Non-current receivables	7,290	–	–	–	7,290
Trade receivables	1,594,339	–	–	–	1,594,339
Due from related corporations	11,855	–	–	–	11,855
Deposits	3,256	–	–	–	3,256
Lease receivables	2,083	–	–	–	2,083
Other receivables	27,209	–	–	–	27,209
Cash and bank balances	1,378,270	–	–	–	1,378,270
	3,024,302	5,061	5,202	–	3,034,565
Liabilities					
Trade payables	–	–	–	1,234,495	1,234,495
Accrued expenses	–	–	–	281,959	281,959
Other payables	–	–	–	66,121	66,121
Refund liabilities	–	–	–	147,037	147,037
Due to related corporations	–	–	–	58,617	58,617
Loans and borrowings	–	–	–	895,410	895,410
Provision for bonus	–	–	–	30,369	30,369
	–	–	–	2,714,008	2,714,008

35. Fair value of assets and liabilities (cont'd)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value (cont'd)

Classification of financial instruments (cont'd)

Group 1 January 2017	Loans and receivables $'000	Fair value through profit or loss $'000	Available-for-sale $'000	Liabilities at amortised cost $'000	Total $'000
Assets					
Other investments	–	2,531	1,446	–	3,977
Non-current receivables	4,624	–	–	–	4,624
Trade receivables	1,656,307	–	–	–	1,656,307
Due from related corporations	50,430	–	–	–	50,430
Deposits	3,236	–	–	–	3,236
Lease receivables	3,720	–	–	–	3,720
Other receivables	28,803	–	–	–	28,803
Cash and bank balances	1,033,698	–	–	–	1,033,698
	2,780,818	2,531	1,446	–	2,784,795
Liabilities					
Trade payables	–	–	–	1,150,856	1,150,856
Accrued expenses	–	–	–	248,860	248,860
Other payables	–	–	–	66,963	66,963
Refund liabilities	–	–	–	156,908	156,908
Due to related corporations	–	–	–	42,821	42,821
Loans and borrowings	–	–	–	704,898	704,898
Derivatives	–	29	–	–	29
Provision for bonus	–	–	–	27,830	27,830
	–	29	–	2,399,136	2,399,165

35. Fair value of assets and liabilities (cont'd)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value (cont'd)

Classification of financial instruments (cont'd)

Company **31 December 2018**	**Financial assets at amortised cost** $'000	**Financial liabilities at amortised cost** $'000	**Total** $'000
Assets			
Due from related corporations	264,511	–	264,511
Deposits	36	–	36
Other receivables	929	–	929
Cash and short-term deposits	29,275	–	29,275
	294,751	–	294,751
Liabilities			
Accrued expenses	–	2,278	2,278
Other payables	–	4,147	4,147
Due to related corporations	–	2,735	2,735
Loans and borrowings	–	293,224	293,224
	–	302,384	302,384

Company **31 December 2017**	**Loans and receivables** $'000	**Liabilities at amortised cost** $'000	**Total** $'000
Assets			
Due from related corporations	382,870	–	382,870
Deposits	28	–	28
Cash and short-term deposits	19,161	–	19,161
	402,059	–	402,059
Liabilities			
Accrued expenses	–	3,560	3,560
Other payables	–	12,713	12,713
Due to related corporations	–	2,592	2,592
Loans and borrowings	–	375,075	375,075
	–	393,940	393,940

35. Fair value of assets and liabilities (cont'd)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value (cont'd)

Classification of financial instruments (cont'd)

Company 1 January 2017	Loans and receivables $'000	Liabilities at amortised cost $'000	Total $'000
Assets			
Due from related corporations	396,882	–	396,882
Deposits	28	–	28
Cash and short-term deposits	2,482	–	2,482
	399,392	–	399,392
Liabilities			
Accrued expenses	–	2,481	2,481
Other payables	–	35	35
Due to related corporations	–	2,685	2,685
Loans and borrowings	–	322,142	322,142
	–	327,343	327,343

36. Capital management

Capital includes debt and equity items as disclosed in the table below.

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

As disclosed in Note 20(b), the Group's subsidiaries in the PRC are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above mentioned subsidiaries for the financial years ended 31 December 2018 and 2017.

36. Capital management (cont'd)

There were no changes in the Group's approach to capital management during the year.

	Group	
	2018	2017
	$'000	$'000 (Restated)
Loans and borrowings (current and non-current)	774,965	895,410
Trade and other payables (current and non-current)	1,511,377	1,824,885
Less: Cash and deposits	(1,321,978)	(1,378,270)
Net debt	964,364	1,342,025
Equity attributable to the owners of the Company	746,852	615,931
Less: Fair value reserve	(2,192)	(45,859)
Statutory reserve	(15,425)	(33,753)
Total capital	729,235	536,319
Capital and net debt	1,693,599	1,878,344

37. Segment information

For management purpose, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

Reportable segments

(i) Diesel engines: diesel engines and automobile spare parts.

(ii) Consumer products (discontinued operation – see Note 7(g)): refrigerators, freezers and washing machines.

(iii) Building materials: cement, pre-cast concrete products, ready-mix concrete and quarry products.

(iv) Industrial packaging: plastic packaging related products and container components.

(v) Air-conditioning systems: commercial and residential air-conditioning products and lifestyle consumer appliances.

Other operations include hospitality and property development. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2018 or 2017.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Chief Operating Decision Maker. Segment report is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

37. Segment information (cont'd)

Reportable segments (cont'd)

2018	**Diesel engines** $'000	**Building materials** $'000
Total external revenue	3,299,770	428,191
Interest income	29,116	1,633
Interest expense	(21,971)	(398)
Depreciation and amortisation	(88,711)	(18,311)
Reportable segment profit/(loss) before income tax	236,706	(8,750)
Share of profit of associates and joint ventures, net of income tax	2,200	1,094
Reportable segment profit/(loss) after income tax	194,805	(6,496)
Other material non-cash items:		
- Impairment losses recognised on property, plant and equipment and intangible assets	6,142	–
- Claims and restoration costs, net	–	(904)
- Warranties	45,716	–
- Onerous contract	–	(369)
Assets and liabilities		
Reportable segment assets	4,169,584	299,727
Investment in associates and joint ventures	44,092	60,215
Capital expenditure ^	121,958	14,559
Reportable segment liabilities	2,076,376	100,702

Industrial packaging	Air-conditioning systems	Corporate and Others*	Consumer products (Discontinued operation)	Adjustments	Consolidated total
$'000	$'000	$'000	$'000	$'000	$'000
32,604	14,332	10,744	7,873	(7,873)	3,785,641
39	21	4,544	13	(2,728)	32,638
(1,286)	(2,003)	(12,921)	(2,910)	5,583	(35,906)
(1,670)	(1,446)	(1,182)	(786)	786	(111,320)
(2,968)	(11,024)	(15,189)	(33,162)	33,162	198,775
–	–	168	–	–	3,462
(3,261)	(11,025)	(14,197)	(33,162)	33,162	159,826
33	3,087	784	–	–	10,046
–	–	–	–	–	(904)
2	79	–	202	(202)	45,797
–	–	–	–	–	(369)
45,819	41,348	1,052,877	–	(896,806)	4,712,549
–	–	582	–	–	104,889
788	529	615	99	–	138,548
109,094	120,710	986,616	–	(835,012)	2,558,486

37. Segment information (cont'd)

Reportable segments (cont'd)

2017 (Restated)	**Diesel engines** $'000	**Building materials** $'000
Total external revenue	3,294,575	379,363
Interest income	21,213	2,483
Interest expense	(18,789)	(154)
Depreciation and amortisation	(91,083)	(22,393)
Reportable segment profit/(loss) before income tax	219,919	(6,327)
Share of profit/(loss) of associates and joint ventures, net of income tax	1,889	(486)
Reportable segment profit/(loss) after income tax	180,379	(5,833)
Other material non-cash items:		
- Impairment losses recognised on property, plant and equipment and intangible assets	12,420	–
- Claims and restoration costs, net	–	(3,657)
- Warranties	78,354	–
- Onerous contract	–	874
Assets and liabilities		
Reportable segment assets	4,171,342	331,465
Investment in associates and joint ventures	40,012	46,587
Capital expenditure ^	53,159	12,796
Reportable segment liabilities	2,045,176	86,956

* Others include hospitality and property development.

