# HONG LEONG ASIA LTD.

ANNUAL REPORT 2017

## 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.

## CONTENTS



## 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 has five core businesses:

**Diesel Engines**

**Building Materials**

**Consumer Products**

**Industrial Packaging**

**Air-conditioning Systems**

## DIESEL ENGINES


China Yuchai International Limited

## BUILDING MATERIALS

Tasek Corporation Berhad and Island Concrete (Private) Limited

## CONSUMER PRODUCTS

Henan Xinfei Electric Co., Ltd.

# 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 the diesel engines, consumer products, as well as 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.

# REVENUE DISTRIBUTION

## REVENUE BY BUSINESS SEGMENT
(in S$ million)

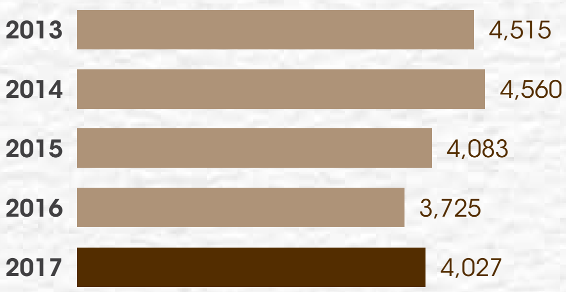
TOTAL **S$4.03** billion

| Diesel Engines | Building Materials | Consumer Products | Industrial Packaging | Air-Conditioning Systems | Other Segments |
|---|---|---|---|---|---|
| **3,300** | **379** | **277** | **41** | **19** | **11** |

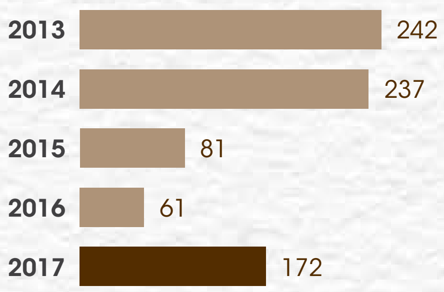
## REVENUE BY COUNTRY
(in S$ million)

# FINANCIAL HIGHLIGHTS

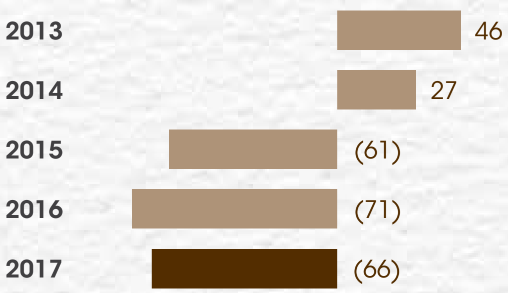
**REVENUE** (in S$ million)



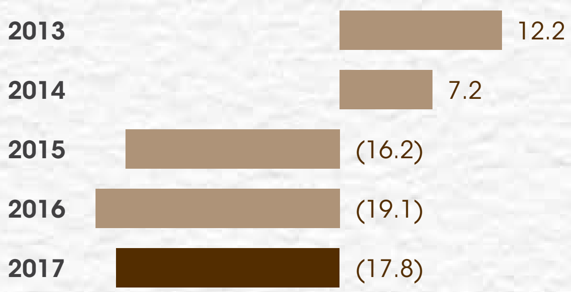

**PROFIT BEFORE TAX** (in S$ million)



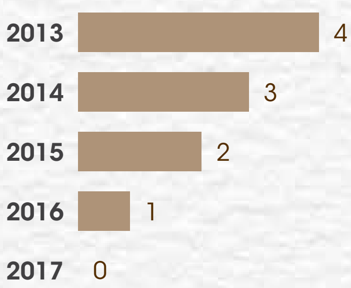

**ATTRIBUTABLE PROFIT/(LOSS)** (in S$ million)




**EARNINGS/(LOSS) PER SHARE** (in cents)




**DIVIDEND PER SHARE** (in cents)




## 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

> The Group expects 2018 to be challenging. We will explore strategic options and potential alliance opportunities, alongside cost control discipline and ongoing organisational restructuring initiatives. Yuchai's performance is expected to remain positive.

I have the pleasure in presenting, on behalf of the Board of Directors of Hong Leong Asia Ltd. ("**HLA**" or "**Company**" or together with its subsidiaries, "**Group**"), the Company's Annual Report 2017.

**BUSINESS REVIEW**

Year 2017 was a challenging year for the Group. However, we initiated several corporate exercises.

Steps to restructure certain business units are ongoing as part of our efforts to streamline operations and equip them with the necessary strengths to develop and grow in the near future. The restructuring exercise of our Consumer Products Unit is a positive strategic development that aims to reduce the Group's exposure to the challenging consumer goods market in China. The Group's subsidiary, HL Global Enterprises Limited ("**HLGE**"), has completed the disposal of its stake in Copthorne Hotel Qingdao and Elite Residence, a serviced apartment hotel. This will better position HLGE to look for opportunities in the future.

The Chief Executive Officer of the Company will present a comprehensive operational review of each business unit. As such, I shall focus on the overview of the performance and prospects of the different business units.

- **Diesel Engines Unit ("Yuchai")**

The Diesel Engines Unit recorded healthy growth in 2017 and remains as one of China's leading independent engine makers. Its footprint expanded throughout regional diesel engine markets including Myanmar, Cambodia and Kuwait, just to name a few. Orders from Myanmar will propel the growth of Rangoon's upgraded public transportation system, while exports to Phnom Penh will support the Cambodian government's new public transportation plans. A significant order was also delivered to the Kuwait Public Transport Company.

I am also pleased to report that for the year 2017, Yuchai achieved record sales of 12,173 units to the global bus market, breaking its 10,000-unit mark for the first time.

Yuchai's revenue increased 17.0% compared to FY2016 and sold 14.6% more units as compared to FY2016. The rebound in the sales of truck and off-road engines in China, contributed to these improved sales figures.

- **Building Materials Unit ("BMU")**

The Building Materials Unit operated in a challenging environment in 2017. The 8.4% decline in the Singapore construction industry in 2017 had an adverse impact on the operating performance of the BMU.

BMU's revenue decreased 18.1% as compared to FY2016. In Singapore, the decrease was due to lower sales from the precast division and price competition. In Malaysia, the decrease in revenue contribution from the Group's subsidiary, Tasek Corporation Berhad, was mainly due to lower demand for cement in the domestic market and price competition.

BMU remains one of the top precast suppliers in Singapore in an extremely competitive market. Tasek Corporation Berhad also continues to be one of Malaysia's trusted suppliers of building materials.

- **Consumer Products Unit ("Xinfei")**

The Consumer Products Unit faced oversupply and strong competition in China. The China Market Monitor reported that fridge and freezer unit sales declined 11.4% and 13.6%, respectively in 2017.

Xinfei's 2017 revenue declined 25.4% as compared to FY2016, due to the decrease of 20.0% in total unit sales as compared to FY2016.

Recognising the challenges faced by Xinfei the Company announced a restructuring exercise on 30 October 2017 for its Consumer Products Unit (the "**Restructuring Exercise**") which called for the cessation of manufacturing and production activities alongside the exploration of strategic participation by potential partners.

## FY2017 REVIEW

The loss attributable to the owners of the Company ("**PATMI**") in FY2017 was $66.5 million, a decrease of $4.7 million or 6.7% as compared to the loss of $71.2 million in previous year. The loss includes certain non-cash items relating to the Restructuring Exercise, amounting to $24.9 million at the PATMI level.

At a Group level, the net asset value per share for 2017 was $1.65 as compared to $1.87 in 2016. Loss per share both on a weighted and on a fully diluted basis in 2017 was 17.77 cents per share as compared to 19.05 cents per share in 2016.

## OUTLOOK

The Group expects 2018 to be challenging. We will explore strategic options and potential alliance opportunities, alongside cost control discipline and ongoing organisational restructuring initiatives. Yuchai's performance is expected to remain positive, notwithstanding signs that the growth in the truck market in China is slowing down and the bus market continues to be weak. The BMU will continue to operate in difficult and challenging market conditions.

## DIVIDENDS

In view of the challenges highlighted above, the Board is not recommending any dividend in FY2017.

## SUSTAINABILITY REPORT

The Group published its inaugural sustainability report last year, one-year ahead of the mandatory requirement set by the Singapore Exchange. The Board and management will continue to monitor material environment, social and governance issues and to incorporate them into the strategy of the Group.

## APPRECIATION

On behalf of the Board, I would like to thank our stakeholders, including our shareholders, customers, bankers, business partners and staff for their unwavering support. I would like to take this opportunity to express my sincere appreciation to Mr Tan Huay Lim for his contributions to the Board, as he will be retiring from the Board at this coming Annual General Meeting. I would also like to thank my fellow Directors for their commitment, involvement and contributions.

Thank you.

**KWEK LENG PECK**
Executive Chairman

# 主席报告书

我很高兴代表丰隆亚洲有限公司（"**HLA**"，或“公司”，或连同子公司的“集团”）发表2017年度报告。

## 业务回顾

2017年对集团来说是充满挑战的一年，但我们还是启动了数项企业行动。

我们持续为精简运营努力，包括重整和强化一些业务板块，以面对将来的发展和成长。家电业务的重整计划将是一项正面的策略发展，从而减少集团在竞争激烈的中国家电市场的曝险。集团属下的子公司丰隆环球有限公司（"**HLGE**"）也完成脱售青岛国敦大酒店和易里酒店式公寓的股权，因此有利于寻求新的良机。

公司首席执行官会发表每项业务运作的完整报告，我就专注在各业务的整体表现和前景。

- 柴油发动机业务（“玉柴”）

柴油发动机单业务在2017年取得良好增长，继续是中国领先的独立发动机制造商之一。它的业务遍布区域的柴油发动机市场，包括缅甸、柬埔寨和科威特等。来自缅甸的订单将推动仰光公共交通系统的成长，到金边的出口则可支持柬埔寨政府的新公共交通计划。另外，我们也交付一笔可观的订单给科威特公共交通公司。

我很欣喜地宣布玉柴在2017年交付到全球客车市场的发动机销量达1万2千1百73台，首次打破1万台的纪录。

玉柴的营收比2016财年高出17.0%，售出的发动机数量也增加14.6%，主要因为中国卡车和非公路用途发动机销量的回弹。

- 建筑材料业务（"BMU"）

2017年，建筑材料业务在经营环境严峻下继续努力运作。2017年新加坡建筑行业下跌8.4%，对BMU的表现也带来负面影响。

BMU营收比2016财年减少18.1%。在新加坡，营收下跌主要因为预制建材部门的销量减少和价格竞争；在马来西亚，集团子公司大石机构对营收的贡献减少，主要因为当地市场对水泥需求减少和价格竞争。

虽然市场竞争激烈，BMU仍是新加坡顶尖预制供应商。大石机构也是马来西亚可靠的建材供应商。

- 消费产品业务（“新飞”）

家电业务在中国面对激烈竞争和供应过剩。根据北京中怡康时代市场研究的报告，2017年所售出的冰箱和冷柜数量，分别减少11.4%和13.6%。

新飞在2017年的营收也比2016财年少了25.4%，因为整体售出的数量比2016财年少了20.0%。

基于新飞面对的重重挑战，公司在2017年10月30日宣布重整计划，包括终止制造和生产活动以及招募意向性战略合作伙伴。

## 财年回顾

2017财年的税后归属股东净亏损（PATMI）是6,650万元，比之前一年的7,120万元亏损减少470万元或6.7%。税后归属股东净亏损当中的2,490万元，是一些和重整有关的非现金项目。

在集团方面，2017年的每股净资产值是1.65元，2016年是1.87元。加权和全面摊薄的每股亏损都是17.77分，2016年是19.05分。

## 前景

2018年仍然是充满挑战。我们会探讨策略选择和联盟合作机会，同时推动节约成本和继续进行有组织性的重整。虽然中国的卡车市场增长有放缓趋势，客车市场也持续疲弱，玉柴预料可持续取得正面业绩。BMU业务的营运则会继续面对严峻的市场。

## 股息

基于上述提出的种种挑战，董事会2017财年不建议派发任何股息。

## 可持续发展报告

集团去年发布了首份可持续发展报告，比新加坡交易所的规定提前了一年。董事会和管理层将继续监察实质性环境、社会及治理议题，并将其纳入本集团的营运策略。

## 感言

我谨此代表董事会感谢我们的利益相关者，包括股东、客户、银行、商业伙伴和员工的坚定支持。陈怀林先生将在来临的股东大会上退任董事之职， 我在此对陈先生为董事会所作出的贡献表示由衷感谢。我也对董事同仁的投入、参与和贡献深表感激。

谢谢

郭令栢
执行主席

# CEO'S REVIEW

Revenue for the Group was $4.027 billion in FY2017, an increase of $301.9 million or 8.1%, from $3.725 billion in FY2016.

The main business units of the Group are the Diesel Engines Unit ("**Yuchai**"), the Building Materials Unit ("**BMU**") and the Consumer Products Unit ("**Xinfei**"). The other business units in the Group are the Industrial Packaging Unit ("**Rex**") and the Air-conditioning Systems Unit and Lifestyle Consumer Appliances Unit ("**Airwell**").

Revenue for the Group was $4.027 billion in FY2017, an increase of $301.9 million or 8.1%, from $3.725 billion in FY2016.

- **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.

In FY2017, Yuchai recorded healthy growth in unit sales and revenue. It further expanded its footprint in the regional engine market. Yuchai received an initial order for 2,000 units of heavy-duty natural gas engines to power buses used in Rangoon's upgraded public transportation system. An additional order for 1,000 engines is expected during the second phase. Some 98 Yutong buses powered by Yuchai's engines were exported to Phnom Penh to support Cambodian government's new public transportation plans, while 598 school buses by Changan Bus Manufacturing, also powered by Yuchai's engines, were delivered to Kuwait Public Transport Company. In the year of 2017, Yuchai achieved record sales of 12,173 units to the global bus market, breaking the 10,000-unit mark for the first time.

For the year 2017, Yuchai recorded total revenue of $3.3 billion, an increase of 17.0% or $479.6 million. Yuchai sold 367,097 engines in FY2017, an increase of 14.6% or 46,673 units as compared to 320,424 units sold in FY2016. The increase in engine sales was mainly due to the rebound in the sales of truck and off-road engines, while bus engines sales softened. Statistics from China Association of Automotive Manufacturers reported a growth of commercial vehicles (excluding gasoline-powered and electric-powered vehicles) by 16.9% for 2017.

Yuchai remains one of China's leading independent engine makers for the commercial vehicles application.

# CEO'S REVIEW

- **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.

In FY2017, BMU operated in a challenging environment. While the Singapore economy grew 3.6% in FY2017 as compared to 2.4% in FY2016, the local construction industry declined 8.4% in FY2017 against growth of 1.9% in FY2016. The construction industry had been on a declining trend since FY2016. This slow growth had an adverse impact on the operating performance of BMU. In Malaysia, the Group's subsidiary, Tasek Corporation Berhad faced intense price competition due to excess cement capacity and lesser private property projects.

BMU posted total revenue of $379.4 million, a decrease of 18.1% or $83.9 million as compared to FY2016. In Singapore, the decrease was due to lower sales from the precast division and price competition. In Malaysia, the decrease in revenue was mainly due to lower demand for cement in the domestic market and price competition.

Despite the intense competitive environment, BMU remains as one of Singapore's top precast suppliers. Tasek Corporation Berhad, a subsidiary of the Company, also continues to be one of Malaysia's trusted suppliers of building materials.

- **Consumer Products Unit**

Xinfei markets under the Xinfei and Frestec brands. It is one of the leading manufacturers of major consumer appliances in China. Through its well-established nationwide distribution network, Frestec offers a variety of major consumer appliances which include refrigerators, freezers, wine chillers, air-conditioners and washing machines for residential customers in China. Xinfei and Frestec brands are known for its high-quality products that are innovative and energy saving with reliable after sales services. It also exports its products to overseas markets.

On 30 October 2017, the Xinfei announced that it will undertake a restructuring exercise. The restructuring exercise ("Restructuring Exercise") includes the cessation of its manufacturing and production activities, and the exploration of strategic participation with potential partners. Whilst the Restructuring Exercise will be a good strategic exercise for the Company, it will involve certain impairments.

Xinfei recorded a total revenue of $276.6 million, a decline of 25.4% or $94.1 million compared to FY2016. Total unit sales were 1.20 million units for FY2017, a decrease of 20.0% as compared to 1.50 million units in the previous year. This was mainly due to the Restructuring Exercise announced in 30 October 2017, which led to the halting of production. The fridge and freezer market in China remains highly competitive and continues to be impacted by excess capacity. China Market Monitor reported that the fridge and freezers unit sales in China declined 11.4% and 13.6% respectively for FY2017.

- **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 and has manufacturing operations in China and Malaysia. In December 2017, the Group disposed the business and assets of Rex Plastics (Malaysia) Sdn. Bhd, but continues to have oversight of its remaining operations at Dongguan and Tianjin in China.

Rex posted revenue of $40.5 million, an increase of 4.6% or $1.8 million in FY2017.

- **Air-Conditioning Systems and Lifestyle Consumer Appliances Unit**

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

Airwell's revenue increased 3.2% (or $0.6 million) to $18.9 million.

# 首席执行官・回顾

集团的主要业务是柴油发动机（“玉柴”）、建筑材料（“**BMU**”）和消费产品（“新飞”）。其他业务包括工业包装（“利士”）、冷气系统和时尚消费电器（“欧威尔”）。

集团在2017财年的营收为40.27亿，比2016财年的37.25亿营收增加了3.019亿或8.1%。

• 柴油发动机业务有限公司

中国玉柴国际有限公司是纽约证券交易所的上市公司。它的主要子公司广西玉柴机器股份有限公司，是中国最大的发动机制造商之一。玉柴位于中国南部广西壮族自治区的玉林市。玉柴为中国的卡车、客车、乘用车、工程设备、海事和农业设备，提供多样化轻型、中型和重型发动机的生产、组装和行销。玉柴也生产柴油驱动的发动机。玉柴所生产的发动机种类众多，包括柴油、天然气到混合动力等发动机。玉柴能通过各区域销售网络和客户服务中心而有效地分销发动机到商用车组机商和零售商。同时也能在全中国提供售后维修和翻新服务。

2017财年玉柴的销量和营收都取得良好增长，同时扩大到区域发动机市场。玉柴获取一份2000台重型客车的天然气发动机新订单，以提升仰光的公共交通系统。同时在第二阶段供应1000台发动机的追加订单。98辆采用玉柴发动机的宇通客车也出口到金边，支持柬埔寨的新公共交通计划。此外，还有598辆采用玉柴发动机的长安校车，也交付到科威特公共交通公司。在2017年玉柴销售到全球的客车达到1万2173台，首次突破1万台标杆。

2017年玉柴的总营收达33亿元，同比增加17.0%或4亿7960万元。玉柴在2017财年售出36万7097台发动机，比2016年的32万零424台增加了14.6%或4万6673台。发动机销量增加的主要因素是卡车和非道路用发动机的销量回弹，但是客车发动机销量继续趋软。根据中国汽车工业协会的统计，2017年商用车辆（不包括汽油和电动车辆）增长16.9%。

玉柴在中国仍是其中一个领先的商用车辆独立发动机制造商。

• 建筑材料业务

集团的建筑材料业务是新加坡建筑业最大的基础建材供应商之一。它销售所有等级的预拌混凝土，也是公共住屋建筑的最大预制建材生产商。新加坡的业务也包括进口和分销水泥，并在柔佛经营花岗岩采石场。集团也通过各板块的互补，提供有争力的多元化的建材产品服务，并带给客户“一站式”的服务。马来西亚方面，丰隆亚洲子公司大石集团有限公司是当地第五大水泥生产商。

2017财年BMU的经营环境艰巨。新加坡经济在2016年取得2.4%增长，2017财年则是3.6%；本地建筑业在2016财年的跌幅是1.9%，2017财年的跌幅则达8.4%。建筑业从2016财年就呈下滑趋势。增长放缓对BMU的表现带来负面影响。集团在马来西亚的子公司大石机构则面对激烈的价格竞争。这是受到私人房地产项目减少和水泥产能过剩的影响。

BMU的总营收为3亿7,940万元，比2016财年减少了18.1%或8,390万元。在新加坡，营收下跌主要因为预制建材部门的销量减少和价格竞争；在马来西亚，主要因素则是因为当地市场对水泥需求减少和价格竞争。

虽然面对激烈竞争，BMU还是新加坡其中一家顶尖的预制建材供应商。公司的子公司大石机构也仍是马来西亚其中一家可信赖的建材供应商。

• 消费产品业务

新飞以新飞和Frestec两个品牌行销产品。它是中国主要消费电器的领先制造商之一。通过健全的全国分销网络，Frestec为中国住宅用户提供一系列主要消费电器，包括冰箱、冷柜、冰酒器、冷气和洗衣机。新飞和Frestec品牌以高品质产品著称，创新又节能，同时提供可信赖的售后服务。产品也出口到海外市场。

2017年10月30日新飞宣布重整计划，包括终止制造和生产活动，同时寻找意向性合作伙伴的策略合作。虽然重整会对资产带来减值处理，它对公司会是好的策略性部署。

新飞的总营收为2亿7,660万元，比2016财年少了25.4%或9,410万元。2017财年的总销量是120万部，比之前一年的150万部少了20%。这主要因为2017年10月30日重组计划宣布后，生产停止。中国的冰箱和冷柜市场依旧竞争激烈，而且产能过剩。根据北京中怡康时代市场研究的报告，2017财年中国所售出的冰箱和冷柜数量，分别减少11.4%和13.6%。

• 工业包装业务

利士生产和分销一系列硬质塑料产品，供应给工业和消费包装市场。利士的产品覆盖主要市场如个人护理、家居、餐饮、润滑剂和化学品的包装产品，并在中国和马来西亚设有生产基地。2017年12月集团脱售利士塑胶（马来西亚）有限公司，但会继续在中国东莞和天津的运营。

利士在2017财年取得4,050万元营收，增加4.6%或180万元。

• 冷气系统和时尚消费电品业务

欧威尔提供冷气系统的设计、制造和分销，范围包括中央冷气系统、分体式、住宅热泵、地板采暖、变容量调节系统（VRF）、风机盘管、风冷式和水冷式冷却机组、空气处理机组。生产基地在中国江苏太仓。它的产品可用于个人家庭用户、大型住宅、商业和工业，并出口到亚洲和欧洲。集团通过欧威尔和飞达仕两个品牌行销产品。

欧威尔的营收增加3.2%（或60万元）至1,890万元。

# BOARD OF DIRECTORS

**KWEK LENG PECK, 61**
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"), an Executive Director of Hong Leong Investment Holdings Pte. Ltd. ("HLIH") (the ultimate holding company of HLA), and 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.

**PHILIP TING SII TIEN @ YAO SIK TIEN, 63**
Executive Director and Chief Executive Officer

Appointed as Director and Chief Executive Officer ("CEO") of HLA since 14 January 2013, Mr Ting was re-elected as a Director on 22 April 2016. He is due to retire by rotation at the 2018 Annual General Meeting ("AGM") and will be seeking re-election as Director at the 2018 AGM. He is also the Group General Manager of Hong Leong Corporation Holdings Pte Ltd ("HLCH") (the immediate holding company of HLA), Executive Director and Group CEO of TCB and a Non-Executive Director of HL Global Enterprises Limited ("HLGE"). In the preceding 3-year period, he was a Non-Executive Director of Thakral Corporation Ltd until his resignation in January 2015. HLCH and TCB are related companies under the Hong Leong Group of companies and HLGE is an associated company of HLA.

Mr Ting was previously the Group Chief Financial Officer ("CFO") of HLA and CFO of CYI. He has over 25 years of experience as a financial controller in various companies including Deutsche Bank Aktiengesellschaft (Singapore) and Bank of Montreal, Singapore. He is an associate member of the Institute of Chartered Accountants in England and Wales.

**ERNEST COLIN LEE, 77**
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 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.

**TAN HUAY LIM, 61**
Non-Executive and Independent Director

Appointed a Non-Executive Director of HLA since 1 October 2015, Mr Tan was last re-elected on 22 April 2016. Mr Tan, who is due for retirement by rotation at the 2018 AGM, would not be seeking re-election as Director. Upon his cessation as Director after the AGM, he will also cease to be the chairman of the ARC and a member of the RC and SOSC of HLA.

He is also a Non-Executive Director of China Jinjiang Environment Holding Company Limited and Dasin Retail Trust Management Pte Ltd. In the preceding 3-year period, he was a Non-Executive Director of Auric Pacific Group Limited ("Auric") until his cessation following the delisting of Auric from the official list of Singapore Exchange Securities Trading Limited in April 2017.

Mr Tan was an audit partner of KPMG Singapore with more than 30 years of accounting and audit experience in KPMG LLP until his retirement in September 2015. He was also the Singapore Head of KPMG Global China Practice from September 2010 until his aforesaid retirement.

Mr Tan holds a Bachelor of Commerce (Accountancy) degree from the Nanyang University, Singapore and is a Fellow of the Institute of Singapore Chartered Accountants, the Association of Chartered Certified Accountants, United Kingdom and Certified Practising Accountants Australia.

Mr Tan contributes to the non-profit sector, serving as an Honorary Council Member of Singapore Chinese Chamber of Commerce and Industry, and a board member of Singapore Hokkien Huay Kuan and Ren Ci Hospital.

# BOARD OF DIRECTORS

**KWONG KA LO @ CAROLINE KWONG, 59**
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 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. Her investment focus is 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, 43**
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. In accordance with the Company's Constitution, he will stand for election as Director at the 2018 AGM. 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"). 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, 62**
Non-Executive and Independent Director

Appointed a Non-Executive Director of HLA since 1 March 2018, Mr Tan also sits on the ARC, RC and SOSC of HLA. In accordance with the Company's Constitution, he will stand for election as Director at the 2018 AGM. Following the retirement of Mr Tan Huay Lim upon the conclusion of the 2018 AGM, Mr Tan Chian Khong will upon his election at the 2018 AGM, replace the former as the chairman of the ARC.

Mr Tan is also a Non-Executive Director of Alliance Bank Malaysia Berhad, 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. Mr Tan retired as an audit partner of EY in 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, and a Fellow of the Institute of Singapore Chartered Accountants and 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.
- **CONSUMER PRODUCTS**
  - **China**
    - Henan Xinfei Electric Co., Ltd.
    - Henan Xinfei Household Appliance Co., Ltd.
    - Henan Xinfei Refrigeration Appliances Co., Ltd.
- **INDUSTRIAL PACKAGING**
  - **China**
    - Tianjin Rex Packaging Co., Ltd.
    - Dongguan Rex Packaging Company Limited
  - **Malaysia**
    - Rex Plastics (Malaysia) Sdn. Bhd.
- **AIR-CONDITIONING SYSTEMS AND DISTRIBUTION OF LIFESTYLE CONSUMER APPLIANCES**
  - **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*
Philip Ting Sii Tien @ Yao Sik Tien
– *Chief Executive Officer*

**Lead Independent Director**
Ernest Colin Lee

**Non-Executive Directors**
Tan Huay Lim – *Independent*
Kwong Ka Lo @ Caroline Kwong – *Independent*
Ng Sey Ming – *Independent*
Tan Chian Khong – *Independent*

**AUDIT AND RISK COMMITTEE**
Tan Huay Lim – *Chairman*
Ernest Colin Lee
Kwong Ka Lo @ Caroline Kwong
Ng Sey Ming
Tan Chian Khong

**NOMINATING COMMITTEE**
Ernest Colin Lee – *Chairman*
Kwek Leng Peck
Kwong Ka Lo @ Caroline Kwong

**REMUNERATION COMMITTEE**
Ernest Colin Lee – *Chairman*
Ng Sey Ming
Tan Huay Lim
Tan Chian Khong

**HONG LEONG ASIA SHARE OPTION SCHEME 2000 COMMITTEE**
Ernest Colin Lee – *Chairman*
Kwek Leng Peck
Ng Sey Ming
Tan Huay Lim
Tan Chian Khong

**SECRETARIES**
Ng Siew Ping, Jaslin
Yeo Swee Gim, Joanne

**INVESTOR RELATIONS**
Leong Kok Ho
Chief Financial Officer
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Email : sustainability@hla-grp.com

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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 Listing Rule 710 by describing in this report its corporate governance practices with specific reference to the principles or guidelines of the Code of Corporate Governance 2012 ("**2012 Code**"). Where the Company's practices differ from the principles and guidelines of the 2012 Code, these differences and the Company's position in respect of the same are explained in 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 collectively responsibility for the long-term success of the Company, working with senior Management to achieve the strategic objectives of the Company.

Its 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, and assume responsibility for good corporate governance.

The Board and Management have put in place a code of business and ethical conduct for its employees which sets out the Company's principles in its dealings with key stakeholders which include its shareholders, customers, suppliers, business partners, employees and the community, to ensure that its obligations to them 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**", formerly known as the Audit Committee) the general oversight on sustainability issues and sustainability reporting. In 2017, the Company published its first Sustainability Report which met Singapore Exchange Securities Trading Limited's ("**SGX-ST**") sustainability reporting requirements, ahead of SGX-ST's prescribed timeline. 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 43 to 61 of this Annual Report 2017 ("**AR**").

**Directors' Objective Discharge of Duties & Declaration of Interests**
All Directors 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 within the minutes and/or the resolutions of the Board and/or the various committees of the Board.

