Annual Report 2016

Favelle Favco Berhad and its subsidiaries
Company No. 249243-W (Incorporated in Malaysia)

A MEMBER OF MUHIBBAH ENGINEERING (M) BHD

Board of Directors

Tan Sri A. Razak bin Ramli
(Chairman, Senior Independent Non-Executive Director)

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
(Vice Chairman, Independent Non-Executive Director)

Mac Chung Hui
(Managing Director/Chief Executive Officer)

Mac Ngan Boon @ Mac Yin Boon
(Executive Director)

Lee Poh Kwee
(Executive Director)

Mazlan bin Abdul Hamid
(Executive Director)

Lim Teik Hin
(Non-Independent Non-Executive Director)

Sobri bin Abu
(Independent Non-Executive Director)

Offshore crane, Vietnam, Su Tu Trang Full Field Development

Corporate Information

Audit Committee
Tan Sri A. Razak bin Ramli *(Chairman)*
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Lim Teik Hin
Sobri bin Abu

Company Secretaries
Tew Siew Chong *(MIA 20729)*
Lim Suak Guak *(MIA 19689)*
Tia Hwei Ping *(MAICSA 7057636)*

Registered Office
Lot 586, 2nd Mile
Jalan Batu Tiga Lama
41300 Klang
Selangor Darul Ehsan
Malaysia
Tel : (603) 3349 5465
Fax : (603) 3342 9807

Auditors
Crowe Horwath *(Firm No. AF 1018)*
Chartered Accountants
Level 16 Tower C, Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia

Principal Bankers
Ambank (Malaysia) Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

Share Registrar
Tricor Investor & Issuing House
Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur, Malaysia
Telephone no. : (603) 2783 9299
Facsimile no. : (603) 2783 9222
Email : is.enquiry@my.tricorglobal.com

Tricor Customer Service Centre:
Unit G-3, Ground Floor
Vertical Podium, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

Investor Relations
Tel : (603) 3376 2530
Fax : (603) 3344 6302
E-mail : ir@favellefavco.com.my

Stock Exchange Listing
Main Market of Bursa Malaysia
Securities Berhad
Stock Name: Favco
Bursa Stock Code: 7229
Bloomberg stock code: FFB MK
Listing date: 15 August 2006

Websites
www.favellefavco.com
E-mail : ffb@favellefavco.com.my

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Offshore crane, Netherlands

Tower crane, USA, Petersburg Generating Station

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Fifth Annual General Meeting of Favelle Favco Berhad will be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 22 June 2017 at 11.00 a.m. for the following purposes :-

Agenda

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 and the Reports of the Directors and Auditors thereon. — Please refer to Explanatory Note 1

2. To approve the declaration of a first and final tax exempt dividend of 15 sen per ordinary share in respect of the financial year ended 31 December 2016. — Resolution 1

3. To re-elect the following Directors who retire pursuant to Article 80 of the Constitution of the Company:-

   (i) Mazlan bin Abdul Hamid — Resolution 2
   (ii) Lee Poh Kwee; and — Resolution 3
   (iii) Mac Chung Hui. — Resolution 4

4. To re-appoint Messrs Crowe Horwath as the Company's Auditors for the ensuing year and to authorise the Directors to fix their remuneration. — Resolution 5

As Special Business

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

5. **Ordinary Resolution**
   Continuation of Terms of Office as Independent Director

   "**THAT** pursuant to the Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), approval be and is hereby given to the following Directors, who have served as Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company :-

   (i) Tan Sri A. Razak bin Ramli; and — Resolution 6
   (ii) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor. — Resolution 7

6. **Ordinary Resolution**
Proposed Renewal of Authority for Share Buy-Back Resolution 8

"**THAT** subject to the requirements of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), Companies Act 2016 ("the Act"), and the Constitution of the Company, the Company be and is hereby authorised to purchase such number of ordinary shares in the Company through Bursa Securities ("Proposed Share Buy-Back"), as may be determined by the Directors of the Company from time to time upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that :-

(i) the aggregate number of ordinary shares purchased and/or held by the Company as treasury shares shall not exceed ten percent (10%) of the total number of issued share capital of the Company at any point in time; and

(ii) the funds allocated by the Company for the Proposed Share Buy-Back shall not exceed the aggregate retained profits of the Company; and

(iii) the authority conferred by this resolution shall continue to be in force until :-

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which this resolution was passed, at which time it shall lapse, unless by ordinary resolution passed at that meeting, the authority is renewed, whether unconditionally or subject to conditions; or

(b) 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 shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by an ordinary resolution passed by the shareholders of the Company at a general meeting,

whichever is the earliest.

THAT the Directors of the Company be and are hereby authorised to deal with the shares purchased in the following manner :-

(a) cancel all the shares so purchased; and/or

(b) retain the shares so purchased as treasury shares, for distribution as share dividends to the shareholders and/or resell on the market of Bursa Securities; and/or

(c) retain part thereof as treasury shares and cancel the remainder.

AND THAT the Directors of the Company be and are hereby authorised to give effect to the Proposed Share Buy-Back with full power to assent to any modifications and/or amendments as may be required by the relevant authorities."

7. **ORDINARY RESOLUTION**
Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature Resolution 9

"**THAT** subject to the Main Market Listing Requirements of Bursa Securities, approval be and is hereby given for the Renewal of the Existing Shareholders' Mandate for the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.1.2 of the Circular to Shareholders ("Circular") dated 28 April 2017 provided that such transactions are undertaken in the ordinary course of business, at arm's length basis 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 interests of the minority shareholders of the Company; and

THAT a New Shareholders' Mandate be and is hereby granted for the Company and/or its subsidiaries to enter into additional recurrent related party transactions of a revenue or trading nature with related parties which are necessary for the day-to-day operations and on normal commercial terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders as set out in Section 2.1.2 of the Circular dated 28 April 2017;

(collectively known as the "Proposed Shareholders' Mandate")

THAT the Proposed Shareholders' Mandate conferred by this resolution shall continue to be in force until:-

a) the conclusion of the next AGM of the Company at which time it shall lapse, unless by an ordinary resolution passed at the next AGM, the Proposed Shareholders' Mandate is renewed; or

b) 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 shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

c) revoked or varied by an ordinary resolution passed by the Company's shareholders in a general meeting,

whichever is the earliest.

AND THAT the Directors of the Company be and are hereby authorised to take all steps and to do all such acts and deeds as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate."

8. To transact any other business of which due notice shall have been given.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company pursuant to Article 60(d) of the Constitution of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 15 June 2017 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxies to attend and/or vote on his/her behalf.

Notes :-

(a) *A member entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend, speak and vote in his/her stead. Each proxy appointed, shall represent a minimum of one hundred (100) shares. Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his/her shareholdings to be represented by each proxy.*

(b) *A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.*

(c) *The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.*

(d) *Where a Member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

(e) *Where a Member of the Company 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.*

(f) *The duly completed Proxy Form must be deposited at the Share Registrar's Office, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi 59200 Kuala Lumpur, Malaysia, not less than forty-eight (48) hours before the time set for the holding of the AGM or any adjournment thereof.*

(g) *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.*

Explanatory notes to Agenda

1. **Audited Financial Statements for the Financial Year Ended 31 December 2016**
   The Audited Financial Statements in Agenda 1 is intended for discussion only as the provision of the Section 340(1)(a) of the Act does not require a formal approval of the shareholders and hence is not put forward for voting.

2. **Resolutions 6 & 7: Approval for pertaining to the Continuation of Terms of Office as Independent Director**
   For Resolutions 6 and 7, in line with the Recommendation 3.1 of the MCCG 2012, the Nominating Committee and the Board of Directors had conducted an assessment of independence of Tan Sri A. Razak bin Ramli and Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor, who have served as Independent Non-Executive Directors of the Company for a cumulative terms of more than nine (9) years, and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

   (a) They fulfilled the Independence guidelines as set out in the Main Market Listing Requirements of Bursa Securities, and therefore they would be able to exercise independent judgment and ability to act in the best interest of the Company.

   (b) They provide the Board with a diverse set of experience, skill and expertise.

   (c) They actively participated in board discussion and provide independent voice on the Board.

   (d) They have performed their duty diligently and in the best interest of the Company and provides an invaluable view, independent and balanced assessment to the Board.

3. **Resolution 8: Proposed Renewal of Authority for Share Buy-Back**
   For Resolution 8, the detailed information on the Proposed Renewal of Authority for Share Buy-Back Authority is set out in the Statement/Circular to Shareholders dated 28 April 2017 which is despatched together with the Company's Annual Report 2016.

4. **Resolution 9: Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**
   For Resolution 9, the detailed information on the Proposed Shareholders' Mandate is set out in Statement/Circular to Shareholders dated 28 April 2017 which is despatched together with the Company's Annual Report 2016.

Notice of Dividend Entitlement and Payment Date

Offshore crane, Hong Kong Bridge

NOTICE IS HEREBY GIVEN THAT a first and final tax exempt Dividend of 15 sen per ordinary share in respect of the financial year ended 31 December 2016, if approved by the shareholders at the forthcoming Twenty-Fifth Annual General Meeting, will be paid on 20 September 2017 to Depositors whose names appear in the Record of Depositors at the close of business on 7 September 2017.

A Depositor shall qualify for entitlement to the dividend only in respect of :-

a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 7 September 2017 in respect of ordinary transfers; and

b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

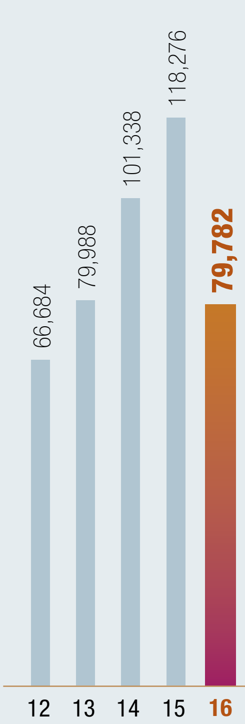
BY ORDER OF THE BOARD

TEW SIEW CHONG (MIA 20729)
LIM SUAK GUAK (MIA 19689)
TIA HWEI PING (MAICSA 7057636)
Company Secretaries

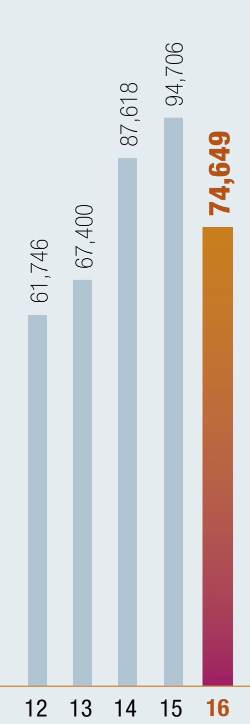
Selangor Darul Ehsan
28 April 2017

Group Financial Highlights

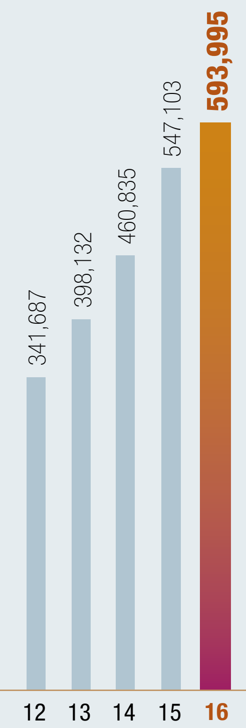
	2012	2013	2014	2015	2016
Turnover (RM'000)	696,747	764,185	797,895	867,348	582,273
Profit Before Tax (RM'000)	66,684	79,988	101,338	118,276	79,782
Profit After Tax Attributable to Owners of the Company (RM'000)	61,746	67,400	87,618	94,706	74,649
Total Equity Attributable to Owners of the Company (RM'000)	341,687	398,132	460,835	547,103	593,995
Share Capital (RM'000)	106,000	107,606	108,756	109,568	110,701
Basic Earnings Per Ordinary Share (Sen)	33.64	31.61	40.55	43.40	33.83
Net Assets Per Ordinary Share (RM)	1.63	1.87	2.11	2.50	2.67



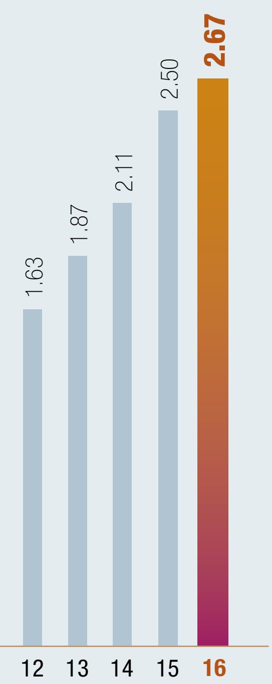
Profit Before Tax
(RM'000)



Profit After Tax
Attributable to Owners of the Company
(RM'000)



Total Equity
Attributable to Owners of the Company
(RM'000)



Net Assets
Per Ordinary Share
(RM)

Group Structure | as at 31 March 2017

FAVELLE FAVCO BERHAD

- 100% **FAVELLE FAVCO CRANES (M) SDN. BHD.** (MALAYSIA)
- 100% **FAVELLE FAVCO CRANES PTE. LTD.** (SINGAPORE)
- 100% **FAVELLE FAVCO CRANES (USA), INC.** (USA)
- 100% **FAVELLE FAVCO CRANES PTY. LIMITED** (AUSTRALIA)
- 100% **KRØLL CRANES A/S** (DENMARK)
- 100% **FES EQUIPMENT SERVICES SDN. BHD.** (MALAYSIA)
- 80% **SHANGHAI FAVCO ENGINEERING MACHINERY MANUFACTURING CO., LTD.** (CHINA)
- 30% **FAVCO OFFSHORES SDN. BHD.** (MALAYSIA)
- 49% **FAVELLE FAVCO MACHINERY and EQUIPMENT L.L.C.** (ABU DHABI, UAE)
- 50% **FAVCO HEAVY INDUSTRY (CHANGSHU) CO., LTD.** (CHINA)

* Dormant companies are excluded from the above Group Structure

Offshore crane with Grillage Beam

Overview of the group's business and operations, objectives and strategies

For over 40 years the Favelle Favco Group has been driving crane technology forward and pushing the envelopes of tailor-made, high speed heavy lifting.

