LEON FUAT BERHAD
(756407-D)

RISING TO THE CHALLENGE

ANNUAL REPORT 2017

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Proxy Form

Our core business activities comprise:
Trading of steel products; and
Processing of steel products.

LEON FUAT GROUP'S

BUSINESS AT A GLANCE

Our Group is currently in the business of trading and processing a wide range of steel products of different shapes, dimensions and grades to meet the requirements of our customers. Our processing business is synergistic to our trading operations, whereby we provide various value added services in the form of cutting, levelling, shearing, profiling, bending and finishing as well as production of expanded metal to meet the requirements of our customers.

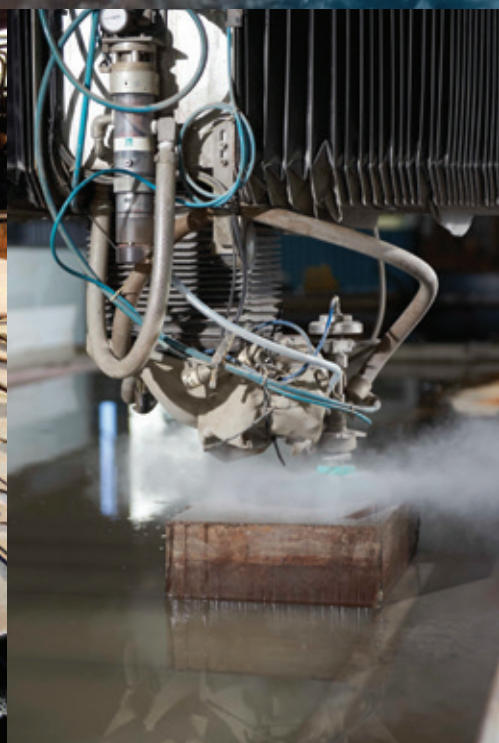
OUR PRODUCTS

Stainless Steel Flat
Stainless Steel Long
Carbon And Alloy Steel Flat
Carbon And Alloy Steel Long

OUR SERVICES

CUTTING SERVICES

CNC Laser Cutting
CNC Waterjet Cutting
CNC Plasma Cutting
Portable Plasma Cutting
CNC Oxy-gas and Plasma Cutting
CNC Oxy-gas Cutting
Oxy-gas Cutting with Optical Tracer
Portable Oxy-gas Cutting
Bandsaw Cutting



OTHER SERVICES

Levelling
Guillotine Shear
CNC Press Brake (Bending)
CNC Turret Punching
Profiling
Surface Polishing

Corporate Information

BOARD OF DIRECTORS

Dato' Ng Ah Hock @ Ng Soon Por
Independent Non-Executive Chairman

Dato' Sri Ooi Bin Keong
Group Managing Director

Ooi Kong Tiong
Executive Director

Ooi Seng Khong
Executive Director

Ng Kok Teong
Executive Director

Ooi Shang How
Executive Director

Chan Kee Loin
Senior Independent Non-Executive Director

Tan Did Heng
Independent Non-Executive Director

Tan Sack Sen
Independent Non-Executive Director

AUDIT COMMITTEE

Tan Did Heng *(Chairman)*
Chan Kee Loin
Tan Sack Sen

NOMINATION COMMITTEE

Chan Kee Loin *(Chairman)*
Tan Sack Sen
Tan Did Heng

REMUNERATION COMMITTEE

Tan Sack Sen *(Chairman)*
Dato' Ng Ah Hock @ Ng Soon Por
Chan Kee Loin

COMPANY SECRETARIES

Yeoh Chong Keat *(MIA 2736)*
Lim Fei Chia *(MAICSA 7036158)*

REGISTERED OFFICE

Suite 11.1A, Level 11
Menara Weld
76 Jalan Raja Chulan
50200 Kuala Lumpur
Tel : (603) 2031 1988
Fax : (603) 2031 9788

PRINCIPAL PLACE OF BUSINESS

Wisma Leon Fuat
No.11, Lorong Keluli 1B
Kawasan Perindustrian
Bukit Raja Selatan
Seksyen 7, 40000 Shah Alam
Selangor Darul Ehsan
Tel : (603) 3375 3333
Fax : (603) 3344 7777

AUDITORS

Baker Tilly Monteiro Heng *(AF0117)*
Baker Tilly MH Tower
Level 10, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Tel : (603) 2297 1000
Fax : (603) 2282 9980

SHARE REGISTRAR

Symphony Share Registrars
Sdn Bhd *(378993-D)*
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Tel : (603) 7849 0777 *(Helpdesk)*
Fax : (603) 7841 8151 /
(603) 7841 8152
Email : ssr.helpdesk@symphony.com.my

PRINCIPAL BANKERS

AmBank (M) Berhad *(8515-D)*
Level 18, Menara Dion
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : (603) 2026 3939
Fax : (603) 2026 6855

Hong Leong Bank Berhad
(97141-X)
Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : (603) 2164 2828
Fax : (603) 2167 4457

Al Rajhi Banking & Investment
Corporation (Malaysia) Berhad
(719057-X)
Ground Floor, East Block Wisma
Selangor Dredging
142-B Jalan Ampang
50450 Kuala Lumpur
Tel : (603) 2301 7000
Fax : (603) 2170 7100

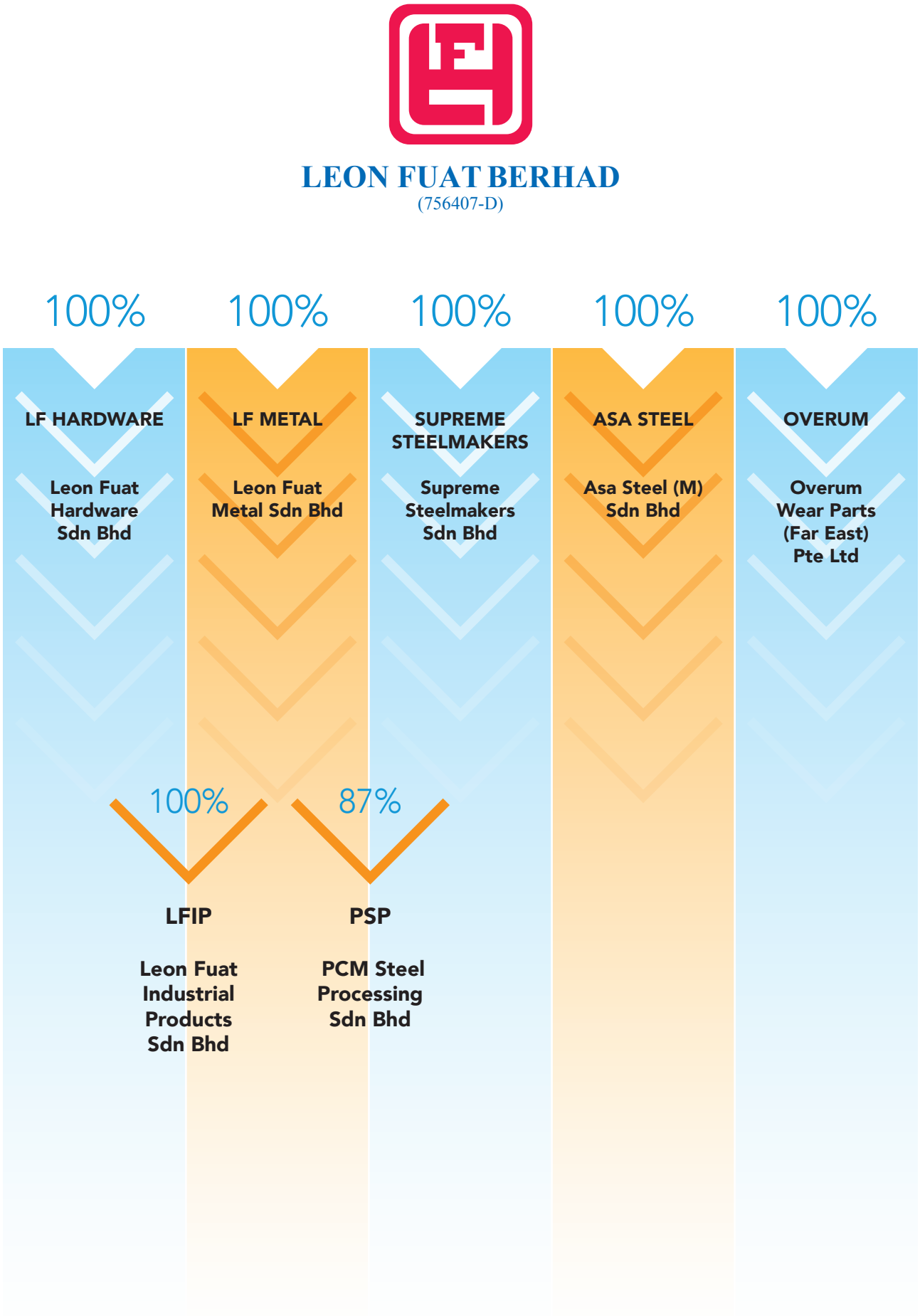
STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
Sector : Industrial Products
Stock Name : LEONFB
Stock Code : 5232

CORPORATE WEBSITE

www.leonfuat.com.my

Corporate Structure



Board of Directors

1 **Dato' Ng Ah Hock @ Ng Soon Por**
Independent
Non-Executive Chairman

2 **Dato' Sri Ooi Bin Keong**
Group Managing Director

3 **Ooi Kong Tiong**
Executive Director

4 **Ooi Seng Khong**
Executive Director

5 **Ng Kok Teong**
Executive Director

6 **Ooi Shang How**
Executive Director

7 **Chan Kee Loin**
Senior Independent Non-Executive Director

8 **Tan Did Heng**
Independent Non-Executive Director

9 **Tan Sack Sen**
Independent Non-Executive Director

Profile of Directors

Dato' Ng Ah Hock @ Ng Soon Por
Malaysian, aged 68
Independent Non-Executive Chairman

Dato' Ng Ah Hock @ Ng Soon Por was appointed to the Board on 6 November 2012.

He was appointed as a member of the Remuneration Committee on 27 February 2018.

He graduated from Tunku Abdul Rahman College in 1974 with the accountancy qualification ACCA awarded by the Association of Chartered and Certified Accountants of United Kingdom. He is the member of Malaysian Institute of Accountants, Fellow Member of the Association of Chartered and Certified Accountants of United Kingdom, and member of the Malaysia Institute of Chartered Secretaries & Administrators.

He began his career in 1974 when he joined the audit firm Turquand, Youngs & Co. and Azman, Wong, Salleh & Co. as Auditor. In 1977, he left and joined Spicers International Ltd, as a Finance Manager. In 1982, he left Spicers International Ltd when he was elected as Selangor State Legislative Assemblyman for Sungei Pelek constituency, and held the position until 1995. During his tenure as an assemblyman, he was also a Selangor Executive Councilor from 1990 to 1995. Subsequently in 1995, he joined Paper Converting Industries Sdn Bhd as a Finance Director until 2005. He was also a member of the Selangor Public Service Commission from 2002 to 2007.

He was appointed as an Independent Non-Executive Director of XingQuan International Sports Holdings Limited on 1 June 2009 and retired on 2 December 2011. He was an Independent Non-Executive Director of Turbo-Mech Berhad, a company listed on the Main Market of Bursa Securities from 15 October 2009 to 1 June 2016.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Dato' Sri Ooi Bin Keong

Malaysian, aged 68
Group Managing Director

Dato' Sri Ooi Bin Keong was appointed to the Board on 21 June 2012. After completing his primary education in 1963, he worked at a coffee shop before he established Leong Huat Trading & Co in 1972 as a partnership, which was then mainly involved in the trading of steel products and undertook minor processing work.

In 1982, he co-founded Leon Fuat Group together with Ooi Kong Tiong and the late Ng Chee Tiang by establishing LF Hardware to take over the business of Leong Huat Trading & Co. They then established LF Metal, Supreme Steelmakers and Asa Steel in 1983, 1991 and 1995 respectively. As the co-founder and Group Managing Director, he has been instrumental in the growth and development of the Group. With approximately 45 years of experience in the steel industry, he has contributed significantly to the success of the Group particularly in driving the Group's overall vision.

He is the 1st Vice President of the Malaysia Steel and Metal Distributors' Association (MSMDA) for the period 2017-2019.

He is the father of Ooi Shang How, the Executive Director of the Company.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Ooi Kong Tiong

Malaysian, aged 64
Executive Director

Ooi Kong Tiong was appointed to the Board on 21 June 2012.

After completing his primary education in 1967, he opted to join the working community and worked at a coffee shop before he joined Leong Huat Trading & Co in 1972 as a machine operator and sales executive. In 1982, he co-founded Leon Fuat Group together with Dato' Sri Ooi Bin Keong and the late Ng Chee Tiang by establishing LF Hardware to take over the business of Leong Huat Trading & Co. Together with Dato' Sri Ooi Bin Keong and the late Ng Chee Tiang, they established LF Metal, Supreme Steelmakers and Asa Steel in 1983, 1991 and 1995 respectively. As the Group's co-founder and Executive Director, he has been instrumental in the growth and development of the Group. With approximately 45 years of experience in the steel industry, he has contributed significantly to the Group's success particularly in driving the sales operations for the Group. He currently oversees the Group's sales operations and is responsible for the Group's business planning and implementation.

He is the brother of Dato' Sri Ooi Bin Keong and Ooi Seng Khong, the Executive Directors of the Company.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Profile of Directors

Ooi Seng Khong

Malaysian, aged 56
Executive Director

Ooi Seng Khong was appointed to the Board on 21 June 2012.

After completing his primary school education in 1975, he was involved in his family's paper packaging business before joining Leong Huat Trading & Co as a machine operator in 1979. In 1982, he joined LF Hardware as a sales personnel and subsequently in 1983, he was appointed as Head of Operations of LF Metal. In 1999, he was appointed as Managing Director of LF Metal. He has been instrumental in the growth and development of the Group. With approximately 38 years of experience in the steel industry, he has contributed significantly to the Group's success. He currently oversees the business development and procurement activities of the Group.

He is the brother of Dato' Sri Ooi Bin Keong and Ooi Kong Tiong, the Executive Directors of the Company.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Ng Kok Teong

Malaysian, aged 49
Executive Director

Ng Kok Teong was appointed to the Board on 21 June 2012. He obtained his Diploma in Business Studies from Stamford College, Malaysia in 1989.

He began his career in 1990 when he joined LF Hardware as a sales personnel. In 1999, he was appointed as the Executive Director of LF Hardware and is currently the Managing Director of LF Hardware overseeing the business and operations of the LF Hardware.

He is the son of the late Ng Chee Tiang, one of the co-founders of Leon Fuat Group.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Ooi Shang How

Malaysian, aged 39
Executive Director

Ooi Shang How was appointed to the Board on 21 June 2012. In 1997, he obtained his Cambridge A-Level certificate from Taylor's College, Malaysia. Between 1998 and 2001, he undertook studies in Monash University and RMIT in Australia and subsequently returned to Malaysia to assist the Group's business.

He began his career in 2002 when he joined LF Metal as a sales and marketing personnel. Later, he was tasked to develop information technology capability for the company. In 2005, he was appointed as the Executive Director of LF Metal where he was mainly involved in business development and procurement planning as well as information technology areas of the company. He currently oversees the operations and business development of LF Metal .

He is the son of Dato' Sri Ooi Bin Keong, the Group Managing Director of the Company.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Chan Kee Loin

Malaysian, aged 54
Senior Independent Non-Executive Director

Chan Kee Loin was appointed to the Board on 21 June 2012. He is the Chairman of the Nomination Committee, a member of Audit Committee and Remuneration Committee of the Board.

He was educated in the Tunku Abdul Rahman College where he completed a three years extra-mural course in Financial Accounting in 1987 and a finalist in professional examination of the Chartered Association of Certified Accountants, United Kingdom. His career began in early 1988 as an audit assistant in a small firm of Public Accountants in Johor Bahru. In early 1989, he left for a medium size public accounting firm in Kuala Lumpur where he was promoted as a Director in year 2000. His experience in these firms includes statutory audits, due diligence audits, share and business valuation and rendering professional services as adviser, coordinator and Reporting Accountants for corporate exercises. He left the latter in mid-2009 and ceased working full time.

He currently sits on the Board of CAM Resources Berhad which is listed on the Main Market of Bursa Malaysia Securities Berhad as an Independent Non-Executive Director.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Profile of Directors

Tan Did Heng
Malaysian, aged 47
Independent Non-Executive Director

Tan Did Heng was appointed to the Board on 21 June 2012. He is the Chairman of the Audit Committee and a member of the Nomination Committee of the Board.

From 1992 to 1994, he attended TAR College to undertake the course and examinations leading to membership with the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA) in 1999.

In 1994 he joined Tai, Yapp & Co as an associate. He left the firm in 2000 and joined United Straits Amalgamated Berhad as an Accountant. Thereafter, he started D.H. Tan & Associates in 2001 as the managing proprietor to-date.

He is an Approved Company Auditor and Licensed Tax Agent since 2001 and 2005 respectively. He is the managing proprietor of Y.W. Woon & Co., a professional firm providing audit services.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Tan Sack Sen
Malaysian, aged 42
Independent Non-Executive Director

Tan Sack Sen was appointed to the Board on 21 June 2012. He is the Chairman of the Remuneration Committee, a member of Audit Committee and Nomination Committee of the Board.

In 2007, he obtained his Bachelor of Law (Honours) Degree from the University of Wales, Cardiff, United Kingdom and has obtained the Certificate of Legal Practice from the Board of Legal Practice in 1998.

He began his career with Messrs. K. B. Chua & Co. and was admitted to the Bar in 1999. He then joined Messrs. T. G. Lim & Partners in 1999 and further his practice in banking litigation. Thereafter, he joined Messrs. Jal & Lim in 2001 to conduct in various defence work and general litigation matters. In 2002, he was invited by Messrs. Chong & Tiong to handle and manage the Litigation Department. In 2003, he started his legal firm, Messrs. Yee How & Tan where he manages the main office at Kuala Lumpur.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2017.

Additional notes on Directors

Save as disclosed, none of the Director has any:

1. Directorship in public companies and listed issuers;
2. Family relationship with any Director and/or major shareholder of the Company;
3. Conflict of interests with the Company; and
4. Conviction for any offences within the past five (5) years (other than traffic offences, if any) nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 2017.

Profile of Key Management Personnel

Ng Lam Keong
Malaysian, aged 60
Executive Director of LF Hardware

Ng Lam Keong is the Executive Director of LF Hardware. After completing his primary education in 1971, he joined the workforce in his family's paper packaging business from 1972 to 1981.

In 1982, he joined LF Hardware as a machine operator before he was promoted to overseeing the management of the steel processing operations for the company and also management of human resources in 1992. In 1999, he was appointed as Executive Director of LF Hardware. He is mainly responsible for sales and procurement functions of LF Hardware.

He is the brother of Dato' Sri Ooi Bin Keong, Ooi Kong Tiong and Ooi Seng Khong, the Executive Directors of the Company.

Ooi Pek Kuan
Malaysian, aged 53
Executive Director of LF Metal

Ooi Pek Kuan is the Executive Director of LF Metal. After completing his Form 4 education, he started his career in 1983 when he joined LF Metal as a machine operator.

In 1999, he was appointed as Executive Director of LF Metal. He has since accumulated approximately 34 years of experience in the steel industry. He is currently responsible for business development and procurement functions of LF Metal.

He is the brother of Dato' Sri Ooi Bin Keong, Ooi Kong Tiong and Ooi Seng Khong, the Executive Directors of the Company.

Ng Kok Wee
Malaysian, aged 47
Executive Director of LF Metal

Ng Kok Wee is an Executive Director of LF Metal. He obtained his Bachelor of Commerce Degree in Accounting from Nelson Polytechnic, New Zealand in 1999.

His career started in 2000, when he joined Ling Kam Hong & Co, an audit firm in Kuala Lumpur as a semi-senior. In 2002, he left the said firm and joined LF Holdings as Accounts Executive. Subsequently in 2007, he left and took up the position as Assistant Accountant in LF Hardware. In 2009, he was then transferred to LF Metal and took up the position of Finance Manager. In 2010, he was appointed as Executive Director of LF Metal.

He is the brother of Ng Kok Teong, the Executive Director of the Company.

Ooi Shang Yao
Malaysian, aged 36
Executive Director of Supreme Steelmakers

Ooi Shang Yao is the Executive Director of Supreme Steelmakers. In 2006, he obtained his Degree of Bachelor of Business, from Swinburne University of Technology, Australia.

He began his career in 2007 when he joined Supreme Steelmakers as a sales and marketing personnel. Later, he was tasked to involve in procurement planning and overseeing the factory operations of Supreme Steelmakers. In 2013, he was promoted as General Manager of Supreme Steelmakers assisting the Managing Director in overseeing the factory operations, human resource and administrative functions of Supreme Steelmakers.

He was appointed as Executive Director of Supreme Steelmakers on 15 March 2017.

He is the son of Dato' Sri Ooi Bin Keong, the Group Managing Director of the Company.

Profile of Key Management Personnel

Tan Kien Yap

Malaysian, aged 46
Chief Financial Officer

Tan Kien Yap is our Chief Financial Officer. In 1997, he obtained his Bachelor of Accountancy degree from Universiti Putra Malaysia. He is a Chartered Accountant and a member of the Malaysian Institute of Accountants (MIA) since 2000.

His career started in 1997, when he joined Price Waterhouse (predecessor firm of PricewaterhouseCoopers) as Audit Assistant. In 1999, he was promoted to the position of Senior Associate. Subsequently in 2000, he left the said firm and joined Leon Fuat Holdings Sdn Bhd as Group Accountant. In 2013, he was transferred to the Company and responsible for overseeing the management reporting and financial activities of Leon Fuat Group.

Wong Choong Heng

Malaysian, aged 50
Assistant General Manager of LF Metal

Wong Choong Heng is the Assistant General Manager of LF Metal. In 2005, he obtained his Masters in Business Administration Degree, from the University of Hull, United Kingdom.

His career started in 1988, when he joined Asahi Techno Vision (S) Pte Ltd in Singapore as a fitter and was promoted to technician group leader in year 1991. Later, he returned to Malaysia and in 1996, he joined Hanwa AJ (M) Sdn Bhd as Production Executive and was promoted to Production Manager in year 1999. He left Hanwa AJ and joined LF Metal in 2002. He took up the position as Factory Operations Manager. In 2006, he was promoted as Assistant General Manager of LF Metal, assisting Executive Directors in overseeing the factory operations, human resource and administrative functions of the company.

In 2015, he attended a Professional Certification in Human Resources program and subsequently become a Professional Member (CAHRI) of Australian Human Resources Institute (AHRI). He is also a Chartered Member (Chartered MCIPD) of Chartered Institute of Personnel Development (CIPD), UK since 2016.

He continued to pursue his study in year 2016 and was awarded Graduate Certificate of Business by University of Southern Queensland, Australia before he re-joined LF Metal in the same year.

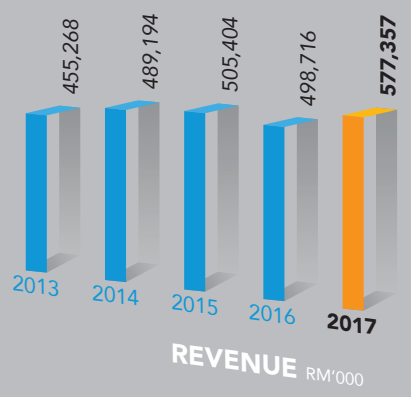
Additional notes on Key Management Personnel

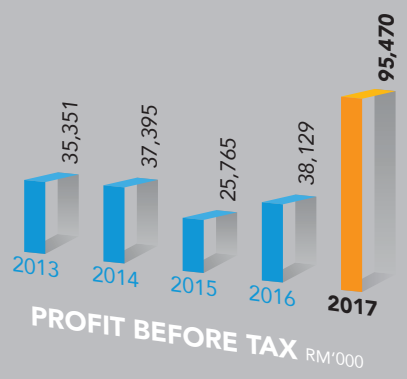
Save as disclosed, none of the Key Management Personnel has any:

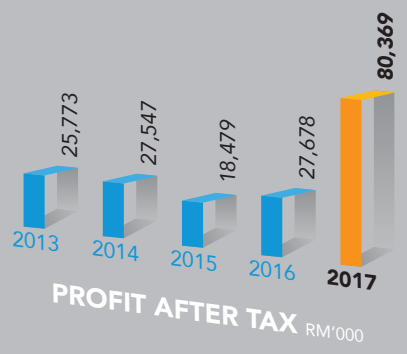
1. Directorship in public companies and listed issuers;
2. Family relationship with any director and/or major shareholder of the Company;
3. Conflict of interests with the Company; and
4. Conviction for any offences within the past five (5) years (other than traffic offences, if any) nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year ended 2017.

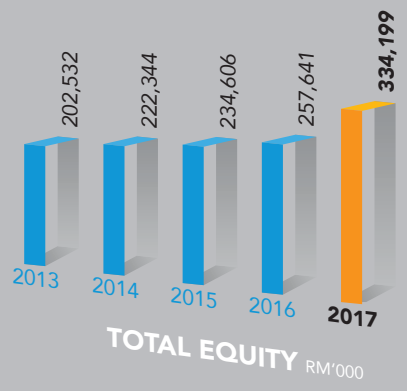
Financial Highlights

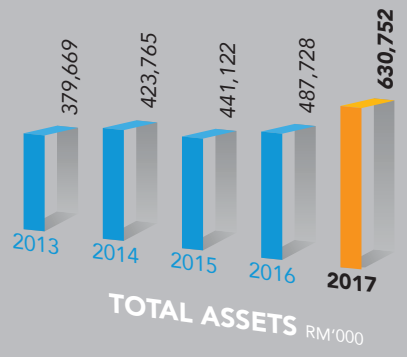
Financial Year Ended	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000
Revenue	455,268	489,194	505,404	498,716	**577,357**
Profit Before Tax	35,351	37,395	25,765	38,129	**95,470**
Profit After Tax	25,773	27,547	18,479	27,678	**80,369**
Earning Before Interest, Tax, Depreciation & Amortisation	47,413	49,458	41,268	54,585	**114,945**
Total Equity	202,532	222,344	234,606	257,641	**334,199**
Total Assets	379,669	423,765	441,122	487,728	**630,752**











Dear Shareholders,

I am pleased to present the Annual Report and the Audited Financial Statements of Leon Fuat Berhad and its group of companies for the financial year ended 31 December 2017 ("FY2017"). We are delighted to share that the Group has performed significantly well for FY2017, mainly due to the increase in revenue from our core business segments, namely trading of steel products and processing of steel products, besides recognising exceptional income arising from the compulsory acquisition of the two affected plots of land owned by our two subsidiary companies.