# CORPORATE GOVERNANCE REPORT

**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 authority and responsibilities of each of the Board Committees. 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 Huay Lim (chairman)<br>Ernest Colin Lee<br>Kwong Ka Lo @ Caroline Kwong<br>Ng Sey Ming<br>Tan Chian Khong |
| Nominating Committee | Ernest Colin Lee (chairman)<br>Kwek Leng Peck<br>Kwong Ka Lo @ Caroline Kwong |
| Remuneration Committee | Ernest Colin Lee (chairman)<br>Ng Sey Ming<br>Tan Huay Lim<br>Tan Chian Khong |
| Hong Leong Asia Share Option Scheme 2000 Committee | Ernest Colin Lee (chairman)<br>Kwek Leng Peck<br>Ng Sey Ming<br>Tan Huay Lim<br>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 duties of the ARC, NC and RC. Information on the duties of the SOSC is set out in the Directors' Statement on pages 65 to 69 and the Financial Statements on pages 173 to 176 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. Four Board meetings were held in 2017.

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 warranted by circumstances.

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.

# CORPORATE GOVERNANCE REPORT

The attendance of the Directors at the annual general meeting ("**AGM**") 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 2017 ("**FY 2017**"), 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 AGM 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.

**Directors' Attendance at the AGM, and Meetings of the Board and Board Committees in 2017**

| **Number of meetings held in 2017:** | **Board** | **ARC** | **NC** | **RC** | **SOSC** | **AGM** |
|---|---|---|---|---|---|---|
| | 4 | 5 | 2 | 2 | 1 | 1 |
| **Name of Director** | **Number of meetings attended in 2017** | | | | | |
| Kwek Leng Beng [(b)] | 1 | N.A. | 1 | N.A. | N.A. | 0 |
| Kwek Leng Peck | 4 | N.A. | 1[(c)] | 2[(a)] | 1 | 1 |
| Philip Ting Sii Tien @ Yao Sik Tien | 4 | 5[(a)] | 1[(a)] | 1[(a)] | N.A. | 1 |
| Ernest Colin Lee | 4 | 5 | 2 | 2 | 1 | 1 |
| Goh Kian Hwee [(b)] | 0 | 1 | 1 | 1 | 1 | 1 |
| Tan Huay Lim | 4 | 5 | 2[(d)] | N.A.[(d)] | N.A.[(d)] | 1 |
| Kwong Ka Lo @ Caroline Kwong | 4 | 5 | N.A.[(d)] | 2[(d)] | 1[(d)] | 1 |
| Ng Sey Ming [(e)] | 3 | 3 | N.A. | 1 | N.A. | N.A. |

Notes:
(a) Attendance by invitation for all or part of the meeting.
(b) Mr Kwek Leng Beng and Mr Goh Kian Hwee retired from the Board at the AGM held on 28 April 2017.
(c) Mr Kwek Leng Peck was appointed a member of the NC on 8 May 2017.
(d) Ms Caroline Kwong was appointed a member of the NC in place of Mr Tan Huay Lim, and the latter was appointed a member of the RC and SOSC in place of Ms Kwong with effect from 1 January 2018.
(e) Mr Ng Sey Ming was appointed as a Director and a member of the ARC, RC and SOSC on 8 May 2017.

**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. The induction programme includes meetings with various key executives of the Management 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 Ng Sey Ming and Mr Tan Chian Khong, who were appointed to the Board on 8 May 2017 and 1 March 2018 respectively, were 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 Ng and 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. Mr Ng and Mr Tan were also briefed by the Chief Executive Officer, the Chief Financial Officer, 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.

In addition, Mr Kwek Leng Peck and Ms Caroline Kwong, who were appointed a member of the NC on 8 May 2017 and 1 January 2018 respectively, were briefed on the scope and responsibilities of the NC by the NC chairman.

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 Company Director ("**LCD**") 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 LCD 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 Manual of SGX-ST and the 2012 Code. The Company Secretary will co-ordinate with such Director to endeavor to complete the LCD Programme within one year from his date of appointment subject to SID's training schedule and the Director's availability.

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.

Three in-house seminars were conducted by invited speakers in 2017 on topics relating to data protection and cybersecurity, valuation for financial reporting, and emerging trends in sustainability. More than 80% of the Board members attended various training seminars and workshops in 2017 which accounted for more than 70 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, Mr Kwek Leng Peck, the Chief Executive Officer ("**CEO**"), Mr Philip Ting (who is also a Director), the Chief Financial Officer ("**CFO**"), Mr Leong Kok Ho and other relevant key Management staff.

## Principle 2: Board Composition and Guidance

**Board Independence**
The Board currently comprises seven members, two of whom are executive Directors, while the other five members of the Board are NEDs whom the NC has determined all five of them, being more than half of the Board, to be independent ("**5 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 5 IDs, namely, Mr Ernest Colin Lee, Mr Tan Huay Lim, 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 5 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 on such transactions, and their ability to maintain objectivity in their conduct as Directors of the Company. For purposes of determination of independence, the 5 IDs also provided confirmation that they are not related to the Directors and 10% shareholders of the Company. The NC is satisfied that there is no other relationship which could affect their 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 2017 was more than $200,000, which was largely for the legal services rendered by R&T to HL Global Enterprises Limited ("**HLGE**"), a listed subsidiary of the Group, in relation to HLGE's disposal of LKN Investment International Pte. Ltd. The engagement of R&T as solicitors for this disposal by HLGE was made in 2016, before Mr Ng was appointed to the Board in May 2017. 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.

In determining the independence of Mr Ernest Colin Lee who has served on the Board for more than nine years, the NC has given due consideration to the recommendation under Guideline 2.4 of the 2012 Code that the independence of any director who has served on the Board beyond nine years be subject to particularly rigorous review. 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 5 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.

# CORPORATE GOVERNANCE REPORT

**Board Composition and Size**
The NC reviews the size and composition mix of the Board and Board Committees annually. The Board 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 member of the Board being an ID who was 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.

In consideration of 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. To formalize the process, the Board on the recommendation of the NC has adopted a Board diversity policy which sets out the policy and framework for promoting diversity on the Board. In view that gender is an important aspect of the Board diversity, under this policy, the NC in identifying suitable candidates for new appointment to the Board, would ensure that female candidates are included for consideration. However, gender is but one aspect of diversity and new directors will continue to be selected based on merits against objective criteria that complement and expand the skills and experience 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**
Following the retirement of the then non-executive Chairman Mr Kwek Leng Beng at the 2017 AGM, Mr Kwek Leng Peck was appointed to succeed him as the Executive Chairman of the Board ("**Board Chairman**") with effect from 28 April 2017. Mr Kwek Leng Peck 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 input 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 Philip Ting and other members of the senior management team. 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 2017.

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 15 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. Two NC meetings were held in 2017. 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 Philip Ting and Mr Tan Huay Lim will be retiring by way of rotation while Mr Ng Sey Ming and Mr Tan Chian Khong who were appointed by the Board on 8 May 2017 and 1 March 2018 respectively, will also be retiring, at the 2018 AGM. They being eligible, except for Mr Tan Huay Lim who has notified that he will not be seeking re-election, have offered themselves for election/re-election at the 2018 AGM.

**Criteria and Process for Nomination and Selection of New Directors**

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.

The NC meets with the proposed candidates to assess their suitability before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees. 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 Ng Sey Ming and Mr Tan Chian Khong as Directors taking into consideration Mr Ng's legal qualification and working experience, and Mr Tan's audit and business advisory experience, which it felt could provide further diversity to the core competencies of the Board. The Board concurred with the NC's recommendation and its determination of Mr Ng's and Mr Tan's independence. As recommended by the NC and approved by the Board, Mr Ng and Mr Tan were appointed as independent NEDs and each also as a member of the ARC, RC and SOSC on 8 May 2017 and 1 March 2018 respectively. As Mr Tan Huay Lim, who is also the chairman of the ARC, has expressed his desire not to seek re-election as a Director at the 2018 AGM, the Board on the NC's recommendation, has approved the appointment of Mr Tan Chian Khong as the ARC chairman to replace Mr Tan Huay Lim upon the approval of the shareholders for Mr Tan Chian Khong's election as a Director at the 2018 AGM.

The Board had accepted the NC's recommendation to appoint Mr Kwek Leng Peck as a member of the NC with effect from 8 May 2017 in place of Mr Kwek Leng Beng who retired at the 2017 AGM. The Board had further accepted the NC's recommendation to appoint Ms Caroline Kwong as a member of the NC in place of Mr Tan Huay Lim, and appoint Mr Tan Huay Lim as a member of the RC and the SOSC in place of Ms Caroline Kwong with effect from 1 January 2018. This change to move Ms Kwong into the NC is part of the Board's adoption of initiatives to promote diversity, especially gender diversity, on the Board.

**Directors' Time Commitments**

When considering the re-nomination of Directors for election/re-election, the NC also takes into account 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 in order to address competing time commitments faced by Directors serving on multiple boards. Excluding the directorship held in the Company, the number of listed company board representations currently held by the NEDs ranged from nil to three, and those held by the EDs, Mr Kwek Leng Peck and Mr Philip Ting did not exceed five which are all for boards of the 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 for information on Directors proposed for election/re-election at the 2018 AGM.

**Succession Planning for the Board and the Board Chairman**

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, following the retirement of Mr Kwek Leng Beng and Mr Goh Kian Hwee at the 2017 AGM, Mr Kwek Leng Peck had been appointed to succeed Mr Kwek Leng Beng as the Executive Chairman of the Board and Mr Ng Sey Ming was appointed as an ID in May 2017. Mr Tan Chian Khong had also been appointed as an ID in March 2018 and will be appointed as the ARC chairman upon his election at the 2018 AGM, in place of Mr Tan Huay Lim who will be retiring at the 2018 AGM.

**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 2017 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 undertake an evaluation of the performance of the Board Committees with the assistance of self-assessment checklists of the NC, RC, ARC, and 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 criteria are set out in a questionnaire covering six main areas relating to Board composition, Directors' independence, Board's strategy and performance, process, governance including risk management and internal controls, and the effectiveness of the Board Chairman.

**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 contribution 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 Financial Review of the Group's performance including analysis of the same. Any material variances between the month and year-to-date ("**YTD**") under review as compared to the budget, and the corresponding month and the YTD of the preceding year, are disclosed and explained.

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 good 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. Two meetings of the RC were convened during 2017.

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 is competitive, relevant and appropriate in finding a balance between the current and longer term.

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 SOS is a long-term incentive plan. 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 65 to 69 and the Financial Statements on pages 173 to 176 of the AR.

When reviewing the structure and level of Directors' fees, which comprise base director's fee and additional fees for services rendered on 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. No Director is involved in deciding his or her own remuneration.

# CORPORATE GOVERNANCE REPORT

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 2017 is as follows:

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

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.

**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 2017.

The link between the remuneration paid to Directors and the KMP, and performance is as set out under Principle 8 above. Information on the SOS is set out in the Directors' Statement on pages 65 to 69 and the Financial Statements on pages 173 to 176 of the AR.

**Directors' Remuneration for FY 2017**

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 2017 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)[5] | 883 | 55.1 [3] | 13.4 [3] | 23.2 [4] | 0 | 8.3 | 100 |
| Philip Ting Sii Tien @ Yao Sik Tien (CEO) | 1,078 | 65.1 [3] | 20.4 [3] | 8.2 [4] | 0 | 6.3 | 100 |
| **Non-executive Directors** | | | | | | | |
| Kwek Leng Beng[6] | 27 | 0 | 0 | 100 | 0 | 0 | 100 |
| Ernest Colin Lee | 134 | 0 | 0 | 100 | 0 | 0 | 100 |
| Tan Huay Lim | 120 | 0 | 0 | 100 | 0 | 0 | 100 |
| Kwong Ka Lo @ Caroline Kwong | 100 | 0 | 0 | 100 | 0 | 0 | 100 |
| Ng Sey Ming[7] | 65 | 0 | 0 | 100 | 0 | 0 | 100 |
| Goh Kian Hwee[6] | 36 | 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 2017, which are subject to approval by shareholders as a lump sum at the 2018 AGM, and the ARC fees for FY 2017 that had already been approved by shareholders at the 2016 and 2017 AGMs.
3. Include salary and variable bonuses/allowances for FY 2016 paid or payable by subsidiary(ies) of the Company.
4. Includes Directors' fees paid or payable by subsidiaries of the Company.
5. Mr Kwek Leng Peck was appointed the Executive Chairman of the Board and a member of the NC on 28 April 2017 and 8 May 2017 respectively. The additional fees payable to him as the Board Chairman and a NC member for FY 2017 are pro-rated accordingly.
6. Mr Kwek Leng Beng and Mr Goh Kian Hwee retired from the Board following the conclusion of the AGM held on 28 April 2017. Consequent thereto, Mr Kwek Leng Beng ceased to be the Board Chairman and a member of the NC whereas Mr Goh Kian Hwee ceased to be a member of the ARC, NC, RC and SOSC. The Board and Board Committee fees payable to them for FY 2017 are pro-rated accordingly.
7. Mr Ng Sey Ming was appointed a Director and a member of ARC, RC and SOSC on 8 May 2017 and the Board and Board Committee fees payable to him for FY 2017 are pro-rated accordingly.

**Remuneration of Key Management Personnel (not being a Director or CEO) for FY 2017**
The Board does not believe it to be in the interest of the Company to disclose the FY 2017 remuneration of its CFO, 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 2017**
During FY 2017, 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 2017, 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 Financial Review of the Group's performance including analysis of the same.

### Principle 11: Risk Management and Internal Controls

**Risk Management**
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.

Risk committees (consisting of cross functional personnel) have been set up at both corporate and business unit levels to 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. 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.

# CORPORATE GOVERNANCE REPORT

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 performance of business units in China.<br>• 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.<br>• Continuously strengthen ability to respond to changes in market, customer needs, competition and market pricing. |
| 3 | Strategic, Operational and Compliance | Human capital risk<br>- Succession planning<br>- 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.<br>• 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.<br>• Monitor competitors' pricing and continue to strengthen quality and service level to meet customers' requirements.<br>• 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.<br>• Conduct regular safety drills and audits. |
| 6 | Operational | Cashflow management | Ability to effectively manage funding requirement and liquidity of the Group. In particular, cash flow requirements of non-performing business units are to be closely monitored. | • Monitor liquidity, gearing ratios and cash requirement of HLA and respective business units.<br>• The Group has secured several new bank facilities (including long-term facilities) to strengthen the liquidity of the Group.<br>• Review and plan for short-term and long-term funding requirement to align with the strategic direction and plans of the Group. |

**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 boards of 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, are responsible for the oversight of their respective groups' internal control and risk management systems and the Directors rely on the Company's nominees to the board of directors of these listed subsidiaries to provide oversight together with the other board members on the adoption and implementation of appropriate corporate governance practices, internal control and risk management systems.

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.

The CEO and the CFO provided written assurances to the Board 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 2017 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 2016 annual report filing on Form 20F on 17 April 2017, 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 2016, 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 2017 annual report filing on Form 20F in mid April 2018.

As part of internal audit program for FY 2017, audit findings identified control weaknesses at some of the Group's China 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 2017.

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 Audit Committee has been renamed as the ARC with effect from 28 December 2017 to better reflect the Committee's existing responsibilities, as delegated by the Board, to provide oversight of the risk management framework designed, established and implemented by Management for the identification, assessment, management and monitoring of risks, with the objective of embedding risk management processes into existing management processes. The ARC currently comprises five NEDs, all of whom including the chairman of the ARC are independent. Four members including the ARC chairman, namely Mr Tan Huay Lim, Mr Ernest Colin Lee, Ms Caroline Kwong and Mr Tan Chian Khong possess the relevant audit, accounting or related financial management expertise and experience whilst the remaining member, Mr Ng Sey Ming possesses a legal background. 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 audit firm. 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 five 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 72 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. In 2017, three members of the ARC attended one or more of the following trainings:

1. In-house seminar on valuation for financial reporting;

2. SID AC Chapter Pit-Stop Series: Relevance of the Enhanced Auditor's Report to Directors, ACs and Management;

3. SID AC Chapter Pit-Stop Series: AC Pit Stop on FRSP and AQIs; and

4. SID Essentials Series: Director Financial Reporting Essentials.

In addition, the EA and the CFO had also provided updates and periodic reports to the ARC on changes/amendments to accounting standards, and the progress update on the implementation of the new accounting standards, at the quarterly ARC meetings.

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 FY 2017, 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 |
|---|---|
| Restructuring exercise of the consumer products segment ("**Xinfei**") (the "**Restructuring Exercise**") | <u>Consumer products segment ("**Xinfei**") – Restructuring Exercise</u><br><br>In October 2017, the Group undertook a Restructuring Exercise involving the cessation of its manufacturing and production of consumer products and the exploration of strategic participation with potential partners, which is an indicator of impairment, and requires an assessment of the recoverable amounts of the carrying values of the assets of Xinfei viz. property, plant and equipment, intangible assets (which mainly consists of trademark), inventories and trade receivables ("**Assets**").<br><br>The ARC received reports from the Management on the assessment of the recoverable amounts of the Assets. The ARC also obtained valuation report of the property and valuation report of the intangible assets from independent valuers and assessed their objectivity and competence.<br><br>The ARC held discussions with the Management and the external auditors and evaluated the appropriateness of methodologies applied to the valuation methods, reasonableness of the key assumptions, significant judgement made by Management, forecasting and discounting of future cash flows which are inherently uncertain, value-in-use computations, basis of provisions for liabilities and estimation of the recoverable amounts of these Assets in determining the amount of impairment losses, write-downs and provisions totalling $27.6 million recorded in the financial statements for FY 2017. The Restructuring Exercise is still on-going, and the final effect will be assessed when it is completed. |
| Impairment of property, plant and equipment and intangible assets | <u>Air-conditioning system segment – property, plant and equipment</u><br><br>The ARC received reports from the Management on the assessment of the recoverable amounts of property, plant and equipment of air-conditioning system segment which incurred a loss of $3.9 million in FY 2017 and was in a net liability position as at 31 December 2017 which is an indicator of impairment.<br><br>The ARC had discussed with the Management and the external auditors and 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.<br><br><u>Diesel engines segment – development expenditure</u><br><br>The ARC noted that the Group incurred an impairment loss of $8.2 million relating to certain capitalized development expenditure of CYI, a subsidiary of the Company listed on the New York Stock Exchange. From discussions with Management, the ARC noted that the directors of this listed subsidiary assessed the indicators of impairment, considered the appropriateness of the valuation method applied and assessed the reasonableness of the key assumptions used by its management in determining the recoverable amount of the development expenditure. |

| 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.<br><br>The ARC noted that about 83% of the inventory relates to CYI. From discussion with Management, the ARC noted that the directors of this listed subsidiary performed an assessment of the measurement and valuation of inventory. |
| Impairment of receivables from subsidiary companies | 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 owing by loss-making subsidiaries of consumer products segment. This resulted in the recognition of an impairment loss of $63.8 million in the Company's income statement for FY 2017. |

The above significant matters were also areas of focus for the 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 2017. 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 2017 and the corresponding fees. The ARC is of the opinion that the nature and amount of such non-audit services and fees did not impair or threaten the audit independence. 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 2017, please refer to note 25 of the Notes to the Financial Statements on page 168.

In reviewing the nomination of EY for re-appointment for the financial year ending 31 December 2018, 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 2018 AGM.

**Interested Person Transactions**

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 28 April 2017. 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 2018 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 2017 (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 2017 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: | 551 |
| | (i) Legal and trademark services: | 200 | Industrial and Consumer-related Transaction – Supply of air-conditioning facilities/ residential appliances to IPs: | 1,674 |
| | (ii) Corporate secretarial services: | 307 | | |
| | Total | 507 | Total | 2,225 |

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 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 2017 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.

Although the Company does not have a formal investor relations policy, 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 Investor Relations.

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 formalized a dividend policy. For more details on the policy, please refer to page 3 of the AR. For FY 2017, the Group continued to incur losses attributable to the shareholders of the Company. After taking into consideration the Group's weak performance and Xinfei's Restructuring Exercise, as announced on 30 October 2017 and subsequent updates, the Board had recommended that no dividend be paid in respect of FY 2017.

### 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 members (other than Mr Kwek Leng Beng who retired at the last AGM) including the chairmen of all the Board Committees together with the EA were present at the last AGM, In the absence of the then Board Chairman, Mr Kwek Leng Beng, in accordance with the Company's Constitution, Mr Kwek Leng Peck was elected to chair the 2017 AGM. The members of the Board will endeavor to be present at the 2018 AGM to assist the Board in addressing queries raised by the shareholders.

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. The Company will furnish the minutes of the AGM upon request of any member. Such request can be made after one month from the date of the AGM.

Pursuant to Rule 730A of the Listing Manual, all resolutions proposed at the 2018 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 introduced electronic poll voting since its 2014 AGM and would continue to do so in respect of all resolutions proposed at the 2018 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 2018 AGM. The rules including voting procedures that govern general meetings of shareholders are set out within the notice of 2018 AGM and the details 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:

- 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

- 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.

# SUSTAINABILITY REPORT

## Board Statement

As we progress on our sustainability reporting journey, the Group has set in place systematic reviews of our business practices to assess the impacts on the environment and communities we operate in. In the long term, our focus on sustainability will place our Group in a better position to create long-term value for shareholders while taking into account the interest of the broader stakeholder community.

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 ESG factors material to the business. 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

I am pleased to present the Group's second sustainability report as part of the annual report. In the year since we published the first edition of our sustainability report ahead of the Singapore Exchange's ("SGX") reporting schedule, the Group has increased the awareness of embracing responsible environmental, social and governance ("ESG") practices. This heightened consciousness is not just within the Management teams, but also ingrained in our employees.

We reviewed a number of our existing ESG policies and updated them to be more aligned to the Global Reporting Initiative ("GRI") requirements. This is especially in view of the new GRI Standards which we will be adopting next year.

In 2017, the Group initiated a restructuring in the consumer products unit – Henan Xinfei, which was announced on the SGX in late October 2017[1]. Therefore, the data disclosed for this unit will cover the period 1 January 2017 to 30 September 2017. The Group is reviewing new strategy options for this unit, including looking for joint venture partners and new business strategies.

With these changes implemented, the Group is going into 2018 leaner, and more flexible to transform as the market demands of us. Our focus will be kept on growing the business sustainably and we remain committed to being a responsible corporate citizen.

1 Announcement on Proposed Restructuring on the Consumer Product Unit: www.hlasia.com.sg/news/HLA_20171030_1.pdf

# SUSTAINABILITY REPORT

## About This Report

This report has been prepared in accordance with the internationally recognized Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines: Core option. It focuses on the sustainability performance of our building materials, diesel engines and consumer products business units.

Unless otherwise stated, this report contains data of the Group's i) building materials and diesel engines business units from 1 January 2017 to 31 December 2017, and ii) consumer products unit from 1 January 2017 to 30 September 2017 which will cease to be reported in the following year.

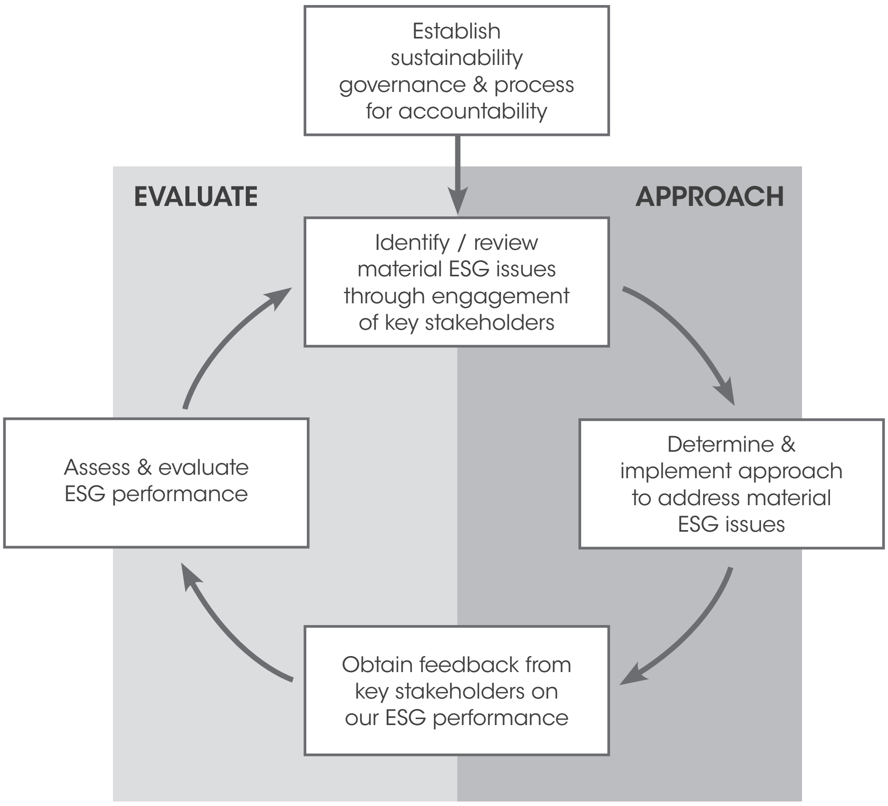
A historical comparison to the previous year has also been presented where possible. We will continue to assess and improve our data collection systems over time and adopt the GRI Standards in the next reporting period.

## 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 controls and risk management processes of the Group's operations is managed by the Management, led by the CEO.

*Figure 1: The Group's Sustainability Framework*



# SUSTAINABILITY REPORT

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 is 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*

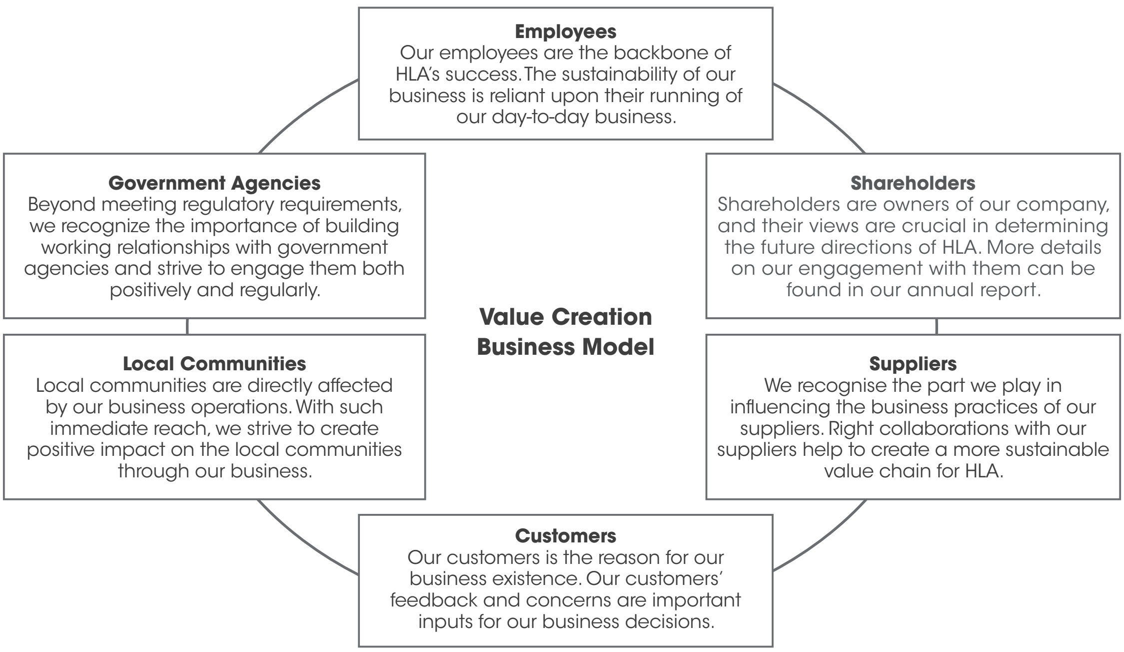
| Board of Directors | Roles | Members |
|---|---|---|
| **Audit and Risk Committee** ("ARC") | Assist the Board in considering sustainability issues as part of strategic formulation | ARC members |
| **Sustainability Committee** ("SC") | Responsible for identifying, evaluating, monitoring and managing Environmental, Social and Governance ("ESG") risks and opportunities | CEO as Chairman, Sustainability Manager, Management Representatives from Corporate Office, Consumer Products Unit ("Xinfei"), 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, Xinfei, CYI, and BMU |

## The Group's Stakeholders & Materiality Assessment Process

### Key Stakeholder Groups

Through the Group's on-going activities, and applying the GRI stakeholder inclusiveness principle, the key stakeholder groups identified by the Group's Management are employees, customers, suppliers, relevant government agencies, shareholders, and local communities (Figure 3). The business relationships with these key stakeholders results in the value creation business model for the Group. Their feedback is critical for the Group to enhance the business by identifying important improvement and developmental areas, including the ESG issues, through regular interaction.