Comprising 2 international brands, Favelle Favco and Kroll, the Group is home of the largest hammerhead crane in the world, the Kroll K10,000 and the largest luffing tower crane in the world, the Favelle Favco M2480.

Our reputation for building the world's fastest cranes has cemented our position in the market for super high-rise buildings, having constructed 8 out of 10 of the world's tallest buildings ever built.

Our full range of products includes offshore cranes, tower cranes, wharf cranes, rental, service and maintenance of cranes. We have 7 operating facilities (Malaysia, Australia, Denmark, the USA, China, Singapore and the UAE) with a total workforce of approximately 1,050 teammates spanning the globe. This global structure allows us to build these heavy lift cranes as close to the delivery point as economically feasible.

Market Review, Strategies

Year 2016 was a year in which the Oil and Gas industry bumped along the bottom. We saw a large number of postponements of deliveries of rigs as the industry continued to balance the total rig inventory in the market.

The construction crane market fared reasonably better. Some of our traditional markets in Australia and the USA remained buoyant whilst the Chinese market continued to stay low. Additionally, we found some success in the onshore wind turbine market. Overall, the construction crane market gave us some base volume of work to offset the slowdown in our oil and gas business.

Whilst we cannot control the market, we did focus on what we can control. As such, our strategies have been to continue to find underserved markets within our own segments. These include development of smaller construction cranes, maintenance services, different offshore crane segments and I'm glad to report that we have been making progress on these fronts.

Offshore crane, Malaysia, Ophir

Review and Discussion of Financial Results

Year 2016 saw our revenue drop from RM867 million (Year 2015) to RM582 million. This was driven primarily as a result of a slowdown in the global oil and gas sector. Correspondingly, our Profit After Tax dropped from RM93.8 million (Year 2015) to RM72.0 million.

Nevertheless, our Net Profit margin rose from 10.8% to 12.3%. This is attributed to carefully controlling of costs and to cut any unnecessary costs. In that sense, we are proud to say we have done well to reduce costs in line with market volume.

Our cash position increased to RM366 million mainly arising out of improved collection and lower tax paid due to a tax incentive granted by the relevant authorities on the increase in export sales enjoyed by the Malaysian subsidiary.

Our order intake for year 2016 (RM370 million) bounced back a little from the trough of year 2015 (RM244 million). Whilst this is a good signal, we do not view this as a firm sign of recovery as yet. Hence, we continue to maintain a cautious approach to business moving forward.

Capex Requirements and Treasury Commentary

We are currently in a net cash position of RM340 million. This is targeted to be used for future investments, acquisitions and rental fleet expansion.

Operational Review

Our outstanding order book combined with some deferred orders carried us through year 2016. Our factories remained reasonably occupied throughout the year, albeit at lower volumes. We stayed vigilant on costs and that is proven in our continued profitability during these stressful times in the industry.

We completed the revamp of four more new tower crane models and will see them all introduced in year 2017. We continue our penetration into the smaller range of tower cranes combining our experience in China and the best practices of Kroll and Favelle Favco. In addition to that, we have been increasing the size of our own Rental Fleet especially in our home markets. We have definitely been seeing welcoming acceptance of such a move.

In the past, we have highlighted our continued investment in our Operations and Maintenance business. We are glad to report we are making further inroads here. We continue to transfer machinery and some of our best people into this segment of the business. Our efforts have been rewarded with a few additional maintenance contracts during the year. We expect to continue investing in training and development for this highly skilled segment of the business.

Tower crane, Poland, Wind Turbine

Curent Challenges and Risks

Favelle Favco's main risks come primarily from the slow market. Market competition is a little keener resulting in slight pricing pressure. Additionally, our China operations have also seen a drop in volumes given the market slowdown there.

Despite this, we see opportunities in this slowdown as it allows us time to prepare our internal operations for future waves, incorporating lessons learned and improved processes.

Expectations of Future Results

We expect the oil and gas market to remain subdued in the near future. In contrast, we do anticipate the construction market to be picking up slightly.

We currently have an order book of RM662 million as at 30 March 2017. This will carry us through most of year 2017.

In order to take advantage of the current market, we expect to continue penetration into new geographies and further investments in the expansion of our rental fleet, refinement of tower crane models and our maintenance business.

Corporate Social Responsibility

In line with our overall objective of knowledge development, we are expanding our internal training operations to include preventive maintenance. As reported before, we are now working closer with the Malaysian Government for industry to develop a national framework for skills training in Malaysia. We absolutely believe that this will continue to help increase safety in our industry, improve earnings capabilities and help our candidates reach high income levels.

We also organized a visit to an orphanage called the Seremban Children's Welfare Organisation. The company and members of Favelle Favco contributed various appliances and renovation works during the Christmas period.

Corporate Governance

In compliance with the principles and best practices as set out in the Code on Corporate Governance, a Statement on Risk Management & Internal Control has been included in this Annual Report in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Company is committed to ensuring that a high level of corporate governance is adopted and practised by the Favelle Favco Group.

Acknowledgement and Appreciation

The Board and I would like to thank the valued management team and employees of the Group for their continuous work commitment, perseverance and ongoing dedication and effort, all of which have enabled the Group to achieve a successful year. We will require greater teamwork in the near future and I'm confident the team will rally to this cause.

Our appreciation goes to all our esteemed clients, business associates, suppliers, sub-contractors and the regulatory authorities whose continued support has been important to the Group.

We would also like to express our appreciation to the bankers and shareholders for their unwavering support extended to the Group.

Finally, my special thanks also to my colleagues on the Board of Favelle Favco Group for their invaluable support and guidance.

Managing Director/Chief Executive Officer

Tan Sri A. Razak bin Ramli

Aged 68, Male, Malaysian

(Chairman, Senior Independent Non-Executive Director)

Chairman of the Audit Committee, Remuneration Committee and Nominating Committee

Tan Sri A. Razak bin Ramli was appointed as an Independent Non-Executive Director of FFB on 1 November 2004 and re-designated as Senior Independent Non-Executive Director and appointed as Chairman of the Nominating Committee on 18 January 2013. He is a member of the Audit and Remuneration Committees. On 15 May 2014, he was appointed as Senior Independent Non-Executive Chairman and Chairman of the Audit Committee and the Remuneration Committee. He joined the Malaysian Civil Service in 1972 and served in the Prime Minister's Department, the Public Services Department and the Economic Planning Unit before being seconded to the private sector for a year in 1984. He joined MITI in 1985 where he rose to the post of Secretary-General on 19 January 2001. Tan Sri A. Razak bin Ramli retired from the Malaysian Civil Service on 24 October 2004. He obtained a Bachelor of Arts (Honours) degree majoring in Public Administration from the University of Tasmania in 1971. He also holds a Diploma (Gestion Publique) from the Institut Internationale d'Administration Publique, Paris (1980). He currently holds various positions in other public-listed companies such as Chairman of Shangri-La Hotels (Malaysia) Berhad and Director of Lafarge Malaysia Berhad.

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor

Aged 73, Male, Malaysian

(Vice Chairman, Independent Non-Executive Director)

Member of the Audit Committee and Nominating Committee

Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor was appointed as an Independent Non-Executive Director of FFB on 5 May 2004 and member of the Audit Committee on 10 May 2004. He was further appointed as a member of the Nominating Committee of FFB on 18 January 2013. On 4 February 2015, he was appointed as Independent Non-Executive Vice Chairman. He was also an Independent Non-Executive Director of MEB, a position he had assumed from 19 April 2001 until 10 June 2013. He retired as the Chief of the Royal Malaysian Navy in January 1999. During his 35 years of service in the Navy, he received numerous awards, both local and international. He holds a Masters Degree in Public Administration from Harvard University, USA. He is a Director of several private limited companies and is also a Director of Affin Islamic Bank Berhad and Boustead Heavy Industries Corporation Bhd.

Mac Chung Hui

Aged 39, Male, Malaysian

(Managing Director/Chief Executive Officer)

Mac Chung Hui was appointed as the Deputy Managing Director of the FFB Group on 5 May 2004 and appointed Chief Executive Officer in the same year. He was re-designated as Managing Director on 26 August 2013. He holds a Bachelor of Civil Engineering degree from the University of Nottingham, United Kingdom. He joined FFB as a Supervisory Board Member in 1999 and was responsible in assisting then Managing Director in the execution of operational decisions of the FFB Group. He has also been overseeing the production and operation of Favelle Favco Cranes Pty Limited ("FFA") and Favelle Favco Cranes (M) Sdn Bhd ("FFM") over the past sixteen (16) years.

Mac Ngan Boon @ Mac Yin Boon

Aged 73, Male, Malaysian
(Executive Director)

Member of the Remuneration Committee

Mac Ngan Boon @ Mac Yin Boon was appointed as the Managing Director of FFB on 23 March 1993 and re-designated as Executive Director on 26 August 2013. He was later appointed as member of both the Nominating (up to 18 January 2013) and Remuneration Committees. He is the co-founder of MEB and has been its Managing Director since its inception on 4 September 1972. He obtained a Bachelor of Engineering (Civil) degree from the University of Western Australia in 1967. He is a professional engineer and a member of the Institute of Engineers Malaysia. He has been the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998. Mac Ngan Boon @ Mac Yin Boon has been playing a leading role in the business expansion and strategic growth of the FFB Group since its acquisition by MEB in 1995. He is also the representative of MEB on the Board of Directors of FFB.

Shirleen Lee Poh Kwee

Aged 51, Female, Malaysian
(Executive Director)

Shirleen Lee Poh Kwee was appointed to the Board of FFB on 24 January 2003 as Executive Director. She is also an Executive Director of MEB. She is a qualified Chartered Accountant with the Malaysian Institute of Accountants and a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom. She is also a Certified Financial Planner of the Financial Planning Association of Malaysia. Prior to joining MEB as Group Financial Controller in 1993, she was attached to an international accounting firm, KPMG Malaysia, for four (4) years. She was involved in the listing exercise of MEB on the Main Board of the Bursa Securities in 1994.

She is currently the Group Finance Director of MEB and Finance Director of major subsidiaries of the MEB Group. She was involved in the acquisition of the business and assets of the FFB Group in 1995, and subsequently, financial planning and management of the FFB Group over the past twenty-two (22) years.

Mazlan bin Abdul Hamid

Aged 54, Male, Malaysian
(Executive Director)

Mazlan bin Abdul Hamid was appointed as Executive Director of FFB on 17 May 2004 and heads the Marketing & Business Development of the FFB Group. He is also a Director of FFM, Favco Offshores Sdn Bhd and Muhibbah Marine Engineering Sdn Bhd, a subsidiary of MEB. He is also a Non-Independent Non-Executive Director of MEB. He obtained a Diploma in Engineering from the University of Mara Technology in 1984 and attended an Advanced Metallurgy course in the United Kingdom in 1985. In the same year, he started his career as a project coordinator in DNT (M) Sdn Bhd. He then joined SCS Petrotechnical (M) Sdn Bhd and was seconded to Sarawak Shell Berhad, and thereafter, he joined Bureau Veritas (M) Sdn Bhd as Surveyor and Marketing Manager. He joined FFM in 1996 as Sales & Marketing General Manager and has played a key role in penetrating the international cranes manufacturing market.

Lim Teik Hin

Aged 75, Male, Malaysian
(Non-Independent Non-Executive Director)

Member of the Audit Committee

Lim Teik Hin was appointed as a Non-Independent Non-Executive Director and member of the Audit Committee of FFB on 24 November 2008. He is a member of the Malaysian Institute of Certified Public Accountants, a member of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A. Walker & Sons) and subsequently worked with KPMG in Malaysia. He then joined Federal Aluminium (M) Bhd as Operations Manager. His last held position was Senior Manager in MEB before he was appointed as a Non-Independent Non-Executive Director and member of the Audit Committee of MEB. He retired as a Non-Independent Non-Executive Director and member of the Audit Committee of MEB on 15 May 2014.