^ Capital expenditure consists of additions of property, plant and equipment and intangible assets.

	Industrial packaging	Air-conditioning systems	Corporate and Others*	Consumer products (Discontinued operation)	Adjustments	Consolidated total
	$'000	$'000	$'000	$'000	$'000	$'000
	40,542	18,922	11,675	276,567	(276,567)	3,745,077
	32	28	2,830	29	(2,112)	24,503
	(1,250)	(1,667)	(15,680)	(4,953)	7,037	(35,456)
	(2,134)	(1,564)	(2,020)	(10,583)	10,583	(119,194)
	(3,971)	(3,913)	64,584	(120,702)	120,702	270,292
	–	–	163	–	–	1,566
	(3,978)	(3,913)	62,746	(120,702)	120,702	229,401
	–	–	–	9,134	(9,134)	12,420
	–	–	–	–	–	(3,657)
	13	301	–	5,049	(5,049)	78,668
	–	–	–	–	–	874
	48,699	54,865	1,266,656	242,111	(1,113,082)	5,002,056
	–	–	597	–	–	87,196
	522	1,000	236	5,950	–	73,663
	107,902	122,870	609,237	658,973	(685,095)	2,946,019

37. Segment information (cont'd)

Geographical segments

The Group operations are primarily in the PRC, Singapore and Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	The PRC	**Singapore**	**Malaysia**	**Others**	**Consolidated total**
	$'000	$'000	$'000	$'000	$'000
2018					
Total revenue from external customers	3,318,192	243,812	197,630	26,007	3,785,641
Non-current assets #	869,122	22,709	152,815	4	1,044,650
2017 (Restated)					
Total revenue from external customers	3,323,129	185,697	210,689	25,562	3,745,077
Non-current assets #	1,008,226	24,870	155,259	6	1,188,361

Exclude interests in associates and joint ventures, other investments, contract assets, deferred tax assets, long-term deposits and non-current receivables.

Major customer

Revenue from one customer group of the Group's diesel engines segment in the PRC amounted to approximately $908,656,000 (2017: $987,848,000).

38. Significant accounting judgements and estimates

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

38. Significant accounting judgements and estimates (cont'd)

(a) Judgements made in applying accounting policies

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

(i) Consolidation of entities in which the Group holds less than 50%

Management considers that the Group has control over certain investees (CYI and its subsidiaries) whereby the Group holds less than 50% ownership interest. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Information is included in Note 7.

(ii) Derecognition of bill receivable

The Group sells bill receivable to banks on an ongoing basis depending on funding needs and money market conditions. While the buyer is responsible for servicing the receivables upon maturity of the bill receivable, Chinese law governing bills allows recourse to be traced to all the parties in the discounting process. In relation to the de-recognition of bill receivable when discounted, the management believes that the contractual right to receive the cash flows from the asset have terminated with the Group, but transferred to the banks. Accordingly, bill receivable are derecognised, and a discount equal to the difference between the carrying value of the bill receivable and cash received is recorded in the statement of profit or loss. Please refer to Note 16 to the financial statements.

(iii) Identifying performance obligations in sales of engines

The Group provides certain warranties for both general repairs and maintenance service as part of the sales of diesel engines. For general repairs, such warranties will be assurance-type warranty that will continue to be accounted for under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. For maintenance services, it will be accounted for as a service-type warranties that are capable being distinct and customers can benefit from the service on its own. Hence, the Group identified two separate performance obligation, one is the promise to transfer the engine and the other one is to provide maintenance services after reaching certain on-road mileage or running hours. Consequently, the Group allocated a portion of the transaction price to the engines and the maintenance services based on relative stand-alone selling prices that are determined a combination of expected cost plus a margin and residual approaches.

(iv) Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy in Note 2.13. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model.

The carrying amount of development costs capitalised is disclosed in Note 5 to the financial statements.

38. Significant accounting judgements and estimates (cont'd)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. Where applicable, the Group considers independent valuation reports of valuation specialists. The value in use calculation is based on a discounted cash flow model or relief-from-royalty method depending on the nature of the non-financial asset. The cash flows are derived from the budget for the next five years or the commercial useful life of the assets and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Management used external specialists to support the recoverable amounts of its property, plant and equipment and trademarks, based on fair value less cost to sell.

Further details of the key assumptions applied in the impairment assessment of property, plant and equipment and intangible assets are disclosed in Note 6 to the financial statements.

Management used external specialists to support the recoverable amounts of its investment in subsidiaries, based on fair value less cost to sell.

Further details of the key assumptions applied in the impairment assessment of investment in subsidiaries are disclosed in Note 7 to the financial statements.

(ii) Allowance for inventory obsolescence

Where necessary, allowance for inventory obsolescence would be set up for estimated losses which may result from obsolete inventories held. The Group estimates the level of allowance based on the prevailing market conditions and historical provisioning experience. The required level of allowance could change significantly as a result of changes in market conditions.

The amounts of allowance recognised are disclosed in Note 14 to the financial statements.

39. Authorisation of financial statements

The financial statements of Hong Leong Asia Ltd. for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors passed on 22 March 2019.

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资产负债表

2018年12月31日

	附注	合并 2018年 12月31日 $'000	合并 2017年 12月31日 $'000 (重列)	合并 2017年 1月1日 $'000 (重列)	母公司 2018年 12月31日 $'000	母公司 2017年 12月31日 $'000	母公司 2017年 1月1日 $'000
非流动资产							
固定资产	3	893,959	1,005,664	1,111,296	93	78	126
土地使用权	4	105,405	128,882	133,640	–	–	–
无形资产	5	43,942	52,293	61,589	109	138	152
子公司股权投资	7	–	–	–	201,935	202,955	202,955
联营公司权益	8	45,380	47,043	48,339	13,726	13,726	13,726
合资公司权益	9	59,509	40,153	21,464	–	–	–
投资性房地产	10	1,344	1,522	1,516	–	–	–
其它金融资产	11	2,914	5,202	1,434	–	–	–
长期应收款	12	4,897	8,375	6,645	20,000	166,843	171,118
合同资产	24	8,825	–	–	–	–	–
递延所得税资产	13	72,934	65,345	56,962	–	–	–
长期存款	17	13,902	14,336	–	–	–	–
		1,253,011	1,368,815	1,442,885	235,863	383,740	388,077
流动资产							
存货	14	562,729	631,817	464,979	–	–	–
开发性房地产	15	4,025	4,881	4,858	–	–	–
其它金融资产	11	4,353	5,061	2,543	–	–	–
应收账款及其他应收款	16	1,684,345	1,714,744	1,790,977	245,506	216,088	225,841
货币资金	17	1,308,076	1,363,934	1,033,698	29,275	19,161	2,482
持有待售的资产	18	–	–	18,397	–	–	–
衍生金融资产		899	–	–	–	–	–
		3,564,427	3,720,437	3,315,452	274,781	235,249	228,323
总资产合计		4,817,438	5,089,252	4,758,337	510,644	618,989	616,400