*Figure 3: Impact & Significance of Key Stakeholders*

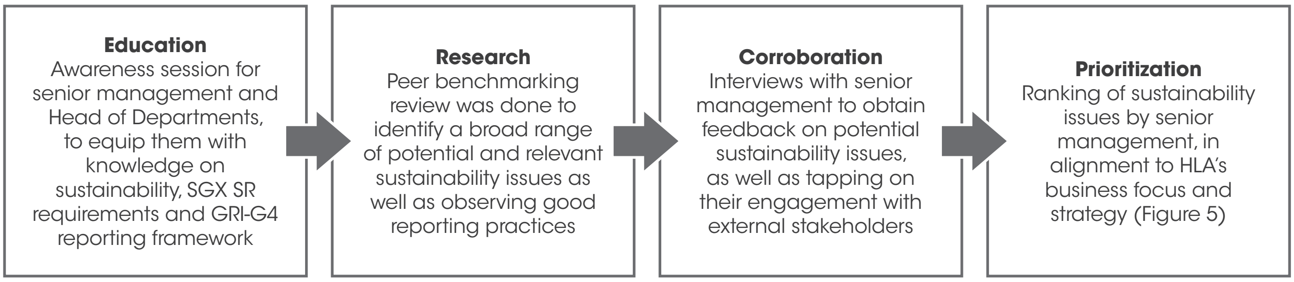


# SUSTAINABILITY REPORT

**Materiality Assessment**

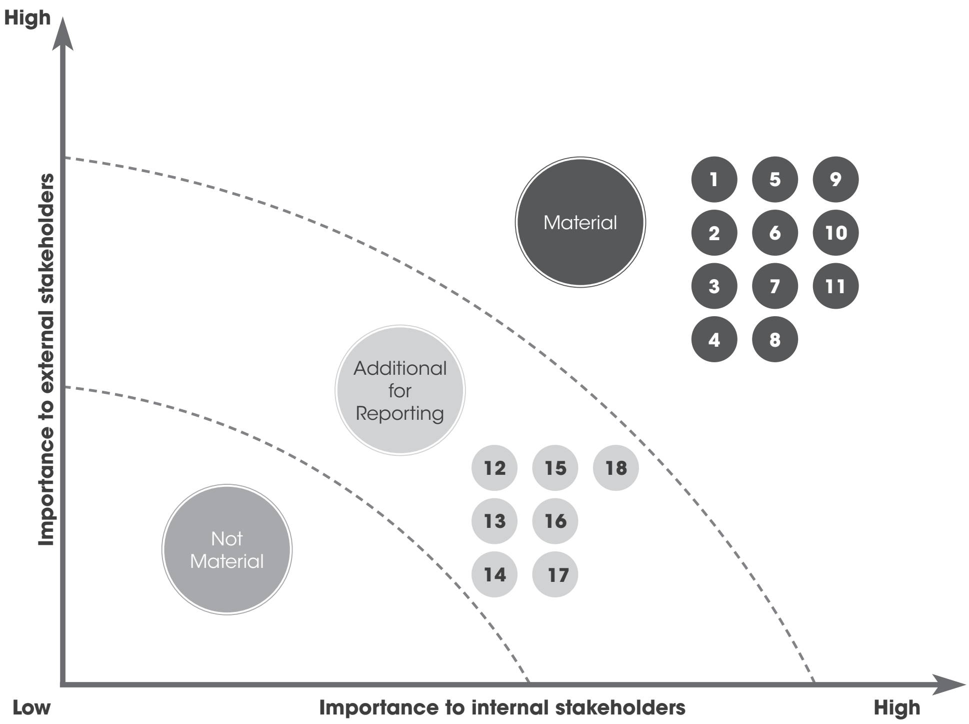
In 2016, the Group conducted our first materiality assessment with the guidance of external consultants, at the business units' level and consolidated it at the Group level, following the procedures outlined in Figure 4. After the "Education" and "Research" phases where key personnel familiarised themselves with sustainability reporting requirements and relevant ESG topics for the industry, they were asked to be proxies to the stakeholders whom they interacted the most with to vote on material ESG issues. In line with SGX's requirements, the issues of corruption and diversity were included for consideration. Our key personnel were able to tap on their knowledge of key stakeholders through regular engagement throughout the year via different channels. Details on stakeholder engagement can be found in the relevant sections of this report.

*Figure 4: Materiality Assessment Process*




From a pool of 29 relevant sustainability issues, 11 issues were identified as material (Table 1), and 7 additional issues (Table 2) were selected for reporting, in accordance with the GRI G4 Reporting Framework due to their significance to HLA's business operations (Figure 5). This year, the Sustainability Committee reviewed and validated that the priority ESG issues largely remain the same for 2017, with the exception of "Customer Distribution Management" which was specific to our consumer products unit that has been gradually scaled down since October 2017 and will be excluded from the sustainability report going forward. They have been further defined and mapped in Tables 1 and 2.

*Figure 5: HLA's Materiality Matrix*



# SUSTAINABILITY REPORT

*Table 1: Mapping Material Issues to GRI-G4 Aspects*

| S/N | Material Issues | Definition | GRI Aspects | Report Sections | Aspect Boundary |
|---|---|---|---|---|---|
| 1 | Economic Performance | Financial performance of the company | Economic Performance | Refer to the Chairman's Message, CEO's Statement, and Financial Statements for more information | |
| 2 | Enterprise Risk Management | Management of financial, operational, investment, IT, human resource, environmental, safety and crisis risks for business continuity | General Standard Disclosure | Refer to the Corporate Governance Report for more information | |
| 3 | Regulatory Compliance | Compliance to regulatory and other core operational regulations | Compliance | Our Business Environment | Within |
| 4 | Ethical Business Conduct | Practicing responsible business policies including anti-corruption and fair competition behaviour | Anti-Corruption, Anti-Competitive Behaviour | Our Business Environment | Within |
| 5 | Customer Satisfaction | Meeting customer expectations and maintaining good relationships | Product & Service Labelling | Understanding Our Customers' Needs | Within & outside |
| 6 | Product & Service Quality | Innovate and develop high quality products / services to meet customers' needs | Not applicable | Understanding Our Customers' Needs | Within & outside |
| 7 | Customer Health & Safety | Develop products which comply with mandatory or voluntary safety requirements | Customer Health & Safety | Understanding Our Customers' Needs | Within & outside |
| 8 | Employment Practices | Provide equitable opportunities and treatment to all employees including proper grievance management | Employment, Labour Practices Grievance Mechanisms | Looking After Our People | Within |
| 9 | Employee Well-being & Engagement | Creating a great place to work through welfare and benefits, and regular engagement with employees | General Standard Disclosure | Looking After Our People | Within |
| 10 | Employee Health & Safety | Provide for and promote the health and safety of employees and contractors, as measured by recordable incidents, fatalities, lost days | Occupational Health & Safety | Looking After Our People | Within |
| 11 | Environmental Compliance | Disclose any environmental non-compliance and efforts taken to mitigate or follow up actions | Compliance | Our Business Environment | Within |

*Table 2: Mapping of Additional Issues for Reporting to GRI-G4 Aspects*

| S/N | Additional Issues | Definition | GRI Aspects | Report Sections | Aspect Boundary |
|---|---|---|---|---|---|
| 12 | Career Advancement & Succession Planning | Disclose availability of career training to promote career progression & other training for lifelong learning. Identify & develop high-potential employees to succeed key positions in the organisation for leadership continuity. | Training and Education | Looking After Our People | Within |
| 13 | Waste Management & Recycling | Minimise waste generation & reuse / recycling waste for beneficial use | Effluents and Waste | Caring for the Physical Environment | Within & outside |
| 14 | Energy & Carbon Footprint | Efficient use of energy to minimise carbon emissions throughout the production cycle | Energy Emissions | Caring for the Physical Environment | Within & outside |
| 15 | Other Atmospheric Emissions | Specific to Tasek Corporation: Disclose dust emissions for the unit's operations | Emissions | Caring for the Physical Environment | Within & outside |
| 16 | Sustainable Use of Materials | Manage use of natural resources & promote use of environmentally friendly materials during design & production processes | Materials | Caring for the Physical Environment | Within & outside |
| 17 | Water Management | Specific to BMU – Singapore: Manage water resources efficiently, equitably & sustainably for the unit's operations | Water | Caring for the Physical Environment | Within & outside |
| 18 | Stakeholder Engagement | Collaborate with stakeholders & community members through dialogues to discuss project ideas, address conflicts or voice concerns. Enrich lives in local community through social activities. | General Standard Disclosure, Economic Performance | The Group's Stakeholders & Materiality Assessment Process | Within & outside |

# SUSTAINABILITY REPORT

## Our Business Environment

HLA's goal is to continue developing a robust and healthy business to benefit HLA's key stakeholders. As they are most impacted by the performance of the Group, we understand that any lapse in governance can have far-reaching impacts to our key stakeholders both within and outside the Group. We are committed to upholding the highest standard of ethical requirements to remain accountable and fair to key internal and external stakeholders.

**Ethical Business Conduct**

*Approach*

Integral to our ethical business conduct is our stringent approach towards anti-corruption. 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 upon joining the Group, and 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. This policy is managed and reviewed periodically by the Human Resource ("HR") Department and approved by the Group CEO. In addition, we enforce a strict policy where all donations and sponsorships are subject to authorised limits and Standard Operating Procedures.

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*

In 2017, despite the Group's best efforts in reinforcing our zero-tolerance policy to unethical behaviour within the organisation, there were two confirmed incidents where three employees did not comply with our COBC. Appropriate disciplinary actions have been taken against these employees, and where substantiated, the matter was also reported to the relevant law enforcement authority. There have been no cases of legal actions for non-competitive behaviour, anti-trust and monopoly practices in 2017.

The Group takes a serious stance towards maintaining good corporate governance throughout the business. HLA has adopted an Anti-fraud, Anti-bribery and Anti-corruption Policy[3] which sets out the responsibilities of the Group functions and business units in observing and upholding the Group's position on fraud, bribery and corruption. In addition, we are working to publish externally an ethical business conduct policy for our suppliers and business partners in the year ahead to ensure that good governance is enforced in our supply chain as well.

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 and the Anti-fraud, Anti-bribery and Anti-corruption Policy

**Regulatory & Environmental Compliance**

*Approach*

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 head of each of the Group's business units, and is delegated to the respective heads of departments ("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.

*Performance*

During the year, one of our batching plants received one stop-work order to investigate an accident. A contractor's driver was injured but has since fully recovered. During the down time, the business unit's nearby batching plants helped to serve our customers within the area and there was minimal impact to our operations. Investigations conducted by the business unit's internal Health & Safety Department and the local government agency found the contractor's driver's negligent behaviour as the cause of the accident. We have since worked with all our concrete contractors to increase the training intensity and enforce stricter standard operating procedures ("SOPs") to prevent similar incidents from happening in the future.

The Group understands the importance of adhering to the regulations of each jurisdiction that we operate in, and we will continue to work hard to ensure full compliance with rules and regulations.

## Understanding Our Customers' Needs

As a manufacturer of industrial and consumer goods, our customers rely on us to produce good quality, safe-to-use products. Other than meeting internal benchmarks, obtaining feedback from our customers on their satisfaction with our products is crucial in the sustainability of the business. Therefore, the Group takes a holistic approach to ensure that our customers' demands are met.

**Supply Chain & Product Management**

*Approach*

Before production begins, we have to ensure that the quality of the raw materials used in our manufacturing process is as specified by our production and procurement teams. Our business units have each established a pre-qualification process for significant tenders to include criteria such as only selecting suppliers which are in compliance with local regulations, and we give preference to those who are ISO 9001 certified.

Each of our business units has their own set of quality benchmarks and controls depending on the nature of the product, regulatory and industrial requirements (Figure 6), as well as satisfying customer specifications. Crucial raw materials in our production process are sample batched tested for their quality in our internal laboratories. Where they do not meet the specifications, the materials are returned to the suppliers. Major suppliers are also evaluated by the respective business units annually to ensure that the product quality, delivery and services provided are up to standard and able to support HLA's manufacturing business.

The Group also takes a forward perspective on our products by developing products ahead of regulatory requirements or those which our product markets are increasingly demanding for. For instance, through their respective research and development teams, our BMU – Singapore and Tasek each developed their own formula of Portland Fly-Ash Cement made from fly ash, a waste product from coal power plants, for sale in their respective markets. Both business units have also obtained the Singapore Green Label for their respective Portland Fly-Ash Cement (Figure 6).

*Figure 6: HLA's Product Quality Certifications*

- ISO 9001 Quality Management System (BMU - Singapore & Tasek, CYI, Xinfei)
- Singapore Green Labelling Scheme by Singapore Environment Council (BMU - Singapore & Tasek)
- Precaster Accreditation Scheme (BMU - Singapore)
- MS ISO/IEC 17025 Laboratory Accreditation Scheme of Malaysia (Tasek)
- 3C Certification "China Compulsory Certification" (Xinfei)

*Performance*

This year, the Group conducted a major review on our suppliers to assess which suppliers were able to consistently provide us with good quality and cost effective materials. We had approximately 1,600 suppliers providing us with goods and services during the year, largely from China, Malaysia and Singapore. The Group is in the midst of preparing an ethical business conduct policy for our suppliers and business partners. This will further help to ensure that the Group is able to maintain a responsible supply chain.

Our superior product quality has been recognised over the years through awards given by various bodies, and this has helped to build the reputation of our business units. Figure 7 lists some of the accolades received by our business units in 2017, ascertaining the quality of our products and brands. This includes our diesel engine business unit clinching an Excellence Award for developing faster and greener manufacturing techniques in casting processes. The Group strives to surpass our past benchmarks to innovate products and improve our product quality with the support of our suppliers.

*Figure 7: HLA's 2017 Awards*

- Top 500 Enterprises of China (CYI)
- Top 500 Manufacturing Enterprises of China (CYI)
- Leader Brand of Degerming Technology – Refrigerator Industry (Xinfei)
- 7th Science & Technology Progress Award of Green Manufacturing – Excellence Award (CYI)

**Customer Health & Safety**

*Approach*

Ensuring our customers' health and safety during the use of our products is a key component of our product responsibility. As the nature of our manufacturing varies, our respective business units have in place different measures to protect and prioritise the health and safety of our customers (Figure 8). The Health & Safety Departments are tasked to keep all customers who visit our sites safe, while the Research and Development ("R&D") teams place the health and safety of the users of our products as a priority consideration during product development.

*Figure 8: Customer Health & Safety*

| Building materials unit | Diesel engines unit | Consumer products unit |
|---|---|---|
| Our cement plant and precast concrete facilities have obtained the OHSAS 18000 certification[4]. In addition, customers who visit our cement and concrete production facilities are equipped with personal protective equipment at all times. | On top of embarking on R&D to continually improve the safety design of our diesel engines, we provide detailed user manual and after-sales service to guide our customers in safe usage. Furthermore, we conduct maintenance trainings for Original Equipment Manufacturers and large customers, so that they can prevent machine failure and other safety incidents. | We have obtained various certifications for the refrigerators that we manufacture to ensure the highest level of safety for our customers, as well as the OHSAS 18000 certification[4] for our plant sites. |

*Performance*

During the year the Group did not receive any reports regarding any incidents from the users of our products or visitors to our sites. We endeavour to continue this trend and will be diligent in safeguarding our customers.

**Customer Satisfaction**

*Approach*

HLA's business units' customers are the centre of the Group's value creation. Our diverse manufacturing business means each product's customers have different demands and our business units each set their own set of unique targets which are tailored to the nature of its business. We make use of various opportunities to engage with our customers such as face-to-face dialogues, site visits, e-mails and phone calls. Every customer feedback is analysed before we devise action steps to enhance positive customer experience, as well as correct and prevent re-occurrences of negative customer experience. For the BMU, our cement customers are surveyed annually while the rest of the customers are surveyed after each project. As for our diesel engine and consumer products units, our customers' satisfaction is based on their after-sales servicing feedback.

*Performance*

Upon evaluating the 2017 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.

The high quality of service provided by our people has been highlighted by our customers across our business units. We pride ourselves on being able to deliver quality products accompanied with good servicing of customers which are crucial in a highly competitive economic condition. In the event that our customers face issues with our products, our people are able to react promptly and deal with the situations professionally. During the year however, our BMU had a few occasions where the quality of the bags and pallets used to package our cement resulted in breakages. While these incidents did not affect the quality of our products, they had inconvenienced our customers and we are working with our suppliers to ensure that this does not happen again in future.

Feedback from our customers has generally been very positive and our people are encouraged by the comments. The Group will continue to work towards producing cost-effective, good quality products and meet our customers' demands.

4 OHSAS 18000 is the international occupational health and safety management system which covers any person on the site, including visitors

## Looking After Our People

The Group's employees are the main value generators of our business. As a responsible enterprise and to ensure the sustainability of the Group, it is important that our employees are motivated and well-contented. We take a comprehensive approach towards engaging our employees, emphasizing on fair employment practices (which include employee's well-being, career development and succession planning) as well as health and safety aspects. The respective HR Departments at our business units act as the main coordinator in the engagement of the Group's employees.

**Employment Practices**

*Approach*

Every new employee to the Group is given a welcome orientation upon joining the business unit. Thereafter, their supervisors will go through with them their work objectives and provide on-the-job training for their respective positions. As we are concerned with the growth of our people, to improve their competency and productivity, one of the ways the Group plans for their career advancement is through providing training. Other than on-the-job trainings ("OJT") which are not formally recorded, the formal types of trainings attended by the Group's employees can be conducted by our own in-house specialists or 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 will aid with their work.

There are mechanisms in place in all our business units to receive feedback from the Group's employees all through the year. The respective business units' HR Departments are in-charge of suggestion boxes where employees can drop in their opinions anonymously. Our unionised employees can also raise issues through the union branch. All constructive feedback is taken seriously and passed on to the business unit's Management for resolution.

Most of the time, our employees will choose to voice their comments during their performance evaluation with their supervisors, which is conducted annually. This annual appraisal is conducted for each employee to determine salary increment, promotion or identify their career development plan. The Management will also make use of this opportunity to identify and communicate with high-potential individuals who may be part of the succession plan for that department or business unit.

*Performance*

As at the end of the year, the Group employed 11,389 people, of whom approximately 90% of employees were covered by collective bargaining agreements. One male staff was employed on a part-time basis for a temporary project in Malaysia, while the rest of our people were full-time employees. The decrease in headcount from 2016 of about 13% across both genders and the age groups was largely due to the restructuring of the consumer products business unit, coupled with the optimisation of work flows at the diesel engines business unit.

In order to keep our workers encouraged and motivated during this period of volatile economic conditions, the Group paid close attention to the welfare benefits of our employees and addressed them promptly during the year. The primary feedback was to improve the distribution of work and amount of annual leave days. Therefore, the respective business units' Management re-examined the affected workers' workloads and one of our China business units also provided all employees with a 2-week holiday during the summer, low production season as a sign of appreciation for their hard work in the past year.

The average formal training hours per employee for our BMU by gender and employment category can be found in Table 3. As most of our non-executives are workers at the plants where OJT is the most useful training and yet ad hoc, it is not included in the compilation of formal training hours, therefore their training hours may seem low. Given the nature of the manufacturing industry where the Group's non-executives are predominantly males, their corresponding hours of training is lower than their female counterparts.

In the coming year, the Group intends to review our training policy across the business units and different employment levels. In 2017, we implemented a system to collect training hours of CYI and Xinfei's HR-organised trainings, and are in the process of expanding the system to include training conducted at the department levels for CYI. The Group will also be closely monitoring our employees' labour productivity and work load to ensure fair distribution and remuneration, as well as make adjustments where necessary. HLA aspires to create a working environment that will grow the careers of our employees as we grow our business.

*Table 3: Summary of People Performance*

| Employee Profile | | | | | | |
|---|---|---|---|---|---|---|
| **Employment Contract Type** | **China** | | **Malaysia** | | **Singapore** | |
| | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** |
| **Permanent** | 4,874 | 1,120 | 720 | 85 | 498 | 54 |
| **Temporary** | 3,144 | 877 | 14 | 2 | 1 | 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** | 127 (50%) | 29 (27%) | 0 (0%) | 136 (41%) | 20 (57%) | 425 (76%) | 883 (88%) | 441 (93%) | 1,431 (84%) | 318 (91%) |
| **Malaysia** | 97 (38%) | 29 (27%) | 4 (80%) | 121 (37%) | 9 (26%) | 114 (20%) | 59 (6%) | 15 (3%) | 169 (10%) | 19 (6%) |
| **Singapore** | 29 (12%) | 48 (46%) | 1 (20%) | 72 (22%) | 6 (17%) | 24 (4%) | 66 (6%) | 19 (4%) | 98 (6%) | 11 (3%) |

| BMU: Average Hours of Training – Employees | | | | |
|---|---|---|---|---|
| **Management** | **Executive** | **Non-Executives** | **Males** | **Females** |
| 20.1 | 13.2 | 5.6 | 8.0 | 8.4 |

**Employee Health & Safety**

*Approach*

It is a top priority of the Group to ensure that every employee goes home safely at the end of each work day. All the Group's main production facilities have a dedicated Health & Safety Department whose principal task is to oversee the health and safety aspects of the worksites and employee health. Their work includes ensuring compliance to relevant local regulations, as well as organising and conducting health and safety trainings for our employees. The Health & Safety Department conducts regular on-site inspections, and our employees can report any observed safety hazards or make safety enhancement recommendations to the Health & Safety Department. The Health & Safety Department then brings those suggestions to the Management for approval and further action.

In the event of any safety incidents, regardless of whether anyone was injured, or whether the party is an employee, contractor or visitor, the Health & Safety Department will conduct a full investigation on the cause and details of the incident. A report will be made to the Management along with recommendations on how to prevent similar incidents in future.

*Performance*

On the overall, there has been a slight decrease in the Group's workplace injury rate for employees as compared to 2016 (Table 4). Since 2017, other than on-site accidents[5], all incidents with injury suffered by our employees that occurred during travel required for work and on external site visitation are also recorded. This is also the first year we have disclosed contractor injury rates. Most of the injuries were cuts, abrasions and fractures, but there were no reports of occupational diseases suffered by our employees and contractors.

In spite of our best efforts to implement the strictest level of safety standards for our employees, the Group deeply regrets to report that there was one fatality in our China operations during the year. We paid a monetary fine of RMB 210,000 (approximately S$43,000) to the local government due to the breach of deemed responsibility of the business unit in ensuring the safety of all employees. The Management investigated the incident and as it was due to negligence in operations of machinery, the business unit implemented more safety measures relating to operating the production equipment, so as to prevent similar incidents from happening in future.

Our business units will work hard to achieve the zero-fatality target and the Group will be placing more emphasis on health and safety in the coming year by reviewing the training and inspection plans.

*Table 4: HLA's Health & Safety Statistics, by Year, Gender and Region*

| Health & Safety Statistics | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gender** | **Region** | **Injury Rate[6]** | | | | **Accident Severity Rate[7]** | | | |
| | | **Employees** | | | **Contractors** | **Employees** | | | **Contractors** |
| | | **2017** | **2016** | **2015** | **2017** | **2017** | **2016** | **2015** | **2017** |
| **Male** | **Overall** | 3.35 | 3.85 | 4.15 | 6.04 | 0.03 | 0.10 | 0.10 | 0.05 |
| | **China** | 13% | 2% | 1% | 14% | 50% | 20% | 13% | 76% |
| | **Malaysia** | 52% | 44% | 60% | 43% | 28% | 59% | 69% | 13% |
| | **Singapore** | 35% | 54% | 39% | 43% | 22% | 21% | 18% | 11% |
| **Female** | **Overall** | 0.94 | 0.40 | 1.14 | 0 | 0.08 | 0.05 | 0.05 | 0 |
| | **China** | 100% | 100% | 100% | - | 100% | 100% | 100% | - |

5 Accidents are defined as all incidents with human injury
6 Workplace injury rate is defined as no. of fatal and non-fatal workplace injuries / no. of employed persons x 1,000
7 Accident severity rate is defined as no. of man days lost to workplace accidents / no. of man-hours worked x 1,000

## Caring for the Physical Environment

The manufacturing and construction industries contributed to 19.7% of global carbon dioxide emissions in 2013[8], and the manufacturing sector was the second largest consumer of energy (24%) in 2014 after transportation[9]. At HLA, as an industrial manufacturer, we understand the impact of our environmental footprint and have made some changes within the organisation, doing our part to make our manufacturing process cleaner and greener.

**Energy & Carbon Footprint[10, 11, 12]**

*Approach*

The Group measures and monitors energy consumption from various fuel types and electricity use at each of our major production facilities. As a significant contributor of the Group's carbon emissions stems from our cement production during the formation of clinker, we have engaged external carbon specialists in 2016 to help the business unit compute the greenhouse gas ("GHG") emissions in accordance with ISO 14064 international industry requirements. Furthermore, in the same year, the business unit established the Industrial Ecology Department ("IED") to explore alternative raw materials and fuels that can be used in the cement and concrete production process. Our facilities at CYI and Xinfei have also obtained the ISO 14000 Environmental Management Systems certification to oversee our environmental responsibilities.

In addition, the diesel engines business unit has been tapping on solar energy generated by our business partner, the Yuchai Group, since 2012 in a bid to consume greener energy. The consumption of solar energy has been stable, ranging between 9% and 11% of total electricity consumption at the diesel engines business unit between 2015 and 2017. This is primarily limited by the number of days of optimal weather for the efficient generating of solar energy, as well as the excess capacity available for use by the business unit as allocated and distributed by the Yuchai Group.

*Performance*

While total energy consumption increased 7.4% for the Group as compared to 2016 (Table 5), there was an 18.8% decline in Scope 1 emissions intensity. The main reason was due to the exploration of non-coal fuel types for the BMU such as alternative fuels through the IED which has lower emission factors. This is one of the strategies to improve the sustainability of the BMU by reducing the reliance on coal and decreasing the Group's carbon footprint.

Electricity consumed by the Group in 2017 dipped by 1.1% as compared to that in 2016 as the slowdown of the consumer products and building materials business units led to offsets to the increase in electricity consumption from the expansion of the diesel engines business unit. To complement this expansion, a review of work processes was conducted at the diesel engines business unit, resulting in a significant improvement in efficiency of electricity consumed by machinery and equipment. Most substantially, the operations schedule of the foundry, which consumes approximately 60% of total electricity at the diesel engines business unit, was optimised to minimise the number of complete shutdown and reboots, thereby reducing the amount of electricity consumed in this work process. The overall effects of the optimisation exercise contributed to a decrease in both electricity intensity and Scope 2 emissions intensity by about 9.0% each.

The Group will continue to track our energy and carbon footprint, and endeavour to improve the efficiency of our energy consumption while reducing the business units' reliance on traditional forms of fossil fuels with higher emission factors.

8 The World Bank – World Development Indicators: Carbon dioxide emissions by sector wdi.worldbank.org/table/3.10#
9 International Energy Agency – Key World Energy Statistics 2017
10 Source of default net calorific values for fuels used: 2006 IPCC Guidelines for National Greenhouse Gas Inventories
11 Source of Scope 1 emissions factors: 2006 IPCC Guidelines for National Greenhouse Gas Inventories, GHG Protocol and Cement Sustainability Initiative database
12 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

*Table 5: HLA's Energy and Carbon Footprint, by Fuel Type and Unit*

| **Energy Consumption** | | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| **By Business Unit** | | | |
| BMU (TJ) | 8,399 | 7,773 | 7,838 |
| Consumer Product (TJ) | 32 | 47 | 66 |
| Diesel Engine (TJ) | 370 | 375 | 1,928 |
| **By Fuel Type** | | | |
| Coal and Anthracite (TJ) | 6,727 | 6,560 | 7,272 |
| Gas and Diesel Oil (TJ) | 586 | 552 | 602 |
| Others (TJ) | 1,488 | 1,083 | 1,958 |
| **Total Energy Consumption (TJ)** | **8,801** | **8,195** | **9,832** |
| **Overall Energy Intensity (TJ / S$ million)** | **2.22** | **2.24** | **2.46** |

| **Scope 1 Emissions (By Business Unit)** | | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| BMU ($tCO_2$) | 1,500,465 | 1,703,990 | 1,780,044 |
| Consumer Product ($tCO_2$) | 1,798 | 2,642 | 3,676 |
| Diesel Engine ($tCO_2$) | 26,859 | 27,013 | 126,842 |
| **Scope 1 Total Emissions ($tCO_2$)** | **1,529,122** | **1,733,645** | **1,910,562** |
| **Scope 1 Emissions Intensity ($tCO_2$ / S$ million)** | **385** | **474** | **479** |

| **Electricity Consumption (By Business Unit)** | | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| BMU (MWh) | 230,672 | 245,415 | 243,907 |
| Consumer Product (MWh) | 21,154 | 34,361 | 36,706 |
| Diesel Engine (MWh) | 268,553 | 246,634 | 214,522 |
| *– Electricity Generated from Solar Energy (%)* | *9.1* | *10.7* | *9.8* |
| **Total Electricity Consumption (MWh)** | **520,379** | **526,410** | **495,135** |
| **Overall Electricity Intensity (MWh / S$ million)** | **131** | **144** | **124** |

| **Scope 2 Emissions (By Business Unit)** | | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| BMU ($tCO_2$) | 158,581 | 168,787 | 167,688 |
| Consumer Product ($tCO_2$) | 16,309 | 26,493 | 28,300 |
| Diesel Engine ($tCO_2$)[13] | 188,212 | 169,808 | 149,188 |
| **Scope 2 Total Emissions ($tCO_2$)[13]** | **363,102** | **365,088** | **345,176** |
| **Scope 2 Emissions Intensity ($tCO_2$ / S$ million)** | **91** | **100** | **86** |

13 Scope 2 emissions have been retrospectively adjusted to account for solar energy consumed by the diesel engine business unit in place of traditional fossil fuel sources

**Sustainable Use of Materials & Waste Management**

*Approach*

Having a sustainable supply chain is becoming an increasingly significant social issue as end-users are more concerned and aware about what is in the products they purchase. Our business units' Procurement Departments are also tasked to source for materials which are cost-effective and low-carbon or certified by recognised environmental organisations in order to reduce our environmental impact.

In addition, CYI has been filing conflict minerals reports to the Securities Exchange Commission ("SEC"), in line with the United States Dodd-Frank Act, Section 1502. Beyond meeting regulatory requirements, conflict minerals reporting has helped us to trace our chain of custody to ensure that our supplies are ethically sourced.