Sobri bin Abu

Aged 64, Male, Malaysian
(Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nominating Committee

Sobri bin Abu was appointed as an Independent Non-Executive Director and member of the Audit Committee, Remuneration Committee and Nominating Committee of FFB on 15 May 2014. He is also an Independent Non-Executive Director of MEB.

Sobri bin Abu's career spans more than thirty (30) years in the oil and gas industry. He worked not only for major national and international oil companies, namely ExxonMobil and PETRONAS but also major international engineering construction companies like Babcock King Wilkinson (UK) Ltd of the United Kingdom, Stone and Webster Engineering Construction, Inc of the United States of America, Petrofac Engineering and Construction of the United Arab Emirates and local engineering companies such as Sumatec Engineering Bhd and Ranhill WorleyParsons of Malaysia.

Offshore crane, Vietnam

Profile of Key Senior Management

Tew Siew Chong

Aged 48, Male, Malaysian

Tew Siew Chong is currently the Group Financial Controller of Favelle Favco Berhad ("FFB") and has been appointed since 2002. He was later appointed as the Director of Shanghai Favco Engineering Machinery Manufacturing Co., Ltd. ("SFEMM") in October 2011. He is involved in the formulation and implementation of the Group's financial and accounting policies. He was previously the Group Accountant of Favelle Favco Cranes (M) Sdn. Bhd. ("FFM"). Prior to joining the FFB Group, he was attached to MOL Berhad as the Group Management Accountant. He was also the Cost Accountant in LKH Power Transformer Sdn Bhd for two years, from 1995 to 1997. He obtained his LCCI higher diploma in 1990 from Elite College, and the Chartered Institute of Management Accountants, United Kingdom certification in 1994.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Ooi San Kooi

Aged 68, Male, Malaysian

Ooi San Kooi is currently the Senior Operations General Manager of FFB and has been appointed since 2004. He is in charge of the operations and development of FFB. He was previously the Managing Director of Mitramega Sdn Bhd. Prior to that, from 1972 to 1993 he was the Factory Manager of BM Engineering Sdn Bhd, which is principally involved in the crane industry. He graduated from University of Malaya with a Degree in Mechanical Engineering in 1972. He was awarded Professional Engineer (P.E) by the Board of Engineers Malaysia in 1972 and has been a Member of the Institute of Engineers Malaysia (M.I.E.M.) since 1980. In 1994, he was honoured as a Fellow of the Institute of Engineers Malaysia (F.I.E.M.).

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Teo Kai Sze, Henry

Aged 62, Male, Singaporean

Teo Kai Sze, Henry has been the General Manager of Favelle Favco Cranes Pte. Ltd. ("FFS") since 1995. He was later appointed as the Director of Favelle Favco Winches Pte. Ltd. ("FFW") and FFS on 25 February 2011 and 31 December 2015 respectively. He is in charge of the overall operations of FFS and FFW. He also oversees the sales and marketing of cranes in Singapore and Vietnam. Prior to joining the FFB Group, he was an Assistant Manager at Compoform Industries and Marine & Onshore Trading Co. Pte Ltd. He obtained his Diploma in Civil Engineering from the Singapore Polytechnic in 1974.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Michael Khoo Kok Eng

Aged 55, Male, Malaysian

Michael Khoo Kok Eng has been the General Manager of Favelle Favco Cranes (USA), Inc. ("FFU") since 1999. He was later appointed as the Director of FFU on September 2004. He is in charge of managing all operational aspects of the business of FFU. He also oversees the after-market parts and services business for the FFB Group. His previous working experience include being a Site/Design Engineer with Connel Wagner Pty Ltd (Australia), Project Manager at EL Project Management Consultants, Project/General Manager at MEB and General Manager at Sanyco Grand Industries. He obtained his Bachelor's Degree in Engineering (Civil) in 1984, and subsequently, the Graduate Diploma in Computing in 1990, both from Monash University, Australia.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Shenandoah Chong Shin Kwek

Aged 49, Male, Malaysian

Shenandoah Chong Shin Kwek has been the General Manager of Favelle Favco Cranes Pty. Limited ("FFA") since 2002. He was later appointed as the Director of FFA on 1 October 2002. He is responsible for the overall operations in Australia. He was previously in International Sales in FFM from 2000 to 2001. His past working experience prior to joining the FFB Group include being a Regional Underwriter at HSB Engineering Insurance Limited, Senior Loss Control Surveyor at Straits & Island General Insurance Sdn Bhd and Risk Engineer at Malaysian National Reinsurance Berhad. He obtained his Bachelor's Degree in Mechanical Engineering in 1992 from the University of Auckland.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Yap Eng Jin

Aged 59, Male, Malaysian

Yap Eng Jin is the General Manager of FFM. As General Manager of FFM, he assumes all functions of the operations of the business unit of FFM, except for sales/marketing, service and spare parts. He started his career as a QC Engineer at Hong Leong Yamaha Motor in 1981. In 1991, he became the Engineering Manager at Allied Auto Parts, and subsequently, the Operating Manager at Kolok (M) Sdn.Bhd. Prior to joining the FFB Group, he was a General Manager at Greenworld (M) Sdn. Bhd. Subsequently, he joined FFM in 1996 as the Production Manager and was promoted as the Works Manager in 2005 and re-designated as General Manager on 15th July 2015. He obtained his Bachelor's Degree in Mechanical Engineering from University of Malaya in 1981.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Henrik Brønsholm Nielsen

Aged 48, Male, Danish

Henrik Brønsholm Nielsen was appointed as General Manager of Krøll Cranes A/S on January 1, 2008. He is responsible for the full operations of the company. He began his career as a Production Engineer in Shamban Danmark A/S in 1994. Thereafter, he joined FFA as Production Manager in 1999. Subsequent to that, he was transferred to Krøll Cranes A/S as Production Manager in 2004. He obtained his Bachelor of Engineering Degree from Copenhagen University College of Engineering in 1994.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Alex Chan Soon Nam

Aged 52, Male, Malaysian

Alex Chan Soon Nam has been the General Manager of SFEMM since 2013. He is responsible for the overall operation of SFEMM in China. His previous working experience prior to joining FFB Group include being a Production Engineer at Kris Component Bhd and General Manager at Dunham-Bush Industries Bhd. He obtained his Diploma in Mechanical and Automotive Engineering from Tunku Abdul Rahman College in 1987.

He has no directorships in other public companies and listed issuers. He does not have any family relationship with any director and/or major shareholder of the company. He does not have any conflict or interest with the company and has no connections for any offences within the past five (5) years, other than traffic offences.

Additional Information on Directors

1. Family Relationship with any Director and/or major shareholder of Favelle Favco Berhad

None of the Directors have any relationship with each other and/or major shareholders of Favelle Favco Berhad except for Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui and Lim Teik Hin. Mac Ngan Boon @ Mac Yin Boon is a major shareholder of Favelle Favco Berhad (indirectly via MEB) and is also the father of Mac Chung Hui, the Managing Director/ Chief Executive Officer of Favelle Favco Berhad. Lim Teik Hin, is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon

2. Conflict of interest

None of the Directors have any conflict of interest with the Company.

3. Convictions for Offences within the past 5 years, other than traffic offences

The Directors have not been convicted of any offences, other than traffic offences within the past five (5) years and have no public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Additional Compliance Information

1. Utilisation of Proceeds from Corporate Proposals

There were no proceeds raised from corporate proposals during the financial year.

2. Fees for services rendered by External Auditors

	Group RM'000	Company RM'000
Audit services	144	57
Non-audit services	29	10

During the financial year, there were non-audit fees amounting to RM29,360 paid to the external auditors.

3. Profit Estimate, Forecast or Projection

There was no profit estimate, forecast or projection announced by the Company and its subsidiary companies during the financial year ended 31 December 2016.

4. Material Contracts

Save for the recurrent related party transactions disclosed below, there were no material contracts entered into by the Company and its subsidiaries involving the interests of Directors and major shareholders, either still subsisting as at 31 December 2016 or entered into since the end of the previous financial year ended 31 December 2015.

5. Recurrent Related Party Transactions

At the Annual General Meeting held on 2 June 2016, the Company had obtained a shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 29 April 2016.

In accordance with Section 3.1.5 of Practice Note No. 12/2001 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2016 pursuant to the shareholders' mandate are disclosed as follows :-

Transacting Parties	Related Party	Nature of Transactions	Actual Transactions Value for the Financial Year Ended 31 December 2016 RM'000
FFB Group and MEB Group	MEB, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui, Mac Chung Jin and Mazlan bin Abdul Hamid	Purchases of cranes and parts and rental of cranes, plant and equipment and barges by FFB Group from MEB Group; and subcontracting work awarded by FFB Group to MEB Group	2,913
		Sales and rental of cranes and parts, and the provision of crane maintenance and services by FFB Group to MEB Group	1,446
		# Rental of factory and office premises located at Geran #26559, Lot 9895, Kg. Jawa, Mukim of Klang, District of Klang, Selangor by MEB Group to FFB Group, measuring 5.0 acres	1,356
		# Rental of open yard located at PN 11185, Lot 104505, Telok Gong, District of Klang, Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft.	-
		# Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft.	176
		# Rental of land held under HS(D) 99546 Lot No. 104625 Telok Gong, Mukim of Klang, District of Klang, State of Selangor measuring in area approximately 160,000 sq. ft. by MEB Group to FFB Group	1,920
		# Rental of open yard located at HS(D) 99547 Lot 104626 & Hakmilik 6322, Lot 129073, Telok Gong, Mukim of Klang, District of Klang, Selangor by MEB Group to FFB Group, measuring 62,500 sq. ft.	592

Transacting Parties	Related Party	Nature of Transactions	Actual Transactions Value for the Financial Year Ended 31 December 2016 RM'000
FFB Group and MEB Group	MEB, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui, Mac Chung Jin and Mazlan bin Abdul Hamid	Shared services expenses/charges by MEB Group to FFB Group which includes amongst others legal, information technology and internal audit by MEB Group to FFB Group	2,000
FFB Group and FO	Mac Ngan Boon @ Mac Yin Boon and Mazlan bin Abdul Hamid	Rental of waterbags for load testing of cranes by FFB Group to FO Sale of crane parts and provision of crane maintenance and services by FFB Group to FO Rental of barges and its related maintenance cost and sale of spare parts by FFB Group to FO	-
		Provision of crane maintenance and services and sale of crane parts by FO to FFB Group	-
		Rental of plant and equipment, barges and its related maintenance cost by FFB Group to FO Sale of spare parts, and provision of crane maintenance and services by FFB Group to FO	-
		Provision of crane maintenance and services and sale of spare parts by FO to FFB Group Rental of plant and equipment, barges and its related maintenance cost by FO to FFB Group	-

Tenancies are for terms not exceeding three (3) years with rentals payable on monthly basis.

Abbreviations

"FFB"	:	Favelle Favco Berhad
"MEB"	:	Muhibbah Engineering (M) Bhd
"FFB Group"	:	FFB, its subsidiaries and associated companies collectively
"MEB Group"	:	MEB, its subsidiaries and associated companies collectively
"FO"	:	Favco Offshores Sdn Bhd, an associated company of FFB

Statement on Corporate Governance

INTRODUCTION

The Board of Directors ("the Board") is committed towards ensuring that good Corporate Governance is observed throughout the Group. Upholding integrity and professionalism in its management of the affairs of the Group, the Board aims to enhance business prosperity and corporate accountability with the ultimate objective of realising long-term shareholders' value and safeguarding interests of other stakeholders.

This statement describes how the Group has applied the principles set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") and except where stated otherwise, its compliance with the best practices of the MCCG 2012 for the financial year ended 31 December 2016.

BOARD OF DIRECTORS

Composition and Balance

An experienced Board consisting of members with a wide range of business, technical, financial and public service backgrounds lead and control the Group. This brings insightful depth and diversity to the leadership and management of the Group's business.

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of eight (8) members, comprising three (3) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and four (4) Executive Directors. As such, more than one third (1/3) of the Board comprises Independent Non-Executive Directors.

The Board believes that the current composition is appropriate given the nature of business and scale of operations of the Group. Profiles of the Directors are presented on pages 13 to 15 of this Annual Report.

The Executive Directors are generally responsible for making and implementing operational decisions whilst the Non-Executive Directors support the skills and experience of the Executive Directors, contributing to the formulation of policy and decision-making with their knowledge of and experience in other business sectors.

An Independent Non-Executive Chairman leads the Board and the Board has also identified Tan Sri A. Razak Bin Ramli as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.

Offshore crane, China, CMHI 151-1

Duties and Responsibilities of the Board

The Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- Oversee the conduct of the Group's businesses and financial performance to determine if the businesses are being properly managed and provide stewardship in monitoring the businesses are aligned with the Group's short and long-term objectives and goals;

- Review and adopt financial results of the Company and the Group and review adequacy of financial information disclosure;

- Review the conduct and performance of major projects to determine whether they are properly managed;

- Assess and review principal risks affecting the Group and supervise the implementation of appropriate systems or processes to manage such risks effectively. The details of the processes are set out in the Statement on Risk Management and Internal Control;

- Review related party transactions;

- Review the material litigations, Group's order book, debt collection status, capital expenditure, borrowing and cash status;

- Establish and implement succession planning for the Directors and the Group's key senior management for purpose of business continuity. This includes ensuring implementation of appropriate systems for recruitment, training and retention; and

- Deliberate on the market outlook, corporate and business strategies.

