MALAYSIAN BULK CARRIERS BERHAD
(175953-W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2017

175953-W

Malaysian Bulk Carriers Berhad
(Incorporated in Malaysia)

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(Incorporated in Malaysia)

Directors' report

The Directors present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

Principal activities

The principal activities of the Company are investment holding, ship owning and ship operating.

The principal activities of the subsidiaries are disclosed in Note 14 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Company and the subsidiaries during the year.

Financial results

	Group RM'000	Company RM'000
Loss for the year	(130,098)	(152,358)
Attributable to:		
Equity holders of the Company	(134,954)	(152,358)
Non-controlling interests	4,856	-
	(130,098)	(152,358)

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

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividend

The Directors do not propose the payment of any dividend in respect of the current financial year.

Malaysian Bulk Carriers Berhad
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Directors

The Directors of the Company in office since the beginning of the current financial year to the date of this report are:

Dato' Capt. Ahmad Sufian @ Qurnain bin Abdul Rashid**
Kuok Khoon Kuan**
Wu Long Peng**
Tay Beng Chai
Dato' Mohd Zafer bin Mohd Hashim
Afidah binti Mohd Ghazali
Lim Soon Huat
Hor Weng Yew** (appointed as Alternate Director to Mr Kuok Khoon Kuan on 31 May 2017)
(resigned as Alternate Director to Mr Kuok Khoon Kuan on 16 January 2018)
(appointed as Director on 16 January 2018)
Thai Kum Foon** (appointed as Alternate Director to Wu Long Peng on 31 May 2017)
Govind Ramanathan** (resigned on 16 January 2018)

** These directors are also directors of the Company's subsidiaries.

The Directors of the Company's subsidiaries in office since the beginning of the current financial year to the date of this report (not including those directors listed above) are:

Tan Kim Hoon
Ooi Pooi Teng
Naoki Shinohara
Takuya Shirai (appointed on 1 July 2017)
Sia Geun Teck (appointed on 1 January 2018)
Somu Subramaniam (resigned on 31 March 2017)
Tan Chin Hee (resigned on 31 March 2017)
Tatsuya Okamoto (resigned on 1 July 2017)
Lim Tau Kok (resigned on 31 December 2017)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director 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 shown in Note 8 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any 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.

During the financial year, the total amount of indemnity coverage and insurance premium paid for the Directors and the Officers of the Group and of the Company are RM15,000,000 and RM33,000 respectively

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Directors' interests

According to the Register of Directors' Shareholdings, the interests of Directors who held office at the end of the financial year in shares of the Company were as follows:

		Number of ordinary shares		
	At	During the year		At
	1.1.2017	Bought	Sold	31.12.2017
Direct interests				
Kuok Khoon Kuan	1,268,750	-	-	1,268,750
Wu Long Peng	1,625,000	-	-	1,625,000
Dato' Capt. Ahmad Sufian @ Qurnain bin Abdul Rashid	500,000	-	-	500,000
Tay Beng Chai	275,000	-	-	275,000
Govind Ramanathan	447,700	-	-	447,700
Indirect interests				
Dato' Capt. Ahmad Sufian @ Qurnain bin Abdul Rashid	20,000	-	-	20,000
Tay Beng Chai	2,500	-	-	2,500

Dato' Mohd Zafer bin Mohd Hashim, Lim Soon Huat, Afidah binti Mohd Ghazali, Hor Weng Yew and Thai Kum Foon do not have any interest in shares of the Company or its related corporations during the financial year.

Other statutory information

(a) Before the income statements, statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and satisfied themselves that there were no bad debts and that adequate provision had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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Other statutory information (contd.)

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) it necessary to write off any bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

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

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

(e) 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; or

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

(f) In the opinion of the Directors:

(i) no contingent or other liability 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; 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 or of the Company for the financial year in which this report is made.

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Significant event

Significant event during the financial year is disclosed in Note 36 to the financial statements.