As part of practicing circular economy principles, the Group is also researching on recycled materials or materials that can be reused in our manufacturing process, which would otherwise become waste. An example of this is our IED established in 2016 for our cement and concrete production.

For waste that cannot be easily disposed, the Group entrusts them to licensed contractors who collect them from our sites. All our hazardous wastes are labelled clearly and stored in restricted areas by the respective business units' Health & Safety Departments to prevent any spills or unintentional contact while they are still on our sites.

*Performance*

Approximately 11.3 million tonnes of non-renewable materials consumed[14] in 2017, representing a 23% decrease in the amount of raw materials consumed as compared to the previous year mainly due to the gradual slow down and restructuring of our consumer products unit. The proportion of recycled input materials increased from 6.6% to 12.3% as the Group explored more alternative raw materials and fuels which would otherwise have been disposed in landfills or discarded. During the year, the Group streamlined the reporting and recording policy of waste materials which were reused, recycled or recovered by our waste contractors. This exercise is expected to be completed in 2018. In 2017, the waste produced by the Group is approximately 464.1 kilotonnes[14], of which 0.15% was hazardous and properly disposed by licensed contractors, and a total of 56.6% of total waste was reused, recycled or recovered by our waste contractors.

**Dust Emissions**

*Approach*

Specific to the Group's cement production in Malaysia, due to the dust emissions from cement production having an effect on the health of employees and neighbouring communities, as well as the environment in general, the Malaysian government has set a dust emissions limit of 100 mg/m$^3$ under the Clean Air Regulations ("CAR"). From 1 June 2019, the new CAR limit will be revised to 50 mg/m$^3$.

Our kilns are fitted with online monitors, and the readings are submitted electronically on a regular interval to the Department of Environment's dust monitoring agency. The business unit's Health & Safety Department is in charge of monitoring the dust emissions from the kilns and informing the production team in the event of any abnormal readings. The production team will then make changes accordingly.

14 Only the most significant raw materials and waste for each business unit in the sustainability reporting scope have been included

*Performance*

The business unit is in the midst of upgrading the dust collectors from electrostatic precipitator ("ESP") to the filter bag technology which will reduce dust emissions to below 50 $mg/m^3$. While dust emissions in the previous year ranged between 31 to 60 $mg/m^3$, in 2017, the daily average dust emissions was below 50 $mg/m^3$. It is estimated that the conversion to filter bag will be completed by early 2019.

**Water Management**

*Approach*

Water is a crucial resource in water-scarce Singapore. Other than rainwater and imported water, it relies mainly on desalination and treatment of waste water which are energy intensive processes. Therefore, every drop of water is precious, and specific to our Singapore BMU, water usage is an important issue to the business. Effected in 2015, the Singapore Government required large consumers of water to provide a Water Efficiency Management Plan ("WEMP") to the local authority on an annual basis.

The BMU Production & Operations team in Singapore oversees the quantity of water consumed and the waste water discharged, ensuring that they are used and disposed in a way that meets the strict regulations of the local authority. As a number of our batching plants were required to provide the WEMP, the business unit took the opportunity to install water recycling and reusing facilities, and track these indicators at all the batching plants in Singapore.

*Performance*

During the year, Singapore BMU consumed 587,352 $m^3$ of water, which is a 2.8% decrease as compared to the previous year. This is mainly attributed to improvements in the rate of water recycling and reusing efficiency, increasing from approximately 28% in 2016 to 32% in 2017. We will continue to monitor our water consumption closely to mitigate any significant increase in water consumption, and seek to improve on the efficiency of water recycling and reusing at the batch plants.

## Corporate Social Responsibility ("CSR")

*Approach*

The Group is committed to growing our business and also improve the well-being of the surrounding communities where we operate in. Our business units which are most in touch with the needs of the local community decide on the activities which they desire to support.

*Performance*

The Group donated more than S$175,000 to our local communities through various CSR initiatives in 2017. The Yuchai Green Foundation in China funded more than 290 students for their academic year, and the business unit organised an event which 652 of our soon-to-retire employees participated to help promote an active lifestyle after retirement. In Malaysia, our BMU focused on providing financial assistance to primary students from underprivileged families in supporting their needs for education.

## Moving Forward

The Group seeks to improve our sustainability indicators as a means to track the sustainable growth of the business, as well as to increase transparency in communicating our non-financial performance with our key stakeholders. Targets have been set for our material items and we look forward to reporting on them in the following year. All sustainability related queries and feedback can be sent to: sustainability@hla-grp.com.

# SUSTAINABILITY REPORT

## GRI Content Index for 'In Accordance' – Core

| General standard disclosures | | |
|---|---|---|
| **Profile Disclosure** | **Description** | **Page Number/Section** |
| | | |
| G4-1 | Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability. | 43 |
| **Organizational profile** | | |
| G4-3 | Name of the organization. | Cover page |
| G4-4 | Primary brands, products, and services. | 1 |
| G4-5 | Location of organization's headquarters. | Back page |
| G4-6 | Number of countries where the organization operates & names of countries with either major operations or are specifically relevant to sustainability issues covered in the report | 1-2 |
| G4-7 | Nature of ownership and legal form. | Cover page |
| G4-8 | Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries) | 2 |
| G4-9 | Scale of the organisation | 2, 53-54 |
| G4-10 | Total workforce by employment type, gender, employment contract and region | 53-54 |
| G4-11 | Percentage of total employees covered by collective bargaining agreements. | 53-54 |
| G4-12 | Describe the organization's supply chain. | 50-51 |
| G4-13 | Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain | 44, 50-51 |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organization | 44-48, 56-59 |
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses. | NIL |
| G4-16 | Memberships in associations (such as industry associations) | The Cement & Concrete Association of Malaysia |
| **Identified material aspects and boundaries** | | |
| G4-17 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures (List all entities in the consolidated financial statements) | 44, Notes 7, 8 and 9 to the financial statements |
| G4-18 | Process for defining report content and the Aspect Boundaries and explain how the Reporting Principles has been implemented | 44-48 |
| G4-19 | List all the material Aspects identified | 47-48 |
| G4-20 | The Aspect Boundary within the organization: Whether the Aspect is material within the organization; The list of entities included in G4-17 for which the Aspect is or is not material; Specific limitation regarding the Aspect Boundary within the organization | 47-48 |
| G4-21 | The Aspect Boundary outside the organization: Whether the Aspect is material outside the organization; The list of entities for which the Aspect is material, relate to geographical location; Specific limitation regarding the Aspect Boundary outside the organization | 47-48 |
| G4-22 | Explanation of the effect of any restatements | 57 |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries | 46 |
| **Stakeholder engagement** | | |
| G4-24 | List of stakeholder groups engaged by the organization. | 45 |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage. | 45 |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 45-46 |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting; Report the stakeholder groups that raised each of the key topics and concerns | 45-48 |

# SUSTAINABILITY REPORT

| Report profile | | |
|---|---|---|
| G4-28 | Reporting period | 44 |
| G4-29 | Date of most recent previous report | 2016 |
| G4-30 | Reporting cycle | Annually |
| G4-31 | Contact point for questions regarding the report or its contents. | 59 |
| G4-32 | a. Report the 'in accordance' option the organization has chosen.<br>b. Report the GRI Content Index for the chosen option | 44, 60-61 |
| G4-33 | Policy and current practice with regard to seeking external assurance for the report | We have not sought external assurance for our 2017 sustainability report |
| **Governance** | | |
| G4-34 | Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts | 44-45 |
| **Ethics and integrity** | | |
| G4-56 | Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics. | 49 |

| Specific standard disclosures | | |
|---|---|---|
| **Profile Disclosure** | **Description** | **Page Number/Section** |
| **Business operations** | | |
| EC1 | Direct economic value generated and distributed | 59, Consolidated Income Statement |
| **Environmental** | | |
| EN1 | Materials used by weight or volume | 58 |
| EN2 | Percentage of materials used that are recycled input materials | 58 |
| EN3 | Energy consumption within the organization | 56-57 |
| EN5 | Energy intensity | 56-57 |
| EN8 | Total water withdrawal by source | 59 |
| EN15 | Direct greenhouse gas (GHG) emissions (Scope 1) | 56-57 |
| EN16 | Indirect greenhouse gas (GHG) emissions (Scope 2) | 56-57 |
| EN18 | Greenhouse Gas (GHG) emissions intensity | 56-57 |
| EN23 | Total weight of waste by type and disposal method | 58 |
| EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | 50 |
| **Social** | | |
| **Sub-category: Labour practices and decent work** | | |
| LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region | 53-54 |
| LA6 | Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender | 55, absenteeism is not a material issue for the Group |
| LA9 | Average hours of training per year per employee by gender, and by employee category | 54 |
| LA16 | Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms | 53-54 |
| **Sub-category: Society** | | |
| SO5 | Confirmed incidents of corruption and actions taken | 49 |
| SO7 | Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | 49 |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 50 |
| **Sub-category: Product responsibility** | | |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes | 52 |
| PR5 | Results of surveys measuring customer satisfaction | 52 |

# FINANCIAL CONTENTS

# 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 2017.

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 80 to 202 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 2017 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; 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 | |
| Ting Sii Tien @ Yao Sik Tien, Philip | |
| Ernest Colin Lee | |
| Tan Huay Lim | |
| Kwong Ka Lo @ Caroline Kwong | |
| Ng Sey Ming | (appointed on 8 May 2017) |
| Tan Chian Khong | (appointed on 1 March 2018) |

**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** | | |
| **Ordinary Shares** | | |
| Kwek Leng Peck | 1,913,300 | 1,913,300 |
| Ting Sii Tien @ Yao Sik Tien, Philip | 280,000 | 280,000 |
| Ernest Colin Lee | 40,000 | 40,000 |
| **Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000** | | |
| Kwek Leng Peck | 470,000 | 470,000 |
| Ting Sii Tien @ Yao Sik Tien, Philip | 500,000 | 500,000 |
| **Ultimate Holding Company** | | |
| **Hong Leong Investment Holdings Pte. Ltd.** | | |
| **Ordinary Shares** | | |
| Kwek Leng Peck | 10,921 | 10,921 |
| **Subsidiary** | | |
| **Tasek Corporation Berhad** | | |
| **Ordinary Shares** | | |
| Ting Sii Tien @ Yao Sik Tien, Philip | 51,200 | 51,200 |
| **Related Corporations** | | |
| **Hong Leong Finance Limited** | | |
| **Ordinary Shares** | | |
| Kwek Leng Peck | 517,359 | 517,359 |
| **Hong Leong Holdings Limited** | | |
| **Ordinary Shares** | | |
| 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 |

The directors' interests in the Company as at 31 December 2017 disclosed above remained unchanged as at 21 January 2018.

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

**By the Company**

**(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 Huay Lim
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 outstanding as at end of financial year |
|---|---|---|---|
| Kwek Leng Peck | 2,150,000 | 1,680,000 | 470,000 |
| 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.

## 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.

### Share options (cont'd)

**By the Company (cont'd)**

**(c) Unissued Shares under option**

There were a total of 1,290,000 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 2017 | Options granted | Options exercised | Options cancelled/ lapsed | Options outstanding at 31 December 2017 | Number of option holders at 31 December 2017 | Exercise period |
|---|---|---|---|---|---|---|---|---|
| 15/5/2008 | $2.36 | 470,000* | – | – | – | 470,000* | 2 | 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 | 490,000 | – | – | (50,000) | 440,000 | 6 | 28/1/2015 to 27/1/2024 |
| Total | | 1,340,000 | – | – | (50,000) | 1,290,000 | | |

* Includes 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.

## 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 2017 | Options granted | Options exercised | Options cancelled/ lapsed | Balance At 31 December 2017 | Exercise Period |
|---|---|---|---|---|---|---|---|
| 29/7/2014 | US$21.11 | 530,000 | – | (46,400) | (13,600) | 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") (formerly known as Audit Committee) comprises five members who are independent. The members of the ARC at the date of this statement are:

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

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 five 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

**Ting Sii Tien @ Yao Sik Tien, Philip**
Director

22 March 2018

# 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 2017, 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 Financial Reporting Standards in Singapore (FRSs) 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 2017 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)**

***Restructuring exercise of the consumer products segment***

In October 2017, the Group announced that its consumer products unit will undertake a restructuring exercise, which involves the cessation of its manufacturing and production activities alongside the exploration of strategic participation with potential partners. Arising from this restructuring, the consumer products segment has recorded certain write downs of assets to their recoverable amounts as at 31 December 2017.

Significant management judgements were involved in the determination of the assumptions used in the assessment of recoverable amounts, and given the subjectivity of the key parameters used to determine the amounts of write-downs, we have identified this as a key audit matter.

(a) Property, plant and equipment and intangible asset

As at 31 December 2017, the carrying amount of property, plant and equipment and intangible asset, net of write-downs, under the consumer products unit are $66.2 million and $43.8 million respectively. The Group has recorded a write down of property, plant and equipment and intangible asset of $9.1 million. Management used external specialists to support the recoverable amounts of its property, plant and equipment and intangible asset (mainly consists of trademarks) determined based on fair value less cost to sell.

For property, plant and equipment, the key assumptions used by management in the fair value computation include the market value of comparable transactions and listings, estimation of certain amount of physical deterioration and relevant forms of obsolescence and optimization.

For the intangible asset, the key assumptions used by management in the fair value computation include economic conditions, royalty rates, projections of sales growth rates and discount rates.

Our audit procedures include assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. We evaluated the objectivity, competence and capabilities of the external specialists engaged by management and reviewed their valuation reports, including the reasonableness of the key assumptions used in determining the recoverable amounts of the property, plant and equipment and trademarks.

We involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodologies and the reasonableness of certain key assumptions used in the valuation of property, plant and equipment and intangible asset.

(b) Inventories

As at 31 December 2017, the carrying amount of inventories in the consumer products segment amounted to $42.6 million, net of allowance for inventory obsolescence of $18.1 million. The assessment process in determining the allowance for inventory obsolescence involves significant judgement and estimates of expected future market and economic conditions, in view of the restructuring exercise.

We assessed the reasonableness of the allowance policy based on factors such as historical sales performance of the products in their life cycle adjusted for possible negative impact from the announced restructuring, outlook of the industry and the historical costs incurred or anticipated to sell aged inventories. We further tested the ageing of the inventories and corroborated the inventory movement trends subsequent to year end with the computation of the obsolescence level.

**Key Audit Matters (cont'd)**

***Restructuring exercise of the consumer products segment (cont'd)***

(c) Trade receivables

As at 31 December 2017, the allowance for impairment loss for trade receivables arising from the consumer products unit amounted to $13.8 million. There is significant judgement involved in calculating the impairment loss, particularly regarding the estimation of future cash collection, in light of the restructuring exercise.

Our audit procedures comprised understanding management's impairment basis, in particular, the key assumptions and judgements made by management. We tested the ageing of the trade receivables and corroborated the amount of allowance made with historical collection trends and post year-end receipts.

Further, we considered the adequacy of the Group's disclosure concerning the above event in Note 38 Significant accounting judgements and estimates, Note 6 Impairment assessment of intangible assets and property, plant and equipment, Note 14 Inventories and Note 16 Trade and other receivables to the financial statements.

***Impairment of property, plant and equipment and intangible assets***

As at 31 December 2017, apart from the consumer products segment discussed above, the carrying amounts of property, plant and equipment and intangible assets of the other segments were $939.5 million and $8.5 million as at 31 December 2017 respectively. Given the magnitude of the amounts 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 assessment of impairment in the areas of property, plant and equipment and intangible assets. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used.

(a) Air-conditioning systems segment - property, plant and equipment

Management used external specialists to support the recoverable amounts of the property, plant and equipment based on fair value less cost to sell.

We evaluated the objectivity, competence and capabilities of the external specialists engaged by management and reviewed their valuation reports, including the reasonableness of the key assumptions used in determining the fair value of the property, plant and equipment. The key assumptions used by management in the fair value computation include market rental availability, vacancy rate and discount rates. We also involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology and the reasonableness of certain key assumptions used in the valuation.

(b) Diesel engines segment – certain development expenditure

In 2017, the Group has recorded an impairment loss of $8.2 million for certain development expenditure, whereby the recoverable amount was based on value-in-use computation determined by management's internal specialists.

**Key Audit Matters (cont’d)**

***Impairment of property, plant and equipment and intangible assets (cont'd)***

(b) Diesel engines segment – certain development expenditure (cont'd)

We evaluated the key assumptions used by management such as timing of the expected commercialisation of the new diesel engine, forecast sales, sales growth rates, sustainability of the working capital improvement in coming years, expected profit margins of the launched products and the discount rate. We involved our internal valuation specialists to assist us in evaluating the reasonableness of the discount rate.

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 2017, apart from the consumer products segment discussed above, the carrying amount of inventories of the other segments amounted to $589.2 million, after considering allowance for inventory obsolescence of $25.5 million.

The assessment process in determining allowance for inventory obsolescence was complex and involved significant estimates of expected future market and economic conditions that might have an impact on the sales projections. These estimates include estimated selling prices of the products, estimated costs to sell based on the costs and effectiveness of the sales promotion and marketing programs when applicable.

We observed the inventory count performed by management at certain locations and assessed 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 aged 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.

***Impairment of receivables from subsidiaries***

As at 31 December 2017, the carrying amount of receivables due from subsidiaries amounted to $382.9 million. This amount represents 61.9% of the total assets of the Company. Management has considered that the continued losses suffered by the subsidiaries, in particular those in the consumer products and air-conditioning systems segments, provide indication that the loans extended to such subsidiaries may not be recoverable. Given the magnitude of the amounts and the significant judgements involved in the impairment assessment, we have identified this as a key audit matter.

(a) Subsidiaries in air-conditioning systems segment

Management has undertaken an impairment assessment and estimated the recoverable amount of the loans using the value-in-use method based on cash flow forecast. The impairment assessment is complex and involved the use of significant management’s estimates and assumptions that are dependent on projections of sales volume, selling prices and sales growth rates, economic conditions and discount rates. Based on the assessment, management has not recorded any impairment loss.

**Key Audit Matters (cont'd)**

***Impairment of receivables from subsidiaries (cont'd)***

(a) Subsidiaries in air-conditioning systems segment (cont'd)

Our audit procedures included, amongst others, assessing the valuation method used and evaluating the key assumptions used by management such as revenue growth rate, gross margins and the discount rates. The key assumptions were evaluated by assessing the reasonableness of management's forecasts and comparing them against external data such as the economy's growth forecast. We have also reviewed other financial information such as operating expenses and tax that were used in the forecast.

Further, we considered the adequacy of the disclosures in respect of impairment assessment of receivables due from subsidiaries in Note 12 to the financial statements.

(b) Subsidiaries in consumer products segment

The impairment assessment is based on the expected recovery rate of the receivables which management has determined is dependent on the recoverable amounts of the assets of the subsidiaries, against its total debts. This resulted in the recognition of an impairment loss of $63.8 million in the Company's income statement during the year.

We obtained an understanding of management's impairment assessment including the key assumptions applied by management in assessing the recoverable amounts of the subsidiaries' assets. In addition to those procedures performed and stated under the "Restructuring exercise of the consumer products segment", we have also reviewed the results of the impairment assessment and recalculated the arithmetic computation on the impaired amount.

**Other Information**

Management is responsible for the 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 FRSs, 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.

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.

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

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 2018

# BALANCE SHEETS
**As at 31 December 2017**

| | Note | Group 2017 | Group 2016 | Company 2017 | Company 2016 |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | 1,005,664 | 1,111,296 | 78 | 126 |
| Land use rights | 4 | 128,882 | 133,640 | – | – |
| Intangible assets | 5 | 52,293 | 68,177 | 138 | 152 |
| Investment in subsidiaries | 7 | – | – | 202,955 | 202,955 |
| Interests in associates | 8 | 47,043 | 48,339 | 13,726 | 13,726 |
| Interests in joint ventures | 9 | 40,153 | 36,646 | – | – |
| Investment property | 10 | 1,522 | 1,516 | – | – |
| Other investments | 11 | 5,202 | 1,434 | – | – |
| Non-current receivables | 12 | 8,375 | 6,645 | 166,843 | 171,118 |
| Deferred tax assets | 13 | 65,345 | 62,363 | – | – |
| Long-term deposits | 17 | 14,336 | – | – | – |
| | | 1,368,815 | 1,470,056 | 383,740 | 388,077 |
| **Current assets** | | | | | |
| Inventories | 14 | 631,817 | 464,979 | – | – |
| Development properties | 15 | 4,881 | 4,858 | – | – |
| Other investments | 11 | 5,061 | 2,543 | – | – |
| Trade and other receivables | 16 | 1,714,744 | 1,780,587 | 216,088 | 225,841 |
| Cash and short-term deposits | 17 | 1,363,934 | 1,033,698 | 19,161 | 2,482 |
| Assets of disposal group classified as held for sale | 18 | – | 18,397 | – | – |
| | | 3,720,437 | 3,305,062 | 235,249 | 228,323 |
| **Total assets** | | 5,089,252 | 4,775,118 | 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 2017**

| | Note | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | 1,816,925 | 1,731,728 | 18,865 | 5,201 |
| Provisions | 23 | 73,188 | 69,659 | – | – |
| Loans and borrowings | 21 | 677,709 | 537,888 | 175,075 | 182,142 |
| Current tax payable | | 12,749 | 10,817 | 15 | 8 |
| Derivatives | | – | 29 | – | – |
| | | 2,580,571 | 2,350,121 | 193,955 | 187,351 |
| **Net current assets** | | 1,139,866 | 954,941 | 41,294 | 40,972 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 21 | 217,701 | 167,010 | 200,000 | 140,000 |
| Deferred tax liabilities | 13 | 41,497 | 43,369 | 2,100 | 2,037 |
| Deferred grants | | 70,674 | 68,585 | – | – |
| Other non-current payables | 22 | 32,019 | 28,420 | – | – |
| Retirement benefit obligations | | 1 | 259 | – | – |
| | | 361,892 | 307,643 | 202,100 | 142,037 |
| **Total liabilities** | | 2,942,463 | 2,657,764 | 396,055 | 329,388 |
| **Net assets** | | 2,146,789 | 2,117,354 | 222,934 | 287,012 |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 19 | 266,830 | 266,830 | 266,830 | 266,830 |
| Reserves | 20 | 350,314 | 426,921 | (43,896) | 20,182 |
| Reserve of disposal group classified as held for sale | 18 | – | 4,685 | – | – |
| | | 617,144 | 698,436 | 222,934 | 287,012 |
| **Non-controlling interests** | | 1,529,645 | 1,418,918 | – | – |
| **Total equity** | | 2,146,789 | 2,117,354 | 222,934 | 287,012 |
| **Total equity and liabilities** | | 5,089,252 | 4,775,118 | 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 2017**

| | Note | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **Revenue** | 24 | 4,026,670 | 3,724,759 |
| Cost of sales | | (3,209,259) | (2,959,812) |
| **Gross profit** | | 817,411 | 764,947 |
| **Other item of income** | | | |
| Other income | | 133,443 | 32,955 |
| **Other items of expense** | | | |
| Selling and distribution expenses | | (356,279) | (360,165) |
| Research and development expenses | | (135,152) | (132,894) |
| General and administrative expenses | | (216,252) | (193,250) |
| Finance costs | 26 | (41,552) | (34,740) |
| Other expenses | | (30,902) | (17,409) |
| Share of profit of associates and joint ventures, net of income tax | | 1,566 | 1,907 |
| **Profit before income tax** | 25 | 172,283 | 61,351 |
| Income tax expense | 28 | (46,197) | (38,522) |
| **Profit for the year** | | 126,086 | 22,829 |
| **Attributable to:** | | | |
| Owners of the Company | | (66,451) | (71,246) |
| Non-controlling interests | | 192,537 | 94,075 |
| | | 126,086 | 22,829 |
| **Loss per share (cents per share)** | | | |
| - Basic | 29 | (17.77) | (19.05) |
| - Diluted | 29 | (17.77) | (19.05) |

*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 2017**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| **Profit for the year** | 126,086 | 22,829 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Exchange differences on translation of financial statements of foreign subsidiaries, associates and joint ventures | (36,238) | (70,481) |
| Net fair value changes of available-for-sale financial assets | 613 | 16 |
| Exchange differences on monetary items forming part of net investment in foreign entities | (3,367) | (4,416) |
| Realisation of foreign currency translation reserves upon disposal of foreign operation | (835) | – |
| **Other comprehensive income for the year, net of income tax** | (39,827) | (74,881) |
| **Total comprehensive income for the year** | 86,259 | (52,052) |
| **Attributable to:** | | |
| Owners of the Company | (79,136) | (97,694) |
| Non-controlling interests | 165,395 | 45,642 |
| **Total comprehensive income for the year** | 86,259 | (52,052) |

*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 2017**

| Group | Note | Share capital | Capital reserve | Statutory reserve | Fair value reserve | Share option reserve |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2017 | | 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 |
| – | – | – | (66,451) | (66,451) | 192,537 | 126,086 |
| (9,509) | – | – | – | (9,509) | (26,729) | (36,238) |
| – | – | – | – | 613 | – | 613 |
| (3,367) | – | – | – | (3,367) | – | (3,367) |
| 4,263 | – | (4,685) | – | (422) | (413) | (835) |
| (8,613) | – | (4,685) | – | (12,685) | (27,142) | (39,827) |
| (8,613) | – | (4,685) | (66,451) | (79,136) | 165,395 | 86,259 |
| – | – | – | – | 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) | – | – | – |
| (60,354) | 35,397 | – | 286,025 | 617,144 | 1,529,645 | 2,146,789 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the financial year ended 31 December 2017**

| Group | Note | Share capital | Capital reserve | Statutory reserve | Fair value reserve | Share option reserve |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| Closing balance as at 31 December 2015 (as previously stated) | | 266,830 | 4,442 | 33,178 | 45,230 | 3,788 |
| Adjustment arising from change of accounting policy | | – | – | – | – | – |
| At 1 January 2016 (restated) | | 266,830 | 4,442 | 33,178 | 45,230 | 3,788 |
| (Loss)/profit for the year | | – | – | – | – | – |
| Other comprehensive income | | | | | | |
| Exchange differences on translation of financial statements of foreign subsidiaries, associates and joint ventures | | – | – | – | – | – |
| Net fair value changes of available-for-sale financial assets | | – | – | – | 16 | – |
| Exchange differences on monetary items forming part of net investment in foreign entities | | – | – | – | – | – |
| Other comprehensive income for the year, net of tax | | – | – | – | 16 | – |
| Total comprehensive income for the year | | – | – | – | 16 | – |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| *Contributions by and distributions to owners* | | | | | | |
| Cost of share-based payments | | – | – | – | – | 443 |
| 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 subsidiaries | | – | – | – | – | – |
| Acquisition of non-controlling interests | | – | – | – | – | – |
| *Others* | | | | | | |
| Transfer to statutory reserve | | – | – | 191 | – | – |
| Reserve attributable to disposal group classified as held for sale | | – | – | – | – | – |
| At 31 December 2016 | | 266,830 | 4,442 | 33,369 | 45,246 | 4,231 |

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

| Translation reserve | Surplus on changes of non-controlling interests | Reserve of disposal group classified as held for sale | Accumulated profits | Total attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| (20,592) | 10,247 | – | 439,617 | 782,740 | 1,449,791 | 2,232,531 |
| – | – | – | (7,842) | (7,842) | (871) | (8,713) |
| (20,592) | 10,247 | – | 431,775 | 774,898 | 1,448,920 | 2,223,818 |
| – | – | – | (71,246) | (71,246) | 94,075 | 22,829 |
| (22,048) | – | – | – | (22,048) | (48,433) | (70,481) |
| – | – | – | – | 16 | – | 16 |
| (4,416) | – | – | – | (4,416) | – | (4,416) |
| (26,464) | – | – | – | (26,448) | (48,433) | (74,881) |
| (26,464) | – | – | (71,246) | (97,694) | 45,642 | (52,052) |
| – | – | – | – | 443 | 664 | 1,107 |
| – | 24,164 | – | – | 24,164 | (20,479) | 3,685 |
| – | – | – | (3,739) | (3,739) | – | (3,739) |
| – | – | – | – | – | (54,028) | (54,028) |
| – | – | – | – | – | 449 | 449 |
| – | 364 | – | – | 364 | (2,250) | (1,886) |
| – | – | – | (191) | – | – | – |
| (4,685) | – | 4,685 | – | – | – | – |
| (51,741) | 34,775 | 4,685 | 356,599 | 698,436 | 1,418,918 | 2,117,354 |

# STATEMENT OF CHANGES IN EQUITY
**For the financial year ended 31 December 2017**

| **Company** | **Note** | **Share capital** | **Capital reserve** | **Share option reserve** | **Accumulated profits/(losses)** | **Total equity** |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| 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 |
| At 1 January 2016 | | 266,830 | 9,199 | 2,453 | 71,222 | 349,704 |
| Total comprehensive income for the year | | – | – | – | (58,967) | (58,967) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| *Contributions by and distributions to owners* | | | | | | |
| Cost of share-based payments | | – | – | 14 | – | 14 |
| Dividends paid to shareholders | 30 | – | – | – | (3,739) | (3,739) |
| At 31 December 2016 | | 266,830 | 9,199 | 2,467 | 8,516 | 287,012 |

*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 2017**

| | Note | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | 172,283 | 61,351 |
| Adjustments for: | | | |
| Share of profit of associates and joint ventures, net of income tax | | (1,566) | (1,907) |
| Cost of share-based payments | | 876 | 1,107 |
| Depreciation and amortisation | 25 | 129,777 | 136,373 |
| Allowance recognised for inventory obsolescence, net | 25 | 8,230 | 390 |
| Impairment losses recognised for trade and other receivables | 25 | 10,029 | 842 |
| Impairment losses on property, plant and equipment and intangible assets | 25 | 21,554 | 17,758 |
| Property, plant and equipment written off | 25 | 1,246 | 339 |
| Finance costs | 26 | 41,552 | 34,740 |
| Dividend income from other investments | 25 | (560) | (240) |
| Interest income | 25 | (24,532) | (16,071) |
| (Gain)/loss on disposal of: | | | |
| - a subsidiary | 25 | (44,107) | – |
| - joint venture (assets held for sale) | 25 | (22,213) | – |
| - property, plant and equipment | 25 | (2,266) | 3,292 |
| - intangible assets | 25 | (23,521) | – |
| Fair value (gain)/loss on investments | 25 | (2,602) | 51 |
| Fair value loss on derivatives | 25 | – | 95 |
| Goodwill arising from acquisition of subsidiaries, written off | 7(g) | – | 234 |
| Provisions for warranties and other costs, net | 25 | 86,781 | 86,954 |
| **Operating cash flows before changes in working capital** | | 350,961 | 325,308 |
| Changes in working capital: | | | |
| Inventories and development properties | | (181,320) | 41,842 |
| Trade and other receivables | | 12,717 | 73,134 |
| Trade and other payables | | 140,380 | 139,518 |
| Grant received from government | | 10,225 | 2,812 |
| Provisions utilised | 23 | (82,456) | (85,257) |
| **Cash flows from operations** | | 250,507 | 497,357 |
| Income taxes paid | | (46,604) | (40,419) |
| **Net cash flows generated from operating activities** | | 203,903 | 456,938 |

*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 2017**

| | Note | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Additional investment in joint ventures | | (15,322) | (260) |
| Dividends received from: | | | |
| - associates and joint ventures | | 1,613 | 7,141 |
| - other investments | 25 | 560 | 240 |
| Interest received | | 27,232 | 17,656 |
| Net placement of deposits with banks | | (29,201) | (3,749) |
| Purchase of: | | | |
| - property, plant and equipment | 3 | (77,314) | (88,431) |
| - intangible assets | 5 | (1,438) | (257) |
| - other investments | | (3,139) | – |
| Proceeds from disposal of: | | | |
| - a subsidiary, net of cash disposed | 7(f) | 69,727 | – |
| - associate | | 374 | – |
| - property, plant and equipment | | 6,326 | 558 |
| - intangible assets | | 10,206 | – |
| - joint venture (assets held-for-sale) | | 37,288 | – |
| Repayment of loan from joint venture | | 2,858 | – |
| **Net cash flows generated from/(used in) investing activities** | | 29,770 | (67,102) |
| **Financing activities** | | | |
| Acquisition of non-controlling interests in subsidiaries | | (1,695) | (1,886) |
| Dividends paid to: | | | |
| - non-controlling interests of subsidiaries | | (56,774) | (54,028) |
| - shareholders of the Company | 30 | (3,739) | (3,739) |
| Interest paid | | (43,085) | (41,435) |
| Proceeds from borrowings | | 564,035 | 545,639 |
| Capital contribution by non-controlling interests of subsidiaries | | 4,508 | 3,685 |
| Repayments of borrowings | | (369,573) | (799,619) |
| Repayment of obligation under finance leases | | (1,645) | (2,002) |
| **Net cash flows from/(used in) financing activities** | | 92,032 | (353,385) |

*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 2017**

| | Note | Group 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Net increase in cash and cash equivalents** | | 325,705 | 36,451 |
| Cash and cash equivalents at the beginning of the financial year | 17 | 945,171 | 938,620 |
| Effect of exchange rate changes on balances held in foreign currencies | | (8,772) | (29,900) |
| **Cash and cash equivalents at the end of the financial year** | 17 | 1,262,104 | 945,171 |

**Note:**

Cash and cash equivalents totalling $979,380,000 (2016: $780,801,000) are held in countries which have foreign exchange controls.