Dato' Ng Ah Hock @ Ng Soon Por
Independent Non-Executive Chairman

Chairman's Statement

LOOKING BACK AT 2017

Overall, the market sentiment for the steel industry in 2017 recorded significant improvement as compared to 2016, mainly due to the production cut in China and rising domestic steel demand.

As per the fourth quarter of 2017, domestic steel prices declined marginally in November 2017, with local steel bars valued at RM2,435 per metric tonne (MT), a 0.7% decline Month-on-Month (MoM), and rebound in December 2017, moving in tandem with the higher steel prices in China where reductions to steel production during the heating season have been shaper than expected.

Nevertheless, the Group holds a unique position within the steel industry as we are mainly involved in the trading and processing of carbon and stainless steel products that distinct us from industry of steelmakers. Therefore, the changeability in the steel sector did not heavily impact our business strategy.

We remain focused on sustainable diversification on our business, and we continue to leverage on our extensive experience in trading and processing of steel products to safeguard our steadfast position as we further develop our manufacturing of products for industrial end-users.

2018 OUTLOOK

Moving forward, the prospects for the steel industry are looking bright, backed by stronger steel average selling prices ("ASP") as well as rising construction steel demand stemming from major government-led infrastructure projects that support steel rebar prices.

As mentioned above, the changes in steel prices have minimal impact on our business and performance given our unique position in the steel industry. We remains focused on the core business of steel trading and processing, while expanding its portfolio to offer more products in future to ensure profitability even during a period of market uncertainty. We remain cautiously optimistic on delivering another year of commendable results.

APPRECIATION

I would like to extend my greatest appreciation to the Board, management team and our invaluable team of staff for their continued support in contribution towards creating another year of success in the Group's history.

I am also humbly grateful to all our customers, suppliers, business associates, and shareholders for their vote of confidence in Leon Fuat each year. It is with your reinforcement that further motivates us to continue striving to create added value for all our stakeholders.

Dato' Ng Ah Hock @ Ng Soon Por
Independent Non-Executive Chairman

OVERVIEW OF COMPANY'S BUSINESS

Leon Fuat Group's ("the Group") main business segments continue to be the trading and processing of steel products, specialising in long and flat rolled products. Within our trading activities, the Group's portfolio encompasses a range of products of various steel materials, including carbon steel, stainless steel and alloy steel. Those steel products can be further classified in two categories, namely flat products, which comprise coils, plates, sheets as well as welded tubing and piping, and long products, which include items such as bars, rods, shafts, sections, angles as well as seamless tubing and piping.

Dato' Sri Ooi Bin Keong
Group Managing Director

Management Review

Meanwhile, the Group's processing division offers value-adding services, which includes cutting, levelling, shearing, profiling, bending, finishing as well as the production of expanded metal that works in synergy with our trading division. This is an advantage for the Group as we are able to meet specific product requirements of our customers, as well as serve customers in multiple industries, each used for differing applications.

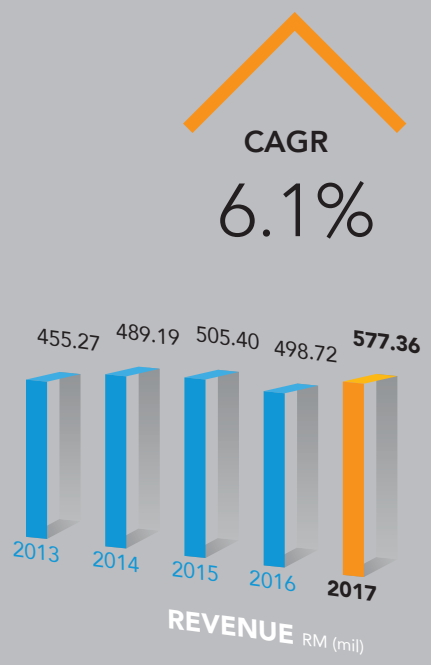
Throughout the years, the Group has serviced a large customer base comprising manufacturers of metal products and components, fabricators of machinery, equipment and metal structures, companies within the building, construction and infrastructure industries, and hardware wholesalers and retailers, from local as well as overseas markets such as Thailand, Singapore and Vietnam. For FY2017, the Group has more than 3,000 active customers, including customers who have good working relationships with the Company for over a decade.

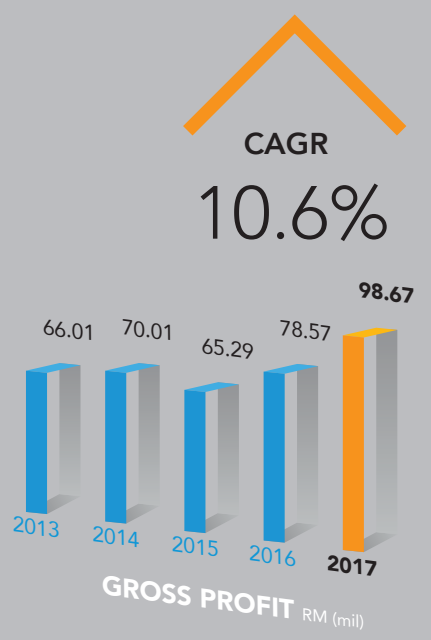
COMPANY FINANCIAL REVIEW

The Group registered an increase of 15.8% in total revenue at RM577.36 million for FY2017 as compared to RM498.72 million recorded for the preceding financial year ended 31 December 2016 ("FY2016").

The Group's processing of steel products segment remains the largest contributor to the Group's revenue, marking an increase of 16.9% from RM252.88 million in FY2016 to RM295.54 million in FY2017. The Group's trading of steel products segment posted an increase of 14.5% in revenue from RM245.01 million in FY2016 to RM280.56 in FY2017.

Management Review





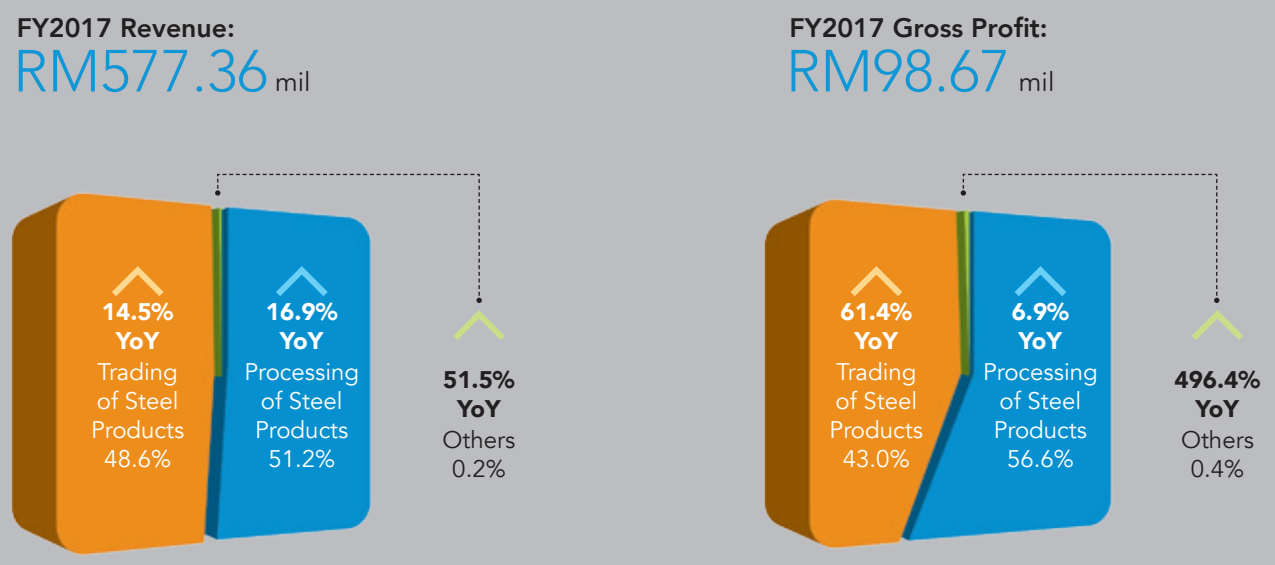
Revenue & Gross Profit comparison for FY2013 – FY2017

The improvement in total revenue was mainly due to increased revenue contribution by the Group's trading of steel products segment and processing of steel products segment as mentioned above, mainly attributed to overall higher average selling price for both segments. However, the contribution from the overall higher average selling price was partially offset by lower demand for both segments, which trading of steel products and processing of steel products both saw lower demand by 12.7% and 4.6% respectively in FY2017 as compared to FY2016.

For FY2017, the Group achieved higher Gross Profit ("GP") by 25.6% at RM98.67 million as compared to RM78.57 million recorded for FY2016. This was mainly contributed by the improvement in overall revenue as mentioned above, and also the improvement in overall GP margin, from 15.8% for FY2016 to 17.1% for FY2017, attributable to better GP margin for trading of steel products by approximately 4.4 percentage points, as a result of the increase in average selling price by 31.1%, while the average cost for input materials had only increased by 24.4%.

The Group's other income for FY2017 saw a substantial increase of RM45.11 million, mainly due to the gain and compensations received from the compulsory acquisition of the affected land and buildings, amounting to approximately RM41.20 million, and also contributed by the recognition of gain on bargain purchase for RM2.70 million, arising from the acquisition of PSP as the Group share of fair value of identifiable net assets acquired on the acquisition date is more than its purchase consideration.

Accordingly, the Group closed FY2017 with total Profit Before Tax ("PBT") and Profit After Tax ("PAT") of RM95.47 million and RM80.37 million respectively, recording more than double growth of 150.4% and 190.4% as compared to RM38.13 million and RM27.68 million for FY2016 correspondingly. For FY2017, the Group's Earnings Per Share stood at 25.94 sen, a significant increase by 190.5% as compared to the 8.93 sen marked in FY2016.



Segmental contribution to FY2017 Revenue and Gross Profit

REVIEW OF OPERATING ACTIVITIES

The Group continues to focus on our three-pronged strategy, developed to effectively help expand our business by increasing our production capacity and improving our efficiency with aim to widen our income stream.

Our first initiative, which is our new warehouse in the Port Klang Free Zone, has been in commission during FY2016. The warehouse has a net usable factory storage space of approximately 94,000 sq.ft., which will be leverage for the benefit of the Group in terms of, amongst others, logistic arrangement, supplying to local customers who are eligible for import duty exemption and re-export activities.

The second initiative is our newly-renovated and refurbished processing plant located directly opposite Wisma Leon Fuat in Shah Alam. The new plant has approximately 59,370 sq.ft. of usable factory space, housing our new CNC cutting machines and the relocation of our existing CNC cutting machine that we believe will enhance efficiency as well as production capacity.

Since the newly-renovated and refurbished plant commenced operations, operation flow on site has improved significantly, particularly in material handling. Processes have become more organised and is time-efficient to monitor inventory. We are currently taking some time to fine tune some details at the plant, which is expected to be one of our key assets to enhance the Group's profitability in the long run.

Our third initiative is the proposed venture into the steel pipe manufacturing sector, which will be implemented at our new plant located at Persiaran Sultan Alauddin KU 17 (also known as Persiaran Sultan Abdul Samad) within Kawasan Perusahaan Bandar Suleiman, Pelabuhan Klang. The construction of this new plant will be executed in three phases. We kick-started Phase 1 of construction in January 2018, and is targeted to be completed by first half of 2018. Besides the land cost of approximately RM31.8 million, an additional amount of approximately RM50.0 million has been allocated as capital expenditure for Phase 1, mainly for purchase of machinery and construction of the factory.

Management Review

Presently, the progress of construction is within our targeted timeline, and we have also ordered machines for coil slitting and pipe forming. This initiative is in view with our strategy to diversify our business into providing end products that are produced by using common raw materials, which will help to reduce our exposure to market volatility in a particular sector. As many of our regular customers are purchasers of steel pipes, it is an added advantage that we are able to leverage on our existing clientele network to draw in business for this new segment. We foresee this venture to become our third core business segment and one of the significant income-generating sources for the Group in future.

On another note, we had, on 15 August 2017, through our wholly-owned subsidiary, LF Metal, acquired approximately 87.0% of the issued and paid up capital in PSP for a purchase consideration of RM3.0 million. PSP has a factory unit with steel processing facilities to provide slitting and levelling services to industries that are not within the Group's current supply chain. The acquisition of PSP is in line with the Group's strategic plans to grow our business with more diverse range of products and clientele, as well as enabling the Group to add a new engine of growth to our business activities.

Additionally, the Group had on 6 April 2017 announced the acceptance of the award of compensation offered by the Land Administrator of Wilayah Persekutuan Kuala Lumpur for the compulsory acquisition of land held under Lot No. 443 and Lot No. 507, Seksyen 92, Bandar Kuala Lumpur, for "Projek Mass Rapid Transit (MRT) Lembah Klang-Jajaran Sungai Buloh-Serdang-Putrajaya (SSP)". The affected plots of land housed the steel processing plant, office and warehouse of Supreme Steelmakers.

As a result of the compulsory acquisition, the Group recognised significant exceptional gain for FY2017. The net impact of this exceptional gain on the Group's PBT and PAT was approximately RM37.18 million and RM35.19 million respectively.

Concurrently, The Group's cash and cash equivalent at end of FY2017 recorded a parallel increase due to the compensation of RM45.84 million which had been received in the second quarter of FY2017.

Supreme Steelmakers had relocated most of its machinery, inventories and office to temporary sites. Despite the relocation, it is business as usual as we stay committed to provide the best service to our customers. In the interim, some trading and processing activities of Supreme Steelmakers are also complemented by the other fellow subsidiaries.

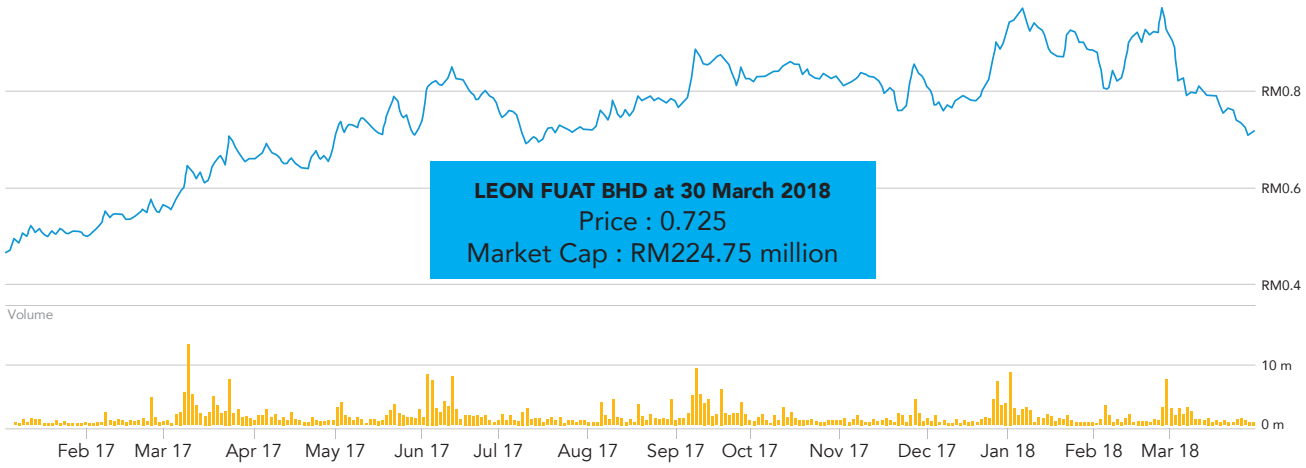
The Group's existing plants house an extensive range of processing machinery, such as cutting, levelling, shearing, profiling, bending and expanded metal processing machines. With the variation in its technologies, the Group is well-equipped to remain competitive in order to maintain its foothold at the forefront of the steel processing industry going forward. As at 31 December 2017, the Group possesses a total of 96 major machines with total Net Book Value ("NBV") of RM17.69 million, installed across its four (4) facilities, as listed below:

Machinery and Equipment	No. of Units
Coil levelling machine	7
Slitter line	1
CNC oxy-gas and plasma cutting machine	3
CNC oxy-gas cutting machine	3
CNC plasma cutting machine	3
CNC laser cutting machine	9
CNC waterjet cutting machine	4
Shearing machine	10
Portable plasma cutting machine	1
Portable oxy-gas cutting machine	14
Expanded metal machine	3
Bandsaw machine	29
High precision CNC press brake machine	7
Surface grinding machine	1
CNC turret punching machine	1
Total	**96**

Share Price Performance

As at 30 March 2018, our share price closed at RM0.725, with a total market capitalisation of RM224.75 million. The highest and lowest share prices was RM0.91 and RM0.465 respectively for FY2017, with average daily trading volume at 1,519,027 units.

Management Review



January 2017 - March 2018 Share Price Performance & Trading Volume

Source : Wall Street Journal

Dividend

The final single-tier dividend of 1.5 sen per share in respect of the financial year ended 31 December 2016, amounting to RM4.65 million, which had been approved by the shareholders at the last Annual General Meeting held on 6 June 2017 was paid on 25 July 2017.

For FY2017, the Board is proposing a final single-tier-dividend of 1.5 sen per share amounting to RM4.65 million, which is subject to shareholders' approval at the Annual General Meeting to be held on 6 June 2018. This will bring the total dividend pay-out ratio for FY2017 to approximately 5.8%, lower than the usual practice of up to 30% of our net profit. The Board believes that this is an appropriate decision in order to reduce our reliance on bank borrowings for the materialisation of our upcoming business growth strategies and to preserve funds for capital expenditure for FY2018 as well as to maintain a healthier financial and gearing ratio for the coming financial year.

ANTICIPATED OR KNOWN RISKS

Within our operations, the Group is exposed to several day-to-day risks, which failure to manage, may to a certain extent, impact our profitability.

One of the key issues that the Group is exposed to is the fluctuation in price of steel materials, often driven by factors such as global economic conditions, production volume of steel mills and the industry's supply and demand, among others. To avoid any significant impact on our operating costs and profit, we consistently monitor the prices of steel materials and our inventory levels closely throughout the year, and achieve better margins over the years.

The fluctuation in foreign currency exchange may impose a risk of increased cost of materials for the Group as we source for some materials such as flat and long stainless steel, alloy steel and carbon steel from overseas, namely Japan, Europe, China and Korea, among others. Even so, the Group has in place several hedging facilities with our bankers such as forward contracts and foreign currency accounts, which can be utilised should the need arises.

The realised loss on foreign exchange recorded for FY2017 was insignificant, at approximately RM0.04 million. Our purchases that are denominated in foreign currencies accounted for approximately 44.4% of our total purchase costs for FY2017, of which approximately 42.1%, 1.1%, 1.0% and 0.2% were transacted in USD, EUR, SGD and AUD respectively.

With our position as an intermediary between the steel millers and industrial end-users, the Group may be exposed to the risk of high inventory holding cost. As our customers usually expect product delivery under short notice, we ensure to keep sufficient level of inventory to provide timely deliveries to our customers at all times.

For FY2017, our inventory turnover period was approximately 195 days, as compared to approximately 173 days recorded for FY2016. Nevertheless, we do not experience any material impact from high inventory holding as our steel products do not have a definite shelf life and do not become obsolete.

Last but not least, our business is exposed to credit risks arising from trade receivables as we generally grant out customers credit periods of between 30 days to 120 days. In the event of significant delay in debt collection, we will have to provide for impairment loss on trade receivables or write off trade receivables as bad debts, which may adversely affect our financial performance.

For FY2017, the Group had written off approximately RM0.27 million in bad debts, which had no significant impact on our financial performance. As at the end of FY2017, our provision for impairment loss on trade receivables stood at approximately RM0.28 million, representing approximately 0.2% of our total trade receivables.

FORWARD LOOKING STATEMENT

Malaysia's gross domestic product ("GDP") registered a strong growth of 5.9% in 2017 as compared to 4.2% for the year of 2016, fuelled by the private sector as the primary driver of growth. Looking ahead, Malaysia's GDP is expected to maintain its favourable growth for 2018, strongly driven by domestic demand.

The positive growth momentum will continue to benefit from spill overs from better global growth on domestic economic activity. Inflation in Malaysia is also expected to moderate, mainly due to smaller contribution from global cost factors and stronger Ringgit as compared to 2017.

On the supply side, the manufacturing and services sectors remained the key drivers of growth across most economic sectors for 2017, and are expected to benefit from continued growth across domestic and export-oriented sub-sectors in 2018. We believe that the Group will be able to ride along this wave as most of our customers are manufacturers and construction firms that are the main consumer of flat steel products and long steel products respectively.

Meanwhile, the outlook for the steel segment is looking promising as 2018 is expected to be another good year for steel companies. Local steel prices continue to be regulated by safeguard duties on imported steel until April 2020, and local steel demand is expected to gradually recover backed by the rollout of mega infrastructure projects, such as MRT2 (Sungai Buloh – Serdang – Putrajaya line), Sungai Besi – Ulu Kelang Elevated Highway (SUKE), East Klang Valley Expressway (EKVE), LRT3 (Bandar Utama – Klang line), Pan Borneo Highway (PBH) – Sarawak, PBH Sabah, Gemas – JB, West Coast Expressway (WCE), Damansara – Shah Alam Elevated Highway (DASH), East Coast Rail Line (ECRL), and High Speed Rail (HSR) (KL – Singapore).

As for the Group, we will be focused on prepping our new assets for operations as we expect these additions to benefit the Group in the middle to long run, providing further growth opportunities for our business as well as expanding our market share in the industry.

We are also incorporating the usage of IT to help fine tune our daily processes via the commissioning of two software programmes, one is for mobile workforce productivity through end-to-end automation and intelligence capabilities, while the other is for planners to visualise and sequence schedules as required, and to improve communication of order planning to the production floor and office. These solutions are to enhance our production capacity and speedier satisfaction of customers' orders.

We remain cautiously positive that the Group will be able to maintain its competitiveness to weather through the headwind and generate positive results given the continued stringent and prudent measures applied on the Group's operations.

Dato' Sri Ooi Bin Keong
Group Managing Director

Sustainability Report

Board Commitment

"We believe we have to think in terms of the needs of society in delivering a better quality of life"

The Board of Directors having considered sustainability issues as a critical part of the long-term strategic plan in value creation for all its stakeholders, need to continuously monitor and manage evolving changes in relation to material Environmental, Social and Governance ("ESG") factors for better overall performance. This inaugural Sustainability Report outlines the core sustainability best practices adopted by the Group to strengthen the day-to-day business activities and to mitigate the relevant economic risk challenges. The Board has ultimate responsibility for the Company's Sustainability Report 2017.

We are confident that the Group's commitment to prudent governance compliance, sound sustainability practices, coupled with strong investment in human capital places us in a right momentum to drive for future growth.

Scope of Report

Reporting period	1 January 2017 to 31 December 2017
Reporting cycle	Annually
Coverage	This report covers only three (3) most active operating business units with focus on key risks and opportunities based on the materiality assessment exercise. Unless otherwise stated, the information presented in this Report covers only business activities in Malaysia.
Reporting guidelines	Sustainable Development Goals, ESG principles and Bursa Malaysia's Sustainability Reporting Guide.

Sustainability Reporting Framework

In our strategy we have a clear preference for our home markets, supported by a healthy operations in the value chain and market leadership. We seek to make our Group stronger in balance with the challenging market environment by deploying the best people, good business ethics and product innovation.

Our key values of environment protection, community services and workplace safety are essential components to guide the Group's growth going forward in ensuring its competitive advantage in the marketplace and in building a long-term product brand value.

This Sustainability Report offers an overview of what we are trying to achieve under our sustainable business strategy together with our progress to date. However, no targets were established in FY2017 to measure its progress against its sustainability goals. Moving forward, clear targets will be established.

Phase	Approach To Sustainability Reporting
1	Define sustainability within the Group
2	Engage with stakeholders
3	Set goals and commitments
4	Establish recording systems and reporting processes
5	Track progress, communicate actions and monitor results against expectations

THE GLOBAL GOALS
For Sustainable Development

Sustainability Report

Strategic Priorities

We are adapting to the changes brought about by technology, changing customer behaviour and regulation. To achieve this, we are focusing on three strategic priorities whilst building the best team.

Focus Areas	Environmental	Social	Governance
Strategic Goals	To adopt best practice solutions through innovative processes and green technology applications.	To act as catalysts for boosting community development and support long-term talent initiatives.	To leverage on positive growth results through our holistic and synergetic core business activities.
Material Matters	• Environmental protection with 3 Rs strategy • Material efficiency • Electricity and water usage • Waste, noise and effluent management	• Equal employment and employee engagement • Talent development • Community services	• Right culture and shared values • Safety and health • Client centric services • Value for shareholders

Materiality Assessment

Effective management of risks and opportunities is vital for successful realisation of our strategic objectives by being a profitable Group within our market sectors. A comprehensive materiality assessment was conducted in the last quarter of FY2017 using staff inputs gathered from the various class of stakeholders tabulated as follows:

Class of Stakeholders	Low	Medium	High
Business Partners	- Supporting local supplier - Protecting suppliers' rights	- Bribery and corruption - Anti-competition	- Climate change - Occupational Safety and Health ("OSH") - Public safety
Customers	- Discrimination	- Responsible marketing - Quality assurance - Eco-friendly products	- Business performance - Customer satisfaction - Customer privacy
Employees	- Employee volunteerism - Labour management	- Diversity and equal opportunity - Employee satisfaction	- Retaining employees - Career development
Regulators	- Community engagement	- Public policy - Nation building	- Waste and effluent management
Suppliers & Contractors	- Benefits to local communities	- Procurement and performance	
Shareholders & Analysts	- Local hiring	- Energy efficiency	- Stakeholder engagement

Based on the materiality assessment outcome the top 5 principal risks are:

Principal Risks	Mitigation Factors
OSH	Continuous OSH awareness programme with focus on processing control safety measures.
Customer satisfaction	Regular customer survey to determine level of customer satisfaction and improvement suggestions.
Career development	Annual staff appraisal and promotion based on merits.
Waste, noise and effluent management	Strict compliance to regulatory requirements and local council standards.
Stakeholder engagement	Engage the investment community more regularly upon the release of important corporate information.