此报告中的附注是组成这些财务报表不可或缺的内容

资产负债表
2018年12月31日

		合并			母公司		
	附注	**2018年 12月31日** $'000	**2017年 12月31日** $'000 (重列)	**2017年 1月1日** $'000 (重列)	**2018年 12月31日** $'000	**2017年 12月31日** $'000	**2017年 1月1日** $'000
流动负债							
应付账款及其他应付款	22	1,479,583	1,792,866	1,671,049	9,160	18,865	5,201
合同负债	24	56,956	40,667	38,633	–	–	–
预计负债	23	38,556	53,017	55,145	–	–	–
短期借款	21	544,657	677,709	537,888	66,324	175,075	182,142
应付所得税		14,938	12,749	10,817	89	15	8
衍生金融负债		–	–	29	–	–	–
		2,134,690	2,577,008	2,313,561	75,573	193,955	187,351
净流动资产		1,429,737	1,143,429	1,001,891	199,208	41,294	40,972
非流动负债							
长期借款	21	230,308	217,701	167,010	226,900	200,000	140,000
递延所得税负债	13	34,741	41,497	43,369	2,333	2,100	2,037
递延补贴		116,285	70,674	68,585	–	–	–
其他非流动应付款	22	31,794	32,019	28,420	–	–	–
合同负债	24	10,666	7,119	5,688	–	–	–
应付退休金		2	1	259	–	–	–
		423,796	369,011	313,331	229,233	202,100	142,037
总负债合计		2,558,486	2,946,019	2,626,892	304,806	396,055	329,388
净资产		2,258,952	2,143,233	2,131,445	205,838	222,934	287,012
股本与公积							
发行股本	19	467,890	266,830	266,830	467,890	266,830	266,830
各项储备	20	278,962	349,101	431,102	(262,052)	(43,896)	20,182
持有待售的资产公积	18	–	–	4,685	–	–	–
		746,852	615,931	702,617	205,838	222,934	287,012
非控股权益		1,512,100	1,527,302	1,428,828	–	–	–
所有者权益合计		2,258,952	2,143,233	2,131,445	205,838	222,934	287,012
负债及所有者权益总计		4,817,438	5,089,252	4,758,337	510,644	618,989	616,400

此报告中的附注是组成这些财务报表不可或缺的内容

合并利润表

截至2018年12月31日

		合并	
	附注	**2018**	**2017**
		$'000	$'000
			(重列)
持续经营			
营业收入	24	3,785,641	3,745,077
营业成本		(3,085,031)	(2,992,711)
毛利润		700,610	752,366
其他收入项目			
其他收入		48,774	110,622
其他费用项目			
销售费用		(247,115)	(240,284)
研发费用		(92,734)	(125,619)
管理费用		(174,298)	(190,564)
财务费用	26	(37,030)	(36,516)
其他费用		(2,894)	(1,279)
享有联营企业利润的份额		3,462	1,566
税前利润	25	198,775	270,292
所得税费用	28	(38,949)	(40,891)
本年来自持续经营的利润		159,826	229,401
终止经营			
本年来自终止经营的亏损	7(g)	(33,162)	(120,702)
本年利润		126,664	108,699
利润归属于:			
母公司所有者			
- 本年来自持续经营的利润		24,759	36,860
- 本年来自终止经营的亏损		(30,776)	(108,632)
		(6,017)	(71,772)
非控股权益			
- 本年来自持续经营的利润		135,067	192,541
- 本年来自终止经营的亏损		(2,386)	(12,070)
		132,681	180,471
来自持续经营的每股收益(分)			
- 基本	29	5.63	9.86
- 稀释	29	5.63	9.86
来自持续及终止经营的每股亏损(分)			
- 基本	29	(1.37)	(19.19)
- 稀释	29	(1.37)	(19.19)

此报告中的附注是组成这些财务报表不可或缺的内容

合并综合收益表

截至2018年12月31日

	合并	
	2018	**2017**
	$'000	$'000
		(重列)
本年利润	126,664	108,699
其他综合收益		
不能重分类进损益的其他综合收益		
其他权益工具投资公允价值变动	(3,403)	–
将重分类进损益的其他综合收益		
国外子公司，联营公司和合资公司的外币报表折算差额	(62,014)	(36,498)
其他债权投资公允价值变动	6,646	–
可供出售金融资产公允价值变动	–	613
因丧失控制权情况下处置子公司而实现的各项储备	(10,250)	–
货币项目视同国外投资而产生的汇兑差额	1,303	(3,367)
因处置海外业务相关的外币折算储备的重分类调整	–	(835)
本年其他综合收益（税后净值）	(67,718)	(40,087)
本年综合收益总额	58,946	68,612
归属于：		
母公司所有者	(77,439)	(84,530)
非控股权益	136,385	153,142
本年综合收益总额	58,946	68,612
归属于：		
母公司所有者		
- 本年来自持续经营的综合收益	4,503	25,898
- 本年来自终止经营的综合收益	(81,942)	(110,428)
	(77,439)	(84,530)

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合并所有者权益变动表

截至2018年12月31日

合并	附注	发行股本 $'000	资本公积 $'000	法定公积 $'000	公允价值公积 $'000	权益报酬公积 $'000
2018年1月1日余额（新加坡财务报告准则框架）		266,830	4,391	33,753	45,859	5,243
采用新加坡财务报告准则（国际）的累计影响		–	–	–	(8,601)	–
2018年1月1日余额（新加坡财务报告准则（国际）框架）		266,830	4,391	33,753	37,258	5,243
本年利润		–	–	–	–	–
其他综合收益						
国外子公司，联营公司和合资公司的外币报表折算差额		–	–	–	–	–
其他权益工具投资公允价值变动		–	–	–	(2,654)	–
其他债权投资公允价值变动		–	–	–	1,902	–
货币项目视同国外投资而产生的汇兑差额		–	–	–	–	–
因丧失控制权情况下处置子公司而实现的各项储备		–	(40)	(18,608)	(34,314)	–
本年其他综合收益（税后净值）		–	(40)	(18,608)	(35,066)	–
本年综合收益总额		–	(40)	(18,608)	(35,066)	–
与所有者的交易直接在权益确认						
所有者投入和减少资本						
本年发行的股份	19	201,911	–	–	–	–
本年发行股份的费用	19	(851)	–	–	–	–
支付子公司非控股东股利		–	–	–	–	–
对子公司控股权的变动						
收购非控股权		–	–	–	–	–
其他						
转入法定公积		–	–	280	–	–
2018年12月31日余额		467,890	4,351	15,425	2,192	5,243

此报告中的附注是组成这些财务报表不可或缺的内容

外币折算储备 $'000	非控股权变动的盈余/(亏损) $'000	持有待售资产公积 $'000	未分配利润 $'000	归属于母公司所有者权益合计 $'000	非控股权益 $'000	所有者权益合计 $'000
(60,354)	35,397	–	286,025	617,144	1,529,645	2,146,789
51,668	–	–	(52,881)	(9,814)	(21,856)	(31,670)
(8,686)	35,397	–	233,144	607,330	1,507,789	2,115,119
–	–	–	(6,017)	(6,017)	132,681	126,664
(23,058)	–	–	–	(23,058)	(38,956)	(62,014)
–	–	–	–	(2,654)	(749)	(3,403)
–	–	–	–	1,902	4,744	6,646
1,303	–	–	–	1,303	–	1,303
4,047	–	–	–	(48,915)	38,665	(10,250)
(17,708)	–	–	–	(71,422)	3,704	(67,718)
(17,708)	–	–	(6,017)	(77,439)	136,385	58,946
–	–	–	–	201,911	–	201,911
–	–	–	–	(851)	–	(851)
–	–	–	–	–	(102,871)	(102,871)
–	15,901	–	–	15,901	(29,203)	(13,302)
–	–	–	(280)	–	–	–
(26,394)	51,298	–	226,847	746,852	1,512,100	2,258,952