The cash flow effect of acquisitions and disposals of subsidiaries in 2017 and 2016 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 2017**

## 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 consumer products, air-conditioning systems, diesel engines and related products, industrial packaging products, building materials, 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 (FRS).

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 $) and all values are rounded to the nearest thousand ($'000), except when otherwise indicated.

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Framework (International), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). Other than the impact on adoption of the SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 9 *Financial Instruments*, the Group expects that adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 15 and SFRS(I) 9 will be similar to the impact on adoption of FRS 115 and FRS 109 as disclosed in Note 2.3. On transition to the new financial reporting framework, the Group expects to elect the option to deem cumulative translation differences for foreign operations to be zero on 1 January 2017, and accordingly, the gain or loss that will be recognised on a subsequent disposal of the foreign operations will exclude cumulative translation differences that arose before 1 January 2017. The Group expects to reclassify an amount of $51,741,000 of foreign currency translation reserve to the opening retained earnings as at 1 January 2017.

Other than the effects of the matter as described above and the adoption of the new standards that are effective on 1 January 2018, the Group expects that the adoption of the new financial reporting framework will have no material impact on the financial statements in the year of initial application. The Group expects that the impact of adopting the new standards that are effective on 1 January 2018 will be similar to that as disclosed in Note 2.3.

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

### *2.2 Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 *Disclosure Initiative*. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

### *2.3 Standards issued but not yet effective*

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

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| Amendments to FRS 40: *Transfers of Investment Property* | 1 January 2018 |
| Amendments to FRS 102: *Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 |
| Amendments to FRS 110 and FRS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Date to be determined |
| FRS 109 *Financial Instruments* | 1 January 2018 |
| FRS 115 *Revenue from Contracts with Customers* | 1 January 2018 |
| FRS 116 *Leases* | 1 January 2019 |
| Improvements to FRSs (December 2016) | |
| (a) Amendments to FRS 28: *Investments in Associates and Joint Ventures* | 1 January 2018 |
| (b) Amendments to FRS 101: *First-time Adoption of Financial Reporting Standards* | 1 January 2018 |
| INT FRS 122 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |
| INT FRS 123 *Uncertainty over Income Tax Treatments* | 1 January 2019 |

As disclosed in Note 2.1, the Group will adopt SFRS(I) on 1 January 2018. Upon adoption of SFRS(I) on 1 January 2018, the SFRS(I) equivalent of the above standards that are effective on 1 January 2018 will be adopted at the same time.

Except for FRS 115, FRS 109 and FRS 116, 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 FRS 115, FRS 109 and FRS 116 are described below.

<u>FRS 115 *Revenue from Contracts with Customers*</u>

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of FRS 115 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts FRS 115 in 2018.

# NOTES TO THE FINANCIAL STATEMENTS

**For the financial year ended 31 December 2017**

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

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

FRS 115 *Revenue from Contracts with Customers (cont'd)*

The Group plans to apply the changes in accounting policies retrospectively to each reporting year presented, using the full retrospective approach. The Group also plans to apply the following practical expedients:

- For completed contracts, the Group plans not to restate completed contracts that begin and end within the same year or are completed contracts at 1 January 2017, and

- For completed contracts that have variable consideration, the Group plans to use the transaction price at the date the contract was completed instead of estimating variable consideration amounts in the comparative year.

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

The Group expects the following impact upon adoption of FRS 115:

**(a) Variable consideration**

Some contracts with customers provide a right of return, trade discounts or volume rebates. Such provisions give rise to variable consideration under FRS 115. The Group currently recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Under FRS 115, variable consideration is estimated and is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is subsequently resolved.

The Group has monitored and assessed the provision for volume rebates and trade discounts and does not expect material impact in revenue recognition.

**(b) Right of return**

Under FRS 115, the Group will estimate the amount of expected returns in determining the transaction price and recognises revenue based on the amounts to which the Group expects to be entitled through the end of the return period. The Group will recognise the amount of expected returns as a refund liability, representing its obligation to return the customer's consideration.

To assess the impact arising from the rights of return under FRS 115, the Group has collated the statistics of actual sales return incurred for past years. Based on historical records and management estimates, the Group believes the effect from the sales with a right of return upon the adoption of FRS 115 to be insignificant to the consolidated financial results of the Group.

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

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

FRS 115 *Revenue from Contracts with Customers* (cont'd)

The Group expects the following impact upon adoption of FRS 115 (cont'd):

**(c) Warranty obligations**

The Group provides warranties for both general repairs and extended warranties or maintenance services in its contracts with customers. The extended warranty is a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specifications. Currently, the Group recognises all warranty-related costs as a provision for warranty under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under FRS 115, the Group will account for a 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 will initially be recorded as a contract liability and recognised as revenue over the period the warranty services are provided.

On the adoption of FRS 115, the Group expects to record an adjustment to decrease the related selling and distribution expenses by $39,999,000 and revenue by $4,297,000, and increase cost of sales by $36,084,000 for the financial year ended 31 December 2017.

**(d) Performance obligation**

Under FRS 18 *Revenue*, the sale of a certain intangible asset amounting to $23,521,000 was recognised in 2017 as other income, as the requirement for the production milestone was fulfilled.

With the adoption of FRS 115, management has reviewed and concluded that the Group had significantly performed its obligations in 2015. Therefore, upon the adoption of FRS 115, it will result in a decrease in other income of $23,521,000 and tax expense of $5,306,000 for the financial year ended 31 December 2017, and a corresponding increase in retained earnings of $18,215,000 as at 1 January 2017.

**(e) Presentation and disclosure requirements**

FRS 115 provides presentation and disclosure requirements, which are more detailed than under current FRS. The presentation requirements represent a significant change from current practice and significantly increase the volume of disclosures required in the Group's financial statements.

FRS 109 *Financial Instruments*

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting, and is effective for annual periods beginning on or after 1 January 2018. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Group has performed a preliminary impact assessment of adopting FRS 109 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts FRS 109 in 2018.

The Group does not apply hedge accounting.

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

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

FRS 109 *Financial Instruments (cont'd)*

**(a) Classification and measurement**

Except for bills receivables, the Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109.

Except for bills receivables, loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109.

Bills receivables are currently accounted for at amortised cost. Under FRS 109, the Group expects to measure bill receivables at fair value through other comprehensive income as the Group routinely sells some of the bills receivables before their maturity.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109. The expected classification and measurement of these financial assets under FRS 109 is summarised below:

- Available-for-sale equity securities are held as long-term investments. The Group expects to elect to measure these available-for-sale equity securities at fair value through other comprehensive income.

- Equity securities that are currently classified as held for trading will continue to be measured at fair value through profit or loss.

On the adoption of FRS 109, the Group expects bill receivables and equity to decrease by $28,114,000 as at 31 December 2017.

**(b) Impairment**

FRS 109 requires the Group and the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group does not expect a material impact to the Group's expected loss allowance.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group plans to adopt the new standard on the required effective date by applying FRS 116 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

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

### *2.4 Basis of consolidation and business combinations*

#### *(a) Basis of consolidation*

Basis of consolidation from 1 January 2010

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.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.

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

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

#### *(b) Business combinations*

Business combinations from 1 January 2010

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 FRS 39 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 FRS.

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.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

# NOTES TO THE FINANCIAL STATEMENTS

**For the financial year ended 31 December 2017**

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

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

#### *(b) Business combinations (cont'd)*

Business combinations prior to 1 January 2010 (cont'd)

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### *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 separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

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

### *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.

### *2.8 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 account 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 is accounted as 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.

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

### *2.8 Associates and joint ventures (cont'd)*

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.

### *2.9 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.

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

### *2.9 Foreign currency (cont'd)*

#### *(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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

**For the financial year ended 31 December 2017**

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

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

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.

### *2.12 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. Summary of significant accounting policies (cont'd)

### *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.

#### *(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.

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

### *2.13 Intangible assets (cont'd)*

#### *(b) Other intangible assets (cont'd)*

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.

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 1 to 10 years or 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.

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

### *2.13 Intangible assets (cont'd)*

#### *(b) Other intangible assets (cont'd)*

(iii) Club membership

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

(iv) 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. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group did not have any held-to-maturity investments during the years ended 31 December 2017 and 2016.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

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

### *2.14 Financial instruments (cont'd)*

#### *(a) Financial assets (cont'd)*

Subsequent measurement (cont'd)

The subsequent measurement of financial assets depends on their classification as follows: (cont'd)

(ii) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets 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 that impairment losses, foreign exchange gains and losses on monetary instruments 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 when the financial asset is derecognised.

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Subsequent to initial recognition, financial assets 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 assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

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 is recognised in profit or loss.

Regular way purchase or sale of a financial asset

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

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

### *2.14 Financial instruments (cont'd)*

#### *(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. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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) Derivative financial instruments*

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

#### *(d) 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 recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

### *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. Summary of significant accounting policies (cont'd)

### *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.

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 assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

#### *(a) Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

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

### *2.19 Impairment of financial assets (cont'd)*

#### *(a) Financial assets carried at amortised cost (cont'd)*

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### *(b) Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

#### *(c) Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor; (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

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

### *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.

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.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. 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.

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

### *2.21 Employee benefits (cont'd)*

#### *(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.

### *2.22 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) Steel price fluctuation*

A provision for steel price fluctuation is recognised when there is a decline in steel price indices, based on the supply and delivery contracts signed between the Group and its customers.

#### *(c) Restoration costs*

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

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

### *2.22 Provisions (cont'd)*

#### *(d) 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.

#### *(e) 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 recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognised:

#### *(a) Sale of goods*

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

#### *(b) Rendering of services*

Revenue from rendering services relates to project management contracts, 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.

#### *(c) Development properties for sale*

A development property is regarded as sold when the significant risks and rewards have been transferred to the buyer.

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

### *2.23 Revenue recognition (cont'd)*

The following specific recognition criteria must also be met before revenue is recognised (cont'd):

#### *(d) Rental income*

Rental income arising from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received. Contingent rentals are recognised as income in the accounting period in which they are earned.

#### *(e) 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.

#### *(f) Interest income*

Interest income is recognised using the effective interest method.

### *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.

#### *(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.

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

### *2.25 Leases (cont'd)*

#### *(a) As lessee (cont'd)*

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 (d). 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.

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

### *2.27 Taxes (cont'd)*

#### *(b) Deferred tax (cont'd)*

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.

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.

## 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 2016 | 58,959 | 657,518 |
| Translation differences | (414) | (24,522) |
| Additions | – | 5,184 |
| Acquisition of a subsidiary | – | – |
| Transfers | – | 8,884 |
| Transfer to development properties (Note 15) | – | (79) |
| Disposals | – | (3,886) |
| Write-off | – | (25) |
| At 31 December 2016 and 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 | – | (16,651) |
| At 31 December 2017 | 58,974 | 636,175 |
| **Accumulated depreciation and impairment losses** | | |
| At 1 January 2016 | 1,555 | 192,915 |
| Translation differences | (2) | (6,837) |
| Charge for the year | – | 21,367 |
| Impairment losses made | – | 2,903 |
| Transfer to development properties (Note 15) | – | (5) |
| Disposals | – | (2,274) |
| Write-off | – | (13) |
| At 31 December 2016 and 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 | – | (4,491) |
| At 31 December 2017 | 1,555 | 222,424 |
| **Net book value** | | |
| At 31 December 2016 | 56,992 | 435,018 |
| At 31 December 2017 | 57,419 | 413,751 |

# NOTES TO THE FINANCIAL STATEMENTS

**For the financial year ended 31 December 2017**

| Leasehold improvements | Plant and machinery | Office furniture, fittings and equipment | Motor and transport vehicles | Construction-in-progress | Total |
|---:|---:|---:|---:|---:|---:|
| $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| 7,550 | 1,038,901 | 63,156 | 49,038 | 88,211 | 1,963,333 |
| (261) | (43,404) | (1,736) | (1,270) | (3,038) | (74,645) |
| 136 | 4,992 | 4,752 | 2,953 | 56,923 | 74,940 |
| – | – | 6 | – | – | 6 |
| – | 53,465 | 247 | 152 | (62,748) | – |
| – | – | – | – | – | (79) |
| – | (23,060) | (2,256) | (6,328) | (465) | (35,995) |
| (75) | (3,979) | (308) | – | – | (4,387) |
| 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 |
| 1,894 | 464,350 | 45,051 | 37,772 | 55 | 743,592 |
| (30) | (23,694) | (1,418) | (1,017) | – | (32,998) |
| 405 | 99,470 | 6,873 | 3,927 | – | 132,042 |
| – | 1,489 | – | – | – | 4,392 |
| – | – | – | – | – | (5) |
| – | (21,239) | (2,071) | (5,514) | – | (31,098) |
| (75) | (3,672) | (288) | – | – | (4,048) |
| 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 |
| 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 |

## 3. Property, plant and equipment (cont'd)

| Company | Leasehold improvements | Office furniture, fittings and equipment | Motor and transport vehicles | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | |
| At 1 January 2016 | 458 | 1,095 | 221 | 1,774 |
| Additions | 136 | 8 | – | 144 |
| Disposals | – | – | (221) | (221) |
| At 31 December 2016 and 1 January 2017 | 594 | 1,103 | – | 1,697 |
| Additions | – | 18 | – | 18 |
| Disposals | – | (6) | – | (6) |
| At 31 December 2017 | 594 | 1,115 | – | 1,709 |
| **Accumulated depreciation** | | | | |
| At 1 January 2016 | 433 | 983 | 33 | 1,449 |
| Charge for the year | 115 | 40 | 30 | 185 |
| Disposals | – | – | (63) | (63) |
| At 31 December 2016 and 1 January 2017 | 548 | 1,023 | – | 1,571 |
| Charge for the year | 25 | 41 | – | 66 |
| Disposals | – | (6) | – | (6) |
| At 31 December 2017 | 573 | 1,058 | – | 1,631 |
| **Net book value** | | | | |
| At 31 December 2016 | 46 | 80 | – | 126 |
| At 31 December 2017 | 21 | 57 | – | 78 |

Assets held under finance lease

The carrying amount of plant and equipment held under finance leases at the end of the reporting period was $19,000 (2016: $28,000).

Leased assets are pledged as security for the related finance lease liabilities.

Assets pledged as security

The Group's assets with a carrying amount of $16,958,000 (2016: $17,560,000) are mortgaged to secure the Group's bank loans (Note 21).

## 4. Land use rights

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| **Cost** | | |
| At 1 January | 171,270 | 176,341 |
| Translation differences | (1,998) | (5,071) |
| At 31 December | 169,272 | 171,270 |
| **Accumulated amortisation** | | |
| At 1 January | 37,630 | 35,212 |
| Amortisation for the year | 3,235 | 3,538 |
| Translation differences | (475) | (1,120) |
| At 31 December | 40,390 | 37,630 |
| **Net carrying amount** | 128,882 | 133,640 |
| Amount to be amortised: | | |
| - Not later than one year | 3,439 | 3,487 |
| - Later than one year but not later than five years | 13,848 | 14,083 |
| - Later than five years | 111,595 | 116,070 |
| | 128,882 | 133,640 |

The Group has land use rights over 52 (2016: 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 23 to 47 years (2016: 24 to 48 years) and the non-transferable land use rights have a remaining tenure of 8 to 14 years (2016: 9 to 15 years).

As at 31 December 2016, land use rights with carrying amount of $14,758,000 were mortgaged to secure the Group's bank loans (Note 21). No land use rights have been mortgaged to any financial institution as at 31 December 2017.

## 5. Intangible assets

| Group | Patents and development expenditure 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 2016 | 53,261 | 66,532 | 7,755 | 313 | 11,572 | 139,433 |
| Additions | 257 | – | – | – | – | 257 |
| Translation differences | (1,487) | (2,132) | (252) | – | (5) | (3,876) |
| At 31 December 2016 and 1 January 2017 | 52,031 | 64,400 | 7,503 | 313 | 11,567 | 135,814 |
| Additions | 1,438 | – | – | – | – | 1,438 |
| Disposals | (6,471) | – | – | – | – | (6,471) |
| Write-off | (179) | – | – | – | – | (179) |
| Translation differences | (451) | (1,192) | (100) | – | 2 | (1,741) |
| At 31 December 2017 | 46,368 | 63,208 | 7,403 | 313 | 11,569 | 128,861 |
| **Accumulated amortisation and impairment losses** | | | | | | |
| At 1 January 2016 | 33,735 | 5,893 | 4,649 | 131 | 10,236 | 54,644 |
| Amortisation charge for the year | 518 | – | 194 | 30 | – | 742 |
| Impairment losses | – | 13,092 | 274 | – | – | 13,366 |
| Translation differences | (833) | (139) | (143) | – | – | (1,115) |
| At 31 December 2016 and 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 | 42,441 | 18,615 | 5,084 | 192 | 10,236 | 76,568 |
| **Net carrying amount** | | | | | | |
| At 31 December 2016 | 18,611 | 45,554 | 2,529 | 152 | 1,331 | 68,177 |
| At 31 December 2017 | 3,927 | 44,593 | 2,319 | 121 | 1,333 | 52,293 |

In 2017, upon the completion of engineering design services for the heavy-duty engine platform of the Group's joint venture company, Y&C Engine Co., Ltd., the respective technology development costs were transferred to income statement under the line item "Other income" to record the net gain from the project.

## 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 core.
- design, construction and testing of new diesel engines.

The patents and development expenditure have remaining amortisation period of 1 year (2016: 1 to 2 years). Development expenditure amounting to $2,073,000 (2016: $17,003,000) was not amortised as the development has not been completed and is not available for use.

Trademarks

Trademarks belonging to the Group's consumer product segment 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 15 years (2016: 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.

| **Company** | **Computer software and related costs** | **Club Membership** | **Total** |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Cost** | | | |
| At 1 January 2016 and 31 December 2016 | 1,477 | 313 | 1,790 |
| Additions | 18 | – | 18 |
| At 31 December 2017 | 1,495 | 313 | 1,808 |
| **Accumulated amortisation and impairment losses** | | | |
| At 1 January 2016 | 1,467 | 131 | 1,598 |
| Amortisation charge for the year | 10 | 30 | 40 |
| At 31 December 2016 and 1 January 2017 | 1,477 | 161 | 1,638 |
| Amortisation charge for the year | 1 | 31 | 32 |
| At 31 December 2017 | 1,478 | 192 | 1,670 |
| **Net carrying amount** | | | |
| At 31 December 2016 | – | 152 | 152 |
| At 31 December 2017 | 17 | 121 | 138 |

## 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 (2016: $10,415,000).

The impairment test was triggered in 2016 and 2017 as the technology is still under development and modification has 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 cashflow 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.

In 2016, management performed an impairment assessment based on the updated business plan, which takes into consideration the business outlook of diesel engines industry in the PRC. No impairment was identified. The Group used a 15 year forecast, using pre-tax discount rate of 12.98%. The revised business plan projected for commercial deployment of the technology to be reached in 5 years, in 2021. The revenue growth rate is estimated at 6.7% in 2022, and thereafter, management assumed no revenue growth from 2023 to 2031.

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% (2016: 1%) from management's estimate, the Group's impairment loss on intangible asset in Jining Yuchai will increase by $1,557,000 (2016: $506,500).

Separately, the Group recognised an impairment loss of $4,255,000 (2016: $684,000) 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.

## 6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

*Consumer products segment (cont'd)*

Trademarks

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 (2016: $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 2016, management performed an impairment assessment based on its business plans and projections, which took into consideration of the slowdown in the PRC economy, overcapacity in the industry and competitors slashing selling prices, which affected the segment's performance. As a result, the Group recognised an impairment loss of $11,541,000 in the income statement under the line item "General and administrative expenses" in respect of the trademarks held.

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% (2016: 2%) based on assessment of royalty rates of similar trademarks.
- Discount rate of 17.5% (2016: 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 (2016: revenue growth rate of 3% per annum perpetually).

For 2016, if the royalty rate decreases by 5% from management's estimate, the Group's impairment loss on trademarks will increase by $2,221,000. If the discount rate increases by 1% from management's estimate, the Group's impairment loss on trademarks will increase by $1,008,000.

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, the Group recognised an impairment loss of $320,000 (2016: nil) 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.

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 (2016: nil) in the income statement under the line item "Other expenses".

## 6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

*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 $2,318,000 (net of accumulated impairment losses, accumulated amortisation and exchange difference) as at 31 December 2017 (2016: $2,529,000).

The impairment test was triggered in 2016 and 2017 in view of losses incurred and 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). 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 2016, management performed an impairment assessment based on its business plans and projections, which took into consideration the economic slowdown in the PRC and Europe, coupled with competitors slashing selling prices, which affected the segment's performance. As a result, the Group recognised an impairment loss of $274,000 in the income statement under the line item "General and administrative expenses".

In 2017, management performed an impairment assessment based on its updated business plans and projections. No further impairment was identified.

The assumptions used in the assessment for the trademark in 2017 are:

- Royalty rate of 2.5% (2016: 2.5%) based on assessment of royalty rates of similar trademarks.
- Discount rate of 18.5% (2016: 18.5%) which reflects the current market assessment of the risks specific to the CGU.
- Revenue growth rate of 3% (2016: 3%) per annum perpetually.

For 2016, if the royalty rate decreases by 5% from management's estimate, the Group's impairment loss on trademark will increase by $112,000. If the discount rate increases by 1% from management's estimate, the Group's impairment loss on trademark will increase by $56,000.

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 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 $761,000 (net of accumulated impairment losses and exchange difference) as at 31 December 2017 (2016: $1,080,000). The recoverable amount of the trademark was determined based on the value in use using the relief-from-royalty method.

In 2016, management performed an impairment assessment based on its business plans and projections, which took into consideration the economic slowdown in the markets. As a result, the Group recognised an impairment loss of $1,551,000 in the income statement under the line item "General and administrative expenses" in respect of the trademark held.

## 6. Impairment assessment of intangible assets and property, plant and equipment (cont'd)

*Air-conditioning systems segment (cont'd)*

Trademark (lifestyle appliances) (cont'd)

In 2017, management performed an impairment assessment based on its updated business plans and projections. No further impairment was identified.

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% (2016: 2%) per annum from 2019 onwards. A royalty rate of 3% (2016: 3%) and a discount rate of 13% (2016: 13%) were used.

For 2016, if the royalty rate decreases by 5% from management's estimate, the Group's impairment loss on trademark will increase by $46,000. If the discount rate increases by 1% from management's estimate, the Group's impairment loss on trademark will increase by $11,000.

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 trademark to materially exceed its recoverable amount.

Property, plant and equipment (air-conditioning appliances)

In 2016 and 2017, the Group carried out a review of the recoverable amount of its property, plant and equipment, in view of losses incurred and slowdown in the PRC economy.

In 2016, as a result of the review performed, an impairment loss of $3,654,000 was recognised in the income statement under the line item "General and administrative expenses", representing the write-down of these property, plant and equipment to the recoverable amount. The recoverable amount was based on its value-in-use using the discounted cashflow approach. The Group used a 12 year forecast, using discount rate of 17%. The revenue growth rate was estimated at between 20% to 60% per annum in the first 5 years, and thereafter, management assumed stable revenue growth of 3% per annum from 2022 to 2028. If the discount rate increases by 1% from management's estimate, the Group's impairment loss on property, plant and equipment will increase by $336,000.

In 2017, management performed a review based on its updated business plans and projections. 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 2016, the Group recognised impairment loss of $54,000 in the income statement under the line item "Cost of sales" in respect of plant and machineries, which are no longer in use.

## 7. Investment in subsidiaries

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Shares, at cost | 232,387 | 232,387 |
| Impairment losses | (29,432) | (29,432) |
| | 202,955 | 202,955 |

*Impairment of investment in a subsidiary*

During the financial year ended 31 December 2016, management performed an impairment review of its investment in a subsidiary, which has been incurring operating losses. As a result of the review, the Company recognised an impairment loss of $1,500,000 in the income statement under the line item "General and administrative expenses".

The Company assessed the recoverable amount of its investment in the subsidiary based on the amounts estimated to be recoverable from the assets and liabilities of the subsidiary.

With regard to the valuation of the recoverable amount of the investment in the subsidiary, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the investment to materially exceed its recoverable amount.