Sustainability Action Plan

Environmental

Raw materials form an essential part of our core process and the treatment of waste has a major negative environmental impact. We focus on purchasing materials with awareness, reducing our need where possible using alternative material less harmful to the environment. Simultaneously, we are working on optimising waste separation, reuse and high-quality recycling with a view to reduce overall primary material usage.

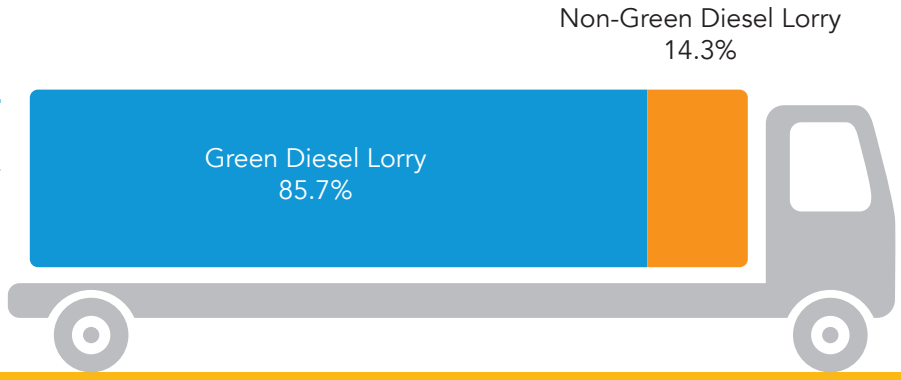
Knowledge and expertise about the optimal use and reuse of resources is readily available in our operating companies. We currently have insufficient insights into the reporting process and hope to tabulate these indicators next year with a clear methodology documentation to be duly established.

Materiality Aspects	Importance	Focus in FY2017
Environmental protection by advocating the use of eco-friendly processing methods	Continuously address environmental footprint with the use of material that meet environmental and social sustainability.	Capital expenditure of some RM3.26 million, including the use of green engine for the logistic fleet.
Material efficiency by aligning customers' sustainability needs on raw material usage	Innovative product design that consume less raw resources.	Customers' satisfaction survey and processes to reduce material wastage.
Energy and water consumption management	Monthly audit on usage to reduce cost for competitive advantage.	In 2017, our Group has more than 3,000 customers due to we are able to meet specific product requirements of our customers, as well as serve customers in multiple industries, each used for differing applications.
Waste, noise and effluent management	Strict adherence to regulatory requirements and local council approvals.	Scheduled disposal of hydraulic oil waste and regular conduct of noise management test.

Proactive initiatives and positive actions are taken to contribute towards the lowering of carbon emission and environmental pollution by the following management programmes:

LOGISTIC FLEET MANAGEMENT

24 out of 28 Lorries are using Green Technology



WATER CONSUMPTION TREND

Water Usage (M3)

FY2015 35,071

FY2016 51,697

FY2017 40,261

ELECTRICITY CONSUMPTION TREND

Electricity Usage (KW)

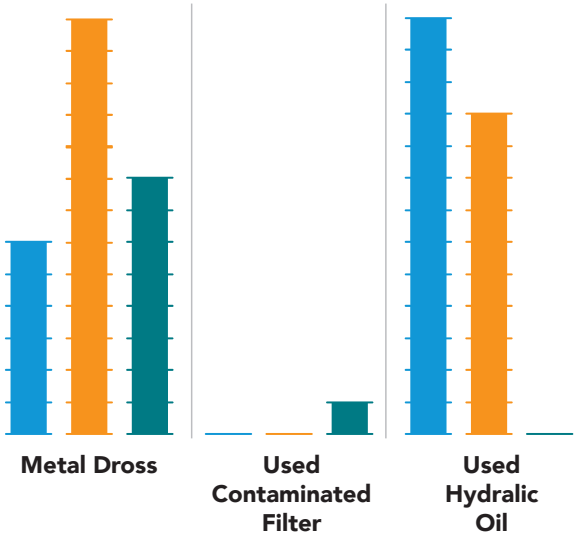
FY2015 3,500,000

FY2016 3,613,019

FY2017 3,468,131

WASTE MANAGEMENT TREND

Disposal of Scheduled Waste (KG)



FY	SW 104 (Metal Dross)	SW 410 (Used Contaminated Filter)	SW 307 (Used Hydralic Oil)
2015	2,252	0	5,000
2016	4,849	0	3,724
2017	2,810	260	0

Sustainability Report

Social

The development of our employees, retention of knowledge through internal succession and investing in technology driven environment are major key success factors for the Group. We want our employees to be healthy and happy at work.

At the same time, the changing market requires a different way of working and thinking in terms of the customers' needs. As a result, our employees feel a sense of responsibility for their own work and are motivated to innovate and modernise.

More human capital investment on training during the year:

- To translate the training requirements into high-quality programmes;
- To disseminate knowledge and to generate new technical skillsets and insights; and
- To connect operating companies through actively working on creating an internal network to prepare our employees for the increasingly complex and knowledge-intensive marketplace.

Materiality Aspects	Importance	Focus in FY2017
Equal employment and employee engagement	Maintain diversity in workforce regardless of racial, age, gender and educational background.	Committed to workplace diversity as show in the tabulation below.
Talent development	Adequate talent succession pipeline in place.	Ensure the right culture and ethos at Group level cascaded effectively.
Educational scholarship	The Group contributes regularly to support educational initiatives, especially to local community.	In FY2017 a sum of RM 61,000 was donated for educational and community activities.
Community services	Involvement by staff in regular community activities.	Visited Old Folks Home and participated in Bursa's Charity Run.

Workplace Diversity for Malaysian Operations

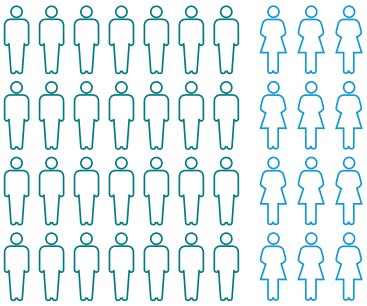
Workforce Data	FY2015	FY2016	FY2017
Total Number of Employees	348	356	371
Male	265	266	280
Female	83	90	91
Employees by Age Group			
<30	119	117	117
30 – 40	139	148	150
41 – 50	56	54	58
>50	34	37	46
Employees by Ethnicity			
Bumiputera	88	91	102
Non-Bumiputera	154	155	156
Foreigners	106	110	113
% of Female Employees			
Total Employees	23.9%	25.3%	24.5%
Board of Directors	0%	0%	0%
Senior Management	0%	0%	0%
Middle Management	42.9%	40.0%	42.3%
Executive/ Supervisory	70.8%	75.3%	68.0%
Non-Executive	11.9%	10.6%	11.2%
New Hires Data			
Total Number of New Hires	85	93	90
Male	63	73	71
Female	22	20	19
Turnover rate (%)	**1.8%**	**2.0%**	**1.6%**

** Note : the above data covers only our three (3) most active operating business units.*

Sustainability Report

EMPLOYEE STRUCTURE (FY2017)

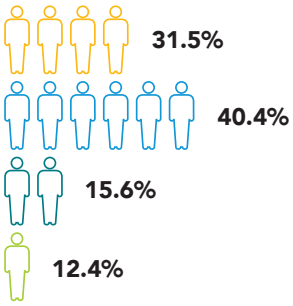
Male vs Female



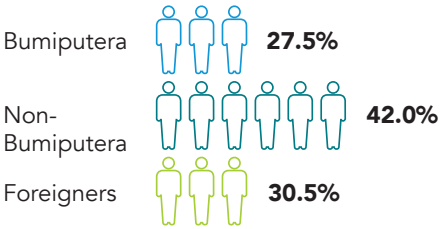
Male **75.5%**

Female **24.5%**

By Age



By Ethnicity



Staff Training For Executives and Non-Excecutives Statistics

FY	Total Hours Of Training For Executives	Total Hours Of Training For Non-Executives
2017	1,319	780
2016	1,060	528
2015	369	415

Annual Dinner 2017

Staff Technical Training

Visit to En Yuan Old Folks Home on 17/12/2017

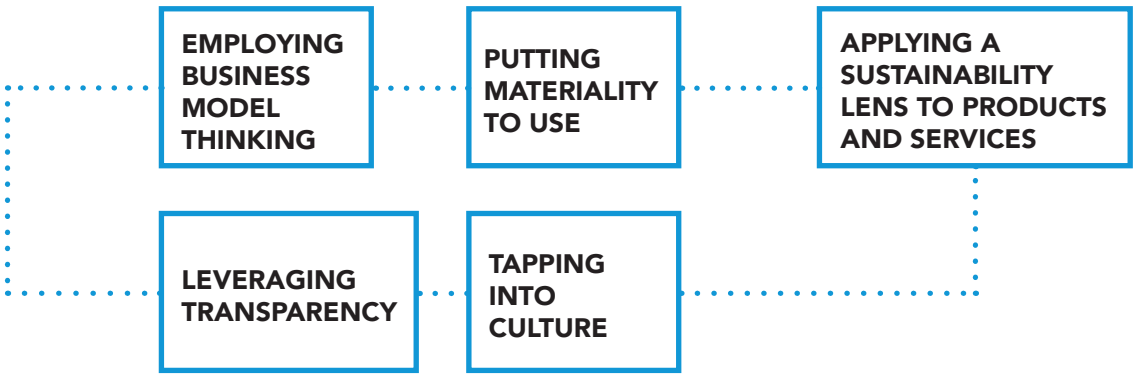
Participate in Bursa Charity Run on 14/09/2017

Governance

Acting with integrity is an absolute condition for obtaining and keeping the confidence of all our stakeholders, such as suppliers, creditors, bankers and employees. The goodwill and commitment of all Group's employees to adhere and comply with the Group's Code of Conduct form the basis for acting with integrity. A periodic review is needed to ensure that the Code of Conduct continues to be relevant.

Materiality Aspects	Importance	Focus in FY2017
Right culture and shared values	Instil best practices and accountability culture to deliver continuous high performance.	Awareness programme on a continuous basis to enhance staff performance and self-commitment.
Safety and health	Promote Group-wide safe and healthy working environment.	Award for accident-free team performance on a yearly basis.
Supply chain dynamics	Selection of key business partners essential for continuous high performance achievement.	Monitor of vendors' performance standards and annual evaluation of ethical business conduct.
Client centric services	Emphasise on excellent customer service with focus on strict adhere to all regulatory and safety requirements.	Online client feedback.
Value for shareholders	Policy to declare an annual dividend rate of up to 30 % of profit after tax.	Dividend of 1.5 sen per share is proposed for FY2017.

We have a corporate culture in which safety is continually embedded in the way we do things and work on safety for all stakeholders, using the safety values and rules as follows:



Sustainability Report

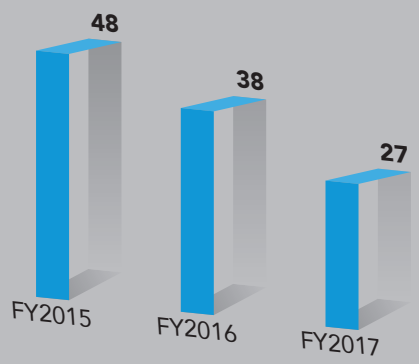
Values

Consistent Safety is part of everything we do.	**Open** I address others about unsafe behavious and safety.	**Honest** I report all accidents and near accidents.
Responsibility I am responsible for my own safety and for that of others.	**Action** I suspend unsafe work; if needed, I stop work.	
Willingness to learn I want to learn from accidents and near accidents.	**Respect** I accept being addressed about safety.	

Safety Rules

- Use the prescribed personal protective equipment (PPE).
- Make sure the workplace is safely cordoned off.
- Use the correct (approved) work equipment and tools.
- Make sure the workplace kept tidy.
- Do the LMRS (Last Minute Risk Analysis).
- Never work or drive under the influence of alcohol and/or drugs.
- Don't smoke outside the designated areas.

SAFETY RECORD TREND
Accident Case



OSH Team

OSH Training

Corporate Governance Overview Statement

The Board of Directors of Leon Fuat Berhad is committed to ensuring that the Company and its subsidiaries comply with the high standards of corporate governance practices vis-à-vis the latest Malaysian Code on Corporate Governance issued by the Securities Commission Malaysia on 26 April 2017 ("MCCG") and in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") as part of the Board's fundamental duties to deliver value to the Company's shareholders. In order to uphold good corporate ethics, the Board is committed to continuously evaluate and where appropriate, implement relevant policies and procedures to ensure adherence to good corporate governance.

The following Corporate Government Overview Statement outlines the application of the principles of the MCCG which should be read together with the Corporate Governance Report detailing the application by the Group of the corporate governance practices which is available on the Company's website, www.leonfuat.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Board is responsible for the proper stewardship of the Group to ensure the maximisation of shareholders' value and safeguarding the stakeholders' interests including securing sustainable long-term financial results and increasing shareholders' value, with proper social and environmental considerations.

The Board is also responsible to promote and ensure effective execution of good corporate governance practice and a corporate culture of ethical conduct especially among its members and generally that would permeates throughout the Company vide effective communication including the establishment and adoption of the Board Charter by the Board which sets out the roles and responsibilities of the Board and that of the Management.

The Company is led and managed by the Board with a wide range of experience, board skills and qualifications. The Board has the following major responsibilities, which facilitate the discharge of the Board's fiduciary and leadership functions in the pursuit of the Group's objective:

(a) Adopting and reviewing the strategic plan of the Group;

(b) Overseeing the conduct of the Group's business to evaluate whether the business is being properly managed and sustainable;

(c) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;

(d) Succession planning, including appointing, training, fixing the remuneration of and where appropriate, replacing director and senior management personnel of the Group;

(e) Developing and implementing an investor relations programme for the Group and pro-active communication with shareholders at the general meetings of the Company; and

(f) Reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Corporate Governance Overview Statement

The matters reserved for collective decision of the Board include:

(a) Conduct of the Board

- Appointment of Directors based on the recommendations by the Nomination Committee in accordance with the selection and recruitment process of the Company and review of the service contract of Executive Directors (if any) annually;
- Appointment and removal of Company Secretaries;
- Appointment and removal of Board Committees and members;
- Approval of terms of reference of Board Committees and amendments to such terms as appropriate;
- Providing governance on matters requiring corporate justice and integrity;
- Protecting the interests and providing the information needs of various stakeholders; and
- Ensuring compliance with all relevant regulations and legislation.

(b) Remuneration

- Upon recommendation by the Remuneration Committee on the directors' fees/remuneration packages of the Directors, the Board shall deliberate and make recommendation of the directors' fees and benefits to the shareholders for approval;
- Approval of the remuneration structure and policy for Directors and Key Management Personnel;
- Approval of remuneration packages of Key Management Personnel; and
- Approval of bonus/incentives of the Executive Directors and Key Management Personnel within the terms of the agreed remuneration policy and based on achievement of pre-determined performance targets which are closely aligned to the Company's objectives.

(c) Operational

- Approval of business strategic and group operational plan;
- Ongoing review of performance against business strategic and group operational plan, including monitoring of key risks and risk management policies and actions;
- Approval of capital expenditure as may be determined from time to time proposed by Management;
- Approval of investment or divestment decision of the Group;
- Approval of changes in the major activities of the Group; and
- Approval of the limits of authority for the Company's activities/transactions.

(d) Financial

- Approval of interim and annual financial statements;
- Approval for the release of the Company's announcements;
- Approval of Annual Report and statutory accounts of the Group;
- Approval of interim dividends, the recommendation of final dividends and the making of any other distribution;
- Adoption of accounting policies; and

- Review the effectiveness of the Group's system of internal control. This function is delegated to the Audit Committee which will in turn report to the Board on its findings.

(e) Other matters

- The granting of powers of attorney by the Company;
- The entering into any indemnities or guarantees; and
- Any decision reasonably likely to have a material impact on the Company or Group from any perspective, including, but not limited to financial, operational or strategy.

Besides the Board, other Board Committees, namely the Audit Committee, Nomination Committee and Remuneration Committee have been established with respective written terms of reference to bear some of the responsibilities of the Board in order to ensure the proper discharge of the Board's fiduciary duties and responsibilities.

The Board had adopted a Board Charter which sets out amongst others, the roles, functions, responsibilities, structure and procedures of the Board of Directors depicted as follows:

- Board responsibilities;
- Board membership guidelines;
- Board structures and procedures;
- Relationship of the Board with management;
- Directors' remuneration; and
- Relationship of the Board with shareholders.

The Board Charter will be reviewed from time to time to ensure that it remains current and relevant. The Board Charter is published on the Company's website, www.leonfuat.com.my.

The Chairman and the Group Managing Director of the Company are held by different individual, to ensure balance of power and authority. The Chairman is a Non-Executive member of the Board and he is responsible for ensuring the integrity and effectiveness of the governance processes of the Board and will consult with the Board promptly over any matter of major concern.

The Chairman will act as facilitator at meetings of the Board and ensure that no Board member, whether executive or non-executive, dominates the discussion, and that appropriate discussion takes place and that relevant opinion among Board members are forthcoming.

On the other hand, the key roles and functions of the Group Managing Director are to ensure the day to day business affairs of the Group is effectively managed as well as ensuring the Group's strategies and corporate policies are effectively implemented and monitored.

The corporate secretarial function of the Company has been outsourced to Archer Corporate Services Sdn Bhd. The main responsibilities of the Company Secretaries, among others, are provision of secretarial services and keeping the Board abreast and appraised of regulatory legislations and corporate governance guidelines from time to time.

The Board has adopted a Code of Ethics and Conduct which dictates the ethics and standard of good conduct expected of every director.

The Group has in place a Whistle-Blowing Policy which provides a platform where an individual can raise a concern about a risk, malpractice or wrongdoing that may affect others such as customers, suppliers, staff, the Group or public interest. Individuals are encouraged to raise genuine concerns at the earliest opportunity and in an appropriate way.

The Whistle-Blowing Policy is published at the Company's website at www.leonfuat.com.my. The Board will regularly review the same and make any changes it deemed necessary or desirable to remain consistent with the Board's objectives and responsibilities.

Corporate Governance Overview Statement

The Board members have ready and unrestricted access to the following parties in carrying out its roles and responsibilities to discharge their duties effectively:

- To all Key Management Personnel for obtaining accurate and timely information pertaining to the Group;
- To the Company Secretary for procedural and regulatory advice, board policies and procedures; and
- To the External and Internal Auditors of the Group for advice on accounting and internal control related issues.

The Board members are also able to seek independent professional advice in the course of their duties, for those matters that may have an impact on the Group, at the expense of the Company as may be mutually agreed by the Board with the Chairman and/or the Group Managing Director.

To facilitate robust board discussion, Board meetings agenda together with meeting papers are distributed to the Directors at least seven (7) days before Board meetings to ensure that they have sufficient time to review and be prepared for discussion. The information provided can be of a financial or non-financial in nature, quantitative or qualitative to facilitate the review by the Board prior to arriving at a sound and informed decision. Key Management Personnel and senior management may be invited to attend these meetings in order for the Board to seek explanation and clarification on matters being tabled.

The Board and the principal officers of the Group are advised and reminded quarterly of the closed periods for dealings in the securities of the Company based on the targeted date of announcement of the Group's interim financial results.

The Directors are encouraged to attend appropriate training programmes to equip themselves with the relevant knowledge and keep abreast of latest regulatory developments and other development to effectively discharge their duties as Directors.

The training programmes attended by the Directors during the financial year under review are summarised as follows:

Name	Date of Training	Subject
Dato' Ng Ah Hock @ Ng Soon Por Dato' Sri Ooi Bin Keong Ooi Kong Tiong Ooi Seng Khong Ng Kok Teong Ooi Shang How Chan Kee Loin Tan Sack Sen	18 November 2017	Sustainability Report and Management Discussion & Analysis - What a Director Needs To Know
Tan Did Heng	7 & 8 November 2017	Updates of the 2016 & 2017 IFRS-Compliant MFRS-Preparing MFRS-Compliant Financial Statement in 2016, 2017 and Thereafter
	20 November 2017	2018 Budget Seminar

The Board is mindful of the need for sustainability of the Group's business and ensures the Group's performance, business direction and operational requirements take into consideration the economic, environmental and social aspects.

In line with the principles of sustainability, the Board promotes good ethics and honesty in all aspects of the business dealings to create long term relationship with customers and suppliers. Good corporate governance, environmental consciousness and employee development are also practiced by the Group as the Board believes these will translate into better transparency, efficiency and reduced operational risks. Three of our subsidiaries are accredited with ISO 9001 relating to quality management system to ensure continual improvement in all aspects of the Group's business.

The Group's sustainability agenda is disclosed on page 26 to page 36 of this Annual Report.

II. Board Composition

The Board currently comprises five (5) Executive Directors including the Group Managing Director and four (4) Independent Non-Executive Directors. This composition ensures that at least one third of the Board comprises independent directors in accordance with the requirement of paragraph 15.02 of the Listing Requirements of Bursa Securities ("Listing Requirements").

The presence of the Independent Non-Executive Directors ensures that views, consideration, judgment and discretion exercised by the Board in decision making remains objective, unbiased and independent whilst assuring the interest of other parties such as minority shareholders are addressed and adequately protected as well as being accorded with due consideration.

The Board seeks to ensure that its membership reflects diversity covering a combination of skills, experience, race, age, gender, educational and professional background and other relevant personal attributes in providing a range of perspectives and insights to enable it to discharge its duties and responsibilities effectively.

The Board will consider new appointment to be Board to take into account the specific skills and experience, independence and knowledge needed to ensure an effective Board and the diversity benefits each candidate can bring to the overall Board composition.

On gender diversity, the Board recognising the emerging targets for companies to move towards having a certain number or percentage of female representation and will take opportunities to increase the number of female Board Members where that is consistent with other skills, diversity and requirements of the Board.

The Board has delegated the role of identification and selection of potential Board members to the Nomination Committee which in turn makes its recommendations to the Board. The Nomination Committee will have first considered the existing composition of the Board of Directors and the needs and requirements of the Board and will have identified the number of vacancies in order to determine the gaps in skills and attributes that should be filled in.

The candidate selection process will avoid discrimination and must be governed, in pursuit of the Company interest, by merit as the main criterion of selection, in a process that requires a search for the most qualified candidates. The Nomination Committee can consider variety of approaches and sources to ensure that is it able to identify the most suitable candidates including sourcing from a directors' registry and open advertisements or the use of independent search firms.

In selecting the potential candidates, the criteria to be considered by the Nomination Committee will include:-

(a) Professional competencies, balance of skills, knowledge and experience including any former board experience;

(b) The nature of existing positions and relationships including board positions that may affect the potential candidate's ability to exercise independent judgment or present any potential conflicts of interest;

Corporate Governance Overview Statement

(c) Assess the potential candidate with regard to the diversity objective of the Company;

(d) The number of existing directorships held by the potential candidate, in particular on the boards of listed companies as well as other significant commitments that may demand the potential candidate's attention;

(e) Ability to dedicate sufficient time and attention to carry out the duties as a director;

(f) For proposed appointment as Independent Director of the Board, the independence criteria required of an independent director under applicable laws and regulations; and

(g) Personal and professional integrity of the potential candidate.

The ultimate decision on the appointment of new Board member will be decided by the Board after considering the recommendation from the Nomination Committee.

The Nomination Committee undertakes annual assessment of the Board, Board Committees and individual Director based on four (4) main areas covering Board Structure, Board Operations, Board Roles and Responsibilities, as well as Board Committees and Board Chairman's Roles and Responsibilities.

For Director's Peer Evaluation, the assessment criteria include contribution to interaction, quality of input and understanding of role as a member of the Board.

The Board has adopted the legal and regulatory definition of Independent Director set forth in the Listing Requirements, amongst other criteria to assess independent. The Nomination Committee has been tasked to carry out annual assessment of the independence of the Independent Directors annually, upon admission and when any new interest or relationship develops.

As none of the Independent Non-Executive Director has served the Company for nine (9) years or a cumulative period of nine (9) years, the recommendation to seek shareholders' approval to retain the status of Independent Directors of nine (9) years on the Board is not applicable.

The Directors of the Company are expected to devote sufficient time to carry out their duties and responsibilities and are required to notify the Chairman of the Board before accepting any new directorship.

During the financial year under review, six (6) board meetings were held with full attendance from the members of the Board.

All the members of the Board hold less than five (5) directorships in listed issuer, in compliance with paragraph 15.06 of the Listing Requirements thus expected to dedicate sufficient time and effort in discharging their duties and responsibilities effectively.

III. Remuneration

The Remuneration Committee of the Board, now consists of all Independent Non-Executive Directors, is responsible for reviewing and recommending to the Board the policy and framework of the remuneration packages of the Executive Directors and Key Management Personnel. The Board believes that fair remuneration is important to attract, retain and motivate Directors and Key Management Personnel needed to run and manage the Company successfully.

The following are the types and criteria for determination of the remuneration packages of Directors and/or Key Management Personnel, among others, provided in the remuneration policy which was recommended by the Remuneration Committee and adopted by the Board:

- The remuneration to Board members and Key Management Personnel involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals;

- The level and composition of remuneration is reasonable and sufficient to reward, retain and motivate Directors and Key Management Personnel of the quality required to run the Company successfully;

- The relationship of remuneration to performance is clear and meets appropriate performance benchmarks, commensurate with the position and responsibilities of the Directors and Key Management Personnel;

- Payment of performance-related remuneration to Executive Directors and/or Key Management Personnel is linked to individual and corporate performance measured against the achievement of pre-determined performance targets which are closely aligned to the Company's objectives;

- There should be appropriate procedures and framework in place for setting key performance targets whether financial or non-financial and the Company applies pre-determined benchmarks which must be met in rewarding the Executive Directors and/or Key Management Personnel accordingly; and

- Remuneration of Non-Executive Directors is determined with regards to the Company's needs to maintain appropriately experienced and qualified Board members in accordance with competitive pressures in the marketplace.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit committee

The Audit Committee is entrusted by the Board to ensure effectiveness of the Group's risk management and internal control systems. The Audit Committee is supported by the Risk Management Working Group comprising representatives from the subsidiary companies.

