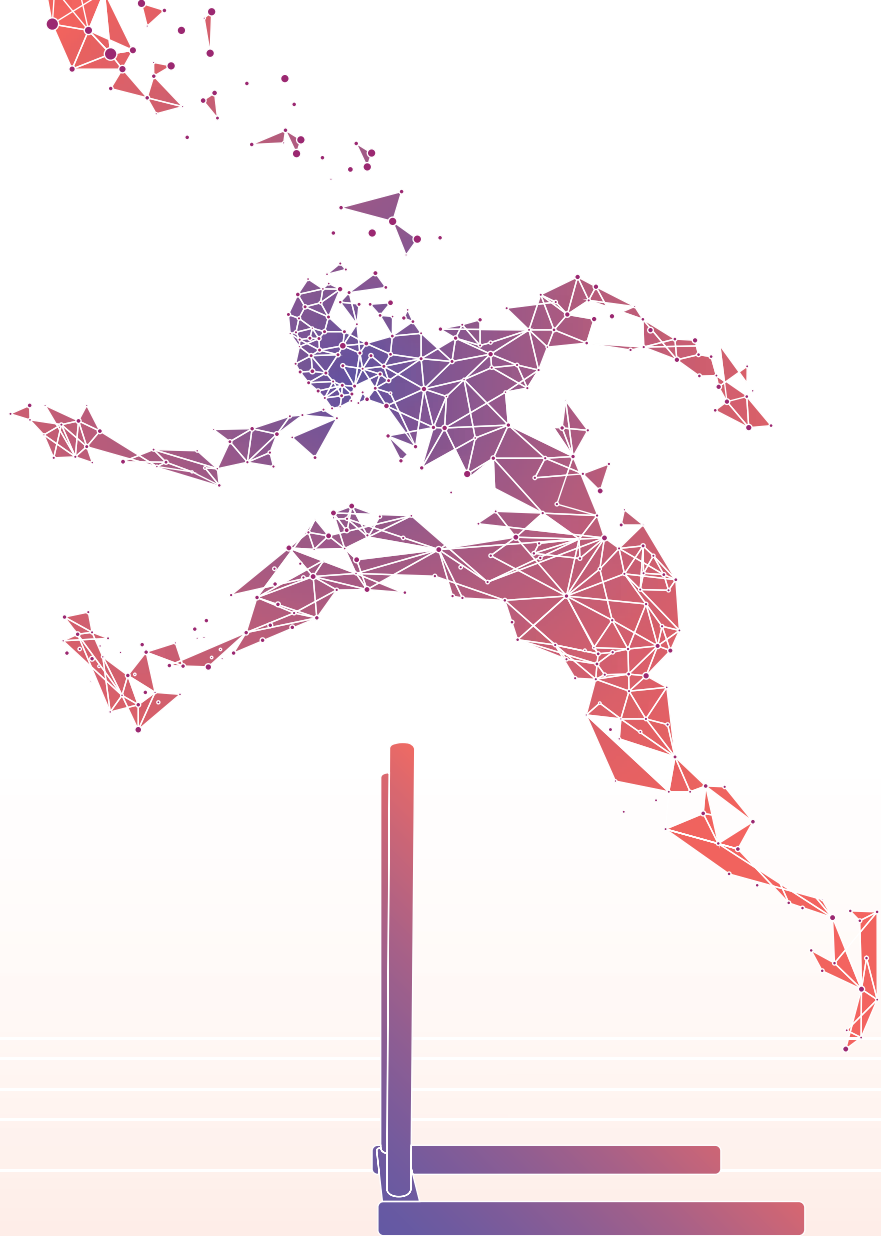


RESILIENT

TOWARDS CHALLENGES





SPORTS

The 2019 financial year was one full of hurdles — from the slowing demand for steel among international players to the suppressed steel prices on the global scale.

Despite the challenging business environment, LEON FUAT demonstrates an impressive display of skilled showmanship and delivers a final push to overcome obstacles and successfully navigate through the course. Supported with an excellent operational model and a diverse portfolio of businesses, LEON FUAT is confident to arise strongly amidst the difficult market situation and scale new heights for the progress of company growth.

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LEON FUAT GROUP'S



BUSINESS AT A GLANCE

Our core business activities comprise:

**Trading of steel products;
and Processing of steel products.**

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 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, finishing, production of expanded metal and welded steel pipe 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
- Pipe Forming

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
*SSM PC No.201908004096
MIA 2736*
Lim Fei Chia
*SSM PC No.202008000515
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 PLT
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

Boardroom Share Registrars Sdn Bhd
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : (603) 7890 4700
Fax : (603) 7890 4670

PRINCIPAL BANKERS

AmBank (M) Berhad
Level 21, Bangunan AmBank Group
Jalan Raja Chulan
50200 Kuala Lumpur
Tel : (603) 2036 2633
Fax : (603) 2036 2458

Hong Leong Bank Berhad
Level 9, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : (603) 2081 8888
Fax : (603) 2081 8935

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

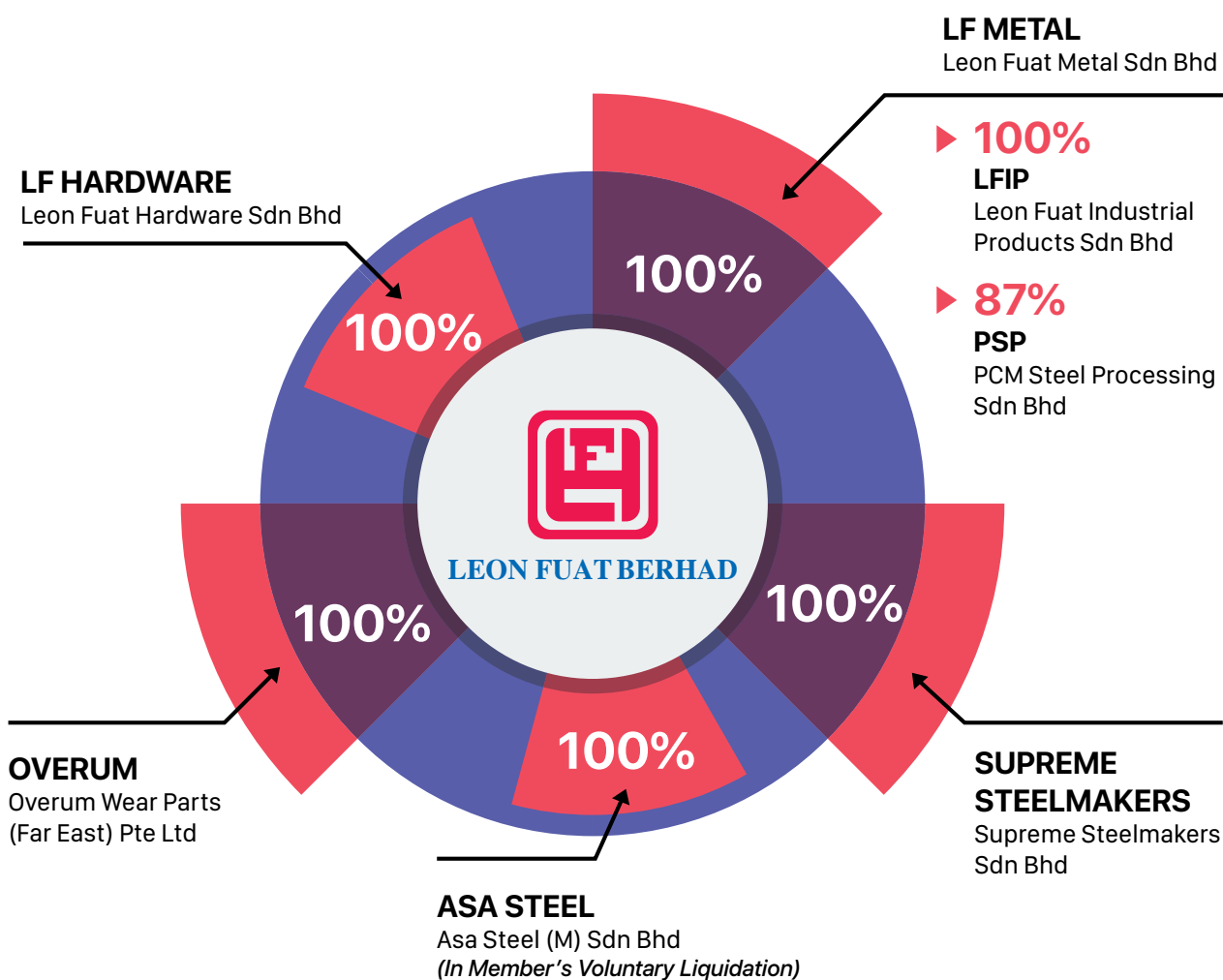
STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
Sector/Sub-sector : Industrial
Products &
Services/
Metals
Stock Name : LEONFB
Stock Code : 5232

CORPORATE WEBSITE

www.leonfuat.com.my

CORPORATE STRUCTURE



BOARD OF DIRECTORS

Chan Kee Loin
*Senior Independent
Non-Executive Director*

Tan Did Heng
*Independent
Non-Executive Director*

Ooi Shang How
Executive Director

Ooi Kong Tiong
Executive Director

Dato' Sri Ooi Bin Keong
Group Managing Director



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

Ooi Seng Khong
Executive Director

Ng Kok Teong
Executive Director

Tan Sack Sen
*Independent
Non-Executive Director*



PROFILE OF DIRECTORS

**Dato' Ng Ah Hock
@ Ng Soon Por**
*Malaysian, aged 70
Independent
Non-Executive
Chairman*

Dato' Ng Ah Hock @ Ng Soon Por, Por, a member of the Remuneration Committee, was appointed to the Board on 6 November 2012.

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 a member of the Malaysian Institute of Accountants, Fellow Member of the Association of Chartered and Certified Accountants of United Kingdom and a member of the Malaysian Institute of Chartered Secretaries & Administrators.

He started his career in 1974 when he joined the audit firms, Turquand, Youngs & Co. and Azman, Wong, Salleh & Co. as an Auditor. In 1977, he left and joined Spicers International Ltd as a Finance Manager until 1982 when he

was elected as the Selangor State Legislative Assemblyman for Sungei Pelek constituency and held the position until 1995. During his tenure as an assemblyman, he was also the Selangor Executive Councilor from 1990 to 1995. Subsequently in 1995, he joined Paper Converting Industries Sdn Bhd as the Finance Director until 2005. He was also a member of the Selangor Public Service Commission from 2002 to 2007.

He was an Independent Non-Executive Director of XingQuan International Sports Holdings Limited and Turbo-Mech Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2019.

Dato' Sri Ooi Bin Keong
Malaysian, aged 70
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 Leon Fuat Group. With approximately 48 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 and strategy.

He is currently the President of the 58th Executive Committee (2019 – 2021) of the Malaysia Steel and Metal Distributors' Association (MSMDA).

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 2019.

Ooi Kong Tiong
Malaysian, aged 66
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 Leon Fuat Group. With approximately 48 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 is currently responsible for overseeing the 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 2019.

PROFILE OF DIRECTORS

Ooi Seng Khong
Malaysian, aged 58
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 representative and subsequently in 1983, he was appointed as Head of Operations of LF Metal. In 1999, he was appointed as the Managing Director of LF Metal. He has been instrumental in the growth and development of the Leon

Fuat Group. With approximately 41 years of experience in the steel industry, he has contributed significantly to the Group's success. He is currently responsible for overseeing 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 2019.

Ng Kok Teong
Malaysian, aged 51
Executive Director

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

He started his career in 1990 when he joined LF Hardware as a sales representative before being appointed as the Executive Director of LF Hardware in 1999. He is currently the Managing Director of LF Hardware and is

responsible for overseeing the business and operation functions of the company.

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 2019.

Ooi Shang How
Malaysian, aged 41
Executive Director

Ooi Shang How was appointed to the Board on 21 June 2012. He obtained his Cambridge A-Level certificate from Taylor's College, Malaysia in 1997. Between 1998 and 2001, he undertook studies in Monash University and RMIT in Australia before he started his career in 2002 when he joined LF Metal as a sales and marketing representative.

He was tasked to develop information technology capability for LF Metal during his tenure with 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 functions of the company. He is currently responsible for overseeing the operations, business expansion plans and business development functions 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 2019.

Chan Kee Loin
Malaysian, aged 56
Senior Independent
Non-Executive Director

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

He undertook his studies in Tunku Abdul Rahman College where he completed a three years extra-mural course in Financial Accounting in 1987 and was a finalist in professional examination of the Chartered Association of Certified Accountants, United Kingdom. He started his career in early 1988 as an audit assistant in a small firm of Public Accountants in Johor Bahru. In early 1989, he joined a medium size public accounting firm in Kuala Lumpur where

he was promoted to Director in 2000. He brings with him vast experience in statutory audits, due diligence audits, share and business valuation and provision of professional services as adviser, coordinator and Reporting Accountants for corporate exercises.

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

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2019.

PROFILE OF DIRECTORS

Tan Did Heng
Malaysian, aged 49
Independent
Non-Executive Director

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

He undertook his studies in Tunku Abdul Rahman College from 1992 to 1994. He joined Tai, Yapp & Co in 1994 as an associate and left the firm in 2000 to join United Straits Amalgamated Berhad as an Accountant. In 2001, he founded D.H. Tan & Associates, an accounting firm providing audit services to various industries such as manufacturing, trading, investment holdings, housing and properties development and

etc. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and a Chartered Accountant registered with the Malaysian Institute of Accountants (MIA).

He is an approved Company Auditor and licensed Tax Agent and 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 2019.

Tan Sack Sen
Malaysian, aged 44
Independent
Non-Executive Director

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

He graduated with a Bachelor of Law (Honours) Degree from the University of Wales, Cardiff, United Kingdom in 1997 and obtained the Certificate of Legal Practice from the Board of Legal Practice in 1998.

He started his career with Messrs. K. B. Chua & Co. and was admitted to the Bar in 1999. He joined Messrs. T. G. Lim &

Partners in 1999 and further his practice in banking litigation. Subsequently, he joined Messrs. Jal & Lim in 2001 to conduct 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 founded his legal firm, Messrs. Yee How & Tan where he manages the main office in Kuala Lumpur.

He attended all the six (6) Board of Directors' Meetings of the Company held during the financial year ended 31 December 2019.

ADDITIONAL NOTES:

Save as disclosed, none of the Directors have any:

1. Directorships in public companies and listed issuers;
2. Family relationship with other Directors and/or major shareholders 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 31 December 2019.

PROFILE OF KEY MANAGEMENT PERSONNEL

Ng Lam Keong
Malaysian, aged 62
Executive Director
of LF Hardware

Ng Lam Keong is the Executive Director of LF Hardware. After completing his primary education in 1971, he joined 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

management of human resources in 1992. In 1999, he was appointed as the Executive Director of LF Hardware. He is mainly responsible for overseeing the 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 55
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 the Executive Director of LF Metal. He has accumulated

approximately 37 years of experience in the steel industry. He is currently responsible for overseeing the 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 49
Executive Director
of LF Metal

Ng Kok Wee is the 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 joined Leon Fuat Holdings Sdn Bhd as the

Accounts Executive. Subsequently in 2007, he joined LF Hardware as the Assistant Accountant before he was transferred to LF Metal in 2009 as the Finance Manager. He was appointed as the Executive Director of LF Metal since 2010.

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

Ooi Shang Yao
Malaysian, aged 38
Executive Director
of Supreme Steelmakers

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

He started his career in 2007 when he joined Supreme Steelmakers as a sales and marketing representative. Later, he was tasked to involve in procurement planning and overseeing the factory operations of Supreme Steelmakers. In

2013, he was promoted as the General Manager of Supreme Steelmakers assisting the Managing Director in overseeing the factory operations, human resource and administrative functions of the company.

He was appointed as the 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 48
Chief Financial Officer*

Tan Kien Yap is the Chief Financial Officer of the Company. 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.

He started his career in 1997 with Price Waterhouse (predecessor firm of PricewaterhouseCoopers) as Audit Assistant before he was promoted to

Senior Associate in 1999. Subsequently in 2000, he joined Leon Fuat Holdings Sdn Bhd as the Group Accountant. In 2013, he was transferred to Leon Fuat Berhad and assumed his current position as the Chief Financial Officer. He is primarily responsible for overseeing the financial management, reporting and financial activities of Leon Fuat Group.

Wong Choong Heng

*Malaysian, aged 52
Assistant General
Manager of
LF Metal*

Wong Choong Heng is the Assistant General Manager of LF Metal. In 2005, he obtained his Master 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. He returned to Malaysia in 1996 to join 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 as Factory Operations Manager. In 2006, he was promoted as Assistant General Manager of LF Metal, assisting the 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.

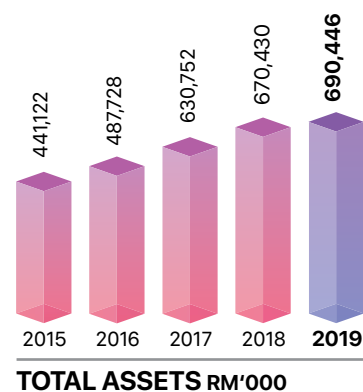
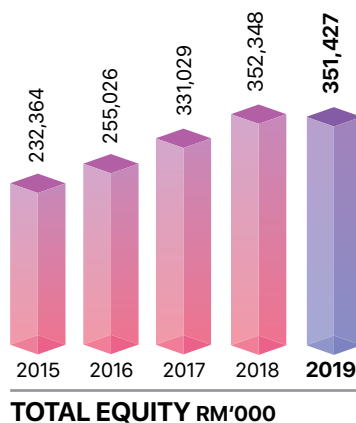
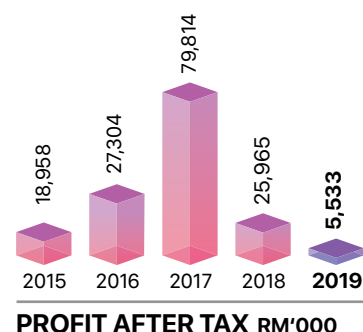
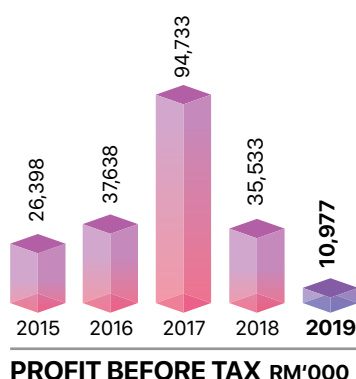
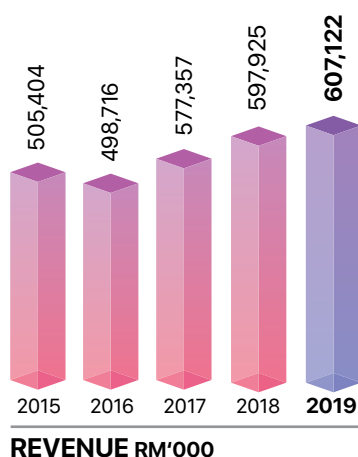
ADDITIONAL NOTES:

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

1. Directorships in public companies and listed issuers;
2. Family relationship with other directors and/or major shareholders 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 31 December 2019.

FINANCIAL HIGHLIGHTS

Financial Year Ended	2015 RM'000 (Restated)	2016 RM'000 (Restated)	2017 RM'000 (Restated)	2018 RM'000	2019 RM'000
Revenue	505,404	498,716	577,357	597,925	607,122
Profit Before Tax	26,398	37,638	94,733	35,533	10,977
Profit After Tax	18,958	27,304	79,814	25,965	5,533
Earnings Before Interest, Tax, Depreciation & Amortisation	41,901	54,094	114,208	58,125	41,061
Total Equity	232,364	255,026	331,029	352,348	351,427
Total Assets	441,122	487,728	630,752	670,430	690,446





A DAPTING

AND REINVENTING
BUSINESS STRATEGIES



CHAIRMAN'S STATEMENT



Dear Shareholders,

2019 had been a year for Leon Fuat to continue facing challenges from both external and internal environments. Thankfully, despite the challenges carried out throughout the year, Malaysian steel industries has some recoveries such as in iron and steel exports as well as domestic exports. As for Leon Fuat, we are still adapting from the shift of the global economy and continuously finding new ways to overcome difficult conditions in order to keep operations intact. With the support from our Board and management team throughout the years, we have braved another financial year ended 31 December 2019 ("FY2019").

2019 OVERVIEW

Looking at 2019's global steel industry as a whole, global steel demand shows a steady growth due to demands from China, as a result of China's relaxation of control policies and new implemented construction standards. However, looking at countries outside China, steel demands remain uncertain due to continuous trade tensions and geopolitical issues affecting investment and trade¹. Zooming into Malaysia's steel industry, there has been an increase of 29.6% to RM18.64 billion in export on iron and steel products, namely steel structures, bars and rods in domestic exports in comparison to the previous year². However, Malaysia's steel bar prices were still affected and was recorded at approximately RM1,860 per tonne as of end-2019³, a 16.4% decrease from RM2,225 per tonne as of end-2018⁴.

Overall, despite the uncertainty in steel demands, Leon Fuat maintained its FY2019's performance, recorded a slight growth of revenue by 1.5% to RM607.12 million from RM597.93 million. Despite instability in selling prices and cost of input materials, the company still makes a profit from its main business segments which are trading and processing of steel products.

Moving forward, Leon Fuat will continue to strive to improve our current condition, remain focus on sustainable diversification as well as leverage on extensive experience in trading and processing of steel products to safeguard our steadfast position.

2020 Outlook

The world faced an international crisis as 2020 kicked off with the outbreak of coronavirus ("COVID-19"). China, being Asia's top economy and the source of the outbreak has affected predictions of steel demand. According to the China Iron and Steel Association, the outbreak has caused China companies to face restrictions in transport and logistics, muting the prices of raw materials. As a result, overall market value of steel declined. Additionally, slumps in iron ore prices are seen as many steel production areas has slowed its production. Regardless of the outbreak hitting global steel demands, according to Luxembourg-based producer ArcelorMittal, it is expected that the decline of steel demand would be on a short term basis⁵. It is also expected that we will see a rebound in the second half of 2020 as it is expected China will have strong policies for economic recovery and GDP growth after COVID-19⁶.

According to DBS Group ("DBS Bank" or "DBS"), it is expected that the global steel consumption year-on-year for 2020 will be reduced to 1.1% from initial forecasts of 1.7%. Looking at China's steel prices alone, consumption of steel is expected to stay flat as compared to initial forecasts of 1% year-on-year. This is due to weaken activities in the construction and manufacturing sectors⁷.

Fortunately, Malaysia's steel prices did not take the plunge from the outbreak and as of mid-January 2020, Malaysia's steel bar prices were at RM2,135 per tonne, a 11.5% increase on a month-on-month basis.⁸ With regards to the ongoing Covid-19 pandemic, we are unable to reasonably estimate its impact for the financial year ending 31 December 2020. It is however certain that the local and worldwide measures against the spread of the Covid-19 will have adverse effects on the Group's and the Company's sales, operations and supply chains.

Despite global circumstances, the Company will remain focused on the core business of trading and processing of steel products by continuously enhancing the operating capabilities and efficiencies to meet customers' requirements and to ensure timely satisfaction of customer orders while keeping our operating costs at a manageable level, in order to maintain profitability despite facing market uncertainty.

Appreciation

I would like to extend my sincere gratitude and appreciation to the Board, management team and staff for the continuous contribution and support given to the Company all these years.

I would also like to take the opportunity to thank all our valued customers, suppliers, business associates, partners as well as our loyal shareholders for all the support and confidence given to us in the Company. We are motivated to grow our business, taking whatever obstacles faced by our economy knowing we have all these supports moving forward.

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

¹ <https://www.worldsteel.org/media-centre/press-releases/2019/worldsteel-short-range-outlook-2019.html>

² <https://misif.org.my/wp-content/uploads/2020/02/TRADE-PERFORMANCE-2019-SLIDES.pdf>

³ <https://www.thestar.com.my/business/business-news/2020/01/30/china-slowdown-may-weaken-local-steel-prices>

⁴ <https://www.theedgemarkets.com/article/masteel-vulnerable-steel-price-fluctuations>

⁵ <https://www.thestar.com.my/business/business-news/2020/02/07/chinas-steel-outlook-alarm>

⁶ https://www.dbs.com/aics/templatedata/article/industry/data/en/GR/072016/COM_Steel.xml

⁷ https://www.dbs.com/aics/templatedata/article/industry/data/en/GR/072016/COM_Steel.xml

⁸ <https://www.thestar.com.my/business/business-news/2020/01/30/china-slowdown-may-weaken-local-steel-prices>

MANAGEMENT

DISCUSSION & ANALYSIS



OVERVIEW OF COMPANY'S BUSINESS

Leon Fuat Group ("Leon Fuat" or "the Group") specialises in the trading and processing of steel products, focusing on flat and long products. Our main product is carbon steel but we also offer stainless and alloy steel. Flat steel products consists of coils, plates, sheets, welded tubes and pipes whereas long products include bars, rods, shafts, sections, angles as well as seamless tubes and pipes.

Given the wide customer base and different industries served, the Group has an upper hand in being able to deliver specific requests as we have in-house facilities to undertake activities such as cutting, levelling, shearing, profiling, bending, finishing, production of expanded metal and welded steel pipe under its processing division.

The Group has been serving for years a large customer base ranging from manufacturers of metal products and components to fabricators of machinery, equipment and metal structures. Other customers include those in the building, construction and infrastructure industries, and hardware wholesalers and retailers.

We have local as well as overseas customers from regional countries such as Thailand, Singapore, and Vietnam. As of today, the Group has over 3,000 active customers, including customers who have been with us for over a decade.

Dato' Sri Ooi Bin Keong
Group Managing Director

REVIEW OF FINANCIAL PERFORMANCE

The Group posted a 1.5% increase in revenue to RM607.12 million for the financial year ended 31 December 2019 ("FY2019") as compared to RM597.93 million recorded for the preceding financial year ended 31 December 2018 ("FY2018").

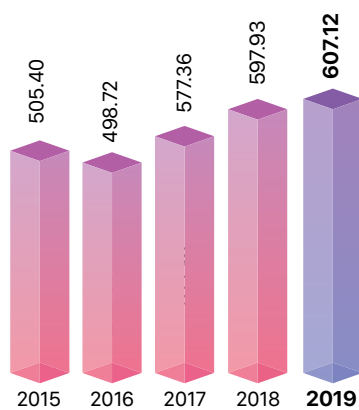
For the financial year under review, the Group's Gross Profit ("GP") showed a decrease of 25.7% to RM61.27 million as compared to RM82.46 million recorded for FY2018 despite the higher revenue achieved. This was mainly due to FY2019 having lower overall gross profit margin of 10.1% as compared to FY2018's overall gross profit margin of 13.8%. This was resulted from the unabsorbed overhead costs of RM4.57 million incurred by the processing segment in FY2019 and lower gross profit margin for the trading of steel products which fell 5.8 percentage points to 8.8% mainly caused by the 8.0% decrease in overall average selling price while the overall average cost for input materials decreasing by only 1.0%.

The Group's other income for FY2019 stood at RM2.86 million, mainly comprising interest income of RM1.27 million from deposits with licensed banks, rental income of RM0.69 million which was derived from letting out of a portion of warehouse space and insurance claims of RM0.36 million.

Revenue & Gross Profit comparison for FY2015 – FY2019

CAGR

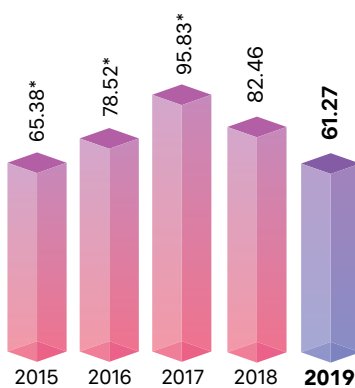
+4.7%



REVENUE RM (mil)

CAGR

-1.6%



GROSS PROFIT RM (mil)

*Restated

MANAGEMENT DISCUSSION & ANALYSIS

Total finance costs for FY2019 increased by approximately 27.2% or RM3.43 million to RM16.01 million as compared to RM12.58 million for FY2018. This was mainly due to higher utilisation of overdraft and term loan facilities where their interest expenses increased by RM0.59 million and RM2.10 million respectively, as well as the net increase of interest expense on lease liabilities amounting to RM0.83 million mainly arising from the changes in accounting treatment for finance and operating leases upon the application of the new MFRS 16 Leases.

Consequently, the Group closed FY2019 with Profit Before Tax and Profit After Tax of RM10.98 million and RM5.53 million respectively, a decrease of 69.1% and 78.7% as compared to RM35.53 million and RM25.97 million for FY2018 correspondingly. The Group's Earnings Per Share stood at 1.81 sen for FY2019, a decrease of 78.5% as compared to 8.42 sen in FY2018.