*Transactions with non-controlling interests*

The Group entered into various transactions with non-controlling interests ("NCI"). The following summarises the net effect of the change in ownership interest on the equity attributable to owners of the Company:

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | **Note** | **Deficit on changes of NCI** | **Decrease in total equity** | **Surplus on changes of NCI** | **Increase/ (decrease) in total equity** |
| | | **$'000** | **$'000** | **$'000** | **$'000** |
| **Group** | | | | | |
| YC Europe Co., Limited | 7(g) | – | – | – | 449 |
| Others | | (78) | (1,695) | 364 | (1,886) |
| | | (78) | (1,695) | 364 | (1,437) |

## 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 2017 % | 2016 % |
|---|---|---|---|
| ***Held by the Company*** | | | |
| Hayford Holdings Sdn. Bhd. | Malaysia | 100 | 100 |
| HL Building Materials Pte. Ltd. | Singapore | 100 | 100 |
| HL-Manufacturing Industries Sdn. Bhd. | Malaysia | 100 | 100 |
| Hong Leong (China) Limited | Singapore | 100 | 100 |
| Island Concrete (Private) Limited | Singapore | 100 | 100 |
| ***Held by the Group*** | | | |
| Airwell Air-conditioning Technology (China) Co., Ltd. | The People's Republic of China | 67 | 67 |
| China Yuchai International Limited ("CYI") (1) | Bermuda | 40.04 | 40.19 |
| Dongguan Rex Packaging Company Limited | The People's Republic of China | 100 | 100 |
| Fedders International Pte. Ltd. | Singapore | 100 | 100 |
| Guangxi Yuchai Accessories Manufacturing Company Limited (2) | The People's Republic of China | 30.59 | 30.71 |
| Guangxi Yuchai Equipment Mould Company Limited (formerly known as Guangxi Yulin Yuchai Accessories Manufacturing Company Limited) (2) | The People's Republic of China | 30.59 | 30.71 |
| Guangxi Yuchai Machinery Company Limited (2) | The People's Republic of China | 30.59 | 30.71 |
| Guangxi Yuchai Machinery Monopoly Development Co., Ltd (2) | The People's Republic of China | 21.97 | 22.06 |

## 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 2017 | 2016 |
|---|---|---|---|
| ***Held by the Group (cont'd)*** | | % | % |
| Guangxi Yulin Hotel Company Limited (2) | The People's Republic of China | 30.59 | 30.71 |
| Henan Xinfei Electric Co., Ltd. | The People's Republic of China | 90 | 90 |
| Henan Xinfei Household Appliance Co., Ltd. | The People's Republic of China | 90 | 90 |
| Henan Xinfei Refrigeration Appliances Co., Ltd. | The People's Republic of China | 90 | 90 |
| HL Global Enterprises Limited ("HLGE") (2) (3) | Singapore | 20.09 | 20.16 |
| Jining Yuchai Engine Company Limited (2) (4) | The People's Republic of China | 30.59 | – |
| LKN Investment International Pte Ltd ("LKNII") (6) | Singapore | – | 20.16 |
| Rex Plastics (Malaysia) Sdn. Bhd. | Malaysia | 100 | 100 |
| Tasek Corporation Berhad (5) | Malaysia | 74.28 | 74.28 |
| Tianjin Rex Packaging Co., Ltd. | The People's Republic of China | 100 | 100 |
| Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (2) | The People's Republic of China | 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 16,360,845 (2016: 16,360,845) or 40.04% (2016: 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 50.17% (2016: 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 2017.

(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(f) for details.

## 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 2017:** | | | | | |
| Guangxi Yuchai Machinery Company Limited | The People's Republic of China | 69.41% | 152,696 | 1,328,098 | 20,263 |
| Tasek Corporation Berhad | Malaysia | 25.72% | (360) | 50,153 | 6,039 |
| **31 December 2016:** | | | | | |
| Guangxi Yuchai Machinery Company Limited | The People's Republic of China | 69.29% | 109,380 | 1,256,315 | 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 $964,640,000 (2016: $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 2017** | **As at 31 December 2016** | **As at 31 December 2017** | **As at 31 December 2016** |
| | $'000 | $'000 | $'000 | $'000 |
| **Current** | | | | |
| Assets | 3,011,537 | 2,584,123 | 119,338 | 140,676 |
| Liabilities | (1,913,823) | (1,653,528) | (29,746) | (32,107) |
| Net current assets | 1,097,714 | 930,595 | 89,592 | 108,569 |
| **Non-current** | | | | |
| Assets | 1,008,923 | 1,064,078 | 110,073 | 113,003 |
| Liabilities | (101,464) | (95,944) | (5,805) | (7,253) |
| Net non-current assets | 907,459 | 968,134 | 104,268 | 105,750 |
| Net assets | 2,005,173 | 1,898,729 | 193,860 | 214,319 |

Summarised income statement and statement of comprehensive income

| | Guangxi Yuchai Machinery Company Limited | | Tasek Corporation Berhad | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Revenue | 3,299,601 | 2,819,986 | 176,594 | 218,830 |
| Profit/(loss) before income tax | 258,891 | 187,154 | (1,197) | 24,347 |
| Income tax expense | (38,899) | (29,296) | (202) | (5,741) |
| Profit/(loss) after tax | 219,992 | 157,858 | (1,399) | 18,606 |
| Other comprehensive income | (26,676) | (66,070) | 4,952 | (5,961) |
| Total comprehensive income | 193,316 | 91,788 | 3,553 | 12,645 |

## 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 | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Net cash flows from operations | 292,959 | 495,550 | 7,747 | 28,021 |
| Net cash flows used in investing activities | (44,071) | (5,996) | (2,007) | (226) |
| Net cash flows from/ (used in) financing activities | 45,245 | (418,387) | (25,824) | (34,148) |
| Acquisition of significant property, plant and equipment | (58,603) | (72,338) | (9,506) | (6,533) |

(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) 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**<br>$'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 |

## 7. Investment in subsidiaries (cont'd)

(f) Disposal of ownership in interest in subsidiaries

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**<br>$'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 |

## 7. Investment in subsidiaries (cont'd)

(g) Acquisition of additional equity interest in a joint venture in 2016

On 20 December 2016 (the "acquisition date"), the Group's subsidiary company, GYMCL acquired an additional 32.5% equity interest in its joint venture, YC Europe Co., Limited ("YC Europe"), through share allotment transfer, and the injection of share capital will be completed in phases. Upon the full injection of capital, GYMCL's equity interest in YC Europe will increase from 35% to 67.5%.

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of YC Europe's net identifiable assets. There was no gain or loss on remeasuring previously held equity interest in YC Europe to fair value at the acquisition date.

YC Europe was newly incorporated in April 2015 to market off-road engines (excluding marine engines) in Europe. As at 31 December 2016, YC Europe is a subsidiary of the Group. The contribution from the acquisition to the Group's financial performance for the year ended 31 December 2016, and net assets as at 31 December 2016 is not material. Goodwill arising from the acquisition of $234,000 was fully written off and recognised in the income statement under the line item "Other expenses" in 2016.

## 8. Interests in associates

The Group and Company's material investments in associates are summarised below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore Cement Manufacturing Company (Private) Limited | 20,196 | 19,914 | 13,726 | 13,726 |
| Cement Industries (Sabah) Sdn. Bhd. | 24,717 | 24,177 | – | – |
| Other associates | 2,130 | 4,248 | – | – |
| | 47,043 | 48,339 | 13,726 | 13,726 |

| Name of significant associate | Country of incorporation | Principal activities | Effective equity interest 2017 % | 2016 % |
|---|---|---|---|---|
| ***Held by the Company*** | | | | |
| Singapore Cement Manufacturing Company (Private) Limited [1] | Singapore | Storage, packaging and distribution of cement | 50 | 50 |
| ***Held by the Group*** | | | | |
| Cement Industries (Sabah) Sdn. Bhd. [2] [3] | Malaysia | Manufacture and sale of cement | 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% (2016: 30%).

## 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 2017** | **As at 31 December 2016** | **As at 31 December 2017** | **As at 31 December 2016** | **As at 31 December 2017** | **As at 31 December 2016** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Current assets | 31,441 | 28,988 | 45,949 | 47,887 | | |
| Non-current assets | 17,171 | 18,381 | 42,441 | 44,837 | | |
| Total assets | 48,612 | 47,369 | 88,390 | 92,724 | | |
| Current liabilities | (7,821) | (7,366) | (4,565) | (8,724) | | |
| Non-current liabilities | (399) | (175) | (1,435) | (3,411) | | |
| Total liabilities | (8,220) | (7,541) | (6,000) | (12,135) | | |
| Net assets | 40,392 | 39,828 | 82,390 | 80,589 | | |
| Proportion of the Group's ownership | 50% | 50% | 30% | 30% | | |
| Carrying amount of significant associates | 20,196 | 19,914 | 24,717 | 24,177 | 44,913 | 44,091 |
| Carrying amount of other associates | | | | | 2,130 | 4,248 |
| **Carrying amount of the investment in associates** | | | | | 47,043 | 48,339 |

## 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 | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue | 69,452 | 70,470 | 107,733 | 117,879 | | |
| Profit after tax | 1,564 | 2,004 | 3,144 | 6,049 | | |
| Group's share of profit of significant associates | 782 | 1,002 | 943 | 1,815 | 1,725 | 2,817 |
| Group's share of loss of other associates | | | | | (2,195) | (67) |
| **Group's share of (loss)/ profit of associates for the year** | | | | | (470) | 2,750 |
| Other comprehensive income of significant associates | – | – | – | (733) | – | (733) |
| Other comprehensive income of other associates | | | | | – | (103) |
| **Group's share of (loss)/ profit for the year representing the Group's share of total comprehensive income for the year** | | | | | (470) | 1,914 |

## 9. Interests in joint ventures

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Y&C Engine Co., Ltd. | 25,034 | 35,132 |
| MTU Yuchai Power Company Limited | 13,622 | – |
| Other joint ventures | 1,497 | 1,514 |
| | 40,153 | 36,646 |

## 9. Interests in joint ventures (cont'd)

Particulars of the significant joint venture entities are as follows:

| Names of significant joint venture entity | Country of incorporation | Principal activities | Effective equity interest 2017 % | Effective equity interest 2016 % |
|---|---|---|---|---|
| ***Joint venture entity of China Yuchai International Limited ("CYI")*** | | | | |
| MTU Yuchai Power Company Limited ("MTU Yuchai") [(1)] [(2)] | The People's Republic of China | Manufacturing of off-road diesel engines | 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 | 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% (2016: nil) as at 31 December 2017.

(3) Proportion of ownership interest held by the Group in Y&C Engine Co., Ltd. is 45% as at 31 December 2017 and 31 December 2016.

During the year, 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 2017, the Group's share of joint ventures' capital commitment that are contracted but not paid for was $8,816,000 (2016: $2,282,000).

As at 31 December 2017, there were no contingent liabilities relating to the Group's joint ventures (2016: Group's share of contingent liabilities were $2,699,000).

As at 31 December 2017, the Group's share of outstanding bills receivables endorsed to suppliers for which a joint venture retained a recourse obligation were $4,769,000 (2016: $1,063,000).

As at 31 December 2017, there were no outstanding bills receivables discounted during the year with banks for which a joint venture retained a recourse obligation (2016: $299,000).

Significant restrictions

As at 31 December 2017, 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 $13,770,000 (2016: $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.

- The Group's share of restricted cash of $16,477,000 (2016: $3,765,000) and bills receivables of $2,488,000 (2016: nil) was used as collateral by the banks for the issuance of bills to suppliers.

- The Group's share of restricted trade receivables of $1,386,000 (2016: $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. | | MTU Yuchai Power Company Limited | | Total | |
|---|---|---|---|---|---|---|
| | As at 31 December 2017 | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2016 | As at 31 December 2017 | As at 31 December 2016 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and short-term deposits | 40,945 | 20,575 | 23,154 | – | | |
| Other current assets | 75,222 | 44,728 | 4,664 | – | | |
| Total current assets | 116,167 | 65,303 | 27,818 | – | | |
| Non-current assets | 150,378 | 128,087 | 6,557 | – | | |
| Total assets | 266,545 | 193,390 | 34,375 | – | | |
| Current financial liabilities (excluding trade and other payables and provisions) | (6,597) | (14,297) | – | – | | |
| Other current liabilities | (168,766) | (88,476) | (7,131) | – | | |
| Non-current liabilities | (2,774) | (12,547) | – | – | | |
| Total liabilities | (178,137) | (115,320) | (7,131) | – | | |
| Net assets | 88,408 | 78,070 | 27,244 | – | | |
| Proportion of the Group's ownership | 45% | 45% | 50% | – | | |
| Group's share of net assets | 39,784 | 35,132 | 13,622 | – | | |
| Unrealised profit on transactions with joint venture | (14,750) | – | – | – | | |
| Carrying amount of significant joint ventures | 25,034 | 35,132 | 13,622 | – | 38,656 | 35,132 |
| Carrying amount of other joint ventures | | | | | 1,497 | 1,514 |
| **Carrying amount of the investment in joint ventures** | | | | | 40,153 | 36,646 |

## 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 | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue | 271,850 | 114,860 | – | – | | |
| Depreciation and amortisation | (4,252) | (4,580) | (46) | – | | |
| Interest expense | (5,851) | (2,906) | (70) | – | | |
| Profit/(loss) after tax | 11,427 | 940 | (3,464) | – | | |
| Group's share of profit/(loss) | 5,142 | 423 | (1,732) | – | | |
| Unrealised profit on transactions with joint venture | (1,518) | – | – | – | | |
| Group's share of profit/(loss) of significant joint ventures | 3,624 | 423 | (1,732) | – | 1,892 | 423 |
| Group's share of profit/(loss) of other joint ventures* | | | | | 144 | (1,266) |
| **Group's share of profit/(loss) of joint ventures for the year** | | | | | 2,036 | (843) |
| Other comprehensive income of significant joint ventures | – | (1,271) | – | – | – | (1,271) |
| Other comprehensive income of other joint ventures | | | | | – | (931) |
| **Group's share of profit/(loss) for the year representing the Group's share of total comprehensive income for the year** | | | | | 2,036 | (3,045) |

* For 2016, the Group's share of loss of other joint ventures included the share of results of Copthorne Hotel Qingdao Co., Ltd. for the period from 1 January 2016 to 23 February 2016, which was the date that the previously held joint venture was reclassified as asset held for sale (refer to Note 18).

## 10. Investment property

| | Group 2017 | Group 2016 |
|---|---|---|
| | $'000 | $'000 |
| **Cost** | | |
| At 1 January | 6,603 | 6,747 |
| Translation differences | 144 | (144) |
| At 31 December | 6,747 | 6,603 |
| **Accumulated depreciation** | | |
| At 1 January | 5,087 | 5,145 |
| Charge for the year | 51 | 51 |
| Translation differences | 87 | (109) |
| At 31 December | 5,225 | 5,087 |
| **Net carrying amount** | 1,522 | 1,516 |
| **Fair value** | 2,162 | 2,109 |
| **Income statement:** | | |
| Direct operating expenses (including repairs, maintenance and depreciation expense) arising from the rental generating property | (104) | (118) |

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 |
|---|---|---|---|
| 2017 | Market comparison and cost method | Comparable price:<br>- Land: $5 to $7 per square foot<br>- Retail: $72 to $180 per square foot | The estimated fair value increases with higher comparable price |
| 2016 | Market comparison and cost method | Comparable price:<br>- Land: $5 to $7 per square foot<br>- Retail: $70 to $176 per square foot | The estimated fair value increases with higher comparable price |

## 11. Other investments

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'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 company | 5,061 | 2,531 |
| *Available-for-sale financial assets* | | |
| Quoted equity securities | | |
| - other companies | – | 12 |
| | 5,061 | 2,543 |

The quoted equity securities are listed on Singapore Exchange.

## 12. Non-current receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Amounts due from subsidiaries | – | – | 311,643 | 252,118 |
| Amounts due from associate and joint ventures | 127 | 330 | – | – |
| Lease receivables | 1,085 | 2,021 | – | – |
| Retention sums | 7,083 | 3,909 | – | – |
| Others | 80 | 385 | – | – |
| Less: Impairment losses | – | – | (144,800) | (81,000) |
| | 8,375 | 6,645 | 166,843 | 171,118 |

# NOTES TO THE FINANCIAL STATEMENTS

**For the financial year ended 31 December 2017**

## 12. Non-current receivables (cont'd)

**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 relates 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.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Gross lease receivables | Present value of minimum lease payments receivables | Gross lease receivables | Present value of minimum lease payments receivables |
| | $'000 | $'000 | $'000 | $'000 |
| Within 1 year (Note 16) | 1,060 | 998 | 1,761 | 1,699 |
| After 1 year but within 5 years | 1,161 | 1,085 | 2,157 | 2,021 |
| Total gross lease receivables | 2,221 | 2,083 | 3,918 | 3,720 |
| Less: Amounts representing unearned finance income | (138) | – | (198) | – |
| Present value of minimum lease payments receivables | 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.

**Company**

The amounts due from subsidiaries are non-trade in nature, unsecured and non-interest bearing. The settlement of the amounts is neither planned nor likely to occur in the foreseeable future.

During the year ended 31 December 2017, 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 $63,800,000 (2016: $56,000,000) for the year ended 31 December 2017.

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.

## 12. Non-current receivables (cont'd)

**Company (cont'd)**

Consumer products segment

In 2016, 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.

In 2017, in view of the Restructuring Exercise, management has assessed the recoverable amount of this subsidiary against the total debts of the consumer products segments and recognised an impairment loss of $63,800,000 in the Company's income statement for the year ended 31 December 2017. The impairment was made having considered the estimated recovery rate of the receivables by the Company. The estimated recovery rate is based on the net realisable amounts of the underlying assets and liabilities of the Consumer products segment.

Air-conditioning systems segment

In 2017 and 2016, 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 assessment are:

- Discount rate of 15.0% (2016: 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 (2016: 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 (2016: $330,000).

**13. Deferred tax**

Movements in deferred tax assets and liabilities during the year are as follows:

| Group | At 1 January 2017 | Recognised in income statement | Withholding taxes paid on remittance of dividends | Disposal of a subsidiary | Translation differences | At 31 December 2017 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities** | | | | | | |
| Property, plant and equipment | (12,082) | 931 | – | – | (118) | (11,269) |
| Unremitted income | (4,019) | (63) | – | 118 | 2 | (3,962) |
| Withholding tax on dividend income | (19,613) | (5,924) | 6,492 | – | 312 | (18,733) |
| Indefinite life intangible assets | (6,982) | – | – | – | – | (6,982) |
| Other items | (673) | 117 | – | – | 5 | (551) |
| Total | (43,369) | (4,939) | 6,492 | 118 | 201 | (41,497) |
| **Deferred tax assets** | | | | | | |
| Property, plant and equipment | 1,371 | 1,927 | – | – | 7 | 3,305 |
| Inventories | 4,477 | (761) | – | – | (68) | 3,648 |
| Intangible assets | 789 | 304 | – | – | (10) | 1,083 |
| Trade and other receivables | 1,959 | (401) | – | – | (29) | 1,529 |
| Provisions | 33,793 | 5,381 | – | – | (545) | 38,629 |
| Deferred grants | 9,337 | 1,376 | – | – | (130) | 10,583 |
| Other items | 10,637 | (3,894) | – | – | (175) | 6,568 |
| Total | 62,363 | 3,932 | – | – | (950) | 65,345 |

## 13. Deferred tax (cont'd)

Movements in deferred tax assets and liabilities during the year are as follows:

| Group | At 1 January 2016 | Recognised in income statement | Withholding taxes paid on remittance of dividends | Translation differences | At 31 December 2016 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | (14,460) | 2,099 | – | 279 | (12,082) |
| Unremitted income | (3,922) | (106) | – | 9 | (4,019) |
| Withholding tax on dividend income | (22,650) | (3,453) | 5,621 | 869 | (19,613) |
| Indefinite life intangible assets | (8,713) | 1,731 | – | – | (6,982) |
| Other items | (4,391) | 3,579 | – | 139 | (673) |
| Total | (54,136) | 3,850 | 5,621 | 1,296 | (43,369) |
| **Deferred tax assets** | | | | | |
| Property, plant and equipment | 2,143 | (718) | – | (54) | 1,371 |
| Inventories | 5,958 | (1,275) | – | (206) | 4,477 |
| Intangible assets | 1,344 | (505) | – | (50) | 789 |
| Trade and other receivables | 2,704 | (649) | – | (96) | 1,959 |
| Provisions | 57,539 | (21,504) | – | (2,242) | 33,793 |
| Deferred grants | 4,705 | 4,904 | – | (272) | 9,337 |
| Other items | 1,594 | 8,901 | – | 142 | 10,637 |
| Total | 75,987 | (10,846) | – | (2,778) | 62,363 |

The following table represents the classification of the Group's net deferred tax assets:

| | Group 2017 | Group 2016 |
|---|---|---|
| | $'000 | $'000 |
| Deferred tax assets | 65,345 | 62,363 |
| Deferred tax liabilities | (41,497) | (43,369) |
| | 23,848 | 18,994 |

## 13. Deferred tax (cont'd)

Deferred tax assets and liabilities of the Company (prior to offsetting of balances) are attributable to the following:

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| **Deferred tax liabilities** | | |
| Property, plant and equipment | (12) | (15) |
| Unremitted income | (2,103) | (2,034) |
| | (2,115) | (2,049) |
| **Deferred tax assets** | | |
| Provisions | 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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Deferred tax assets | 15 | 12 |
| Deferred tax liabilities | (2,115) | (2,049) |
| | (2,100) | (2,037) |

Deferred tax assets have not been recognised in respect of the following items:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Unutilised tax losses | 641,140 | 619,215 |
| Unutilised capital allowances and investment allowances | 21,968 | 22,189 |
| Other unrecognised temporary differences relating to provisions and deferred grants | 105,204 | 104,884 |
| | 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 years, except for an amount of $23,022,000 (2016: $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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Raw materials and consumables | 298,199 | 239,777 |
| Manufacturing work-in-progress | 18,011 | 11,864 |
| Finished goods | 315,607 | 213,338 |
| Total inventories at the lower of cost and net realisable value | 631,817 | 464,979 |
| Inventories recognised as an expense in cost of sales (Note 25) | 2,636,379 | 2,409,291 |
| Inclusive of the following charge/(credit): | | |
| - Inventory obsolescence | 16,753 | 12,179 |
| - Reversal of inventory obsolescence | (8,523) | (11,789) |

The reversal of inventory obsolescence was made when the related inventories were sold above their carrying value.

## 15. Development properties

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Freehold land | 3,791 | 3,720 |
| Development costs | 11,082 | 10,887 |
| Allowance for anticipated losses | (9,992) | (9,749) |
| | 4,881 | 4,858 |

Movements in the carrying amounts of development properties are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| At 1 January | 4,858 | 4,870 |
| Transfer from property, plant and equipment (Note 3) | – | 74 |
| Sale of development property | (77) | – |
| Translation adjustment | 100 | (86) |
| At 31 December | 4,881 | 4,858 |

No borrowing cost has been capitalised in 2017 and 2016.

## 15. Development properties (cont'd)

The change in allowance for anticipated losses in respect of development properties during the year is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| At 1 January | 9,749 | 9,960 |
| Translation differences | 243 | (211) |
| At 31 December | 9,992 | 9,749 |

## 16. Trade and other receivables

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Trade receivables | 191,314 | 227,083 |
| Bill receivables | 1,422,887 | 1,441,785 |
| Less: Impairment losses | (19,862) | (12,561) |
| Net trade receivables | 1,594,339 | 1,656,307 |
| | | |
| Amounts receivable from: | | |
| - ultimate holding company (non-trade) | 42 | 43 |
| - immediate holding company (non-trade) | 10 | 15 |
| - associates and joint ventures (trade) | 2,699 | 33,810 |
| - associates and joint ventures (non-trade) | 156 | 4,189 |
| - other related corporations (trade) | 7,466 | 1,924 |
| - other related corporations (non-trade) | 1,482 | 59 |
| Advances paid to suppliers | 18,507 | 11,715 |
| Prepaid expenses | 5,241 | 4,458 |
| Refundable deposits | 3,256 | 3,236 |
| Tax recoverable | 53,339 | 34,329 |
| Lease receivables (Note 12) | 998 | 1,699 |
| Other receivables | 28,840 | 30,069 |
| Less: Impairment losses - other receivables | (1,631) | (1,266) |
| Net other receivables | 120,405 | 124,280 |
| | | |
| Total trade and other receivables | 1,714,744 | 1,780,587 |

## 16. Trade and other receivables (cont'd)

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Amounts receivable from: | | |
| - ultimate holding company (non-trade) | 42 | 43 |
| - immediate holding company (non-trade) | 9 | 8 |
| - subsidiaries (non-trade) | 215,971 | 225,707 |
| - other related corporations (non-trade) | 5 | 6 |
| Prepaid expenses | 33 | 49 |
| Refundable deposits | 28 | 28 |
| Total trade and other receivables | 216,088 | 225,841 |

**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 has 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.

Other receivables include an amount of approximately $4,500,000 (2016: $4,566,000) which is currently the subject of litigation, instituted by a PRC-based subsidiary of the Group, against a major bank in the PRC. The legal advice obtained by the subsidiary, from its legal advisors in the PRC, is that this subsidiary has a good legal case against the bank and should be able to recover the entire amount which has been claimed.

Other receivables also include an amount of $5,849,000 relating to money deposited in an escrow account pending finalisation of tax payable for the disposal of LKNII.

**Company**

The non-trade balances due from subsidiaries include loans and advances of $94,768,000 (2016: $104,456,000) which bear interest at rates ranging from 1.67% to 2.71% (2016: 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 2.03% (2016: 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.

## 16. Trade and other receivables (cont'd)

The maximum exposure to credit risk for 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 the reporting date (by business activities) is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Diesel engines | 1,467,297 | 1,517,968 | 1 | 1 |
| Consumer products | 73,889 | 107,347 | 146,298 | 147,455 |
| Building materials | 87,142 | 95,430 | – | – |
| Industrial packaging | 8,229 | 8,991 | – | – |
| Air-conditioning systems | 6,218 | 3,755 | 36,575 | 38,628 |
| Others | 1 | 3 | 199,996 | 210,798 |
| | 1,642,776 | 1,733,494 | 382,870 | 396,882 |

**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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Neither past due nor impaired | 1,547,784 | 1,654,075 | 2,023 | 22,459 |
| Past due but not impaired | | | | |
| - Past due 0 to 30 days | 32,591 | 30,509 | 120 | 139 |
| - Past due 31 to 120 days | 43,001 | 29,956 | 21,331 | 31,322 |
| - Past due 121 days to one year | 3,817 | 4,752 | 42,745 | 68,337 |
| - More than one year | 15,583 | 14,202 | 316,651 | 274,625 |
| Impaired | 21,493 | 13,827 | 144,800 | 81,000 |
| | 1,664,269 | 1,747,321 | 527,670 | 477,882 |

## 16. Trade and other receivables (cont'd)

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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| At 1 January | 13,827 | 19,539 | 81,000 | 25,000 |
| Impairment losses made | 10,029 | 842 | 63,800 | 56,000 |
| Amounts written off | (2,205) | (5,911) | – | – |
| Translation differences | (158) | (643) | – | – |
| At 31 December | 21,493 | 13,827 | 144,800 | 81,000 |

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.

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 $27,420,000 (2016: $23,258,000) for certain trade receivables. These guarantees included cash collateral held from certain customers of $6,502,000 (2016 $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 2017, outstanding bills receivables endorsed to suppliers with recourse obligation were $303,740,000 (2016: $215,724,000).

As at 31 December 2017, outstanding bills receivables discounted during the year with banks for which the Group retained a recourse obligation amounted to $308,993,000 (2016: $179,733,000).

<u>Receivables subject to offsetting arrangements</u>

The Group and Company had certain counterparties with receivables and payables that are off-set as follows:

| | **Gross carrying amounts** | **Gross amounts offset in the balance sheet** | **Net amounts in the balance sheet** |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Company** | | | |
| **2017** | | | |
| **Current** | | | |
| Amounts due from subsidiaries | 94,174 | (181) | 93,993 |
| Amounts due to subsidiaries | (181) | 181 | – |
| **2016** | | | |
| **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** | | | |
| **2017** | | | |
| Trade and other receivables | 13,462 | (2,422) | 11,040 |
| Trade and other payables | (3,722) | 2,422 | (1,300) |
| **2016** | | | |
| 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Short-term fixed deposits | 347,910 | 314,334 | 17,814 | 1,500 |
| Cash at banks and in hand | 1,016,024 | 719,364 | 1,347 | 982 |
| | 1,363,934 | 1,033,698 | 19,161 | 2,482 |
| Long-term fixed deposits | 14,336 | – | – | – |
| | 1,378,270 | 1,033,698 | 19,161 | 2,482 |
| Long-term fixed deposits | (14,336) | – | | |
| Bank overdraft (Note 21) | – | (387) | | |
| Short-term deposits* | (85,560) | (75,571) | | |
| Restricted deposits | (16,270) | (12,569) | | |
| Cash and cash equivalents in the cash flow statement | 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.

## 17. Cash, short-term deposits and long-term deposits (cont'd)

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 three 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | % | % | % | % |
| Fixed deposits | 1.66 | 2.15 | 1.18 | 0.60 |

Interest rates will be repriced within 12 months.

## 18. Assets of disposal group classified as held for sale

On 23 February 2016, LKNII, together with its joint venture partner of Copthorne Hotel Qingdao Co., Ltd. ("CHQ"), CAAC East China Regional Administration Authority Service Centre, listed the entire equity interest in CHQ on the Shanghai United Assets and Equity Exchange ("SUAEE") for sale.

As a result, the investment in CHQ was reclassified as asset held for sale and the Group discontinued the use of equity method to recognise the interest in CHQ. Consequently, the Group only shared the loss incurred by CHQ up to 23 February 2016.

The asset classified as held for sale and the related reserves as at 31 December 2016 are as follows:

| | **2016** |
|---|---|
| | $'000 |
| **Assets:** | |
| Interests in joint ventures, representing assets of disposal group classified as held for sale | 18,397 |
| **Reserve:** | |
| Translation reserve | 4,685 |

On 19 October 2017, LKNII has completed the sale of its 60% equity interest in CHQ and recognised gain on disposal of $22,213,000 in the Group's income statement for the year ended 31 December 2017.

## 18. Assets of disposal group classified as held for sale (cont'd)

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** | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **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 and 31 December | 373,908 | 266,830 | 373,908 | 266,830 |

During the year, 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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Capital reserve | 4,391 | 4,442 | 9,199 | 9,199 |
| Statutory reserve | 33,753 | 33,369 | – | – |
| Fair value reserve | 45,859 | 45,246 | – | – |
| Share option reserve | 5,243 | 4,231 | 2,467 | 2,467 |
| Translation reserve | (60,354) | (51,741) | – | – |
| Surplus on changes of non-controlling interests | 35,397 | 34,775 | – | – |
| Accumulated profits/(losses) | 286,025 | 356,599 | (55,562) | 8,516 |
| | 350,314 | 426,921 | (43,896) | 20,182 |

(a) Capital reserve comprises:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Merger reserve | 392 | 392 | – | – |
| Business participation fee and realised capital gain on disposal of investments | 3,046 | 3,046 | 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) | – | – |
| Others | 12,333 | 12,384 | – | – |
| | 4,391 | 4,442 | 9,199 | 9,199 |

The merger reserve relates to reserve arising from certain acquisitions accounted for under the pooling of interests method.