Significant subsequent event

Details of significant event subsequent to the financial year is disclosed in Note 37 to the financial statements.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 6 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 2 APR 2018

Kuok Khoon Kuan

Wu Long Peng

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

We, Kuok Khoon Kuan and Wu Long Peng, being two of the Directors of Malaysian Bulk Carriers Berhad, do hereby state that in the opinion of the Directors, the financial statements set out on pages 15 to 76 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 2 APR 2018

Kuok Khoon Kuan

Wu Long Peng

Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Tan Kim Hoon, being the Officer primarily responsible for the financial management of Malaysian Bulk Carriers Berhad, do solemnly and sincerely declare that the financial statements set out on pages 15 to 76 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed Tan Kim Hoon at
Petaling Jaya in Selangor Darul Ehsan
on 2 APR 2018

Tan Kim Hoon

Before me,

PESURUHJAYA SUMPAH
No: B 479
NORAZILA
BINTI HASSAN
MALAYSIA

Suite A, No. 5, Jalan 14/30,
Section 14,
46100 Petaling Jaya, Selangor

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Independent auditors' report to the members of Malaysian Bulk Carriers Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Malaysian Bulk Carriers Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 76.

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

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' 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.

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Independent auditors' report to the members of Malaysian Bulk Carriers Berhad (contd.) (Incorporated in Malaysia)

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 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Impairment assessment of vessels

Key risk

We draw your attention to Note 2.16 (Accounting policies), Note 3(a) (Significant accounting judgements and estimates), and Note 12 (Property, plant and equipment).

The Group operates owned and chartered-in vessels in the bulkers market. Management regularly monitors the carrying value of its fleet on a vessel-by-vessel basis. Arising from management's assessment, reversals of impairment loss for vessels of RM108.5 million was recognised by the Group during the year.

The Group estimated the recoverable amounts of its vessels based on the higher of fair value less cost to sell (by obtaining brokers' valuations which are indicative) and value in use (by estimating the future cash flows expected to be derived from the vessels and discounting these cash flows at an appropriate discount rate).

Management assesses the fair value less costs to sell for the vessels with the involvement of an external vessel valuation expert. The methodology applied is based on actual transactions in the industry for vessels with comparable characteristics.

Significant judgements were applied in estimating the future cash flows expected to be derived from the vessels. The most critical assumptions are management's view on short-term and long-term charter rates, and the discount rate used to discount the cash flows.

**Independent auditors' report to the members of
Malaysian Bulk Carriers Berhad (contd.)
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Impairment assessment of vessels (contd.)

Key risk (contd.)

These assessments are significant to our audit as they involved complex and subjective management judgements and are based on assumptions that are affected by expected future market and economic conditions.

Our response

We obtained an understanding of management's process for reversing impairment loss recognised in prior period.

In respect of the value in use cash flows, we have performed the following procedures:

- We evaluated and assessed the appropriateness of the methodology and approach applied, including industry benchmarking.
- We evaluated the key assumptions used particularly the short-term and the long-term charter rates applied in the cash flows by comparing to industry data.
- We involved internal valuation specialists in the assessment of the appropriateness of the discount rate. This included an assessment of the specific inputs to the discount rate, including the risk-free rate, equity risk premium and beta, along with gearing and cost of debt. Such inputs were benchmarked either against risk rates in specific international markets in which the Group operates or equivalent data for peer companies.

In respect of the fair value less costs to sell of the vessels, we performed the following procedures:

- We considered the objectivity, independence, expertise and experience of the external vessel valuation expert.
- We obtained an understanding of the methodology adopted by the vessel valuation expert in estimating the fair value of the vessels and assessed whether such methodology is consistent with those used in the industry.
- We corroborated the valuations by benchmarking against actual contracted transactions, recent market transactions and shipping intelligence reports, taking into consideration comparable characteristics including the vessel type, builder, year of build and cargo capacity.

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**Independent auditors' report to the members of
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Provision for onerous contracts

Key risk

We draw your attention to Note 2.26 (Accounting policies), Note 3(b) (Significant accounting judgements and estimates), and Note 29 (Provision for onerous contracts).