合并所有者权益变动表

截至2018年12月31日

合并	附注	发行股本 $'000	资本公积 $'000	法定公积 $'000	公允价值公积 $'000	权益报酬公积 $'000
2017年1月1日余额（新加坡财务报告准则框架）		266,830	4,442	33,369	45,246	4,231
采用新加坡财务报告准则（国际）的累计影响		–	–	–	–	–
2017年1月1日余额（新加坡财务报告准则框架）		266,830	4,442	33,369	45,246	4,231
本年利润		–	–	–	–	–
<u>其他综合收益</u>						
国外子公司，联营公司和合资公司的外币报表折算差额		–	–	–	–	–
可供出售金融资产公允价值变动		–	–	–	613	–
货币项目视同国外投资而产生的汇兑差额		–	–	–	–	–
因处置海外业务相关的外币折算储备的重分类调整		–	–	–	–	–
本年其他综合收益（税后净值）		–	–	–	613	–
本年综合收益总额		–	–	–	613	–
与所有者的交易直接在权益确认						
<u>所有者投入和减少资本</u>						
支付股份费用		–	–	–	–	1,012
发给子公司非控股东的股份		–	–	–	–	–
支付公司股东股利	30	–	–	–	–	–
支付子公司非控股东股利		–	–	–	–	–
<u>对子公司控股权的变动</u>						
收购非控股权		–	(51)	–	–	–
<u>其他</u>						
转入法定公积		–	–	384	–	–
2017年12月31日余额		266,830	4,391	33,753	45,859	5,243

此报告中的附注是组成这些财务报表不可或缺的内容

外币折算储备	非控股权变动的盈余/(亏损)	持有待售资产公积	未分配利润	归属于母公司所有者权益合计	非控股权益	所有者权益合计
$'000	$'000	$'000	$'000	$'000	$'000	$'000
(51,741)	34,775	4,685	356,599	698,436	1,418,918	2,117,354
51,741	–	–	(47,560)	4,181	9,910	14,091
–	34,775	4,685	309,039	702,617	1,428,828	2,131,445
–	–	–	(71,772)	(71,772)	180,471	108,699
(9,582)	–	–	–	(9,582)	(26,916)	(36,498)
–	–	–	–	613	–	613
(3,367)	–	–	–	(3,367)	–	(3,367)
4,263	–	(4,685)	–	(422)	(413)	(835)
(8,686)	–	(4,685)	–	(12,758)	(27,329)	(40,087)
(8,686)	–	(4,685)	(71,772)	(84,530)	153,142	68,612
–	–	–	–	1,012	(136)	876
–	700	–	–	700	3,808	4,508
–	–	–	(3,739)	(3,739)	–	(3,739)
–	–	–	–	–	(56,774)	(56,774)
–	(78)	–	–	(129)	(1,566)	(1,695)
–	–	–	(384)	–	–	–
(8,686)	35,397	–	233,144	615,931	1,527,302	2,143,233

所有者权益变动表

截至2018年12月31日

母公司	附注	发行股本 $'000	资本公积 $'000	权益报酬公积 $'000	未分配利润 $'000	合计 $'000
2018年1月1日余额		266,830	9,199	2,467	(55,562)	222,934
本年综合收益总额		–	–	–	(218,156)	(218,156)
与所有者的交易直接在权益确认						
所有者投入和减少资本						
本年发行的股份	19	201,911	–	–	–	201,911
本年发行股份的费用	19	(851)	–	–	–	(851)
2018年12月31日余额		467,890	9,199	2,467	(273,718)	205,838
2017年1月1日余额		266,830	9,199	2,467	8,516	287,012
本年综合收益总额		–	–	–	(60,339)	(60,339)
与所有者的交易直接在权益确认						
所有者投入和减少资本						
支付公司股东股利	30	–	–	–	(3,739)	(3,739)
2017年12月31日余额		266,830	9,199	2,467	(55,562)	222,934

此报告中的附注是组成这些财务报表不可或缺的内容

合并现金流量表

截至2018年12月31日

	附注	合并 2018 $'000	合并 2017 $'000 (重列)
经营活动产生的现金流量			
本年来自持续经营的税前利润		198,775	270,292
本年来自终止经营的税前亏损		(33,162)	(120,702)
调整项目：			
享有联营企业利润的份额		(3,462)	(1,566)
股份支付费用		–	876
折旧与摊销费用		112,106	129,777
存货跌价准备变动		(195)	8,230
应收账款及其他应收款坏账准备变动		(1,793)	10,029
固定资产及无形资产减值准备		10,046	21,554
固定资产注销	25	268	1,246
财务费用		39,965	41,552
其他投资股利收入	25	(466)	(560)
利息收入		(32,651)	(24,532)
终止合并/处置以下资产的损失/(收益):			
- 子公司		9,303	(44,107)
- 合资公司	25	–	(22,213)
- 固定资产		(1,805)	(2,266)
其他投资公允价值变动损失	25	700	(2,602)
衍生性金融产品公允价值变动损失	25	(922)	–
三包费及其他准备计提净额		44,726	80,934
流动资金变动前经营活动产生的现金流量		341,433	345,942
流动资金的变动：			
存货的变动		13,346	(181,320)
应收账款，合同资产及其他应收款的变动		(100,488)	22,950
应付账款，合同负债及其他应付款的变动		(131,885)	145,628
政府补贴收入收到的现金		55,559	10,225
已计提准备的使用	23	(52,216)	(82,712)
经营活动产生的现金流量		125,749	260,713
支付所得税		(40,271)	(46,604)
经营活动产生的现金流量净额		85,478	214,109

此报告中的附注是组成这些财务报表不可或缺的内容

合并现金流量表

截至2018年12月31日

	附注	合并 2018 $'000	 2017 $'000 (重列)
投资活动产生的现金流量			
联营及合资公司权益		(15,267)	(15,322)
取得股利分配收到的现金：			
- 联营公司与合资公司		2,885	1,613
- 其他投资	25	466	560
取得利息收入收到的现金		31,879	27,232
银行存款净增加额		15,145	(29,201)
购置资产支付的现金：			
- 固定资产		(100,554)	(77,314)
- 无形资产		(37,182)	(1,438)
- 其他投资		(1,124)	(3,139)
终止合并/处置资产产生的净现金(流出)/流入:			
- 子公司	7(g,h)	(5,201)	69,727
- 联营公司		–	374
- 固定资产		1,651	6,326
- 合资公司		–	37,288
合资公司偿还借款		–	2,858
投资活动 (使用)/产生的现金流量净额		(107,302)	19,564
筹资活动产生的现金流量			
收购子公司的非控制性权益（包括股权互换交易）		(13,302)	(1,695)
分配股利支付的现金：			
- 非控股东		(102,871)	(56,774)
- 本公司股东	30	–	(3,739)
偿付利息支付的现金		(39,179)	(43,085)
发行股份产生的现金		201,060	–
向银行借款收到的现金		517,410	564,035
子公司吸收非控股东投资收到的现金		–	4,508
偿还银行贷款支付的现金		(544,157)	(369,573)
偿还租赁融资支付的现金		(786)	(1,645)
筹资活动产生的现金流量净额		18,175	92,032

此报告中的附注是组成这些财务报表不可或缺的内容

合并现金流量表
截至2018年12月31日

	附注	合并 2018 $'000	合并 2017 $'000 (重列)
现金及现金等价物净(减少)/增加额		(3,649)	325,705
年初现金及现金等价物余额	17	1,262,104	945,171
汇率变动对现金及现金等价物的影响		(34,350)	(8,772)
年末现金及现金等价物余额	17	1,224,105	1,262,104

附注:

存放于实行外汇管制国家的现金及现金等价物共计$1,039,086,000 (2017: $979,380,000)。

附注7列示2018年和2017年收购和处置子公司的现金流影响。

此报告中的附注是组成这些财务报表不可或缺的内容

ANALYSIS OF SHAREHOLDINGS
AS AT 7 MARCH 2019

Class of Shares	:	Ordinary shares
Number of Ordinary Shares in issue	:	747,817,118
Number of Ordinary Shareholders	:	5,751
Voting Rights	:	1 vote for 1 share

As at 7 March 2019, there were no shares held as treasury shares or subsidiary holdings^ in the Company.