The Board has delegated specific responsibilities to the committees to assist the Board in the effective operation and in the governance of the Group. The functions and Terms of Reference of the committees as well as authority delegated by the Board have been defined by the Board in the Terms of Reference of the respective committees. These committees are the Audit Committee, Nominating Committee and Remuneration Committee. In addition, the Board is also assisted by the Risk Management Committee which comprises members of the Board and Senior Management.

Board Meetings

Board meetings are held at regular intervals with additional meetings taking place as and when necessary. Board meetings for the ensuing financial year are scheduled in advance at the end of the previous financial year so that the Directors are able to plan ahead and record the following year's Board meetings into their respective schedule. During the financial year under review, the Board met four (4) times to review the Group's operations, strategy and review and approve the quarterly financial results and relevant operational, strategy matters requiring the Board's approval. The Company Secretary records all the deliberations, particularly the issues discussed, in reaching that decision in the minutes of Board meetings. All Directors attended all the board meetings held during the financial year and have complied with the minimum requirement of 50% attendance at Board meetings as stipulated in the Main Market Listing Requirements of Bursa Securities. Details of the attendance of the Directors at the board meetings held during the financial year under review are as follows:

Names of Directors	Attendance at Meetings in 2016
Tan Sri A. Razak bin Ramli	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	4/4
Mac Chung Hui	4/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Lee Poh Kwee	4/4
Mazlan bin Abdul Hamid	4/4
Lim Teik Hin	4/4
Sobri bin Abu	4/4

Board Meetings (continued)

Board members are required to declare their directorship in other companies to the Board. All Board members are expected to devote sufficient time to carry out their roles and responsibilities as Board members. The Board is of the opinion that provisions in the Companies Act 1965 or the Companies Act 2016 (as the case may be) and Main Market Listing Requirements of Bursa Securities are sufficient to ensure adequate commitment by the Directors to perform their duties, including devoting sufficient time to the Company without it being formally regulated. This is evidenced by the attendance of the Directors and the time spent at Board meetings as shown above. Schedule for the Company's Board meetings was formulated and is shared with the Directors prior to the beginning of each financial year to ensure the Directors' time commitment.

Access to Information and Advice

Due notice of at least one week is given to the Directors prior to each Board and Board Committee meetings. Each Director is provided with the agenda and a full set of Board papers providing details on operational, financial and other relevant documents prior to each meeting with the aim of enabling the Directors to make well-informed decisions on matters arising at the meetings. It is the primary responsibility of the Chairman of the Board to organise such information necessary for the Board to deal with the agenda and the Board adopts a formal schedule of matters specifically referred to it for decision.

Senior Management staff may be invited to attend the Board and Board Committee meetings to provide the Board or Committee with detailed presentations, and clarification of relevant agenda items to enable them to arrive at a decision.

The appointment of the Company Secretaries is based on the capability and proficiency determined by the Board. The Company Secretaries are responsible for ensuring that the secretarial function provides adequate support to the Board and the Board Committees. The Company Secretaries are accessible at all times to provide the Directors with the appropriate advice and services and also to ensure that the relevant procedures, policies and all applicable rules and regulations are complied with. As permitted by the Constitution of the Company, the removal of any Company Secretary is a matter for the Board as a whole.

In addition, the Directors have authority to access all information within the Company in furtherance of their duties as well as to the advice and services of the Senior Management of the Company. They are also empowered to seek external independent professional advice in connection with their role as a Director at the Company's expense, to enable them to make well-informed decisions.

Sustainability

The Board views the commitment to sustainability and environment, social and governance performance as part of its broader responsibility to clients, employees, workplace and the communities in which it operates. Every business decision that the Group makes pertaining to growth and profitability is consistent with its social and environmental needs for sustainability. The corporate responsibility initiatives undertaken by the Company for the financial year ended 31 December 2016 are disclosed in the Management Discussion and Analysis of this Annual Report.

Board Charter and Code of Ethics

As at the date of this Statement, the Board has not adopted a Board Charter as the Board believes that the existing legislation collectively with the various policies, the Company's internal procedures and practices that have been in place, the Company's Constitution and statutory and regulatory requirements (not limited to the Companies Act 1965 or the Companies Act 2016 (as the case may be), MCCG 2012 and the Main Market Listing Requirements of Bursa Securities), have effectively encapsulated the essence of the suggested contents of a Board Charter.

The Board is committed to ensuring that all its business activities operate within the good standards of business ethics and integrity as summarised in the Company's code on business practices, which are applicable Group-wide. The key principles of the Company's code on business practices include avoiding conflict of interest situations, insider trading, unethical practices and the exercise of caution and due care in safeguarding the Company's assets and confidential information.

Board Committees

The following committees have been established to assist the Board to discharge its duties and responsibilities. The Board has delegated certain powers and duties to these committees, which operate within the defined Terms of Reference. The final decision on all matters, however, lies with the entire Board. During the Board meetings, the Chairmen of the various Board Committees provide recommendations made at the committee meetings and seek the Board's approval where appropriate.

(i) *Audit Committee*

The principal objective of the Audit Committee is to assist the Board in carrying out its statutory duties and responsibilities relating to the accounting and reporting practices of the Group. This includes reviewing the quarterly financial results and yearly financial statements to be disclosed, the scope of works, having two (2) independent meetings with external auditors, evaluating the performance and independence of the External Auditors using a standard checklist and undertaking any such other functions as may be determined by the Board from time to time.

All the members of the Audit Committee are Non-Executive Directors. Tan Sri A. Razak bin Ramli, the Senior Independent Non-Executive Director, is the Chairman of the Audit Committee.

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on page 32 and 33 of this Annual Report.

(ii) *Nominating Committee*

The present members of the Nominating Committee are as follows:

Names of Committee Members	Designation
Tan Sri A. Razak bin Ramli	Chairman *(Senior Independent Non-Executive Director)*
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Independent Non-Executive Director)*
Sobri bin Abu	Member *(Independent Non-Executive Director)*

The Nominating Committee met once during the financial year. In accordance with its Terms of Reference, the Nominating Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Directors of the Company to ensure that the Board has the required mix of skills, experience and other core competencies, meeting the requirements of Bursa Securities guidelines on the composition of the Board and Board Committees.

(ii) Nominating Committee (continued)

The Nominating Committee had carried out the following activities during the financial year under review in accordance with its Terms of Reference:-

- Reviewed the performance of Independent Directors including the criteria as required under the main market Listing Requirements of Bursa Securities. All assessments and evaluations carried out by the Nominating Committee are properly documented whereby the Nominating Committee was satisfied by the level of independence demonstrated by all the Independent Directors;
- Reviewed the existing balance, size and composition of the Board and Board Committees through an evaluation survey questionnaire known as Board and Board Committees assessment Questionnaire. The duly completed questionnaires were compiled and used as guidance for recommendation of appropriate actions for further improvement;
- Discussed the criteria to be used for the appointment of new Directors which include gender diversity, ethnicity, age and succession planning;
- Identified and recommended to the Board the Directors who were due for retirement by rotation and/or subject to re-appointment at the forthcoming Annual General Meeting; and
- Reviewed the terms of reference of the Nominating Committee to ensure it was in line with the latest Main Market Listing Requirements of Bursa Securities and also to formalize some existing practices of the nominating committee.

The Nominating Committee Terms of Reference is made available on the company's corporate website at www.favellefavco.com.

(iii) *Remuneration Committee*

The present members of the Remuneration Committee are as follows:

Names of Committee Members	**Designation**
Tan Sri A. Razak bin Ramli	Chairman *(Senior Independent Non-Executive Director)*
Mac Ngan Boon @ Mac Yin Boon	Member *(Executive Director)*
Sobri bin Abu	Member *(Independent Non-Executive Director)*

The Remuneration Committee met once during the financial year. In accordance with its Terms of Reference, the Remuneration Committee reviewed the remuneration packages and benefits of the Executive Directors in accordance with the performance, contribution and level of responsibilities undertaken by the Board with benchmark comparisons from other companies in similar industries to ensure the Company is able to attract and motivate high calibre executives to run the Company successfully as well as to attract and retain Directors. Directors do not participate in deliberations and decisions on their own remuneration. At the same time, the Non-Executive Directors' fees were also reviewed based on their experience and level of responsibilities and recommended for the Board's approval. The individual Non-Executive Directors concerned had abstained from discussing and voting on decisions in respect of their own remuneration packages.

Although the Group does not have written remuneration policies, remuneration comparison with other companies for similar positions among other Malaysian public listed companies within the similar industries performed on an annual basis to ensure that the remunerations of the Directors are competitive with the market and commensurate with their duties and responsibilities.

Board Evaluation

For the financial year under review, the Board assisted by the Nominating Committee reviewed the skills and experience of the individual director and assessed the effectiveness of the Board as a whole.

The Board was satisfied with the performance and effectiveness of the Board and Board Committees who have discharged their duties and responsibilities effectively. The Board evaluation criteria were reviewed and enhanced by the Nominating Committee during the financial year.

The Board evaluation comprises Board and Board Committees assessments and an assessment of the Independence of Independent Directors and the contribution of each individual director which are conducted on an annual basis. The evaluations involve individual Directors and Committee members completing a set of evaluation questionnaires regarding the processes of the Board and its Committees, their effectiveness and where improvements could be considered by the Company. The criteria for assessing the independence of an Independent Director include the relationship between the respective Independent Director and the Group and his involvement in any significant transaction with the Group. The Board also undertook a self-assessment in which they assessed their own performance.

Appointment, Re-appointment and Re-election of Directors

In accordance with the Company's Constitution, one-third (1/3) of the Directors (including the Managing Director) shall retire from office and be eligible for re-election at each Annual General Meeting and all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election. Directors appointed during the year will be subject to retirement and re-election by shareholders at the Annual General Meeting.

The Board believes that diversity in the Board's composition will bring values to board deliberation. The Board also recognises the benefits of diversity in gender and hence, gender had been inherently considered in the recruitment and appointment of Directors. The Board has one (1) woman Director and the Board is comfortable with its current composition.

Reinforcement of Independence

The Board acknowledges the importance of Independent Non-Executive Directors in bringing objectivity and impartiality in providing unbiased opinion and judgment to ensure that the interests of the Group, shareholders, customers and other stakeholders are taken into account during its decision-making process. The Board consists of three (3) Independent Directors who have neither been involved in the business transactions nor participated in the day-to-day management of the Group. The Independent Directors satisfy the definition set out in the Main Market Listing Requirements of Bursa Securities and the Company meets the minimum requirement prescribed by the Main Market Listing Requirements of Bursa Securities to have at least one-third (1/3) of its Board members being Independent Non-Executive Directors.

In line with the recommendations of MCCG 2012, the tenure of the Independent Director should not exceed a cumulative term of nine (9) years. Should the Board intend to retain the director as Independent Director after serving beyond nine (9) years, shareholders' approval will be sought.

Currently, there are two (2) Board Members who have served as Independent Directors for more than nine (9) years. The Nominating Committee and the Board have performed the assessment on the independence of the Independent Directors and noted that Tan Sri A. Razak bin Ramli and Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor, who had served the Board for more than nine (9) years as Independent Directors. The Board on the recommendation of the Nominating Committee proposed their re-appointment as Independent Directors at the forthcoming Annual General Meeting based on their independence, vast experience accumulated from the relevant industries, networking and ability to continue to provide valuable contributions and independent insights to support the Board.

Division of roles and responsibility between Chairman and Managing Director

The Board subscribes to the principle that clear division of responsibilities between the Board Chairman and the Managing Director is beneficial to facilitate a check and balance mechanism for the effective functioning of the Board. The Chairman of the Board is a Senior Independent Non-Executive Director who is leading the Board in the oversight of management while the Managing Director focuses on the business and the day-to-day management of the Group. Such separation of positions promotes accountability and ensures that there is a balance of power and authority in the Board's overseeing the management of the company.

Directors' Training

The Board is cognizant of the added value that can be brought by the Directors when they are kept up to date with the industry and regulatory development. All the Directors have attended and successfully completed the Mandatory Accreditation Programme ("MAP") as prescribed by Bursa Securities. During the financial year, the seminars and training programmes attended included topics relating to corporate governance, risk management, corporate strategy, leadership management and new legislations, rules and guidelines. Training for Directors will be provided consistently so as to ensure that they are kept up to date on latest development in relevant laws and business practices and to discharge their duties effectively.

An induction briefing will be provided by the Board and senior management to newly appointed Independent Non-Executive Directors to provide them with in-depth knowledge of the Group's business and strategies.