OPERATIONS REVIEW BY BUSINESS SEGMENT

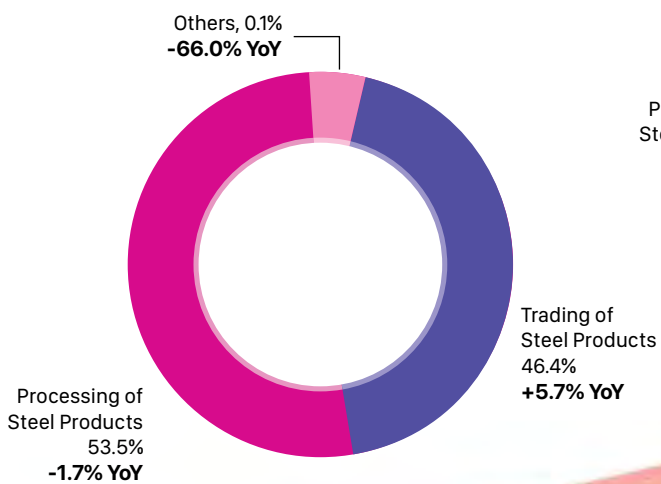
The Group's business segments are as follows:

1. Processing of steel products
 - i. Processing of flat carbon steel products
 - ii. Processing of other flat steel products
 - iii. Processing of long carbon steel products
 - iv. Processing of other long steel products
2. Trading of steel products
 - i. Trading of flat carbon steel products
 - ii. Trading of other flat steel products
 - iii. Trading of long carbon steel products
 - iv. Trading of other long steel products

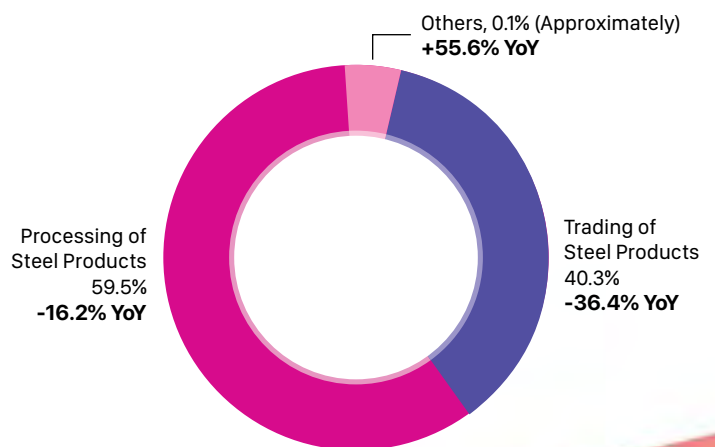


SEGMENTAL CONTRIBUTION TO FY2019 REVENUE AND GROSS PROFIT

FY2019 Revenue (mil)
RM607.12



FY2019 Gross Profit (mil)
RM61.27

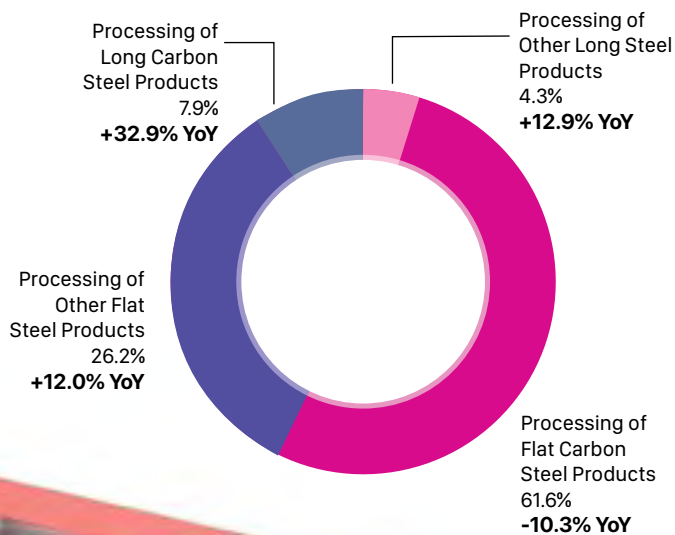


MANAGEMENT

DISCUSSION & ANALYSIS

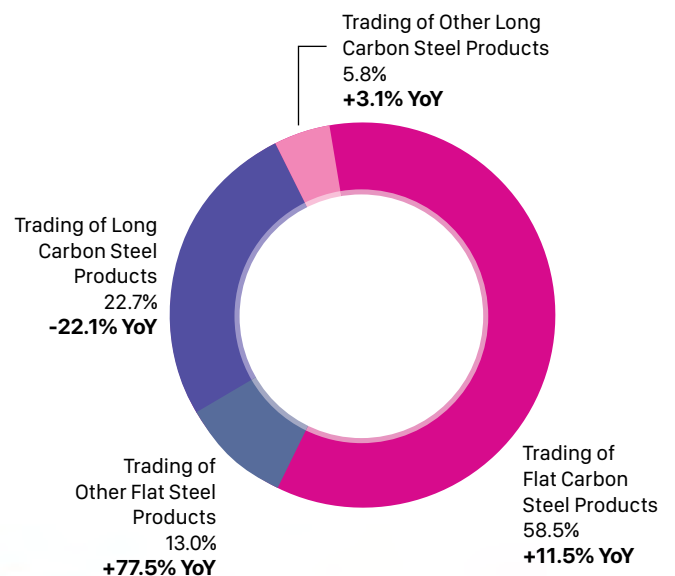
Segmental Revenue : Processing of Steel Products (mil)

RM325.01 (-1.7% YoY)



Segmental Revenue : Trading of Steel Products (mil)

RM281.94 (+5.7% YoY)



The largest contributor to the Group's revenue remains the processing of steel products segment, which delivered RM325.01 million for the financial year under review despite the 1.7% drop as compared to RM330.78 million noted in FY2018. The performance of this processing segment was analysed as below:

1. Lower revenue from processing of flat carbon steel products by 10.3% or approximately RM22.87 million, from RM223.02 million to RM200.15 million, which saw its demand decreased by 4.0%, coupled with lower average selling price by 6.6%; largely mitigated by
2. Higher revenue from processing of other flat steel products by 12.0% or approximately RM9.13 million, from RM76.02 million to RM85.15 million, mainly due to increase in tonnage sales by 6.0%, as well as higher average selling price by 5.7%;
3. Higher revenue from processing of long carbon steel products by 32.9% or RM6.36 million, from RM19.33 million to RM25.69 million, which saw its demand increased by 51.5%, but partly negated by a reduction in average selling price by 12.2%; and
4. Higher revenue from processing of other long steel products by 12.9% or approximately RM1.60 million, from RM12.41 million to RM14.01 million, which saw its demand increased by 30.5%, negated by a reduction in average selling price by 13.4%.

Despite the trading of long carbon steel products recording a decline of 22.1% or RM18.14 million, from RM82.08 million to RM63.94 million mainly due to lower tonnage sales by 13.1% coupled with lower selling price by 10.3%, the remaining sub segments posted higher tonnage sales which led to an overall rise in revenue of trading of steel products segment by 5.7% to RM281.94 million, analysed as below:

1. Higher revenue from trading of flat carbon steel products by 11.5% or approximately RM16.99 million, from RM148.07 million to RM165.06 million, mainly due to increase in tonnage sales by 26.1%, although average selling price reduced by 11.6%;
2. Higher revenue from trading of other flat steel products by 77.5% or RM15.98 million, from RM20.62 million to RM36.60 million, mainly attributable to higher tonnage sales by 61.4%, as well as higher average selling price by 10.0%; and
3. Higher revenue from trading of other long steel products by 3.1% or RM0.49 million, from RM15.85 million to RM16.34 million, mainly due to higher tonnage sales by 7.6%, despite average selling price decreased by 4.2%.



MANAGEMENT

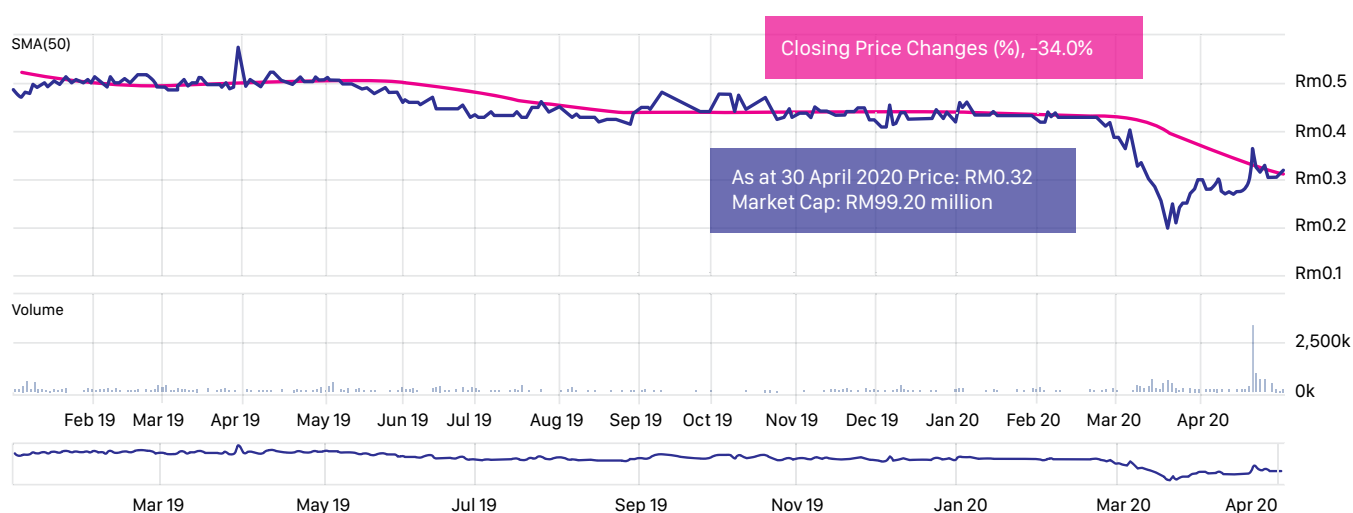
DISCUSSION & ANALYSIS

DIVIDEND

After much thought and careful consideration, the Board do not recommend the payment of the final dividend for FY2019 despite our usual practice on dividend distribution for up to 30% of our net profit. The Board has arrived at this tough decision in view of the current economic uncertainties arising from the Covid-19 pandemic. In retaining an optimal capital structure and ensuring sufficient funds, our Group will be in a better financial position and gearing ratio to weather the said uncertainties for the financial year ending 31 December 2020 ("FY2020"), notwithstanding bank borrowings are still our main source of funds to support our upcoming business growth strategies and to fund our capital expenditure.

SHARE PRICE PERFORMANCE & TRADING VOLUME

As at 30 April 2020, the Group's share price closed at RM0.32 with a total market capitalisation of RM99.20 million. For the sixteen months period ended 30 April 2020, our share's highest and lowest closing price stood at RM0.570 and RM0.205 respectively, with average daily trading volume of approximately 104,701 units.



Source: The Wall Street Journal



ANTICIPATED OR KNOWN RISKS

The Group's daily operations face a number of risks that could potentially impact our profitability. One of the key risk is the fluctuation of steel materials prices caused by various factors such as global economic conditions, production volume of steel mills and the industry's supply and demand. To counter the potential risks, the Group constantly monitor steel material prices as well as the Group's inventory levels throughout the year, in order to spot any possibility of impacts affecting our operating costs and profitability.

As the Group sources some of its materials such as flat and long stainless steel, alloy steel and carbon steel from countries such as China, Europe, Japan and Korea among others, there is a risk of foreign currency exchange volatility that may increase the cost of materials. As a safeguard, 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.

As recorded in FY2019, the net realised and net unrealised gain on foreign exchange were insignificant. Our purchases denominated in foreign currencies accounted for approximately 74.7% of our total purchase costs for FY2019, of which approximately 74.1%, 0.2% and 0.4% were transacted in USD, EUR and SGD respectively.

Additionally, with the Group's position as an intermediary between the steel millers and industrial end-users, the Group is at risk of having high inventory holding cost. Therefore, the Group ensures that it always maintain sufficient level of inventory, in order to ensure timely deliveries to our customers at all times.

As of FY2019, our inventory turnover period was approximately 183 days, which remained fairly consistent as compared to approximately 185 days recorded for FY2018. We did not experience any material impact from high inventory holding as our steel products do not have a definite shelf life and therefore do not become obsolete.

Lastly, the Group is exposed to credit risks arising from trade receivables where we grant our customers credit periods of between 14 to 90 days. In any event the Group faces 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.

MANAGEMENT

DISCUSSION & ANALYSIS

FORWARD LOOKING STATEMENT

The Malaysian economy grew 4.3% as measured by gross domestic product (GDP) in 2019, which was a decline from 4.7% recorded in 2018 as a result of a dramatic drop in GDP in the fourth quarter of 2019 due to supply disruptions in the commodities sector.

For 2020, we anticipate economic growth to be affected by the COVID-19 pandemic, especially in the first and second quarter. We expect the overall performance of the domestic economy is dependent on the duration and spread of the COVID-19 pandemic as well as policy responses from the government.

The overall growth for 2020 will be supported by household spending, the realisation of approved private investment projects in recent periods, and higher public sector capital spending. The downside risks to growth will include uncertainties in external conditions arising from the pandemic, the various trade negotiations and geopolitical risks, as well as domestic factors including weakness in the commodities sector, delays in project implementation and the recent political uncertainty.

We see prolonged political uncertainty as weighing on private investment and a risk to the country's sovereign credit profile, particularly if there are changes to the government policy emphasis away from fiscal consolidation and institutional reform. Thus, two-way capital flows and exchange rate volatility should be expected.

Leon Fuat will remain focused on our three-pronged strategy of expanding our business effectively through increasing our production capacity and improving our efficiency as we widen our income stream. The three initiatives are as follows:

FIRST INITIATIVE

Warehouse in Port Klang Free Zone ("PKFZ")

First commissioned in 2016, the warehouse in PKFZ has a net usable factory storage space of approximately 94,000 sq. ft. and is leveraged for the benefit of the Group for, amongst others, logistic arrangement, supplying to local customers who are eligible for import duty exemption and re-export activities. Construction of the second phase, which includes another warehouse/ factory commenced in FY2018 with an approximate size of 96,000 sq. ft., had been completed in the first quarter of FY2020.

Currently we are letting out certain portion of the warehouse space to a third party as we are not able to utilise the whole warehouse space at this moment. The rental income derived from letting out of a portion of warehouse space amounted to RM0.69 million in FY2019. We will continue assessing the warehouse space required for own use and will consider letting out any unutilised warehouse space to third parties to generate extra income for the Group in future.



SECOND INITIATIVE

Processing Plant in Shah Alam

The Group's second initiative is our renovated and refurbished plant directly opposite Wisma Leon Fuat in Shah Alam. With approximately 59,370 sq.ft. of usable factory space, the plant houses our new and existing CNC cutting machines. The plant has since enhanced efficiency and production capacity by improving operation flow on-site, particularly in materials handling. Additionally, processes have become more organised and is time-efficient in inventory monitoring.

In the second half of FY2018, the factory saw the installation of a fibre laser-cutting machine. The cutting machine comes with automated loading and unloading facilities for inputs and outputs with overall processing speed of up to five times more than the conventional machines.



THIRD INITIATIVE

Welded Steel Pipe Manufacturing Plant in Port Klang

As the Group believes that welded steel pipe manufacturing will be a significant income contributor in the future, we embarked on a three-phase construction of a plant, that when fully completed, will leverage on our existing client network for growth.

The first phase involving the construction and installation of machinery has been completed and the production of welded steel pipes has commenced commercial operations at end of the second quarter of FY2019. Although the production of welded steel pipes had only contributed modest revenue for FY2019, we are recording an increasing trend of demand for these products and hence, we can expect a more significant revenue contribution for FY2020.

We believed with the purchase of one of the advance technologies in pipe forming invented in Japan, the new machinery allow for an increase in productivity with minimal set up time and improvement in quality consistency as the machine is managed by an advanced numerical control system, giving it the flexibility of switching production. Automation will also mean lower headcount, increased cost-efficiency and productivity.

Moving forward, the Group has prepared submissions to the relevant authorities for the construction of the second and third phases. We are targeting to complete the second phase by the first half of financial year ending 31 December 2021.

MANAGEMENT

DISCUSSION & ANALYSIS

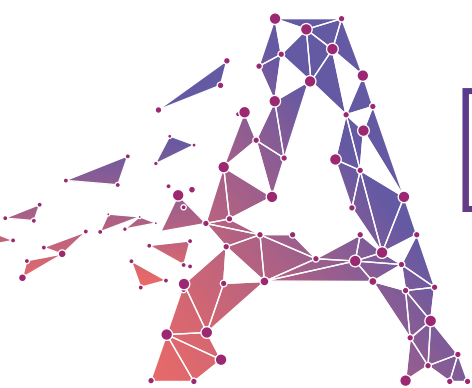
Leon Fuat's existing plants houses an extensive range of machinery which includes cutting, levelling, shearing, profiling, bending, polishing, expanded metal processing and pipe forming machines. The Group remains competitive as it is well-equipped on the technology front. As at 31 December 2019, the Group possesses a total of 115 major machines with total net carrying amount of RM49.94 million, installed across our facilities, as listed below:

Machinery and Equipment	No. of Units
Coil levelling machine	7
Slitter line	2
Pipe forming line	2
CNC oxy-gas and plasma cutting machine	4
CNC oxy-gas cutting machine	3
CNC plasma cutting machine	5
CNC laser cutting machine	12
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	35
High precision CNC press brake machine	7
Surface grinding machine	1
Punching machine	2
External pipe blasting machine	1
Polishing Machine	1
Rolling Machine	1
Total	115

On top of proactively addressing our risks arising from global and local factors, Leon Fuat will continue to enhance operating capabilities and efficiencies in meeting customers' requirements and ensure timely satisfaction of customer orders, while keeping operating costs at a manageable level to support the Group's competitive position as well as generate a satisfactory financial performance dependent on the prevailing market conditions.

DATO' SRI OOI BIN KEONG
Group Managing Director





ADVANCING

FORWARD AND
GOING THE DISTANCE



SUSTAINABILITY REPORT

SUSTAINABILITY STATEMENT (102-1)

Sustainability is a critical driving force for businesses in today's world of limited resources. As a responsible player in the steel industry, Leon Fuat Berhad ("the Group", or "Leon Fuat") recognises that progress in business involves a balance between environmental stewardship, social responsibility and economic growth. To achieve sustainable growth, we strive to build profitably with needle-like focus on potential growth areas that grant attractive business opportunities.

FY2019 marks our third year of sustainability reporting and building on the FY2018 edition, this statement presents an overview of our business and associated activities that help in long-term value creation. During the financial year under review, we have expanded on the quantitative and qualitative disclosures, especially with regard to those material matters that are of priority to our stakeholders and our business.



SCOPE AND REPORTING BOUNDARY (102-2, 102-3, 102-4, 102-50)

This statement encompasses our sustainability performance and related activities from 1 January 2019 to 31 December 2019 ("FY2019"), unless specified otherwise. It is to be read in conjunction with the rest of the 2019 Annual Report, highlighting other aspects of our financial and non-financial performance.

The entities covered in this statement include the Group's steel processing and trading companies: Leon Fuat Metal Sdn. Bhd. ("LF Metal"), Supreme Steelmakers Sdn. Bhd. ("Supreme Steelmakers") and Leon Fuat Hardware Sdn. Bhd. ("LF Hardware") which are located in Selangor and Kuala Lumpur, Malaysia as well as our headquarters at Shah Alam, Selangor.

REPORTING FORMAT

We referred to the following guidelines and framework to develop the narrative of this statement.



The content of the statement is based on the reporting principles as defined by GRI Standards, which includes:

- Stakeholder Engagement : Key stakeholders' areas of concern and expectations
- Sustainability Context : Sustainability performance
- Materiality : Material Sustainability Matters that are most material to the Group and our stakeholders

The GRI Standards disclosed in the statement are outlined below:

- GRI 204 Procurement Practices
- GRI 302 Energy 2016
- GRI 303 Water and Effluents 2018
- GRI 306 Effluent and Waste 2016
- GRI 307 Environmental Compliance 2016
- GRI 401 Employment 2016
- GRI 403 Occupational Health and Safety 2018
- GRI 404 Training and Education 2016
- GRI 405 Diversity and Equal Opportunity 2016
- GRI 413 Local Communities 2016
- GRI 418 Customer Privacy 2016
- GRI 419 Socioeconomic Compliance 2016

Throughout the statement, the relevant GRI indicator has been denoted against the corresponding material matter and has also been indicated in the GRI Content Index available on pages 64 to 65.

FEEDBACK (102-53)

If you have any queries, suggestions or comments on the contents of this statement, please get in touch with us. The contact details of the person-in-charge are below:

Tan Kien Yap
Chief Financial Officer

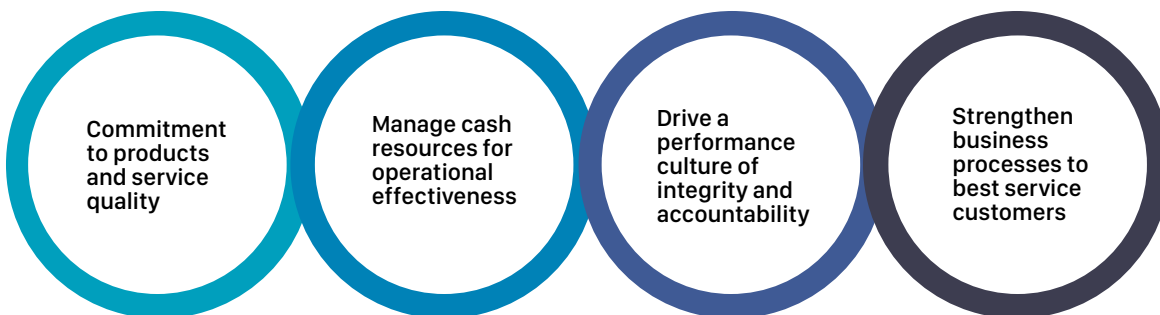
Wisma Leon Fuat
No 11, Lorong Keluli 1B, Kawasan Perindustrian Bukit Raja Selatan
Seksyen 7, 40000 Shah Alam, Selangor Darul Ehsan
Email: tanky@lfb.com.my



OUR COMMITMENT TO SUSTAINABILITY

Our strategic approach is best described by our commitment to create long-term shared value for our stakeholders. We believe that it is fundamental to recognise our strengths, challenges and opportunities to build a sustainable business. Our shared values have always been to be customer centric, provide quality services and products, operational effectiveness and instil corporate integrity. Moving forward, while we will rely on these underlying principles to build a strong foundation, we understand the need to adapt to address environmental risks, prioritise the socio-economic development of the areas where we operate and establish definitive non-financial goals.

SHARED VALUE



SUSTAINABILITY REPORT

OUR SUSTAINABILITY JOURNEY: HOW FAR HAVE WE COME?

We have expanded and improved our sustainability narrative year-on-year to reflect our maturity in reporting. Through this reporting platform, we are able to communicate our short, medium and long-term ambitions for our Economic, Environmental and Social (“EES”) performance, our efforts to align our sustainability goals with our business goals, and our commitment to prepare a meaningful and comprehensive report for our stakeholders.

Our sustainability reporting journey since FY2017 is depicted below:



FY 2019

- In-depth disclosure for three(3) main subsidiaries : LF Metal , LF Hardware and Supreme Steelmakers
- Terms of Reference (TOR) for sustainability governance structure
- Thirteen (13) Material Sustainability Matters reported
- Maintain the materiality matrix
- Seven (7) UN SDGs adopted
- Inclusion of GRI indicator numbers



FY 2018

- Disclosure for three (3) main subsidiaries : LF Metal , LF Hardware and Supreme Steelmakers
- Establishment of a sustainability governance structure
- Thirteen (13) Material Sustainability Matters reported
- Materiality Matrix generated based on the thirteen (13) material matters identified
- Fourteen (14) UNSDGs adopted
- No identification GRI indicator numbers



FY 2017

- Disclosure for three (3) main subsidiaries : LF Metal , LF Hardware and Supreme Steelmakers
- No defined sustainability governance structure
- Eleven (11) Material Sustainability Matters reported
- Materiality Assessment conducted to identify the key material issues based on its importance to business operation and stakeholders
- Seven (7) UN SDGs adopted
- No identification GRI indicator numbers

UN SUSTAINABLE DEVELOPMENT GOALS

Malaysia’s commitment to the United Nations Sustainability Agenda 2030 is demonstrated in the Eleventh Malaysia Plan (2016-2020). As a growing force in the steel industry, we recognise that our ability to generate economic value is dependent on an approach that not only leverages financials but also skilled employees, innovation, community relationships and key natural resources.

We believe our priorities for sustainable development are aligned to that of Malaysia’s and as a responsible corporate citizen, we have mapped our contribution to the following United Nations Sustainable Development Goals (“UN SDGs”). We narrowed our focus from fourteen (14) UN SDGs in FY2018 to seven (7) UN SDGs this financial year as the Group intended to prioritise our core goals that best define our business strategy and approach to sustainable growth.

3

PROMOTING HEALTHY LIFESTYLE AND WELL-BEING

We believe healthy and productive employees are crucial for the success and growth of our business. We promote healthy living among our employee via engagement activities.



7

ENSURING ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND CLEAN ENERGY

We depend on reliable and affordable energy services to function smoothly and develop equitably. We prioritise energy efficiency across our operational activities to reduce overall demand for energy



8

INCORPORATING INCLUSIVE ECONOMIC GROWTH, STABLE EMPLOYMENT AND DECENT WORK

We embrace diversity and inclusiveness at the workplace. We hire candidates from varying backgrounds, skills, experience and knowledge.



9

BUILDING RESILIENT INFRASTRUCTURE, PROMOTING SUSTAINABLE INDUSTRIALISATION AND FOSTERING INNOVATION

We strive to foster innovation with in the industry for future business growth. Leon Fuat has invested in machinery modernisation such as 10kW Fiber Laser machine for effective resource planning and management



12

ENSURING RESPONSIBLE AND SUSTAINABLE PRODUCTION PATTERN

We recognise the importance of efficiency in managing our consumption of raw materials to ensure effective waste minimisation and resource management throughout our operation



13

STRENGTHENING INITIATIVES IN COMBATING CLIMATE CHANGE AND ITS IMPACT

We endeavor to mitigate climate change by implementing initiatives to minimise operational impact to the environment



16

PROMOTING PEACEFUL AND INCLUSIVE SOCIETIES TO DEVELOP EFFECTIVE, ACCOUNTABLE AND TRANSPARENT INSTITUTION

We reiterate the importance of integrity and maintaining high ethical standards to build a corporate culture that benefits and hold true for all ourstakeholders



SUSTAINABILITY REPORT

SUSTAINABILITY GOVERNANCE STRUCTURE (102-18, 102-20, 102-32)

Leon Fuat believes in having effective governance to inculcate a culture of sustainability throughout the organisation. This is especially important given the greater accountability that is expected of businesses towards stakeholders and the fast pace at which the operational landscape in the steel industry is adapting to address fundamental environmental and social issues embedded within its supply chain.



In FY2018, we established a three-tier governance structure which underpins our strategic vision to build a sustainable business. Our Board of Directors (“BOD”) is at the apex of this governance structure and leads the sustainability agenda across the Group and its subsidiaries. The illustration below lists the key roles and responsibilities of the BOD, SC and STFC within the governance structure.







Roles & Responsibilities	
<p>Board of Directors</p> <ul style="list-style-type: none"> • Endorse the Group’s sustainability strategy and commitment • Issue final approval of the sustainability report and its contents 	<p>Sustainability Committee</p> <ul style="list-style-type: none"> • Act as a Management/Steering Committee to make recommendation for the proposed Sustainability Statement in the Annual Report • To oversee the STFC in ensuring the Group’s progress in sustainability measures
<p>Sustainability Task Force Committee</p> <ul style="list-style-type: none"> • Act as a Working Committee to assist the SC in recommending the proposed Sustainability Statement in the Annual Report • To identify material sustainability matters and Implement sustainability initiatives • To assist the SC in fulfilling its oversight responsibilities relating to the Group’s sustainability strategy, policy and practices 	

Leon Fuat has developed the Terms of Reference (“TOR”) for the SC in FY2019 which serves as a formal guideline and clearly defines this committee’s capacity within the governance structure. It will be reviewed every two (2) years to retain its relevancy.

ENGAGING OUR STAKEHOLDERS (102-40, 102-43, 102-44)

Stakeholder engagement is key to running any business. It is driven by the need to conduct responsible business operations and to encourage open lines of communication with stakeholders. We practice regular stakeholder engagement which helps improve strategy development and decision making, nurtures stakeholder relations and keeps us abreast of the current regulatory requirements as well as varying stakeholder interests.

The table below captures each stakeholder group’s area of interest concerning our business/operations, the channels through which we engage them and the frequency of each engagement.