^'Subsidiary holdings' is defined in the Listing Manual issued by Singapore Exchange Securities Trading Limited ("Listing Manual") to mean shares referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act, Chapter 50.

Range of Shareholdings	No. of Shareholders	%	No. of Shares Held	%
1 – 99	13	0.23	212	0.00
100 – 1,000	666	11.58	635,967	0.08
1,001 - 10,000	3,184	55.36	17,358,990	2.32
10,001 - 1,000,000	1,867	32.46	85,215,865	11.40
1,000,001 and above	21	0.37	644,606,084	86.20
	5,751	100.00	747,817,118	100.00

Based on information available to the Company as at 7 March 2019, approximately 24.06% of the total number of issued shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

MAJOR SHAREHOLDERS LIST - TOP 20 AS AT 7 MARCH 2019

No.	Name of Shareholder	No. of Shares Held	%*
1	Hong Leong Corporation Holdings Pte Ltd	549,001,657	73.41
2	DBS Nominees Pte Ltd	21,801,164	2.92
3	Citibank Nominees Singapore Pte Ltd	15,715,479	2.10
4	CGS-CIMB Securities (Singapore) Pte Ltd	15,312,701	2.05
5	Taiheiyo Singapore Pte Ltd	9,079,659	1.21
6	Phillip Securities Pte Ltd	4,618,700	0.62
7	DBSN Services Pte Ltd	2,976,050	0.40
8	Raffles Nominees (Pte) Limited	2,939,976	0.39
9	UOB Kay Hian Pte Ltd	2,679,000	0.36
10	Maybank Kim Eng Securities Pte Ltd	2,548,100	0.34
11	United Overseas Bank Nominees Pte Ltd	2,543,000	0.34
12	Francis Chin Kuok Choon	2,456,100	0.33
13	DBS Vickers Securities (S) Pte Ltd	2,003,300	0.27
14	HSBC (Singapore) Nominees Pte Ltd	1,802,498	0.24
15	Ang Jwee Herng	1,570,000	0.21
16	OCBC Nominees Singapore Pte Ltd	1,410,200	0.19
17	Soon Lee Heng Trading & Transportation Pte Ltd	1,373,900	0.18
18	Ding Ping Too @ Ting Sik Chan	1,300,000	0.17
19	Liew Chee Kong	1,294,600	0.17
20	OCBC Securities Private Ltd	1,145,700	0.15
		643,571,784	86.06

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 7 March 2019.

ANALYSIS OF SHAREHOLDINGS
AS AT 7 MARCH 2019

Substantial Shareholders
(As shown in the Register of Substantial Shareholders as at 7 March 2019)

Name of Substantial Shareholder	No. of Shares Direct Interest	Deemed Interest	Total Interest	%*
Hong Leong Corporation Holdings Pte Ltd	549,001,657	13,328,000[1]	562,329,657	75.20
Hong Leong Enterprises Pte. Ltd.	-	562,329,657[2]	562,329,657	75.20
Hong Leong Investment Holdings Pte. Ltd.	-	562,865,657[3]	562,865,657	75.27
Davos Investment Holdings Private Limited	-	562,865,657[4]	562,865,657	75.27
Kwek Holdings Pte Ltd	-	562,865,657[4]	562,865,657	75.27

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 7 March 2019.

Notes:

(1) Hong Leong Corporation Holdings Pte Ltd ("HLCH") is deemed under Section 4 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") to have an interest in the Shares held directly by its wholly-owned subsidiary, Starich Investments Pte. Ltd. ("Starich").

(2) Hong Leong Enterprises Pte. Ltd. is deemed under Section 4 of the SFA to have an interest in the Shares held directly by HLCH and Starich, in which it is entitled to exercise or control the exercise of not less than 20% of the voting shares in the latter companies.

(3) Hong Leong Investment Holdings Pte. Ltd. ("HLIH") is deemed under Section 4 of the SFA to have an interest in the Shares held directly by its subsidiaries, HLCH, Starich, Millennium Securities Pte Ltd and Welkin Investments Pte Ltd.

(4) Davos Investment Holdings Private Limited and Kwek Holdings Pte Ltd are deemed under Section 4 of the SFA to have interests in the Shares referred to in Note 3 above held indirectly by HLIH, in which each of them is entitled to exercise or control the exercise of not less than 20% of the voting shares in HLIH.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Eighth Annual General Meeting (the "Meeting") of HONG LEONG ASIA LTD. (the "Company") will be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908 on Friday, 26 April 2019 at 10.00 a.m. for the following purposes:

A. ORDINARY BUSINESS:

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the year ended 31 December ("FY") 2018 and the Auditors' Report thereon.

2. To approve Directors' Fees of $426,866 for FY 2018 (FY 2017: $432,220) and Audit and Risk Committee ("ARC") Fees comprising $58,000 payable to the ARC chairman and $38,000 payable to each ARC member for FY 2019 (FY 2018: $58,000 payable for the ARC chairman and $38,000 for each ARC member).

3. To elect/re-elect the following Directors who would be retiring in accordance with the Company's Constitution and who, being eligible, offer themselves for election/re-election as Directors of the Company:

   (a) Mr Tan Eng Kwee (appointed on 10 December 2018)
   (b) Mr Ernest Colin Lee
   (c) Ms Kwong Ka Lo @ Caroline Kwong

   Key information on the Directors who are proposed to be elected/re-elected can be found under the sections on "Board of Directors" and "Additional Information on Directors Seeking Election/Re-election" of the 2018 Annual Report.

4. To re-appoint Ernst & Young LLP as Auditor of the Company and to authorise the Directors to fix their remuneration.

B. SPECIAL BUSINESS:

To consider and, if thought fit, to pass, with or without any modifications, the following resolutions as Ordinary Resolutions:

5. That authority be and is hereby given to the Directors to:

   (a) (i) issue shares of the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit; and

   (b) (notwithstanding the authority conferred by this Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Ordinary Resolution was in force, provided that:

(1) the aggregate number of shares to be issued pursuant to this Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument) does not exceed 50% of the total number of issued shares, excluding treasury shares and subsidiary holdings, of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument) does not exceed 20% of the total number of issued shares, excluding treasury shares and subsidiary holdings, of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by Singapore Exchange Securities Trading Limited ("SGX-ST")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares, excluding treasury shares and subsidiary holdings, shall be based on the total number of issued shares, excluding treasury shares and subsidiary holdings, of the Company at the time this Ordinary Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Ordinary Resolution is passed; and

(ii) any subsequent bonus issue, consolidation or subdivision of shares;

and, in sub-paragraph (1) above and this sub-paragraph (2), "subsidiary holdings" has the meaning given to it in the Listing Manual of SGX-ST;

(3) in exercising the authority conferred by this Ordinary Resolution, the Company shall comply with the provisions of the Listing Manual of SGX-ST for the time being in force (unless such compliance has been waived by SGX-ST) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Ordinary Resolution shall continue in force until the conclusion of the next annual general meeting ("AGM") of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.

6. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the Hong Leong Asia Share Option Scheme 2000 (the "SOS") to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to allot and issue from time to time such number of shares of the Company as may be required to be issued pursuant to the exercise of the options granted under the SOS, provided that:

(a) the aggregate number of shares to be issued pursuant to the SOS shall not exceed 15% of the total number of issued shares excluding treasury shares of the Company and subsidiary holdings (as defined in the Listing Manual of the SGX-ST) from time to time; and

(b) the aggregate number of shares to be issued during the entire operation of the SOS (subject to adjustments, if any, made under the SOS) shall not exceed such limits or (as the case may be) sub-limits as may be prescribed in the SOS.