The seminars, training programmes, conferences and forums attended by the Directors during the financial year under review among others, were as follows:-

Programme title	Organiser
Independent Directors Programme : The Essence Of Independence	Bursa Malaysia Berhad
Amendments To Bursa Malaysia's Listing Requirements - With Latest Cases On Directors' Duties	Bursatra Sdn Bhd
Comprehending Financial Statements For Directors And Senior Management	Bursatra Sdn Bhd
Comprehending Financial Statements For Directors And Senior Management	Bursatra Sdn Bhd
Designing Directors' Performance Assessment For Directors Independence & Effectiveness	Bursatra Sdn Bhd
Embracing The Board's Role In Corporate Transformation For Sustainable Results	Bursatra Sdn Bhd
Highlights of the Companies Act 2016 - Changes & Implications	Bursatra Sdn Bhd
The Inside Story Of The Annual Report : What Directors Must Know	Bursatra Sdn Bhd
DBS Vickers - Pulse of Asia Conference in Singapore	DBS Vickers Securities
Companies Act 2016 - Key Changes Affecting Accountants & Auditors	Malaysian Institute of Accountants
Companies Act 2016 - Key Insights And Implication For Directors/Shareholders	Malaysian Institute of Accountants
Private Equity - Disrupting Markets	Malaysian Institute of Accountants
Budget Seminar 2016	PriceWaterHouseCoopers Taxation Services Sdn Bhd

DIRECTORS' REMUNERATION

The details of the remuneration of the Directors of the Company for the financial year under review are as follows:

	Group RM	Company RM
Executive:		
Fees	324,000	288,000
Other emoluments	1,621,520	1,616,840
	1,945,520	1,904,840
Independent Non-Executive:		
Fees	300,000	288,000
Other emoluments	65,600	64,040
	365,600	352,040
Total Directors' remuneration	2,311,120	2,256,880

The number of Directors in each remuneration band for the financial year 2016 is as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
RM50,001 to RM100,000	-	4	4
RM150,001 to RM200,000	1	-	1
RM200,001 to RM250,000	1	-	1
RM750,001 to RM800,000	2	-	2
	4	4	8

ACCOUNTABILITY AND AUDIT

Financial Reporting and Statement of Directors' Responsibility

The Directors are responsible to ensure that the financial statements are drawn up in accordance with the Companies Act 2016 and applicable financial reporting standards in Malaysia.

The Board is responsible for ensuring that the financial statements for each financial year give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the results of operations, changes in equity and cash flows of the Group and the Company for the financial year.

In preparation of the financial statements, the Board has ensured that:

(i) Suitable accounting policies have been adopted and applied consistently;
(ii) Judgments and statements made are reasonable and prudent;
(iii) Applicable Financial Reporting Standards have been followed; and
(iv) Financial statements have been prepared on a going concern basis.

Independent opinions and reports by External Auditors have added credibility to financial statements released by the Company.

Financial Reporting and Statement of Directors' Responsibility (continued)
The Audit Committee assists the Board by overseeing that financial reporting reflects the substance of the business and transactions, apart from being compliant with relevant standards and legislation.

The Board is responsible for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure the financial statements comply with the Companies Act 2016 and applicable Financial Reporting Standards in Malaysia.

Relationship with the Auditors
Through the Audit Committee, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. The internal auditors report directly to the Audit Committee and details of their activities are provided in the Audit Committee Report. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views on issues requiring attention. The external auditors are also invited to attend meetings on special matters when necessary. In addition, the Audit Committee also meets the external auditors, without the presence of Executive Board members and management, at least once a year.

Risk Management Framework and Internal Control
The Group's Statement on Risk Management & Internal Control which provides an overview of the risk management framework and state of internal control within the Group is presented from pages 34 to 36 of this Annual Report.

Internal Audit Function and Activities

Details of the internal audit function and activities are as set out in the Audit Committee report on pages 32 and 33 of this Annual Report.

Recurring Related Party Transactions

The Board, through the Audit Committee, reviews all recurrent related party transactions.

All recurrent related party transactions entered into by the Group were made in the ordinary course of business and in accordance with the approved shareholders' mandate for recurrent related party transactions.

TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure Policy
The Company is committed to ensuring that all information such as corporate announcements, circulars to shareholders and financial results are disseminated to the general public in a timely and accurate manner.

The Company releases all announcements, material and price sensitive information in a timely manner to Bursa Securities as required under the Main Market Listing Requirements of Bursa Securities as well as releases the Company's updates to the market and community through the Company's website, media releases and other appropriate channels.

The Executive Directors evaluate the release of all major communications to investors or Bursa Securities.

SHAREHOLDERS

Investors and Shareholders Relationship

The Board recognises the importance of maintaining effective communication with its investors and shareholders. An Investor Relations and Shareholder Communication Policy have been adopted by the Board to enable the Group and the Company to communicate effectively with its shareholders, existing and potential investors, other stakeholders and public generally. An Investor Relation function has been established to facilitate communication between the Company and its existing shareholders and potential investors.

The Investor Relation function communicates with shareholders and investors through periodic roadshows and investor briefings both locally and abroad, with fund managers, institutional investors and research analysts. Information such as the Group's performance, strategy and major development are presented and explained during these investor briefings.

Apart from the mandatory announcements of the Group's financial results and corporate developments to Bursa Securities, the Group maintains a website (www.favellefavco.com) that allows all shareholders to gain access to information and business activities and recent developments of the Group and for feedback.

Annual General Meeting

The Annual General Meeting is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire on the Company's progress and performance. The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting. External auditors are also invited to attend the Annual General Meeting to provide independent clarification on issues relating to the conduct of audit and Auditors' Report, if any.

The Chairman, at the commencement of the Annual General Meeting, informed shareholders of their rights to vote by poll. Poll voting was carried out for resolutions involving related party transactions as required by the Main Market Listing Requirements of Bursa Securities.

The Board noted that with effect from 1 July 2016, the Main Market Listing Requirements of Bursa Securities provides that all resolutions set out in the notice of general meeting, shall be voted by poll. In addition, an independent Scrutineer must be appointed to validate the votes cast at the meetings. The voting results of the general meeting will be announced in a timely manner via Bursa Securities. Hence, voting for all the resolutions as set out in the forthcoming and future general meetings will be conducted as such.

COMPLIANCE STATEMENT

The Company has complied with the Principles as set out in the Malaysian Code on Corporate Governance 2012 and the relevant chapter of Main Market Listing Requirements of Bursa Securities on Corporate Governance to the extent as set out above throughout the financial year ended 31 December 2016.

This Statement on Corporate Governance was approved by the Board of Directors on 30 March 2017.

Audit Committee Report

The Board of Directors ("Board") of Favelle Favco Berhad is pleased to present the Audit Committee Report for the financial year ended 31 December 2016.

Composition and Attendance

The Audit Committee ("AC") comprises three (3) Independent and one (1) Non-Independent Non-Executive Directors. The Chairman of the AC is an Independent Director while the Non-Independent Non-Executive Director is a member of the Malaysian Institute of Accountants. The AC therefore complied with paragraphs 15.09(1) and 15.10 of the Main Market Listing Requirements of Bursa Securities which state that the AC must be composed of not fewer than three (3) members, all of whom must be non-executive directors with a majority of them being independent directors with at least one (1) member being a qualified accountant and the Chairman, an Independent Director.

During the financial year under review, the AC held four (4) meetings. The members of the AC and record of their attendance at the Committee Meetings held during the financial year ended 31 December 2016 are as follows:

Members	Designation	Attendance at meetings in 2016
Tan Sri A. Razak bin Ramli	Chairman *(Senior Independent Non-Executive Director)*	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Independent Non-Executive Director)*	4/4
Sobri bin Abu	Member *(Independent Non-Executive Director)*	4/4
Lim Teik Hin	Member *(Non-Independent Non-Executive Director)*	4/4

Whilst the AC reported to the Board on principal matters deliberated during the four (4) AC meetings, minutes of the meetings had also been circulated to each member of the Board.

The Group's Finance Director, Group Financial Controller and the Group Internal Audit Manager attended all meetings by invitation. Representatives of the External Auditors and other Board members also attended some of the meetings upon invitation by the Chairman of the AC.

Summary of Activities in 2016

The AC carried out its duties in accordance with its Terms of Reference. The main works and activities undertaken by the AC are as follows:

(i) Financial Reporting & External Audit

- Reviewed the quarterly financial results as well as the year end financial statements of the Group before recommending them to the Board of Directors for consideration and approval for announcement. The AC deliberated on book orders, budgeted revenue, profitability and cash position.
- Reviewed the external auditors' audit plan, scope of work and results of the annual audit for the Group and the Management Letter, including Management's response.
- Convened two (2) meetings with the external auditors without the presence of the Executive Directors and Management to discuss relevant issues and obtain feedback.

Summary of Activities in 2016 (continued)

(ii) Internal Audit

- Reviewed and approved the internal audit plan for the Group proposed by Internal Auditors to ensure adequacy of the scope of coverage.
- Reviewed the audit and follow-up reports presented by the Internal Auditors which include the findings and recommendations. The AC further deliberated those findings, Management's response and Internal Auditors' recommendations.
- Reviewed the recurrent related party transactions review report prepared by Internal Auditors.

(iii) Reviewed the recurrent related party transactions that arose within the Group to ensure that the amounts transacted were within the mandate approved by the shareholders.

(iv) Deliberated on major business risks such as the cranes on-time delivery performance and material litigations affecting the Group.

(v) Reviewed the company's dividend proposal and recommended the same to the Board for approval.

Internal Audit Function

The Group has an in-house internal audit function namely Group Internal Audit Department ("GIAD"). GIAD is governed by the Internal Audit Charter approved by the AC. GIAD reports directly to the AC and has direct access to the AC members on all the internal control and audit issues. The works and activities carried out by GIAD include the following:

- Performed a review on the recurrent related party transactions.
- Prepared and presented the audit plan for AC's review and approval. In addition, Internal Auditors discussed and sought the direction of the AC during every AC meeting to ensure that the scopes of audit continue to remain relevant taking into consideration the latest business development.

  During the year, the scope of audits included tender costing, cost control and various processes of branch management.
- Prepared audit and review reports and sought Management's response on the issues highlighted. The reports tabled to the AC prioritize the findings, provide ratings to each area audited, include Internal Auditors' recommendations and Management's action plans together with their target dates to address each finding.
- Performed follow-up reviews to determine if Management had implemented the action plans to address the findings highlighted in the previous internal audit reports, The follow-up reports comprise statuses of Management's implementation on each action plan as well as a summary of it.
- Presented the internal audit, follow-up as well as specific review reports to the AC for their deliberation.
- Facilitated Risk Management Committee meetings and Risk Management Units meetings.
- Reviewed the Audit Committee Report and Statement on Risk Management and Internal Control for the Company's 2016 Annual Report.

The total cost incurred for the internal audit function in respect of the financial year ended 31 December 2016 amounted to approximately RM237,000.

Terms of Reference

The Audit Committee Terms of Reference is made available on the Company's corporate website at www.favellefavco.com.

Statement on Risk Management & Internal Control

Board's Responsibilities

The Board, in discharging its responsibilities, is committed to the maintenance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board affirms its overall responsibility for maintaining a sound system of risk management and internal control so as to safeguard the shareholders' interests and the Group's assets. The Board has also received opinions from the Managing Director/Chief Executive Officer and Group Financial Controller that the Group's risk management and internal control system are reasonably adequate and effective in material aspects, based on the risk management and internal control system of the Group.

Due to inherent limitations in any risk management and internal control system, such system established by Management is designed to manage rather than to eliminate the risks of failure to achieve the Group's business objectives. Accordingly, the risk management and internal control system can only provide reasonable and not absolute assurance against material error, misstatement or loss.

Risk Management

In line with the good practice to closely monitor the Group's risk exposures, a Risk Management Committee ("RMC") with its principal roles and responsibilities stated in the risk management policy and procedure was established at the Group level. The RMC that consists of Executive Directors and members from Senior Management, monitors the Group's risk exposures by meeting on a quarterly basis to review the risk profile. During the meetings, the status of the Group's major risks is deliberated and the reports on the major risks submitted by the respective RMCs are reviewed. The outcome of the RMC meetings is reported to the Board by the RMC Chairman who is also an Executive Director.

The RMC is supported by RMUs set up at the respective business entities. The RMU within each business entity meets on a quarterly basis to review the status of the risks profile and the results of their reviews are documented in the report that comprises risk profile and risk matrix.

The RMC and RMUs are playing a significant role in the Group's risk management process established with the aim of providing a continuing and consistent approach in identifying and assessing risks as well as facilitating the review of the adequacy of the related key internal control procedure in mitigating the risk. Such risk management process was in place until the date of approval of this Statement.

Key Elements of Internal Control

- Organisation Structure & Authorisation Procedures

  The Group maintains a formal organisational structure that includes clear delegation of responsibilities and accountability. It sets out the roles and responsibilities, review and approval procedures to enhance the internal control system of the Group's various business units.

- Authority Limits

  The Group has issued a Discretionary Authority Limit that refers to the authority limits for financial and non-financial transactions which have been assigned to certain personnel to approve or carry out transactions in order to enable timely decision making and ensure check and balance on the commitments to be undertaken on behalf of the Group.