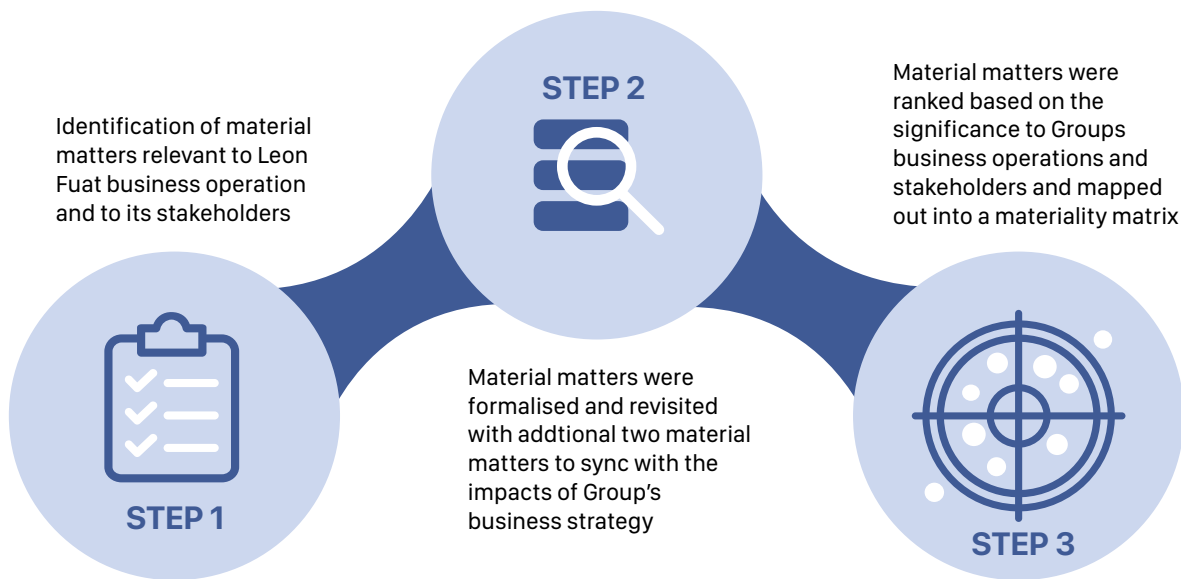
STAKEHOLDER GROUPS					
 Employees	 Management	 Customers	 Vendor/ Suppliers	 Investors/ Shareholders	 Communities
AREAS OF INTEREST					
<ul style="list-style-type: none"> Capacity building Work-life balance Attractive remuneration Safe and healthy work environment 	<ul style="list-style-type: none"> Company reputation Risk management Ensuring service requirements and profitability 	<ul style="list-style-type: none"> Confidence and trust on the company Quality of goods Valuable business experience 	<ul style="list-style-type: none"> Continuous collaboration Fair procurement practices Support of local suppliers 	<ul style="list-style-type: none"> Company reputation Future competence Investment growth of the company Risk management 	<ul style="list-style-type: none"> Local community development Philanthropy Impact of company operation on surrounding communities
ENGAGEMENT CHANNELS					
<ul style="list-style-type: none"> Face to face discussions Training programmes Employee performance appraisal Staff meetings Annual Dinner 	<ul style="list-style-type: none"> Coordination meeting Quarterly business unit meeting Annual ISO management review 	<ul style="list-style-type: none"> Face to face interaction Satisfaction assessment Feedback survey Website and social media platforms 	<ul style="list-style-type: none"> Face to face interaction Vendor performance review Product quality feedback 	<ul style="list-style-type: none"> Annual General Meetings Bursa Malaysia announcements 	<ul style="list-style-type: none"> Corporate programmes Promotions and advertisements on social media and websites.
FREQUENCY OF ENGAGEMENT					
<ul style="list-style-type: none"> Ad-hoc Ad-hoc Annually Ad-hoc Annually 	<ul style="list-style-type: none"> Ad-hoc Quarterly Annually 	<ul style="list-style-type: none"> Ad-hoc Annually Ad-hoc Ad-hoc 	<ul style="list-style-type: none"> Ad-hoc Annually Ad-hoc 	<ul style="list-style-type: none"> Annually Ad-hoc 	<ul style="list-style-type: none"> Ad-hoc Ad-hoc

SUSTAINABILITY REPORT

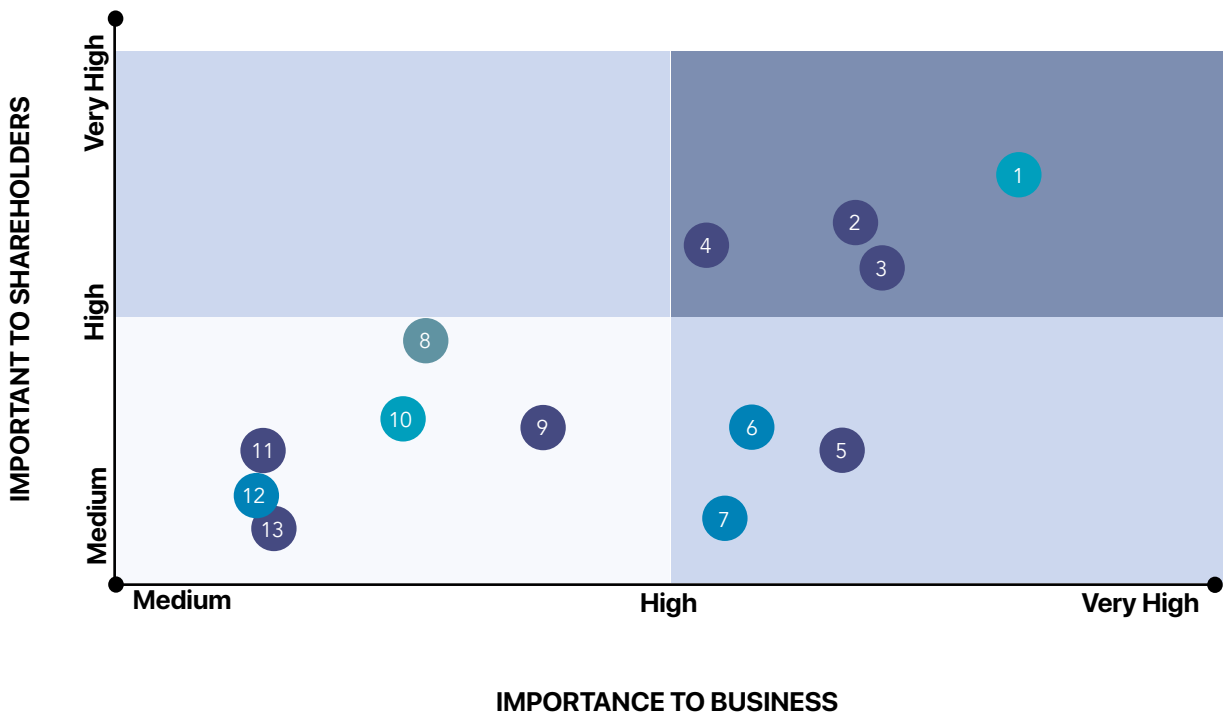
OUR MATERIAL SUSTAINABILITY MATTERS (102-47)

Materiality assessment is the backbone of the sustainability reporting that assist to determine a Group's most material issues arising from the business operation. In FY2017, Leon Fuat has identified eleven (11) material sustainability matters in terms of EES that are much relevant to our business operation as well as are of concern to our stakeholder groups. The identified material matters were formalised and revisited with additional two (2) material matters: Responsible Procurement and Operational Excellence in FY2018, to understand the impact of a change in the Group's business strategy. The thirteen (13) material matters were ranked accordingly a materiality matrix was generated to map out the priority of each material sustainability matters.

In this financial year, the Group decided to retain the material matters and materiality assessment from FY2018 as they continue to be relevant to the current business approach and strategy. Material matters that fell on the top right quadrant of the materiality matrix include Operational Excellence, Health and Safety, Knowledge and Skill Development and Customer Satisfaction. These matters are considered to be of high significance and influence to both Leon Fuat and its stakeholders. Hence, this report will describe how the Group addresses these material matters. Below represents our process in establishing the material matrix in FY2018.



Tabulated below is the outcome of our assessment which was mapped into a materiality matrix below based on significance to Leon Fuat operations and key stakeholders.



PRACTICING RESPONSIBLE GOVERNANCE

8 Business Ethics and Compliance

ACHIEVING ECONOMIC PROSPERITY

1 Operational Excellence

10 Responsible Procurement

INVESTING IN ENVIRONMENTAL STEWARDSHIP

6 Effluent and Waste Management

7 Energy and Water Consumption

12 Noise Monitoring Management

STRENGTHENING SOCIAL RESPONSIBILITY

2 Customer Satisfaction

3 Knowledge and Skill Development

4 Health and Safety

5 Employee Welfare

9 Data Security



11 Corporate Social Responsibility










13 Work-Life Balance

SUSTAINABILITY REPORT

MAPPING OUR MATERIAL SUSTAINABILITY MATTERS

Each of our material sustainability matters is linked to the UN SDGs that we have adopted and relevant to specific group of stakeholders. This relationship is illustrated below:

No.	Material Sustainability Matter	GRI Indicator	Stakeholder Group	UN SDG
PRACTICING RESPONSIBLE GOVERNANCE				
1.	Business Ethics and Compliance	102-16: Values, principles, standards and norms of behaviour 102-17: Mechanisms for advice and concerns about ethics 103-2: Management approach 205-2: Communication and training about Anti-Corruption Policies and Procedures	Employee, Management, Investors and Shareholders	
ACHIEVING ECONOMIC PROSPERITY				
2.	Operational Excellence	103: Management approach	Management, Employees, Investors and Shareholders	 
3.	Responsible Procurement	102-9: Supply chain management 103-2: Management approach 203-2: Significant indirect economic impacts 204-1: Proportion of spending on local suppliers	Vendors/Suppliers	
INVESTING IN ENVIRONMENTAL STEWARDSHIP				
4.	Effluent and Waste Management	103-2: Management approach 306-1: Water discharge by quality and destination 306-2: Waste by type and disposal method	Management, Employees, Investors and Shareholders	 
5.	Energy and Water Consumption	103-2: Management approach 103-3: Evaluation of the management approach 302-1: Energy consumption with organisation 302-4: Reduction of energy consumption 303-5: Water consumption	Management, Employees	 
6.	Noise Monitoring Management	103-2: Management approach	Management, Employees	

No.	Material Sustainability Matter	GRI Indicator	Stakeholder Group	UN SDG
STRENGTHENING SOCIAL RESPONSIBILITY				
7.	Customer Satisfaction	102-43: Approach to stakeholder engagement 103-2: Management approach 103-3: Evaluation of the management approach	Customers, Management	
8.	Knowledge and Skill Development	103-2: Management approach 404-1: Average hours of training per year per employee 404-2: Programmes for upgrading employee skills and transition assistance programs	Employees	
9.	Health and Safety	103-2: Management approach 403-2: Hazard identification, risk assessment, and incident investigation (HIRARC) 403-4: Worker participation, consultation, and communication on occupational health and safety 403-5: Worker training on occupational health and safety 403-9: Work-related injuries	Employees	 
10.	Employee Welfare	103-2: Management approach 401-2: Benefits provided to full-time employee that are not provided to temporary or part-time employees	Employees	
11.	Work-Life Balance	102-43: Approach to stakeholder engagement 103-2: Management Approach 2016	Employees	 
12.	Data Security	103-2: Management approach	Employees, Customers, Management	
13.	Corporate Social Responsibility	103-2: Management Approach 2016 413-1: Operations with local community Engagement	Management, Employees, Communities	

SUSTAINABILITY REPORT

PRACTICING RESPONSIBLE GOVERNANCE

The Group is committed to act professionally, fairly and with integrity in all our business dealings and stakeholder relations. We do not tolerate any form of business misconduct and we strive to provide the highest quality products and services to our customers. To ensure our business operates in an ethical manner, we have established relevant policies and procedures.

BUSINESS ETHICS AND COMPLIANCE (102-16, 102-17, 103-2, 205-2)

Business Ethics

Our Employee Handbook identifies and illustrates behavioural standards that are required of employees throughout our organisation, especially when making business decisions. Conformity with the Employee Handbook enhances our profitability, secures the trust and loyalty of stakeholders and improves operational efficiency.

Whistleblowing Policy

We do not condone corruption or any form of malpractice. The Group has a Whistleblowing Policy in place to ensure businesses are transacted in a fair and transparent manner. In line with the commitment to promote transparency, accountability and ethics and to ensure high standards of ethics is being upheld in the workplace, the Board and Management encourages its employees and external parties to report suspected and/or known instances of wrongdoing involving the Leon Fuat's employees and its assets accordance with the policy. The policy is communicated to the employees via the Group's website.

Anti-Bribery Management System

In addition to our commitments towards ethical business, Leon Fuat has currently engaged external consultants to establish an Anti-Bribery Management System in accordance with the MS ISO 37001 Anti-Bribery Management System. The internal control system serves as a tool to manage, enforce, evaluate and improve our anti-corruption measures effectively throughout our value chain. It is expected to be effective in the second quarter of FY2020 and will be communicated to BOD as well as employees via training sessions, induction programmes and our website.

Regulatory Compliance

Leon Fuat ensures its operating subsidiaries comply with applicable rules, laws and regulations. We have documented internal guidelines and procedures, conducted internal inspections as well as adopted ISO standards to inculcate a culture of stringent regulatory compliance throughout the organisation.

The regulations we adhere to include but are not limited to the following:

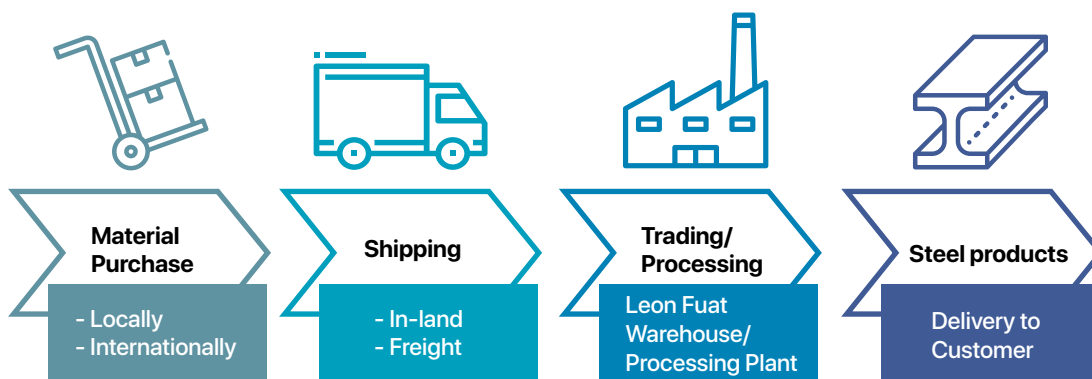
- Capital Markets and Services Act 2007
- Companies Act 2016
- Employment Act 1955
- Environmental Quality Act 1974
- Factories and Machinery Act 1967
- Income Tax Act 1967
- Main Market Listing Requirements (“MMLR”)
- Malaysian Code on Corporate Governance (“MCCG”)
- Minimum Wages Order 2018

ACHIEVING ECONOMIC PROSPERITY

As a business engaged in the trading and processing of steel products in Malaysia, we are committed to providing the highest quality of services and products to our customers. Our business model prioritises the need to provide sustainable returns to our shareholders, create long-term operational excellence, and implement fair and responsible procurement practices.

RESPONSIBLE PROCUREMENT (102-9, 103-2, 203-2, 204-1)

The Group's robust procurement procedures are essential to ensure cost-effectiveness and strategic sourcing. Besides trading business, we also provide value-added services including cutting, levelling, shearing, profiling, bending and finishing as well as production of expanded metals and welded steel pipes. The diagram below illustrates the Group's supply chain starting from the purchase of material until the trading, processing and delivery of steel products to our customers.



SUSTAINABILITY REPORT

The Group has a supplier selection procedure that determines the criteria for a supplier to be selected beforehand, the priority will be given to the supplier that holds a good reputation and provides affordable price range of raw materials.

Leon Fuat manages its materials procurement by providing a guideline for a procurement personnel to perform purchasing activities which is applicable to purchase of raw materials, infrastructures and product-related services.

The Group monitors supplier performance on a yearly basis and updates supplier ratings against pre-determined performance indicators such as conformity to requirements, delivery schedule performance and responsiveness.

The need to source certain materials from international vendors is due to the lack of availability in the local market. However, whenever possible, we look to lift the local economy by engaging local suppliers. In FY2019, Supreme Steelmakers', LF Hardware's and LF Metal's total spending on local procurement were 48%, 20% and 30% respectively.

OPERATIONAL EXCELLENCE (103-2)

The Group invests in machinery modernisation to further drive process automation in its operations. LF Metal invested in a fiber laser cutting machine in FY2018 which continues to be used in FY2019. The machine is capable of reducing cutting time and its overall processing speed is five (5) times more than that of a conventional CO₂ laser machine. As the machine does not require mirror or lens cleaning, bellow checks and beam alignment, we are able to minimise our consumable and maintenance costs. In addition, the fibre laser cutting machine comes with a Loading/Unloading automation system which enables the machine to reduce the materials handling time and operate more efficiently. Overall, the investment is cost-effective, promotes energy efficiency, reduces production downtime due to maintenance works and leads to better resource planning and management of all processes.

INVESTING IN ENVIRONMENTAL STEWARDSHIP

We ensure compliance to the comprehensive local environmental regulations. Our social license to operate and our responsibility to the communities that surround our operations hinges on it. However, moving beyond compliance, all our subsidiaries regularly monitor their water consumption, energy usage and waste generation behaviour to identify patterns and operations that are energy intensive, and to test the impact of mitigation measures.

EFFLUENT AND WASTE MANAGEMENT (103-2, 306-1, 306-2)

Our strength lies in recognising we have an environmental footprint and prioritising the need to address it across our supply chain. Effluent and waste management is a regulatory requirement and one that we do not take lightly. Due to our strict adherence to the Department of Environment ("DOE") regulations on the treatment and disposal of scheduled and non-scheduled waste, we have not had any incidence of non-compliance in this regard throughout our steel processing this year.

LF Metal engages DOE licensed contractors for the collection (every six months), treatment and proper disposal of scheduled waste. Illustrated below are the types (SW104, SW410, SW305, SW307 and SW409) and amount (kg) of scheduled waste generated by LF Metal from FY2017 to FY2019. It is shown that a greater amount of dross and metal slag were produced during the steel processing at our plants.

SW 104	Dust slag, dross or ash containing arsenic, mercury, lead, cadmium, chromium, nickel, copper, vanadium, beryllium, antimony, tellurium or selenium excluding slag from iron and steel factory
SW 305	Spent lubricating oil
SW 307	Spent mineral oil-water emulsion
SW 409	Disposed containers, bags or equipment contaminated with chemicals, pesticides, mineral oil or scheduled wastes
SW 410	Rags, plastics, papers or filters contaminated with scheduled wastes

TYPES OF SCHEDULED WASTE	AMOUNT OF SCHEDULED WASTE (TONNES) GENERATED BY LF METAL		
	FY2017	FY2018	FY2019
SW104	2.81	1.72	1.45
SW305	-	0.02	-
SW307	-	0.21	-
SW409	-	0.05	-
SW410	0.26	-	0.32

Moving forward, the Group intends to record scheduled waste generated at Supreme Steelmakers and LF Hardware (Kuala Lumpur) to encourage responsible waste management practices at its plants.

In the case of non-scheduled waste that is generated such as office waste, i.e. paper and plastics, they are disposed as general waste as they are not toxic nor hazardous. The Group has placed recycling bins in the office to encourage employees to segregate office waste in order to salvage the recyclable waste from the rest.

Leon Fuat ensures the effluent discharged from our operating units is safe for the environment and below the permissible limit stipulated by the Environmental Quality Act 1974 ("EQA 1974"). We conduct effluent discharge analysis at LF Metal and monitor it every six (6) months to check for five (5) parameters: Chemical Oxygen Demand ("COD"), Biological Oxygen Demand ("BOD"), Total Suspended Solids ("TSS"), Oil & Grease and Ammoniacal Nitrogen (NH₃-N). In fact, our efforts in maintaining good effluent management practices are best reflected in the fact that since FY2017, the readings obtained from effluent tests have shown to be below EQA 1974 permissible limits.

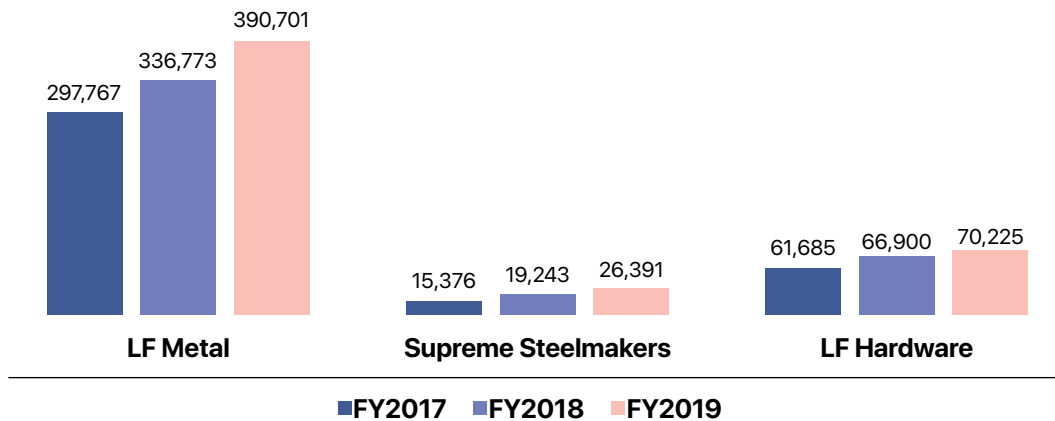
ENERGY AND WATER CONSUMPTION MANAGEMENT (103-2, 103-3, 302-1, 302-4, 303-5)

Energy Management

The Group is cognisant of its responsibility to conserve energy to reduce the resulting environmental impact such as greenhouse gas emission. On that note, we practice to monitoring fuel consumption used by our delivery trucks at each subsidiary to ensure efficient use of diesel for our business operations. The graphs below compare fuel consumption (litre) by the subsidiaries from FY2017 to FY2019.

SUSTAINABILITY REPORT

FUEL CONSUMPTION (LITRE) BY SUBSIDIARIES



In FY2019, LF Metal's fuel consumption was the highest among the three (3) subsidiaries for all three (3) consecutive years, which is mainly due to the fact that it operates four (4) steel processing plants.

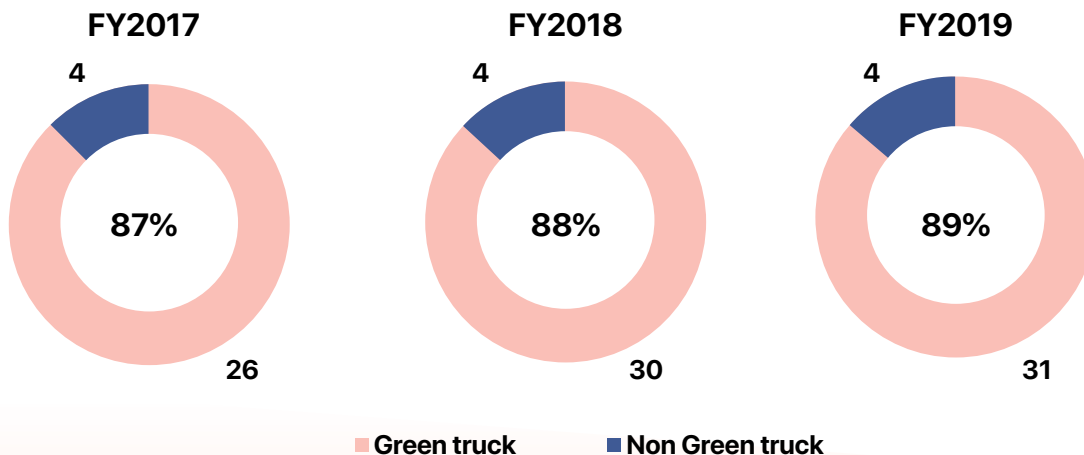
Similarly, Supreme Steelmakers shows a gradual increase in fuel consumption for all the three (3) consecutive years. However, the company has only one (1) processing plant in operation with three (3) trucks for product delivery. Hence, the fuel consumption is recorded the lowest despite similar business nature with LF Metal. Whilst LF Hardware owns twelve (12) delivery trucks used for delivering steel products to customer. In FY2019, the company recorded its fuel consumption at 70,225L due to its increasing trading business.

To reduce our greenhouse gas emissions, improve fuel efficiency and prolong engine life, we continue to use green diesel trucks for product delivery. These vehicles are able to utilise Euro5 diesel which contains ten (10) ppm (parts per million) of sulphur, approximately fifty (50) times less than conventional diesel (500 ppm of sulphur).



89% (31 out of 35 trucks are Green Diesel Trucks in FY2019)

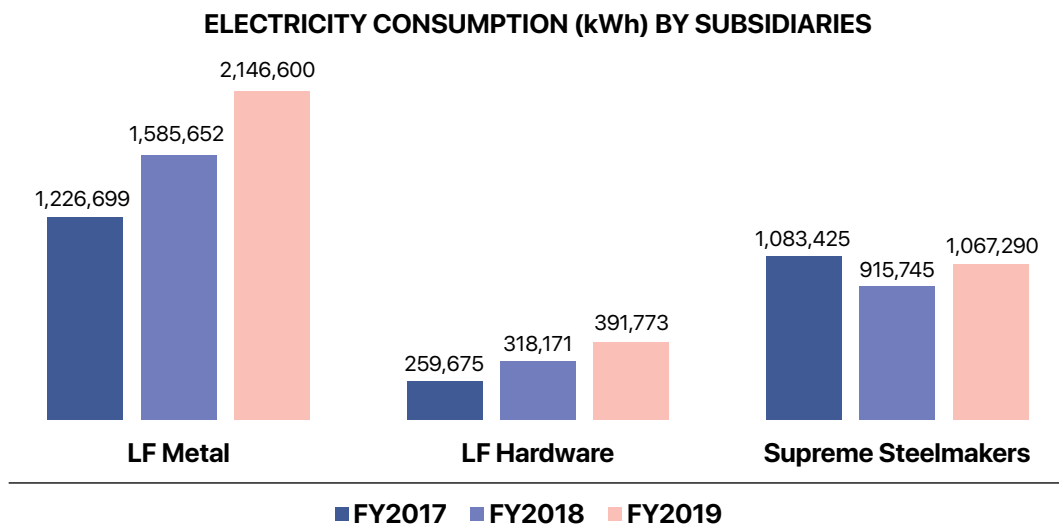
We increased the number of green diesel trucks in our fleet from twenty-six (26) in FY2017 to thirty-one (31) in FY2019 and achieved our target of utilising 85% green diesel-powered trucks for the three (3) consecutive years. By employing green trucks, we minimise our carbon, sulphur and lead emissions.



As such, the Group will purchase more of these trucks as the business expands. It will also monitor how the green diesel trucks contribute to fuel consumption efficiency and track cost savings.



Our energy management extends to electricity saving measures which include installing LED lighting at the offices and skylights at the plants. We record and monitor electricity consumption throughout our operations and the graphs below demonstrate the electricity consumption of our three (3) key subsidiaries from FY2017 to FY2019.



LF Hardware recorded the lowest electricity consumption among the other reporting subsidiaries as the company primarily conducts trading business and its warehouses are largely used to store steel products. In the case of LF Metal, we experienced a gradual increase in electricity consumption for the three (3) years due to the increasing number of orders from customers resulting in the need to install additional machines for steel processing.

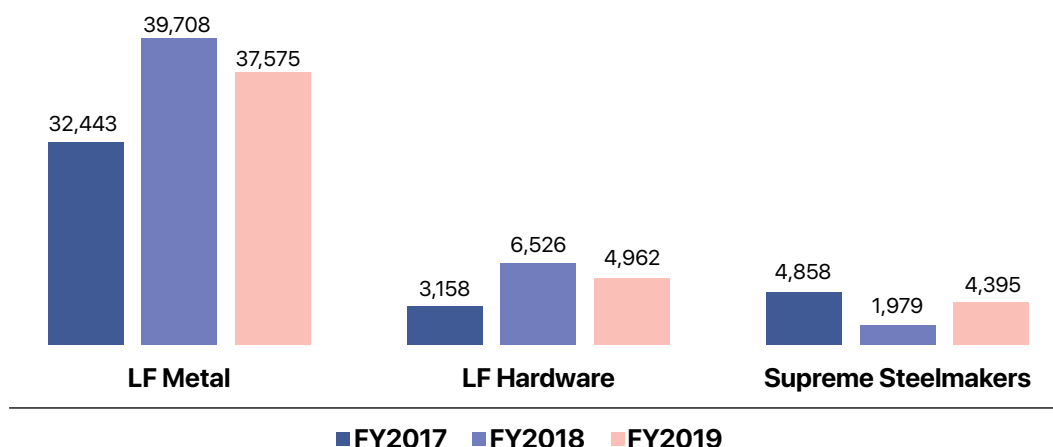
Water Consumption

We recognise the vital role water plays in steel processing and more importantly, its value to society. Reducing water consumption throughout our operations, much like energy consumption, involves active monitoring to understand consumption patterns, its impact on operational costs and areas for improvement.