In respect of its chartered-in contracts, management regularly monitors whether there are any events which may make such contracts onerous. Where there are such events, the Group estimates the unavoidable costs to meet the obligations under these contracts and recognises a provision.

Estimating the unavoidable costs involves significant judgements on short-term and long-term charter rates. Arising from management's assessment, reversals of provision for onerous contracts of RM10.9 million was recognised by the Group during the year. The provisions for onerous contracts of the Group amounted to RM93.6 million at reporting date.

These assessments are significant to our audit as they involved subjective management judgements and are based on assumptions that are affected by expected future market and economic conditions.

Our response

In addressing this area of focus, we evaluated the key assumptions used particularly the short-term and the long-term charter rates applied in the cash flows by comparing to industry data. The short-term charter out rates are compared against the forward freight agreements rates applicable in notable shipping publications whilst the long-term charter rates i.e. rates beyond 2 - 3 years, are compared against historical average rates achieved over the perceived shipping cycles.

We also focused on the adequacy of the disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive.

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Independent auditors' report to the members of Malaysian Bulk Carriers Berhad (contd.) (Incorporated in Malaysia)

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 Directors' report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's an d 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.

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Independent auditors' report to the members of Malaysian Bulk Carriers Berhad (contd.) (Incorporated in Malaysia)

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

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

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

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Auditors' responsibilities for the audit of the financial statements (contd.)

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: (contd.)

- 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 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.

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**Independent auditors' report to the members of
Malaysian Bulk Carriers Berhad (contd.)
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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 content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Phang Oy Lin
No. 02985/03/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
2 April 2018

Malaysian Bulk Carriers Berhad
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Income statements
for the year ended 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	4	272,582	225,505	34,214	30,385
Voyage expenses		(74,838)	(59,782)	(11,546)	(3,674)
		197,744	165,723	22,668	26,711
Operating expenses		(207,605)	(217,790)	(10,910)	(2,295)
		(9,861)	(52,067)	11,758	24,416
Net change in provision for onerous contracts		10,936	-	-	-
Impairment loss on vessels		-	(50,457)	-	-
Reversal of impairment loss on vessels		108,548	-	-	-
Impairment loss on investments in subsidiaries		-	-	(163,210)	(539,777)
Other operating income/(loss), net	5	15,446	2,772	18,912	17,634
Administration expenses		(10,064)	(11,911)	(6,886)	(7,377)
		115,005	(111,663)	(139,426)	(505,104)
Finance costs		(19,572)	(16,104)	(12,396)	(11,345)
Share of results of an associate		(211,938)	(325,070)	-	-
Impairment loss on associate		-	(39,304)	-	-
Share of results of joint ventures		(12,487)	(4,157)	-	-
Loss before taxation	6	(128,992)	(496,298)	(151,822)	(516,449)
Taxation	9	(1,106)	(822)	(536)	(167)
Loss for the year		(130,098)	(497,120)	(152,358)	(516,616)
Attributable to:					
Equity holders of the Company		(134,954)	(491,306)	(152,358)	(516,616)
Non-controlling interests		4,856	(5,814)	-	-
		(130,098)	(497,120)	(152,358)	(516,616)
Loss per share (sen)	10	(13.50)	(49.13)		

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

Malaysian Bulk Carriers Berhad
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Statements of comprehensive income
for the year ended 31 December 2017

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Loss for the year	(130,098)	(497,120)	(152,358)	(516,616)
Other comprehensive income/(loss):				
Items that will be reclassified to profit or loss				
Currency translation differences	(55,521)	12,741	(65,950)	51,770
Net change in cash flow hedge	3,482	1,480	3,482	1,480
Share of other comprehensive income of associate	1,560	4,901	-	-
Total comprehensive loss for the year	(180,577)	(477,998)	(214,826)	(463,366)
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	(183,114)	(470,751)	(214,826)	(463,366)
Non-controlling interests	2,537	(7,247)	-	-
	(180,577)	(477,998)	(214,826)	(463,366)