Key Elements of Internal Control (continued)

- Group Policies and Procedures

  Policies, objectives, quality procedures and safety procedures for key business processes are formalised and documented in quality manuals. The Quality Assurance/Quality Control ("QA/QC") Department conducts yearly Internal Quality Audits and checks to ensure that the operational processes are in accordance with the ISO 9001 : 2008 Quality Management System, API Specification Q1 and API Specification 2C respectively. API Specification Q1 and API Specification 2C are certifications from the American Petroleum Institute.

- Budgetary Review on Profit & Loss

  An annual profit and loss budget is prepared by Management and tabled to the Board for approval. Quarterly monitoring is carried out to measure the actual performance against budget to identify significant variances and report to the Board.

- Quality Assurance / Quality Control

  The QA/QC Department of the respective entities within the Group focuses on Quality Assurance of the manufacturing works of the Group. Quality Control Inspectors have been carrying out quality control activities at manufacturing plants and fabrication yards as well as on sub-contractors to ensure that the works performance comply with the quality specifications.

- Health, Safety and Environment

  Health, Safety and Environment Department has been embarking on periodic training and inspection to ensure reasonable levels of awareness of and compliance with the required law and standards. Their activities are compiled and reported on a monthly basis.

- Information and Communication

  Information critical to the achievement of the Group's business objectives are communicated through established reporting lines across the Group. This is to ensure that matters require the attention of the Board and Senior Management are highlighted for review, deliberation and decision on a timely basis.

- External Audit

  If the external auditors detect any internal control weakness during the course of their audit, they will highlight such weakness in the audit review memorandum to the Audit Committee for their attention.

The Group's system of internal control does not apply to Associate Companies where the Group does not have full management control over these entities. However, the Group's interest is served through representations on the board of the respective Associate Companies.

Review of Internal Controls

The AC is tasked by the Board with the duty of reviewing and monitoring the effectiveness of the Group's system of internal control. In addition to reviewing of the quarterly reports submitted by Management and observations reported by the external auditors, the AC is also supported by the Group Internal Audit Department which performs independent assessment on the adequacy and effectiveness of the internal controls based on the audit plan approved by the AC. The internal audit findings and recommendations are reviewed by the AC on a quarterly basis. A description of the work and activities of the AC can be found in the Audit Committee Report in this Annual Report.

Review of this Statement

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to Paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and in accordance with the scope set out in the Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountants for inclusion in the Annual Report for the financial year ended 31 December 2016 and have reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system.

Conclusion

The Board is of the view that the Group's system of internal control is adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, effect appropriate action plans to further enhance the system of internal control and risk management framework.

Tower crane, Denmark, Tivoli Gardens


Offshore crane, 500 Men Accommodation Work Barge


Tower crane, Thailand, Windmill Installation

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Offshore crane, Singapore, Pacific Installer

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

Principal activities

The Company is principally engaged in the business of investment holding, whilst the principal activities of the subsidiaries and associates are set out in Notes 6 and 7 respectively to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit attributable to:		
Owners of the Company	74,649	28,104
Non-controlling interests	(2,609)	-
Profit after taxation for the financial year	72,040	28,104

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid a first and final ordinary tax exempt dividend of 15.00 sen per ordinary share totaling RM33,208,914 in respect of the financial year ended 31 December 2015 on 11 August 2016.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2016 is 15.00 sen per ordinary share totaling RM32,208,914 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Directors of the Company

The directors who served since the date of the last report are:

Tan Sri A. Razak bin Ramli
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Mac Chung Hui
Mac Ngan Boon @ Mac Yin Boon
Lee Poh Kwee
Mazlan bin Abdul Hamid
Lim Teik Hin
Sobri bin Abu

Directors' interests

The interests and deemed interests in the shares and options of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at the end of the financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	Alloted	Sold	At 31.12.2016
Interests in the Company				
Tan Sri A. Razak bin Ramli				
- Direct	300,000	-	-	300,000
- Indirect	800	-	-	800
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	300,000	-	-	300,000
Mac Chung Hui	2,342,000	-	-	2,342,000
Mac Ngan Boon @ Mac Yin Boon				
- Direct	8,492,913	650,000	-	9,142,913
- Indirect	1,738,800	-	-	1,738,800
Lee Poh Kwee	1,295,000	420,000	-	1,715,000
Mazlan bin Abdul Hamid	2,434,000	-	(2,000)	2,432,000

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	Alloted	Sold	At 31.12.2016
Indirect interest in the Company				
Mac Ngan Boon @ Mac Yin Boon*	131,241,043	-	-	131,241,043

* Deemed interested pursuant to Section 8 of the Companies Act 2016 by virtue of his direct substantial shareholding in Muhibbah Engineering (M) Bhd.

Directors' interests (continued)

	Number of ordinary shares of RM0.50 each			
	At 1.1.2016	Alloted	Sold	At 31.12.2016
Interests in the ultimate holding company - Muhibbah Engineering (M) Bhd.				
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	-	3,000	-	3,000
Mac Chung Hui	5,705,000	-	-	5,705,000
Mac Ngan Boon @ Mac Yin Boon				
- Direct	71,591,416	1,910,000	-	73,501,416
- Indirect	19,317,500	2,000,000	-	21,317,500
Lee Poh Kwee				
- Direct	4,046,272	2,000,000	-	6,046,272
- Indirect	650,000	-	-	650,000
Mazlan bin Abdul Hamid	305,000	300,000	-	605,000
Lim Teik Hin				
- Indirect	50,000	-	-	50,000

The options granted to eligible Directors over unissued ordinary shares in the Company and the ultimate holding company pursuant to the Company's and the ultimate holding company's Employees' Share Option Schemes ("ESOS") are set out below:

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2016	Granted	Exercised	At 31.12.2016
Company				
Mac Ngan Boon @ Mac Yin Boon	650,000	-	(650,000)	-
Lee Poh Kwee	420,000	-	(420,000)	-

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2016	Granted	Exercised	At 31.12.2016
Ultimate holding company - Muhibbah Engineering (M) Bhd.				
Mac Ngan Boon @ Mac Yin Boon				
- Direct	1,880,000	-	(1,880,000)	-
- Indirect	2,000,000	-	(2,000,000)	-
Lee Poh Kwee	2,000,000	-	(2,000,000)	-
Mazlan bin Abdul Hamid	300,000	-	(300,000)	-

Directors' interests (continued)

By virtue of his direct and indirect interests in shares of the Company, Mac Ngan Boon @ Mac Yin Boon's shareholding of more than 15% is deemed to have interests in the shares of all the subsidiaries during the financial year to the extent that Favelle Favco Berhad has an interest, in accordance with Section 8 of the Companies Act 2016.

Other than the abovementioned Directors, none of the Directors holding office at 31 December 2016 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than the benefit shown under the Key Management Personnel Compensation of our report) 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 any benefits which may be deemed to arise from transaction entered into in the ordinary course of business with companies in which certain directors have substantial financial interest as disclosed in Note 30 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the options of the Company and the ultimate holding company pursuant to their respective ESOS.

The details of the directors' remuneration are disclosed in Note 23 to the financial statements.

Holding Company

The ultimate holding company during the financial year is Muhibbah Engineering (M) Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Subsidiaries

The details of the company's subsidiaries are disclosed in Note 6 to the financial statements.

The auditors' reports on the financial statements of the subsidiaries did not contain any qualification.

None of the subsidiaries had any interest in share in the Company during the financial year. Their interests in shares in other related corporations are disclosed in Note 6 to the financial statements.

Auditors' Remuneration

During the financial year, total amount paid to or receivable by the auditors for the Group and the Company as remuneration for their services were RM639,000 and RM67,000 respectively.

Issue of shares

During the financial year, the Company issued:

i) 1,445,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM0.80 per ordinary share;

ii) 114,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM1.57 per ordinary share;

iii) 42,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM2.50 per ordinary share; and

iv) 665,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM2.25 per ordinary share.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the ESOS.

The Company operates an ESOS that was established and approved by the shareholders of the Company at an extraordinary general meeting ("EGM") held on 28 June 2011.

The main features of the ESOS Scheme, details of share options offered and exercised during the financial year are disclosed in Note 18. The ESOS scheme expired on 5 July 2016.

Significant event occurring after the reporting period

The significant event occurring after the reporting period is disclosed in Note 32 to the financial statements.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ensure that:

i) all known bad debts have been written off and adequate allowance have been made for impairment losses on receivables, and

ii) any current assets, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and the Company, have been written down to an amount which they might be expected so to realise.

Other statutory information (continued)

At the date of this report, the Directors are not aware of any circumstances:

i) that would require the further writing off for bad debts or render the amount of allowance for impairment losses on receivables in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) 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, or

iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

The contingent liabilities are disclosed in Note 29 to the financial statements. At the date of this report, there does not exist:

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

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

No contingent liability or other liability of the Group and 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, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs Crowe Horwath, have indicated their willingness to accept re-appointment.

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

....

Mac Ngan Boon @ Mac Yin Boon **Mac Chung Hui**

Klang,

30th March 2017

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Assets					
Property, plant and equipment	3	215,247	194,431	41	20
Intangible assets	4	323	1,273	-	-
Investment property	5	-	-	52,200	52,283
Investment in subsidiaries	6	-	-	35,130	57,498
Investment in associates	7	15,549	16,974	19,266	19,266
Deferred tax assets	8	25,933	16,906	-	-
Receivables	9	6,712	6,804	6,712	20,939
Total non-current assets		263,764	236,388	113,349	150,006
Receivables, deposits and prepayments	9	241,117	287,419	75,597	74,740
Contract work-in progress	10	130,553	160,767	-	-
Inventories	11	141,080	184,999	-	-
Current tax assets		17,186	16,143	-	-
Cash and cash equivalents	12	366,837	333,979	38,829	18,088
Total current assets		896,773	983,307	114,426	92,828
Total assets		1,160,537	1,219,695	227,775	242,834

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Equity					
Share capital	13	110,701	109,568	110,701	109,568
Reserves		75,442	71,260	44,448	43,436
Retained earnings		407,852	366,275	71,356	75,670
Total equity attributable to owners of the Company		593,995	547,103	226,505	228,674
Non-controlling interests		(2,238)	512	-	-
Total equity		591,757	547,615	226,505	228,674
Liabilities					
Deferred tax liabilities	8	9,087	8,173	-	-
Total non-current liabilities		9,087	8,173	-	-
Amount due to contract customers	10	261,957	323,264	-	-
Loans and borrowings	14	26,043	64,011	-	12,861
Payables and accruals	15	228,104	231,113	1,182	1,204
Provision for warranties	16	25,166	27,805	-	-
Current tax liabilities		5,287	5,851	88	95
Derivative liabilities	17	13,136	11,863	-	-
Total current liabilities		559,693	663,907	1,270	14,160
Total liabilities		568,780	672,080	1,270	14,160
Total equity and liabilities		1,160,537	1,219,695	227,775	242,834

The notes set on pages 53 to 111 are an integral part of these financial statements.

Statements of Profit or Loss and other Comprehensive Income | for the year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue	19	582,273	867,348	49,479	54,485
Cost of sales		(440,572)	(648,609)	-	-
Gross profit		141,701	218,739	49,479	54,485
Other income		7,928	2,126	2,561	3,825
Distribution costs		(5,971)	(11,869)	-	-
Administrative expenses		(63,733)	(96,407)	(25,874)	(2,733)
Results from operating activities		79,925	112,589	26,166	55,577
Finance income	20	3,959	15,194	2,782	1,954
Finance costs	21	(2,677)	(8,022)	(421)	(5,015)
Operating profit		81,207	119,761	28,527	52,516
Share of loss in associates, net of tax		(1,425)	(1,485)	-	-
Profit before tax	22	79,782	118,276	28,527	52,516
Income tax	24	(7,742)	(24,410)	(423)	(405)
Profit for the year		72,040	93,866	28,104	52,111

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Profit for the year		72,040	93,866	28,104	52,111
Other comprehensive income for the financial year, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Movement in revaluation of property, plant and equipment, net of tax		-	182	-	-
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		3,068	15,693	-	-
Other comprehensive income for the year, net of tax		3,068	15,875	-	-
Total comprehensive income for the year		75,108	109,741	28,104	52,111
Profit attributable to:					
Owners of the Company		74,649	94,706	28,104	52,111
Non-controlling interests		(2,609)	(840)	-	-
Profit for the year		72,040	93,866	28,104	52,111
Total comprehensive income attributable to:					
Owners of the Company		77,819	110,542	28,104	52,111
Non-controlling interests		(2,711)	(801)	-	-
Total comprehensive income for the year		75,108	109,741	28,104	52,111
Earnings per ordinary share (sen)					
- Basic	26	33.83	43.40		
- Diluted	26	33.83	43.14		

The notes set on pages 53 to 111 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity | for the year ended 31 December 2016