NOTICE OF ANNUAL GENERAL MEETING

7. That:

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares of the Company (the "Shares") not exceeding in aggregate the Maximum Limit (as hereinafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

(i) market purchase(s) on SGX-ST and/or any other stock exchange on which the Shares may for the time being be listed and quoted ("Other Exchange"); and/or

(ii) off-market purchase(s) (if effected otherwise than on SGX-ST or, as the case may be, Other Exchange) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they may, in their absolute discretion, deem fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws, regulations and rules of SGX-ST or, as the case may be, Other Exchange as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "Share Purchase Mandate");

(b) the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Ordinary Resolution and expiring on the earliest of:

(i) the date on which the next AGM of the Company is held or required by law to be held;

(ii) the date on which the authority conferred by the Share Purchase Mandate is varied or revoked in general meeting; or

(iii) the date on which the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated;

(c) in this Ordinary Resolution:

"Average Closing Price" means the average of the closing market prices of a Share for the five consecutive market days on which the Shares are transacted on SGX-ST or, as the case may be, Other Exchange immediately preceding the date of market purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the listing rules of SGX-ST for any corporate action which occurs after the relevant five-day period;

"date of the making of the offer" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from holders of Shares, stating therein the purchase price (which shall not be more than the Maximum Price) for each Share, and the relevant terms of the equal access scheme for effecting the off-market purchase;

"Maximum Limit" means that number of issued Shares representing 10% of the total number of issued Shares of the Company (excluding treasury shares and subsidiary holdings (as defined in the Listing Manual of SGX-ST)) as at the date of the passing of this Ordinary Resolution; and

"Maximum Price" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, stamp duties (if applicable), commission, applicable goods and services tax and other related expenses (if applicable)) which shall not exceed:

(i) in the case of a market purchase of a Share, 105% of the Average Closing Price of the Shares; and

(ii) in the case of an off-market purchase of a Share pursuant to an equal access scheme, 110% of the Average Closing Price of the Shares; and

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

8. (a) That approval be and is hereby given for the purpose of Chapter 9 of the Listing Manual of SGX-ST, for the Company, its subsidiaries and its associated companies that are not listed on SGX-ST, or an approved exchange, over which the Company, its subsidiaries and/or its interested person(s), have control, or any of them, to enter into any of the transactions falling within the category of Interested Person Transactions, particulars of which are set out in the Letter to Shareholders dated 28 March 2019 (the "Letter to Shareholders") with any party who is of the class or classes of Interested Persons described in the Letter to Shareholders; provided that such transactions are entered into in accordance with the review procedures for Interested Person Transactions as set out in the Letter to Shareholders, and that such approval (the "IPT Mandate"), shall unless revoked or varied by the Company in general meeting, continue in force until the next AGM of the Company; and

(b) That the Directors and each of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they or he may consider expedient or necessary or in the interests of the Company to give effect to the IPT Mandate and/or this Ordinary Resolution.

C. TO TRANSACT ANY OTHER ORDINARY BUSINESS

BY ORDER OF THE BOARD

Ng Siew Ping, Jaslin
Yeo Swee Gim, Joanne
Company Secretaries

Singapore, 28 March 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

1. With reference to item 2 of the Ordinary Business above, the Directors' Fees of $426,866 for FY 2018 excludes the ARC Fees of $58,000 per annum paid to the ARC chairman and $38,000 per annum paid to each ARC member for FY 2018 which had been approved by shareholders at the 2018 AGM of the Company. The payment of the ARC Fees for FY 2019 shall be made on a quarterly basis in arrears at the end of each calendar quarter (except for the first quarter of 2019 which shall be made upon the approval by the shareholders at the Meeting). Further information on the Directors' Fees structure can be found on page 32 of the Annual Report.

2. Key information on Mr Tan Eng Kwee, who is seeking election as a Director of the Company under item 3(a) of the Ordinary Business above, can be found on page 13 and pages 237 to 240 of the Annual Report.

3. With reference to item 3(b) of the Ordinary Business above, Mr Ernest Colin Lee will, upon re-election as a Director of the Company, remain as Lead Independent Director, chairman of the Nominating Committee ("NC"), Remuneration Committee ("RC"), SOS Committee ("SOSC") and a member of the ARC. Mr Lee is considered an independent Director.

   Key information on Mr Lee can be found on page 14 and pages 237 to 240 of the Annual Report.

4. With reference to item 3(c) of the Ordinary Business above, Ms Kwong Ka Lo @ Caroline Kwong will, upon re-election as a Director of the Company, remain as a member of the ARC and NC. Ms Kwong is considered an independent Director.

   Key information on Ms Kwong can be found on page 14 and pages 237 to 240 of the Annual Report.

5. The Ordinary Resolution set out in item 5 of the Special Business above, if passed, will empower the Directors of the Company from the date of the Meeting until the next AGM (unless such authority is revoked or varied at a general meeting), to issue shares and/or make or grant Instruments that might require shares to be issued up to a number not exceeding 50% of the total number of issued shares, excluding treasury shares and subsidiary holdings, of the Company, of which up to 20% may be issued other than on a *pro rata* basis to shareholders. The aggregate number of shares which may be issued under this Ordinary Resolution will be calculated based on the total number of issued shares, excluding treasury shares and subsidiary holdings, of the Company at the time that this Ordinary Resolution is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options which are outstanding or subsisting at the time this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

6. The Ordinary Resolution set out in item 6 of the Special Business above, if passed, will empower the Directors to offer and grant options in accordance with the SOS to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors and to issue from time to time such number of shares of the Company pursuant to the exercise of such options under the SOS subject to such limits or sub-limits as prescribed in the SOS *(see note below on voting restrictions)*.

   Voting restrictions pursuant to Rule 859 of the Listing Manual of SGX-ST
   Please note that if a shareholder is eligible to participate in the SOS (other than as a director and/or employee of Hong Leong Investment Holdings Pte. Ltd. (the "Parent Company") and its subsidiaries (but not including the Company and its subsidiaries)), he should abstain from voting at the Meeting in respect of the Ordinary Resolution set out in item 6 in relation to the SOS, and should not accept nominations as proxies or otherwise for voting at the Meeting, in respect of the aforesaid Ordinary Resolution, unless specific instructions have been given in the proxy form on how the vote is to be cast for the aforesaid resolution.

7. The Ordinary Resolution set out in item 7 of the Special Business above, if passed, will empower the Directors to make purchases or otherwise acquire the Company's issued Shares from time to time subject to and in accordance with the guidelines set out in Annexure I of the Letter to Shareholders. This authority will expire at the conclusion of the next AGM of the Company, unless previously revoked or varied at a general meeting or when such purchases or acquisitions are carried out to the full extent mandated.

8. The Ordinary Resolution set out in item 8 of the Special Business above, if passed, will renew the IPT Mandate first approved by Shareholders on 30 May 2003 to facilitate the Company, its subsidiaries and its associated companies, to enter into Interested Person Transactions, the details of which are set out in Annexures II and III of the Letter to Shareholders. The IPT Mandate will continue in force until the conclusion of the next AGM of the Company, unless previously revoked or varied at a general meeting.

   Voting restrictions pursuant to Rule 921(7) of the Listing Manual of SGX-ST
   The Parent Company and its subsidiaries, the Directors of the Company and their associates, who are also shareholders of the Company and being Interested Persons under the IPT Mandate, are required to abstain from voting at the Meeting in respect of the Ordinary Resolution set out in item 8 in relation to the proposed renewal of the IPT Mandate.

Meeting Notes:

1. (i) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (ii) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act.