The Group's three (3) key subsidiaries record and monitor their respective water consumption levels (m²) and this data is presented in the graphs below for FY2017, FY2018 and FY2019.

SUSTAINABILITY REPORT

WATER CONSUMPTION (M³) BY SUBSIDIARIES



LF Metal contributed to the largest portion of the Group's total water consumption mainly due to its operation size as well as water is largely used throughout steel processing for descaling, dust scrubbing and other relevant processes. Water usage level at LF Metal was recorded the highest in FY2018 due to unexpected pipe leakage and tank overflow at Plant 3 from April to August 2018. At LF Hardware, we recorded significantly lower water consumption for the past three (3) consecutive years as the company primarily conducts trading business. Similarly, due to the smaller scale and size of the Supreme Steelmakers operations, the water consumption of the company is generally low. A reduction of 59% in consumption was observed in FY2018 as its plant, office and warehouse were relocated to temporary sites.

As part of water reduction initiatives, LF Metal has displayed signage across the company to instil awareness among employees on the importance of water resource conservation. In addition, some of our machines are equipped with high machine precision which do not require water for cooling procedures during the steel processing activities which improves water resource management at our operating plants.

NOISE MONITORING MANAGEMENT (103-2)

High decibel sounds or vibrations produced from steel processing can be hazardous as sustained exposure to it can cause permanent hearing loss to employees working in the plants. For Leon Fuat, noise monitoring in production plants is crucial to identify which individuals are at risk. LF Metal and LF Hardware conduct personal audiometric tests for its employees on an annual basis, to monitor the acuity of employees' hearing over time as well as educate employees about the need to protect their hearing. In addition, we provide hearing protectors such as Anti-Noise Ear Shield to adequately reduce the severity of noise levels for our employees at the plants.

STRENGTHENING SOCIAL RESPONSIBILITY

We strive to create a positive workplace culture that offers an environment where employees can thrive. This encompasses ensuring safety of the workplace and promoting capacity building, employee diversity and well-being across the Group. This section of the statement covers our efforts and performance on these indicators for FY2019.

CUSTOMER SATISFACTION (102-43, 103-2, 103-3)

Customers are the bottom line for a successful and healthy business. Therefore, we consider customer as an essential element at all stages of our business strategy to ensure greater customer satisfaction and increase our long-term goal of repeat business. At Leon Fuat, customer satisfaction is important as it is closely linked to product and service quality, and they both serve as a guide to identify areas for improvement and to grow as a sustainable business. We aim to secure high customer satisfaction levels and more importantly, for our valued customers to continue trusting in our products and services.

Leon Fuat practices a robust customer satisfaction management system which includes annual customer satisfaction surveys and complaint reports. Through these mechanisms, we are able to gauge their feedbacks and recommendations to further improve our product and service quality. The following are the five (5) main sections of the survey questionnaire in our customer survey form.

Section 1: Customer Satisfaction Qualification

- a) Quality Product
- b) Delivery Service Provided
- c) Overall Service Provided
- d) Response towards Customers' Complaints
- e) Business Convenience with the company
- f) Overall Rating of the company

Section 2: Criteria

- a) Recommendation of Leon Fuat Business to Other People
- b) Issues Encountered with Leon Fuat Steel Products
- c) Delivery Service that Meet Customers' Expectation

Section 3: List of Criteria for Customer Prioritisation

• Price	• Credit Period	• Consistent Quality	• Credit Limit
• Prompt Delivery	• Friendliness of Sales Staff	• ISO Standards	• Convenience in Placing Orders

Section 4: Indication of Problems Encountered by Customers with our Delivery Service

• Product Effect	• Packing Problem	• Delivery Shortage	• Others
• Late delivery	• Unloading Problems	• Wrong Delivery	

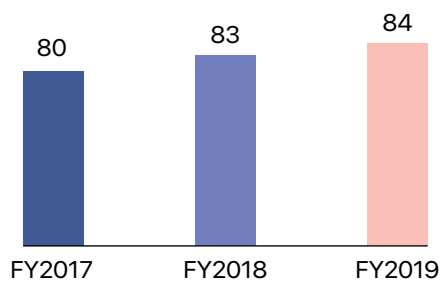
SUSTAINABILITY REPORT

Section 5: Customer Feedback and Recommendations for Future Improvement of the Company

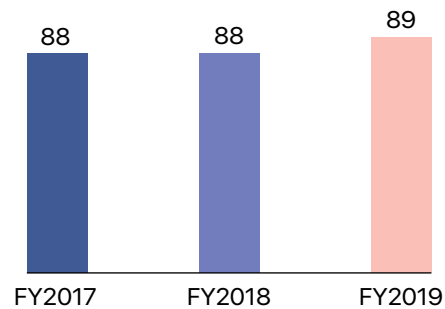
The results from the satisfaction surveys conducted by LF Metal, Supreme Steelmakers and LF Hardware in FY2019 were tabulated and recorded to analyse the overall performance of the respective company. The overall performance score obtained in FY2019 by LF Metal, Supreme Steelmakers and LF Hardware were 84%, 83% and 89% respectively.

Survey results revealed that customers regard the reasonable price of products and product quality to be the two (2) main reasons they choose these three (3) subsidiaries over others. Most of the evaluated criteria in the survey were ranked as near excellence by our customers. The graph below displays the overall performance scores from the surveys conducted by the three (3) subsidiaries for FY2017, FY2018 and FY2019.

**Overall Performance Score (%)
by LF Metal**



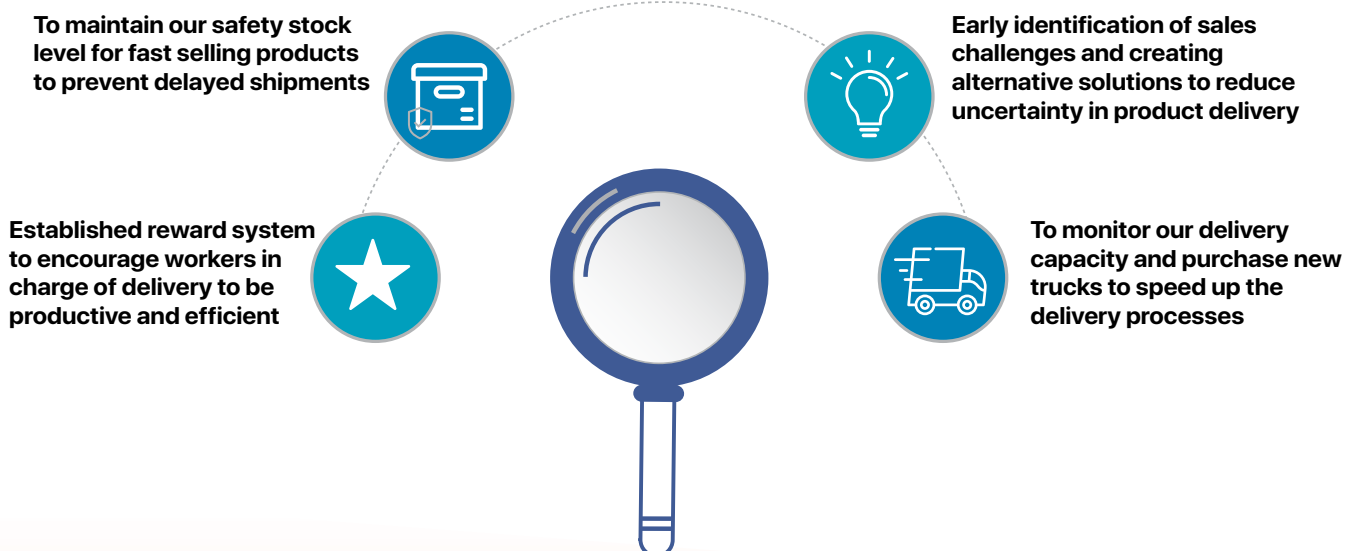
**Overall Performance Score (%)
by Supreme Steelmakers**



**Data excludes LF Hardware due to its satisfaction survey was only conducted in FY2019

From the graphs above, the overall performance scores over the three (3) years for both subsidiaries have improved.

We are confident that our improvements in post-services have had a positive impact on customer satisfaction. Currently, our efforts to improve customer satisfaction at LF Metal are focusing on efficient product delivery. In this regard, the company intends to implement several measures to overcome delivery challenges:



DATA SECURITY (103-2)

Data that is pertinent for running our business includes customer and employee personal data, and financial data. It is our responsibility to safeguard this data, as we consider the threat of a data breach or data loss on customer and employee well-being, and business productivity and reputation to be severe.

The Group adheres to the Malaysian Personal Data Protection Act 2010 (PDPA 2010) to ensure customer and employee personal data are properly collected, stored and used for the purpose of business. Personal data protection notices are available on the Leon Fuat website, informing our customers about how we manage their personal information. For LF Metal and LF Hardware employees, we have created cloud accounts to allow them to store working documents and backup data to prevent data loss. Employees are also made aware of potential data security issues and their role in preventing them which includes always deleting unwanted phishing and SPAM emails.

HEALTH AND SAFETY (103-2, 403-2, 403-4, 403-5, 403-9)

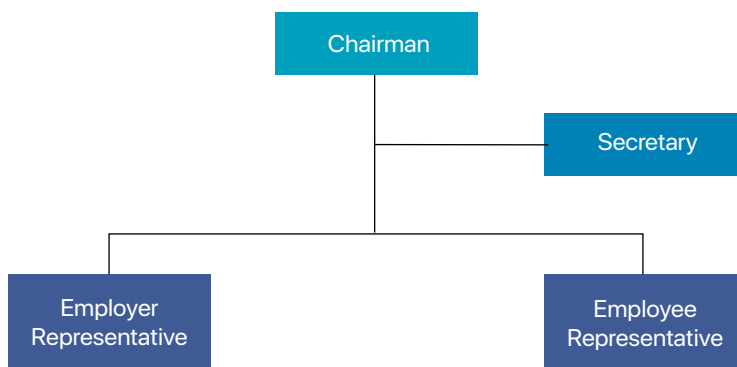
Workplace inspections are conducted four (4) times a year, and whenever an accident or a near-miss incident takes place. When a hazard happens at LF Metal, we have a Two Minute Hazard Report Card which indicates whether to stop an activity or to continue with caution. Certain risks were identified in LF Metal's operations pertaining to the Factories and Machinery (Safety, Health and Welfare) Regulations 1970 and below are the respective actions we enabled and proposed in FY2019 to mitigate the risks.

Risky	Control Action
Lack of ventilation system at factory surrounding area	<ul style="list-style-type: none">Industrial fans were provided at all locations.Planning to install a ventilation system using natural wind ventilation system.
Internal hostel located within the factory compound	<ul style="list-style-type: none">All factory foreign workers have been moved and shifted to hostels outside.
Lack of appropriate protection using full body harness for working at height	<ul style="list-style-type: none">Proposed to Management to purchase two (2) sets of full body harnesses

We have also established Safety and Health Committees (as illustrated below) with specific roles and responsibilities across subsidiaries to ensure that health and safety performance complies with regulatory requirements and industry best practices. Each committee is led by a Chairman who is supported by a team with 1:1 representation from Management and employees.

SUSTAINABILITY REPORT

Leon Fuat Safety and Health Committee



The safety and health committee meetings are held on a quarterly basis. The roles and expectations of persons holding responsibilities within this committee include: -

1. Develop safety and health rules, and safe systems for work
2. Review the effectiveness of safety and health programmes
3. Identify possible risks and hazards at the workplace together with recommendations for corrective/control actions
4. Review safety and health policies and revise when appropriate

In ensuring effective management of safety and healthy at our workplace, Leon Fuat is committed to equip its employees with competency-based and awareness training, some of which have been presented in the table below:

Employee Training programme
Risk Assessment Workshop
Hearing Conservation in Programme
Risk Management Exercise
Working Safety at Height
Roland Verret Technical Seminar on Wire Rope for Overhead Crane
Emergency Response Combined Drill
Conference and Exhibition on Occupational Safety and Health

Every accident and incident that occurs at our workplace is recorded and investigated, and measures implemented to prevent similar recurrences. For FY2019, we recorded a total of 949,861 working hours out of which 733,067 (77%) working hours were recorded for male employees and 216,794 hours (23%) for female employees. In terms of injuries, during the reporting period, we recorded four (4) major injuries, twenty-two (22) minor injuries and zero fatalities. To improve our safety performance and create a safe working environment, we plan to increase the number and frequency of our safety and health awareness and competency training programmes at in all our subsidiaries.

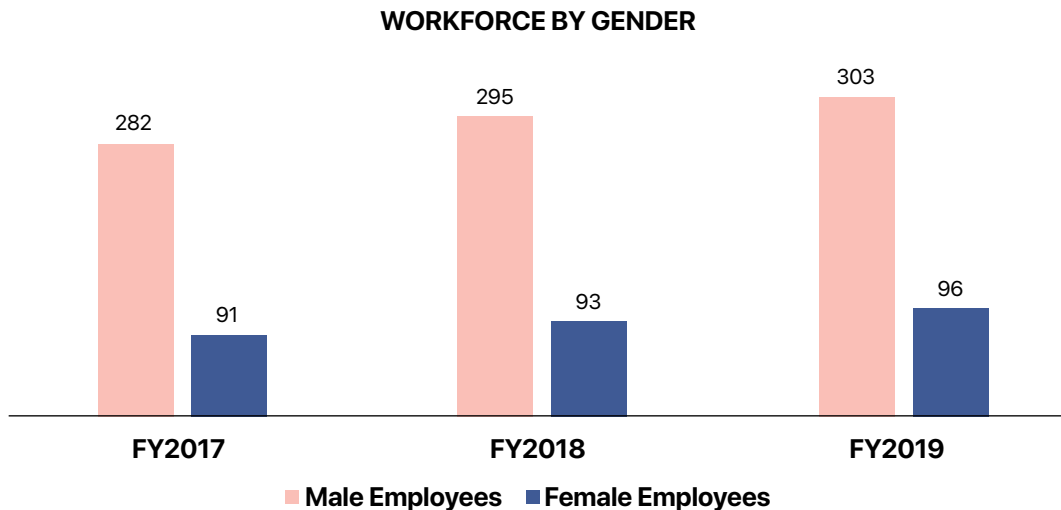
949,861 Total Working Hours in Leon Fuat	
733,067 Working hours for male employees	216,794 Working hours for female employees
26 total recordable injury cases throughout the reporting period	

Moving forward, we intend to improve our mitigation plans on safety and health to minimise workplace hazards. We plan to increase the frequency of competency training on specific safety and health topics to reinforce awareness amongst our employees.

DIVERSITY (102-7, 103-2, 401-1, 405-1)

In Leon Fuat, we embrace diversity and inclusiveness at the workplace. We make decisions on recruitment, promotion, benefits and training, based on performance without any bias on the grounds of gender, race and ethnicity.

Our current demographic is male-dominant which is true of this industry sector worldwide, due to the physical nature of the work involved in processing and handling steel products. However, we do not hinder female employees from working at our operation. Currently, the distribution of male employees in our workforce is at 76% while female employees is at 24%.



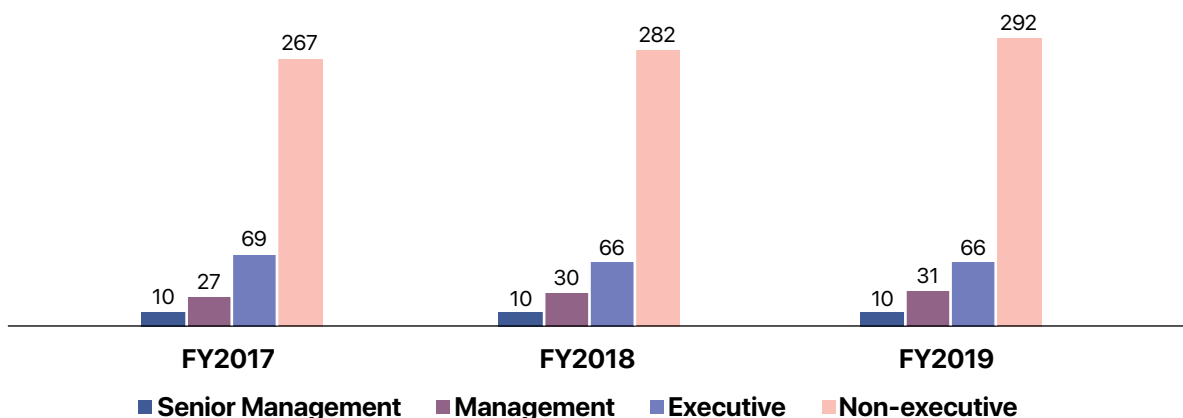
As shown below, non-executive employees made up to 73% of the workforce which is the majority due to the nature of steel processing and handling operation. The executives and management comprise 17% and 8% of the total workforce respectively, while the remaining constitute members from the senior management.

Leon Fuat prioritises recruiting from the local talent pool as we aim to contribute towards building the socio-economic status of the local communities, where we operate. In fact, 73% of the Group's workforce is local.

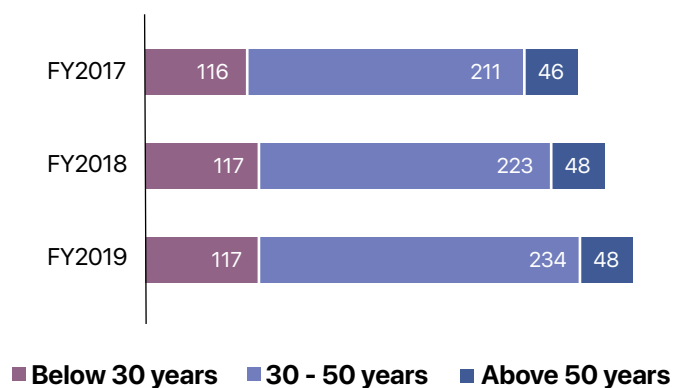
The Group observed that for three (3) consecutive years, over 59% of employees have been within the 30 to 50-year age bracket. This age group is an asset to the Group as they have broad industry experience and sound decision-making skills. However, we also encourage new talents below the age of 30 who have a propensity to learn, adapt easily and when required, contribute new ideas as well as alternative solutions for the betterment of our operations.

SUSTAINABILITY REPORT

WORKFORCE BY EMPLOYMENT TYPE

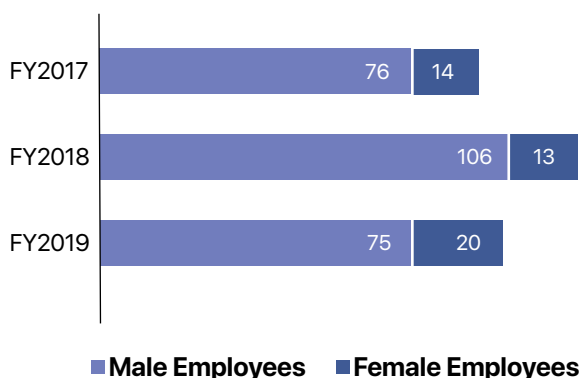


WORKFORCE BY AGE GROUP

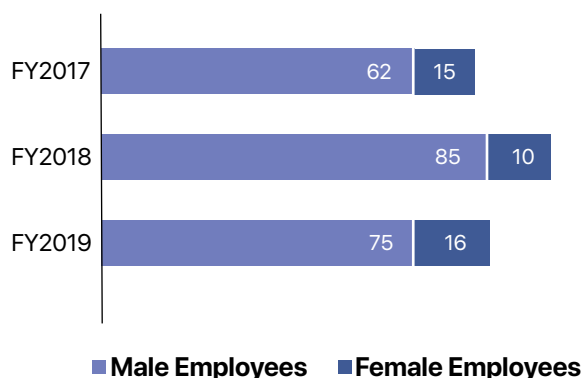


Leon Fuat aspires to strengthen employee retention by reducing turnover rates. For this financial year, we recruited ninety-five (95) new employees and recorded ninety-one (91) individuals resigned from the Group.

New Employee Hire



Employee Resigned



EMPLOYEE WELFARE (103-2, 401-2)

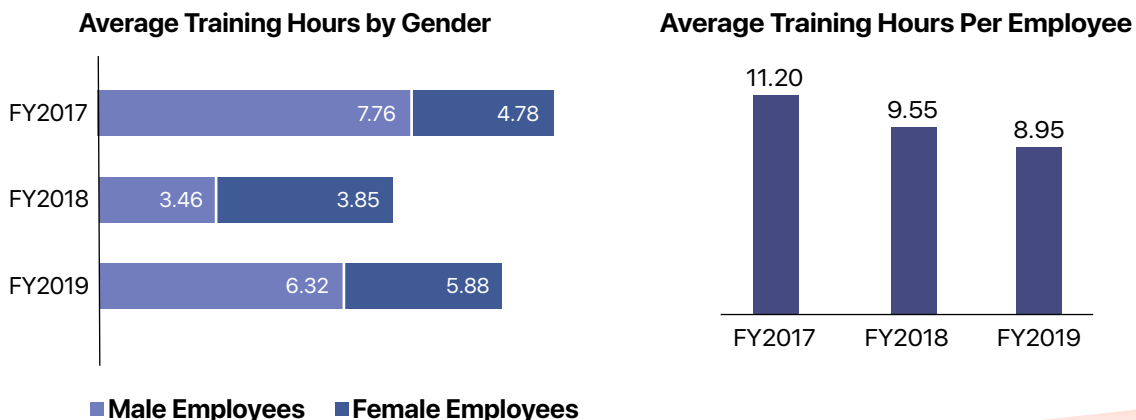
As the Group intends to keep its retention rates high, we ensure to provide our employees with fair remuneration packages. The minimum wage offered to our employees is in line with the amount stipulated by Malaysia's Minimum Wages Order 2018. The standard set of benefits covers maternity allowance, group personal accident insurance, outpatient medical, temporary disablement, hospitalisation and prolonged illness benefit. Medical and surgical insurance coverage are also provided for employees, certain employees' spouses and children. The bonus and incentive distribution, among others, are commensurate with the job grade, performance and contribution of each employee as well as the Group's overall performance.

KNOWLEDGE AND SKILL DEVELOPMENT (103-2, 404-1, 404-2)

We emphasise on developing employees' knowledge and skills by providing development programmes and training that are job specific and also include practical learning. Some of the training programmes, both external and internal, that were carried out in FY2019 are listed below:

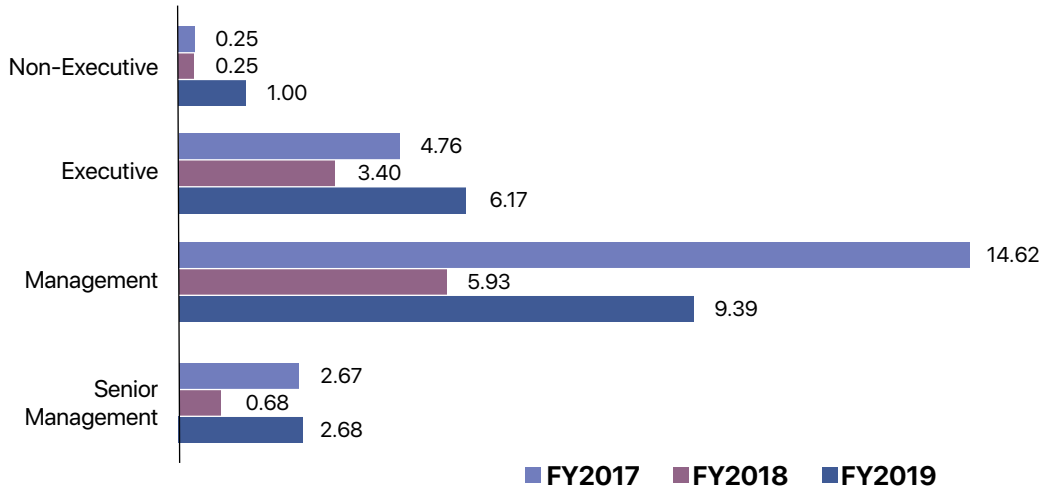
Employee Training programme
Introduction to Industry 4.0
Training on ISO 37001:2016 Anti-Bribery Management System
Bribery Risk Assessment Training
Workshop on Deferred Tax
Vistage Key Leadership Programme
On Scene Commander Development Programme
Inventory Reduction Strategies
Foreign worker 2019: Application and Updates
Executive Secretaries Development Programme
FMM Industrial Waste Management Conference 2019
FMM ICT Conference 2019
Laser Training

In this reporting year, we invested 3,571 hours of training for our employees across four (4) employment levels, namely Senior Management, Management, Executive and Non-Executive. The average training hours for each employee was 8.95 hours. The charts below display the average training hours per employee, by gender and employment level for FY2017, FY2018 and FY2019.



SUSTAINABILITY REPORT

Average Training Hours by Employment Category



However, majority of the training catered to provide job-specific skillsets for staff working in our plants and on the operational side of the business, which explains why male employees receive almost double the amount of training hours than female employees.

WORK-LIFE BALANCE (102-43, 103-2)

The employees are our most vital asset and we believe in their success at the individual level will contribute to the success of the Group. Apart from employee welfare, we are also determined to maintain work-life balance amongst our employees to motivate them and enhance productivity. Hence, Leon Fuat initiated a Sport Committee organising weekly indoor and outdoor activities such as badminton, table tennis, hiking activities as well as Aerobic and yoga sessions that promote a good work-life balance and to foster a culture of teamwork and collaboration amongst our employees.

INDOOR & OUTDOOR ACTIVITIES

Badminton session was organised every Tuesday. 🏸





◀ Our employees participated in hiking at Mossy Forest, Cameron Highlands on 19 May 2019

▶ Body Shape Up dance session was organised every Thursday.

Other events including Bowling tournament, Christmas luncheon, monthly birthday celebrations, annual dinner and lucky draw sessions were organised as well to build employer-employee communication.

BOWLING TOURNAMENT

Around 78 employees participated in Leon Fuat Bowling Tournament 2019. The tournament was held on 17 November 2019 at Sunway Pyramid, Sunway. ▶



SUSTAINABILITY REPORT

Christmas celebration on 24 December 2019 at Wisma Leon Fuat.
The highlight of this event includes gift exchange and luncheon
with employees. 📷 📷

CHRISTMAS GATHERING





MONTHLY BIRTHDAY CELEBRATION

We organised birthday celebrations in office for employees on a monthly basis. ↴



SUSTAINABILITY REPORT



LUCKY DRAW SESSION

A Lucky Draw session was held for our employees on 25 January 2019.



ANNUAL DINNER 2019

Annual Dinner was held at our premises on 26 January 2019 that gathered 152 employees. The theme of the annual dinner this year was Sport Star.

CORPORATE SOCIAL RESPONSIBILITY (103-2, 413-1)

As a socially responsible citizen, we strive to have a positive impact on the well-being of local communities. Throughout the reporting year, a sum of RM 3,000.00 was donated to vulnerable communities as listed below:

Organisation	Donation Amount (RM)
Pertubuhan Kebajikan Anak-Anak Yatim Dan Orang Kurang Upaya ('OKU') Mesra, Petaling Jaya, Selangor	500.00
Persatuan Kebajikan Orang-Orang Tua Bahagia Selangor (En Yuan Old Folks Home)	500.00
Persatuan Kebajikan Hati Berganda Selangor	1000.00
Persatuan Kebajikan Kanak-Kanak Terencat Akal Malaysia	1000.00

CONCLUSION

Our commitment to sustainability is exemplified in the way we run our operations and how we work with our customers, suppliers, and local communities. We aim to generate profitable, sustainable growth and to promote the competitiveness of steel as a raw material for infrastructure, industrial manufacturing activity, and commercial construction. By investing in innovation, safety, skill development, and environmental stewardship, as well as collaborating with other players in the industry to share best practices, we are raising the profile of our industry as a sustainable business while fostering a highly talented workforce for today and tomorrow.

SUSTAINABILITY REPORT

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CORPORATE GOVERNANCE

OVERVIEW STATEMENT

The Board of Directors of Leon Fuat Berhad (the "Board") continues to ensuring that the Company and its subsidiaries (the "Group") support the recommendations of the Malaysian Code on Corporate Governance ("MCCG") and comply with the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements") ("Bursa Securities") as part of the Board's fundamental duties and responsibilities to protect and enhance shareholders' value and achieve the corporate objective. This Statement provides an overview of the application of the principles of the MCCG by the Group which should be read together with the Corporate Governance Report on the application by the Group of the corporate governance practices in the financial year ended 31 December 2019 ("FY 2019") which is available on the Company's website, www.leonfuat.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Company continues to be led and managed by the Board with a wide range of experience, broad range of skills and expertise. The Board continues to assume following key responsibilities in the discharge of the Board's fiduciary and leadership functions in pursuit of the Group's objectives:

- (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 proactive 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.

The Board delegates specific responsibilities and oversight functions to the Board Committees to assist the Board in the execution and ensure proper discharge of its fiduciary duties and responsibilities.