Group	Note	Share capital RM'000	Treasury shares RM'000
At as 31 December 2014/1 January 2015		108,756	(21)
Profit for the financial year		-	-
Foreign currency translation differences for foreign operations		-	-
Movement in revaluation of property, plant and equipment, net of tax		-	-
Total comprehensive income for the financial year		-	-
Contribution by and distribution to owners of the Company:			
- Accretion of share in a subsidiary		-	-
- Subscription of shares in a subsidiary by non-controlling		-	-
- Share options exercised	18	812	-
- Transfer to share premium for share options exercised	18	-	-
- Share-based payments	18	-	-
- Dividend to shareholders	25	-	-
At 31 December 2015		109,568	(21)
At 31 December 2015/1 January 2016		109,568	(21)
Profit for the financial year		-	-
Foreign currency translation differences for foreign operations		-	-
Movement in revaluation of property, plant and equipment, net of tax		-	-
Total comprehensive income for the financial year		-	-
Contribution by and distribution to owners of the Company			
- Accretion of share in a subsidiary		-	-
- Share options exercised	18	1,133	-
- Transfer to share premium for share options exercised	18	-	-
- Expiry of ESOS	18	-	-
- Dividend to shareholders	25	-	-
At 31 December 2016		110,701	(21)
		Note 13.1	Note 13.2

Attributable to owners of the Company							
Non-distributable				***Distributable***			
Share premium RM'000	**Translation reserve RM'000**	**Revaluation reserve RM'000**	**Share option reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
40,596	(3,203)	15,191	1,457	298,059	460,835	(1,106)	459,729
-	-	-	-	94,706	94,706	(840)	93,866
-	15,654	-	-	-	15,654	39	15,693
-	-	182	-	-	182	-	182
-	15,654	182	-	94,706	110,542	(801)	109,741
-	-	-	-	(225)	(225)	225	-
-	-	-	-	-	-	2,194	2,194
569	-	-	-	-	1,381	-	1,381
581	-	-	(581)	-	-	-	-
-	-	-	835	-	835	-	835
-	-	-	-	(26,265)	(26,265)	-	(26,265)
41,746	12,451	15,373	1,711	366,275	547,103	512	547,615
41,746	12,451	15,373	1,711	366,275	547,103	512	547,615
-	-	-	-	74,649	74,649	(2,609)	72,040
-	3,170	-	-	-	3,170	(102)	3,068
-	-	-	-	-	-	-	-
-	3,170	-	-	74,649	77,819	(2,711)	75,108
-	-	-	-	(654)	(654)	(39)	(693)
1,803	-	-	-	-	2,936	-	2,936
920	-	-	(920)	-	-	-	-
-	-	-	(791)	791	-	-	-
-	-	-	-	(33,209)	(33,209)	-	(33,209)
44,469	15,621	15,373	-	407,852	593,995	(2,238)	591,757
Note 13.3	Note 13.4	Note 13.5	Note 13.6	Note 13.7			

Statement of Changes in Equity | for the year ended 31 December 2016

Company	Note	Share capital RM'000	Treasury shares RM'000	← *Non-distributable* → Share premium RM'000	Share option reserve RM'000	*Distributable* Retained earnings RM'000	Total equity RM'000
At 31 December 2014/ 1 January 2015		108,756	(21)	40,596	1,457	49,824	200,612
Profit for the financial year/ Total comprehensive income for the financial year		-	-	-	-	52,111	52,111
Contribution by and distribution to owners of the Company:							
- Share options exercised	18	812	-	569	-	-	1,381
- Transfer to share premium for share options exercised	18	-	-	581	(581)	-	-
- Share-based payments	18	-	-	-	835	-	835
- Dividend to shareholders	25	-	-	-	-	(26,265)	(26,265)
At 31 December 2015/ 1 January 2016		109,568	(21)	41,746	1,711	75,670	228,674
Profit for the financial year/ Total comprehensive income for the financial year		-	-	-	-	28,104	28,104
Contribution by and distribution to owners of the Company:							
- Share options exercised	18	1,133	-	1,803	-	-	2,936
- Transfer to share premium for share options exercised	18	-	-	920	(920)	-	-
- Expiry of ESOS	18	-	-	-	(791)	791	-
- Dividend to shareholders	25	-	-	-	-	(33,209)	(33,209)
At 31 December 2016		110,701	(21)	44,469	-	71,356	226,505
		Note 13.1	Note 13.2	Note 13.3	Note 13.6	Note 13.7	

The notes set on pages 53 to 111 are an integral part of these financial statements.

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Cash flows from operating activities					
Profit before tax		79,782	118,276	28,527	52,516
Adjustments for:					
Amortisation of intangible assets		936	1,191	-	-
Allowance for impairment losses on receivables		10,176	43,587	-	-
Allowance for impairment losses on receivables written back		(11,503)	(12,168)	-	-
Allowance for impairment losses on investment in a subsidiary		-	-	23,061	-
Allowance for slow moving inventories		1,213	4,075	-	-
Depreciation expenses:					
- investment property		-	-	427	392
- property, plant and equipment		18,140	15,986	5	3
Dividend income from subsidiaries		-	-	(47,222)	(52,347)
Finance costs	21	2,677	8,022	421	5,015
Finance income	20	(3,959)	(15,194)	(2,782)	(1,954)
Gain on disposal of property, plant and equipment		(475)	(18)	-	-
Net unrealised loss/(gain) on foreign exchange		3,625	(25,861)	(3,373)	(3,728)
Property, plant and equipment written off		6	2,121	-	-
Provision for warranties		10,619	11,109	-	-
Share-based payments		-	835	-	835
Share of loss in associates, net of tax		1,425	1,485	-	-
Reversal of provision for warranties		(7,613)	(3,868)	-	-
Writedown of inventories		13,015	1,099	-	-
Operating profit/(loss) before changes in working capital		118,064	150,677	(936)	732
Changes in working capital:					
Development costs of intangible asset		-	(521)	-	-
Inventories		33,462	11,687	-	-
Receivables, deposits and prepayments		66,631	40,208	63,199	35,096
Payables and accruals		(87,768)	2,934	(22)	81
Interest received		2,420	1,611	408	312
Interest paid		(506)	(1,891)	-	-
Warranties paid		(5,827)	(7,542)	-	-
Income tax paid		(17,475)	(36,645)	(430)	(858)
Net cash generated from operating activities		109,001	160,518	62,219	35,363

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment		(45,250)	(24,407)	(26)	-
Acquisition of investment property		-	-	(344)	(76)
Proceeds from subscription of shares in a subsidiary from non-controlling interests		(693)	-	(693)	-
Proceeds from subscription of shares in a subsidiary		-	2,194	-	(8,517)
Proceeds from disposal of property, plant and equipment		3,162	2,650	-	-
Net cash used in investing activities		(42,781)	(19,563)	(1,063)	(8,593)
Cash flows from financing activities					
Dividend paid to shareholders of the Company	25	(33,209)	(26,265)	(33,209)	(26,265)
Interest paid		(376)	(382)	(376)	(347)
Proceeds from issue of shares under ESOS scheme		2,936	1,381	2,936	1,381
Net proceeds from revolving credit		(12,861)	2,356	(12,861)	2,356
Net repayment of loans		(391)	(2,074)	-	-
Net cash used in financing activities		(43,901)	(24,984)	(43,510)	(22,875)
Exchange differences on translation of the financial statements of foreign operations		1,502	9,739	-	-
Net increase in cash and cash equivalents		23,821	125,710	17,647	3,895
Effect of exchange rate fluctuations on cash held		9,037	(527)	3,095	(1,147)
Cash and cash equivalents at 1 January		333,979	208,796	18,088	15,340
Cash and cash equivalents at 31 December	12	366,837	333,979	38,829	18,088

The notes set on pages 53 to 111 are an integral part of these financial statements.

Favelle Favco Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business are as follows:

Registered office/Principal place of business
Lot 586, 2^{nd} Mile,
Jalan Batu Tiga Lama,
41300 Klang, Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The financial statements of the Company as at and for the financial year ended 31 December 2016 do not include other entities.

The Company is principally engaged in the business of investment holding, whilst the principal activities of the subsidiaries and associates are set out in Notes 6 and 7 respectively to the financial statements.

The ultimate holding company during the financial year is Muhibbah Engineering (M) Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors on 30th March 2017.

1. Basis of preparation

(a) Statement of compliance

These financial statements of the Group and of the Company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other section under significant accounting policies and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 1965, in Malaysia.

During the current financial year, the Group and the Company have adopted the following new accounting standards and interpretations (including the consequential amendments, if any):-

MFRSs and IC Interpretations (Including The Consequential Amendments)
MFRS 14 Regulatory Deferral Accounts
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities – Applying the Consolidation Exception
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 101: Disclosure Initiative
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants
Amendments to MFRS 127: Equity Method in Separate Financial Statements
Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of the above accounting standards and interpretations (including the consequential amendments, if any) did not have any material impact on the Group and the Company financial statements.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Group and the Company have not applied in advance the following accounting standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018*
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 15: Clarifications to MFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 140 – Transfers of Investment Property	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycles:	
• Amendments to MFRS 12: Clarification of the Scope of Standard	1 January 2017
Annual Improvements to MFRS Standards 2014 – 2016 Cycles:	
• Amendments to MFRS 1: Deletion of Short-term Exemptions for First-time Adopters	
• Amendments to MFRS 128: Measuring an Associate or Joint Venture at Fair Value	1 January 2018

* Entities that meet the specific criteria in MFRS 4.20B may choose to defer the application of MFRS 9 until the earlier of the application of the forthcoming insurance contracts standard or annual periods beginning before 1 January 2021.

The adoption of the above accounting standards and interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Group and the Company upon their initial application except as follows:-

MFRS 9 (IFRS 9 issued by IASB in July 2014)

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces the existing guidance in MFRS 139 and introduces a revised guidance on the classification and measurement of financial instruments, including a single forward-looking 'expected loss' impairment model for calculating impairment on financial assets, and a new approach to hedge accounting. Under this MFRS 9, the classification of financial assets is driven by cash flow characteristics and the business model in which a financial asset is held. The Group is currently assessing the financial impact of adopting MFRS 9.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 15: Revenue from Contracts with Customers & Amendments to MFRS 15: Effective Date of MFRS 15 & Amendments to MFRS 15: Clarifications to MFRS 15

MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers. The amendments to MFRS 15 further clarify the concept of 'distinct' for the purposes of this accounting standard. In addition, extensive disclosures are also required by MFRS 15. The Group anticipates that the application of MFRS 15 in the future may have an impact on the amounts reported and disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the financial impacts of MFRS 15 until the Group performs a detailed review.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currencies

The individual financial statements of each entity in the Group are presented in the currency of primary economic environment in which the entity operates, which is the functional currency.

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency and presentation currency and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation of uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2 (c) – financial instruments
- Note 2 (d)(iii) – depreciation
- Note 2 (e) – leased assets
- Note 2 (g) – investment property
- Note 2 (q) – revenue recognition
- Note 2 (r) – interest income
- Note 2 (s) – borrowing costs
- Note 2 (t) – income tax

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

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.

The Group controls an entity when it 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. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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. The cost of investment includes transaction costs.

(ii) Business combinations

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 acquisitions, the Group measures the cost of 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 expenses as incurred.

(iii) Acquisitions of non-controlling interests

The Group accounts for all changes in ownership interest in a subsidiary that do not result in a loss of control as equity transactions. Any difference between, and any consideration received or paid, is adjusted to or against Group reserves.

2. Significant accounting policies (continued)

(a) Basis of consolidation (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 equity accounted investee or as an available-for-sale financial asset depending on the level of the influence retained.

(v) Associates

Associates are entities, including unincorporated entities, in which the significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates 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. The cost of investment includes transaction costs.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) 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.

Unrealised gains arising from transaction with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of 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.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 which are treated as assets and liabilities of the Company. The income and expenses of foreign operations in functional currencies other than RM are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the FCTR in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A finance instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

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

Financial assets

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

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

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity 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 expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2. Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

The Group and the Company adopted the policy to revalue their freehold land and leasehold land every 5 years or at shorter intervals whenever the fair values of the freehold land and leasehold land are expected to differ materially from their carrying values.

Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under the revaluation reserve. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	10 - 50 years
• cranes	10 - 15 years
• plant, equipment and motor vehicles	3 - 13 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and 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 made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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 accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

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

2. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses, if any.

(iii) Intellectual property

Intellectual property consists of rights to trade name, knowhow and industrial property rights and is stated at cost less any accumulated amortisation and any impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(v) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired. Other intangible assets are amortised from the date that they are available for use. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets of 5 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period, and adjusted if appropriate.

2. Significant accounting policies (continued)

(g) Investment property

Investment properties carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purpose.

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(d).

Where the fair value of the investment property under construction is not reliably determined, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Transfers between investment property and property, plant and equipment do not change the carrying amount and the cost of the property transferred.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of crane components comprises the original purchase price plus incidentals in bringing these inventories to their present location and condition. Cost of work-in-progress and assembled cranes consists of crane components, direct labour and an appropriate proportion of fixed and variable production overheads. Crane components are determined on a first-in, first-out basis. Cost of work-in-progress and assembled cranes is determined on a specific identification basis.