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

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Malaysian Bulk Carriers Berhad
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Statements of financial position as at 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Non-current assets					
Intangible assets	11	-	6	-	4
Property, plant and equipment	12	471,671	512,704	38,192	42,686
Deposits	13	56,788	58,386	56,788	58,386
Subsidiaries	14	-	-	366,292	586,627
Associate	15	394,963	655,114	-	-
Joint ventures	16	75,974	151,177	-	-
Loan to a subsidiary	17	-	-	253,179	380,426
Total non-current assets		999,396	1,377,387	714,451	1,068,129
Current assets					
Consumable stores	18	7,344	12,220	4,182	3,038
Receivables and other current assets	19	44,742	47,961	5,636	8,507
Amounts due from subsidiaries	20	-	-	13,502	381
Loan to a subsidiary	17	-	-	90,201	39,973
Short term deposits	21	19,894	500	1,300	-
Cash and bank balances		52,339	69,141	2,160	5,370
		124,319	129,822	116,981	57,269
Non-current assets classified as held for sale	22	83,224	71,907	-	-
Total current assets		207,543	201,729	116,981	57,269
Total assets		1,206,939	1,579,116	831,432	1,125,398

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Statements of financial position
as at 31 December 2017 (contd.)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Equity and liabilities					
Equity attributable to equity holders of the Company					
Share capital	23	338,791	250,000	338,791	250,000
Share premium		-	48,791	-	48,791
Reserves	24	612,673	707,910	396,948	508,186
Accumulated losses		(425,685)	(297,808)	(281,222)	(137,634)
		525,779	708,893	454,517	669,343
Non-controlling interests		23,404	20,867	-	-
Total equity		549,183	729,760	454,517	669,343
Non-current liabilities					
Payables and other liabilities	25	38,346	19,086	-	-
Borrowings	26	323,946	438,526	198,913	269,478
Derivative financial liabilities	27	55,549	115,436	55,549	115,436
Deferred tax liabilities	28	-	-	-	-
Provision for onerous contracts	29	63,476	57,726	-	-
Total non-current liabilities		481,317	630,774	254,462	384,914
Current liabilities					
Payables and other liabilities	25	39,897	42,824	11,109	8,217
Amounts due to subsidiaries	20	-	-	20,764	23,018
Borrowings	26	86,197	105,343	70,549	27,733
Derivative financial liabilities	27	19,842	12,152	19,842	12,152
Provision for taxation		389	186	189	21
Provision for onerous contracts	29	30,114	58,077	-	-
Total current liabilities		176,439	218,582	122,453	71,141
Total liabilities		657,756	849,356	376,915	456,055
Total equity and liabilities		1,206,939	1,579,116	831,432	1,125,398

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

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Consolidated statement of changes in equity for the year ended 31 December 2017

	Attributable to Equity Holders of the Company									
		Distributable	Non-distributable							
	Share capital RM'000	(Accumulated losses)/ retained profits RM'000	Share premium RM'000	Capital reserve RM'000	Capital redemption reserve RM'000	Cash flow hedge reserve (Note 24(a)) RM'000	Foreign currency translation reserve (Note 24(b)) RM'000	Total reserves RM'000	Non-controlling interests RM'000	Total equity RM'000
Group										
At 1 January 2017	250,000	(297,808)	48,791	7,077	40,000	1,605	659,228	707,910	20,867	729,760
Total comprehensive loss for the year	-	(134,954)	-	-	-	5,042	(53,202)	(48,160)	2,537	(180,577)
Transfer from share premium and reserve (Note 23)	88,791	-	(48,791)	-	(40,000)	-	-	(40,000)	-	-
Liquidation of subsidiaries	-	7,077	-	(7,077)	-	-	-	(7,077)	-	-
At 31 December 2017	338,791	(425,685)	-	-	-	6,647	606,026	612,673	23,404	549,183
At 1 January 2016	250,000	193,498	48,791	7,077	40,000	(4,776)	645,054	687,355	51,381	1,231,025
Total comprehensive loss for the year	-	(491,306)	-	-	-	6,381	14,174	20,555	(7,247)	(477,998)
Capital repayment to non-controlling interests	-	-	-	-	-	-	-	-	(16,985)	(16,985)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(6,282)	(6,282)
At 31 December 2016	250,000	(297,808)	48,791	7,077	40,000	1,605	659,228	707,910	20,867	729,760