2. A proxy need not be a member of the Company.

3. The form of proxy must be deposited at the Share Registrar's office at 112 Robinson Road, #05-01, Singapore 068902, not less than 72 hours before the time appointed for holding the Meeting.

NOTICE OF ANNUAL GENERAL MEETING

4. Completion and return of the form of proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the Meeting.

5. Pursuant to Rule 730(A)(2) of the Listing Manual of SGX-ST, all resolutions at this Meeting shall be voted on by way of a poll.

6. To allow for a more efficient voting system, polling will be done by way of an electronic poll voting system. With poll voting, members present in person or represented by proxy at the Meeting will be entitled to vote on a 'one-share, one-vote' basis. The detailed procedures for the electronic poll voting will be explained at the Meeting.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company:

(i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable legislations, the Listing Manual of SGX-ST and/or other regulatory guidelines (collectively, the "Purposes");

(ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and

(iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION AT THE 58TH ANNUAL GENERAL MEETING

<table>
<tr><th></th><th>Tan Eng Kwee, 65</th><th>Ernest Colin Lee, 78</th><th>Kwong Ka Lo @ Caroline Kwong, 60</th></tr>
<tr><td>Date of appointment</td><td>10 December 2018</td><td>3 April 2000</td><td>22 February 2016</td></tr>
<tr><td>Job Title</td><td>Executive Director and Chief Executive Officer</td><td>Non-Executive and Lead Independent Director

Chairman of the Nominating Committee (“NC”), Remuneration Committee (“RC”) and Hong Leong Asia Share Option Scheme 2000 Committee (“SOSC”) as well as a member of the Audit and Risk Committee (“ARC”)</td><td>Non-Executive and Independent Director

Member of the ARC and NC</td></tr>
<tr><td>Date of last re-election as Director (if applicable)</td><td>N.A.</td><td>22 April 2016</td><td>22 April 2016</td></tr>
<tr><td>Country of principal residence</td><td>Singapore</td><td>Australia</td><td>Singapore</td></tr>
<tr><td>Board’s comments on the election/re-election (including rationale, selection criteria, and the search and nomination process)</td><td colspan="3">The Board reviewed the recommendation of the NC on the election/re-election of these Directors and took into account, inter alia,

• In the case of Mr Tan Eng Kwee: his extensive operations, corporate, accounting and financial experience which would complement the Board’s core competencies.

• In the case of Mr Ernest Colin Lee and Ms Kwong Ka Lo @ Caroline Kwong: their skills sets, experience and contribution to the effectiveness of the Board, which included their participation at Board and Board committees meetings. The Board also noted the time commitments of these Directors who have other company board representations and/or principal commitments.

• In the case of Mr Ernest Colin Lee, who has served more than nine years on the Board: his ability to remain independent, in particular his objectivity in the review and evaluation of actions taken by or proposals from Management and his seeking of clarification, as and when necessary, to make informed decisions whilst remaining open to other viewpoints.

The Board recommends the election and re-election of Mr Tan Eng Kwee, Mr Ernest Colin Lee and Ms Kwong Ka Lo @ Caroline Kwong as Directors of the Company.

For more details on the NC’s evaluation process, please refer to Principle 4: Board Membership and Principle 5: Board Performance on pages 25 to 29 of the Corporate Governance Report.</td></tr>
</table>

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION AT THE 58TH ANNUAL GENERAL MEETING

	Tan Eng Kwee	**Ernest Colin Lee**	**Kwong Ka Lo @ Caroline Kwong**
Whether appointment is executive, and if so, the area of responsibility	Yes Overall responsible for the management and direction of the Group's business.	No	No
Professional qualification and working experience and occupation(s) during the past 10 years	Extensive experience in operations, corporate, accounting and financial experience in China, Malaysia, Indonesia and Singapore. <u>During the past 10 years to present</u>: December 2018 to present – Chief Executive Officer of HLA August 2016 to December 2018 - Independent financial consultant to various companies July 2015 to July 2016 - Executive Director and Chief Financial Officer ("CFO") of Epsilon Global Communications Pte. Ltd. April 2013 to September 2014 - CFO of Dynapack Asia Pte. Ltd. December 2011 to April 2013 - Chief Operating Officer of Perennial China Retail Trust Management Pte. Ltd. and Executive Vice President of Perennial Real Estate Pte. Ltd. October 2008 to November 2011 - CFO of HLA	Professional project consultant and has extensive experience in management, engineering and business development as well as experience in financial management in Singapore and Australia. <u>During the past 10 years to present</u>: May 1990 to present – Executive Director of Compact Engineers Pty Ltd. Holds a Bachelor of Civil Engineering (Honours) degree from the University of Queensland, Australia.	Extensive experience in fund raising, corporate finance, capital markets and debt restructuring. <u>During the past 10 years to present</u>: October 2016 to present - Managing Director of The Global Value Investment Portfolio Management Pte Ltd Since July 2013, and between 2004 and March 2011 - Director of KEV Capital Limited October 2014 to September 2016 - Limited Partner of Laurel Capital Kingsway LLP, London, United Kingdom March 2011 to July 2013 - General Manager, Head of Capital Markets & Corporate Banking and Co-head of Corporate Finance of HL Bank, Singapore branch of Hong Leong Bank Berhad.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION AT THE 58TH ANNUAL GENERAL MEETING

	Tan Eng Kwee	**Ernest Colin Lee**	**Kwong Ka Lo @ Caroline Kwong**
	Holds a Bachelor of Accountancy (Honours) from The University of Singapore and a Master of Business Administration from Cranfield School of Management, United Kingdom. Successfully completed all examinations of the Chartered Association of Certified Accountants, the Institute of Chartered Secretaries & Administrators (now known as Chartered Secretaries Institute of Singapore) and the Chartered Association of Management Accountants and was a Fellow Member of the former and an Associate Member of the latter two.		Holds a Bachelor of Science in Business Administration with Major in Finance and Human Resources Management, and Minor in French, from the California State University, Sacramento, and a Master of Science in Finance and Accounting from the London School of Economics and Political Science.
Shareholding interest in the Company and its subsidiaries	Please refer to the Directors' Statement on page 60.	Please refer to the Directors' Statement on page 60.	Nil
Relationship (including immediate family relationship) with any existing director, existing executive officer, the Company and/or substantial shareholder of the Company or any of its principal subsidiaries	Nil	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to Hong Leong Asia Ltd. ("HLA")	Yes	Yes	Yes

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION AT THE 58TH ANNUAL GENERAL MEETING

	Tan Eng Kwee	Ernest Colin Lee	Kwong Ka Lo @ Caroline Kwong
Other Principal Commitments including directorships Directorships: • Past (for the last 5 years):	Principal Commitments: Please see information under segment "Professional qualification, working experience and occupation(s) during the past 10 years" • Gen1sys Pte. Ltd. • Epsilon Global Communications Pte. Ltd.	Principal Commitments: Please see information under segment "Professional qualification, working experience and occupation(s) during the past 10 years" • Hamsdale Australia Pty Limited • Sugdon Fittings Pty. Ltd.	Principal Commitments: Please see information under segment "Professional qualification, working experience and occupation(s) during the past 10 years" • Laurel Capital Kingsway LLP
• Present:	Number of directorships in the following companies and their affiliates: • HLA* and 24 HLA group subsidiaries and associated companies • China Yuchai International Limited* ("CYI") and 9 CYI group subsidiaries • HL Global Enterprises Limited* ("HLGE") and 11 HLGE group subsidiaries and associated companies • Tasek Corporation Berhad* ("TCB") and 5 TCB group subsidiaries	• Compact Engineers Pty Ltd.	• The Global Value Investment Portfolio Management Pte Ltd • H.Glass SA (formerly known as g2e (Glass 2 Energy) Sa) • CeriBell, Inc • KEV Capital Limited • u.life Special Investments Pte Ltd (formerly known as GVIP Special Investments Pte Ltd) • Singapore Association for Mental Health
Date of announcement of first appointment Responses to questions (a) to (k) under Appendix 7.4.1 of the SGX Listing Manual	10 December 2018 Negative confirmation	3 April 2000 Negative confirmation	22 February 2016 Negative confirmation

* Listed company

Information as at 22 March 2019

HONG LEONG ASIA LTD.