The activities of the outsourced Internal Auditors are reported regularly to the Audit Committee which provides the Board with the required assurance in relation to the adequacy and integrity of the Group's system of internal controls.

II. Risk management and internal control framework

As an integral component of the Group's corporate governance, the Audit Committee and/or Risk Management Working Group as the case may be, in their risk assessment and management efforts, will assume, amongst others, the following duties and responsibilities:

- To review and discuss with Management the risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes for risk assessment and risk management;

- To review and discuss with management the risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, product risk and reputation risk, as well as the guidelines, policies and processes for monitoring and mitigate such risks;

- To receive, as and when appropriate, reports from the Internal Auditors on the results of risk management reviews and assessments;

- To review disclosure regarding the risk management and internal control statement of the Group;

- To review reports on selected risk topics as the Audit Committee deems appropriate from time to time;

- To be given unrestricted access to the Management and to the accurate and complete information pertaining to the Group including from auditors and/or consultants; and

- To discharge any other duties or responsibilities delegated to the Audit Committee by the Board.

The risk assessment approach can be summarised as follows:

- Identify relevant business objectives;

- Identify events that could affect the achievement of objectives;

Corporate Governance Overview Statement

- Determine risk tolerance;
- Assess inherent likelihood and impact of the risks;
- Evaluate the portfolio of risks and determine risk responses; and
- Assess residual likelihood and impact of risks.
- Information on the Group's risk management and internal control is presented in the Statement on Risk Management and Internal Control set out on pages 52 to 53 of this Annual Report.

The Audit Committee has established the relevant policies and procedures to assess the suitability and independence of External Auditors.

The assessment has been conducted on an annual basis by the Chairman of Audit Committee based on the adopted assessment checklist. The criteria for the assessment encompasses independence, competency, reliability and compliance. An independent party or the Company Secretary may assist the Audit Committee in the evaluation process and the assessment result will then be presented to the Board of Directors for deliberation and consideration.

During the financial year under review, written confirmation was obtained from the External Auditors on their independence in accordance with the independence requirements of the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants. Confirmations have also been obtained from the External Auditors that their firm and relevant partner in-charge had duly registered with the Audit Oversight Board of the Securities Commission. The Board, having reviewed the recommendation of the Audit Committee who had assessed the suitability and independence of the External Auditors against the evaluation criteria established, agreed and had recommended to the shareholders for approval the proposed re-appointment of the External Auditors for financial year 2017.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

- **Compliance of Financial Statements with Applicable Financial Reporting Standards**

  The Audit Committee is tasked to assist the Board in fulfilling its fiduciary responsibilities and ensuring the financial statements comply with approved financial reporting standard, as laid down in the Audit Committee's Terms of Reference, which are available for reference at the Company's website at www.leonfuat.com.my.

  The Board is responsible to ensure that the financial statements are properly drawn up in accordance with the provisions of the Companies Act 2016 and approved accounting standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of financial year ended 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

  The Directors are satisfied that in preparing the financial statements of the Group for the FY2017, the Group has adopted suitable accounting policies and applied them consistently, prudently and reasonably. The Directors also consider that all applicable approved accounting standards have been followed in the preparation of the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The financial statements have been prepared on the going concern basis.

  The Directors are responsible for ensuring that the Group keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the financial statements comply with the Act.

- **Corporate Disclosure Policies and Procedures**

  An Investors Relation Policy that will serves as the guide for the Group when communicating with shareholders and public including investors, analysts and other stakeholders has been established and adopted by the Board for effective two-way communication. The Company aims to ensure all shareholders and stakeholders have equal and adequate access to the information of the Company, including the Company's business strategies and updates, stock and financial performance, in a timely manner.

  The Board ensures that the Company complies with all applicable corporate disclosure laws and regulations. The release of the Group's financial and non-financial information in any form to the public shall be made in accordance with the Group's internal policies and procedures and complies with applicable laws and regulations. The draft announcement of the Company is prepared by the Company Secretary and reviewed by the Executive Director/Chief Financial Officer before it is circulated to the Board for review and approval.

  The Investors Relation Policy is published at the Company website at www.leonfuat.com.my. The Board will regularly review the same and make any changes it deemed necessary or desirable to remain consistent with the Board's objectives and responsibilities.

- **Dissemination of Information**

  The Company's website, provides a platform where the public can access to the Company's information including its products and services, share prices, financial results, future plan and media releases as well as the Company's announcements made to Bursa Malaysia. All announcements by the Company are uploaded to its website as soon as practicable after the same are released to Bursa Securities.

II. Annual General Meetings

The notice convening the annual general meeting will be sent to the shareholders at least twenty-one days before the annual general meeting in accordance with the provisions of the Listing Requirements of Bursa Securities and the Company's Constitution. Notice of general meetings will also be advertised in the newspaper giving shareholders sufficient time to prepare and/or to appoint proxy to attend and vote for their behalf.

Pursuant to the Listing Requirements, all resolutions proposed for shareholders' approval at the general meeting of the Company will be voted by poll, and the Company will appoint a scrutineer to validate the votes cast at the meeting. The Company will consider electronic voting and leverage on technology to facilitate greater shareholders' participation in general meetings at appropriate time.

The Board believes that general meetings are the most effective communication platform between the Company and shareholders. The Board will treat the annual general meetings and/or extraordinary general meetings as the most direct and effective way for the Company to reach out to shareholders and stakeholders. It serves as a platform for the Company to convey business plans and strategies and for the shareholders to seek clarification or raise any queries on the resolutions to be tabled at the meeting, as well as to allow the shareholder to share their view and provide feedback on matters relating to the Group.

The Company ensures that all members of the Board including the Chairman of the Board and the respective Chairmen of the Audit Committee, Nomination Committee and Remuneration Committee attend the general meetings and available to address shareholders' queries at these meetings. The external auditors should also be present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

The above Corporate Governance Overview Statement is made in accordance with the resolution passed at the Board of Directors' meeting held on 9 April 2018.

Report of the Nomination Committee

COMPOSITION OF THE NOMINATION COMMITTEE

Directors	Position
Chan Kee Loin	Chairman of Nomination Committee & Senior Independent Non-Executive Director
Tan Did Heng	Independent Non-Executive Director
Tan Sack Sen	Independent Non-Executive Director

TERMS OF REFERENCE

The Terms of Reference of the Nomination Committee is available for reference on the Company's website, www.leonfuat.com.my.

ACTIVITIES OF THE NOMINATION COMMITTEE

During the FY2017, a meeting of the Nomination Committee was held on 23 February 2017 with full attendance from the members of the Nomination Committee.

At the meeting, the Nomination Committee reviewed and assessed the existing Board's structure, size and composition and the effectiveness of the Board particularly its operations, roles and responsibilities and Board Committees comprises Audit Committee, Remuneration Committee and Nomination Committee, amongst others. The assessment and evaluation was carried out by the Nomination Committee through a set of questionnaires which was circulated to the Board for completion. To facilitate the evaluation process, the answers and remarks of all Directors were collated and summarised by the Company Secretary for review by the Nomination Committee and subsequent reporting to the Board. All assessments and evaluations carried out by the Nomination Committee in the discharge of all its functions were properly documented.

For the financial year under review, the Nomination Committee and the Board was satisfied with the Board size and composition and that the Board as well as its Committees were effective as a whole; with the Directors' right mix of skills and experience of each of the Director was adequate to enable the Board to discharge its duties and responsibilities effectively.

The Nomination Committee also reviewed and proposed to the Board the re-election of Directors retiring by rotation at the 2017 Annual General Meeting ("AGM") in accordance with the provisions of the Constitution of the Company. All retiring Directors, being eligible, have offered themselves for re-election at the AGM.

In accordance with the MCCG, the Nomination Committee undertaken the assessment of the Independent Directors against the established criteria for the year under review. Based on the self-assessment checklist completed by all Independent Directors of the Company, the Nomination Committee and Board were satisfied that there were no issues of independence in the Board of the Company as the Independent Directors continues to demonstrate conduct and behavior that are essential indicators of independence, and that each of them continues to fulfill the prescribed definition and established criteria of independence.

In accordance with the Listing Requirements of Bursa Securities, the Nomination Committee also reviewed the term of office and performance of the Audit Committee and each of its members for the year under review against the assessment checklist encompassing the review of existing requisite composition of the Audit Committee prescribed by the Listing Requirements, the terms of reference and activities carried out by the Audit Committee in the discharge of its responsibilities and was satisfied that the Audit Committee had carried out its duties in accordance with its Terms of Reference.

The Nomination Committee took cognizance that a succession plan to fill key business leadership positions in the Company is crucial to ensure leadership continuity and the Company will develop the succession planning for Senior Executive Directors of the Company including the position of the Group Managing Director with identifying and assessing suitably qualified candidates, taking into consideration the experience, quality, character, capability and other attributes as potential successors and develop the training program to facilitate the succession planning process to be undertaken. The Nomination Committee will review the succession planning process annually for effectiveness.

All Directors are encouraged to attend appropriate training programmes to equip themselves with the relevant knowledge and keep abreast of latest regulatory developments and other developments to effectively discharge their duties as Directors.

The Board is satisfied that the Nomination Committee is able to discharge its duties and responsibilities effectively. The minutes of the Nomination Committee meeting was recorded and tabled for confirmation at the following Nomination Committee meeting and subsequently tabled to the Board for notation. The Chairman of Nomination Committee reported to the Board the matters reviewed and discussed at the meeting and its recommendations for the Board's consideration and decision.

Report of the Audit Committee

COMPOSITION OF THE AUDIT COMMITTEE

Directors	Positions
Tan Did Heng	Chairman of Audit Committee & Independent Non-Executive Director
Chan Kee Loin	Senior Independent Non-Executive Director
Tan Sack Sen	Independent Non-Executive Director

MEETINGS AND ATTENDANCE

The Audit Committee held a total of five (5) meetings during the FY2017 with full attendance from the members of the Audit Committee.

Directors	Attendance
Tan Did Heng	5/5
Chan Kee Loin	5/5
Tan Sack Sen	5/5

TERMS OF REFERENCE

The details of the Terms of Reference of the Audit Committee is available for reference on the company's website, www.leonfuat.com.my.

ACTIVITIES OF THE AUDIT COMMITTEE

During the FY2017, the activities carried out by the Audit Committee in the discharge of its duties and functions included, among others, the following:

1. Reviewed the unaudited quarterly financial results and audited financial statements of the Group for recommendation to the Board of Directors for approval, focusing on compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Companies Act 2016 of Malaysia and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Audit Committee had also considered and enquired of and discussed with Management the fairness of the reports prepared by the Management to the Board of Directors;

2. Reviewed and discussed with the External Auditors the matters covered under the Audit Plan for the FY2017, including, amongst others:

   - Independence of the External Auditors;
   - Consideration of fraud;
   - Audit approach and risk assessment of identified key areas;
   - Accounting developments including implementation of new major accounting standards and adoption of amendments/ improvements to the Malaysian Financial Reporting Standards;
   - Potential key audit matters identified by the External Auditors;
   - Responsibilities of the directors and management as well as the External Auditors required under relevant applicable laws and regulations; and
   - Proposed audit fees of the External Auditors.

Report of the Audit Committee

3. Reviewed the report from the External Auditors arising from the audit of the Group, with no significant issues within the Group reported that required Audit Committee's attention;

4. Reviewed the nature and extent of non-audit services provided by the External Auditors to the Company;

5. Meeting with the External Auditors without the presence of Management on 23 February 2017 and 5 April 2017 to review the assistance provided by Management to the External Auditors during the course of their audit, with positive response from the External Auditors;

6. Review and observe the inventory reduction/ rationalisation plan formulated by Management that seeks to monitor and reduce excess inventory with ultimate objective of enhancing liquidity of the Group;

7. Reviewed the recurrent related party transactions (RRPT) reports prepared by the Internal Auditors and the guidelines and procedures for the Group's RRPT to ensure that the RRPT are conducted at arm's length and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detriment to the minority shareholders, and made the relevant Audit Committee statement in the Company's Circular to Shareholders on Proposed Shareholders' Mandate for RRPT;

8. Reviewed and discussed with the Internal Auditors risk assessment process and related matters and the effectiveness of internal control systems of the Group;

9. Reviewed and overseen the risk management framework of the Group, the risk governance and management with the assistance of Risk Management Working Group who reports the key risk issues of the Group and matters discussed at its meeting to the Audit Committee;

10. Reviewed the audit plan of the Internal Auditors to ensure the adequacy of the scope and frequency of reporting to the Audit Committee;

11. Reviewed the internal audit reports presented by the Internal Auditors on their findings and recommendations with respect to identified control weaknesses and Management responses to the recommendations. The Audit Committee would, as and when necessary, seek clarifications from Management and/or the Internal Auditors on the issues and control weaknesses highlighted;

12. Meeting with the Internal Auditors without the absence of Management on 23 February 2017, 30 May 2017 and 28 August 2017 to discuss internal control matters and weaknesses identified during the audit besides the assistance provided by Management to the Internal Auditors who had reported that no significant deficiencies were noted during the audit;

13. Annual assessment of the performance of External Auditors based on, amongst others, the quality of services, adequacy of resources as well as independence. The External Auditors provides annual confirmation of their independence in accordance with relevant auditing standards and requirements. Following the review of the External Auditors' effectiveness and independence, the Audit Committee was satisfied with the service and performance and independence of the External Auditors and had recommended to the Board for approval the re-appointment of the External Auditors; and

14. Reviewed the draft Audit Committee Report and Statement on Risk Management and Internal Control for inclusion in the Annual Report of the Company.

REVIEW OF AUDIT COMMITTEE

An annual review and assessment on the terms of office and performance of the Audit Committee was undertaken by the Nomination Committee for the FY2017.

The assessment covers amongst others, main role and responsibilities of the Audit Committee and its key areas of oversight, specifically the review of internal control and risk management systems, effectiveness of internal and external audits, integrity of financial statements and review of significant financial reporting judgments.

The Board was satisfied that the Audit Committee and its members have discharged their functions, duties and responsibilities in accordance with the Audit Committee's terms of reference.

INTERNAL AUDIT FUNCTION

The Audit Committee was supported by the outsourced Internal Auditors in the discharge of its duties and responsibilities with regards to the Internal Audit function of the Group.

The activities carried out by the Internal Auditors during the financial year under review in accordance with the approved annual audit plan were as follows:

- Conducted follow-up reviews to ensure that agreed action plans in respect of the control weaknesses highlighted in the internal audit reports of the Company and its subsidiaries have been adequately addressed and report to the Audit Committee accordingly.

- The Internal Auditors completed and reported to the Audit Committee the Internal Audit Reports on the review of identified key audit areas of the Company and/or its subsidiaries covering the following:

  - Credit Control and Collection;

  - Sales, Delivery and Credit Control;

  - Purchasing;

  - Human Resource;

  - Inventory and Inventory Management; and

  - Risk Management Framework assessment.

- Conducted reviews on the recurrent related party transactions to ensure that the transactions were not carried out in commercial terms more favourable to the related parties than those normally agreed upon with other customers or suppliers and were not to the detriment of the minority shareholders.

- Conducted review to assess the adequacy and effectiveness of the system of internal control of the newly acquired subsidiary, PSP and compliance with the Group's policies and procedures, which covered, production function, sales and marketing function purchasing function, inventory function, quality assurance and quality checking function, credit notes, journal vouchers and secretarial records. The review concluded that the existing controls in PSP are sufficient to meet it current operating size based on its existing resources.

- The Internal Auditors also plays an advisory role in the review and improvement of the establishment of Risk Management Framework within the Group.

The Internal Auditors provides to the Audit Committee and Management reasonable assurance on the effectiveness of the Group's system of internal control and the adequacy of these systems to manage business risks and to safeguard the Group's assets.

The costs incurred for the internal audit function in respect of the FY2017 was RM36,450.

Report of the Remuneration Committee

COMPOSITION OF THE REMUNERATION COMMITTEE

Directors	Position
Tan Sack Sen	Chairman of Remuneration Committee & Independent Non-Executive Director
Dato' Sri Ooi Bin Keong *(Resigned on 27 February 2018)*	Group Managing Director
Chan Kee Loin	Senior Independent Non-Executive Director
Dato' Ng Ah Hock @ Ng Soon Por *(Appointed on 27 February 2018)*	Independent Non-Executive Director

TERMS OF REFERENCE

The details of the Terms of Reference of the Remuneration Committee is available for reference on the company's website, www.leonfuat.com.my.

MEETINGS AND ATTENDANCE

The Remuneration Committee held a total of three (3) meetings during the FY2017 with full attendance from the members of the Remuneration Committee.

ACTIVITIES OF THE REMUNERATION COMMITTEE

During the FY2017, the activities carried out by the Remuneration Committee in the discharge of its duties and functions included, among others, the following:

- Reviewed and recommended to the Board the remuneration packages of the Executive Directors of the Company and its subsidiaries as well as Key Management Personnel which comprise salary, bonus, benefits-in-kind and other emoluments. The remuneration framework is reviewed annually to ensure the remuneration packages offered to the Directors and Key Management Personnel is reasonable, appropriate and competitive in light of the Company's performance in order to attract, motivate and retain the individual towards the achievement of performance and business objective of the Group. The individual director concerned would abstain from discussion of his own remuneration.
- Reviewed and determined the bonus for the Executive Directors of the Company and its subsidiaries based on achievement of pre-determined targets and performance of the Company and individual subsidiary.
- Reviewed and recommended to the Board the Directors' fees and meeting allowance for Directors' attendance at the meetings of the Company.
- Reviewed the Report of the Remuneration Committee for inclusion in the annual report.

REMUNERATION

Details of the remuneration of Directors for the FY2017, distinguishing between Executive and Non-Executive Directors with categorisation into appropriate component are as follows:

	Fees RM	Meeting Allowance RM	Salaries RM	Bonus RM	*Other Emoluments RM	Total RM
Group						
Non-executive directors:						
Dato' Ng Ah Hock @ Ng Soon Por	90,000	6,000	–	–	–	96,000
Chan Kee Loin	70,000	6,000	–	–	–	76,000
Tan Did Heng	70,000	6,000	–	–	–	76,000
Tan Sack Sen	70,000	6,000	–	–	–	76,000
Executive directors:						
Dato' Sri Ooi Bin Keong	170,000	–	600,000	200,000	150,287	1,120,287
Ooi Kong Tiong	170,000	–	480,000	160,000	113,906	923,906
Ooi Seng Khong	120,000	–	480,000	160,000	115,191	875,191
Ng Kok Teong	120,000	–	420,000	140,000	105,241	785,241
Ooi Shang How	120,000	–	420,000	140,000	105,935	785,935
Total	**1,000,000**	**24,000**	**2,400,000**	**800,000**	**590,560**	**4,814,560**
Company						
Non-executive directors:						
Dato' Ng Ah Hock @ Ng Soon Por	90,000	6,000	–	–	–	96,000
Chan Kee Loin	70,000	6,000	–	–	–	76,000
Tan Did Heng	70,000	6,000	–	–	–	76,000
Tan Sack Sen	70,000	6,000	–	–	–	76,000
Executive directors:						
Dato' Sri Ooi Bin Keong	70,000	–	–	–	–	70,000
Ooi Kong Tiong	70,000	–	–	–	–	70,000
Ooi Seng Khong	70,000	–	–	–	–	70,000
Ng Kok Teong	70,000	–	–	–	–	70,000
Ooi Shang How	70,000	–	–	–	–	70,000
Total	**650,000**	**24,000**	**–**	**–**	**–**	**674,000**

Note:
* *Other emoluments comprise estimated monetary value of benefits-in-kind, employer's contribution to Employees Provident Fund and Social Security Organisation.*

Total remuneration of the top five Key Management Personnel including salary, bonus, directors' fees, benefits in-kind and other emoluments for the FY2017, analysed into bands of RM50,000 is as follows:

Remuneration band	Number of Key Management Personnel
RM350,001 to RM400,000	2
RM500,001 to RM550,000	1
RM600,001 to RM650,000	1
RM800,001 to RM850,000	1

Note: Successive bands of RM50,000 are not shown entirely as they are not represented

Statement on Risk Management and Internal Control

The Board of Directors of Leon Fuat Berhad is pleased to present the following Statement on Risk Management and Internal Control ("this Statement") for the FY2017 prepared pursuant to Paragraph 15.26 (b) of the Listing Requirements. This Statement is also prepared in accordance with the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers and the MCCG.

The Board acknowledges its overall responsibility for maintaining a sound internal control system for the Group to safeguard the shareholders' investment and the Group's assets, and to discharge their stewardship responsibilities in identifying and reviewing risks and ensuring the implementation of appropriate systems to manage these risks. The Board has delegated its oversight role in the review and monitor of risk management and the system of internal controls to the Audit Committee.

The Board also recognises that in establishing such system of risk management and internal control, the systems designed can only manage but not eliminate the risk of failure to achieve business objectives of the Group and that it can only provide reasonable assurance against material misstatement or loss.

The Management, as the first line of defense is responsible for implementing the processes for identifying, evaluating, reporting and monitoring the risks relevant to the business of the Group, and effectiveness and integrity of the system of risk management and internal control, taking appropriate and timely corrective measures as needed.

The Audit Committee has been entrusted by the Board to ensure effectiveness of the Group's risk management and internal control systems and has assumed the risk management function as part of its responsibilities supported by the Risk Management Working Group ("RMWG"). Consequently, the reports from the RMWG are directed to the Audit Committee on matters relating to risk management.

The key elements of the Group's systems of risk management and internal control are as follows:

- The Group has in place a risk management framework as an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The risk management framework consist of the terms governing risk management, the RMWG and its charter, the risk profiling matric, the risk management process, the risk scorecard and meetings held to deliberate the risk issues.

- The RMWG met on seven (7) occasions during the financial year under review to discuss the risk issues. The meetings were held on 1 March 2017, 10 March 2017, 26 May 2017, 14 June 2017, 22 August 2017, 19 September 2017 and 7 November 2017 and the key salient points discussed/noted/resolved during the meetings were:

  - Monitored the inventory reduction/ rationalisation plan for LF Hardware, LF Metal and Supreme Steelmakers, ensuring that the inventory is at acceptable level;

  - Reviewed and recommended changes to the current Risk Management Working Group's Charter;

  - Reviewed and recommended better composition of members for the Risk Management Working Group;

  - Formed two sub-working group to hand the risk issues brought to the attention of the Audit Committee; and

  - Prepared RMWG Report for reviewed by the Audit Committee.

- All matters discussed and resolved at the meetings of RMWG were reported to the Audit Committee.

- The Audit Committee is supported by the RMWG who directly reports the outcome of the matters discussed at its meeting to the Audit Committee.

- The Board reviewed quarterly unaudited financial results and annual financial statements including key financial data and significant matters noted as well as the performance of the Group. Comparisons are tabled and variances are highlighted and explained by the Chief Financial Officer to the Board.

- The Board monitors the achievement of the Group and that of its subsidiaries in meeting the approved budget and revises the budget as appropriate with corrective actions to reduce variances.

- Management met on a quarterly basis and at their scheduled meetings to review and deliberate on the quarterly results, business performance and operational issues affecting the Group. Action plans are designed and implemented to address the issues and are monitored closely.

- The Audit Committee reviewed internal and external audit findings and carried out discussions with the Management on corrective/improvement actions to be taken on accounting and/or internal control issues identified by the Internal Auditors and the External Auditors. The outcome of the follow-up reviews conducted by the Internal Auditors on control deficiencies and areas for improvement is reported to the Audit Committee.

- The Audit Committee met with the External Auditors at the scheduled meetings on 23 February 2017 and 5 April 2017, and with the Internal Auditors on 23 February 2017, 30 May 2017 and 28 August 2017 in the absence of the Management for exchange of views and opinions and conduct frank discussion with the Auditors. The Chairman of the Audit Committee ensures that any significant issues brought to their attention are communicated to and discussed with the Management for necessary corrective actions and improvements.

- The Group has established an organisation structure with clearly defined lines of responsibility, authority and reporting to ensure all transactions are properly authorised and recorded.

- Standard operating procedures which include internal policies and procedures within the Group are reviewed and updated periodically for effectiveness.

The internal audit function of the Group was outsourced to an independent professional service provider to facilitate the risk assessment and conduct of internal control reviews based on the approved internal audit plan. More reviews on the business processes by the Internal Auditors may be called by the Audit Committee as the need arises.

The Board is satisfied that the Group's risk management and internal control system is functioning adequately while recognising that these require continuous improvement. During the financial year under review, there were no material control deficiencies, losses, contingencies and uncertainties arising from weaknesses in the internal control system that would require disclosure in this Annual Report.

The Board has received assurance from the Group Managing Director and Chief Financial Officer on 9 April 2018 stating that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.

The External Auditors have reviewed this Statement and have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers to be set out, nor is factually inaccurate.

The Audit Committee and Board of Directors have reviewed, deliberated and approved this Statement on 9 April 2018.

Additional Compliance Information

1. UTILISATION OF PROCEEDS FROM CORPORATE PROPOSAL

The Company did not undertake any corporate proposal during the financial year under review.

2. AUDIT AND NON-AUDIT FEES

The amount of audit and non-audit fees paid and payable to the External Auditors for services rendered for the financial year under review are as follows:

	Group RM	Company RM
Audit fees	213,235	38,000
Non-audit fees	7,000	7,000
Total	**220,235**	**45,000**

3. MATERIAL CONTRACT INVOLVING DIRECTORS AND MAJOR SHAREHOLDERS

There were no material contracts of the Company and its subsidiaries involving the interests of the Directors or major shareholders, either still subsisting at the end of the financial year under review, or entered into since the end of the previous financial year.

4. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("RRPT")

Details of the RRPT conducted pursuant to the shareholders' mandate obtained at the last AGM held on 6 June 2017 are set out in Section 2.5 of the Circular to Shareholders dated 27 April 2018.

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Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of management services to its subsidiaries.The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM	Company RM
Profit for the financial year	80,369,010	3,120,659
Attributable to:		
Owners of the Company	80,420,538	3,120,659
Non-controlling interests	(51,528)	–
	80,369,010	3,120,659

DIVIDEND

Dividend declared and paid by the Company since the end of the previous financial year was the final single tier dividend of 1.5 sen per share amounting to RM4,650,000 in respect of the financial year ended 31 December 2016, as disclosed in the directors' report of that financial year, which was paid on 25 July 2017.

The directors recommended a final single tier dividend of 1.5 sen per share amounting to RM4,650,000 based on the number of outstanding ordinary shares in issue as at the date of this report, in respect of the current financial year, subject to the approval of the shareholders at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

Directors' Report (Continued)

BAD AND DOUBTFUL DEBTS (CONTINUED)

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

Directors' Report (Continued)

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors:

(i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in Note 33 to the financial statements; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report was made.

ISSUE OF SHARES AND DEBENTURES

During the financial year, no new issue of shares and debentures were made by the Company.

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

DATO' NG AH HOCK @ NG SOON POR
DATO' SRI OOI BIN KEONG*
OOI KONG TIONG*
OOI SENG KHONG*
NG KOK TEONG*
OOI SHANG HOW*
CHAN KEE LOIN
TAN DID HENG
TAN SACK SEN

** Directors of the Company and certain subsidiaries*

Other than as stated above, the names of the directors of the subsidiaries of the Company in office during the financial year and during the period from the end of the financial year to the date of the report are:

NG KOK WEE
NG LAM KEONG
OOI PEK KUAN
TEO CHEE HIONG
OOI SHANG YAO *(appointed on 15 March 2017)*

Directors' Report (Continued)

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings required to be kept by the Company under Section 59 of the Companies Act 2016 in Malaysia, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017
Shareholdings in the ultimate holding company - Leon Fuat Holdings Sdn. Bhd.				
Direct interests				
Dato' Sri Ooi Bin Keong	2,500,000	–	–	2,500,000
Ooi Kong Tiong	1,800,000	–	–	1,800,000
Ooi Seng Khong	600,000	–	–	600,000
Ng Kok Teong	1,000,000	–	–	1,000,000
Ooi Shang How	600,000	–	–	600,000
Indirect interests				
Ng Kok Teong [(1)]	2,300,000	–	–	2,300,000
Shareholdings in the Company				
Direct interests				
Dato' Ng Ah Hock @ Ng Soon Por	100,000	–	–	100,000
Dato' Sri Ooi Bin Keong	200,000	–	–	200,000
Ooi Kong Tiong	200,000	–	–	200,000
Ooi Seng Khong	1,005,900	100,000	–	1,105,900
Ng Kok Teong	221,000	–	–	221,000
Ooi Shang How	200,000	–	–	200,000
Chan Kee Loin	100,000	–	–	100,000
Tan Did Heng	100,000	–	–	100,000
Tan Sack Sen	545,000	–	(545,000)	–
Indirect interests				
Dato' Sri Ooi Bin Keong [(2) (3)]	219,715,000	–	–	219,715,000
Ng Kok Teong [(2)]	219,690,000	–	–	219,690,000

(1) Shares held through a corporation in which the director has substantial interests.

(2) 219,690,000 shares held through the ultimate holding company, Leon Fuat Holdings Sdn. Bhd..

(3) Disclosure of 25,000 shares held by children of the director who themselves are not directors of the Company pursuant to Section 59(11)(c) of the Companies Act 2016.

By virtue of their interests in the ordinary shares of the Company and pursuant to Section 8 of the Companies Act 2016 in Malaysia, Dato' Sri Ooi Bin Keong and Ng Kok Teong are deemed to have an interest in the ordinary shares of the subsidiaries to the extent that the Company has an interest.

Other than as stated above, none of the other directors in office at the end of the financial year had any interest in shares of the Company and its related corporations during the financial year.

Directors' Report (Continued)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 6 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for the deemed benefit which may arise from transactions disclosed in Note 30 to the financial statements.

Neither during nor at the end of the financial year, was the Company a party to any arrangements where the object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

INTEREST IN HOLDING COMPANY AND OTHER RELATED CORPORATION

The Company does not have any interests in shares in the holding company and its other related corporations during the financial year.

ULTIMATE HOLDING COMPANY

The directors regard Leon Fuat Holdings Sdn. Bhd., a private limited liability company incorporated in Malaysia, as the ultimate holding company of the Company.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Details of significant events during the financial year are disclosed in Note 33 to the financial statements.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 6 to the financial statements.

INDEMNITY TO AUDITORS

The indemnity to auditors of the Company is provided pursuant to Section 289 of the Companies Act 2016 in Malaysia. No payment has been made to indemnify the auditors during the financial year.

Directors' Report (Continued)

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 12 to the financial statements.

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng, have expressed their willingness to continue in office.

This report was approved and signed on behalf of the Board of Directors in accordance with a resolution of the directors:

.....
DATO' SRI OOI BIN KEONG
Director

.....
OOI KONG TIONG
Director

Date: 9 April 2018

Statement by Directors
Pursuant to Section 251(2) of the Companies Act 2016

We, **DATO' SRI OOI BIN KEONG** and **OOI KONG TIONG,** being two of the directors of LEON FUAT BERHAD, do hereby state that in the opinion of the directors, the accompanying financial statements as set out on pages 67 to 134 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

DATO' SRI OOI BIN KEONG **OOI KONG TIONG**

Kuala Lumpur
Date: 9 April 2018

Statutory Declaration
Pursuant to Section 251(1) of the Companies Act 2016

I, **TAN KIEN YAP,** being the officer primarily responsible for the financial management of LEON FUAT BERHAD, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements as set out on pages 67 to 134 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

TAN KIEN YAP
MIA No.: 15963

Subscribed and solemnly declared at Kuala Lumpur the Federal Territory on 9 April 2018.

Before me

TAN KIM CHOOI (W661)
Commissioner for Oaths

Independent Auditors' Report to the Members of Leon Fuat Berhad (Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Leon Fuat Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 67 to 134.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code. 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 Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group

Inventories (Note 13 to the financial statements)

As at 31 December 2017, the Group's inventories amounts to RM243.79 million. The Group's inventories are measure at the lower of cost and net realisable value. Judgement is required in estimating their net realisable values and identifying slow-moving inventories.

Our audit response:
Our audit procedures included, among others:

- evaluating the design and implementation of controls associated with monitoring, detection and write down of slow-moving inventories;
- attending year end physical inventory count to observe physical existence and condition of the inventories and reviews the design and implementation of controls during the count; and
- reviewing subsequent sales and Group's assessment on estimated net realisable value on selected samples of inventory items.

Independent Auditors' Report to the Members of Leon Fuat Berhad (Incorporated in Malaysia) (Continued)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Trade receivables (Note 14 to the financial statements)

As at 31 December 2017, the Group's trade receivables amounts to RM158.61 million. The Group made subjective judgements over both the events or changes in circumstances indicating that trade receivables are impaired and the estimation of the size of any such impairment. The trade receivables are monitored individually by the Group and therefore the impairment is assessed based on knowledge of each individual receivable.

Our audit response:
Our audit procedures included, among others:

- evaluating the design and implementation of controls associated with monitoring and impairment assessment of receivables that were either in default or significantly overdue;
- understanding of significant credit exposures which were significantly overdue through analysis of ageing reports and other collection reports prepared by the Group;
- obtaining confirmation of balances from selected samples of receivables; and
- reviewing subsequent receipts, customer correspondence and Group's explanation on recoverability of the identified significantly past due balances.

Company

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to be communicated in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company 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 of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report to the Members of Leon Fuat Berhad (Incorporated in Malaysia) (Continued)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Responsibilities of the Directors for the Financial Statements (Continued)

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company'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 the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that 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 financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report to the Members of Leon Fuat Berhad (Incorporated in Malaysia) (Continued)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiary of which we have not acted as auditors, are disclosed in Note 12 to the financial statements.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

Baker Tilly Monteiro Heng
No. AF 0117
Chartered Accountants

Andrew Choong Tuck Kuan
No. 03264/04/2019 J
Chartered Accountant

Kuala Lumpur
Date: 9 April 2018

Statements of Profit or Loss and Other Comprehensive Income
For the Financial Year Ended 31 December 2017

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Revenue	4	577,356,949	498,716,219	5,285,272	9,249,837
Cost of sales	5	(478,683,909)	(420,147,035)	–	–
Gross profit		98,673,040	78,569,184	5,285,272	9,249,837
Other income		46,922,383	1,816,240	49,646	22,099
Distribution costs		(6,288,610)	(5,592,988)	–	–
Administrative costs		(29,375,736)	(25,526,988)	(1,622,935)	(1,378,570)
Other costs		(4,229,810)	(2,870,341)	(210,521)	(2,614,635)
		(39,894,156)	(33,990,317)	(1,833,456)	(3,993,205)
Profit from operations		105,701,267	46,395,107	3,501,462	5,278,731
Finance costs		(10,231,318)	(8,265,674)	–	–
Profit before tax	6	95,469,949	38,129,433	3,501,462	5,278,731
Tax expense	7	(15,100,939)	(10,451,703)	(380,803)	(373,701)
Profit for the financial year		80,369,010	27,677,730	3,120,659	4,905,030
Other comprehensive (loss)/income, net of tax:					
Item that may be reclassified subsequently to profit or loss:					
Exchange difference on translation of foreign subsidiary		(12,508)	7,278	–	–
Total comprehensive income for the financial year		80,356,502	27,685,008	3,120,659	4,905,030
Profit/(Loss) attributable to:					
Owners of the Company		80,420,538	27,677,730		
Non-controlling interests		(51,528)	–		
		80,369,010	27,677,730		
Total comprehensive income/(loss) attributable to:					
Owners of the Company		80,408,030	27,685,008		
Non-controlling interests		(51,528)	–		
		80,356,502	27,685,008		
Earnings per ordinary share (sen)					
Basic	8	25.94	8.93		
Diluted	8	25.94	8.93		

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Statements of Financial Position
As at 31 December 2017

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	139,149,449	144,809,041	–	–
Capital work-in-progress	10	3,663,266	765,355	–	–
Prepaid land lease payment	11	1,061,053	–	–	–
Investments in subsidiaries	12	–	–	159,767,215	159,932,401
		143,873,768	145,574,396	159,767,215	159,932,401
Current assets					
Inventories	13	243,789,144	186,706,277	–	–
Trade and other receivables	14	180,065,109	136,745,057	53,500	4,740
Amount due from a subsidiary	15	–	–	–	159,661
Dividend receivables		–	–	3,000,000	7,200,000
Tax assets		337,333	334,407	–	–
Deposits with licensed banks	16	41,531,876	431,070	2,008,293	–
Derivative financial assets	17	–	32,042	–	–
Cash and bank balances	18	21,155,246	17,905,054	3,085,710	1,959,765
		486,878,708	342,153,907	8,147,503	9,324,166
TOTAL ASSETS		630,752,476	487,728,303	167,914,718	169,256,567

Statements of Financial Position
As at 31 December 2017 (Continued)

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
EQUITY AND LIABILITIES					
Equity					
Share capital	19	160,094,360	155,000,000	160,094,360	155,000,000
Reserves	20	173,304,432	102,640,762	6,993,848	13,617,549
		333,398,792	257,640,762	167,088,208	168,617,549
Non-controlling interests		800,156	–	–	–
Total Equity		334,198,948	257,640,762	167,088,208	168,617,549
Non-current liabilities					
Borrowings	21	13,812,681	18,576,026	–	–
Deferred tax liabilities	22	5,186,144	3,646,280	–	–
		18,998,825	22,222,306	–	–
Current liabilities					
Trade and other payables	23	38,046,314	28,194,211	789,510	601,418
Deferred income	24	994,430	–	–	–
Amount due to ultimate holding company	25	10,000,000	10,000,000	–	–
Borrowings	21	222,735,469	166,612,020	–	–
Tax liabilities		5,778,490	3,059,004	37,000	37,600
		277,554,703	207,865,235	826,510	639,018
Total liabilities		296,553,528	230,087,541	826,510	639,018
TOTAL EQUITY AND LIABILITIES		630,752,476	487,728,303	167,914,718	169,256,567

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Changes in Equity
For the Financial Year Ended 31 December 2017

Group	Attributable to Owners of the Company								
	Share Capital RM	Share Premium RM	Merger Deficit RM	Capital Reserve RM	Translation Reserve RM	Retained Earnings RM	Sub-Total RM	Non-controlling Interests RM	Total Equity RM
At 1.1.2017	155,000,000	5 ,094,360	(109,544,997)	923	(7,585)	207,098,061	257,640,762	–	257,640,762
Comprehensive income									
Profit for the financial year	–	–	–	–	–	80,420,538	80,420,538	(51,528)	80,369,010
Other comprehensive income									
Exchange difference on translation of foreign subsidiary	–	–	–	–	(12,508)	–	(12,508)	–	(12,508)
Total other comprehensive income	–	–	–	–	(12,508)	–	(12,508)	–	(12,508)
Total comprehensive income	–	–	–	–	(12,508)	80,420,538	80,408,030	(51,528)	80,356,502
Transactions with owners									
Dividend (Note 26)	–	–	–	–	–	(4,650,000)	(4,650,000)	–	(4,650,000)
Non-controlling interest arising from acquisition of a new subsidiary	–	–	–	–	–	–	–	851,684	851,684
Total transactions with owners	–	–	–	–	–	(4,650,000)	(4,650,000)	851,684	(3,798,316)
Transition to no-par value regime (Note 19, 20)	5,094,360	(5,094,360)	–	–	–	–	–	–	–
At 31.12.2017	160,094,360	–	(109,544,997)	923	(20,093)	282,868,599	333,398,792	800,156	334,198,948

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Consolidated Statement of Changes in Equity
For the Financial Year Ended 31 December 2017 (Continued)

Group	Attributable to Owners of the Company						
	Share Capital RM	Share Premium RM	Merger Deficit RM	Capital Reserve RM	Translation Reserve RM	Retained Earnings RM	Total Equity RM
At 1.1.2016	155,000,000	5,094,360	(109,544,997)	923	(14,863)	184,070,331	234,605,754
Comprehensive income							
Profit for the financial year	–	–	–	–	–	27,677,730	27,677,730
Other comprehensive income							
Exchange difference on translation of foreign subsidiary	–	–	–	–	7,278	–	7,278
Total other comprehensive income	–	–	–	–	7,278	–	7,278
Total comprehensive income	–	–	–	–	7,278	27,677,730	27,685,008
Transactions with owners							
Dividend (Note 26)	–	–	–	–	–	(4,650,000)	(4,650,000)
At 31.12.2016	155,000,000	5,094,360	(109,544,997)	923	(7,585)	207,098,061	257,640,762

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Statement of Changes in Equity
For the Financial Year Ended 31 December 2017

	Share Capital RM	Share Premium RM	Distributable Retained Earnings RM	Total Equity RM
At 1.1.2016	155,000,000	5,094,360	8,268,159	168,362,519
Profit for the financial year, representing total comprehensive income for the financial year	–	–	4,905,030	4,905,030
Transactions with owners				
Dividend (Note 26)	–	–	(4,650,000)	(4,650,000)
At 31.12.2016	155,000,000	5,094,360	8,523,189	168,617,549
Profit for the financial year, representing total comprehensive income for the financial year	–	–	3,120,659	3,120,659
Transactions with owners				
Dividend (Note 26)	–	–	(4,650,000)	(4,650,000)
Transition to no-par value regime (Note 19, 20)	5,094,360	(5,094,360)	–	–
At 31.12.2017	160,094,360	–	6,993,848	167,088,208

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Statements of Cash Flows
For the Financial Year Ended 31 December 2017

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Cash Flows from Operating Activities					
Profit before tax		95,469,949	38,129,433	3,501,462	5,278,731
Adjustments for:					
Amortisation of prepaid land lease payment		58,947	–	–	–
Bad debts written off		270,571	2,881	–	–
Bargain purchase on acquisition of a subsidiary		(2,699,732)	–	–	–
Depreciation of property, plant and equipment		9,821,098	8,905,492	–	–
Deposits and prepayments written off		–	382,709	–	–
Dividend income		–	–	(3,000,000)	(7,200,000)
Gain on disposal of property, plant and equipment		(17,781,953)	(356,215)	–	–
Impairment loss on:					
- trade receivables		280,458	1,384,917	–	–
- investment in subsidiaries		–	–	165,186	2,574,177
Interest expense		9,594,974	7,550,414	–	–
Interest income		(869,678)	(121,953)	(49,646)	(22,099)
Inventories written down		272,439	–	–	–
Inventories written off		–	64,449	–	–
Net fair value gain on derivatives		–	(32,042)	–	–
Property, plant and equipment written off		60,765	79,942	–	–
Reversal of impairment loss on trade receivables		(1,003,246)	(887,816)	–	–
Unrealised gain on foreign exchange		(22,099)	(74,382)	–	–
Operating profit before working capital changes		93,452,493	55,027,829	617,002	630,809
Increase in inventories		(56,744,559)	(561,541)	–	–
(Increase)/Decrease in receivables		(23,865,424)	7,194,443	110,901	(159,901)
Increase/(Decrease) in payables		7,256,117	(6,402,840)	188,092	107,618
Cash generated from operations, balance carried down		20,098,627	55,257,891	915,995	578,526

Statements of Cash Flows
For the Financial Year Ended 31 December 2017 (Continued)

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Cash Flows from Operating Activities (Continued)					
Cash generated from operations, balance brought down		20,098,627	55,257,891	915,995	578,526
Interest paid		(9,594,974)	(7,550,414)	–	–
Interest received		869,678	121,953	49,646	22,099
Income tax paid		(11,719,758)	(7,890,263)	(381,403)	(630,901)
Net cash (used in)/from operating activities		(346,427)	39,939,167	584,238	(30,276)
Cash Flows from Investing Activities					
Addition to deposits pledged with licensed banks		(6,336,138)	(13,807)	–	–
Capital work-in-progress paid		(3,922,191)	(11,351,439)	–	–
Deposits paid for acquisition of plant and equipment	14	(15,941,506)	(164,750)	–	–
Dividends received		–	–	7,200,000	5,000,000
Purchase of property, plant and equipment	9	(2,201,660)	(35,396,538)	–	–
Proceeds from disposal of property, plant and equipment		22,695,700	3 88,981	–	–
Net cash used in acquisition of a subsidiary	12	(2,414,252)	–	–	–
Net cash (used in)/from investing activities		(8,120,047)	(46,537,553)	7,200,000	5,000,000

Statements of Cash Flows
For the Financial Year Ended 31 December 2017 (Continued)

	Note	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Cash Flows from Financing Activities	**(a)**				
Advance from ultimate holding company		–	10,000,000	–	–
Dividend paid		(4,650,000)	(4,650,000)	(4,650,000)	(4,650,000)
Drawdowns of islamic financing		20,933,999	22,000,000	–	–
Drawdown of term loan		–	18,000,000	–	–
Payments to finance lease payables		(2,565,898)	(3,517,262)	–	–
Repayments of term loan		(1,800,000)	(1,500,000)	–	–
Net drawdowns/(repayments) of bankers' acceptances		35,603,655	(12,802,000)	–	–
Net cash from/(used in) financing activities		47,521,756	27,530,738	(4,650,000)	(4,650,000)
Net increase in cash and cash equivalents		39,055,282	20,932,352	3,134,238	319,724
Effect of exchange rate changes on cash and cash equivalents		18,230	24,813	–	–
Cash and cash equivalents at beginning of the financial year		932,669	(20,024,496)	1,959,765	1,640,041
Cash and cash equivalents at end of the financial year	27	40,006,181	932,669	5,094,003	1,959,765

(a) Reconciliation of liabilities arising from financing activities:

Group	1 January 2017 RM	Cash flows RM	◄···Non-cash···► Acquisition/ Disposal RM	31 December 2017 RM
Bankers' acceptances	122,051,000	35,603,655	–	157,654,655
Finance lease payables	7,664,661	(2,565,898)	297,000	5,395,763
Islamic financing	22,000,000	20,933,999	–	42,933,999
Term loan	16,500,000	(1,800,000)	–	14,700,000
	168,215,661	52,171,756	297,000	220,684,417

The annexed notes form an integral part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements
31 December 2017

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office is located at Suite 11.1A, Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur.

The principal place of business of the Company is located at No.11, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7 Shah Alam, 40000 Selangor Darul Ehsan.

The principal activities of the Company are investment holding and the provision of management services to its subsidiaries. The principal activities of the subsidiaries are disclosed in Note 12. There have been no significant changes in the nature of these activities during the financial year.

The ultimate holding company of the Company during the financial year is Leon Fuat Holdings Sdn. Bhd., a private limited liability company incorporated in Malaysia.

The financial statements were authorised for issue in accordance with a Board of Directors' resolution dated 9 April 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(e).

(b) New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")

(i) Adoption of amendments/improvements to MFRSs

The Group and the Company have adopted the following amendments/improvements to MFRSs that are mandatory for the current financial year:

<u>Amendments/Improvements to MFRSs</u>

MFRS 12	Disclosure of Interest in Other Entities
MFRS 107	Statement of Cash Flows
MFRS 112	Income Taxes

Notes to the Financial Statements
31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

(b) New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (Continued)

(i) Adoption of amendments/improvements to MFRSs (Continued)

The adoption of the above amendments/improvements to MFRSs did not have any significant effect on the financial statements of the Group and of the Company, and did not result in significant changes to the Group's and the Company's existing accounting policies, except for that as discussed below:

Amendments to MFRS 107 Statement of Cash Flows

Amendment to MFRS 107 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The disclosure requirement could be satisfied in various ways, and one method is by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

(ii) New MFRSs, amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective

The Group and the Company have not adopted the following new MFRSs, amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRSs		
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
Amendments/Improvements to MFRSs		
MFRS 1	First-time adoption of MFRSs	1 January 2018
MFRS 2	Share-based Payment	1 January 2018
MFRS 3	Business Combinations	1 January 2019
MFRS 4	Insurance Contracts	1 January 2018
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 112	Income Taxes	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2018/ 1 January 2019/ Deferred
MFRS 140	Investment Property	1 January 2018
New IC Int		
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019

Notes to the Financial Statements
31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

(b) New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (Continued)

(ii) New MFRSs and amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective (Continued)

Based on the Group's initial assessment, the application of the new MFRS 9 and MFRS 15 are not expected to have any material impact to the financial statements of the Group. The Group will continue to assess any potential impact which may arise from adoption of other abovementioned new MFRSs, amendments/improvements to MFRSs and new IC Int.

The Group and the Company plan to adopt the above applicable new MFRSs, amendments/improvements to MFRSs and new IC Int when they become effective. A brief discussion on the above significant new MFRSs, amendments/improvements to MFRSs and new IC Int are summarised below.

MFRS 9 Financial Instruments

Key requirements of MFRS 9:

- MFRS 9 introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments.

  In essence, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the statements of financial position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the statements of financial position.

- MFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, this Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

- MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Notes to the Financial Statements
31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

(b) New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (Continued)

(ii) New MFRSs and amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective (Continued)

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

(i) identify the contracts with a customer;
(ii) identify the performance obligation in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract; and
(v) recognise revenue when (or as) the entity satisfies a performance obligation.

MFRS 15 also includes new disclosures that would result in an entity providing users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The following MFRSs and IC Interpretations will be withdrawn on the application of MFRS 15:

MFRS 111	Construction Contracts
MFRS 118	Revenue
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 18	Transfers of Assets from Customers
IC Interpretation 131	Revenue – Barter Transactions Involving Advertising Services

MFRS 16 Leases

Currently under MFRS 117 Leases, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from the finance leases.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statement of financial position except for short-term and low value asset leases.

Notes to the Financial Statements
31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

(b) New MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (Continued)

(ii) New MFRSs and amendments/improvements to MFRSs and new IC Int that have been issued, but yet to be effective (Continued)

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

IC Int 22 Foreign Currency Transactions and Advance Consideration

IC Int 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IC Int 23 Uncertainty over Income Tax Treatments

IC Int 23 clarifies that where there is uncertainty over income tax treatments, an entity shall:

(i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

(ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

(c) Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis except for those as disclosed in the significant accounting policies note.

(d) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements of the Group and of the Company are presented in Ringgit Malaysia (RM) which is also the Company's functional currency. All financial information presented in RM has been rounded to the nearest RM, unless otherwise stated.

Notes to the Financial Statements
31 December 2017 (Continued)

2. BASIS OF PREPARATION (CONTINUED)

(e) Significant Accounting Estimates and Judgements

Significant areas of estimation uncertainty and critical judgements used in applying accounting principles that have significant effect on the amount recognised in the financial statements are as follows:

(i) Inventories (Note 13) – Inventories are stated at the lower of cost and net realisable value. Reviews are made periodically by the Group on damaged and slow-moving inventories. These reviews require judgement and estimates. In determining the net realisable value of the inventories, an estimation of the recoverable amount of inventories on hand is performed by the Group based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration the fluctuations of selling price or cost, or any inventories on hand that may not be realised, as a result of events occurring after the end of the reporting period to the extent such events confirm conditions existing at the end of the reporting period. Possible changes in these estimates could result in revisions to the valuation of inventories.

(ii) Impairment loss on receivables (Note 14) – The Group assesses at each reporting date whether there is any objective evidence that a receivable is impaired. Allowances are applied where events or changes in circumstances indicate that the balances may not be collectable. 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 the expectation is different from the original estimate, such difference will impact the carrying amount of receivables at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the financial statements of the Group and of the Company.

(a) Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the audited financial statements of the Company and all of its subsidiaries which are disclosed in Note 12 made up to the end of the financial year.

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

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

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control as mentioned above.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Consolidation (Continued)

Subsidiaries (Continued)

When the Group has less than majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other holders;
- potential voting rights, if such rights are substantive, held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements;
- the nature of the Group's relationship with other parties and whether those other parties are acting on its behalf (i.e. they are 'de facto agents'); and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

(i) Merger accounting for common control business combinations

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Subsidiaries acquired which have met the criteria for pooling of interest are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the merger had been effected throughout the current financial year.