(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% (2016: 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 available-for-sale investments until the investment is derecognised 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.

## 20. Reserves (cont'd)

(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 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| **Current liabilities** | | | | |
| Unsecured bank overdraft | – | 387 | – | – |
| Unsecured bank loans | 665,821 | 523,815 | 175,075 | 182,142 |
| Secured bank loans | 10,883 | 11,979 | – | – |
| Obligations under finance leases (Note 32) | 1,005 | 1,707 | – | – |
| | 677,709 | 537,888 | 175,075 | 182,142 |
| **Non-current liabilities** | | | | |
| Unsecured bank loans | 203,000 | 140,000 | 200,000 | 140,000 |
| Secured bank loans | 13,607 | 24,974 | – | – |
| Obligations under finance leases (Note 32) | 1,094 | 2,036 | – | – |
| | 217,701 | 167,010 | 200,000 | 140,000 |
| Total loans and borrowings | 895,410 | 704,898 | 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% (2016: 1.33%) per annum.

The secured bank loans are secured on assets with the following carrying values:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Property, plant and equipment (Note 3) | 16,958 | 17,560 |
| Land use rights (Note 4) | – | 14,758 |
| Investment in a subsidiary | 34,235 | 33,456 |

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 2017 and 2016.

## 21. Loans and borrowings (cont'd)

Terms and conditions of outstanding loans and borrowings are as follows:

| | 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)

| | 2016 | | |
|---|---|---|---|
| **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:

| | 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.

The following are the expected contractual undiscounted cash outflows of financial liabilities, including interest payments and excluding the impact of netting agreements:

| | | | Cash flows | | |
|---|---|---|---|---|---|
| **Group** | **Carrying amount** | **Contractual cash flows** | **Within 1 year** | **1 to 5 years** | **More than 5 years** |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **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* | 1,779,641 | 1,779,641 | 1,779,641 | – | – |
| Non-current payables* | 30,369 | 30,369 | – | 30,369 | – |
| | 2,705,420 | 2,739,319 | 2,483,993 | 255,326 | – |
| **2016** | | | | | |
| 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* | 1,664,325 | 1,664,325 | 1,664,325 | – | – |
| Non-current payables* | 27,830 | 27,830 | – | 27,830 | – |
| | 2,397,053 | 2,422,522 | 2,221,224 | 201,298 | – |

* Excludes advances from customers and deferred income.

## 21. Loans and borrowings (cont'd)

| Company | Carrying amount | Contractual cash flows | Cash flows Within 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **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 | – |
| **2016** | | | | | |
| 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 2017 | Group 2016 | Company 2017 | Company 2016 |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 1,234,495 | 1,150,856 | – | – |
| Accrued expenses | 428,996 | 405,768 | 3,560 | 2,481 |
| Other payables (i) | 52,745 | 49,870 | 12,713 | 35 |
| Deferred grants | 4,637 | 4,641 | – | – |
| Deferred income (ii) | – | 35,326 | – | – |
| Advances from customers | 37,284 | 32,077 | – | – |
| Amounts due to: | | | | |
| - immediate holding company (non-trade) | 100 | 100 | – | – |
| - subsidiaries (trade) | – | – | 302 | 401 |
| - subsidiaries (non-trade) | – | – | 2,290 | 2,284 |
| - associates and joint ventures (trade) | 29,962 | 27,863 | – | – |
| - associates and joint ventures (non-trade) | 2,873 | 94 | – | – |
| - other related corporations (trade) | 19,371 | 23,494 | – | – |
| - other related corporations (non-trade) | 6,462 | 1,639 | – | – |
| Total trade and other payables (current) | 1,816,925 | 1,731,728 | 18,865 | 5,201 |

(i) As at 31 December 2017, other payables for the Company included an obligation to a bank on behalf of a subsidiary pursuant to a guarantee arrangement, in view of the restructuring of the consumer products segment.

(ii) As at 31 December 2016, deferred income pertained to a subsidiary's transfer of technology know-how to its joint venture for which the revenue has not been recognised. In 2017, the transfer was completed and the revenue was recognised.

## 22. Trade and other payables (cont'd)

| | Group 2017 | Group 2016 |
|---|---|---|
| | $'000 | $'000 |
| Provision for bonus | 30,369 | 27,830 |
| Deferred income | 1,650 | 590 |
| Other payables (non-current) | 32,019 | 28,420 |

Trade payables / other payables

Current trade and other payables are normally settled on agreed credit terms ranging from 7-day to 90-day 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.

## 23. Provisions

| Group | Claims and restoration costs | Warranties | Onerous contracts | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2016 | 10,878 | 59,185 | – | 70,063 |
| Provision made | 7,850 | 82,176 | 1,105 | 91,131 |
| Provision utilised | (4,131) | (81,126) | – | (85,257) |
| Provision reversed | (4,177) | – | – | (4,177) |
| Translation differences | (14) | (2,087) | – | (2,101) |
| At 31 December 2016 and 1 January 2017 | 10,406 | 58,148 | 1,105 | 69,659 |
| Provision made | 318 | 89,715 | 1,246 | 91,279 |
| Provision utilised | (2,179) | (80,277) | – | (82,456) |
| Provision reversed | (3,975) | (151) | (372) | (4,498) |
| Translation differences | 13 | (809) | – | (796) |
| At 31 December 2017 | 4,583 | 66,626 | 1,979 | 73,188 |

## 23. Provisions (cont'd)

Claims and restoration costs

The provision for claims consists of:

(a) 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.

(b) Provision for steel price fluctuation based on the supply and delivery contracts signed between a subsidiary and its customers. A provision is recognised when there is a decline in steel price indices. The provision is deducted against revenue.

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Sale of goods | 3,998,746 | 3,701,663 |
| Services rendered | 26,121 | 22,960 |
| Sale of development properties | 145 | – |
| Rental income | 1,658 | 136 |
| | 4,026,670 | 3,724,759 |

## 25. Profit before income tax

Profit before income tax includes the following:

| | Note | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|---|
| Impairment losses recognised for trade and other receivables | 16 | 10,029 | 842 |
| Inventories recognised as an expense in cost of sales | 14 | 2,636,379 | 2,409,291 |
| Amortisation of intangible assets | 5 | 1,064 | 742 |
| Depreciation of property, plant and equipment | 3 | 125,427 | 132,042 |
| Depreciation of investment property | 10 | 51 | 51 |
| Amortisation of land use rights | 4 | 3,235 | 3,538 |
| Property, plant and equipment written off | 3 | 1,246 | 339 |
| Audit fees paid/payable: | | | |
| - auditors of the Company | | 1,309 | 1,394 |
| - other auditors | | 1,442 | 1,564 |
| Non-audit fees paid/payable to: | | | |
| - auditors of the Company | | 66 | 131 |
| - other auditors | | 287 | 369 |
| Exchange (gain)/loss, net | | (4,056) | 3,309 |
| Fair value (gain)/loss on investments | | (2,602) | 51 |
| Fair value loss on derivatives | | – | 95 |
| Operating lease expense | | 15,639 | 16,533 |
| (Gain)/loss on disposal of property, plant and equipment | | (2,266) | 3,292 |
| Gain on disposal of intangible asset | | (23,521) | – |
| 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 | 23 | 86,781 | 86,954 |
| Allowance for inventory obsolescence, net | 14 | 8,230 | 390 |
| Impairment losses on property, plant and equipment | 3 | 13,069 | 4,392 |
| Impairment losses on intangible assets | 5 | 8,485 | 13,366 |
| Dividend income from other investments | | (560) | (240) |
| Interest income: | | | |
| - cash and short-term deposits | | (24,432) | (15,775) |
| - joint ventures | | (67) | (88) |
| - other related corporations | | (33) | (208) |
| Sale of scrap | | (1,356) | (1,028) |
| Government grant | | (7,008) | (8,928) |

## 26. Finance costs

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Bank term loans | 29,562 | 21,173 |
| Bank overdrafts | 38 | 21 |
| Finance lease | 1 | 1 |
| Fixed interest rate bonds | – | 5,720 |
| Bills and other discounting | 10,414 | 6,367 |
| Bank charges | 1,142 | 1,258 |
| Facilities fees | 395 | 200 |
| | 41,552 | 34,740 |

## 27. Employee benefits

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Wages and salaries | 363,632 | 298,250 |
| Cost of share-based payments | 326 | 1,107 |
| Contributions to defined contribution plans | 64,237 | 67,898 |
| | 428,195 | 367,255 |

## 28. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| **Consolidated income statement:** | | |
| ***Current tax charge*** | | |
| - Current year | 42,784 | 31,810 |
| - Under/(over) provision in respect of prior years | 2,406 | (284) |
| | 45,190 | 31,526 |

## 28. Income tax expense (cont'd)

Major components of income tax expense (cont'd)

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| ***Deferred tax expense*** | | |
| - Movements in temporary differences | (4,990) | 3,737 |
| - Under/(over) provision in respect of prior years | 73 | (194) |
| | (4,917) | 3,543 |
| ***Withholding tax expense*** | 5,924 | 3,453 |
| Income tax expense recognised in profit or loss | 46,197 | 38,522 |

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 2017 and 2016 are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Profit before income tax | 172,283 | 61,351 |
| Income tax using the PRC tax rate of 25% (2016: 25%) | 43,071 | 15,338 |
| Adjustments: | | |
| Effect of different tax rates in other countries | (440) | 1,895 |
| Effect of tax concessions | (21,754) | (14,836) |
| Non-deductible expenses | 6,546 | 6,518 |
| Tax-exempt income | (12,082) | (27) |
| Utilisation of deferred tax benefits previously not recognised | (3,945) | (710) |
| Deferred tax benefits not recognised | 34,229 | 34,206 |
| Tax credits for research and development expense | (7,027) | (7,151) |
| Under/(over) provision in respect of prior years: | | |
| - current | 2,406 | (284) |
| - deferred | 73 | (194) |
| Withholding tax expense | 5,924 | 3,453 |
| Others | (804) | 314 |
| | 46,197 | 38,522 |

## 28. Income tax expense (cont'd)

Relationship between tax expense and accounting profit (cont'd)

Certain of the Group's subsidiaries in the PRC have been granted concessionary tax rate under the Corporate Income Tax 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% (2016: 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 2017, the amount of deferred tax liability recognised in respect of withholding tax payable was $18,733,000 (2016: $19,613,000). The amount of unrecognised deferred tax liability relating to undistributed earnings of the PRC enterprises is estimated to be $46,962,000 (2016: $44,090,000).

## 29. Loss per share

***Basic loss per share***

The calculation of basic loss per share is based on:

| | | Group | |
|---|---|---|---|
| | | **2017** | **2016** |
| | | $'000 | $'000 |
| (i) | Net loss attributable to owners of the Company | (66,451) | (71,246) |

| | | **2017** | **2016** |
|---|---|---|---|
| | | No. of shares | No. of shares |
| (ii) | Number of issued ordinary shares at beginning and end of the year | 373,908,559 | 373,908,559 |

## 29. Loss per share (cont'd)

***Diluted loss 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 | |
|---|---|---|
| | **2017** | **2016** |
| | No. of shares | No. of shares |
| Weighted average number of shares issued, used in the calculation of basic loss per share | 373,908,559 | 373,908,559 |
| Dilutive effect of share options | – | – |
| Weighted average number of ordinary shares (diluted) | 373,908,559 | 373,908,559 |

1,290,000 (2016: 1,340,000) 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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| First and final tax exempt dividend paid of 1 cent per share in respect of year 2016 (2016: 1 cent per share in respect of year 2015) | 3,739 | 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 Huay Lim
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 2017 | Options granted during the year | Options exercised during the year | Options cancelled/ lapsed during the year |
|---|---|---|---|---|---|
| 15/5/2008 | $2.36 | 470,000* | – | – | – |
| 5/1/2011 | $3.17 | 380,000 | – | – | – |
| 28/1/2014 | $1.31 | 490,000 | – | – | (50,000) |
| Total | | 1,340,000 | – | – | (50,000) |

* Includes 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 is not material.

| Number of options outstanding at 31 December 2017 | Number of options exercisable at 1 January 2017 | Number of options exercisable at 31 December 2017 | Proceeds on options exercised during the year credited to share capital | Market price of Shares at exercise date of option | Exercise period |
|---|---|---|---|---|---|
| 470,000* | 470,000* | 470,000* | – | – | 15/5/2009 to 14/5/2018 |
| 380,000 | 380,000 | 380,000 | – | – | 5/1/2012 to 4/1/2021 |
| 440,000 | 323,400 | 440,000 | – | – | 28/1/2015 to 27/1/2024 |
| 1,290,000 | 1,173,400 | 1,290,000 | – | | |

## 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 (2016: $1.31 to $3.17). The weighted average remaining contractual life for these options is 3.09 years (2016: 4.31 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.

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 2017 | Options granted | Options exercised | Options cancelled/ lapsed | Balance at 31 December 2017 | Exercise Period |
|---|---|---|---|---|---|---|---|
| 29/7/2014 | US$21.11 | 530,000 | – | (46,400) | (13,600) | 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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Capital commitments in respect of property, plant and equipment | 87,165 | 98,757 |

***Operating lease commitments as lessee***

At 31 December, commitments for future minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | $'000 | $'000 | $'000 | $'000 |
| Within 1 year | 9,384 | 9,587 | 352 | 594 |
| After 1 year but within 5 years | 7,133 | 9,935 | – | 352 |
| After 5 years | 1,256 | 1,569 | – | – |
| | 17,773 | 21,091 | 352 | 946 |

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% (2016: 5.5%) on an annualised basis, provided that any rent after such increase shall not exceed the prevailing market rent. The leases expire between 2018 and 2025 (2016: 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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Within 1 year | 278 | 284 |
| After 1 year but within 5 years | 528 | 64 |
| After 5 years | 268 | – |
| | 1,074 | 348 |

## 32. Commitments (cont'd)

***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 | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
| | $'000 | $'000 | $'000 | $'000 |
| Within 1 year | 1,063 | 1,005 | 1,770 | 1,707 |
| After 1 year but within 5 years | 1,174 | 1,094 | 2,172 | 2,036 |
| Total minimum lease payments | 2,237 | 2,099 | 3,942 | 3,743 |
| Less: Amounts representing finance charges | (138) | – | (199) | – |
| Present value of minimum lease payments | 2,099 | 2,099 | 3,743 | 3,743 |

## 33. Related party transactions

### *(a) Compensation of key management personnel*

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Short-term employee benefits | 11,428 | 9,940 |
| Defined contribution plans | 149 | 148 |
| Share-based payments | – | 9 |
| | 11,577 | 10,097 |

Directors' remuneration included in key management personnel compensation amounted to $2,443,000 (2016: $2,451,000).

**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 (2016: no options). All Options are subject to a vesting schedule.

As at the end of the year, 1,070,000 (2016: 1,070,000) Options granted to key management personnel were outstanding, of which 970,000 (2016: 970,000) were Options granted to the Executive Directors of the Company.

## 33. Related party transactions (cont'd)

### *(a) Compensation of key management personnel (cont'd)*

**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 2017 and 2016, 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 (2016: 430,000) options granted to key management personnel were outstanding. These options are subject to a vesting period.

### *(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 $485,890 (2016: $88,733). No balance was outstanding at the balance sheet date (2016: 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 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| *Sale of engines and materials* | | |
| - associates and joint ventures | 84,217 | 45,565 |
| - related corporations | 94,872 | 92,802 |
| *Purchase of materials, supplies and engines* | | |
| - associates and joint ventures | 229,756 | 58,565 |
| - related corporations | 250,067 | 213,368 |
| *Management services income* | | |
| - an associate | 444 | 444 |
| *Management services paid and payable* | | |
| - related corporations | 726 | 892 |
| *Rental paid and payable (include general expenses)* | | |
| - immediate holding company | 484 | 484 |
| *General and administrative expenses* | | |
| - joint ventures | 519 | 440 |
| - related corporations | 12,387 | 10,366 |
| *Delivery, storage, distribution and handling expenses* | | |
| - related corporations | 42,948 | 40,077 |
| *Hospitality, restaurant and consultancy service income* | | |
| - a joint venture | 2,907 | – |
| - related corporations | 5,251 | 2,827 |

## 33. Related party transactions (cont'd)

### *(b) Sale and purchase of goods and services (cont'd)*

Significant transactions with related parties made at terms agreed between the parties, other than those disclosed elsewhere in the financial statements, are as follows (cont'd):

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| *Rental income* | | |
| - related corporations | 915 | 1,131 |
| *Purchase of vehicles and machineries* | | |
| - related corporations | 10,705 | – |
| *Sale of intangible asset* | | |
| - a joint venture | 44,906 | – |

### *(c) Outstanding balances with a related party*

As at 31 December 2017, there is no fixed deposits held with a related party (2016: $4,500,000).

## 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 and the Company establish an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group and the Company are satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Cash and short-term deposits are placed with banks and financial institutions which are regulated.

## 34. Financial risk management objectives and policies (cont'd)

### *(a) Credit risk (cont'd)*

As at 31 December 2017 and 31 December 2016, 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.

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 2017 | | |
| Floating rate instruments | (4,617) | 4,617 |
| 31 December 2016 | | |
| Floating rate instruments | (3,008) | 3,008 |
| **Company** | | |
| 31 December 2017 | | |
| Floating rate instruments | (3,573) | 3,573 |
| 31 December 2016 | | |
| Floating rate instruments | (3,206) | 3,206 |

## 34. Financial risk management objectives and policies (cont'd)

### *(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.

### *(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.

## 34. Financial risk management objectives and policies (cont'd)

### *(d) Foreign currency risk (cont'd)*

The Group's and the Company's financial assets and liabilities balances that have exposures to foreign currencies are as follows:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| **Group** | **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 | 183,588 | 69,912 | – | 1,407 | 435 |
| Cash and bank balances | 87,776 | 513 | 7,671 | 118 | 1,087 | – |
| Loans and borrowings | (53,012) | (64,205) | – | – | – | – |
| Trade and other payables | (63,166) | (8,045) | (28,732) | (8,949) | (2,282) | (1,047) |
| | (22,069) | 111,851 | 48,851 | (8,831) | 212 | (612) |
| Add/(less): Loan payables/(receivables) forming part of net investment in foreign entities | 44,971 | (182,595) | – | – | – | – |
| | 22,902 | (70,744) | 48,851 | (8,831) | 212 | (612) |

## 34. Financial risk management objectives and policies (cont'd)

### *(d) Foreign currency risk (cont'd)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| **Group** | **Singapore Dollar** | **Chinese Renminbi** | **United States Dollar** | **Ringgit Malaysia** | **Euro** | **Hong Kong Dollar** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Other investments | 2,531 | – | – | – | – | – |
| Trade and other receivables | 428 | 185,170 | 78,194 | – | 2,517 | 485 |
| Cash and bank balances | 28,183 | 526 | 3,984 | 161 | 92 | – |
| Loans and borrowings | (57,014) | (31,170) | (63,527) | – | – | – |
| Trade and other payables | (62,710) | (753) | (31,611) | (7,863) | (2,465) | (1,115) |
| | (88,582) | 153,773 | (12,960) | (7,702) | 144 | (630) |
| Add/(less): Loan payables/ (receivables) forming part of net investment in foreign entities | 44,971 | (177,707) | – | – | – | – |
| | (43,611) | (23,934) | (12,960) | (7,702) | 144 | (630) |

| | 2017 | | 2016 | |
|---|---|---|---|---|
| **Company** | **Chinese Renminbi** | **United States Dollar** | **Chinese Renminbi** | **United States Dollar** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade and other receivables | – | 61,565 | – | 74,625 |
| Cash and bank balances | 57 | 3,078 | 75 | 7 |
| Loans and borrowings | (64,205) | – | (31,170) | (41,905) |
| | (64,148) | 64,643 | (31,095) | 32,727 |

## 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 | |
|---|---|---|
| **Group** | **2017** | **2016** |
| | $'000 | $'000 |
| Singapore Dollar | 2,290 | (4,361) |
| Chinese Renminbi | (7,074) | (2,393) |
| United States Dollar | 4,885 | (1,296) |
| Ringgit Malaysia | (883) | (770) |
| Euro | 21 | 14 |
| Hong Kong Dollar | (61) | (63) |
| **Company** | | |
| Chinese Renminbi | (6,415) | (3,110) |
| United States Dollar | 6,464 | 3,273 |

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 and liabilities measured at fair value at the end of the reporting period:

| | Group | | | |
|---|---|---|---|---|
| **2017** | **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 | 10,263 | – | – | 10,263 |
| **At 31 December 2017** | 10,263 | – | – | 10,263 |
| **2016** | | | | |
| **Financial assets** | | | | |
| Other investments | 3,977 | – | – | 3,977 |
| **At 31 December 2016** | 3,977 | – | – | 3,977 |
| **Financial liabilities** | | | | |
| Derivatives | – | (29) | – | (29) |
| **At 31 December 2016** | – | (29) | – | (29) |

### *(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 31 December 2016, the carrying amount of this financial liability is $29,000. The contract has been fully settled in 2017.

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.

## 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*

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:

***Classification of financial instruments***

| **Group** | **Loans and receivables** | **Fair value through profit or loss** | **Available for sale** | **Liabilities at amortised cost** | **Total** |
|---|---|---|---|---|---|
| **2017** | $'000 | $'000 | $'000 | $'000 | $'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 | – | – | – | 428,996 | 428,996 |
| Other payables | – | – | – | 52,745 | 52,745 |
| Due to related corporations | – | – | – | 58,768 | 58,768 |
| Loans and borrowings | – | – | – | 895,410 | 895,410 |
| Provision for bonus | – | – | – | 30,369 | 30,369 |
| | – | – | – | 2,700,783 | 2,700,783 |

## 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<br>2016 | Loans and receivables<br>$'000 | Fair value through profit or loss<br>$'000 | Available for sale<br>$'000 | Liabilities at amortised cost<br>$'000 | Total<br>$'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 | 40,040 | – | – | – | 40,040 |
| 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 |
| | 2,770,428 | 2,531 | 1,446 | – | 2,774,405 |
| **Liabilities** | | | | | |
| Trade payables | – | – | – | 1,150,856 | 1,150,856 |
| Accrued expenses | – | – | – | 405,768 | 405,768 |
| Other payables | – | – | – | 49,870 | 49,870 |
| Due to related corporations | – | – | – | 53,190 | 53,190 |
| Loans and borrowings | – | – | – | 704,898 | 704,898 |
| Derivatives | – | 29 | – | – | 29 |
| Provision for bonus | – | – | – | 27,830 | 27,830 |
| | – | 29 | – | 2,392,412 | 2,392,441 |

## 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<br>2017 | Loans and receivables<br>$'000 | Fair value through profit or loss<br>$'000 | Available for sale<br>$'000 | Liabilities at amortised cost<br>$'000 | Total<br>$'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<br>2016 | Loans and receivables<br>$'000 | Fair value through profit or loss<br>$'000 | Available for sale<br>$'000 | Liabilities at amortised cost<br>$'000 | Total<br>$'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 2017 and 2016.

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 2017 and 2016.

There were no changes in the Group's approach to capital management during the year.

| | **Group** | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| Loans and borrowings (current and non-current) | 895,410 | 704,898 |
| Trade and other payables (current and non-current) | 1,848,944 | 1,760,148 |
| Less: Cash and deposits | (1,378,270) | (1,033,698) |
| Net debt | 1,366,084 | 1,431,348 |
| Equity attributable to the owners of the Company | 617,144 | 698,436 |
| Less: Fair value reserve | (45,859) | (45,246) |
| Statutory reserve | (33,753) | (33,369) |
| Total capital | 537,532 | 619,821 |
| **Capital and net debt** | 1,903,616 | 2,051,169 |

## 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: 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 2017 or 2016.

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)***

| 2017 | Diesel engines $'000 | Consumer products $'000 |
|---|---|---|
| Total external revenue | 3,299,601 | 276,567 |
| Interest income | 21,213 | 29 |
| Interest expense | (18,789) | (4,953) |
| Depreciation and amortisation | (91,083) | (10,583) |
| Reportable segment profit/(loss) before income tax | 242,612 | (120,722) |
| Share of profit/(loss) of associates and joint ventures, net of income tax | 1,889 | – |
| Reportable segment profit/(loss) after income tax | 197,766 | (120,722) |
| **Other material non-cash items:** | | |
| - Impairment losses recognised on property, plant and equipment and intangible assets | 12,420 | 9,134 |
| - Claims and restoration costs, net | – | – |
| - Warranties | 84,201 | 5,049 |
| - Onerous contract | – | – |
| **Assets and liabilities** | | |
| Reportable segment assets | 4,171,342 | 242,111 |
| Investment in associates and joint ventures | 40,012 | – |
| Capital expenditure ^ | 53,159 | 5,950 |
| Reportable segment liabilities | 2,041,620 | 658,973 |

| | Building materials | Industrial packaging | Air-conditioning systems | Corporate and Others* | Adjustments | Consolidated total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | 379,363 | 40,542 | 18,922 | 11,675 | – | 4,026,670 |
| | 2,483 | 32 | 28 | 2,830 | (2,083) | 24,532 |
| | (154) | (1,250) | (1,667) | (15,680) | 2,083 | (40,410) |
| | (22,393) | (2,134) | (1,564) | (2,020) | – | (129,777) |
| | (6,327) | (3,971) | (3,913) | 64,604 | – | 172,283 |
| | (486) | – | – | 163 | – | 1,566 |
| | (5,833) | (3,978) | (3,913) | 62,766 | – | 126,086 |
| | – | – | – | – | – | 21,554 |
| | (3,657) | – | – | – | – | (3,657) |
| | – | 13 | 301 | – | – | 89,564 |
| | 874 | – | – | – | – | 874 |
| | 331,465 | 48,699 | 54,865 | 1,266,656 | (1,113,082) | 5,002,056 |
| | 46,587 | – | – | 597 | – | 87,196 |
| | 12,796 | 522 | 1,000 | 236 | – | 73,663 |
| | 86,956 | 53,278 | 122,870 | 663,861 | (685,095) | 2,942,463 |

## 37. Segment information (cont'd)

***Reportable segments (cont'd)***

| **2016** | **Diesel engines** $'000 | **Consumer products** $'000 |
|---|---|---|
| Total external revenue | 2,819,986 | 370,632 |
| Interest income | 11,512 | 287 |
| Interest expense | (13,977) | (7,999) |
| Depreciation and amortisation | (97,856) | (9,273) |
| Reportable segment profit/(loss) before income tax | 182,962 | (130,529) |
| Share of (loss)/profit of associates and joint ventures, net of income tax | (51) | – |
| Reportable segment profit/(loss) after income tax | 150,199 | (128,470) |
| **Other material non-cash items:** | | |
| - Impairment losses recognised on property, plant and equipment and intangible assets | 684 | 11,541 |
| - Claims and restoration costs, net | – | – |
| - Warranties | 72,748 | 9,227 |
| - Onerous contract | – | – |
| **Assets and liabilities** | | |
| Reportable segment assets | 3,758,225 | 327,317 |
| Investment in associates and joint ventures | 36,820 | – |
| Capital expenditure ^ | 58,562 | 3,002 |
| Reportable segment liabilities | 1,712,617 | 621,769 |

* Others include hospitality and property development.

^ Capital expenditure consists of additions of property, plant and equipment and intangible assets.

| Building materials $'000 | Industrial packaging $'000 | Air-conditioning systems $'000 | Corporate and Others* $'000 | Adjustments $'000 | Consolidated total $'000 |
|---|---|---|---|---|---|
| 463,274 | 38,770 | 18,337 | 13,760 | – | 3,724,759 |
| 3,501 | 81 | 42 | 2,297 | (1,649) | 16,071 |
| (131) | (1,318) | (1,435) | (10,271) | 1,649 | (33,482) |
| (22,654) | (2,311) | (1,960) | (2,319) | – | (136,373) |
| 41,003 | (5,828) | (11,098) | (15,159) | – | 61,351 |
| 2,656 | – | – | (698) | – | 1,907 |
| 33,863 | (5,811) | (11,098) | (15,854) | – | 22,829 |
| – | – | 5,533 | – | – | 17,758 |
| 3,673 | – | – | – | – | 3,673 |
| – | – | 201 | – | – | 82,176 |
| 1,105 | – | – | – | – | 1,105 |
| 381,141 | 55,438 | 52,336 | 1,151,847 | (1,036,171) | 4,690,133 |
| 47,542 | – | – | 623 | – | 84,985 |
| 11,968 | 521 | 462 | 688 | – | 75,203 |
| 93,992 | 55,540 | 116,210 | 692,370 | (634,734) | 2,657,764 |

## 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 |
| **2017** | | | | | |
| Total revenue from external customers | 3,599,769 | 185,984 | 210,689 | 30,228 | 4,026,670 |
| Non-current assets # | 1,008,226 | 24,870 | 155,259 | 6 | 1,188,361 |
| **2016** | | | | | |
| Total revenue from external customers | 3,203,089 | 235,803 | 245,442 | 40,425 | 3,724,759 |
| Non-current assets # | 1,124,270 | 27,994 | 162,365 | – | 1,314,629 |

# Exclude interests in associates and joint ventures, other investments, 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 $987,848,000 (2016: $741,113,000).