Co. Reg. No. 196300306G
(Incorporated in the Republic of Singapore)

PROXY FORM

For 58th Annual General Meeting

IMPORTANT

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies each to attend, speak and vote at AGM.
2. This Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by CPF/SRS investors who hold shares through their CPF/SRS funds. CPF/SRS investors should contact their respective Agent Banks/SRS operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 28 March 2019.

*I/We, (name) ________________________________ with NRIC/Passport/Co. Reg. No. ______________

of (address) ____

being *a member/members of HONG LEONG ASIA LTD. (the “Company”), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

*and/or

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

as *my/our *proxy/proxies to attend, speak and vote on *my/our behalf at the 58th Annual General Meeting of the Company (the “AGM”) to be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908 on Friday, 26 April 2019 at 10.00 a.m. and at any adjournment thereof in the following manner as specified below. My/our proxy/proxies may vote or abstain from voting at his/their discretion on any of the resolutions where I/we have not specified any voting instruction, and on any other matter arising at the AGM.

NOTE*: Voting on all resolutions will be conducted by poll. If you wish to exercise 100% of your votes* ***For*** *or* ***Against*** *a resolution, please tick with “✓” in the corresponding box against that resolution. If you wish to split your votes, please indicate the number of votes* ***For*** *and/or* ***Against*** *that resolution.*

No.	Resolutions			For	Against
A.	**ORDINARY BUSINESS:**				
1.	Adoption of the Directors’ Statement and Audited Financial Statements together with the Auditor’s Report thereon				
2.	Approval of Directors’ Fees and Audit and Risk Committee Fees				
3.	Election/Re-election of Directors	(a)	Mr Tan Eng Kwee		
		(b)	Mr Ernest Colin Lee		
		(c)	Ms Kwong Ka Lo @ Caroline Kwong		
4.	Re-appointment of Ernst & Young LLP as Auditor				
B.	**SPECIAL BUSINESS:**				
5.	Authority for Directors to issue shares and/or make or grant offers, agreements or options pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore and the Listing Manual of Singapore Exchange Securities Trading Limited				
6.	Authority for Directors to offer and grant options to eligible participants under the Hong Leong Asia Share Option Scheme 2000 (the "SOS") other than Parent Group Employees and Parent Group Non-Executive Directors and to issue shares in accordance with the provisions of the SOS				
7.	Renewal of Share Purchase Mandate				
8.	Renewal of IPT Mandate for Interested Person Transactions				

Dated this ________ day of ______________ 2019

Total No. of Shares Held

____
Signature(s)/Common Seal of Member(s)

* Delete accordingly

NOTES: SEE OVERLEAF

NOTES:

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the AGM. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

2. A proxy need not be a member of the Company.

3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (maintained by the Central Depository (Pte) Limited), you should insert that number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.

4. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer. Where a form of proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which the form of proxy may be treated as invalid.

5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.

6. Completion and return of this form of proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the AGM.

7. This form of proxy must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902, not less than 72 hours before the time fixed for holding the AGM.

8. The Company shall be entitled to reject the form of proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the form of proxy (including any related attachment). In addition, in the case of shares entered in the Depository Register, the Company may reject any form of proxy lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.

Fold Here

PROXY FORM

Affix
Postage
Stamp

The Share Registrar
HONG LEONG ASIA LTD.
c/o M & C Services Private Limited
112 Robinson Road, #05-01
Singapore 068902

Fold Here

OPERATING NETWORK

CORPORATE OFFICE

Hong Leong Asia Ltd.
16 Raffles Quay #26-00
Hong Leong Building
Singapore 048581
Tel: (65) 6220 8411
Fax: (65) 6222 0087/6226 0502

Hong Leong Asia (Shanghai) Co., Ltd.
Room 2305B, Summit Center
1088 Yan An Xi Road
Chang Ning District
Shanghai 200052
People's Republic of China
Tel: (86) 21 6226 2996
Fax: (86) 21 6226 3253

DIESEL ENGINES

China Yuchai International Limited
Executive Office
16 Raffles Quay #39-01A
Hong Leong Building
Singapore 048581
Tel: (65) 6220 8411
Fax: (65) 6221 1172

Guangxi Yuchai Machinery Company Limited
88 Tianqiao West Road, Yulin
Guangxi 537005
People's Republic of China
Tel: (86) 775 328 9000
Fax: (86) 775 328 8168

BUILDING MATERIALS

Ready-Mix Concrete Division
Island Concrete (Private) Limited
43/45 Sungei Kadut Street 4
Singapore 729061
Tel: (65) 6488 5777
Fax: (65) 6368 0312

Pre-cast Concrete Division
HL Building Materials Pte. Ltd.
7A Tuas Avenue 13
Singapore 638979
Tel: (65) 6862 3501
Fax: (65) 6861 0674

HL-Manufacturing Industries Sdn. Bhd.
Lot 2595 and Lot 2596, Jalan
Perindustrian 3
Kawasan Perindustrian Senai Fasa II
81400 Senai
Johor Darul Ta'zim
Malaysia
Tel: (607) 598 6828
Fax: (607) 598 6822

Cement Division
Singapore Cement Manufacturing Company (Private) Limited
43/45 Sungei Kadut Street 4
Singapore 729061
Tel: (65) 6488 5777
Fax: (65) 6368 0312

Tasek Corporation Berhad
5, Persiaran Tasek
Tasek Industrial Estate
31400 Ipoh, Perak
Malaysia
Tel: (605) 291 1011
Fax: (605) 291 9932

Trading and Granite Division
HL Building Materials Pte. Ltd.
43/45 Sungei Kadut Street 4
Singapore 729061
Tel: (65) 6488 5777
Fax: (65) 6368 0312

Hayford Holdings Sdn. Bhd.
PTD 2734 and PTD 2735
Mukim Pengerang
81909 Kota Tinggi
Johor Darul Ta'zim
Malaysia
Tel: (607) 598 6828
Fax: (607) 598 6822

INDUSTRIAL PACKAGING

Tianjin Rex Packaging Co., Ltd.
167 Dongting Road, TEDA
Tianjin 300457
People's Republic of China
Tel: (86) 22 6620 0949/50
Fax: (86) 22 6620 1128

Dongguan Rex Packaging Co., Ltd.
Su Keng, Chang Ping, Dongguan
Guangdong Province 523577
People's Republic of China
Tel: (86) 769 8900 9055 ext 213
Fax: (86) 769 8391 0879

AIR-CONDITIONING SYSTEMS

Airwell Air-conditioning Technology (China) Co., Ltd.
82 Guangzhou Road East
Economy Development Area
Taicang, Suzhou
Jiangsu province 215400
People's Republic of China
Tel: (86) 512 8277 9996
Fax: (86) 512 8277 9691

S.E.A. DISTRIBUTION
For Air-Conditioning
Fedders International Pte. Ltd.
AZ@Paya Lebar
140 Paya Lebar Road, #07-04
Singapore 409015
Tel: (65) 6922 6250
Fax: (65) 6922 6292

OTHERS

HL Global Enterprises Limited
10 Anson Road
#19-08 International Plaza
Singapore 079903
Tel: (65) 6324 9500
Fax: (65) 6221 4861

HONG LEONG ASIA LTD.
Co. Reg. No. 196300306G

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