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

Malaysian Bulk Carriers Berhad
(Incorporated in Malaysia)

Statement of changes in equity
for the year ended 31 December 2017

		Distributable	Non-distributable						
	Share capital RM'000	(Accumulated losses)/ retained profits RM'000	Share premium RM'000	Capital reserve RM'000	Capital redemption reserve RM'000	Cash flow hedge reserve (Note 24(a)) RM'000	Foreign currency translation reserve (Note 24(b)) RM'000	Total reserves RM'000	Total RM'000
Company									
At 1 January 2017	250,000	(137,634)	48,791	8,770	40,000	(3,296)	462,712	508,186	669,343
Total comprehensive loss for the year	-	(152,358)	-	-	-	3,482	(65,950)	(62,468)	(214,826)
Transfer from share premium and reserve (Note 23)	88,791	-	(48,791)	-	(40,000)	-	-	(40,000)	-
Liquidation of subsidiaries	-	8,770	-	(8,770)	-	-	-	(8,770)	-
At 31 December 2017	338,791	(281,222)	-	-	-	186	396,762	396,948	454,517
At 1 January 2016	250,000	378,982	48,791	8,770	40,000	(4,776)	410,942	454,936	1,132,709
Total comprehensive loss for the year	-	(516,616)	-	-	-	1,480	51,770	53,250	(463,366)
At 31 December 2016	250,000	(137,634)	48,791	8,770	40,000	(3,296)	462,712	508,186	669,343

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

Malaysian Bulk Carriers Berhad
(Incorporated in Malaysia)

Statements of cash flows
for the year ended 31 December 2017

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
Loss before taxation	(128,992)	(496,298)	(151,822)	(516,449)
Adjustments for:				
Amortisation of intangible assets	6	558	4	199
Depreciation	19,969	28,442	1,582	778
Impairment loss on trade receivables	870	921	-	-
Reversal of impairment on trade receivables	(921)	-	-	-
(Gain)/loss on disposal of property, plant and equipment	(5,447)	1,258	-	-
Unrealised foreign exchange (gain)/loss	(298)	187	(286)	206
Dividends from subsidiaries	-	-	(7,400)	(20,500)
Interest income	(943)	(1,066)	(12,439)	(11,364)
Finance costs	19,572	16,104	12,396	11,345
Surplus arising from liquidation of subsidiaries	-	-	(297)	-
Impairment loss on investments in subsidiaries	-	-	163,210	539,777
Net change in provision for onerous contracts	(10,936)	-	-	-
Reversal of impairment loss on vessels	(108,548)	-	-	-
Impairment loss on vessels	-	50,457	-	-
Share of results of an associate	211,938	325,070	-	-
Impairment loss on associate	-	39,304	-	-
Share of results of joint ventures	12,487	4,157	-	-
Operating profit/(loss) before working capital changes	8,757	(30,906)	4,948	3,992
Cash flows carried forward	8,757	(30,906)	4,948	3,992

Malaysian Bulk Carriers Berhad
(Incorporated in Malaysia)