The Board has adopted a Board Charter that provides, amongst others, formal schedule of matters specifically reserved to it for determination, delegation and/or approval covering issues relating to strategy and management, financial reporting, board appointment and remuneration, corporate governance, regulatory and compliance, major transactions and internal controls.

The Board Charter sets out the roles, functions, responsibilities, structure and procedures of the Board including but not limited to:

- 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 shall review and update the Board Charter from time to time to reflect changes to the Company's policies and procedures and comply with the latest applicable rules and regulations governing the Group. The Board Charter is published on the Company's website.

The position of the Chairman and Group Managing Director of the Company are held by two (2) different individuals, to ensure balance of power and authority. There is a clear and distinct division of responsibilities between the Chairman of the Company and Group Managing Director to ensure that there is an appropriate balance of power and role, responsibility and that no individual has unfettered powers of decision. Their respective roles and responsibilities are set out in the Board Charter.

The Board is supported by two (2) experienced Company Secretaries who are the members of the prescribed professional body and are qualified pursuant to the requirements of the Companies Act 2016. The Company Secretaries are supported by a dedicated team of company secretarial personnel and have vast knowledge in the discharge of the secretarial functions and duties. The Company Secretary is responsible for guiding and supporting the effective functioning of the board besides playing an advisory role and keep the Board abreast on changes to rules and legislation, corporate governance practices and any developments of corporate guidelines applicable to the Group. The Board have full and unrestricted access to the Company Secretaries.

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 an appropriate platform for raising of genuine concerns on malpractice, wrongdoing or risk that may have an impact to the Group. The Whistle-Blowing Policy is published at the Company's website and the Board will regularly review and make any changes deemed necessary or desirable to remain consistent with the Board's objectives and responsibilities.

Meetings agenda and materials are distributed to the Directors at least seven (7) days before Board and Board Committees meetings to ensure they have sufficient time to review and be prepared for discussion. The information provided can be of financial or non-financial in nature, quantitative or qualitative for review by the Board prior to arriving at a sound and informed decision. Where required, key management and/or senior management personnel will be invited to attend these meetings to facilitate the review by the Board and seek necessary explanation and clarification on matters being tabled.

Meeting schedule for the Board and Board Committees would be prepared in advance before the end of the preceding financial year to enable the Directors to plan and organise their schedule for the year. If and when urgent matters arise between the scheduled meetings, additional meetings would be convened by the Board and/or Board Committees accordingly. For decision by the Board which is administrative in nature or matters which the Board have discussed pending confirmation or follow ups by management prior to final decision with no significant changes to the proposal tabled to the Board previously, circular resolutions of the Board and/or Board Committee will be passed for expediency. The Directors and Principal Officers of the Group would be advised and reminded every quarter of the closed periods for dealings in the securities of the Company based on the targeted date of announcements of the Group's interim financial results.

The Directors 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. All the members of the Board hold less than five (5) directorships in listed issuers, in compliance with Paragraph 15.06 of the Listing Requirements.

During the financial year under review, six (6) board meetings were held with full attendance recorded by all the Directors.

All the Directors continue to attend appropriate training programmes to equip themselves and enhance their skills and knowledge and keep abreast of regulatory updates, emerging trend and developments in the industry relevant to the Group.

CORPORATE GOVERNANCE

OVERVIEW STATEMENT

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	07 September 2019	Malaysia Anti-Corruption Commission Act 2009 & Adequate Procedures
Chan Kee Loin Tan Sack Sen	06 August 2019	ISA 570 (Revised) On Going Concern Assessment & Evaluation
	07 September 2019	Malaysia Anti-Corruption Commission Act 2009 & Adequate Procedures
Tan Did Heng	06 August 2019	ISA 570 (Revised) On Going Concern Assessment & Evaluation
	01 & 02 October 2019	A Comprehensive Workshop on Deferred Taxation
	05 November 2019	2020 Budget Seminar
	06 December 2019	Intricacies of Withholding Taxes
	23 December 2019	Preparing for Digital Tax in 2020

II. Board Composition

The Board comprises nine (9) members of which five (5) are Executive Directors including the Group Managing Director and four (4) are Independent Non-Executive Directors and this composition complied with the requirements of Paragraph 15.02 of the Listing Requirements.

The Board seeks to ensure that its membership reflects diversity covering a combination of skills, experience, race, age, gender, educational and professional background in providing a range of perspectives and insights to enable it to discharge its duties and responsibilities effectively. The current composition of the Board is appropriate for its purpose.

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

The Nomination Committee has been tasked to undertake the identification and selection of potential Board members and will consider variety of approaches and sources to ensure that it is able to identify the most suitable candidates including sourcing from a directors' registry and open advertisements or the use of independent search firms. 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 Board recognising the emerging targets for companies to move towards having female representation on the Board 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 via its Nomination Committee conducts annual review of its size and composition and assess the performance of the Board, Board Committees and individual Director supported by the Company Secretary.

The Nomination Committee has also 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.

The Board was satisfied that for the financial year under review, the performance of the Board has been satisfactory and all the Directors were of the view that each of them had performed their respective roles and functions effectively and all the Board Committees were assessed to be effective as a whole in discharging their respective roles and responsibilities.

All the Independent Directors have satisfied the independence test under the Listing Requirements and free from Management and there were no issues of independence in the Board of the Company. None of the Independent Directors have served the Company for nine (9) years or a cumulative period of nine (9) years or more. The Board has not adopted a policy which limits the tenure of its Independent Directors to nine (9) years.

III. Remuneration

The Remuneration Committee comprised solely of Independent Non-Executive Directors and is responsible for the review of the remuneration framework including packages of the Executive Directors of the Company, its subsidiaries and Key Management Personnel. The Board is cognisant that fair remuneration is important to attract, retain and motivate Directors and Key Management Personnel needed to run and manage the Company successfully to achieve its business objectives.

In determining the remuneration packages of Directors and/or Key Management Personnel, the Remuneration Committee is guided by the following criteria provided in the adopted Remuneration Policy:

- 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 suitably and experienced Board members in accordance with competitive pressures in the market place.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

In compliance with the Listing Requirements and the MCCG, the Audit Committee comprise exclusively of Independent Non-Executive Directors.

CORPORATE GOVERNANCE

OVERVIEW STATEMENT

The Audit Committee is entrusted by the Board to oversee the financial reporting and the Group's risk management and internal control systems. The Audit Committee is supported by the Risk Management Working Group ("RMWG") comprising senior management team headed by the Executive Directors from the operating subsidiaries for effective review and governance of risk management and processes.

II. Risk Management and Internal Control Framework

As an integral component of the Group's corporate governance, the Audit Committee and RMWG, in their ongoing risk assessment and management efforts, will assume, amongst others, the following duties and responsibilities:

- Reviewing and discussing with Management the risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes for risk assessment and risk management;
- Reviewing and discussing 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 mitigation of such risks;
- Receiving the reports from the Internal Auditors on the outcome of risk management reviews and assessments;
- Reviewing the statement on risk management and internal control prepared for the Group;
- Reviewing reports on identified risk topics as the Audit Committee deems appropriate from time to time;
- Having unrestricted access to the Management and accurate and complete information pertaining to the Group; and
- Discharging 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;
- Determine risk tolerance;
- Assess inherent likelihood and impact of the risks;
- Evaluate the portfolio of risks and determine risk responses; and
- Assess residual likelihood.

The internal audit function of the Group is carried out by the outsourced Internal Auditors which performed the audit review based on the approved internal audit plan. The Internal Auditors report directly to the Audit Committee and provide the Board with the required assurance in relation to the adequacy and integrity of the Group's system of internal controls.

Further details of the Group's risk management and internal control is presented in the Statement on Risk Management and Internal Control set out on pages 80 to 82 of this Annual Report.

The Audit Committee has established policies and procedures to review and assess the performance, suitability and independence of the External and Internal Auditors to facilitate the review and evaluation of the proposed re-appointment of the External and Internal Auditors.

The External Auditor Policy adopted by the Audit Committee provides amongst others, that key audit partners shall not be nominated for appointment as a Director of the Company or any of its related corporations within two (2) years of undertaking any role on the audit or ceasing to be the External Auditors of the Company.

The evaluation of the performance of the External and Internal Auditors has been conducted annually and guided by the established guidelines and procedures having regard to the independence, competency, reliability and compliance. The evaluation process and assessment result are documented and presented to the Audit Committee and subsequent reporting to the Board.

Written confirmation has been 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 as an integral part of the evaluation of the External Auditors. 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 Malaysia.

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

I. Communication with Stakeholders

• Corporate Disclosure Policies and Procedures

The Board has formalised an Investors Relation Policy which serves as the guide for the Group when communicating with shareholders and public including investors, analysts and other stakeholders to facilitate effective communication with the Company. The Company aims to ensure that all shareholders and stakeholders have equal 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 and 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 Securities. All announcements made by the Company are uploaded to its website as soon as practicable after the same are released to Bursa Securities.

CORPORATE GOVERNANCE

OVERVIEW STATEMENT

II. Conduct of General Meeting

The Board regards the annual general meetings (AGM) 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 business and operations relating to the Group as well as the resolutions to be tabled at the meeting.

In line with the MCGG, the notice convening the 12th AGM of the Company held on 12 June 2019 was issued to the shareholders on 29 April 2019, more than 28 days' before the said AGM; the said notice period given was also more than the requisite 21 days' prescribed by the Companies Act 2016 and the Listing Requirements.

The notice convening the 12th AGM which sets out the business to be transacted at the AGM, was advertised in the newspaper giving shareholders sufficient time to prepare and/or to appoint proxy holder(s) to attend and vote for their behalf.

In line with paragraph 8.29A of the Listing Requirements, all the resolutions tabled for shareholders' approval at the 12th AGM were voted on by poll, and the Company has appointed a scrutineer to validate the poll results. The Company will explore the suitability of electronic voting and leverage on technology for its future general meetings.

All the Directors of the Company and Key Management Personnel attended the 12th AGM of the Company held on 12 June 2019. In accordance with the MCGG, all the Directors including the Chair of the Board and Board Committees will endeavor to attend the general meetings of the Company.

The Board of Directors have reviewed and approved this Statement on 18 May 2020.

Directors' Responsibility Statement in preparing the Audited Financial Statements

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 at the financial year ended 31 December 2019 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 financial year ended 31 December 2019, 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 going concern basis.

The Directors are responsible for ensuring that the Group keeps sufficient accounting records which disclose with reasonable accuracy the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 2016.

REPORT OF THE NOMINATION COMMITTEE

COMPOSITION OF THE NOMINATION COMMITTEE

DIRECTORS	POSITION
Chan Kee Loin	<i>Chairman of Nomination Committee & Senior Independent Non-Executive Director</i>
Tan Did Heng	<i>Independent Non-Executive Director</i>
Tan Sack Sen	<i>Independent Non-Executive Director</i>

TERMS OF REFERENCE

The Terms of Reference of the Nomination Committee is available on the Company's website.

MEETINGS AND ATTENDANCE

During the FY2019, the Nomination Committee met once on 27 February 2019 with full attendance of its members.

ACTIVITIES OF THE NOMINATION COMMITTEE

During the FY2019, the Nomination Committee carried out the following annual activities in the discharge of its duties:

1. Reviewed the existing Board's structure, size and composition, as well as the effectiveness of the Board and Board Committees. The evaluation of the Board and Board Committee was conducted through the adopted evaluation questionnaires including individual director self and peer evaluation supported by the Company Secretary.

The Nomination Committee and the Board was satisfied with the Board size and composition and that all the Directors had performed their respective roles and functions effectively during the financial year and all the Board Committees were assessed to be effective as a whole in discharging their roles and responsibilities. All assessments and evaluations carried out by the Nomination Committee in the discharge of all its functions were properly documented.

2. Reviewed the independence of the Independent Directors of the Board and noted that they have satisfied the independence test under the Listing Requirements and free from management. The Nomination Committee and Board of Directors were satisfied that there were no issues of independence in the Board of the Company and the Independent Directors continues to demonstrate objective, independent view and judgement in board deliberations.
3. Reviewed and considered the succession planning for the Managing Director of the Company and each of the three (3) major operating subsidiaries, taking into consideration the competency, experience and leadership skills of suitably qualified senior management personnel needed in future. The Nomination Committee acknowledged that the succession planning can be expanded to include middle level senior management for the Company and its operating subsidiaries for greater reinforcement.

REPORT OF THE NOMINATION COMMITTEE

4. Reviewed the term of office and performance of the Audit Committee in accordance with the Listing Requirements with no exception noted.
5. In accordance with the Constitution of the Company, one-third (1/3) of the Directors shall retire from office and subject themselves to re-election at least once every three (3) years. For the financial year, the Board, via the Nomination Committee has reviewed and determined the Directors retiring by rotation and has recommended their re-election subject to shareholders' approval at the AGM of the Company.
6. Reviewed the training needs of the Directors and together with the Board ensures that all Directors continue to possess the required skills and knowledge and keep abreast with emerging trends and latest developments relevant to the Group and other regulatory developments to effectively discharge their duties.
7. Reviewed its Terms of Reference at least once annually to ensure its adequacy for current circumstances, the Company's policies and/or compliance with applicable rules and regulations.

REPORT OF THE AUDIT COMMITTEE

COMPOSITION OF THE AUDIT COMMITTEE

DIRECTORS	POSITION
Tan Did Heng	<i>Chairman of Audit Committee & Independent Non-Executive Director</i>
Chan Kee Loin	<i>Senior Independent Non-Executive Director</i>
Tan Sack Sen	<i>Independent Non-Executive Director</i>

TERMS OF REFERENCE

The Terms of Reference of the Audit Committee is available on the Company's website.

MEETINGS AND ATTENDANCE

The Audit Committee held six (6) meetings during the financial year with full attendance of its members.

ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year, the activities carried out by the Audit Committee in the discharge of its duties and functions include the following:

- i. Reviewed the unaudited quarterly financial results and audited financial statements of the Group, focusing on compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Companies Act 2016 and the Main Market Listing Requirements of Bursa Securities. The Audit Committee considered and enquired of and discussed with Management the scope and adequacy of the reports prepared by the Management to facilitate the review of the above documents;
- ii. Reviewed and discussed with the External Auditors pertinent matters during the audit planning process and after the conduct of audit of the financial statements of the Group :
 - Independence of the External Auditors;
 - Consideration of fraud;
 - Audit approach and risk assessment of the 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

- iii. Reviewed the nature and extent of non-audit services provided by the External Auditors to the Company;
- iv. Conducted private sessions with the External Auditors without the presence of Management on 27 February 2019 and 8 April 2019 to review and discuss the key matters observed during the course of audit and assistance provided by Management to the External Auditors and noted positive response from the External Auditors;
- v. Conducted ongoing review and observation of the inventory reduction/rationalisation plan formulated by Management to optimise inventory levels and enhance liquidity of the Group;
- vi. Reviewed and deliberated on the proposed appointment of new Internal Auditors, taking into consideration the needs and requirements of the Company and Group vis-à-vis the business operations and expanded activities as well as the effectiveness of the internal audit function of the Group;
- vii. The Audit Committee had established a policy that with effect from 2019, the Internal Auditors would be subject to rotation once every five (5) years to enhance objectivity and effectiveness of internal audit review and control;
- viii. Reviewed the quarterly report prepared by the Internal Auditors on the review of recurrent related party transactions ('RRPT') to ensure that the RRPT entered by the Group are in accordance with the shareholders' mandate, the established guidelines and review procedures and 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 detrimental to the minority shareholders. The Audit Committee upon having obtained sufficient appropriate audit evidence and considered the guidelines and procedures for the RRPT, would provide its opinion accordingly in the Company's Circular to Shareholders on Proposed Shareholders' Mandate for RRPT;
- ix. Reviewed and discussed with the Internal Auditors the risk assessment process and related matters and the effectiveness of internal control systems of the Group;
- x. Reviewed and overseen the risk management framework of the Group, with the assistance of Risk Management Working Group ('RMWG') who reports the key risk issues of the Group and matters discussed at its meeting to the Audit Committee;
- xi. Reviewed and discussed with the Internal Auditors the Internal Audit Plan to ensure the adequacy of the scope and frequency of reporting to the Audit Committee;
- xii. 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, and sought clarifications from Management and/or the Internal Auditors on the issues and control weaknesses highlighted;
- xiii. Conducted private sessions with the Internal Auditors without the presence of Management on 27 February 2019, 30 May 2019, 28 August 2019 and 26 November 2019 to discuss internal control matters and weaknesses identified during the audit besides the assistance provided by Management to the Internal Auditors and noted no significant matters and deficiencies;
- xiv. Conducted annual assessment of the performance of External Auditors encompasses their quality of services, adequacy of resources and independence. The External Auditors provides annual confirmation of their independence in accordance with relevant auditing standards and requirements. 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
- xv. 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

The Nomination Committee has been mandated to review the term of office and performance of the Audit Committee pursuant to the Listing Requirements of Bursa Securities. During FY2019, the Board through the Nomination Committee has undertaken the annual review of the Audit Committee against the established criteria and was satisfied that the Audit Committee and its members have discharged their functions, duties and responsibilities in accordance with its Terms of Reference.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group has been outsourced to IA Essential Sdn Bhd ("IAE"), a professional independent consulting firm providing governance, risk and control (GRC) services. Besides the provision of internal audit services, IAE has also been engaged to assist and facilitate the review of risk management and discharge of RMWG's functions in enhancing the Group's risk management framework. There is no other engagement between the Group and the Internal Auditors which may create conflict of interest or impair their objectivity and independence.

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

- Developed the Internal Audit Plan for 2019 in consultation with the Chairman of the Board and Audit Committee, Group Managing Director, Executive Directors and Chief Financial Officer to ensure the adequacy of the scope of audit and align with the strategies and the areas of concern including key agendas highlighted and discussed in the Risk Management Working Group meetings;
- Conducted risk management review exercises for the Company's key subsidiaries, covering the identification, assessment, communication and monitoring based on the principles and guidelines of the internationally recognised risk management frameworks;
- Evaluated the effectiveness of management control in material and production planning function of the Company's key subsidiaries;
- Conducted follow-up reviews to ascertain that agreed action plans in respect of the control weaknesses highlighted in the internal audit reports were adequately addressed and reported to the Audit Committee accordingly; and
- Conducted quarterly reviews on the RRPT entered by the Group to ensure that the transactions were carried out in accordance with the mandate obtained from the shareholders of the Company.

The costs incurred for the internal audit function in respect of the FY2019 was RM149,651.

REPORT OF THE REMUNERATION COMMITTEE

COMPOSITION OF THE REMUNERATION COMMITTEE

DIRECTORS	POSITION
Tan Sack Sen	<i>Chairman of Remuneration Committee & Independent Non-Executive Director</i>
Chan Kee Loin	<i>Senior Independent Non-Executive Director</i>
Dato' Ng Ah Hock @ Ng Soon Por	<i>Independent Non-Executive Director</i>

TERMS OF REFERENCE

The Terms of Reference of the Remuneration Committee is available on the Company's website.

MEETINGS AND ATTENDANCE

The Remuneration Committee held three (3) meetings during the FY2019 with full attendance of its members.

ACTIVITIES OF THE REMUNERATION COMMITTEE

During the FY2019, the Remuneration Committee carried out the following activities to discharge its duties:

- Reviewed and determined the remuneration framework and packages of the Executive Directors of the Company, its subsidiaries and Key Management Personnel 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;
- Reviewed and determined the bonus entitlement of the Executive Directors of the Company and its subsidiaries measured against the achievement of pre-determined targets and performance of the Company and individual subsidiary companies for recommendation to the Board. In reviewing and determining the remuneration packages and compensation, the Remuneration Committee would be guided by the criteria stated in the adopted Remuneration Policy;
- Reviewed the Directors' fees and meeting allowances for Non-Executive Directors of the Company;
- Reviewed the Report of the Remuneration Committee for inclusion in the Annual Report;
- Reviewed its Terms of Reference at least once annually to ensure its adequacy for current circumstances, the Company's policies and/or compliance with applicable rules and regulations; and
- Reviewed the Remuneration Policy of Directors and Senior Management to ensure its adequacy and in line with the changes in regulations and/or best practices applicable to the Group. The Remuneration Policy will be reviewed periodically or when necessary and made available on the Company's website.

REMUNERATION

Details of the remuneration paid to and/or provided for the Directors for the FY2019, categorised into appropriate component is as follows:

	Fees RM	Meeting Allowance RM	Salaries RM	Bonus RM	*Other Emoluments RM	Total RM
Group						
<i>Non-Executive Directors:</i>						
Dato' Ng Ah Hock @						
Ng Soon Por	90,000	5,000	–	–	–	95,000
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
<i>Executive Directors:</i>						
Dato' Sri Ooi Bin Keong	170,000	–	720,000	210,000	155,027	1,255,027
Ooi Kong Tiong	170,000	–	576,000	120,000	120,626	986,626
Ooi Seng Khong	120,000	–	576,000	120,000	117,887	933,887
Ng Kok Teong	120,000	–	504,000	105,000	111,216	840,216
Ooi Shang How	120,000	–	504,000	105,000	111,600	840,600
Total	1,000,000	23,000	2,880,000	660,000	616,356	5,179,356
Company						
<i>Non-Executive Directors:</i>						
Dato' Ng Ah Hock @						
Ng Soon Por	90,000	5,000	–	–	–	95,000
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
<i>Executive Directors:</i>						
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	23,000	–	–	–	673,000

Note:

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

Total remuneration paid to and/or provided for the top five Key Management Personnel including salary, bonus, directors' fees, benefits in-kind and other emoluments for the FY2019, analysed into bands of RM50,000 is as follows:

Remuneration band	Number of Key Management Personnel
RM400,001 to RM450,000	1
RM450,001 to RM500,000	1
RM550,001 to RM600,000	1
RM650,001 to RM700,000	1
RM850,001 to RM900,000	1

The Board has opted not to disclose the names of Key Management personnel and the remuneration components due to confidentiality and security concerns.

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 financial year ended 31 December 2019 pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements ("MMLR"). This Statement is prepared in accordance with the disclosure requirements under the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers and the Malaysian Code on Corporate Governance ("MCCG").

BOARD RESPONSIBILITIES

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. While the Board has delegated its oversight role in risk management and the system of internal controls to the Audit Committee, the Board understands the principal risks of the business that the Group is engaged in and continues to be responsible for ensuring that there is a sound framework for risk management, governance and internal control within the Group.

The Audit Committee is entrusted by the Board to overseeing the effectiveness of the Group's risk management and internal control systems and is supported by the Risk Management Working Group ("RMWG") comprising the senior management team from the operating subsidiaries of the Company. The RMWG is chaired by the Executive Director and its members comprising managerial and senior staffs from the operating subsidiaries.

RISK MANAGEMENT AND INTERNAL CONTROL

The risk management framework adopted by the Group is based on the general principles of the international risk management framework. The risk management framework consists of risk identification, impact assessment, profiling matrix as well as the management action plans. The RMWG held four (4) meetings during the financial year to identify, review and discuss the risk issues affecting the Group. Besides members of senior management, the members of the Audit Committee and Internal Auditors were invited to attend the periodic RMWG meetings.

The key risk focus of the Group is the stock holding levels of the key subsidiaries which may have an impact on the financial statements and management action plans to optimise the stock holding levels. Matters discussed and resolved at the RMWG meetings including inventory holdings are reported to the Audit Committee.

Complementing the above risk management process, the Group continues to enforce its management organisation structure detailing the lines of responsibility, reporting and approval authority as well as the standard operating procedures which are reviewed and updated periodically in order to ensure its effectiveness.

BOARD REVIEW

Presently, the Board derives its comfort on the state of internal control and risk management in the Group through the following processes, information and review mechanisms:

- The Board reviews on quarterly basis the unaudited financial results and management reports setting out key financial data and significant financial and operational matters as well as the performance of the Group. Financial 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 in line with changing business environment, updates or revises the budget as appropriate for effectiveness with corrective actions proposed and taken to reduce variances;
- The Board ensures that management reviews the quarterly results, business performance and operational issues affecting the Group and action plans are designed and implemented to address the issues and follow-up closely;
- The Audit Committee reviews the audit findings reported by the External and/or Internal Auditors and seek clarifications from and discussed with the Management on the recommended corrective/improvement actions to be taken on accounting related and/or internal control lapses identified by the External and/or Internal Auditors, including the deadline for management to implement the agreed corrective actions on the internal control issues. Follow-up status reviews are conducted by the Internal Auditors and reported to the Audit Committee; and
- The Audit Committee conducts private meetings with the Internal and External Auditors to assess and ensure that significant issues brought to their attention are communicated to and discussed with the Management for necessary corrective actions and improvements. Four (4) private discussions were conducted with the Internal Auditors on 27 February 2019, 30 May 2019, 28 August 2019 and 26 November 2019 and with the External Auditors twice on 27 February 2019 and 8 April 2019 respectively during the financial year.

MANAGEMENT RESPONSIBILITIES AND ASSURANCE

In accordance with the Main Market Listing Requirements, management is responsible for identifying risks relevant to the Group's business objectives, implementing strategies, maintaining sound systems of risk management and internal control, and monitoring and reporting to the Board on significant control deficiencies and changes in risks that could significantly affect the Group's achievement of its objective and performance.

When reviewing this Statement, the Board has received assurance from the Group Managing Director and Chief Financial Officer on 18 May 2020 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 for the financial year ended 31 December 2019 and up to 18 May 2020, being the date of this Statement.

BOARD ASSURANCE AND LIMITATION

The Board recognises that the system of risk management and internal control should be continuously improved, consistent with the evolving business and operating environment. Nonetheless, it should be noted that all risk management and internal control systems could only manage rather than eliminate risks of failure to achieve business objectives. Therefore, the systems of risk management and internal control in the Group can only provide reasonable but not absolute assurance against material misstatements, frauds and losses.

For the financial year under review, the Board is satisfied that the existing level of risk management and internal control systems are adequate and effective under the present business and cash flow positions of the Group. 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

REVIEW BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Main Market Listing Requirements, the External Auditors have reviewed this Statement in accordance with the Audit and Assurance Practice Guide 3, ("AAPG 3"), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in this Annual Report and reported to the Board that nothing had come to their attention that causes them to believe that the statement intended to be included in the Annual Report of the Group, in all material respects:

- (a) has not been prepared 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, or
- (b) is factually inaccurate.

AAPG 3 does not require the External Auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy.

The Audit Committee and Board of Directors have reviewed, deliberated and approved this Statement on 18 May 2020.

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	232,266	34,000
Non-audit fees	12,000	12,000
Total	244,266	46,000

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 12 June 2019 are set out in Section 2.5 of the Circular to Shareholders dated 1 June 2020.



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DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

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, net of tax	5,532,859	2,762,630
Attributable to:		
Owners of the Company	5,598,378	2,762,630
Non-controlling interests	(65,519)	–
	5,532,859	2,762,630

DIVIDENDS

Dividends 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 2018, as disclosed in the directors' report of that financial year, which was paid on 25 July 2019.

The directors do not recommend the payment of any dividends in respect of the financial year ended 31 December 2019.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

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 have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

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.

DIRECTORS' REPORT (cont'd)

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.

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; 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, there were no new issue of shares and debentures 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
Ooi Shang Yao
Otake Seiji
Teo Chee Hiong

DIRECTORS' REPORT (cont'd)

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 31.12.2019
	At 1.1.2019	Bought	Sold	
Shareholdings in the ultimate holding company				
- Leon Fuat Holdings Sdn. Bhd.				
Direct interests				
Dato' Sri Ooi Bin Keong	2,500,000	-	(600,000)	1,900,000
Ooi Kong Tiong	1,800,000	-	(800,000)	1,000,000
Ooi Seng Khong	600,000	70,000	-	670,000
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	1,105,900	-	-	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	-	30,000	(20,000)	10,000
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' 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(a) 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 29 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.