The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. No amount is recognised in respect of goodwill and excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities and contingent liabilities over cost at the time of the common control business combination to the extent of the continuation of the controlling party and parties' interests.

When the merger method is used, the cost of investment in the Company's books is recorded at the nominal value of shares issued. The difference between the carrying value of the investment and the nominal value of the shares of the subsidiaries is treated as a merger deficit or merger reserve as applicable. The results of the subsidiaries being merged are included for the full financial year.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Consolidation (Continued)

Subsidiaries (Continued)

(ii) Business Combinations under acquisition method

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

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

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

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

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

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

(iii) Acquisitions of Non-controlling Interests

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

(iv) Loss of Control

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

(v) Transactions Eliminated on Consolidation

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

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign Currency

(i) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in Ringgit Malaysia using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are translated to the functional currencies at the exchange rates on the reporting date. Non-monetary items denominated in foreign currencies are not retranslated at the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are recognised in profit or loss in the Company's separate financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

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

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

(i) Assets and liabilities for each reporting date presented are translated at the closing rate prevailing at the reporting date;

(ii) Income and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and

(iii) All resulting exchange differences are taken to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

Upon disposal of a foreign subsidiary, the cumulative amount of translation differences at the date of disposal of the subsidiaries is taken to profit or loss.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Tax Expense

Tax expense in profit or loss represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the financial year, using tax rates enacted or substantially enacted by the reporting date and any adjustments recognised for prior years' tax. When an item is recognised outside profit or loss, the related tax effect is recognised either in other comprehensive income or directly in equity.

Deferred tax is recognised using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxable entity and the same taxation authority to offset or when it is probable that future taxable profits will be available against which the assets can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available for the assets to be utilised.

Deferred tax assets relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from business combination is adjusted against goodwill on acquisition or the amount of any excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the acquisition cost.

(d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:

- Where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST 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 GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the statements of financial position.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue Recognition

i. Sale of Goods

Revenue from the sale of goods is measured at 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 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.

ii. Dividend Income

Dividend income is recognised when the rights to receive payment is established.

iii. Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

iv. Rental Income

Rental income is recognised in profit or loss on time-proportion basis over the term of the lease.

v. Management and Corporate Guarantee Fees

Management and corporate guarantee fees are recognised when services are rendered.

(f) Employee Benefits

i. Short Term Employee Benefits

Wages, salaries, social security contributions and bonuses are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii. Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets' carrying amount or recognised as separate asset as appropriate, only when 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. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Short term leasehold land is depreciated over the lease term ranges from 43 to 60 years. Long term leasehold land is depreciated over the lease term of 95 years. Freehold land is not depreciated and all other property, plant and equipment are depreciated to write off the cost of the property, plant and equipment over their estimated useful lives.

The principal annual rates used for this purpose are:

Buildings	2% - 6%
Furniture, fittings and electrical fittings	10%
Office equipment	10% - 20%
Forklifts, plant and machineries	10% - 20%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. These are 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. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.

(h) Capital Work-in-progress

Capital work-in-progress is stated at cost less any accumulated impairment losses and includes borrowing costs incurred during the period of construction. Capital work-in-progress is not depreciated and upon completion of construction, the cost will be transferred to property, plant and equipment.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost includes the actual cost of purchase materials and incidentals in bringing the inventories into store.

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

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of Non-Financial Assets

The carrying amounts of non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less cost of disposal and the value in use, which is measured by reference to discounted future cash flows and is determined on an individual asset basis, unless the asset does not generate cash flows that are largely dependent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs to. An impairment loss is recognised whenever the carrying amount of an item of asset exceeds its recoverable amount. An impairment loss is recognised as expense in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Any subsequent increase in recoverable amount of an asset, other than goodwill, due to a reversal of impairment loss is restricted to the carrying amount that would have been determined (net of accumulated depreciation, where applicable) had no impairment loss been recognised in prior financial years. The reversal of impairment loss is recognised in profit or loss.

(k) Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

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 and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at loans and receivables and available-for-sale financial assets and fair value through profit or loss.

i. Loans and Receivables

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. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial Assets (Continued)

ii. Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial assets are either held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or are designated into this category upon initial recognition.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

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

A financial asset is derecognised where 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 purchases or sales are purchases and sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the asset.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or where appropriate, a shorter period to the net carrying amount on initial recognition.

(l) Impairment of Financial Assets

At each reporting date, all financial assets (except for financial assets categorised as fair value through profit or loss and investment in subsidiaries, associates and joint ventures) are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of Financial Assets (Continued)

Loans and receivables

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Company may include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

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

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment that was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Company. If a write-off is later recovered, the recovery is credited to the profit or loss.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits, which are subject to an insignificant risk of changes in value. For the purposes of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and deposits pledged with licensed banks.

(n) Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowing Costs

Borrowing costs are capitalised as part of a qualifying assets 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 assets for its intended use or sales 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 recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

(p) Leases

(i) Finance Lease – the Group as lessee

Assets acquired by way of hire purchase or finance lease where the Group and the Company assumes substantially all the benefits and risks of ownership are classified as property, plant and equipment.

Finance lease are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the remaining balance. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Operating Lease – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on the straight-line basis.

Leasehold land which in substance is an operating lease is classified as prepaid land lease payment.

(q) Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Group and the Company classified their financial liabilities as other financial liabilities.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Financial Liabilities (Continued)

Other Financial Liabilities

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. 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.

(r) Provision

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

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specifics to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date 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.

(s) Derivative Financial Instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Derivative Financial Instruments (Continued)

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(t) Financial Guarantee Contracts

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.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group and the Company, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(u) Segment Reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by their respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the Executive Directors and Chief Financial Officer 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 disclosed in Note 28, including the factors used to identify the reportable segments and the measurement basis of segment information.

(v) 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 owners of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees, if any.

Notes to the Financial Statements
31 December 2017 (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Fair Value Measurements

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

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

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group and the Company can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

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

4. REVENUE

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Sale of goods	577,356,949	498,716,219	–	–
Management fees	–	–	360,359	359,877
Dividend income from subsidiaries	–	–	3,000,000	7,200,000
Corporate guarantee fees charged to subsidiaries	–	–	1,924,913	1,689,960
	577,356,949	498,716,219	5,285,272	9,249,837

Notes to the Financial Statements
31 December 2017 (Continued)

5. COST OF SALES

	Group	
	2017 RM	2016 RM
Direct costs	456,396,425	400,348,339
Other operating costs	22,287,484	19,798,696
	478,683,909	420,147,035

6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Auditors' remuneration				
- statutory audit services				
- current financial year	213,235	180,979	38,000	36,000
- over provision in prior financial year	(3,000)	–	–	–
- other services	7,000	11,000	7,000	11,000
Amortisation of prepaid land lease payment	58,947	–	–	–
Bad debts written off	270,571	2,881	–	–
Deposits and prepayments written off	–	382,709	–	–
Depreciation of property, plant and equipment	9,821,098	8,905,492	–	–
Impairment loss on:				
- trade receivables	280,458	1,384,917	–	–
- investments in subsidiaries	–	–	165,186	2,574,177
Interest expense in respect of:				
- bank overdrafts	1,212,339	1,090,534	–	–
- bankers' acceptances	6,262,397	5,598,326	–	–
- finance lease	369,110	392,691	–	–
- Islamic financing	1,421,243	159,547	–	–
- term loans	329,885	309,316	–	–
Inventories written off	–	64,449	–	–
Inventories written down	272,439	–	–	–
Loss/(Gain) on disposal of property, plant and equipment	20,207	(356,215)	–	–
Loss/(Gain) on foreign exchange:				
- realised	42,569	(95,714)	–	–
- unrealised	(22,099)	(74,382)	–	–

Notes to the Financial Statements
31 December 2017 (Continued)

6. PROFIT BEFORE TAX (CONTINUED)

Profit before tax is arrived at after charging/(crediting) (Continued):

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Property, plant and equipment written off	60,765	79,942	–	–
Preliminary expenses	–	5,440	–	–
Personnel expenses (including key management personnel)				
- contributions to defined contribution plan	2,225,489	1,964,593	69,540	67,140
- salaries and others	23,589,217	20,872,141	1,275,330	1,070,504
Rental of crane and equipment	59,600	62,232	–	–
Rental of motor vehicle	98,219	–	–	–
Rental of premises	1,759,533	1,843,401	–	–
Rental of land	520,718	520,719	–	–
Bargain purchase on acquisition of a subsidiary	(2,699,732)	–	–	–
Rental income from office and warehouse	–	(18,687)	–	–
Insurance claimed	(471,968)	(86,384)	–	–
Interest income from				
- cash at banks	(696,165)	(92,685)	(41,353)	(22,099)
- deposits with licensed banks	(173,513)	(29,268)	(8,293)	–
Reversal of impairment loss on trade receivables	(1,003,246)	(887,816)	–	–
Fair value gain on derivative	–	(32,042)	–	–
Exceptional items: [1]				
- Gain on disposal of property, plant and equipment	(17,802,160)	–	–	–
- Compensation for injurious affection	(3,876,056)	–	–	–
- Compensation for incidental expenses and consequential loss	(19,521,500)	–	–	–
- Relocation and rectification expenses [2]	2,896,181	–	–	–

Notes:

[1] In relation to the compulsory acquisition by the authority of the two affected plots of land which house the steel processing plant, office and warehouse of Supreme Steelmakers Sdn. Bhd.

[2] Mainly relating to the relocation expenses of existing steel processing plant, office and warehouse of Supreme Steelmakers Sdn. Bhd. to temporary sites, and also relating to rectification works on few structures such as main switchboard room, perimeter fencing and part demolishment of the existing factory on one of the affected plots of land.

Notes to the Financial Statements
31 December 2017 (Continued)

6. PROFIT BEFORE TAX (CONTINUED)

(a) Directors' remuneration

Included in staff costs is the aggregate amount of remuneration received and receivable by the directors of the Company and its subsidiaries during the financial year as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Directors of the Company				
Executive directors				
- Fees	700,000	600,000	350,000	250,000
- Other emoluments	3,587,079	3,418,312	–	–
	4,287,079	4,018,312	350,000	250,000
Non-executive directors				
- Fees	300,000	220,000	300,000	220,000
- Other emoluments	24,000	23,000	24,000	23,000
	324,000	243,000	324,000	243,000
Directors of subsidiaries				
Executive Directors				
- Fees	150,000	150,000	–	–
- Other emoluments	2,052,272	1,723,874	–	–
	2,202,272	1,873,874	–	–
	6,813,351	6,135,186	674,000	493,000

The estimated monetary value of benefits-in-kind received and receivable by directors of the Company from the Group and the Company amounted to RM301,731 (2016:RM273,645).

Notes to the Financial Statements
31 December 2017 (Continued)

7. TAX EXPENSE

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Current tax				
Malaysian income tax				
- Current financial year	15,271,486	10,398,800	381,000	373,600
- (Over)/Under provision in prior financial year	(835,167)	92,513	(197)	101
	14,436,319	10,491,313	380,803	373,701
Deferred tax (Note 22)				
Origination and reversal of temporary differences	(94,118)	155,287	–	–
Under/(Over) provision in prior financial year	758,738	(194,897)	–	–
	664,620	(39,610)	–	–
Tax expense	15,100,939	10,451,703	380,803	373,701

The reconciliation from the tax amount at statutory income tax rate to the Group's and the Company's tax expense is as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Profit before tax	95,469,949	38,129,433	3,501,462	5,278,731
Tax at Malaysian statutory income tax rate of 24% (2016: 24%)	22,912,800	9,151,100	840,400	1,266,900
Effect of different tax rate in foreign jurisdiction	9,673	15,092	–	–
Tax effect of:				
- non-deductible expenses	2,832,325	1,478,182	260,600	834,700
- non-taxable income	(9,292,552)	(81,858)	(720,000)	(1,728,000)
Tax effect of double deduction of expenses	–	(100,000)	–	–
Reinvestment allowance claimed for prior financial years	(718,014)	–	–	–

Notes to the Financial Statements
31 December 2017 (Continued)

7. TAX EXPENSE (CONTINUED)

The reconciliation from the tax amount at statutory income tax rate to the Group's and the Company's tax expense is as follows: (Continued)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Tax incentive obtained from increase portion of chargeable income	(798,100)	–	–	–
Deferred tax asset not recognised	231,236	91,572	–	–
(Over)/Under provision in prior financial year:				
- current tax	(835,167)	92,512	(197)	101
- deferred tax	758,738	(194,897)	–	–
Tax expense	15,100,939	10,451,703	380,803	373,701

Domestic income tax is calculated at Malaysian statutory income tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

The Group has unutilised tax losses of RM6,989,798 (2016: RM1,380,791), unabsorbed capital allowances of RM3,210,292 (2016: RM55,353) and unutilised reinvestment allowances of RM2,288,252 (2016: RM nil), available to offset against future taxable profits.

8. EARNINGS PER SHARE

(a) Earnings per share

The basic earnings per share of the Group is calculated by dividing the Group's profit for the financial year attributable to equity holders of the Company of RM80,420,538 (2016: RM27,677,730) by the weighted average number of ordinary shares in issue during the financial year of 310,000,000 (2016: 310,000,000) ordinary shares.

(b) Diluted Earnings per share

Diluted earnings per share is equivalent to the basic earnings per share as there were no potential dilutive ordinary shares.

Notes to the Financial Statements
31 December 2017 (Continued)

9. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Industrial Land RM	Long Term Leasehold Land RM	Short Term Leasehold Land RM	Buildings RM	Furniture, Fittings and Electrical Fittings RM	Office Equipment and Renovation RM	Forklift, Plant and Machinery RM	Motor Vehicles RM	Total RM
Cost									
At 1.1.2017	25,107,881	30,969,669	2,683,377	55,556,372	2,943,412	6,005,331	60,842,099	12,750,606	196,858,747
Transfer from capital work-in-progress (Note 10)	–	–	–	705,286	–	–	318,994	–	1,024,280
Acquisition of a subsidiary	–	–	–	4,730,000	183,199	403,431	11,805,618	308,000	17,430,248
Additions	–	–	–	828,627	–	744,685	1,162,534	527,216	3,263,062
Disposals	–	–	(2,156,179)	(3,761,348)	(442,027)	(229,178)	(707,809)	(331,893)	(7,628,434)
Written off	–	–	–	(83,766)	–	–	–	–	(83,766)
Exchange differences	–	–	–	–	(83)	(1,352)	–	–	(1,435)
At 31.12.2017	25,107,881	30,969,669	527,198	57,975,171	2,684,501	6,922,917	73,421,436	13,253,929	210,862,702
Accumulated Depreciation									
At 1.1.2017	–	325,997	625,637	6,975,459	1,601,198	2,854,638	33,550,186	6,116,591	52,049,706
Acquisition of a subsidiary	–	–	–	–	182,451	399,261	11,691,627	308,000	12,581,339
Charge for the financial year	–	325,997	27,492	1,509,610	230,863	571,309	5,073,371	2,082,456	9,821,098
Disposals	–	–	(518,268)	(757,493)	(423,786)	(207,152)	(476,097)	(331,891)	(2,714,687)
Written off	–	–	–	(23,001)	–	–	–	–	(23,001)
Exchange differences	–	–	–	–	(49)	(1,153)	–	–	(1,202)
At 31.12.2017	–	651,994	134,861	7,704,575	1,590,677	3,616,903	49,839,087	8,175,156	71,713,253
Net Carrying Amount									
At 31.12.2017	25,107,881	30,317,675	392,337	50,270,596	1,093,824	3,306,014	23,582,349	5,078,773	139,149,449

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Freehold Industrial Land RM	Long Term Leasehold Land RM	Short Term Leasehold Land RM	Buildings RM	Furniture, Fittings and Electrical Fittings RM	Office Equipment and Renovation RM	Forklift, Plant and Machinery RM	Motor Vehicles RM	Total RM
Cost									
At 1.1.2016	25,107,881	–	2,683,377	36,093,825	2,823,917	5,756,035	54,929,827	11,742,552	139,137,414
Transfer from capital work-in-progress (Note 10)	–	–	–	19,037,690	–	–	3,040,256	–	22,077,946
Additions	–	30,969,669	–	424,857	119,424	262,492	2,931,016	3,365,225	38,072,683
Disposals	–	–	–	–	–	–	(59,000)	(2,260,878)	(2,319,878)
Written off	–	–	–	–	–	(14,353)	–	(96,293)	(110,646)
Exchange differences	–	–	–	–	71	1,157	–	–	1,228
At 31.12.2016	25,107,881	30,969,669	2,683,377	55,556,372	2,943,412	6,005,331	60,842,099	12,750,606	196,858,747
Accumulated Depreciation									
At 1.1.2016	–	–	576,820	5,908,150	1,336,398	2,305,597	28,671,451	6,662,604	45,461,020
Charge for the financial year	–	325,997	48,817	1,067,309	264,760	549,889	4,915,611	1,733,109	8,905,492
Disposals	–	–	–	–	–	–	(36,876)	(2,250,234)	(2,287,110)
Written off	–	–	–	–	–	(1,816)	–	(28,888)	(30,704)
Exchange differences	–	–	–	–	40	968	–	–	1,008
At 31.12.2016	–	325,997	625,637	6,975,459	1,601,198	2,854,638	33,550,186	6,116,591	52,049,706
Net Carrying Amount									
At 31.12.2016	25,107,881	30,643,672	2,057,740	48,580,913	1,342,214	3,150,693	27,291,913	6,634,015	144,809,041

In the previous financial year, included in the above property, plant and equipment are capitalised borrowing costs amounting to RM17,825 using the capitalisation rate of 3.25% per annum.

Notes to the Financial Statements
31 December 2017 (Continued)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The short term leasehold land has unexpired lease period of less than 50 years whilst the long term leasehold land has remaining unexpired lease period of more than 50 years.

During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

	Group	
	2017 RM	2016 RM
Additions of property, plant and equipment	3,263,062	38,072,683
Less: Financed by finance lease arrangements	(297,000)	(2,676,145)
Less: Owing to other payables	(764,402)	–
Cash payment on purchase of property, plant and equipment	2,201,660	35,396,538

The net carrying amount of property, plant and equipment pledged as security for banking facilities granted to the subsidiaries as mentioned in Note 21 is as follows:

	Group	
	2017 RM	2016 RM
Freehold land	9,426,281	9,426,281
Leasehold land	30,938,997	32,701,412
Buildings	22,578,642	25,837,577
	62,943,920	67,965,270

The net carrying amount of property, plant and equipment held under finance lease arrangements is as follows:

	Group	
	2017 RM	2016 RM
Motor vehicles	3,723,902	5,261,281
Plant and machinery	8,790,577	8,567,735
	12,514,479	13,829,016

Notes to the Financial Statements
31 December 2017 (Continued)

10. CAPITAL WORK-IN-PROGRESS

	Note	Group 2017 RM	Group 2016 RM
At 1 January		765,355	11,491,862
Additions		3,922,191	11,351,439
Transfer to property, plant and equipment	9	(1,024,280)	(22,077,946)
At 31 December		3,663,266	765,355

Capital work-in-progress is in respect of construction of warehouse, factory and office buildings.

Borrowing costs capitalised in relation to capital work-in-progress during the financial year amounts to RM721,504 (2016: RM729,112).

11. PREPAID LAND LEASE PAYMENT

	Group 2017 RM	Group 2016 RM
At 1 January	–	–
Acquisition of a subsidiary	1,120,000	–
Amortisation	(58,947)	–
At 31 December	1,061,053	–

12. INVESTMENTS IN SUBSIDIARIES

	Company 2017 RM	Company 2016 RM
Unquoted shares, at cost	163,456,997	163,456,997
Less: Accumulated impairment losses	(3,689,782)	(3,524,596)
At 31 December	159,767,215	159,932,401

Notes to the Financial Statements
31 December 2017 (Continued)

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of subsidiaries are as follows:

Name of Company	Principal Place of Business/ Country of Incorporation	Principal Activities	Effective Ownership Interest/Voting Rights 2017	2016
Direct subsidiaries				
Leon Fuat Hardware Sdn. Bhd.	Malaysia	Trading and processing of steel products	100%	100%
Leon Fuat Metal Sdn. Bhd. *(formerly known as Leon Fuat Hardware (Klang) Sdn. Bhd.)*	Malaysia	Trading and processing of steel products	100%	100%
Supreme Steelmakers Sdn. Bhd.	Malaysia	Trading and processing of stainless steel and other steel products	100%	100%
ASA Steel (M) Sdn. Bhd.	Malaysia	Ceased operation of trading and processing of alloy steel and other steel products	100%	100%
Overum Wear Parts (Far East) Pte. Ltd *	Republic of Singapore	Trading and processing of steel products	100%	100%
Indirect subsidiary through Leon Fuat Metal Sdn. Bhd. ***(formerly known as Leon Fuat Hardware (Klang) Sdn. Bhd.)***				
Leon Fuat Industrial Products Sdn. Bhd.	Malaysia	Dormant	100%	100%
PCM Steel Processing Sdn. Bhd.	Malaysia	Slitting and processing metal coil and sheets	87% (Approximately)	–

** Audited by an independent member firm of Baker Tilly International.*

The Group's subsidiary which has non-controlling interest is not materially to the financial position, financial performance and cash flows of the Group and therefore it is not presented in the financial statements.

There are no restrictions in the ability of the Group to access or use the assets and settle the liabilities of the subsidiaries.

(a) Acquisition of PCM Steel Processing Sdn. Bhd.

On 15 August 2017, Leon Fuat Metal Sdn. Bhd. (formerly known as Leon Fuat Hardware (Klang) Sdn. Bhd.), a subsidiary of the Company acquired 10,354,000 ordinary shares, representing an approximately 87% controlling interest in the equity shares of PCM Steel Processing Sdn. Bhd. with a cash consideration of RM3,000,000. PCM Steel Processing Sdn. Bhd. operates in manufacturing industry as its core business and is domiciled in Malaysia. In determining and recognising the fair value of assets acquired and liabilities assumed, the Group has performed a purchase price allocation exercise for the acquisition during the financial year.

Notes to the Financial Statements
31 December 2017 (Continued)

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of PCM Steel Processing Sdn. Bhd. (Continued)

(i) Fair value of identifiable assets acquired and liabilities recognised:

	2017 RM
Assets	
Property, plant and equipment	4,848,909
Prepaid land lease payment	1,120,000
Inventories	610,747
Trade receivables	2,671,925
Other receivables, deposits and prepayments	190,136
Tax assets	960
Deposit with a licensed bank	50,000
Cash and bank balances	585,748
Total assets	10,078,425
Liabilities	
Trade payables	(2,442,716)
Other payables and accruals	(209,049)
Deferred tax liability	(875,244)
Total liabilities	(3,527,009)
Total identifiable net assets acquired	6,551,416
Bargain purchase arising from acquisition	(2,699,732)
Non-controlling interest in fair value	(851,684)
Fair value consideration transferred	3,000,000

(ii) Effects of acquisition on cash flows:

	RM
Fair value consideration transferred	3,000,000
Less: Cash and cash equivalents	(585,748)
Net cash used in acquisition	2,414,252

Notes to the Financial Statements
31 December 2017 (Continued)

13. INVENTORIES

	Group	
	2017 RM	2016 RM
At cost		
Trading inventories	236,201,169	180,055,827
Goods-in-transit	5,554,895	6,650,450
	241,756,064	186,706,277
At net realisable value		
Trading inventories	2,033,080	–
	243,789,144	186,706,277

During the financial year, the cost of inventories recognised as an expense in cost of sales of the Group is RM456,396,425 (2016: RM400,348,339).

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Trade				
External parties	158,548,003	132,119,607	–	–
Related parties	335,129	307,991	–	–
	158,883,132	132,427,598	–	–
Less: Allowance for impairment loss	(277,287)	(1,158,689)	–	–
	158,605,845	131,268,909	–	–
Non-trade				
Sundry receivables	159,644	215,852	–	–
Advances to suppliers	439,220	689,165	–	–
Goods and services tax ("GST") refundable	994,399	1,914,652	–	–
Deposits	16,722,071	1,011,427	4,500	4,500
Prepayments	3,143,930	1,645,052	49,000	240
	21,459,264	5,476,148	53,500	4,740
	180,065,109	136,745,057	53,500	4,740

(a) The Group's trade receivables normal credit term range from 30 to 120 days (2016: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

(b) Included in trade receivables of the Group are amounts of RM335,129 (2016: RM307,991) due from related parties.

These amounts are subject to normal trade term.

Further information on related parties are disclosed in Note 30.

Notes to the Financial Statements
31 December 2017 (Continued)

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Included in deposits of the Group are:

(i) an amount of RM50,000 (2016: RM50,000) represents rental and utilities deposits paid to a fellow subsidiary;

(ii) an amount of RM110,000 (2016: RM110,000) represents rental deposits paid to ultimate holding company; and

(iii) an amount of RM15,941,506 (2016: RM164,750) being down payments for purchase of machinery, motor vehicles and furniture and fittings.

(d) Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables are as follows:

	Group	
	2017 RM	2016 RM
Neither past due nor impaired	79,949,902	65,215,877
1 to 30 days past due not impaired	35,670,890	32,357,498
31 to 60 days past due not impaired	23,576,933	19,645,710
61 to 90 days past due not impaired	10,103,126	7,708,660
91 to 120 days past due not impaired	4,072,870	5,146,576
More than 121 days past due not impaired	5,232,124	1,194,588
	78,655,943	66,053,032
Impaired	277,287	1,158,689
	158,883,132	132,427,598

Receivables that are neither past due nor impaired
Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

Receivables that are impaired
The movement of allowance accounts used to record the impairment are as follows:

	Group	
	2017 RM	2016 RM
At 1 January	1,158,689	663,588
Charge for the financial year (Note 6)	280,458	1,384,917
Reversal of impairment (Note 6)	(1,003,246)	(887,816)
Written off	(158,614)	(2,000)
At 31 December	277,287	1,158,689

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Notes to the Financial Statements
31 December 2017 (Continued)

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

(e) The foreign currency exposure profile of trade receivables of the Group is as follows:

	Group	
	2017 RM	2016 RM
United States Dollar ("USD")	1,648,111	–
Singapore Dollar ("SGD")	–	327,299

15. AMOUNT DUE FROM A SUBSIDIARY

This amount is non-trade in nature, unsecured, interest free, repayable on demand by cash.