Statements of cash flows
for the year ended 31 December 2017 (contd.)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities (contd.)				
Cash flows brought forward	8,757	(30,906)	4,948	3,992
Changes in working capital:				
Consumable stores	3,895	(3,510)	(1,387)	(2,724)
Receivables and other current assets	1,586	(3,144)	2,497	(5,313)
Payables and other liabilities	24,000	18,620	3,360	3,368
Derivatives	(9,802)	-	(9,802)	-
Subsidiaries	-	-	(2,944)	32,462
Cash generated from/(used in) operations	28,436	(18,940)	(3,328)	31,785
Tax paid, net of tax refund	(1,030)	(1,027)	(368)	(184)
Net cash generated from/(used in) operating activities	27,406	(19,967)	(3,696)	31,601
Cash flows from investing activities				
Acquisition of property, plant and equipment	(2,691)	(68,858)	(1,186)	(32,468)
Deposit paid for vessels	(4,265)	(14,440)	(4,265)	(14,440)
Subscription of redeemable preference shares of subsidiaries	-	-	-	(62,314)
Proceeds from divestment in redeemable preference shares of subsidiaries	-	-	-	61,400
Dividends from subsidiaries	-	-	7,400	20,500
Dividend from an associate	-	5,589	-	-
Dividends from joint ventures	7,390	10,265	-	-
Interest received	943	1,066	12,690	11,083
Proceeds from disposal of property, plant and equipment	74,852	122,222	-	-
Loan repayment from joint venture	41,476	-	-	-
Loan repayment from subsidiary	-	-	28,450	-
Net cash generated from/(used in) investing activities	117,705	55,844	43,089	(16,239)
Cash flows carried forward	145,111	35,877	39,393	15,362

Malaysian Bulk Carriers Berhad
(Incorporated in Malaysia)

Statements of cash flows
for the year ended 31 December 2017 (contd.)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows brought forward	145,111	35,877	39,393	15,362
Cash flows from financing activities				
Finance costs paid	(18,414)	(15,009)	(12,647)	(11,064)
Drawdown of borrowings	46,735	92,571	-	-
Repayment of borrowings	(162,282)	(160,746)	(28,450)	-
Capital repayment to non-controlling interests	-	(16,985)	-	-
Dividend paid to non-controlling interests	-	(6,282)	-	-
Net cash used in financing activities	(133,961)	(106,451)	(41,097)	(11,064)
Net change in cash and cash equivalents	11,150	(70,574)	(1,704)	4,298
Effects of foreign exchange rate changes	(8,558)	(281)	(206)	140
Cash and cash equivalents brought forward	69,641	140,496	5,370	932
Cash and cash equivalents carried forward	72,233	69,641	3,460	5,370
Cash and cash equivalents comprise:				
Short term deposits	19,894	500	1,300	-
Cash and bank balances	52,339	69,141	2,160	5,370
	72,233	69,641	3,460	5,370

The accompanying accounting policies and explanatory notes form an integral part of 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 of the Company is at Level 17 and 18, PJ Tower, No. 18, Jalan Persiaran Barat, Off Jalan Timur, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal activities of the Company are investment holding, ship owning and ship operating.

The principal activities of the subsidiaries are disclosed in Note 14.

There have been no significant changes in the nature of the principal activities of the Company and the subsidiaries during the year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 2 April 2018.

2. Significant accounting policies

2.1 Basis of preparation

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

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

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group and the Company have adopted all applicable new and amended MFRSs and Annual Improvements to MFRSs that are effective for annual periods beginning on 1 January 2017. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

2. Significant accounting policies (contd.)

2.3 Standards issued but not yet effective

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

Description	*Effective for annuals periods beginning on or after*
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

Except for MFRS 9, MFRS 15 and MFRS 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of MFRS 9, MFRS 15 and MFRS 16 are described below.

<u>MFRS 15 Revenue from Contracts with Customers</u>

MFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

2. Significant accounting policies (contd.)

2.3 Standards issued but not yet effective (contd.)

MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in MFRS 9 are based on an expected credit loss model and replace the MFRS 139 incurred loss model.

MFRS 16 Leases

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group is currently assessing the impact of the new standards above and plans to adopt the new standards on the required effective dates.

2.4 Basis of consolidation

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

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

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets given, the equity instruments issued and liabilities incurred or assumed at the date of exchange, as well as any contingent consideration given. Acquisition related costs are expensed off in the income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are initially measured at fair value as at acquisition date.

Goodwill is measured as the excess of consideration transferred, and the amount recognised for non-controlling interest over the fair value of the Group's share of the identifiable net assets acquired. In the event that the fair value of the Group's share of identifiable net assets acquired exceeds the amount of consideration transferred, the entire resulting gain is recognised in the income statement of the Group.