SUBSIDIARIES

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

INTEREST IN HOLDING COMPANY AND OTHER RELATED CORPORATIONS

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 SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Details of the significant events subsequent to the end of the financial year are disclosed in Note 32 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 (cont'd)

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng PLT, 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: 18 May 2020

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Revenue	4	607,122,214	597,925,317	4,697,490	6,183,509
Cost of sales	5	(545,852,550)	(515,462,077)	-	-
Gross profit		61,269,664	82,463,240	4,697,490	6,183,509
Other income		2,861,645	2,602,901	508,632	296,855
Distribution costs		(9,928,734)	(9,212,907)	-	-
Administrative costs		(24,829,792)	(25,280,461)	(1,934,641)	(1,826,154)
Net addition of impairment losses of financial assets		(958,700)	(848,079)	-	-
Other costs		(1,428,761)	(1,609,366)	(61,708)	(9,815)
Profit from operations		26,985,322	48,115,328	3,209,773	4,644,395
Finance costs		(16,008,289)	(12,582,784)	-	-
Profit before tax	6	10,977,033	35,532,544	3,209,773	4,644,395
Income tax expense	7	(5,444,174)	(9,567,416)	(447,143)	(479,515)
Profit for the financial year		5,532,859	25,965,128	2,762,630	4,164,880
Other comprehensive income, net of tax: <i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange difference on translation of foreign subsidiary		1,864	3,798	-	-
Total comprehensive income for the financial year		5,534,723	25,968,926	2,762,630	4,164,880
Profit/(Loss) attributable to:					
Owners of the Company		5,598,378	26,099,888		
Non-controlling interests		(65,519)	(134,760)		
		5,532,859	25,965,128		
Total comprehensive income/(loss) attributable to:					
Owners of the Company		5,600,242	26,103,686		
Non-controlling interests		(65,519)	(134,760)		
		5,534,723	25,968,926		
Earnings per share (sen)					
Basic/Diluted	8	1.81	8.42		

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 RM	Group 2018 RM	2019 RM	Company 2018 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	209,275,084	145,101,722	8,945	4,076
Capital work-in-progress	10	5,971,755	59,781,218	–	–
Prepaid land lease payment	11	–	919,579	–	–
Investments in subsidiaries	12	–	–	159,408,034	159,960,985
Total non-current assets		215,246,839	205,802,519	159,416,979	159,965,061
Current assets					
Inventories	13	261,542,516	247,200,384	–	–
Trade and other receivables	14	165,990,555	163,752,024	48,886	57,875
Amount due from subsidiaries	15	–	–	2,696,054	1,853,738
Dividend receivables		–	–	1,500,000	3,500,000
Tax assets		4,869,403	635,902	10,000	–
Deposits with licensed banks	16	33,817,075	36,415,468	1,067,889	1,548,119
Cash and bank balances	17	8,979,199	16,623,488	663,551	435,547
Total current assets		475,198,748	464,627,266	5,986,380	7,395,279
TOTAL ASSETS		690,445,587	670,429,785	165,403,359	167,360,340

	Note	2019 RM	Group 2018 RM	2019 RM	Company 2018 RM
EQUITY AND LIABILITIES					
Equity					
Share capital	18	160,094,360	160,094,360	160,094,360	160,094,360
Reserves	19	190,733,041	191,588,324	4,492,558	6,379,928
		350,827,401	351,682,684	164,586,918	166,474,288
Non-controlling interests		599,865	665,396	-	-
TOTAL EQUITY		351,427,266	352,348,080	164,586,918	166,474,288
Non-current liabilities					
Borrowings	20	64,885,239	50,737,027	-	-
Deferred tax liabilities	21	5,517,517	3,604,187	-	-
Total non-current liabilities		70,402,756	54,341,214	-	-
Current liabilities					
Trade and other payables	22	46,451,308	34,556,459	816,441	838,252
Tax liabilities		1,899,621	3,352,456	-	47,800
Borrowings	20	217,486,664	217,548,335	-	-
Contract liabilities	23	2,640,972	3,283,241	-	-
Amount due to ultimate holding company	24	137,000	5,000,000	-	-
Total current liabilities		268,615,565	263,740,491	816,441	886,052
TOTAL LIABILITIES		339,018,321	318,081,705	816,441	886,052
TOTAL EQUITY AND LIABILITIES		690,445,587	670,429,785	165,403,359	167,360,340

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Group	Attributable to Owners of the Company							Non- controlling Interests RM	Total Equity RM
	Share Capital RM	Merger Deficit RM	Capital Reserve RM	Translation Reserve RM	Retained Earnings RM	Sub-Total RM			
At 31 December 2018									
As previously reported	160,094,360	(109,544,997)	923	(16,295)	301,148,693	351,682,684	665,396	352,348,080	
Effect of adoption of MFRS 16	-	-	-	-	(1,805,525)	(1,805,525)	(12)	(1,805,537)	
Restated balance at 1 January 2019	160,094,360	(109,544,997)	923	(16,295)	299,343,168	349,877,159	665,384	350,542,543	
Total comprehensive income									
Profit for the financial year	-	-	-	-	5,598,378	5,598,378	(65,519)	5,532,859	
Other comprehensive income for the financial year	-	-	-	1,864	-	1,864	-	1,864	
Total comprehensive income	-	-	-	1,864	5,598,378	5,600,242	(65,519)	5,534,723	
Transactions with owners									
Dividends (Note 25)	-	-	-	-	(4,650,000)	(4,650,000)	-	(4,650,000)	
Total transactions with owners	-	-	-	-	(4,650,000)	(4,650,000)	-	(4,650,000)	
At 31 December 2019	160,094,360	(109,544,997)	923	(14,431)	300,291,546	350,827,401	599,865	351,427,266	

←..... Attributable to Owners of the Company→

Group	Share Capital RM	Merger Deficit RM	Capital Reserve RM	Translation Reserve RM	Retained Earnings RM	Sub-Total RM	Non- controlling Interests RM	Total Equity RM
At 31 December 2017								
As previously reported	160,094,360	(109,544,997)	923	(20,093)	282,868,599	333,398,792	800,156	334,198,948
Retrospective adjustments	-	-	-	-	(3,169,794)	(3,169,794)	-	(3,169,794)
Restated balance at 1 January 2018	160,094,360	(109,544,997)	923	(20,093)	279,698,805	330,228,998	800,156	331,029,154
Total comprehensive income								
Profit for the financial year	-	-	-	-	26,099,888	26,099,888	(134,760)	25,965,128
Other comprehensive income for the financial year	-	-	-	3,798	-	3,798	-	3,798
Total comprehensive income	-	-	-	3,798	26,099,888	26,103,686	(134,760)	25,968,926
Transactions with owners								
Dividends (Note 25)	-	-	-	-	(4,650,000)	(4,650,000)	-	(4,650,000)
Total transactions with owners	-	-	-	-	(4,650,000)	(4,650,000)	-	(4,650,000)
At 31 December 2018	160,094,360	(109,544,997)	923	(16,295)	301,148,693	351,682,684	665,396	352,348,080

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (cont'd)

	Share Capital RM	Distributable Retained Earnings RM	Total Equity RM
Company			
At 31 December 2017			
As previously reported	160,094,360	6,993,848	167,088,208
Retrospective adjustments	–	(128,800)	(128,800)
	<hr/>	<hr/>	<hr/>
Restated balance at 1 January 2018	160,094,360	6,865,048	166,959,408
	<hr/>	<hr/>	<hr/>
Profit for the financial year, representing total comprehensive income for the financial year	–	4,164,880	4,164,880
Transactions with owners			
Dividends (Note 25)	–	(4,650,000)	(4,650,000)
	<hr/>	<hr/>	<hr/>
At 31 December 2018/1 January 2019	160,094,360	6,379,928	166,474,288
	<hr/>	<hr/>	<hr/>
Profit for the financial year, representing total comprehensive income for the financial year	–	2,762,630	2,762,630
Transactions with owners			
Dividends (Note 25)	–	(4,650,000)	(4,650,000)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	160,094,360	4,492,558	164,586,918

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Cash flows from operating activities					
Profit before tax		10,977,033	35,532,544	3,209,773	4,644,395
Adjustments for:					
Amortisation of prepaid land lease payment		-	141,474	-	-
Bad debts written off		116,759	21,836	-	-
Capital work-in-progress written off		367,790	-	-	-
Depreciation of property, plant and equipment		14,991,404	10,612,275	1,626	291
Deposits written off		-	20,719	-	-
Dividend income		-	-	(1,500,000)	(3,500,000)
(Gain)/Loss on disposal of property, plant and equipment		(13,999)	53,078	-	-
Impairment losses on:					
- trade receivables		1,017,623	925,803	-	-
- investments in a subsidiary		-	-	5,369	-
Interest income		(1,269,206)	(1,657,017)	(61,583)	(103,085)
Interest expense		15,092,510	11,839,040	-	-
Inventories written down		-	645,543	-	-
Reversal of impairment losses on:					
- trade receivables		(58,923)	(77,724)	-	-
- investments in subsidiaries		-	-	(452,418)	(193,770)
Unrealised (gain)/loss on foreign exchange		(64,733)	114,017	-	-
Operating profit before changes in working capital		41,156,258	58,171,588	1,202,767	847,831
Inventories		(14,342,132)	(4,668,535)	-	-
Trade and other receivables		(3,446,267)	(2,538,134)	(834,846)	(1,855,738)
Trade and other payables		15,214,172	(10,457,404)	(21,811)	(80,058)
Net cash generated from/(used in) operations		38,582,031	40,507,515	346,110	(1,087,965)
Interest received		1,110,218	1,621,789	63,102	100,710
Interest paid		(14,537,734)	(11,740,653)	-	-
Income tax paid		(9,217,180)	(12,913,662)	(504,943)	(468,715)
Net cash from/(used in) operating activities		15,937,335	17,474,989	(95,731)	(1,455,970)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (cont'd)

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Cash flows from investing activities					
Addition to deposits pledged with licensed banks		(846,176)	(230,054)	-	-
Capital work-in-progress paid	(a)	(3,222,135)	(16,682,272)	-	-
Deposits paid for acquisition of plant and equipment	14	(58,052)	(196,050)	-	-
Dividends received		-	-	3,500,000	3,000,000
Purchase of property, plant and equipment	(b)	(5,337,066)	(5,790,955)	(6,495)	(4,367)
Proceeds from disposal of property, plant and equipment		14,000	64,101	-	-
Capital distribution from a subsidiary		-	-	5,000,000	-
Additional investment in an existing subsidiary		-	-	(4,000,000)	-
Net cash (used in)/from investing activities		(9,449,429)	(22,835,230)	4,493,505	2,995,633
Cash flows from financing activities					
	(d)				
Dividends paid		(4,650,000)	(4,650,000)	(4,650,000)	(4,650,000)
Drawdown of term loan		-	14,607,373	-	-
Payments to lease liabilities/finance lease payables		(4,602,087)	(4,848,168)	-	-
Repayments of term loan		(1,800,000)	(1,800,000)	-	-
Repayments to ultimate holding company		(5,000,000)	(5,000,000)	-	-
Net repayments of islamic financing		(8,316,124)	(1,405,558)	-	-
Net repayments of bankers' acceptances		(3,663,494)	(16,218,779)	-	-
Net cash used in financing activities		(28,031,705)	(19,315,132)	(4,650,000)	(4,650,000)
Net decrease in cash and cash equivalents		(21,543,799)	(24,675,373)	(252,226)	(3,110,337)
Cash and cash equivalents at beginning of the financial year		15,471,445	40,006,181	1,983,666	5,094,003
Effect of exchange rate changes on cash and cash equivalents		(6,743)	140,637	-	-
Cash and cash equivalents at end of the financial year	26	(6,079,097)	15,471,445	1,731,440	1,983,666

(a) Addition in capital work-in-progress:

Group	2019 RM	2018 RM
Addition in capital work-in-progress	3,871,344	56,117,952
Less: Transferred from deposits paid for acquisition of property, plant and equipment	–	(11,935,796)
Less: Transferred from inventories	–	(611,752)
Less: Financed by term loan	(229,371)	(19,953,303)
Less: Contra against trade receivables	(184,361)	(2,155,414)
Less: Owing to non-trade suppliers	(235,477)	(4,779,415)
Cash payment on capital work-in-progress	3,222,135	16,682,272

(b) Purchase of property, plant and equipment:

Group	2019 RM	2018 RM
Purchase of property, plant and equipment	8,731,475	16,681,670
Transferred from deposits paid in prior year	(148,830)	(4,005,710)
Lease liabilities/Financed by finance lease arrangements	(3,245,579)	(6,792,525)
Owing to non-trade suppliers	–	(92,480)
Cash payment on purchase of property, plant and equipment	5,337,066	5,790,955
Company		
Cash payment on purchase of office equipment	6,495	4,367

(c) Total cash outflows for leases

During the financial year, the Group had total cash outflows for leases amounting to RM5,812,007.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (cont'd)

(d) Reconciliation of liabilities arising from financing activities:

Group	1 January 2019 Restated RM	Cash Flows RM	Non-Cash Acquisition RM	31 December 2019 RM
Bankers' acceptances	141,435,876	(3,663,494)	–	137,772,382
Lease liabilities	21,346,314	(4,602,087)	3,245,579	19,989,806
Islamic financing	41,528,441	(8,316,124)	–	33,212,317
Term loans	47,460,676	(1,800,000)	4,754,789	50,415,465
	251,771,307	(18,381,705)	8,000,368	241,389,970

Group	1 January 2018 RM	Cash Flows RM	Non-Cash Acquisition RM	31 December 2018 RM
Bankers' acceptances	157,654,655	(16,218,779)	–	141,435,876
Finance lease payables	5,395,763	(4,848,168)	6,792,525	7,340,120
Islamic financing	42,933,999	(1,405,558)	–	41,528,441
Term loans	14,700,000	12,807,373	19,953,303	47,460,676
	220,684,417	(9,665,132)	26,745,828	237,765,113

Company

Changes in liabilities arising from financing activities are changes resulting from cash flows.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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, 40000 Shah Alam, 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 18 May 2020.

2. BASIS OF PREPARATION

2.1 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 2.6.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")

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

New MFRS

MFRS 16 Leases

Amendments/Improvements to MFRSs

MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowing Costs
MFRS 128	Investment in Associates and Joint Ventures

New IC Int

IC Int 23 Uncertainty over Income Tax Treatments

The adoption of the above new MFRS, amendments/improvements to MFRSs and new IC Int 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 those as discussed below.

MFRS 16 Leases

Effective 1 January 2019, MFRS 16 has replaced MFRS 117 Leases and IC Int 4 *Determining whether an Arrangement contains a Lease*.

Under MFRS 117, leases are classified either as finance leases or operating leases. A lessee recognises on its statements of financial position assets and liabilities arising from finance leases. For operating leases, lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. Instead, all leases are brought onto the statements of financial position except for short-term and low value asset leases.

The Group has applied MFRS 16 using the modified retrospective approach, which under cumulative effect of initial application is recognised in retained earnings at 1 January 2019. As such, the comparative information was not restated and continues to be reported under MFRS 117 and IC Int 4.

Definition of a lease

MFRS 16 changes the definition of a lease mainly to the concept of control. MFRS 16 defines that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (continued)

Definition of a lease (continued)

The Group has elected the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, the definition of a lease under MFRS 16 was applied only to contracts entered or changed on or after 1 January 2019. Existing lease contracts that are still effective on 1 January 2019 will be accounted for as lease contracts under MFRS 16.

Impact of the adoption of MFRS 16

The application of MFRS 16 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements as at the date of initial application. Other than the enhanced new disclosures relating to leases, which the Group has complied with in the current financial year, the application of this standard does not have any significant effect on the financial statements of the Group, except for those as discussed below.

(i) Classification and measurement

As a lessee, the Group previously classified leases as operating or finance leases based on their assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group.

On adoption of MFRS 16, for all their leases other than short-term and low value asset leases, the Group:

- recognised the right-of-use assets and lease liabilities in the statements of financial position as at the date of initial application;
- recognised depreciation of right-of-use assets and interest on lease liabilities in profit or loss for the current financial year; and
- separated the total amount of cash paid for leases into principal and interest portions (presented within financing activities) in the statements of cash flows for the current financial year.

For leases that were classified as operating lease under MFRS 117

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

The right-of-use assets were measured at either:

- (a) their carrying amount as if MFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application. The Group applied this approach to its largest property leases; or
- (b) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (continued)

(i) Classification and measurement (continued)

For leases that were classified as operating lease under MFRS 117 (continued)

The Group also applied the following practical expedients wherein they:

- (a) applied a single discount rate to a portfolio of leases with similar characteristics;
- (b) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (c) used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117

The Group recognised the carrying amount of the lease assets and finance lease liabilities under MFRS 117 immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

For leasehold land that were classified as property, plant and equipment under MFRS 16

The Group recognised the carrying amount of the leasehold land under MFRS 16 as the carrying amount of the right-of-use assets at the date of initial application. The measurement requirement of MFRS 16 are applied after that date.

For prepaid land lease payment that were classified under MFRS 17

Prepaid leasehold land which in substance was an operating lease were classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land were accounted for as prepaid lease payments that were amortised over the lease term in accordance with the pattern of benefits provided. The measurement requirement of MFRS 16 are applied after that date.

(ii) Short-term lease and low value assets

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

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (continued)

The effects of adoption of MFRS 16 as at 1 January 2019 are as follows:

	Impact of adoption of MFRS 16			At 1.1.2019 RM
	At 31.12.2018 RM	Reclassifications RM	Adjustments RM	
Assets				
Non-current assets				
Property, plant and equipment	145,101,722	919,579	12,200,657	158,221,958
Prepaid land lease payment	919,579	(919,579)	–	–
Equity				
Retained earnings	301,148,693	–	(1,805,525)	299,343,168
Non-controlling interests	665,396	–	(12)	665,384
Non-current liabilities				
Finance lease payables	5,076,351	(5,076,351)	–	–
Lease liabilities	–	5,076,351	12,207,122	17,283,473
Current liabilities				
Finance lease payables	2,263,769	(2,263,769)	–	–
Lease liabilities	–	2,263,769	1,799,072	4,062,841

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statements of financial position on 1 January 2019 is 5.03%.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed applying MFRS 117 as of 31 December 2018 as follows:

	Group RM
Assets	
Operating lease commitments as at 31 December 2018	23,996,584
Weighted average incremental borrowing rate as at 1 January 2019	5.03%
Discounted operating lease commitments as at 1 January 2019	14,006,194
Add:	
Commitments relating to lease previously classified as finance leases	7,340,120
Lease liabilities as at 1 January 2019	21,346,314

Amendments to MFRS 9 Financial Instruments

Amendments to MFRS 9 allow companies to measure prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if certain conditions are met.

The amendments also clarify that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (continued)

Amendments to MFRS 112 Income Taxes

Amendments to MFRS 112 clarify that an entity recognises the income tax consequences of dividends in profit or loss because income tax consequences of dividends are linked more directly to past transactions than to distributions to owners, except if the tax arises from a transaction which is a business combination or is recognised in other comprehensive income or directly in equity.

2.3 New MFRS, and amendments/improvements to MFRSs that have been issued, but yet to be effective

- (a) The Group and the Company have not adopted the following new MFRS, and amendments/improvements to MFRSs that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
<u>New MFRS</u>		
MFRS 17	Insurance Contracts	1 January 2023
<u>Amendments/Improvements to MFRSs</u>		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2023 [#]
MFRS 3	Business Combinations	1 January 2020/ 1 January 2023 [#]
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2023 [#]
MFRS 7	Financial Instruments: Disclosures	1 January 2020/ 1 January 2023 [#]
MFRS 9	Financial Instruments	1 January 2020/ 1 January 2023 [#]
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023 [#]
MFRS 101	Presentation of Financial Statements	1 January 2020/ 1 January 2023 [#] / 1 January 2022
MFRS 107	Statement of Cash Flows	1 January 2023 [#]
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
MFRS 116	Property, Plant and Equipment	1 January 2023 [#]
MFRS 119	Employee Benefits	1 January 2023 [#]
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023 [#]
MFRS 132	Financial instruments: Presentation	1 January 2023 [#]
MFRS 136	Impairment of Assets	1 January 2023 [#]
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2023 [#]
MFRS 138	Intangible Assets	1 January 2023 [#]
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2020
MFRS 140	Investment Property	1 January 2023 [#]

[#]Amendments as to the consequence of effective of MFRS 17 Insurance Contracts

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS, and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

- (b) The Group and the Company plan to adopt the above applicable new MFRS, and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS, and amendments/improvements to MFRSs that may be applicable to the Group and the Company are summarised below.

Amendments to MFRS 3 Business Combinations

The amendments clarify the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

The amendments, amongst others, clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments refine the definition by including 'obscuring information' in the definition of material to respond to concerns that the effect of including immaterial information should not reduce the understandability of a company's financial statements. The prior definition focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information.

Other refinements to the definition include incorporating some existing wording in MFRS 101 and the Conceptual Framework for Financial Reporting. Consequently, the amendments align the definition of material across MFRS Standards and other publications.

Amendments to MFRS 101 Presentation of Financial Statements

The amendments include specifying that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period; clarifying that classification of liability is unaffected by the likelihood of the entity to exercise its right to defer settlement of the liability for at least twelve months after the reporting period; clarifying how lending conditions affect classification of a liability; and clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. BASIS OF PREPARATION (CONTINUED)

2.4 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.

2.5 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.

2.6 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.

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.

3.1 Basis of consolidation

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

(a) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

(a) Subsidiaries (continued)

(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.

(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) Non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company and are presented separately in the consolidated statement of financial position within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

(a) Subsidiaries (continued)

(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 associate, a joint venture or a financial asset.

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.

(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.

3.2 Separate financial statements

In the Company's statement of financial position, investment in subsidiaries are measured at cost less any accumulated impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as would be required for impairment of non-financial assets as disclosed in Note 3.12(b) to the financial statements.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Foreign currency (continued)

(i) Foreign currency transactions (continued)

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.

3.4 Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Income tax expense (continued)

(b) Deferred tax

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.

(c) Goods and services tax ("GST") and sales and services tax ("SST")

GST in Malaysia was abolished and replaced by SST on 1 September 2018.

Revenue is stated net of any GST or SST collected.

GST or SST paid on goods and services purchased are recognised as part of the cost of purchase of such goods and services, unless the GST is recoverable from the tax authority, in which case the GST paid is recognised as a receivable.

3.5 Revenue and other income

The Group and the Company recognise revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group and the Company expect to be entitled in exchange for those goods or services.

The Group and the Company measure revenue from sale of goods or services at its transaction price, being the amount of consideration to which the Group and the Company expect to be entitled in exchange for transferring promised good or services to a customer, excluding amounts collected on behalf of third parties such as goods and service tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Revenue and other income (continued)

Financing components

The Group and the Company have applied the practical expedient for not to adjust the promised amount of consideration for the effects of a financing components if the Group and the Company expect that the period between the transfer of the promised goods or services to the customers and payment by the customers will be one year or less.

i. Sale of goods

Revenue from sales of goods is recognised at a point in time when control of goods is transferred to the customer, 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.

Sales are made with a credit term ranging from 14 to 90 days, which is consistent with market practice, therefore, no element of financing is deemed present. A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

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.

Where advance billing and consideration is collected from customer in advance for sale of good, a contract liability is recognised. Contract liability would be recognised as revenue upon delivery of goods to the customer.

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.

3.6 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Employee benefits (continued)

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.

3.7 Property, plant and equipment

(a) Recognition and measurement

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.

(b) Depreciation

Short term leasehold land is depreciated over the lease term of 43 years. Long term leasehold land is depreciated over the lease term of 95 years. Freehold land has an unlimited useful life and therefore is not depreciated. Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

The principal annual rates used for this purpose are:

Buildings	1.30% - 6%
Furniture, fittings and electrical fittings	10%
Office equipment	10% - 20%
Forklifts, plant and machinery	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.

(c) Derecognition

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 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.

3.9 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.

3.10 Financial instruments

Financial instruments 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.

Except for the trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under MFRS 15.

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group and the Company reclassify financial assets when and only when their business models for managing those assets change.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group and the Company categorise the financial instruments as follows: (continued)

(i) Financial assets (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Company's business model for managing the asset and the cash flow characteristics of the asset. The measurement category into which the Group and the Company classify their debt instruments as follows:

- **Amortised cost**

Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12. Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

Equity instruments

The Group and the Company subsequently measure all equity investments at fair value. Upon initial recognition, the Group and the Company can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group and the Company benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (continued)

(a) Subsequent measurement (continued)

The Group and the Company categorise the financial instruments as follows: (continued)

(ii) Financial liabilities

The Group and the Company classified their financial liabilities at amortised cost.

Financial liabilities at amortised cost

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

(b) Derecognition

A financial asset or a part of it is derecognised when, and only when:

- (i) the contractual rights to receive cash flows from the financial asset expire; or
- (ii) the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party; and either
 - the Group and the Company have transferred substantially all the risks and rewards of the asset, or
 - the Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group and the Company evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continue to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group and the Company also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Company have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay.

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

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Financial instruments (continued)

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

3.11 Leases

(a) Definition of leases

Accounting policies applied from 1 January 2019

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

- the contract involves the use of an identified asset;
- the Group and the Company have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group and the Company have the right to direct the use of the asset.

Accounting policies applied until 31 December 2018

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

(b) Lessee accounting

Accounting policies applied from 1 January 2019

At the lease commencement date, the Group and the Company recognise a right-of-use asset and a lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Right-of-use asset

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

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjust for any remeasurement of the lease liabilities. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If expects to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts from the commencement date of the underlying asset. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group and the Company use their incremental borrowing rate.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied from 1 January 2019 (continued)

Lease liability (continued)

The Group and the Company remeasure the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "other expenses" in the statements of comprehensive income.

The Group and the Company have elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Short-term leases and leases of low value assets

The Group and the Company have elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value assets. The Group and the Company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Accounting policies applied until 31 December 2018

If an entity in the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied until 31 December 2018 (continued)

The capitalised leased asset is classified by nature as property, plant and equipment or investment property.

For operating leases, the Group and the Company do not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3.12 Impairment of assets

(a) Impairment of financial assets

Financial assets measured at amortised cost and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group and the Company measure loss allowance at an amount equal to lifetime expected credit losses, except for the following, which are measured as 12-month expected credit losses:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables, the Group and the Company apply the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Company's historical experience and informed credit assessment and including forward-looking information.

The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

The Group and the Company consider a financial asset to be in default when:

- the debtor is unable to pay its credit obligations to the Group and the Company in full, without taking into account any credit enhancements held by the Group and the Company; or
- the contractual payment of the financial asset is more than 60 days past due unless the Group and the Company have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the debtor;
- a breach of contract, such as a default of past due event;
- the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The amount of impairment losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group and the Company determine that the debtor does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedure for recovery of amounts due.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories, deferred tax assets, assets arising from employee benefits and investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group and the Company make an estimate of the asset's recoverable amount. For goodwill and intangible assets that have indefinite useful life and are not yet available for use, the recoverable amount is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of business combination.

3.13 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.

3.14 Share capital

Ordinary shares

Ordinary shares are equity instruments. 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 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.

3.16 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 specific 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.

3.17 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 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 27, including the factors used to identify the reportable segments and the measurement basis of segment information.

3.19 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.

3.20 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	
	2019 RM	2018 RM	2019 RM	2018 RM
Revenue from contract customers				
Sale of goods	607,122,214	597,925,317	-	-
Revenue from other sources				
Management fees	-	-	418,649	398,022
Dividend income from subsidiaries	-	-	1,500,000	3,500,000
Corporate guarantee fees charged to subsidiaries	-	-	2,778,841	2,285,487
	607,122,214	597,925,317	4,697,490	6,183,509
Timing of revenue recognition				
At a point in time	607,122,214	597,925,317	4,697,490	6,183,509

Disaggregation of revenue

The Group and the Company report the following major segments: trading, processing and others in accordance with MFRS 8 *Operating Segments*. For the purpose of disclosure for disaggregation of revenue, it disaggregates revenue into primary geographical markets and major goods or services.

The information on disaggregation of revenue and gross profit into the major segments are disclosed in Note 27.

5. COST OF SALES

	Group	
	2019 RM	2018 RM
Direct costs	520,433,749	487,795,637
Other operating costs	25,418,801	27,666,440
	545,852,550	515,462,077

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. PROFIT BEFORE TAX

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

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Auditors' remuneration					
- statutory audit services					
- current year		232,266	218,947	34,000	33,000
- other services		12,000	12,000	12,000	12,000
Amortisation of prepaid land					
lease payment	11	-	141,474	-	-
Bad debts written off		116,759	21,836	-	-
Capital work-in-progress written off		367,790	-	-	-
Deposits written off		-	20,719	-	-
Depreciation of property, plant and equipment	9	14,991,404	10,612,275	1,626	291
Impairment losses on:					
- trade receivables	30(b)(i)	1,017,623	925,803	-	-
- investments in subsidiary	12	-	-	5,369	-
Interest expense in respect of:					
- bank overdrafts		2,359,611	1,773,145	-	-
- bankers' acceptances		6,931,741	7,082,818	-	-
- Islamic financing		1,694,103	1,804,600	-	-
- lease liabilities/finance lease		1,101,920	269,366	-	-
- term loans		3,005,135	909,111	-	-
Inventories written down		-	645,543	-	-
(Gain)/Loss on disposal of property, plant and equipment		(13,999)	53,078	-	-
(Gain)/Loss on foreign exchange:					
- Net realised foreign exchange gain		(42,328)	(347,291)	-	-
- Net unrealised foreign exchange (gain)/loss		(64,733)	114,017	-	-

6. PROFIT BEFORE TAX (CONTINUED)

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

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Employee benefits expense	(a)	30,219,315	29,149,423	1,407,299	1,404,900
Rental of crane and equipment		28,610	58,710	-	-
Rental of motor vehicle		-	25,808	-	-
Rental of premises		108,000	2,115,868	-	-
Rental of land		-	520,718	-	-
Insurance claimed		(362,481)	(92,808)	-	-
Interest income from					
- cash at banks		(74,922)	(102,678)	(17,248)	(12,565)
- deposits with licensed banks		(1,194,284)	(1,554,339)	(44,335)	(90,520)
Rental income		(689,200)	-	-	-
Reversal of impairment losses on:					
- trade receivables	30(b)(i)	(58,923)	(77,724)	-	-
- investments in subsidiaries	12	-	-	(452,418)	(193,770)
Relocation expenses ⁽¹⁾		-	67,304	-	-

Notes:

- ⁽¹⁾ Mainly relating to relocation of existing steel processing plant, office and warehouse to temporary sites in connection with a compulsory acquisition of the real estate properties of Supreme Steelmakers Sdn. Bhd..