16. DEPOSITS WITH LICENSED BANKS

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Deposits with licensed banks				
- pledged	6,817,208	431,070	–	–
- not pledged	34,714,668	–	2,008,293	–
	41,531,876	431,070	2,008,293	–

The interest rate as at the reporting date and the maturities of the deposits placed with licensed banks are as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Interest rate (%) (per annum)	3.00 - 3.70	3.20	3.36	–
Maturity (days)	30 - 365	365	30	–

Deposits are pledged with licensed banks as securities for banking facilities granted to subsidiaries as disclosed in Note 21(b).

Notes to the Financial Statements
31 December 2017 (Continued)

17. DERIVATIVE FINANCIAL ASSETS

	Group	
	2017 RM	2016 RM
Contract notional amount		
Non-hedging derivative:		
Forward currency contracts	–	1,045,280
At fair value through profit or loss		
Non-hedging derivative:		
Current assets		
Forward currency contracts	–	32,042

The Group uses forward currency contracts to manage purchases transaction exposure. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting. Forward currency contracts are used to hedge the Group's trade payables and purchases denominated in United States Dollar.

In the previous financial year, the Group recognised a profit of RM32,042 arising from fair value changes of derivative financial instruments. The method and assumption applied in determining the fair value of derivatives is disclosed in Note 31.

18. CASH AND BANK BALANCES

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash at bank	21,132,886	17,887,047	3,085,707	1,959,762
Cash in hand	22,360	18,007	3	3
	21,155,246	17,905,054	3,085,710	1,959,765

The foreign currency profile of cash and bank balances is as follows:

	Group	
	2017 RM	2016 RM
United States Dollar ("USD")	2,563,792	128,091
Japanese Yen ("JPY")	7,086	–

Notes to the Financial Statements
31 December 2017 (Continued)

19. SHARE CAPITAL

	Group/Company			
	2017		2016	
	Number of shares Unit	Amount RM	Number of shares Unit	Amount RM
Issued and fully paid:				
At 1 January	310,000,000	155,000,000	310,000,000	155,000,000
Transition to no-par value regime:				
- Share premium	–	5,094,360	–	–
31 December	310,000,000	160,094,360	310,000,000	155,000,000

The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM5,094,360 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account of RM5,094,360 for purposes as set out in Section 618(3) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

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 ordinary shares rank equally with regard to the Company's residual interests.

20. RESERVES

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Capital reserve	(a)	923	923	–	–
Merger deficit	(b)	(109,544,997)	(109,544,997)	–	–
Retained earnings		282,868,599	207,098,061	6,993,848	8,523,189
Share premium	(c)	–	5,094,360	–	5,094,360
Translation reserve	(d)	(20,093)	(7,585)	–	–
		173,304,432	102,640,762	6,993,848	13,617,549

Notes to the Financial Statements
31 December 2017 (Continued)

20. RESERVES (CONTINUED)

(a) Capital reserve

This is arising from the takeover of the unincorporated business of Leong Huat Trading & Co.

(b) Merger deficit

The merger deficit was resulted from the difference between the carrying value of the investments in subsidiaries and the nominal value of the shares of the Company's subsidiaries upon consolidation under the merger accounting principle.

(c) Share premium

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares. Pursuant to Section 618(2) of the Act, the sum of RM5,094,360 standing to the credit of the Company's share premium account has been transferred and became part of the Company's share capital as disclosed in Note 19.

(d) Translation reserve

The translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign subsidiary whose functional currency is different from that of the Group's presentation currency.

Notes to the Financial Statements
31 December 2017 (Continued)

21. BORROWINGS

	Note	Current: Due within 1 year RM	Non-current: Due in 1 to 2 year RM	2 to 3 year RM	3 to 4 year RM	4 to 5 year RM	Over 5 years RM	Sub-total RM	Total RM
Group									
2017									
Secured									
Term loan	(a)	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	5,700,000	12,900,000	14,700,000
Bankers' acceptances	(b)	93,290,655	–	–	–	–	–	–	93,290,655
Bank overdrafts	(b)	11,357,570	–	–	–	–	–	–	11,357,570
Finance lease payables	(c)	4,483,082	894,885	17,796	–	–	–	912,681	5,395,763
		110,931,307	2,694,885	1,817,796	1,800,000	1,800,000	5,700,000	13,812,681	124,743,988
Unsecured									
Islamic financing	(d)	42,933,999	–	–	–	–	–	–	42,933,999
Bankers' acceptances	(b)	64,364,000	–	–	–	–	–	–	64,364,000
Bank overdrafts	(b)	4,506,163	–	–	–	–	–	–	4,506,163
		111,804,162	–	–	–	–	–	–	111,804,162
		222,735,469	2,694,885	1,817,796	1,800,000	1,800,000	5,700,000	13,812,681	236,548,150

21. BORROWINGS (CONTINUED)

	Note	Current Due within 1 year RM	Non-current Due in 1 to 2 year RM	2 to 3 year RM	3 to 4 year RM	4 to 5 year RM	Over 5 years RM	Sub-total RM	Total RM
Group									
2016									
Secured									
Term loan	(a)	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	7,500,000	14,700,000	16,500,000
Bankers' acceptances	(b)	61,568,000	–	–	–	–	–	–	61,568,000
Bank overdrafts	(b)	16,333,698	–	–	–	–	–	–	16,333,698
Finance lease payables	(c)	3,788,635	3,239,759	630,339	5,928	–	–	3,876,026	7,664,661
		83,490,333	5,039,759	2,430,339	1,805,928	1,800,000	7,500,000	18,576,026	102,066,359
Unsecured									
Islamic financing	(d)	22,000,000	–	–	–	–	–	–	22,000,000
Bankers' acceptances	(b)	60,483,000	–	–	–	–	–	–	60,483,000
Bank overdrafts	(b)	638,687	–	–	–	–	–	–	638,687
		83,121,687	–	–	–	–	–	–	83,121,687
		166,612,020	5,039,759	2,430,339	1,805,928	1,800,000	7,500,000	18,576,026	185,188,046

Notes to the Financial Statements
31 December 2017 (Continued)

21. BORROWINGS (CONTINUED)

(a) Term loan – Secured

Details of the repayment terms are as follows:

	Group 2017 RM	Group 2016 RM
Repayable by 120 equal monthly instalments of RM150,000 and a final instalment of RM150,000 commenced January 2016 and bear interest at rate of 4.60% per annum (2.10% per annum below prevailing base lending rate).	14,700,000	16,500,000
	14,700,000	16,500,000
Less: Repayable within 1 year included in current liabilities	(1,800,000)	(1,800,000)
Repayable after 1 year	12,900,000	14,700,000

The term loan of a subsidiary bear interest at a rate of 4.60% (2016: 4.55%) per annum and is secured and supported by:

(i) a corporate guarantee given by the Company; and
(ii) legal charges over the leasehold land of a subsidiary (Note 9).

(b) Bankers' acceptances and bank overdrafts – Secured

The secured bankers' acceptances and bank overdrafts bear effective interest at rates ranging from 3.90% to 4.48% (2016: 3.86% to 4.28%) per annum and 7.54% to 7.79% (2016: 7.65% to 7.85%) per annum respectively. The secured bankers' acceptances and bank overdrafts are secured and supported by:

(i) legal charge over the properties of subsidiaries (Note 9) and ultimate holding company;
(ii) deposits with licensed banks granted to subsidiaries (Note 16); and
(iii) corporate guarantee given by the Company.

Bankers' acceptances and bank overdrafts - Unsecured

The unsecured bankers' acceptances and bank overdrafts bear effective interest at rates ranging from 3.45% to 5.03% (2016: 3.86% to 4.33%) per annum and 7.67% to 7.79% (2016: 7.65% to 7.81%) per annum respectively. The unsecured bankers' acceptances are supported by corporate guarantees given by the Company.

Notes to the Financial Statements
31 December 2017 (Continued)

21. BORROWINGS (CONTINUED)

(c) Finance lease payables

	Group 2017 RM	Group 2016 RM
Future minimum lease payments	5,569,341	8,067,457
Less: Future finance charges	(173,578)	(420,796)
Total present value of minimum lease payments	5,395,763	7,646,661
Current liabilities		
Payable within one year		
Future minimum lease payments	4,642,066	4,076,283
Less: Future finance charges	(158,984)	(287,648)
Present value of minimum lease payments	4,483,082	3,788,635
Non-current liabilities		
Payable after one year but not later than five years		
Future minimum lease payments	927,275	3,991,175
Less: Future finance charges	(14,594)	(115,149)
Present value of minimum lease payments	912,681	3,876,026
Total present value of minimum lease payments	5,395,763	7,664,661

The finance lease payables bear interest at rates range from 2.38% to 3.90% (2016:2.30% to 2.80%) per annum.

(d) Islamic financing

Islamic financing represents the Structured Commodity Financing-i facilities. This amount is unsecured, bears effective interest at rates ranging from 4.45% to 4.83% (2016: 4.30% to 4.34%) per annum. The unsecured facility is supported by corporate guarantee provided by the Company.

22. DEFERRED TAX LIABILITIES

	Group 2017 RM	Group 2016 RM
At 1 January	3,646,280	3,685,890
Acquisition of a subsidiary	875,244	–
Recognised in profit or loss (Note 7)	664,620	(39,610)
At 31 December	5,186,144	3,646,280

Notes to the Financial Statements
31 December 2017 (Continued)

22. DEFERRED TAX LIABILITIES (CONTINUED)

Presented after appropriate offsetting as follows:

	Group	
	2017 RM	2016 RM
Deferred tax liabilities	5,465,548	3,928,351
Deferred tax assets	(279,404)	(282,071)
	5,186,144	3,646,280

This is in respect of estimated deferred tax liabilities/(assets) arising from temporary differences as follows:

	Group	
	2017 RM	2016 RM
Deferred tax liabilities		
Difference between the carrying amount of property, plant and equipment and its tax base	5,465,548	3,917,425
Unrealised gain on foreign exchange	–	10,926
	5,465,548	3,928,351
Deferred tax assets		
Impairment loss on trade receivables	(10,593)	(252,713)
Deferred income	(238,663)	–
Unrealised loss on foreign exchange	(4,168)	–
Unrealised profits on inventories	(25,980)	(29,358)
	(279,404)	(282,071)
	5,186,144	3,646,280

The estimated amount of temporary differences for which no deferred tax assets are recognised in the financial statements are as follows:

	Group	
	2017 RM	2016 RM
Unutilised tax losses	6,989,798	1,380,791
Unabsorbed capital allowances	3,210,292	55,353
Unutilised reinvestment allowances	2,288,252	–
	12,488,342	1,436,144

Notes to the Financial Statements
31 December 2017 (Continued)

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Trade				
External parties	29,888,085	23,539,112	–	–
Related parties	41,715	52,003	–	–
	29,929,800	23,591,115	–	–
Non-trade				
Sundry payables	2,596,625	2,818,041	–	–
Goods and services tax ("GST") payable	115,417	190,075	112,610	102,151
Deposits received	57,823	30,386	–	–
Accruals	5,346,649	1,564,594	676,900	499,267
	8,116,514	4,603,096	789,510	601,418
	38,046,314	28,194,211	789,510	601,418

(a) The Company's trade payables normal trade credit term range from 30 to 120 days (2016: 30 to 120 days).

Included in trade payables of the Group are:

(i) an amount of RM34,100 (2016: RM11,493) due to a fellow subsidiary; and
(ii) an amount of RM7,615 (2016: RM40,510) due to a related party.

Further information on fellow subsidiaries and related parties is disclosed in Note 30.

(b) Included in sundry payables of the Group is an amount of RM9,000 (2016: RM nil) due to the ultimate holding company. This amount is non-trade in nature, unsecured, interest-free, and repayable on demand by cash.

(c) Included in accruals of the Group and of the Company are directors' fees amounting to RM1,150,000 (2016: RM970,000) and RM650,000 (2016: RM470,000) respectively.

(d) The foreign currency exposure profile of trade payables of the Group is as follows:

	Group	
	2017 RM	2016 RM
Australian Dollar ("AUD")	119,461	109,593
Euro ("EUR")	98,492	–
United States Dollar ("USD")	489,721	890,196

Notes to the Financial Statements
31 December 2017 (Continued)

24. DEFERRED INCOME

	Group	
	2017 RM	2016 RM
At Cost		
At 1 January	–	–
Addition	994,430	–
At 31 December	994,430	–

Deferred income relates to advance billings to customers for goods to be delivered.

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

This amount is non-trade in nature, unsecured, bears interest at rate 3.25% (2016: 3.25%) per annum, and repayable on demand by cash. The advances are mainly to support a subsidiary's capital expenditure.

26. DIVIDEND

	Group/ Company	
	2017 RM	2016 RM
Final single tier dividend of 1.5 sen per share in respect of financial year ended 31 December 2015	–	4,650,000
Final single tier dividend of 1.5 sen per share in respect of financial year ended 31 December 2016	4,650,000	–
	4,650,000	4,650,000

In addition, the directors have recommended a final single tier dividend of 1.5 sen per share amounting to RM4,650,000 in respect of financial year ended 31 December 2017 and payable upon approval by shareholders at the forthcoming Annual General Meeting. The financial statements for current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriate of retained earnings in the next financial year ending 31 December 2018.

Notes to the Financial Statements
31 December 2017 (Continued)

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash and bank balances	21,155,246	17,905,054	3,085,710	1,959,765
Deposits with licensed banks (Note 16)	41,531,876	431,070	2,008,293	–
	62,687,122	18,336,124	5,094,003	1,959,765
Less: Bank overdrafts (Note 21)	(15,863,733)	(16,972,385)	–	–
Less: Deposits with licensed banks - pledged (Note 16)	(6,817,208)	(431,070)	–	–
	40,006,181	932,669	5,094,003	1,959,765

28. SEGMENT INFORMATION

General Information

The Group is principally engaged in trading and processing of steel related products.

The Group has arrived at three (3) reportable segments that are based on information reported internally to the Management and the Board of Directors. The reportable segments are summarised as follows:

(i) Trading of steel products;
(ii) Processing of steel products; and
(iii) Others

The accounting policies of the segments are the same as the Group's accounting policies described in Note 3.

Measurement of Reportable Segment

The Group evaluates performance based on segment operating revenue and gross profit. Inter-segment transactions are entered in the ordinary course of business based on terms mutually agreed upon by the parties concerned.

Segment results, assets and liabilities information are neither included in the internal management reports nor provided regularly to the management. Hence, no disclosures are made on segment results, assets and liabilities. All results, assets and liabilities are managed on a group basis.

Notes to the Financial Statements
31 December 2017 (Continued)

28. SEGMENT INFORMATION (CONTINUED)

Measurement of Reportable Segment (Continued)

2017	Trading of Steel Products RM	Processing of Steel Products RM	Others RM	Elimination RM	Total RM
Revenue					
External revenue	280,561,440	295,542,041	1,253,468	–	577,356,949
Cost of sales	(238,172,439)	(239,698,437)	(813,033)	–	(478,683,909)
Gross profit	42,389,001	55,843,604	440,435	–	98,673,040
Add/(Less):					
Other income					46,922,383
Operating expenses					(39,894,156)
Finance costs					(10,231,318)
Profit before tax					95,469,949
Tax expense					(15,100,939)
Profit for the financial year					80,369,010

2016	Trading of Steel Products RM	Processing of Steel Products RM	Others RM	Elimination RM	Total RM
Revenue					
External revenue	245,007,731	252,881,037	827,451	–	498,716,219
Cost of sales	(218,744,674)	(200,648,759)	(753,602)	–	(420,147,035)
Gross profit	26,263,057	52,232,278	73,849	–	78,569,184
Add/(Less):					
Other income					1,816,240
Operating expenses					(33,990,317)
Finance costs					(8,265,674)
Profit before tax					38,129,433
Tax expense					(10,451,703)
Profit for the financial year					27,677,730

Notes to the Financial Statements
31 December 2017 (Continued)

28. SEGMENT INFORMATION (CONTINUED)

Measurement of Reportable Segment (Continued)

Geographical segment

Revenue from external customers based on the location of its customers has not been disclosed as revenue earned outside Malaysia is insignificant. Non-current assets information is presented based on the segment's country of domicile. Non-current assets do not include financial instruments and deferred tax assets.

	Non-current assets	
	2017 RM	2016 RM
Malaysia	143,863,587	145,561,431
Republic of Singapore	10,181	12,965
	143,873,768	145,574,396

Information about Major Customers

There is no single customer with revenue equal or more than 10% of the Group revenue.

29. CAPITAL COMMITMENTS

	Group	
	2017 RM	2016 RM
Approved and contracted for:		
- purchase of motor vehicles	267,449	304,960
- purchase of machinery	11,924,694	561,799
- purchase of properties	319,500	–
- purchase of furniture and fittings, and renovation	–	157,250
- construction of factory and warehouse buildings	16,302,927	1,308,031
	28,814,570	2,332,040

30. RELATED PARTY DISCLOSURES

(a) Identity of Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly to control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group and the Company have a related party relationship with its subsidiaries, ultimate holding company, fellow subsidiaries, related parties, key management personnel and persons connected to key management personnel. Fellow subsidiaries refer to subsidiaries of the ultimate holding company. Related parties refer to companies in which the directors or persons connected to directors of the company or the subsidiaries have substantial interest.

Notes to the Financial Statements
31 December 2017 (Continued)

30. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related Party Transactions

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Transactions with ultimate holding company				
- Rental paid and payable	1,329,000	1,320,000	–	–
- Interest charged and paid	329,885	327,141	–	–
Transactions with subsidiaries				
- Management fees received and receivables	–	–	(360,359)	(359,877)
- Dividend income received and receivables	–	–	(3,000,000)	(7,200,000)
- Corporate guarantee fees received and receivables	–	–	(1,924,913)	(1,689,960)
Transactions with fellow subsidiaries				
- Purchases	261,862	356,528	–	–
- Rental paid and payable	240,000	240,000	–	–
Transactions with related parties				
- Sales	(4,285,056)	(4,142,999)	–	–
- Purchases	24,299	192,800	–	–

(c) Related Party Balances

Information on outstanding balances with related parties of the Group is disclosed in Notes 14, 15, 23 and 25.

Notes to the Financial Statements
31 December 2017 (Continued)

30. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Compensation of Key Management Personnel

Key management personnel include personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group. The compensation of the key management personnel is as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Directors of the Company				
Executive directors				
Short-term employee benefits				
- fees	700,000	600,000	350,000	250,000
- other emoluments	3,203,079	3,052,312	–	–
- estimated monetary value of benefits-in-kind	203,481	180,946	–	–
	4,106,560	3,833,258	350,000	250,000
Post employment benefits	384,000	366,000	–	–
	4,490,560	4,199,258	350,000	250,000
Non-executive directors				
Short-term employee benefits				
- fees	300,000	220,000	300,000	220,000
- other emoluments	24,000	23,000	24,000	23,000
	324,000	243,000	324,000	243,000
Directors of subsidiaries				
Executive directors				
Short-term employee benefits				
- fees	150,000	150,000	–	–
- other emoluments	1,837,102	1,544,108	–	–
- estimated monetary value of benefits-in-kind	98,250	92,699	–	–
	2,085,352	1,786,807	–	–
Post employment benefits	215,170	179,766	–	–
	2,300,522	1,966,573	–	–

Notes to the Financial Statements
31 December 2017 (Continued)

30. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Compensation of Key Management Personnel (Continued)

Key management personnel include personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group. The compensation of the key management personnel is as follows: (Continued)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Other key management personnels				
Short-term employee benefits				
- other emoluments	677,438	652,648	336,829	320,742
- estimated monetary value of benefits-in-kind	8,433	5,157	–	–
	685,871	657,805	336,829	320,742
Post employment benefits	81,078	78,128	40,320	38,400
	766,949	735,933	377,149	359,142
	7,882,031	7,144,764	1,051,149	852,142

Total compensation of key management personnel comprise:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Short-term employee benefits	7,201,783	6,520,870	1,010,829	813,742
Post employment benefits	680,248	623,894	40,320	38,400
	7,882,031	7,144,764	1,051,149	852,142

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of Financial Instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Financial assets				
Loans and receivables				
Trade and other receivables *	159,546,054	132,331,438	–	4,500
Amount due from a subsidiary	–	–	–	159,661
Dividend receivables	–	–	3,000,000	7,200,000
Deposits with licensed banks	41,531,876	431,070	2,008,293	–
Cash and bank balances	21,155,246	17,905,054	3,085,710	1,959,765
	222,233,176	150,667,562	8,094,003	9,323,926
Financial assets at fair value through profit or loss	–	32,042	–	–
Derivative financial assets	222,233,176	150,699,604	8,094,003	9,323,926
Financial liabilities				
Financial liabilities at amortised cost				
Trade and other payables *	37,930,897	28,004,136	676,900	499,267
Amount due to ultimate holding company	10,000,000	10,000,000	–	–
Borrowings	236,548,150	185,188,046	–	–
	284,479,047	223,192,182	676,900	499,267

** Excluded advances to suppliers, GST, prepayments and down payments.*

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, interest rate risk, liquidity risk, foreign currency risk and market price risk.

The Group's and the Company's exposure to the financial risks and the objectives, policies and processes put in place to manage these risks are discussed below.

(i) 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 exposure to credit risk arises primarily from trade and other receivables and the maximum risk associated with recognised financial assets is the carrying amount as presented in the statements of financial position.

The carrying amount of trade and other receivables are not secured by any collateral or supported by any other credit enhancements. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. For other financial assets, the Group minimises credit risks by dealing with high rating counterparties.

The Group does not have any significant exposure to any individual customer.

Financial guarantee
The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to subsidiaries as mentioned in the Note 21.

The Company monitors on an ongoing basis the repayments made by the subsidiaries and its financial performance.

The maximum exposure to credit risk amounts to RM231,152,387 (2016: RM177,523,385) representing the outstanding banking facilities at the reporting date. At the reporting date, there was no indication that the subsidiaries would default on its repayment.

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (Continued)

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of the Group'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 relates to deposits with licensed banks and interest bearing financial liabilities which include finance lease payables, term loan, bankers' acceptances, bank overdrafts and amount due to ultimate holding company.

Borrowings at floating rate amounting to RM231,152,387 (2016: RM177,523,385) expose the Group to cash flow interest rate risk whilst borrowings at fixed rate amounting to RM15,395,763 (2016: RM17,664,661) expose the Group's to fair value interest rate risk.

The Group manages its interest rate risk exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group also monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favourable rates

Sensitivity analysis for interest rate risk
If the interest rate had been 50 basis point higher/lower and all other variables held constant, the Group's profit for the financial year ended 31 December 2017 would decrease/increase by RM878,379 (2016: RM674,589) as a result of exposure to floating rate borrowings.

(iii) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of stand-by credit facilities.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (Continued)

(iii) Liquidity Risk (Continued)

The Group manages its operating cash flows by maintaining sufficient level of cash to meet its working capital requirements and availability of funding through an adequate amount of credit facilities.

Analysis of financial instruments by remaining contractual maturities
The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted repayment obligations:

	Carrying Amount RM	Contractual Cash Flows RM	On demand or within 1 year RM	1 to 2 years RM	2 to 5 years RM	Over 5 years RM
2017						
Group						
Financial liabilities						
Trade and other payables	38,046,314	38,046,314	38,046,314	–	–	–
Amount due to ultimate holding company	10,000,000	10,325,000	10,325,000	–	–	–
Term loan	14,700,000	20,421,960	1,882,800	1,969,409	6,468,644	10,101,107
Bankers' acceptances	157,654,655	157,654,655	157,654,655	–	–	–
Bank overdrafts	15,863,733	15,863,733	15,863,733	–	–	–
Islamic financing	42,933,999	43,428,153	43,428,153	–	–	–
Finance lease payables	5,395,763	5,569,341	4,642,066	909,410	17,865	–
	284,594,464	291,309,156	271,842,721	2,878,819	6,486,509	10,101,107
Company						
Financial liabilities						
Other payables	789,510	789,510	789,510	–	–	–
Financial guarantee *	–	231,152,387	231,152,387	–	–	–
	789,510	231,941,897	231,941,897	–	–	–

* The Company has given corporate guarantee of *RM440,018,256 to banks of certain subsidiaries for banking facilities. The potential exposure of the financial guarantee is equivalent to the amount of the banking facilities being utilised by the said subsidiaries. As at 31 December 2017, approximately RM231,152,387 of the banking facilities* were utilised by the said subsidiaries.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (Continued)

(iii) Liquidity Risk (Continued)

Analysis of financial instruments by remaining contractual maturities (Continued)
The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted repayment obligations: (Continued)

	Carrying Amount RM	Contractual Cash Flows RM	On demand or within 1 year RM	1 to 2 years RM	2 to 5 years RM	Over 5 years RM
2016						
Group						
Financial liabilities						
Trade and other payables	28,194,211	28,194,211	28,194,211	–	–	–
Amount due to ultimate holding company	10,000,000	10,325,000	10,325,000	–	–	
Term loan	16,500,000	20,924,608	1,883,630	1,971,145	6,480,140	10,589,693
Bankers' acceptances	122,051,000	122,051,000	122,051,000	–	–	–
Bank overdrafts	16,972,385	16,972,385	16,972,385	–	–	–
Islamic financing	22,000,000	22,212,542	22,212,542	–	–	–
Finance lease payables	7,664,661	8,067,457	4,070,305	3,343,747	653,405	–
	223,382,257	228,747,203	205,709,073	5,314,892	7,133,545	10,589,693
Company						
Financial liabilities						
Other payables	601,418	601,418	601,418	–	–	–
Financial guarantee *	–	177,523,385	177,523,385	–	–	–
	601,418	178,124,803	178,124,803	–	–	–

* *The Company has given corporate guarantee of RM374,273,587 to banks of certain subsidiaries for banking facilities. The potential exposure of the financial guarantee is equivalent to the amount of the banking facilities being utilised by the said subsidiaries. As at 31 December 2016, approximately RM177,523,385 of the banking facilities were utilised by the said subsidiaries.*

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (Continued)

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has foreign currency exposure primarily arising from its trade receivables, cash at bank and trade payables which is denominated in AUD, EUR, JPY, USD and SGD as disclosed in Notes 14, 18 and 23.