2. Significant accounting policies (contd.)

2.4 Basis of consolidation (contd.)

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

2.5 Transactions with non-controlling interests

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

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

2.6 Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the ability to direct the activities of the investee that significantly affect the investee's return.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in profit or loss.

2.7 Associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2. Significant accounting policies (contd.)

2.7 Associates and joint ventures (contd.)

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

An associate or a joint venture is equity accounted for from the date on which the investee becomes an associate or a joint venture.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture after the date of acquisition. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term receivables or loans that, in substance, form an extension of the Group's net investment in the associate or joint venture.

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

In the investor's separate financial statements, investments in associates and joint ventures are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2. Significant accounting policies (contd.)

2.8 Consumable stores

Consumable stores such as lubricant oil stocks, bunkers and ship provisions are stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. In arriving at the net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

Cost is determined on a first-in, first-out basis and includes freight and handling charges.

2.9 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Costs relating to computer software acquired, which are not an integral part of related hardware, are capitalised and amortised on a straight-line basis over their useful life of 3 years.

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

2.10 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2. Significant accounting policies (contd.)

2.10 Property, plant and equipment (contd.)

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Leasehold properties are depreciated over the shorter of their estimated useful lives and the lease terms of 99 years.

Assets under construction are not depreciated as these assets are not yet available for use.

Depreciation of new vessels is calculated utilising the straight-line method to write off the cost, less estimated scrap value over their estimated useful lives of 25 years, whilst for used vessels purchased, depreciation is calculated utilising the straight-line method to write off the cost less estimated scrap value over their remaining useful lives. Cost includes the cost of any major enhancement which increases the future benefits from the vessels beyond their previously assessed standard of performance and is written off over the vessels' remaining useful lives. Expenditure for maintenance and repairs and replacement of equipment are charged to profit or loss when incurred.

Drydocking costs, which enhance the useful lives of the vessels, are capitalised in the year in which they are incurred and amortised over periods between 2 to 3 years until the next drydocking.

For acquisitions and disposals of vessels and drydocking costs during the financial year, depreciation is provided from the day of acquisition and to the day before disposal respectively. Fully depreciated assets are retained in the books until they are no longer in use.

For other assets, depreciation is computed on a straight-line basis over the estimated useful lives of the assets from the month of acquisition and to the month before disposal as follows:

Vehicles	5 years
Office equipment	3 - 5 years
Renovations	3 years
Furniture and fittings	10 years

2. Significant accounting policies (contd.)

2.10 Property, plant and equipment (contd.)

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

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

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

2.11 Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

2. Significant accounting policies (contd.)

2.11 Financial assets (contd.)

Subsequent measurement (contd.)

(ii) Loans and receivables

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

Derecognition

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

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

2. Significant accounting policies (contd.)

2.13 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.14 Foreign currencies

The Group's consolidated financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except otherwise indicated. The Company's functional currency is United States Dollar (USD), i.e. the currency of the primary economic environment in which it operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

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

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

2. Significant accounting policies (contd.)

2.14 Foreign currencies (contd.)

(ii) Consolidated financial statements

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

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and fixed deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.16 Impairment of non-financial assets

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

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

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2. Significant accounting policies (contd.)

2.17 Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

(ii) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost at their implicit discount rates. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

2. Significant accounting policies (contd.)

2.17 Financial liabilities (contd.)

Derecognition

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

2.18 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and to settle the liability simultaneously.

2.19 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease - As lessee

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

Operating lease - As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. The accounting policy for rental income is set out in Note 2.24 (iv). Contingent rents are recognised as revenue in the period in which they are earned.

2. Significant accounting policies (contd.)

2.20 Income tax

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income. Current taxes are recognised in profit or loss.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. Significant accounting policies (contd.)

2.20 Income tax (contd.)

(ii) Deferred tax (contd.)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.21 Share capital

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

2.22 Derivative financial instruments and hedge accounting

Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.