## 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.

### (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 bills receivable*

The Group sells bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions and judgement relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognised, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 16 to the financial statements.

### (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.

## 38. Significant accounting judgements and estimates (cont'd)

### (b) Key sources of estimation uncertainty (cont'd)

#### *(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.

Further impairment assessment was made with respect to the restructuring of the consumer products segment. For property, plant and equipment, the key assumptions used by management in the fair value computation include the market value of comparable transactions and listings, estimation of certain amount of physical deterioration and relevant forms of obsolescence and optimisation. For intangible asset, the key assumptions used by management in the fair value computation include economic conditions, royalty rates, projections of sales growth rates and discount rates.

Management used external specialists to support the recoverable amounts of its property, plant and equipment and intangible asset, which mainly consists of 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.

#### *(ii) Impairment of loans and receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

Further impairment was made with respect to the restructuring of the consumer products segment. Management made estimation of future cash collection, in light of the restructuring exercise.

The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 35 to the financial statements.

## 38. Significant accounting judgements and estimates (cont'd)

### (b) Key sources of estimation uncertainty (cont'd)

#### *(iii) 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.

Further impairment was made with respect to the restructuring of the consumer products segment. Management made further assessment in determining the allowance for inventory obsolescence in view of the effect of the restructuring exercise on the net realisable values of the inventories.

The amounts of allowance recognised are disclosed in Note 14 to the financial statements.

#### *(iv) Provisions*

Estimates of the Group's obligations arising from contracts that exist as at balance sheet date may be affected by future events, which cannot be predicted with any certainty. The assumptions and estimates are made based on the management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates. Where settlement of the obligations are expected to be more than 12 months, the financial effect of discounting the obligations is not expected to be material.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are only disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. The amounts of provision made as of 31 December are disclosed in Note 23 to the financial statements.

#### *(v) Withholding tax provision*

The China's Unified Enterprise Income Tax 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. The amounts of deferred tax liability as at 31 December are disclosed in Note 13 to the financial statements.

## 38. Significant accounting judgements and estimates (cont'd)

### (b) Key sources of estimation uncertainty (cont'd)

#### *(vi) Restructuring exercise of the consumer products segment*

In October 2017, the Group announced that its consumer products segment will undertake a restructuring exercise, which involves the cessation of its manufacturing and production activities alongside the exploration of strategic participation with potential partners. Arising from this restructuring, the Group has recorded certain write downs of assets to their recoverable amounts as at 31 December 2017. Key assumptions and estimates involved in the assessment of impairment and provisions of assets relating to the segment are detailed above in Note 38(b)(i), (ii) and (iii).

## 39. Events occurring after the reporting period

On 19 January 2018, subsequent to the approval of the Restructuring Exercise, the Xinxiang Intermediate Court held a first creditors' meeting. King & Wood Mallesons (Beijing) ("KWN"), the administrator for the Restructuring Exercise, provided an interim update as follows:

(a) It will carry out its responsibility for the Restructuring Exercise independently in accordance with the provisions of the relevant law in China. It will supervise the operations of the consumer products segment with the support of the management.

(b) KWN, with the support from the management, has worked on collections of accounts receivables, sale of inventories, stabilisation of the sales network, conduct of audit and valuation so as to protect the assets and brand equity of the consumer products segment.

(c) It has started the solicitation of potential partners/investors for the Restructuring Exercise. As at 18 January 2018, KWN has received proposals from 10 potential interested partners/investors and will evaluate their proposals fairly and expeditiously.

(d) It will (i) work on creditors' claim registration, (ii) analyse financial position for repayments, (iii) expedite the evaluation of potential partners/investors for the Restructuring Exercise, and (iv) work on the restructuring plan for the consumer products segment.

In addition, as part of the required procedure, the Company has registered its interest (in its capacity as the ultimate major shareholder and major creditor of the consumer products segment), through a letter of intent, to participate in the restructuring plan for the consumer products segment, which will allow the Company to facilitate the process for the solicitation of potential partners/investors.

Further to that, the Company has submitted a restructuring plan, which has been selected as the leading plan based on the recommendation of the Restructuring Investor Evaluation Committee chaired by the Xinxiang Intermediate Court. However, any restructuring plan is subject to the approval by the creditors of Xinfei in the coming creditors' meeting. The Company will continue to work out the restructuring plan with potential partners.

## 40. Authorisation of financial statements

The financial statements of Hong Leong Asia Ltd. for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors passed on 22 March 2018.

# 财务报表

# 资产负债表

2017年12月31日

| | 附注 | 合并 2017 $'000 | 合并 2016 $'000 | 母公司 2017 $'000 | 母公司 2016 $'000 |
|---|---|---|---|---|---|
| **非流动资产** | | | | | |
| 固定资产 | 3 | 1,005,664 | 1,111,296 | 78 | 126 |
| 土地使用权 | 4 | 128,882 | 133,640 | – | – |
| 无形资产 | 5 | 52,293 | 68,177 | 138 | 152 |
| 子公司股权投资 | 7 | – | – | 202,955 | 202,955 |
| 联营公司权益 | 8 | 47,043 | 48,339 | 13,726 | 13,726 |
| 合资公司权益 | 9 | 40,153 | 36,646 | – | – |
| 投资性房地产 | 10 | 1,522 | 1,516 | – | – |
| 其它金融资产 | 11 | 5,202 | 1,434 | – | – |
| 长期应收款 | 12 | 8,375 | 6,645 | 166,843 | 171,118 |
| 递延所得税资产 | 13 | 65,345 | 62,363 | – | – |
| 长期存款 | 17 | 14,336 | – | – | – |
| | | 1,368,815 | 1,470,056 | 383,740 | 388,077 |
| **流动资产** | | | | | |
| 存货 | 14 | 631,817 | 464,979 | – | – |
| 开发性房地产 | 15 | 4,881 | 4,858 | – | – |
| 其它金融资产 | 11 | 5,061 | 2,543 | – | – |
| 应收账款及其他应收款 | 16 | 1,714,744 | 1,780,587 | 216,088 | 225,841 |
| 货币资金 | 17 | 1,363,934 | 1,033,698 | 19,161 | 2,482 |
| 持有待售的资产 | 18 | – | 18,397 | – | – |
| | | 3,720,437 | 3,305,062 | 235,249 | 228,323 |
| **总资产合计** | | 5,089,252 | 4,775,118 | 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

2017年12月31日

| | | 合并 | | 母公司 | |
|---|---|---|---|---|---|
| | 附注 | **2017** | **2016** | **2017** | **2016** |
| | | $'000 | $'000 | $'000 | $'000 |
| **流动负债** | | | | | |
| 应付账款及其他应付款 | 22 | 1,816,925 | 1,731,728 | 18,865 | 5,201 |
| 计提准备 | 23 | 73,188 | 69,659 | – | – |
| 短期借款 | 21 | 677,709 | 537,888 | 175,075 | 182,142 |
| 应付所得税 | | 12,749 | 10,817 | 15 | 8 |
| 金融性衍生品负债 | | – | 29 | – | – |
| | | 2,580,571 | 2,350,121 | 193,955 | 187,351 |
| **净流动资产** | | 1,139,866 | 954,941 | 41,294 | 40,972 |
| **非流动负债** | | | | | |
| 长期借款 | 21 | 217,701 | 167,010 | 200,000 | 140,000 |
| 递延所得税负债 | 13 | 41,497 | 43,369 | 2,100 | 2,037 |
| 递延补贴 | | 70,674 | 68,585 | – | – |
| 其他非流动应付款 | 22 | 32,019 | 28,420 | – | – |
| 应付退休金 | | 1 | 259 | – | – |
| | | 361,892 | 307,643 | 202,100 | 142,037 |
| **总负债合计** | | 2,942,463 | 2,657,764 | 396,055 | 329,388 |
| **净资产** | | 2,146,789 | 2,117,354 | 222,934 | 287,012 |
| **股本与公积** | | | | | |
| 发行股本 | 19 | 266,830 | 266,830 | 266,830 | 266,830 |
| 各项储备 | 20 | 350,314 | 426,921 | (43,896) | 20,182 |
| 持有待售的资产公积 | 18 | – | 4,685 | – | – |
| | | 617,144 | 698,436 | 222,934 | 287,012 |
| **非控股权益** | | 1,529,645 | 1,418,918 | – | – |
| **所有者权益合计** | | 2,146,789 | 2,117,354 | 222,934 | 287,012 |
| **负债及所有者权益总计** | | 5,089,252 | 4,775,118 | 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2017年12月31日

| | 附注 | 合并 2017 $'000 | 合并 2016 $'000 |
|---|---|---|---|
| **营业收入** | 24 | 4,026,670 | 3,724,759 |
| 营业成本 | | (3,209,259) | (2,959,812) |
| **毛利润** | | 817,411 | 764,947 |
| **其他收入项目净值** | | | |
| 其他收入 | | 133,443 | 32,955 |
| **其他费用项目** | | | |
| 销售费用 | | (356,279) | (360,165) |
| 研发费用 | | (135,152) | (132,894) |
| 管理费用 | | (216,252) | (193,250) |
| 财务费用 | 26 | (41,552) | (34,740) |
| 其他费用 | | (30,902) | (17,409) |
| **应占联营及合资公司净利润** | | 1,566 | 1,907 |
| **税前利润** | 25 | 172,283 | 61,351 |
| 所得税费用 | 28 | (46,197) | (38,522) |
| **本年利润** | | 126,086 | 22,829 |
| **归属于:** | | | |
| 母公司所有者 | | (66,451) | (71,246) |
| 非控股权益 | | 192,537 | 94,075 |
| | | 126,086 | 22,829 |
| **每股亏损（分）** | | | |
| - 基本 | 29 | (17.77) | (19.05) |
| - 稀释 | 29 | (17.77) | (19.05) |

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2017年12月31日

| | 合并 | |
|---|---|---|
| | **2017** | **2016** |
| | $'000 | $'000 |
| **本年利润** | 126,086 | 22,829 |
| **其他综合收益** | | |
| **利润表项目后续可能重新进行分类** | | |
| 国外子公司，联营公司和合资公司的外币报表折算差额 | (36,238) | (70,481) |
| 公允价值变动净值 | 613 | 16 |
| 货币项目视同国外投资而产生的汇兑差额 | (3,367) | (4,416) |
| 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）** | (39,827) | (74,881) |
| **本年综合收益总额** | 86,259 | (52,052) |
| **归属于：** | | |
| 母公司所有者 | (79,136) | (97,694) |
| 非控股权益 | 165,395 | 45,642 |
| **本年综合收益总额** | 86,259 | (52,052) |

此报告中的附注是组成这些财务报表不可或缺的内容

# 合并所有者权益变动表

截至2017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 | | 266,830 | 4,442 | 33,369 | 45,246 | 4,231 |
| 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 | | – | – | – | – | – |
| 公允价值变动净值 | | – | – | – | 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** | | | | | | |
| *所有者投入和减少资本* | | | | | | |
| 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 | | – | – | – | – | – |
| **对子公司控股权的变动** | | | | | | |
| 收购非控股权 | | – | (51) | – | – | – |
| 其他 | | | | | | |
| 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<br>折算储备<br>$'000 | 非控股权<br>变动的盈余/<br>(亏损)<br>$'000 | 持有待售<br>资产公积<br>$'000 | 未分配<br>利润<br>$'000 | 归属于母公司<br>所有者权益<br>合计<br>$'000 | 非控股<br>权益<br>$'000 | 所有者权益<br>合计<br>$'000 |
|---|---|---|---|---|---|---|
| (51,741) | 34,775 | 4,685 | 356,599 | 698,436 | 1,418,918 | 2,117,354 |
| – | – | – | (66,451) | (66,451) | 192,537 | 126,086 |
| (9,509) | – | – | – | (9,509) | (26,729) | (36,238) |
| – | – | – | – | 613 | – | 613 |
| (3,367) | – | – | – | (3,367) | – | (3,367) |
| 4,263 | – | (4,685) | – | (422) | (413) | (835) |
| (8,613) | – | (4,685) | – | (12,685) | (27,142) | (39,827) |
| (8,613) | – | (4,685) | (66,451) | (79,136) | 165,395 | 86,259 |
| – | – | – | – | 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) | – | – | – |
| (60,354) | 35,397 | – | 286,025 | 617,144 | 1,529,645 | 2,146,789 |

# 合并所有者权益变动表

截至2017年12月31日

| 合并 | 附注 | 发行<br>股本<br>$'000 | 资本<br>公积<br>$'000 | 法定<br>公积<br>$'000 | 公允价值<br>公积<br>$'000 | 权益报酬<br>公积<br>$'000 |
|---|---|---|---|---|---|---|
| 2015年12月31日余额（如前所述） | | 266,830 | 4,442 | 33,178 | 45,230 | 3,788 |
| 会计政策变更所产生的调整 | | – | – | – | – | – |
| 2016年1月1日余额（重列） | | 266,830 | 4,442 | 33,178 | 45,230 | 3,788 |
| 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 | | – | – | – | – | – |
| 公允价值变动净值 | | – | – | – | 16 | – |
| 货币项目视同国外投资而产生的汇兑差额 | | – | – | – | – | – |
| 本年其他综合收益（税后净值） | | – | – | – | 16 | – |
| 本年综合收益总额 | | – | – | – | 16 | – |
| **与所有者的交易直接在权益确认** | | | | | | |
| *所有者投入和减少资本* | | | | | | |
| 支付股份费用 | | – | – | – | – | 443 |
| 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 | | – | – | – | – | – |
| **对子公司控股权的变动** | | | | | | |
| 收购子公司 | | – | – | – | – | – |
| 收购非控股权 | | – | – | – | – | – |
| 其他 | | | | | | |
| 转入法定公积 | | – | – | 191 | – | – |
| 归属持有待售售资产公积 | | – | – | – | – | – |
| 2016年12月31日余额 | | 266,830 | 4,442 | 33,369 | 45,246 | 4,231 |

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<br>折算储备<br>$'000 | 非控股权<br>变动的盈余<br>$'000 | 持有待售<br>资产公积<br>$'000 | 未分配<br>利润<br>$'000 | 归属于母公司<br>所有者权益<br>合计<br>$'000 | 非控股<br>权益<br>$'000 | 所有者权益<br>合计<br>$'000 |
|---|---|---|---|---|---|---|
| (20,592) | 10,247 | – | 439,617 | 782,740 | 1,449,791 | 2,232,531 |
| – | – | – | (7,842) | (7,842) | (871) | (8,713) |
| (20,592) | 10,247 | – | 431,775 | 774,898 | 1,448,920 | 2,223,818 |
| – | – | – | (71,246) | (71,246) | 94,075 | 22,829 |
| (22,048) | – | – | – | (22,048) | (48,433) | (70,481) |
| – | – | – | – | 16 | – | 16 |
| (4,416) | – | – | – | (4,416) | – | (4,416) |
| (26,464) | – | – | – | (26,448) | (48,433) | (74,881) |
| (26,464) | – | – | (71,246) | (97,694) | 45,642 | (52,052) |
| – | – | – | – | 443 | 664 | 1,107 |
| – | 24,164 | – | – | 24,164 | (20,479) | 3,685 |
| – | – | – | (3,739) | (3,739) | – | (3,739) |
| – | – | – | – | – | (54,028) | (54,028) |
| – | – | – | – | – | 449 | 449 |
| – | 364 | – | – | 364 | (2,250) | (1,886) |
| – | – | – | (191) | – | – | – |
| (4,685) | – | 4,685 | – | – | – | – |
| (51,741) | 34,775 | 4,685 | 356,599 | 698,436 | 1,418,918 | 2,117,354 |

# 所有者权益变动表

截至2017年12月31日

| 母公司 | 附注 | 发行<br>股本<br>$'000 | 资本<br>公积<br>$'000 | 权益报酬<br>公积<br>$'000 | 未分配<br>利润<br>$'000 | 合计<br>$'000 |
|---|---|---|---|---|---|---|
| 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 |
| 2016年1月1日余额 | | 266,830 | 9,199 | 2,453 | 71,222 | 349,704 |
| 本年综合收益总额 | | – | – | – | (58,967) | (58,967) |
| **与所有者的交易直接在权益确认** | | | | | | |
| *所有者投入和减少资本* | | | | | | |
| 支付股份费用 | | – | – | 14 | – | 14 |
| 支付公司股东股利 | 30 | – | – | – | (3,739) | (3,739) |
| 2016年12月31日余额 | | 266,830 | 9,199 | 2,467 | 8,516 | 287,012 |

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2017年12月31日

| | 附注 | 合并 2017 $'000 | 合并 2016 $'000 |
|---|---|---|---|
| **经营活动产生的现金流量** | | | |
| 税前利润 | | 172,283 | 61,351 |
| 调整项目： | | | |
| 应占联营及合资公司利润 | | (1,566) | (1,907) |
| 股份支付费用 | | 876 | 1,107 |
| 折旧与摊销费用 | 25 | 129,777 | 136,373 |
| 存货跌价准备确认 | 25 | 8,230 | 390 |
| 应收账款及其他应收款坏账准备确认 | 25 | 10,029 | 842 |
| 固定资产及无形资产减值准备 | 25 | 21,554 | 17,758 |
| 固定资产注销 | 25 | 1,246 | 339 |
| 财务费用 | 26 | 41,552 | 34,740 |
| 其他投资股利收入 | 25 | (560) | (240) |
| 利息收入 | 25 | (24,532) | (16,071) |
| 处置以下资产的（收益）/损失： | | | |
| - 子公司 | 25 | (44,107) | – |
| - 合资公司 | 25 | (22,213) | – |
| - 固定资产 | 25 | (2,266) | 3,292 |
| - 土地使用权 | 25 | (23,521) | – |
| 其他投资公允价值变动损失 | 25 | (2,602) | 51 |
| 衍生性金融产品公允价值变动损失 | 25 | – | 95 |
| 收购子公司所产生的损失 | 7(g) | – | 234 |
| 三包费及其他准备计提净额 | 25 | 86,781 | 86,954 |
| **流动资金变动前经营活动产生的现金流量** | | 350,961 | 325,308 |
| 流动资金的变动： | | | |
| 存货的减少 | | (181,320) | 41,842 |
| 应收账款及其他应收款的减少 | | 12,717 | 73,134 |
| 应付账款及其他应付款的增加/（减少） | | 140,380 | 139,518 |
| 政府补贴收入收到的现金 | | 10,225 | 2,812 |
| 已计提准备的使用 | 23 | (82,456) | (85,257) |
| **经营活动产生的现金流量** | | 250,507 | 497,357 |
| 支付所得税 | | (46,604) | (40,419) |
| **经营活动产生的现金流量净额** | | 203,903 | 456,938 |

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2017年12月31日

| | 附注 | 合并 2017 $'000 | 合并 2016 $'000 |
|---|---|---|---|
| **投资活动产生的现金流量** | | | |
| 联营及合资公司权益 | | (15,322) | (260) |
| 取得股利分配收到的现金： | | | |
| - 联营公司与合资公司 | | 1,613 | 7,141 |
| - 其他投资 | 25 | 560 | 240 |
| 取得利息收入收到的现金 | | 27,232 | 17,656 |
| 银行存款净增加额 | | (29,201) | (3,749) |
| 购置资产支付的现金： | | | |
| - 固定资产 | 3 | (77,314) | (88,431) |
| - 无形资产 | 5 | (1,438) | (257) |
| - 其他投资 | | (3,139) | |
| 处置资产收回的现金净额： | | | |
| - 子公司 | 7(f) | 69,727 | – |
| - 合资公司 | | 374 | – |
| - 固定资产 | | 6,326 | 558 |
| - 土地使用权 | | 10,206 | – |
| - 其他投资 | | 37,288 | – |
| 合资公司偿还借款 | | 2,858 | – |
| **投资活动产生/(占用)的现金流量净额** | | 29,770 | (67,102) |
| **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） | | (1,695) | (1,886) |
| 分配股利支付的现金： | | | |
| - 非控股东 | | (56,774) | (54,028) |
| - 本公司股东 | 30 | (3,739) | (3,739) |
| 偿付利息支付的现金 | | (43,085) | (41,435) |
| 向银行借款收到的现金 | | 564,035 | 545,639 |
| 子公司吸收非控股东投资收到的现金 | | 4,508 | 3,685 |
| 偿还银行贷款支付的现金 | | (369,573) | (799,619) |
| 偿还租赁融资支付的现金 | | (1,645) | (2,002) |
| **筹资活动产生/(占用)的现金流量净额** | | 92,032 | (353,385) |

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2017年12月31日

| | 附注 | 合并 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **现金及现金等价物净增加额** | | 325,705 | 36,451 |
| 年初现金及现金等价物余额 | 17 | 945,171 | 938,620 |
| 汇率变动对现金及现金等价物的影响 | | (8,772) | (29,900) |
| **年末现金及现金等价物余额** | 17 | 1,262,104 | 945,171 |

**附注:**

存放于实行外汇管制国家的现金及现金等价物共计$979,380,000 (2016: $780,801,000)。

附注7列示2017年和2016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 5 MARCH 2018**

| | | |
|---|---|---|
| Class of Shares | : | Ordinary shares |
| Number of Ordinary Shares in issue | : | 373,908,559 |
| Number of Ordinary Shareholders | : | 5,749 |
| Voting Rights | : | 1 vote for 1 share |

As at 5 March 2018, 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 | 12 | 0.21 | 137 | 0.00 |
| 100 – 1,000 | 793 | 13.79 | 767,091 | 0.20 |
| 1,001 - 10,000 | 3,519 | 61.21 | 18,243,578 | 4.88 |
| 10,001 - 1,000,000 | 1,408 | 24.49 | 55,592,087 | 14.87 |
| 1,000,001 and above | 17 | 0.30 | 299,305,666 | 80.05 |
| | 5,749 | 100.00 | 373,908,559 | 100.00 |

Based on information available to the Company as at 5 March 2018, approximately 34.99% 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 5 MARCH 2018**

| No. | Name of Shareholder | No. of Shares Held | %* |
|---|---|---|---|
| 1 | Hong Leong Corporation Holdings Pte Ltd | 233,000,000 | 62.31 |
| 2 | DBS Nominees Pte Ltd | 17,283,558 | 4.62 |
| 3 | Citibank Nominees Singapore Pte Ltd | 10,088,983 | 2.70 |
| 4 | Taiheiyo Singapore Pte Ltd | 9,079,659 | 2.43 |
| 5 | CGS-CIMB Securities (S) Pte Ltd | 8,120,301 | 2.17 |
| 6 | Raffles Nominees (Pte) Ltd | 2,564,777 | 0.69 |
| 7 | DBSN Services Pte Ltd | 2,548,800 | 0.68 |
| 8 | Phillip Securities Pte Ltd | 2,292,800 | 0.61 |
| 9 | Maybank Kim Eng Secs Pte Ltd | 2,103,000 | 0.56 |
| 10 | Ling Kung Eng | 2,025,700 | 0.54 |
| 11 | United Overseas Bank Nominees Pte Ltd | 1,940,890 | 0.52 |
| 12 | UOB Kay Hian Pte Ltd | 1,588,100 | 0.42 |
| 13 | HSBC (Singapore) Nominees Pte Ltd | 1,544,198 | 0.41 |
| 14 | DBS Vickers Secs (S) Pte Ltd | 1,471,900 | 0.39 |
| 15 | Soon Lee Heng Trading & Transportation Pte Ltd | 1,373,900 | 0.37 |
| 16 | OCBC Securities Pte Ltd | 1,272,600 | 0.34 |
| 17 | OCBC Nominees Singapore Pte Ltd | 1,006,500 | 0.27 |
| 18 | Ong Choon Huat | 800,000 | 0.21 |
| 19 | Ang Jwee Herng | 770,000 | 0.21 |
| 20 | Francis Chin Kuok Choon | 731,000 | 0.20 |
| | | 301,606,666 | 80.65 |

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 5 March 2018.

# ANALYSIS OF SHAREHOLDINGS

**AS AT 5 MARCH 2018**

### Substantial Shareholders

(As shown in the Register of Substantial Shareholders as at 5 March 2018)

| | No. of Shares | | | |
|---|---|---|---|---|
| Name of Substantial Shareholder | Direct Interest | Deemed Interest | Total Interest | %* |
| Hong Leong Corporation Holdings Pte Ltd | 233,000,000 | 6,664,000 (1) | 239,664,000 | 64.10 |
| Hong Leong Enterprises Pte. Ltd. | - | 239,664,000 (2) | 239,664,000 | 64.10 |
| Hong Leong Investment Holdings Pte. Ltd. | - | 239,932,000 (3) | 239,932,000 | 64.17 |
| Davos Investment Holdings Private Limited | - | 239,932,000 (4) | 239,932,000 | 64.17 |
| Kwek Holdings Pte Ltd | - | 239,932,000 (4) | 239,932,000 | 64.17 |

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 5 March 2018.

**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-Seventh 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, 27 April 2018 at 3.00 p.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") 2017 and the Auditors' Report thereon.

2. To approve Directors' Fees of $432,220 for FY 2017 (FY 2016: $483,790) 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 2018 (FY 2017: $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 Ng Sey Ming (appointed on 8 May 2017)
   (b) Mr Tan Chian Khong (appointed on 1 March 2018)
   (c) Mr Philip Ting Sii Tien @ Yao Sik Tien

   Note: Mr Tan Huay Lim, who would be retiring by rotation in accordance with the Company's Constitution, has notified the Company that he will not be seeking re-election as a Director at the Meeting.

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 and subsidiary holdings (as defined in the Listing Manual of SGX-ST) of the Company 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.

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 29 March 2018 (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, 29 March 2018

# NOTICE OF ANNUAL GENERAL MEETING

**Explanatory Notes:**

1. With reference to item 2 of the Ordinary Business above, the Directors' Fees of $432,220 for FY 2017 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 2017 which had been approved by shareholders at the 2016 and 2017 AGMs of the Company. The payment of the ARC Fees for FY 2018 shall be made on a quarterly basis in arrears at the end of each calendar quarter (except for the first quarter of 2018 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 29 of the Annual Report.

2. With reference to item 3(a) of the Ordinary Business above, Mr Ng Sey Ming will, upon election as a Director of the Company, remain as a member of the ARC, Remuneration Committee ("RC") and SOS Committee ("SOSC"). Mr Ng is considered an independent Director.

   Key information on Mr Ng can be found on page 12 of the Annual Report. Mr Ng has no shareholdings in the Company or any of its related corporations, and has no relationships with the Company, its 10% shareholders or its Directors.

3. With reference to item 3(b) of the Ordinary Business above, Mr Tan Chian Khong will, upon election as a Director of the Company, remain as a member of the RC and SOSC. He will also become the chairman of the ARC in place of Mr Tan Huay Lim who will be retiring following the conclusion of the Meeting. Mr Tan Chian Khong is considered an independent Director.

   Key information on Mr Tan can be found on page 13 of the Annual Report. Mr Tan has no shareholdings in the Company or any of its related corporations, and has no relationships with the Company, its 10% shareholders or its Directors.

4. Key information on Mr Philip Ting Sii Tien @ Yao Sik Tien, who is seeking re-election as a Director of the Company under item 3(c) of the Ordinary Business above, is found on page 10 of the Annual Report. Details of Mr Ting's shareholdings in the Company and its related corporations can be found on page 63 to 65 of the Annual Report. Mr Ting is an Executive Director and the Chief Executive Officer of the Company.

5. Mr Tan Huay Lim, who is due for retirement by rotation in accordance with the Company's Constitution, will not be seeking re-election as a Director at the Meeting. Consequent thereto, Mr Tan will also cease as the chairman of the ARC, and a member of the RC and SOSC, following the conclusion of the Meeting.

6. 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.

7. 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.*

8. 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.

9. 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.

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.

**HONG LEONG ASIA LTD.**
Co. Reg. No. 196300306G
(Incorporated in the Republic of Singapore)

## PROXY FORM
For 57th 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 29 March 2018.

*I/We, (name) ____________________ with NRIC/Passport 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 57th 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, 27 April 2018 at 3.00 p.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:** 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 Ng Sey Ming | | |
| | | (b) | Mr Tan Chian Khong | | |
| | | (c) | Mr Philip Ting Sii Tien @ Yao Sik Tien | | |
| 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 | | | | |

Voting on all resolutions will be conducted by poll.

Dated this ________ day of ______________ 2018

| 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 (17 Lines)
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 (17 Lines)
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 (main)
Fax: (65) 6368 0312 (main)

*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

### CONSUMER PRODUCTS

**Henan Xinfei Electric Co., Ltd.**
**Henan Xinfei Household Appliance Co., Ltd.**
**Henan Xinfei Refrigeration Appliances Co., Ltd.**
370 Hong Li Road, Xinxiang City
Henan 453002
People's Republic of China
Tel: (86) 373 338 1616
Fax: (86) 373 338 4788

### 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

**Rex Plastics (Malaysia) Sdn. Bhd.**
Lot 45 Jalan Delima 1/1
Taman Perindustrian Teknologi Tinggi Subang
47500 Subang Jaya
Selangor Darul Ehsan
Malaysia
Tel: (603) 5629 3000
Fax: (603) 5636 4977

### 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 and Consumer White Goods*
**Fedders International Pte. Ltd.**
82 Ubi Avenue 4
#06-03 Edward Boustead Centre
Singapore 408832
Tel: (65) 6922 6250
Fax: (65) 6922 6292

### OTHERS

**HL Global Enterprises Limited**
156 Cecil Street #09-01
Far Eastern Bank Building
Singapore 069544
Tel: (65) 6324 9500
Fax: (65) 6221 4861

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