Forward foreign currency contracts are used by the Group to reduce exposure to fluctuations in foreign currency risk. In addition, the Group holds cash and cash equivalents denominated in USD to pay its foreign purchases as a natural hedge against fluctuations in foreign currency risk.

Sensitivity analysis for foreign currency risk
The changes in the foreign currency is not expected to have significant impact on the Group's financial statements.

(c) Fair value of financial instruments

The methods and assumptions used to estimate the fair values of the following classes of financial assets and liabilities are as follows:

(i) Cash and cash equivalents, trade and other receivables, trade and other payables

The carrying amounts are reasonable approximation of fair values due to short term nature of these financial instruments.

(ii) Derivative financial instruments

In the previous financial year, forward currency contracts are valued using a valuation technique with market observation inputs. The fair value of the forward foreign currency contracts is determined by reference to discounting the difference between the contracted rate and the current forward price at the reporting date for the residual maturity of the contracts using risk-free interest rate (based on government bonds).

(iii) Borrowings

The carrying amounts of the current portion of borrowings are reasonable approximation of fair values due to the insignificant impact of discounting.

The carrying amounts of long term floating rate loans are reasonable approximation of fair values as the loans will be re-priced to market interest rate on or near reporting date.

The fair value of long term finance lease payables is estimated using discounted cash flow analysis, based on current lending rate for similar types of lease arrangements.

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Fair value of financial instruments (Continued)

(iii) Borrowings (Continued)

The carrying amounts of financial assets and liabilities recognised in the statements of financial position approximately their fair values except for the following:

	Carrying Amount RM	Fair Value RM
Group		
2017		
Financial liability		
Finance lease payables	5,395,763	5,532,729
2016		
Financial liability		
Finance lease payables	7,664,661	7,840,383

(d) Fair value measurements

Analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements
31 December 2017 (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Fair value measurements (Continued)

The following table provides the fair value measurement hierarchy of the Group's and the Company's financial instruments:

	2017 RM	Level 1 RM	Level 2 RM	Level 3 RM
Financial liability				
Finance lease payables	5,395,763	–	–	5,395,763

	2016 RM	Level 1 RM	Level 2 RM	Level 3 RM
Financial asset				
Derivative financial instrument				
- Foreign currency forward contract	32,042	–	32,042	–
Financial liability				
Finance lease payables	7,664,661	–	–	7,664,661

During the financial year ended 31 December 2017 and 31 December 2016, there have been no transfers between Level 1 and Level 2 fair value measurements.

32. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic and business 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. There were no changes in the Group approach to capital management since the financial year ended 31 December 2017. The Group is not subject to any externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debts divided by total capital plus net debts. Net debts comprise bankers' acceptances, bank overdrafts, term loan and finance lease payables less deposits with licensed banks, cash and bank balances whilst total capital is total equity of the Group.

Notes to the Financial Statements
31 December 2017 (Continued)

32. CAPITAL MANAGEMENT (CONTINUED)

	Group	
	2017 RM	2016 RM
Total interest-bearing borrowings	246,548,150	195,188,046
Less: Deposits with licensed banks, cash and bank balances	(62,687,122)	(18,336,124)
Total net debts	183,861,028	176,851,922
Total equity	334,198,948	257,640,762
Total net debts plus equity	518,059,976	434,492,684
Gearing ratio	35%	41%

A subsidiary of the Company is required to comply with gearing ratios in respect of its banks' acceptances, bank overdrafts and term loan.

33. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 6 April 2017, the wholly-owned subsidiaries of the Company, Leon Fuat Hardware Sdn. Bhd. and Supreme Steelmakers Sdn. Bhd. have accepted the award of compensation offered by the Land Administrator of Wilayah Persekutuan Kuala Lumpur totaling RM45,841,482 in respect of the Compulsory Acquisition for the purpose of "Projek Mass Rapid Transit (MRT) Lembah Klang-Jajaran Sungai Buloh-Serdang-Putrajaya (SSP)".

The affected plots of land house the steel processing plant, office and warehouse of Supreme Steelmakers Sdn. Bhd.

(b) On 28 July 2017, the wholly-owned subsidiary of the Company, Leon Fuat Metal Sdn. Bhd. (formerly known as Leon Fuat Hardware (Klang) Sdn. Bhd.) ("LF Metal") had entered into agreements in relation to the acquisition of 10,354,000 ordinary shares in PCM Steel Processing Sdn. Bhd. ("PSP") representing approximately 87% of the issued and paid up capital of PSP for purchase consideration amounting to RM3,000,000. The acquisition is completed on 15 August 2017.

Notes to the Financial Statements
31 December 2017 (Continued)

34. OPERATING LEASE COMMITMENT – AS LESSEE

The Group lease a piece of land under an operating lease for the purpose of building warehouse for a lease term of 30 years, with an option to renew the lease at the end of the lease term. The lease agreement is terminable with one year notice.

Future minimum rental payable under the operating lease at the reporting date is as follows:

	Group	
	2017 RM	2016 RM
- Not later than one year	520,718	520,718
- More than one year but not later than five years	2,082,873	2,082,873
- More than five years	11,282,227	11,802,945
	13,885,818	14,406,536

List of Properties
Held as at 31 December 2017

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Land/Built –up Areas (sq. ft.*)	Approximate Age of Buildings (No. of Years)	NBV At Group Level as at 31 December 2017 (RM)	Year of Acquisition/ Revaluation
LF Metal	11 Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan held under GRN 290613, Lot 26102, (formerly H.S. (D) 30968, Lot No. PT 17395), Mukim Kapar, Daerah Klang, Negeri Selangor Darul Ehsan	A unit of single storey detached factory cum warehouse building with an annexed 4 storey office and a unit of single storey factory cum warehouse building with annexed single storey office and 2 storey store/ Used as a steel processing plant, warehouse and office	Freehold	179,736/19,754 (office built-up area) & 102,882 (factory built-up area)	10	Office and factory NBV: 18,764,708 & land NBV: 6,890,000	2004
LF Metal	6, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan held under GRN 290612, Lot 26104, (formerly H.S. (D) 30970, Lot No. PT 17397), Mukim Kapar, Daerah Klang, Negeri Selangor Darul Ehsan	A unit of 4½ storey office with an annexed 2 units of single storey warehouse cum factory/ Used as a steel processing plant, warehouse and office	Freehold	116,928/ 29,600 (office built-up area) & 51,200 (factory built-up area)	21	Office and factory NBV: 3,074,275 & land NBV: 2,536,281	1991
LF Metal	No. 16, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan, Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan held under H.S. (D) 30972, Lot No. PT 17399, Mukim Kapar, Daerah Klang, Negeri Selangor Darul Ehsan	A unit of single-storey detached factory building with annexed double-storey office building /Used as a steel processing plant, warehouse and office	Freehold	130,680/ 16,402 (office built-up area) & 60,838 (factory built-up area)	#	Office and factory NBV: 12,800,081 & land NBV: 15,681,600	2012
LF Metal	No. 17, Persiaran Sultan Alauddin, KU 17, Kawasan Prindustrian Bandar Sultan Suleiman Fasa 4, Perlabuhan Klang, 42000 Selangor Darul Ehsan held under H.S.(M) 42036, PT 65615, Mukim Kapar, Daerah Klang, Negeri Selangor Darul Ehsan	Vacant industrial land	Leasehold expiring on 7 December 2110	700,864	N/A	Land NBV: 30,317,675	2016

List of Properties Held as at 31 December 2017 (Continued)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure	Land/Built –up Areas (sq. ft.*)	Approximate Age of Buildings (No. of Years)	NBV At Group Level as at 31 December 2017 (RM)	Year of Acquisition/ Revaluation
LF Metal	P136 – P138 and part of P139, Jalan Persiaran Port Klang FZ6, Precinct 1, Port Klang Free Zone (PKFZ), K/S12, 42920 Pulau Indah, Selangor Darul Ehsan	A unit of single storey detached warehouse with double-storey office building/ Used as a steel processing plant, warehouse and office	Lease Agreement expiring on 31.8.2044	1,862 (office built -up area) & 95,562 (warehouse built -up area)	2	Office and warehouse NBV: 10,812,583	2016
LF Hardware	No. 6A, Jalan Tiga, Off Jalan Sungai Besi, Kawasan Perusahaan Sungai Besi, Kuala Lumpur held under PN 37429, Lot No. 443 (formerly H.S. (D) 66962, Lot No. P.T. 413), Seksyen 92, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	A unit of single storey detached factory/ Whole unit is rented to Supreme Steelmakers and it is used as a steel processing plant	Leasehold expiring on 09.07.2050	25,957/11,900 (factory built-up area) **	20	Office and factory NBV: 337,896 & Land NBV: 392,337	1991
PSP	Lot Plo 122, Jalan Firma 1/3, Tebrau Industrial Estate (1), 81100 Johor Bahru, Johor Darul Takzim held under Lot 44900, Title No. GRN 190371, Mukim Tebrau, District of Johor Bahru, State of Johor.	A unit of single storey detached factory with an annexed 3 storey office building/Used as a steel processing plant, warehouse and office	Lease Agreement expiring on 25.06.2025	92,602/2,325 (office built-up area) & 54,250 (factory built-up area)	18	Office and factory NBV: 4,481,053	2017

Notes:

* *Conversion of original measurements for properties in square meters (sq. m.) to square feet (sq.ft.) at 1 sq.m. =10.7639 sq.ft.*

** *Estimated remaining land and factory built-up area after compulsory acquisition pursuant to the Land Acquisition Act, 1960 for the purpose of "Projek Mass Rapid Transit (MRT) Lembah Klang – Jajaran Sungai Buloh-Serdang-Putrajaya (SSP)".*

\# *This land with existing double-story detached building with annexed double-storey office building was acquired on 2 July 2012. The strengthening of floor foundation as well as major renovation on its existing building was completed during the financial year ended 31 December 2016. The Certificate of Completion and Compliance for this property had been obtained on 4 November 2016.*

Statistics on Shareholdings
As at 30 March 2018

SHARE CAPITAL

Total number of Issued Shares : 310,000,000 ordinary shares
Class of Shares : Ordinary shares
Voting Rights : One vote per ordinary share

Size of Shareholdings	No. of Shareholders	%	No. of Shares held	%
Less than 100	2	0.08	87	0.00
100 - 1,000	187	7.05	124,513	0.04
1,001 - 10,000	1,301	49.08	7,852,900	2.53
10,001 - 100,000	1,004	37.87	32,521,000	10.49
100,001 - 15,499,999	156	5.88	49,811,500	16.07
15,500,000 and above	1	0.04	219,690,000	70.87
Total	**2,651**	**100.00**	**310,000,000**	**100.00**

DIRECTORS' SHAREHOLDINGS
(As per Register of Directors' Shareholdings)

	Direct		Indirect	
Name of Directors	No. of Shares held	%	No. of Shares held	%
Dato' Ng Ah Hock @ Ng Soon Por	100,000	0.03	-	-
Dato' Sri Ooi Bin Keong	200,000	0.06	219,690,000[1]	70.87
Ooi Kong Tiong	200,000	0.06	219,690,000[1]	70.87
Ooi Seng Khong	1,105,900	0.36	-	-
Ng Kok Teong	221,000	0.07	219,690,000[2]	70.87
Ooi Shang How	200,000	0.06	-	-
Chan Kee Loin	100,000	0.03	-	-
Tan Did Heng	100,000	0.03	-	-
Tan Sack Sen	-	-	-	-
Others[3]				
Ooi Shang Yao	20,000	0.006	-	-
Ooi Shang Chieh	5,000	0.002	-	-

Notes:

1. *Deemed interest by virtue of his interest in Leon Fuat Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Companies Act 2016 ("Act").*
2. *Deemed interest by virtue of his interest in NCT & Sons Sdn Bhd, a substantial shareholder of Leon Fuat Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Act.*
3. *Disclosure of interests pursuant to Section 59(11)(c) of the Act. Ooi Shang Yao and Ooi Shang Chieh are the sons of Dato' Sri Ooi Bin Keong.*

Statistics on Shareholdings
As at 30 March 2018 (Continued)

SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

(As per Register of Substantial Shareholders' Shareholdings)

	Direct		Indirect	
Name of Substantial Shareholders	No. of Shares held	%	No. of Shares held	%
Leon Fuat Holdings Sdn Bhd	219,690,000	70.87	-	-
Dato' Sri Ooi Bin Keong	200,000	0.06	219,690,000[1]	70.87
NCT & Sons Sdn Bhd	-	-	219,690,000[1]	70.87
Ng Kok Teong	221,000	0.07	219,690,000[2]	70.87
Ng Kok Wee	200,000	0.06	219,690,000[2]	70.87
Ong Mung Hsia	-	-	219,690,000[2]	70.87
Ng Bee Fong	-	-	219,690,000[2]	70.87

Notes:

1 *Deemed interest by virtue of his interest in Leon Fuat Holdings Sdn Bhd pursuant to Section 8(4)(c) of the Act.*

2 *Deemed interest by virtue of his/her interest in NCT & Sons Sdn Bhd, a substantial shareholder of Leon Fuat Holdings Sdn Bhd* pursuant to Section 8(4)(c) of the Act.

Statistics on Shareholdings
As at 30 March 2018 (Continued)

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
1	LEON FUAT HOLDINGS SDN BHD	219,690,000	70.87
2	TAN TIAN SOON	6,554,400	2.11
3	JEFFREY NG POW KONG	1,820,000	0.59
4	DO HOCK KWONG	1,300,000	0.42
5	KENANGA NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR LIM HONG CHOON (030)*	1,161,600	0.37
6	OOI SENG KHONG	1,105,900	0.36
7	CIMSEC NOMINEES (TEMPATAN) SDN BHD *CIMB BANK FOR CHEAH CHEE SIONG (MY1891)*	1,000,000	0.32
8	MAYBANK NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR LAW TECK PENG*	885,600	0.29
9	SUI POOI NGAN	822,000	0.27
10	AIDAN CHAN TIONG EYONG	800,000	0.26
11	LOO CHEE LAIN	650,000	0.21
12	AFFIN HWANG NOMINEES (TEMPATAN) SDN BHD *EXEMPT AN FOR DBS VICKERS SECURITIES (SINGAPORE) PTE LTD (CLIENTS)*	630,000	0.20
13	CHOO WING KONG	620,000	0.20
14	TEE HENG SENG	606,200	0.20
15	QUEK SEE KUI	591,000	0.19
16	SIANG HAI YONG	588,900	0.19
17	LIM CHOON	523,800	0.17
18	CHAN LEE SAM	520,000	0.17
19	HLB NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR LIM CHAI HUAT*	500,000	0.16
20	LIAU YUAN HIN	500,000	0.16
21	SIN HOCK	500,000	0.16
22	SIM MUI KHEE	458,000	0.15
23	LIM FOOK CHEE & SONS SDN.BHD.	456,700	0.15
24	PUBLIC NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR YAP KON HING (E-KPG)*	440,000	0.14
25	SOH KIAN HUAT	417,000	0.13
26	LIM CHOON HOOK	416,700	0.13
27	LIM LEE TEANG	416,700	0.13
28	CARTABAN NOMINEES (ASING) SDN BHD *EXEMPT AN FOR BARCLAYS CAPITAL SECURITIES LTD (SBL/PB)*	407,100	0.13
29	PUBLIC NOMINEES (TEMPATAN) SDN BHD *PLEDGED SECURITIES ACCOUNT FOR TEY HONG GIAP (E-BPT)*	400,000	0.13
30	TAN KIEN YAP	400,000	0.13

Notice of Eleventh Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Eleventh Annual General Meeting ("AGM") of Leon Fuat Berhad ("LFB") will be held at Langkawi Room, Bukit Jalil Golf & Country Resort, Jalan Jalil Perkasa 3, Bukit Jalil, 57000 Kuala Lumpur on Wednesday, 6 June 2018 at 2.30 p.m. for the following purposes:

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Directors' and Auditors' Reports thereon.

2. To approve a final single tier dividend of 1.5 sen per share for the financial year ended 31 December 2017. *Resolution 1*

3. To approve the payment of Directors' fees and allowances up to RM1,050,000 from 7 June 2018 until the next AGM of the Company. *Resolution 2*

4. To re-elect the following Directors who retire in accordance with Article 85 of the Company's Constitution:

   (i) Ooi Shang How *Resolution 3*
   (ii) Ng Kok Teong *Resolution 4*
   (iii) Chan Kee Loin *Resolution 5*

5. To re-appoint Messrs Baker Tilly Monteiro Heng as the Company's Auditors and to authorise the Directors to fix their remuneration. *Resolution 6*

SPECIAL BUSINESS

To consider and if thought fit, to pass with or without modifications, the following Resolutions:

6. **ORDINARY RESOLUTION**
   AUTHORITY FOR THE DIRECTORS TO ISSUE SHARES *Resolution 7*

   "THAT pursuant to Sections 75 and 76 of the Companies Act 2016, and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue new shares in the Company at any time, at such price, upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the total issued shares of the Company at the time of issue AND THAT the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the additional shares so issued AND THAT such authority shall continue to be in force until the conclusion of the next AGM of the Company.

Notice of Eleventh Annual General Meeting (Continued)

7. **ORDINARY RESOLUTION**
PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("PROPOSED SHAREHOLDERS' MANDATE") *Resolution 8*

"THAT subject always to the provisions of the Listing Requirements of Bursa Securities, approval be and is hereby given to the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature, details as set out in Section 2.5 of the Circular to Shareholders dated 27 April 2018 with the specified classes of related parties mentioned therein which are necessary for the Group's day-to-day operations and are carried out in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders of the Company.

THAT the approval shall continue to be in force until:

(i) the conclusion of the next AGM of the Company following the AGM at which such mandate was passed, at which time it will lapse, unless by a resolution passed at the AGM whereby the authority is renewed; or

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

(iii) revoked or varied by a resolution passed by the shareholders in a general meeting;

whichever is the earlier;

AND THAT the Directors of the Company 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 may consider expedient or necessary or in the interests of the Company to give effect to the Proposed Shareholders' Mandate."

8. To transact any other business of which due notice shall have been given in accordance with the Companies Act 2016 and the Company's Constitution.

Notice of Eleventh Annual General Meeting (Continued)

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT a final single tier dividend of 1.5 sen per share for the financial year ended 31 December 2017, if approved by the shareholders at the forthcoming Eleventh AGM, will be paid on 25 July 2018 to depositors registered in the Record of Depositors at the close of business on 29 June 2018.

A depositor shall qualify for entitlement only in respect of:

a) Shares transferred into the depositor's securities account before 4.00 p.m. on 29 June 2018 in respect of transfer; and

b) Shares bought on Bursa Securities on a cum entitlement basis according to the Rules of Bursa Securities.

BY ORDER OF THE BOARD

YEOH CHONG KEAT (MIA 2736)
LIM FEI CHIA (MAICSA 7036158)
Company Secretaries

Kuala Lumpur

27 April 2018

Notes:

(i) In respect of deposited securities, only members whose names appear in the Record of Depositors on 31 May 2018 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at this meeting.
(ii) A member shall be entitled to appoint not more than two (2) proxies to attend and vote at this meeting. A proxy may but need not be a member of the Company.
(iii) Where a member appoints two (2) proxies, the member shall specify the proportions of his/her shareholdings to be represented by each proxy failing which, the appointment shall be invalid.
(iv) Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
(v) To be valid, the original proxy form, duly completed must be deposited at the registered office of the Company situated at Suite 11.1A, Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty eight (48) hours before the time for holding the meeting or any adjournment thereof.
(vi) If the appointor is a corporation this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
(vii) The Personal Data Protection Act 2010, which regulates the processing of personal data in commercial transactions, applies to the Company. By providing to us or our agents your personal data which may include your name, contact details and mailing address, you hereby consent, agree and authorise the processing and/ or disclosure of any personal data of or relating to you for the purposes of issuing the notice of this meeting and convening the meeting, including but not limited to preparation and compilation of documents, proceedings of the meeting and other matters, whether or not supplied by you. You further confirm to have obtained the consent, agreement and/or authorisation of all persons whose personal data you have disclosed and/ or processed, in connection with the foregoing.

Notice of Eleventh Annual General Meeting (Continued)

Audited Financial Statements for the financial year ended 31 December 2017

The Audited Financial Statements for the financial year ended 31 December 2017 are laid in accordance with Section 340(1)(a) of the Companies Act 2016 ("Act") for discussion only and do not require shareholders' approval. As such, this item will not be put for voting.

Final dividend

Pursuant to Section 131 of the Act, a company may only make a distribution to the shareholders out of profits of the company available if the company is solvent. On 9 April 2018, the Board had considered the amount of dividend and decided to recommend the same to the shareholders for approval.

The Directors of the Company are satisfied that the Company will be solvent as it will be able to pay its debts as and when the debts become due within 12 months immediately after the distribution is made on 25 July 2018 in accordance with the requirements under Section 132(2) and (3) of the Act.

Authority for the Directors to issue shares

This proposed resolution, if passed, will renew the authority given to the Directors of the Company to issue and allot new shares in the Company at any time, to such person or persons, upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit ("General Mandate"), provided that the number of shares issued pursuant to this General Mandate, when aggregated with the number of such shares issued during the preceding twelve (12) months, does not exceed 10% of the total number of issued shares of the Company at the time of issue. This renewed General Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

The General Mandate procured and approved in the preceding year 2017 which was not exercised by the Company during the year, will expire at the forthcoming Eleventh Annual General Meeting of the Company.

With this renewed General Mandate, the Company will be able to raise funds expeditiously for the purpose of funding future investment, working capital and/or acquisition(s) without having to convene a general meeting to seek shareholders' approval when such opportunities or needs arise.

Proposed Shareholders' Mandate

This proposed resolution, if passed, will authorise the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature, particulars of which are as set out in Section 2.5 of the Circular to Shareholders dated 27 April 2018 despatched together with the Company's Annual Report 2017. This authority, unless revoked or varied by the Company in a general meeting, will expire at the next AGM of the Company.

Statement Accompanying Notice of Eleventh Annual General Meeting

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

No individual is standing for election as Director at the forthcoming Eleventh Annual General Meeting of the Company.

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Proxy Form

LEON FUAT BERHAD (756407-D)
(Incorporated in Malaysia)

No. of Shares held	
CDS Account No.	
Contact No.	

I/We, _____ NRIC/Passport/Company No. _____
(Full name in block letters)

of _____
(Full address)

being a member/members of **LEON FUAT BERHAD** do hereby appoint _____
(Full name in block letters and NRIC/Passport No.)

of _____
(Full address)

or failing him/her, _____ of _____
(Full name in block letters and NRIC/Passport No.) *(Full address)*

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us on my/our behalf at the Eleventh Annual General Meeting of the Company to be held at Langkawi Room, Bukit Jalil Golf & Country Resort, Jalan Jalil Perkasa 3, Bukit Jalil, 57000 Kuala Lumpur on Wednesday, 6 June 2018 at 2.30 p.m. and at any adjournment thereof on the following resolutions referred to in the Notice of Annual General Meeting.

The proportion of *my/our holdings to be represented by *my/our proxy(ies) are as follows:

First Proxy	_____%	Second Proxy	_____ %

My/Our proxy(ies) is/are to vote as indicated hereunder:

RESOLUTIONS	***FOR**	***AGAINST**
1. To approve a final single tier dividend of 1.5 sen per share for the financial year ended 31 December 2017		
2. To approve the payment of Directors' fees and allowances up to RM1,050,000 from 7 June 2018 until the next AGM of the Company		
3. To re-elect Ooi Shang How who retires in accordance with Article 85 of the Company's Constitution		
4. To re-elect Ng Kok Teong who retires in accordance with Article 85 of the Company's Constitution		
5. To re-elect Chan Kee Loin who retires in accordance with Article 85 of the Company's Constitution		
6. To re-appoint Messrs Baker Tilly Monteiro Heng as the Company's auditors and to authorise the Directors to fix their remuneration		
7. Authority for the Directors to issue shares		
8. Proposed Shareholders' Mandate		

**Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.*

Dated this _____ day of _____ 2018

_____
Signature or Common Seal of Shareholder(s)

Notes:

(i) In respect of deposited securities, only members whose names appear in the Record of Depositors on 31 May 2018 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at this meeting.

(ii) A member shall be entitled to appoint not more than two (2) proxies to attend and vote at this meeting. A proxy may but need not be a member of the Company.

(iii) Where a member appoints two (2) proxies, the member shall specify the proportions of his/her shareholdings to be represented by each proxy failing which, the appointment shall be invalid.

(iv) Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

(v) To be valid, the original proxy form, duly completed must be deposited at the registered office of the Company situated at Suite 11.1A, Level 11, Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty eight (48) hours before the time for holding the meeting or any adjournment thereof.

(vi) If the appointor is a corporation this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.

(vii) The Personal Data Protection Act 2010, which regulates the processing of personal data in commercial transactions, applies to the Company. By providing to us or our agents your personal data which may include your name, contact details and mailing address, you hereby consent, agree and authorise the processing and/ or disclosure of any personal data of or relating to you for the purposes of issuing the notice of this meeting and convening the meeting, including but not limited to preparation and compilation of documents, proceedings of the meeting and other matters, whether or not supplied by you. You further confirm to have obtained the consent, agreement and/or authorisation of all persons whose personal data you have disclosed and/ or processed, in connection with the foregoing.

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretaries
LEON FUAT BERHAD (756407-D)
C/o Archer Corporate Services Sdn Bhd
Suite 11.1A, Level 11
Menara Weld
76 Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

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LEON FUAT BERHAD
(Company No. 756407-D)

Wisma Leon Fuat
No. 11, Lorong Keluli 1B
Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7
40000 Shah Alam
Selangor Darul Ehsan

Tel: (603) 3375 3333
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