(a) Employee benefits expense

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Salaries and allowances	26,601,732	25,837,148	1,325,684	1,324,706
Defined contribution plan	2,673,902	2,599,561	77,330	76,224
Social security contributions	237,541	218,009	3,179	2,770
Staff welfare	706,140	494,705	1,106	1,200
	30,219,315	29,149,423	1,407,299	1,404,900
Recognised in:				
- Cost of sales	10,298,531	10,019,217	-	-
- Administrative and other expenses	19,920,784	19,130,206	1,407,299	1,404,900
	30,219,315	29,149,423	1,407,299	1,404,900

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. PROFIT BEFORE TAX (CONTINUED)

(a) Employee benefits expense (continued)

Directors' remuneration

Included in employee benefits expense 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	
	2019 RM	2018 RM	2019 RM	2018 RM
Directors of the Company				
Executive directors				
- Fees	700,000	700,000	-	-
- Other emoluments	3,543,957	3,765,280	350,000	350,000
- Defined contribution plan	424,800	451,200	-	-
- Estimated monetary value of benefits-in-kind	187,598	200,173	-	-
	4,856,355	5,116,653	350,000	350,000
Non-executive directors				
- Fees	300,000	300,000	300,000	300,000
- Other emoluments	23,000	20,000	23,000	20,000
	323,000	320,000	323,000	320,000
Directors of subsidiaries				
Executive Directors				
- Fees	150,000	150,000	-	-
- Other emoluments	2,181,888	2,268,518	-	-
- Defined contribution plan	256,313	268,570	-	-
- Estimated monetary value of benefits-in-kind	87,667	96,858	-	-
	2,675,868	2,783,946	-	-
Total directors' remuneration	7,855,223	8,220,599	673,000	670,000

7. INCOME TAX EXPENSE

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Current income tax				
- current year	2,018,477	10,456,153	478,000	479,800
- prior years	1,512,367	(267,094)	(30,857)	(285)
	3,530,844	10,189,059	447,143	479,515
Deferred tax (Note 21)				
- current year	1,700,276	(666,036)	-	-
- prior years	213,054	44,393	-	-
	1,913,330	(621,643)	-	-
Income tax expense	5,444,174	9,567,416	447,143	479,515

Domestic income tax is calculated at Malaysian statutory income tax rate of 24% (2018: 24%) of the estimated assessable profit for the financial year.

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

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Profit before tax	10,977,033	35,532,544	3,209,773	4,644,395
Tax at Malaysian statutory income tax rate of 24% (2018: 24%)	2,634,500	8,527,800	770,300	1,114,700
Effect of different tax rate in foreign jurisdiction	(31,539)	(12,965)	-	-
Tax effect of:				
- non-deductible expenses	1,462,318	1,742,771	186,800	259,600
- non-taxable income	(26,784)	(144,958)	(467,300)	(894,500)
Reinvestment allowance claimed during the year	(241,750)	(407,859)	-	-
Utilisation of deferred tax assets previously not recognised				
- business losses	(77,982)	(26,376)	-	-
- other temporary differences	(11,800)	-	(11,800)	-
Deferred tax assets not recognised on business losses and temporary differences	11,790	111,704	-	-
Under/(Over)provision in prior year:				
- current income tax	1,512,367	(267,094)	(30,857)	(285)
- deferred tax	213,054	44,393	-	-
Income tax expense	5,444,174	9,567,416	447,143	479,515

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 RM5,598,378 (2018: RM26,099,888) by the weighted average number of ordinary shares in issue during the financial year of 310,000,000 (2018: 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.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Industrial Land RM	Long Term Leasehold Land RM	Short Term Leasehold Land RM	Buildings RM		Furniture, Electrical Fittings and Office Equipment and Renovation RM		Forklift, Plant and Machinery RM	Motor Vehicles RM	Right-of-use Assets RM	Total RM
				Buildings RM	Furniture, Electrical Fittings and Office Equipment and Renovation RM						
Cost											
At 31 December 2018	25,107,881	30,969,669	527,198	58,522,718	3,351,940	7,257,992	87,713,449	13,707,179	-	227,158,026	
- As previously reported	-	(30,969,669)	(527,198)	-	-	-	(12,662,539)	(3,289,226)	69,218,613	21,769,981	
- Effect of adoption of MFRS 16											
Adjusted balance at 1 January 2019	25,107,881	-	-	58,522,718	3,351,940	7,257,992	75,050,910	10,417,953	69,218,613	248,928,007	
Additions	-	-	-	-	346,065	244,797	1,309,078	-	6,831,535	8,731,475	
Reclassified from right-of-use assets	-	-	-	-	-	-	5,520,665	2,180,932	(7,701,597)	-	
Transfer from capital work-in-progress	-	-	-	24,883,866	-	272,439	30,041,568	-	2,115,144	57,313,017	
Disposal	-	-	-	-	-	-	(187,300)	-	-	(187,300)	
Written off	-	-	-	-	(12,800)	(28,049)	(40,166)	(54,366)	(97,764)	(233,145)	
Exchange differences	-	-	-	-	7	134	-	-	-	141	
At 31 December 2019	25,107,881	-	-	83,406,584	3,685,212	7,747,313	111,694,755	12,544,519	70,365,931	314,552,195	

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold Industrial Land RM	Long Term Leasehold Land RM	Short Term Leasehold Land RM	Buildings RM	Furniture, Electrical Fittings and Office Equipment RM	Forklift, Plant and Machinery RM	Motor Vehicles RM	Right-of-use Assets RM	Total RM
Accumulated Depreciation									
At 31 December 2018	-	977,990	147,121	9,538,922	1,847,108	4,198,942	9,952,952	-	82,056,304
- As previously reported	-	(977,990)	(147,121)	-	-	-	(1,558,696)	13,282,611	8,649,745
- Effect of adoption of MFRS 16									
Adjusted balance at 1 January 2019	-	-	-	9,538,922	1,847,108	4,198,942	8,394,256	13,282,611	90,706,049
Depreciation charge for the financial year	-	-	-	2,021,113	322,246	896,651	1,194,931	3,929,459	14,991,404
Reclassified from right-of-use asset	-	-	-	-	-	-	1,334,562	(3,068,480)	-
Disposal	-	-	-	-	-	-	(187,299)	-	(187,299)
Written off	-	-	-	-	(12,800)	(28,049)	(54,366)	(97,764)	(233,145)
Exchange differences	-	-	-	-	3	99	-	-	102
At 31 December 2019	-	-	-	11,560,035	2,156,557	5,067,643	10,869,383	14,045,826	105,277,111
Net carrying amount									
At 1 January 2019 (Restated)	25,107,881	-	-	48,983,796	1,504,832	3,059,050	2,023,697	55,936,002	158,221,958
At 31 December 2019	25,107,881	-	-	71,846,549	1,528,655	2,679,670	1,675,136	56,320,105	209,275,084

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold Industrial Land		Long Term Leasehold Land		Short Term Leasehold Land		Buildings		Furniture, Fittings and Electrical		Office Equipment and Renovation		Forklift, Plant and Machinery		Motor Vehicles		Total	
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM		RM
Cost																		
At 1 January 2018	25,107,881	30,969,669	527,198	57,975,171	2,684,501	6,922,917	73,421,436	13,113,929	210,722,702									
Additions	-	-	-	547,547	667,431	374,047	14,468,364	624,281	16,681,670									
Disposals	-	-	-	-	-	(3,350)	(176,351)	(31,031)	(210,732)									
Written off	-	-	-	-	-	(35,810)	-	-	(35,810)									
Exchange differences	-	-	-	-	8	188	-	-	196									
At 31 December 2018	25,107,881	30,969,669	527,198	58,522,718	3,351,940	7,257,992	87,713,449	13,707,179	227,158,026									
Accumulated Depreciation																		
At 1 January 2018	-	651,994	134,861	7,704,575	1,590,677	3,616,903	49,839,087	8,035,156	71,573,253									
Depreciation charge for the financial year	-	325,996	12,260	1,834,347	256,423	621,068	5,630,938	1,931,243	10,612,275									
Disposals	-	-	-	-	-	(3,350)	(76,756)	(13,447)	(93,553)									
Written off	-	-	-	-	-	(35,810)	-	-	(35,810)									
Exchange differences	-	-	-	-	8	131	-	-	139									
At 31 December 2018	-	977,990	147,121	9,538,922	1,847,108	4,198,942	55,393,269	9,952,952	82,056,304									
Net Carrying Amount																		
At 31 December 2018	25,107,881	29,991,679	380,077	48,983,796	1,504,832	3,059,050	32,320,180	3,754,227	145,101,722									

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office Equipment RM	Total RM
Company		
Cost		
At 1 January 2019	4,367	4,367
Addition	6,495	6,495
At 31 December 2019	10,862	10,862
Accumulated Depreciation		
At 1 January 2019	291	291
Charge for the financial year	1,626	1,626
At 31 December 2019	1,917	1,917
Net Carrying Amount		
At 31 December 2019	8,945	8,945
Cost		
At 1 January 2018	–	–
Addition	4,367	4,367
At 31 December 2018	4,367	4,367
Accumulated Depreciation		
At 1 January 2018	–	–
Charge for the financial year	291	291
At 31 December 2018	291	291
Net Carrying Amount		
At 31 December 2018	4,076	4,076

(a) Assets pledged as security

The net carrying amount of property, plant and equipment pledged as security for banking facilities granted to the subsidiaries as mentioned in Note 20 is as follows:

	2019 RM	Group 2018 RM
Freehold land	9,426,281	9,426,281
Leasehold land	–	30,371,756
Buildings	45,643,136	21,613,230
Plant and machinery	26,292,584	–
	81,362,001	61,411,267

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Assets under finance lease

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

	2019 RM	Group 2018 RM
Motor vehicles	864,734	1,039,822
Plant and machinery	9,020,732	10,614,143
	<u>9,885,466</u>	<u>11,653,965</u>

(c) Right-of-use assets

The Group leases several assets and the information about leases of the Group as lessee is presented below:

Group	Leasehold Land RM	Buildings RM	Forklift Plant and Machinery RM	Motor Vehicles RM	Total RM
Carrying amount					
At 1 January 2019	40,620,205	2,867,725	10,713,480	1,734,592	55,936,002
Additions	3,093,192	159,520	3,014,196	564,627	6,831,535
Transfer from capital work-in-progress	2,115,144	–	–	–	2,115,144
Transfer to property, plant and equipment	–	–	(3,786,747)	(846,370)	(4,633,117)
Depreciation	(848,620)	(1,652,238)	(920,197)	(508,404)	(3,929,459)
At 31 December 2019	<u>44,979,921</u>	<u>1,375,007</u>	<u>9,020,732</u>	<u>944,445</u>	<u>56,320,105</u>

(i) Lease term

The Group leases land and buildings for their office space and operation site. The leases for office space and operation site generally have lease term between 2 to 95 years.

Plant and machinery and motor vehicles have lease term between 2 to 5 years.

(ii) Asset pledged as security

The leasehold land with carrying amounts of RM32,135,170 have been pledged as security for banking facilities granted to the subsidiaries as disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Right-of-use assets (continued)

(iii) Extension and termination options

Included in the lease contracts is a lease for an industrial land which have a 30 years extension period upon the expiry of the current lease in 2044. As at the reporting date, the Group is still in the midst of assessing if the Group will extend the said lease upon expiry of the current lease tenure. As the rental payments for the extension period are subject to discussion with the lessor upon the lease being renewed, the Group is unable to reliably estimate the future cash outflow pertaining to the extension period.

10. CAPITAL WORK-IN-PROGRESS

	Note	2019 RM	Group 2018 RM
At 1 January		59,781,218	3,663,266
Additions		3,871,344	56,117,952
Transfer to property, plant and equipment	9	(57,313,017)	–
Written off		(367,790)	–
At 31 December		5,971,755	59,781,218

Capital work-in-progress is in respect of construction of buildings, plant and machinery.

Certain machinery amounted to Nil (2018: RM26,792,540) pledged as security for banking facilities granted to a subsidiary as mentioned in Note 20.

Borrowing costs capitalised in relation to capital work-in-progress during the financial year amounts to Nil (2018: RM664,528).

11. PREPAID LAND LEASE PAYMENT

	2019 RM	Group 2018 RM
Cost		
At 1 January	1,120,000	1,120,000
Effect of adoption of MFRS 16	(1,120,000)	–
At 31 December	–	1,120,000
Accumulated amortisation		
At 1 January	200,421	58,947
Charge for the financial year (Note 6)	–	141,474
Effect of adoption of MFRS 16	(200,421)	–
At 31 December	–	200,421
Net carrying amount		
At 31 December	–	919,579

As at 1 January 2019, the prepaid land lease payments balances of RM919,579 are reclassified as right-of-use assets due to adoption of MFRS 16.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RM	2018 RM
Unquoted shares, at cost		
At 1 January	163,456,997	163,456,997
Addition	4,000,000	–
Capital distribution from a subsidiary	(5,000,000)	–
At 31 December	162,456,997	163,456,997
Accumulated impairment losses		
At 1 January	3,496,012	3,689,782
Addition (Note 6)	5,369	–
Reversal (Note 6)	(452,418)	(193,770)
At 31 December	3,048,963	3,496,012
Net carrying amount	159,408,034	159,960,985

The details of subsidiaries are as follows:

Name of Company	Principal Place of Business/ Country of Incorporation	Principal Activities	Effective Ownership Interest/Voting Rights	
			2019	2018
Direct subsidiaries				
Leon Fuat Hardware Sdn. Bhd.	Malaysia	Trading and processing of steel products	100%	100%
Leon Fuat Metal 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%

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The details of subsidiaries are as follows: (continued)

Name of Company	Principal Place of Business/ Country of Incorporation	Principal Activities	Effective Ownership Interest/Voting Rights	
			2019	2018
Indirect subsidiaries through Leon Fuat Metal Sdn. Bhd.				
Leon Fuat Industrial Products Sdn. Bhd.	Malaysia	Trading and processing of steel products	100%	100%
PCM Steel Processing Sdn. Bhd.	Malaysia	Slitting and processing metal coil and sheets	87% (Approximately)	87% (Approximately)

On 2 January 2019, ASA Steel (M) Sdn. Bhd. have filed for voluntary winding up process.

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

The Group's subsidiary which has non-controlling interests is not material 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.

13. INVENTORIES

	2019 RM	Group 2018 RM
At cost		
Trading inventories	243,459,378	240,860,440
Goods-in-transit	17,594,044	5,841,245
Spare parts	267,380	268,264
	261,320,802	246,969,949
At net realisable value		
Trading inventories	221,714	230,435
	261,542,516	247,200,384

(a) During the financial year, the cost of inventories recognised as an expense of the Group is RM520,433,749 (2018: RM487,795,637).

(b) The cost of inventories of the Group recognised as an expense during the financial year in respect of write-down of inventories to net realisable value was Nil (2018: RM645,543).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2019 RM	2018 RM	2019 RM	2018 RM
Trade receivables					
External parties		162,942,003	158,240,892	-	-
Related parties		357,338	512,869	-	-
		163,299,341	158,753,761	-	-
Less: Impairment losses for trade receivables	30(b)(i)	(1,923,073)	(981,738)	-	-
Total trade receivables	(a)	161,376,268	157,772,023	-	-
Other receivables					
Other receivables		283,183	255,669	856	2,375
Advances payment made to suppliers		662,613	1,719,489	-	-
GST refundable		475,118	610,905	-	-
Deposits	(b)	995,698	1,078,264	4,500	4,500
Prepayments		2,197,675	2,315,674	43,530	51,000
Total other receivables		4,614,287	5,980,001	48,886	57,875
Total trade and other receivables		165,990,555	163,752,024	48,886	57,875

(a) Trade receivables

The Group's trade receivables normal credit term range from 14 to 90 days (2018: 14 to 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The amounts due from related parties are subject to normal trade term.

Further information on related parties are disclosed in Note 29.

The information about the credit exposure are disclosed in Note 30(b)(i).

(b) Included in deposits of the Group are:

- (i) an amount of RM60,000 (2018: RM60,000) represents rental and utilities deposits paid to a fellow subsidiary;
- (ii) an amount of RM142,000 (2018: RM142,000) represents rental deposits paid to ultimate holding company; and
- (iii) an amount of RM105,272 (2018: RM196,050) being down payments for purchase of plant and equipment.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Group	
	2019 RM	2018 RM
United States Dollar ("USD")	1,391,384	2,308,572
Singapore Dollar ("SGD")	453,232	46,935

15. AMOUNT DUE FROM SUBSIDIARIES

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

16. DEPOSITS WITH LICENSED BANKS

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Deposits with licensed banks				
- pledged	7,893,438	7,047,262	-	-
- not pledged	25,923,637	29,368,206	1,067,889	1,548,119
	33,817,075	36,415,468	1,067,889	1,548,119

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

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest rate (%) (per annum)	2.90 - 3.45	3.15 - 3.50	3.25 - 3.50	3.15 - 3.50
Maturity (days)	15 - 365	30 - 365	30	30

Deposits amounting to RM7,893,438 (2018: RM7,047,262) are pledged with licensed banks as securities for banking facilities granted to subsidiaries as disclosed in Note 20(c).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. CASH AND BANK BALANCES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash at bank	8,942,593	16,601,119	663,548	435,544
Cash in hand	36,606	22,369	3	3
	8,979,199	16,623,488	663,551	435,547

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

	Group	
	2019 RM	2018 RM
United States Dollar ("USD")	746,375	1,683,003
Singapore Dollar ("SGD")	1,316,152	1,399,217
Japanese Yen ("JPY")	-	7,404

18. SHARE CAPITAL

	Group/Company			
	2019		2018	
	Number of Shares Unit	Amount RM	Number of Shares Unit	Amount RM
Issued and fully paid:				
At 1 January/31 December	310,000,000	160,094,360	310,000,000	160,094,360

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.

19. RESERVES

	Note	2019 RM	2018 RM
Group			
Capital reserve	(a)	923	923
Merger deficit	(b)	(109,544,997)	(109,544,997)
Retained earnings		300,291,546	301,148,693
Translation reserve	(c)	(14,431)	(16,295)
		<u>190,733,041</u>	<u>191,588,324</u>
Company			
Retained earnings		<u>4,492,558</u>	<u>6,379,928</u>
		<u>4,492,558</u>	<u>6,379,928</u>

(a) Capital reserve

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

(b) Merger deficit

The merger deficit 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) 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 (cont'd)

20. BORROWINGS

	Note	2019 RM	Group 2018 RM
Non-current			
Secured			
Lease liabilities/Finance lease payables	(a)	5,123,423	5,076,351
Term loans	(b)	48,615,465	45,660,676
		<u>53,738,888</u>	<u>50,737,027</u>
Unsecured			
Lease liabilities	(a)	11,146,351	–
Total non-current		<u>64,885,239</u>	<u>50,737,027</u>
Current			
Secured			
Bankers' acceptances	(c)	80,600,382	92,922,876
Bank overdrafts	(c)	25,842,541	15,187,368
Lease liabilities/Finance lease payables	(a)	2,490,036	2,263,769
Term loan	(b)	1,800,000	1,800,000
		<u>110,732,959</u>	<u>112,174,013</u>
Unsecured			
Bankers' acceptances	(c)	57,172,000	48,513,000
Bank overdrafts	(c)	15,139,392	15,332,881
Islamic financing	(d)	33,212,317	41,528,441
Lease liabilities	(a)	1,229,996	–
		<u>106,753,705</u>	<u>105,374,322</u>
Total current		<u>217,486,664</u>	<u>217,548,335</u>
Total borrowings			
Bankers' acceptances		137,772,382	141,435,876
Bank overdrafts		40,981,933	30,520,249
Lease liabilities/Finance lease payables		19,989,806	7,340,120
Term loans		50,415,465	47,460,676
Islamic financing		33,212,317	41,528,441
		<u>282,371,903</u>	<u>268,285,362</u>

20. BORROWINGS (CONTINUED)

(a) Lease liabilities/Finance lease payables

	2019 RM	Group 2018 RM
Minimum lease payments:		
- Not later than one year	4,664,882	2,591,790
- Later than 1 year and not later than 5 years	8,295,246	5,548,299
- Later than 5 years	16,963,880	-
	29,924,008	8,140,089
Less: Future finance charges	(9,934,202)	(799,969)
Present value of minimum lease payments	19,989,806	7,340,120
Present value of minimum lease payments:		
- Not later than one year	3,720,032	2,263,769
- Later than 1 year and not later than 5 years	5,916,591	5,076,351
- Later than 5 years	10,353,183	-
	19,989,806	7,340,120
Less: Amount due within 12 months	(3,720,032)	(2,263,769)
	16,269,774	5,076,351

The lease liabilities bear interest at rates range from 2.48% to 6.20% (2018: 2.38% to 3.90%) per annum.

Certain lease liabilities are secured and supported by corporate guarantees given by the Company.

(b) Term loans – Secured

Details of the repayment terms are as follows:

Term Loan 1

Term loan 1 of a subsidiary of RM11,100,000 (2018: RM12,900,000) bears interest at a rate of 4.60% (2018: 4.85%) per annum and is repayable by monthly instalments of RM150,000 over ten years commencing from the day of first drawdown and is secured and supported as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

20. BORROWINGS (CONTINUED)

(b) Term loans – Secured (continued)

Details of the repayment terms are as follows: (continued)

Term Loan 2

Term loan 2 of a subsidiary of RM15,074,505 (2018: RM12,414,487) bears interest at a rate of 6.20% (2018: 6.45%) per annum and is repayable by monthly instalments over 10 years commencing from 25th month after the date of full drawdown and is secured and supported as follows:

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

Term Loan 3

Term loan 3 of a subsidiary of RM24,240,960 (2018:RM22,146,189) bears interest at rates ranging from 5.32% to 5.79% (2018: 5.54% to 5.68%) per annum and is repayable by monthly instalments over 5 years commencing from 25th month after the date of full drawdown and is secured and supported as follows:

- (i) a corporate guarantee given by the Company; and
- (ii) legal charge over the certain machinery of a subsidiary (Note 9).

(c) Bankers' acceptances and bank overdrafts – Secured

The secured bankers' acceptances and bank overdrafts bear effective interest at rates ranging from 3.69% to 4.42% (2018: 4.28% to 4.62%) per annum and 7.64% to 7.70% (2018: 7.79% to 7.95%) 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 of certain subsidiaries (Note 16); and
- (ii) 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 4.00% to 4.47% (2018: 4.30% to 4.73%) per annum and 7.64% to 7.82% (2018: 7.85% to 8.07%) per annum respectively. The unsecured bankers' acceptances are supported by corporate guarantees given by the Company.

(d) Islamic financing

Islamic financing represents the Structured Commodity Financing-i facilities. This amount is unsecured, bears effective interest at rates ranging from 4.34% to 5.19% (2018: 4.45% to 5.19%) per annum. The unsecured facility is supported by corporate guarantee provided by the Company.

21. DEFERRED TAX LIABILITIES

	Group	
	2019 RM	2018 RM
At 1 January	3,604,187	4,225,830
Recognised in profit or loss (Note 7)	1,913,330	(621,643)
At 31 December	5,517,517	3,604,187

Presented after appropriate offsetting as follows:

	Group	
	2019 RM	2018 RM
Deferred tax liabilities	10,587,088	5,646,575
Deferred tax assets	(5,069,571)	(2,042,388)
	5,517,517	3,604,187

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

	At 1 January 2018 RM	Recognised in profit or loss RM	At 31 December 2018 RM	Recognised in profit or loss RM	At 31 December 2019 RM
Group					
Deferred tax liabilities:					
Property, plant and equipment	5,465,548	180,525	5,646,073	4,821,936	10,468,009
Other	–	502	502	118,577	119,079
Total deferred tax liabilities	5,465,548	181,027	5,646,575	4,940,513	10,587,088
Deferred tax assets:					
Impairment losses on trade receivables	(10,593)	(230,067)	(240,660)	(143,380)	(384,040)
Accrual of bonus	(960,314)	(19,358)	(979,672)	86,081	(893,591)
Contract liabilities	(238,663)	(528,698)	(767,361)	767,361	–
Lease liabilities	–	–	–	(2,945,368)	(2,945,368)
Unutilised business losses	–	–	–	(30,302)	(30,302)
Unabsorbed capital allowances	–	–	–	(785,494)	(785,494)
Unrealised profits on inventories	(25,980)	(26,479)	(52,459)	21,920	(30,539)
Other	(4,168)	1,932	(2,236)	1,999	(237)
Total deferred tax assets	(1,239,718)	(802,670)	(2,042,388)	(3,027,183)	(5,069,571)
	4,225,830	(621,643)	3,604,187	1,913,330	5,517,517

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

21. DEFERRED TAX LIABILITIES (CONTINUED)

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

	2019 RM	Group 2018 RM
Unutilised business losses	6,407,486	6,806,363
Unabsorbed capital allowances	3,382,839	3,606,778
	9,790,325	10,413,141

The unutilised business losses are available for offset against future taxable profits for the Group which will expire in the following financial years:

	Group 2019 RM
Year of assessments	
2025	5,837,937
2026	126,260

22. TRADE AND OTHER PAYABLES

	2019 RM	Group 2018 RM	2019 RM	Company 2018 RM
Trade payables				
External parties	35,086,464	18,407,018	-	-
Related party	-	290	-	-
Fellow subsidiary	45,829	43,041	-	-
	35,132,293	18,450,349	-	-
Other payables				
Other payables	3,593,826	8,082,719	127	1,100
Rental deposits received	77,596	-	-	-
Advances from customers	297,141	461,605	-	-
Accruals	7,350,452	7,561,786	816,314	837,152
	11,319,015	16,106,110	816,441	838,252
Total trade and other payables	46,451,308	34,556,459	816,441	838,252

- (a) The Group's trade payables normal trade credit term range from 14 to 120 days (2018: 14 to 120 days). Amounts due to a related party and a fellow subsidiary are subject to normal trade term. Further information on fellow subsidiaries and related parties is disclosed in Note 29.

22. TRADE AND OTHER PAYABLES (CONTINUED)

(b) Included in accruals of the Group and of the Company are directors' fees amounting to RM1,150,000 (2018: RM1,150,000) and RM650,000 (2018: RM650,000) respectively.

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

	Group	
	2019 RM	2018 RM
Euro ("EUR")	64,258	19,354
Singapore Dollar ("SGD")	264,649	–
United States Dollar ("USD")	16,129,466	986,738

23. CONTRACT LIABILITIES

	Group	
	2019 RM	2018 RM
At 1 January	3,283,241	994,430
Recognised during the year	(3,283,241)	(994,430)
Additions	2,640,972	3,283,241
At 31 December	2,640,972	3,283,241

Contract liabilities relates to advance billings for which consideration may or may not be received for goods yet to be delivered.

24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

In previous financial year, the amount was subject to interest at the rate of 3.25% per annum compounded on monthly rest. The advances were mainly to support a subsidiary's capital expenditure.

25. DIVIDENDS

	Group/Company	
	2019 RM	2018 RM
Final single tier dividend of 1.5 sen per share in respect of financial year ended 31 December 2017	–	4,650,000
Final single tier dividend of 1.5 sen per share in respect of financial year ended 31 December 2018	4,650,000	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash and bank balances (Note 17)	8,979,199	16,623,488	663,551	435,547
Deposits with licensed banks (Note 16)	33,817,075	36,415,468	1,067,889	1,548,119
	42,796,274	53,038,956	1,731,440	1,983,666
Less: Bank overdrafts (Note 20)	(40,981,933)	(30,520,249)	-	-
Less: Deposits pledged with licensed banks (Note 16)	(7,893,438)	(7,047,262)	-	-
	(6,079,097)	15,471,445	1,731,440	1,983,666

27. 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.

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.

27. SEGMENT INFORMATION (CONTINUED)

Measurement of reportable segment

	Trading of Steel Products RM	Processing of Steel Products RM	Others RM	Total RM
2019				
Revenue				
External revenue	281,936,261	325,008,040	177,913	607,122,214
Cost of sales	(257,219,254)	(288,544,255)	(89,041)	(545,852,550)
Gross profit	24,717,007	36,463,785	88,872	61,269,664
Add/(Less):				
Other income				2,861,645
Operating expenses				(36,187,287)
Net addition of impairment losses of financial assets				(958,700)
Finance costs				(16,008,289)
Profit before tax				10,977,033
Income tax expense				(5,444,174)
Profit for the financial year				5,532,859
	Trading of Steel Products RM	Processing of Steel Products RM	Others RM	Total RM
2018				
Revenue				
External revenue	266,622,009	330,779,584	523,724	597,925,317
Cost of sales	(227,731,928)	(287,263,548)	(466,601)	(515,462,077)
Gross profit	38,890,081	43,516,036	57,123	82,463,240
Add/(Less):				
Other income				2,602,901
Operating expenses				(36,102,734)
Net addition of impairment losses of financial assets				(848,079)
Finance costs				(12,582,784)
Profit before tax				35,532,544
Income tax expense				(9,567,416)
Profit for the financial year				25,965,128

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

27. 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	
	2019	2018
	RM	RM
Malaysia	215,237,308	205,792,007
Republic of Singapore	9,531	10,512
	<u>215,246,839</u>	<u>205,802,519</u>

Information about major customers

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

28. CAPITAL COMMITMENTS

	Group	
	2019	2018
	RM	RM
Approved and contracted for:		
Acquisition of plant and equipment	190,701	805,671
Construction of factory and warehouse buildings	810,573	477,399
	<u>1,001,274</u>	<u>1,283,070</u>

29. RELATED PARTY DISCLOSURES

(a) Identity of related parties

A party is 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 operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:

- (i) Subsidiaries;
- (ii) Fellow subsidiaries;
- (iii) Ultimate holding company;
- (iv) Entities in which directors have substantial financial interests; and
- (v) Key management personnel of the Group, comprising persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

29. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant 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	
	2019 RM	2018 RM	2019 RM	2018 RM
Transactions with ultimate holding company				
- Rental paid and payable	1,752,000	1,651,500	-	-
- Interest charged and paid	133,935	322,332	-	-
Transactions with subsidiaries				
- Management fees received and receivables	-	-	(418,649)	(398,022)
- Dividend income received and receivables	-	-	(1,500,000)	(3,500,000)
- Corporate guarantee fees received and receivables	-	-	(2,778,841)	(2,285,487)
Transactions with fellow subsidiaries				
- Sales	(1,337)	(7,965)	-	-
- Purchases	113,331	1,093,696	-	-
- Rental paid and payable	300,000	270,000	-	-
Transactions with related parties				
- Sales	(4,515,485)	(4,931,640)	-	-
- Purchases	10,295	2,703	-	-

(c) Related party balances

Information on outstanding balances with related parties of the Group is disclosed in Notes 14, 15, 22, and 24.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

29. 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	
	2019 RM	2018 RM	2019 RM	2018 RM
Short-term employee benefits	6,419,792	6,731,745	407,923	420,923
Fees	1,150,000	1,150,000	650,000	650,000
Benefits-in-kind	284,930	303,300	1,777	1,711
	7,854,722	8,185,045	1,059,700	1,072,634
Post employment benefits	761,405	800,902	46,080	48,000
	8,616,127	8,985,947	1,105,780	1,120,634

30. 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:

	Carrying Amount RM	Amortised Cost RM
At 31 December 2019		
Financial assets		
Group		
Trade and other receivables (i)	162,535,598	162,535,598
Deposits with licensed banks	33,817,075	33,817,075
Cash and bank balances	8,979,199	8,979,199
	205,331,872	205,331,872
Company		
Other receivables (i)	5,356	5,356
Amount due from subsidiaries	2,696,054	2,696,054
Dividend receivables	1,500,000	1,500,000
Deposits with a licensed bank	1,067,889	1,067,889
Cash and bank balances	663,551	663,551
	5,932,850	5,932,850

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Categories of financial instruments (continued)

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

	Carrying Amount RM	Amortised Cost RM
At 31 December 2019		
Financial liabilities		
Group		
Trade and other payables (ii)	46,085,023	46,085,023
Amount due to ultimate holding company	137,000	137,000
Borrowings	282,371,903	282,371,903
	<u>328,593,926</u>	<u>328,593,926</u>
Company		
Other payables	816,441	816,441
	<u>816,441</u>	<u>816,441</u>
At 31 December 2018		
Financial assets		
Group		
Trade and other receivables (i)	158,909,906	158,909,906
Deposits with licensed banks	36,415,468	36,415,468
Cash and bank balances	16,623,488	16,623,488
	<u>211,948,862</u>	<u>211,948,862</u>
Company		
Other receivables (i)	6,875	6,875
Amount due from a subsidiary	1,853,738	1,853,738
Dividend receivables	3,500,000	3,500,000
Deposits with a licensed bank	1,548,119	1,548,119
Cash and bank balances	435,547	435,547
	<u>7,344,279</u>	<u>7,344,279</u>
Financial liabilities		
Group		
Trade and other payables (ii)	34,087,217	34,087,217
Amount due to ultimate holding company	5,000,000	5,000,000
Borrowings	268,285,362	268,285,362
	<u>307,372,579</u>	<u>307,372,579</u>
Company		
Other payables	838,252	838,252
	<u>838,252</u>	<u>838,252</u>

(i) Excluded advance payment made to suppliers, GST refundable, prepayments and down payments for purchase of plant and equipment.

(ii) Excluded withholding tax payables, sales tax payables and advances from customers.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

30. 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 and foreign currency 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 financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group are exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. 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. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Trade receivables

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the carrying amounts in the statements of financial position.

The carrying amount of trade receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group consider any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group apply the simplified approach to providing for expected credit losses prescribed by MFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (continued)

(i) Credit Risk (continued)

Trade receivables (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 31 December 2018 which are grouped together as they are expected to have similar risk nature.

	Gross Carrying Amount RM	Individual Impairment RM	Expected Loss Rate RM	Collective Impairment RM	Net Balance RM
2019 Group					
Current	81,378,366	–	0.04% - 0.14%	(5,286)	81,373,080
Past due 1 - 30 days	36,731,603	–	0.12% - 0.34%	(55,047)	36,676,556
Past due 31 - 61 days	25,063,208	–	0.16% - 0.46%	(45,390)	25,017,818
Past due > 60 days	20,126,164	(1,129,759)	0.93% - 5.00%	(687,591)	18,308,814
Total	163,299,341	(1,129,759)		(793,314)	161,376,268
2018 Group					
Current	83,844,141	–	0.06% - 0.10%	(59,589)	83,784,552
Past due 1 - 30 days	33,768,738	–	0.15% - 0.25%	(61,385)	33,707,353
Past due 31 - 61 days	23,513,227	–	0.20% - 0.34%	(68,024)	23,445,203
Past due > 60 days	17,627,655	(390,700)	0.83% - 5.00%	(402,040)	16,834,915
Total	158,753,761	(390,700)		(591,038)	157,772,023

The movement in the allowance for impairment losses of trade receivables during the financial year were:

	Individual Impairment RM	Collective Impairment RM	Total RM
2019 Group			
At 1 January 2019	390,700	591,038	981,738
Addition (Note 6)	778,918	238,705	1,017,623
Reversal (Note 6)	(22,494)	(36,429)	(58,923)
Written off	(17,365)	–	(17,365)
At 31 December 2019	1,129,759	793,314	1,923,073

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (continued)

(i) Credit Risk (continued)

Trade receivables (continued)

The movement in the allowance for impairment losses of trade receivables during the financial year were: (continued)

	Individual Impairment RM	Collective Impairment RM	Total RM
2018			
Group			
At 1 January 2018	277,287	–	277,287
Addition (Note 6)	334,765	591,038	925,803
Reversal (Note 6)	(77,724)	–	(77,724)
Written off	(143,628)	–	(143,628)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	390,700	591,038	981,738

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.

Other receivables and other financial assets

For other receivables and other financial assets (including cash and cash equivalents and refundable deposits), the Group and the Company minimise credit risk by dealing exclusively with counterparties with high credit rating.

At the reporting date, the Group's and the Company's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

The Group and the Company consider the probability of default upon the initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group and the Company compare the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group and the Company provide advances to subsidiaries. The advances to subsidiaries are repayable on demand. For such advances, expected credit losses are assessed based on the assumption that repayment of the advances is demanded at the reporting date. If the subsidiary do not have sufficient liquid reserves when the loan is demanded, the Group and the Company will consider the expected manner of recovery and recovery period of the advances.

Other than the credit-impaired amount due from subsidiaries, the Group and the Company consider these financial assets to be of low credit risk, for which no material loss allowance is required.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (continued)

(i) Credit Risk (continued)

Financial guarantee contracts

The Company is exposed to credit risk in relation to financial guarantees given to banks in respect of loans granted to certain subsidiaries. The Company monitors the results of the subsidiaries and their repayment on an on-going basis. The maximum exposure to credit risks amounts to RM262,382,097 (2018: RM261,092,422) representing the maximum amount the Company could pay if the guarantee is called on as disclosed in Note 20. As at the reporting date, there was no indication that the subsidiary would default on repayment and hence no loss allowance for impairment as determined by the Company for the financial guarantees.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

(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 loans, bankers' acceptances, bank overdrafts and amount due to ultimate holding company.

Borrowings at floating rate amounting to RM262,382,097 (2018: RM260,945,242) expose the Group to cash flow interest rate risk whilst borrowings at fixed rate amounting to RM19,989,806 (2018: RM12,340,120) 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 2019 would decrease/increase by RM997,052 (2018: RM991,592) 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Financial risk management policies (continued)

(iii) Liquidity Risk (continued)

The Group and the Company manages their operating cash flows by maintaining sufficient level of cash to meet their 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 and the Company'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
2019						
Group						
Financial liabilities						
Trade and other payables	46,085,023	46,085,023	46,085,023	-	-	-
Amount due to ultimate holding company	137,000	137,000	137,000	-	-	-
Term loans	50,415,465	63,896,345	4,497,591	5,996,379	30,012,929	23,389,446
Bankers' acceptances	137,772,382	137,772,382	137,772,382	-	-	-
Bank overdrafts	40,981,933	40,981,933	40,981,933	-	-	-
Islamic financing	33,212,317	33,539,687	33,539,687	-	-	-
Lease liabilities	19,989,806	29,924,008	4,664,882	3,716,540	4,578,706	16,963,880
	328,593,926	352,336,378	267,678,498	9,712,919	34,591,635	40,353,326
Company						
Financial liabilities						
Other payables	816,441	816,441	816,441	-	-	-
Financial guarantee *	-	262,382,097	262,382,097	-	-	-
	816,441	263,198,538	263,198,538	-	-	-

* The Company has given corporate guarantee of RM584,760,000 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 2019, approximately RM262,382,097 of the banking facilities were utilised by the said subsidiaries.

30. 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 and the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations: (continued)

	Carrying Amount	Contractual Cash Flows	On demand or within 1 year	1 to 2 years	2 to 5 years	Over 5 years
	RM	RM	RM	RM	RM	RM
2018						
Group						
Financial liabilities						
Trade and other payables	34,087,217	34,087,217	34,087,217	-	-	-
Amount due to ultimate holding company	5,000,000	5,162,500	5,162,500	-	-	-
Term loans	47,460,676	62,283,283	4,477,644	4,390,344	28,668,316	24,746,979
Bankers' acceptances	141,435,876	141,435,876	141,435,876	-	-	-
Bank overdrafts	30,520,249	30,520,249	30,520,249	-	-	-
Islamic financing	41,528,441	43,428,153	43,428,153	-	-	-
Finance lease payables	7,340,120	8,140,089	2,591,790	2,061,829	3,486,470	-
	307,372,579	325,057,367	261,703,429	6,452,173	32,154,786	24,746,979
Company						
Financial liabilities						
Other payables	838,252	838,252	838,252	-	-	-
Financial guarantee *	-	261,092,422	261,092,422	-	-	-
	838,252	261,930,674	261,930,674	-	-	-

* The Company has given corporate guarantee of RM519,757,772 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 2018, approximately RM261,092,422 of the banking facilities were utilised by the said subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

30. 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 EUR, JPY, USD and SGD as disclosed in Notes 14, 17 and 22.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweigh the potential risk of exchange rate fluctuations.

Sensitivity analysis for foreign currency risk

The Group's principal foreign currency exposure relates mainly to United States Dollar ('USD'), Singapore Dollar ('SGD') and Euro Dollar ('EURO').

The following table demonstrates the sensitivity to a reasonably possible change in the USD, SGD and EURO, with all other variables held constant on the Group's total equity and profit for the financial year.

		Group	
		2019 RM	2018 RM
USD/RM	- Strengthened 5%	211,615	114,184
	- Weakened 5%	(211,615)	(114,184)
SGD/RM	- Strengthened 5%	57,180	54,954
	- Weakened 5%	(57,180)	(54,954)
EURO/RM	- Strengthened 5%	(2,442)	(735)
	- Weakened 5%	2,442	735

(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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Fair value of financial instruments (continued)

(ii) 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.

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	2018 Fair Value RM
Group		
Financial liability		
Finance lease payables*	7,340,120	7,760,392

* Comparative information under MFRS 117 Leases. Further information on leases are disclosed in Note 20(a).

(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 (cont'd)

30. 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 financial instruments:

	Fair value RM	Level 1 RM	Level 2 RM	Level 3 RM
2018				
Group				
Financial liability				
Finance lease payables*	7,760,392	–	7,760,392	–

* Comparative information under MFRS 117 Leases. Further information on leases are disclosed in Note 20(a).

The disclosure of the fair value of lease liabilities under MFRS 16 is not required.

During the financial year ended 31 December 2018, there have been no transfers between Level 1 and Level 2 fair value measurements.

31. 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 2018. 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 loans and lease liabilities less deposits with licensed banks, cash and bank balances whilst total capital is total equity of the Group.

	Group	
	2019	2018
	RM	RM
Total interest-bearing borrowings	282,371,903	273,285,362
Less: Deposits with licensed banks, cash and bank balances	(42,796,274)	(53,038,956)
Total net debts	239,575,629	220,246,406
Total equity	351,427,266	352,348,080
Total net debts plus equity	591,002,895	572,594,486
Gearing ratio	41%	38%

The Group and a subsidiary are required to comply with gearing ratios in respect of their borrowings.

32. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Coronavirus outbreak

On 11 March 2020, the World Health Organisation declared the Coronavirus ("Covid-19") outbreak as a pandemic in recognition of its rapid spread across the globe. On 16 March 2020, the Malaysian Government has imposed the Movement Control Order ("MCO") starting from 18 March 2020 to curb the spread of the Covid-19 outbreak in Malaysia. The Covid-19 outbreak also resulted in travel restriction, lockdown and other precautionary measures imposed in various countries. The emergence of the Covid-19 outbreak since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group and the Company operate.

For the Group's and the Company's financial statements for the financial year ended 31 December 2019, the Covid-19 outbreak and the related impacts are considered non-adjusting events in accordance with MFRS 110 Events after the Reporting Period. Consequently, there is no impact on the recognition and measurement of assets and liabilities as at 31 December 2019.

The Group and the Company are unable to reasonably estimate the financial impact of Covid-19 for the financial year ending 31 December 2020 to be disclosed in the financial statements as the situation is still evolving and the uncertainty of the outcome of the current events. It is however certain that the local and worldwide measures against the spread of the Covid-19 will have adverse effects on the Group's and the Company's sales, operations and supply chains. The Group and the Company will continuously monitor the impact of Covid-19 on its operations and its financial performance. The Group and the Company will also be taking appropriate and timely measures to minimise the impact of the outbreak on the Group's and the Company's operations.

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 91 to 167 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 2019 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: 18 May 2020

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 91 to 167 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 15963

Subscribed and solemnly declared at the Federal Territory of Kuala Lumpur on 18 May 2020.

Before me

HADINUR MOHD SYARIF (W761)
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEON FUAT BERHAD (INCORPORATED IN MALAYSIA)

Report on the Audit of 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 2019 of the Group and of the Company, and the statements of profit and 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 91 to 167.

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 2019, 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 2019, the Group's inventories amounts to RM261.54 million. The Group's inventories are measured 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:

- understand 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;
- reviewing subsequent sales and Group's assessment on estimated net realisable value on selected samples of inventory items; and
- evaluating whether the inventories have been written down to their net realisable value for inventory items with net realisable value lower than their cost.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEON FUAT BERHAD (cont'd)

(INCORPORATED IN MALAYSIA)

Key Audit Matters (continued)

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.

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.

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

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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEON FUAT BERHAD (cont'd)

(INCORPORATED IN MALAYSIA)

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 PLT
201906000600 (LLP0019411-LCA & AF 0117)
Chartered Accountants

Andrew Choong Tuck Kuan
No. 03264/04/2021 J
Chartered Accountant

Kuala Lumpur

Date: 18 May 2020

LIST OF PROPERTIES HELD AS AT 31 DECEMBER 2019

Registered/ Beneficial Owner	Address/Title	Description/Existing Use	Tenure	Approximate Land/Built-up Areas (sq. ft.*)	Approximate Age of Buildings (No. of Years)	Net Carrying Amount At Group Level as at 31 December 2019 (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)	12	Office and factory: 17,871,150 & land: 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)	23	Office and factory: 2,862,614 & land: 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: 11,977,061 & land: 15,681,600	2012
LF Metal	No. 17, Persiaran Sultan Alauddin, KU 17, Kawasan Perindustrian 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	A unit of single-storey detached factory cum warehouse building/ Used as steel pipe manufacturing plant, warehouse and office	Leasehold expiring on 7.12.2110	700,864/128,371 (factory/warehouse built-up area)	1	Factory/Warehouse: 24,593,554 & land: 31,767,353	2016

LIST OF PROPERTIES

HELD AS AT 31 DECEMBER 2019 (cont'd)

Registered/ Beneficial Owner	Address/Title	Description/Existing Use	Tenure	Approximate Land/Built-up Areas (sq. ft.*)	Approximate Age of Buildings (No. of Years)	Net Carrying Amount At Group Level as at 31 December 2019 (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)	4	Office and warehouse: 10,002,128	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/Used as a steel processing plant	Leasehold expiring on 09.07.2050	25,957/11,900 (factory built-up area)**	22	Office and factory: 315,818 & Land: 367,817	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 25.06.2055	92,602/2,325 (office built-up area) & 54,250 (factory built-up area)	20	Office and factory: 3,406,923 & Land: 3,879,348	2017
Supreme Steelmakers	B09-F2-1, Pangsapuri Mutiara, Taman Balakong Jaya, 43300 Balakong, Selangor Darul Ehsan Strata Tittle No. PM204/M1/3/64, No. Bangunan M1, No. Tingkat 3, No. Petak 64, Lot No. 41233, Pekan of Kajang, District of Hulu Lan gat, State of Selangor	A unit of residential apartment/ Used as workers' hostel	Lease Agreement expiring on 29.07.2095	741 (apartment built-up area)	19	Apartment: 163,768	2018

Registered/ Beneficial Owner	Address/Title	Description/Existing Use	Tenure	Approximate Land/Built-up Areas (sq. ft.*)	Approximate Age of Buildings (No. of Years)	Net Carrying Amount At Group Level as at 31 December 2019 (RM)	Year of Acquisition/ Revaluation
Supreme Steelmakers	B10-F1-2, Pangsapuri Mutiara, Jalan Balakong Jaya, Taman Balakong Jaya, 43300 Balakong, Selangor Darul Ehsan Strata Tittle No. PM204/M1/2/51, No. Bangunan M1, No. Tingkat 2, No. Petak 51, Lot No. 41233, Pekan of Kajang, District of Hulu Langat, State of Selangor	A unit of residential apartment/ Used as workers' hostel	Lease Agreement expiring on 29.07.2095	741 (apartment built-up area)	19	Apartment: 179,019	2018
Supreme Steelmakers	No. 3 Jalan Balakong Jaya 5, Taman Balakong Jaya, 43300 Balakong, Selangor Darul Ehsan H.S.(M) 20117, No. PT 34509, Tempat BT 12, Jalan Balakong Mukim Kajang, Daerah Hulu Langat, State of Selangor	A unit of double storey link house/Used as workers' hostel	Lease Agreement expiring on 29.07.2095	1,076/1,350 (double storey link house built-up area)	10	Double storey link house: 474,513	2018

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-storey 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 OF SHAREHOLDINGS

AS AT 15 MAY 2020

SHARE CAPITAL

Total number of Issued Shares	: 310,000,000 ordinary shares
Class of Shares	: Ordinary shares
Voting Rights	: One (1) vote per ordinary share

Size of Shareholdings	No. of Shareholders	%	No. of Shares held	%
Less than 100	3	0.14	87	0.00
100 - 1,000	174	8.26	103,713	0.03
1,001 - 10,000	967	45.92	5,920,700	1.91
10,001 - 100,000	809	38.41	26,383,600	8.51
100,001 - 15,499,999	152	7.22	57,901,900	18.68
15,500,000 and above	1	0.05	219,690,000	70.87
Total	2,106	100.00	310,000,000	100.00

DIRECTORS' SHAREHOLDINGS

(As per Register of Directors' Shareholdings)

Name of Directors	Direct		Indirect	
	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	–	–
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	65,000 ⁽³⁾	0.02	–	–
Others ⁽⁴⁾				
Ooi Shang Yao	20,000	0.006	–	–
Ooi Shang Chieh	5,000	0.002	–	–

Notes:

- 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").
- 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.
- Held through CGS-CIMB Nominees (Tempatan) Sdn Bhd.
- 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.

SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

(As per Register of Substantial Shareholders' Shareholdings)

Name of Substantial Shareholders	Direct		Indirect	
	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.

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STATISTICS OF SHAREHOLDINGS

AS AT 15 MAY 2020 (cont'd)

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	6,727,600	2.17
3	JEFFREY NG POW KONG	2,000,700	0.65
4	CHOO WING SING	1,675,700	0.54
5	SIN HOCK	1,477,900	0.48
6	KENANGA NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR LIM HONG CHOON (030)</i>	1,288,400	0.42
7	HLB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR LEE KOING@ LEE KIM SIN</i>	1,265,700	0.41
8	DO HOCK KWONG	1,234,500	0.40
9	LIM JIT HAI	1,218,600	0.39
10	OOI SENG KHONG	1,105,900	0.36
11	ENG HONG PALM OIL MILL SDN BERHAD	1,000,000	0.32
12	TAN TIEN SANG	1,000,000	0.32
13	SUI POOI NGAN	928,900	0.30
14	LEE KOING @ LEE KIM SIN	768,500	0.25
15	LIM CHOON	734,300	0.24
16	TEE HENG SENG	707,300	0.23
17	LOH TIANG EAM	692,600	0.22
18	LOO CHEE LAIN	670,000	0.22
19	KWAN YEW KOK	650,000	0.21
20	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. <i>EXEMPT AN FOR DBS VICKERS SECURITIES (SINGAPORE) PTE LTD (CLIENTS)</i>	630,000	0.20
21	RHB NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR CHIAU BENG TEIK</i>	597,700	0.19
22	QUEK SEE KUI	591,000	0.19
23	SIANG HAI YONG	588,900	0.19
24	NEOH KIM WAH	572,000	0.18
25	NG SIEW MUN	570,900	0.18
26	MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>YOU BUN PIEW</i>	570,000	0.18
27	CHAN LEE SAM	532,000	0.17
28	TAN CHONG LEONG	530,400	0.17
29	NG TECK LIN	522,900	0.17
30	LIAU YUAN HIN	520,000	0.17

TOTAL

251,062,400

80.99

NOTICE OF 13TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 13th Annual General Meeting (“AGM”) of Leon Fuat Berhad (“LFB” or “the Company”) will be held at Greens III, Sports Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 June 2020 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 2019 together with the Directors’ and Auditors’ Reports thereon. *Please refer to Note (vii)*
2. To approve the payment of Directors’ fees and allowances up to RM1,050,000 from 1 July 2020 until the next AGM of the Company. *Resolution 1*
3. To re-elect the following Directors who retire in accordance with Article 92 of the Company’s Constitution:
 - (i) Dato’ Sri Ooi Bin Keong; *Resolution 2*
 - (ii) Ooi Kong Tiong; and *Resolution 3*
 - (iii) Ooi Seng Khong. *Resolution 4*
4. To re-appoint Messrs Baker Tilly Monteiro Heng PLT as the Company’s Auditors and to authorise the Directors to fix their remuneration. *Resolution 5*

SPECIAL BUSINESS

To consider and if thought fit, to pass with or without modifications, the following resolutions:

5. **ORDINARY RESOLUTION
AUTHORITY FOR THE DIRECTORS TO ISSUE SHARES** *Resolution 6*

“THAT pursuant to Sections 75 and 76 of the Companies Act 2016 (“the Act”), 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 number of 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 13TH ANNUAL GENERAL MEETING (cont'd)

**6. ORDINARY RESOLUTION
PROPOSED RENEWAL OF EXISTING SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("PROPOSED RENEWAL OF RRPT MANDATE")**

Resolution 7

"THAT subject always to the provisions of the Main Market 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 1 June 2020 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 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 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 Renewal of RRPT Mandate."

7. To transact any other business of which due notice shall have been given in accordance with the Act and the Company's Constitution.

BY ORDER OF THE BOARD

YEOH CHONG KEAT
SSM PC NO. 201908004096
MIA 2736

LIM FEI CHIA
SSM PC NO. 202008000515
MAICSA 7036158

Company Secretaries
Kuala Lumpur
1 June 2020

NOTES:

- (i) In respect of deposited securities, only members whose names appear in the Record of Depositors on 23 June 2020 (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 the Proxy Form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
- (vii) Audited Financial Statements for the financial year ended 31 December 2019

The Audited Financial Statements for the financial year ended 31 December 2019 are laid in accordance with Section 340(1)(a) of the Act for discussion only and do not require shareholders' approval. As such, this item will not be put for voting.

- (viii) Authority for the Directors to issue shares (Resolution 6)

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 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 AGM of the Company.

The General Mandate procured and approved in the preceding year 2019 which was not exercised by the Company during the year, will expire at the forthcoming 13th AGM 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.

- (ix) Proposed Renewal of RRPT Mandate (Resolution 7)

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 1 June 2020 despatched together with the Company's Annual Report 2019. This authority, unless revoked or varied by the Company in a general meeting, will expire at the next AGM of the Company.

NOTICE OF

13TH ANNUAL GENERAL MEETING (cont'd)

(x) Personal Data Privacy

The Personal Data Protection Act 2010, which regulates the processing of personal data in commercial transactions, applies to the Company. By providing to the Company and/or its agents the personal data which may include the name, contact details and mailing address, a member of the Company hereby consent, agree and authorise the processing and/ or disclosure of any personal data of or relating to the member for the purposes of issuing the notice of this meeting and convening the meeting (including any adjournment thereof), including but not limited to preparation and compilation of documents and other matters, whether or not supplied by the member. The member further confirms to have obtained the consent, agreement and authorisation of all persons whose personal data the member have disclosed and/or processed in connection with the foregoing.

STATEMENT ACCOMPANYING NOTICE OF THE 13TH 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 13th Annual General Meeting of the Company.

LEON FUAT BERHADRegistration No.: 200601036648 (756407-D)
(Incorporated in Malaysia)**PROXY
FORM**

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 13th Annual General Meeting of the Company to be held at Greens III, Sports Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 30 June 2020 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 the payment of Directors' fees and allowances up to RM1,050,000 from 1 July 2020 until the next AGM of the Company.		
2. To re-elect Dato' Sri Ooi Bin Keong who retires in accordance with Article 92 of the Company's Constitution		
3. To re-elect Ooi Kong Tiong who retires in accordance with Article 92 of the Company's Constitution		
4. To re-elect Ooi Seng Khong who retires in accordance with Article 92 of the Company's Constitution		
5. To re-appoint Messrs Baker Tilly Monteiro Heng PLT as the Company's Auditors and to authorise the Directors to fix their remuneration		
6. Authority for the Directors to issue shares		
7. Proposed Renewal of RRPT 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.

*Delete if not applicable.

#If you do not wish to appoint the Chairman of the Meeting as your proxy/one of your proxies, please strike out the words "or failing him/her, the Chairman of the meeting" and insert the name(s) of the proxy(ies) you wish to appoint in the space(s) provided.

Dated this _____ day of _____ 2020

Signature or Common Seal of Shareholder(s)

Notes:

- In respect of deposited securities, only members whose names appear in the Record of Depositors on 23 June 2020 General Meeting Record of Depositors shall be eligible to attend, speak and vote at this meeting.
- 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.
- 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.
- 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.
- 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.
- If the appointor is a corporation the Proxy Form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
- By submitting the duly executed Proxy Form, the member and his/her proxy consent to the Company and/or its agents collecting, processing, using and disclosing the personal data therein in accordance with the Personal Data Protection Act 2010 for the purpose of this meeting and at any adjournment thereof.

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretaries

LEON FUAT BERHAD

Registration No.: 200601036648 (756407-D)

C/o Archer Corporate Services Sdn Bhd
Suite 11.1A, Level 11
Menara Weld
76, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

1st fold here



LEON FUAT BERHAD

Registration No. 200601036648 (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
Fax : (603) 3344 7777

www.leonfuat.com.my