Net realisable value represents 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.

(i) Contract work-in-progress

Contract work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Contract work-in-progress is presented as part of total current assets in the statements of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of the deferred income in the statement of financial position.

2. Significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three (3) months or less. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(k) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates), are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

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

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers, deferred tax asset, assets arising from employee benefits, investment property measured at fair value and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

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 other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units 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 cash-generating unit that is expected to benefit from the synergies of the combination.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Other assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(l) Equity instruments

Equity instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Incremental costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recongnised in equity.

2. Significant accounting policies (continued)

(m) Loans and borrowings

Loans and borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and redemption value is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

(n) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contributions to the Employees Provident Fund are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as asset to the extent that a cash refund or a reduction in future payment is available.

(iii) Share-based payment transactions

The grant date fair value of share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in profit or loss.

Warranties

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

2. Significant accounting policies (continued)

(p) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(q) Revenue recognition

(i) Contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Goods sold and services rendered

Revenue from the sale of goods, trading of crane inventories and crane components are measured at net fair value of the consideration received or receivable and is recognised in profit or loss. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable and there is no continuing management involvement with the goods, and the revenue can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period. The stage of completion is assessed by reference to the value of work performed.

(iii) Rental income

Rental income from cranes is recognised in profit or loss as it accrues.

(iv) Dividend income

Dividend income is recognised in profit or loss on the date that the group's or the Company's right to receive payment is established.

2. Significant accounting policies (continued)

(r) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(s) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(t) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is 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.

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liability are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

(t) Income tax (continued)

Unutilised reinvestment allowance and investment tax allowance, being tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against the unutilised tax incentive can be utilised.

(u) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment result are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(w) Fair value measurements

Fair value of an asset or a liability 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 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 uses observable market data as far as possible. Fair value are 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 entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfer between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfer.

3. Property, plant and equipment

Group	Land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation						
At 1 January 2015	70,210	50,959	93,838	90,627	2,508	308,142
Additions	-	351	12,055	11,675	326	24,407
Reclassification	-	3,629	-	(1,415)	(2,214)	-
Disposals	-	-	(3,298)	(978)	-	(4,276)
Transfer	-	-	-	-	(399)	(399)
Written off	-	-	(3,057)	(425)	-	(3,482)
Exchange of movements in exchange rates	1,106	2,315	3,383	4,460	-	11,264
At 31 December 2015/ 1 January 2016	71,316	57,254	102,921	103,944	221	335,656
Additions	-	1,212	39,265	4,773	-	45,250
Reclassification	-	32	163	-	(195)	-
Disposals	-	-	(6,154)	(1,132)	-	(7,286)
Transfer	-	-	(3,857)	(1,168)	-	(5,025)
Written off	-	-	-	(39)	-	(39)
Effect of movements in exchange rates	22	266	74	873	-	1,235
At 31 December 2016	71,338	58,764	132,412	107,251	26	369,791
Representing items at:						
Cost	55,347	58,764	132,412	107,251	26	353,800
Valuation – 2008	12,291	-	-	-	-	12,291
Valuation – 2012	3,700	-	-	-	-	3,700
	71,338	58,764	132,412	107,251	26	369,791

3. Property, plant and equipment (continued)

Group	Land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss						
At 1 January 2015	19	18,730	39,866	62,051	-	120,666
Depreciation for the year	5	968	7,364	7,649	-	15,986
Reclassification	-	1,445	-	(1,445)	-	-
Disposals	-	-	(859)	(785)	-	(1,644)
Written off	-	-	(1,184)	(177)	-	(1,361)
Effect of movements in exchange rates	-	1,550	2,483	3,545	-	7,578
At 31 December 2015						
Accumulated depreciation	24	22,693	47,670	70,838	-	141,225
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2015/ 1 January 2016	24	22,693	47,670	70,838	-	141,225
Depreciation for the year	4	1,021	9,518	7,597	-	18,140
Reclassification	-	-	3	(3)	-	-
Disposals	-	-	(3,483)	(1,116)	-	(4,599)
Transfer	-	-	(767)	(487)	-	(1,254)
Written off	-	-	-	(33)	-	(33)
Effect of movements in exchange rates	-	156	171	738	-	1,065
Accumulated depreciation	28	23,870	53,112	77,534	-	154,544
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2016	28	23,870	53,112	77,534	-	154,544
Carrying amounts						
At 1 January 2016	**71,292**	**34,561**	**55,251**	**33,106**	**221**	**194,431**
At 31 December 2016	**71,310**	**34,894**	**79,300**	**29,717**	**26**	**215,247**

3. Property, plant and equipment (continued)

Company	Property, plant and equipment RM'000
Cost	
At 1 January 2015	26
Additions	-
At 31 December 2015/1 January 2016	26
Additions	26
At 31 December 2016	52
Depreciation	
At 1 January 2015	3
Depreciation for the year	3
At 31 December 2015/1 January 2016	6
Depreciation for the year	5
At 31 December 2016	11
Carrying amounts	
At 31 December 2015	20
At 31 December 2016	41

3.1 Security

The freehold land and buildings of the Group with total net book value of RM15,611,000 (2015 – RM15,584,000) have been pledged to certain licensed bank as security for bank facilities granted to the Group (See Note 14).

3.2 Property, plant and equipment under the revaluation model

The Group's freehold land were revalued by independent professional qualified valuers using an open market value method in financial year ended 2012 and 2008. The cost of a piece of the Group's freehold land was written down by RM662,000 during the financial year ended 31 December 2009 as management was of the view that the fair value had differed from its carrying value. Had the freehold land been carried under the cost model, their carrying amounts would have been RM26,803,000 (2015 – RM26,782,000).

4. Intangible assets

Group	Development costs RM'000
Cost	
At 1 January 2015	9,894
Effect of movement in exchange rates	685
Addition	521
Written off	(4,744)
At 31 December 2015/1 January 2016	6,356
Effect of movement in exchange rates	162
At 31 December 2016	6,518
Amortisation and impairment loss	
At 1 January 2015	
Accumulated amortisation	7,760
Accumulated impairment loss	327
	8,087
Amortisation for the year	1,191
Effect of movements in exchange rates	549
At 31 December 2015/1 January 2016	
Accumulated amortisation	9,500
Accumulated impairment loss	327
	9,827
Written off	(4,744)
	5,083
Amortisation for the year	936
Effect of movements in exchange rates	176
At 31 December 2016	
Accumulated amortisation	5,868
Accumulated impairment loss	327
	6,195
At 31 December 2016	6,195
Carrying amounts	
At 1 January 2016	1,273
At 31 December 2016	323

Intangible assets mainly comprises of development and software costs which were internally generated expenditure by subsidiaries on new or substantially improved major crane projects. It is reasonably anticipated that the cost will be recovered through future commercial activity. The remaining amortisation period range from 1 year to 4 years (2015 – 1 year to 5 years).

5. Investment property

	Company 2016 RM'000	Company 2015 RM'000
Cost		
At 1 January	53,316	53,240
Addition	344	76
At 31 December	53,660	53,316
Depreciation and impairment loss		
At 1 January		
Accumulated depreciation	1,033	641
Accumulated impairment loss	-	-
	1,033	641
Addition	427	392
At 31 December		
Accumulated depreciation	1,460	1,033
Accumulated impairment loss	-	-
	1,460	1,033
Carrying amounts		
At 31 December	52,200	52,283

The investment property is a crane fabrication yard comprising freehold industrial land, building and improvements, located at No. 28, Yarrunga Street, Prestons, New South Wales, 2170 Australia, and is leased to its subsidiary.

6. Investments in subsidiaries

	Company 2016 RM'000	Company 2015 RM'000
Unquoted shares - at cost	138,694	138,001
Less: Impairment loss	(103,564)	(80,503)
	35,130	57,498

The details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Percentage of issued share capital held by parent 2016 %	Percentage of issued share capital held by parent 2015 %
Favelle Favco Cranes (M) Sdn. Bhd.	Designing, manufacturing, supply, servicing, trading and renting of cranes	Malaysia	100	100
Favelle Favco Cranes Pte. Ltd. #	Supplying, servicing, trading and renting of cranes and sales of spare parts and services	Singapore	100	100
Favelle Favco Cranes (USA), Inc. #	Designing, manufacturing, supplying, servicing, trading and renting of cranes	United States of America	100	100
Favelle Favco Cranes Pty. Limited # and its subsidiaries	Design, manufacture, supply, renting and servicing of industrial cranes	Australia	100	100
FF Management Pty. Limited #	Management services	Australia	100	100
Milperra Blasting and Coating Pty. Limited #	Dormant	Australia	100	100
Kroll Cranes A/S #	Designing, manufacturing, servicing, trading and renting of cranes	Denmark	100	100
Favelle Favco Cranes International Ltd.	Dormant	Malaysia	100	100
FES Equipment Services Sdn. Bhd.	Supply of spare parts for cranes, provision of crane maintenance services and renting of cranes	Malaysia	100	100
Favelle Favco Winches Pte. Ltd. #	Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment	Singapore	100	100

6. Investments in subsidiaries (continued)

The details of the subsidiaries are as follows: (continued)

Name of subsidiaries	Principal activities	Country of incorporation	Percentage of issued share capital held by parent 2016 %	2015 %
Favelle Favco Management Services Sdn. Bhd. #	Dormant	Malaysia	100	100
Shanghai Favco Engineering Machinery Manufacturing Co., Ltd. #	Manufacturing of cranes	China	80	78

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(a) During the financial year, the Company acquired an additional 2% equity interest in Shanghai Favco Engineering Machinery Manufacturing Co., Ltd from its non-controlling interest owner for a total cash consideration of RM692,655.

(b) During the financial year, the Company has carried out a review on its investments in its loss making subsidiaries. A total impairment losses of RM23,060,933 (2015 – Nil), on their recoverable amounts, was recognised in "Administrative Expenses" line item of the statement of profit or loss and other comprehensive income.

(c) Summarised financial information of non-controlling interests has not been presented as the non-controlling interests of the subsidiary are not individually material to the Group.

7. Investments in associates

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares, at cost	19,424	19,424	19,424	19,424
Share of post-acquisition reserves	(3,875)	(2,450)	-	-
Less: Impairment loss	-	-	(158)	(158)
	15,549	16,974	19,266	19,266

7. Investments in associates (continued)

The details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2016 %	Effective ownership interest 2015 %
Favco Offshores Sdn Bhd	Manufacture, supply, servicing and renting of cranes	Malaysia	30	30
Favelle Favco Machinery and Equipment L.L.C	Trading and rental of construction equipment	United Arab Emirates	49	49
Favco Heavy Industry (Changshu) Co., Ltd.	Supply, renting and servicing of lifting equipment and spare parts	China	50	50

Summarised financial information on associates:

	2016 RM'000	2015 RM'000
Total assets	138,368	131,010
Total liabilities	95,406	84,024
Revenue	42,354	50,879
Loss for the year	(2,893)	(2,983)

8. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

Deferred tax (assets) and liabilities are attributable to the following:

Group	Assets 2016 RM'000	Assets 2015 RM'000	Liabilities 2016 RM'000	Liabilities 2015 RM'000	Net 2016 RM'000	Net 2015 RM'000
Property, plant and equipment	-	-	10,748	10,225	10,748	10,225
(Deductible)/taxable temporary differences	(29,696)	(20,262)	2,102	1,304	(27,594)	(18,958)
Tax (assets)/liabilities	(29,696)	(20,262)	12,850	11,529	(16,846)	(8,733)
Set off	3,763	3,356	(3,763)	(3,356)	-	-
Net tax (assets)/liabilities	(25,933)	(16,906)	9,087	8,173	(16,846)	(8,733)

8. Deferred tax (assets) and liabilities (continued)

Unrecognised deferred tax assets

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment	729	(298)	-	-
Deductible temporary differences	22,933	24,395	-	-
Tax losses carry-forwards	65,447	72,929	-	-
	89,109	97,026	-	-

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carried forward amounting to RM62,343,000 (2015 – RM69,908,000) shown above which can only be carried forward for 20 years from the year the losses were incurred. These tax losses will begin to expire from 2019. Deferred tax assets have not been recognised in respect of these items because it is uncertain that future taxable profits will be available against which the Group can utilise the benefits there from.

Movement in temporary differences during the financial year

Group	At 1.1.2015 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2015 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2016 RM'000
Property, plant and equipment	9,241	984	-	10,225	523	-	10,748
Other items	(16,141)	(2,889)	72	(18,958)	(8,657)	21	(27,594)
	(6,900)	(1,905)	72	(8,733)	(8,134)	21	(16,846)

9. Receivables, deposits and prepayments

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Non-current					
Trade					
Trade receivables		-	374	-	-
Less: Allowance for impairment losses		-	-	-	-
	9.1	-	374	-	-
Non-trade					
Advance to a subsidiary	9.2	-	-	-	14,509
Advance to an associate	9.3	6,712	6,430	6,712	6,430
		6,712	6,430	6,712	20,939
		6,712	6,804	6,712	20,939
Current					
Trade					
Trade receivables		209,373	266,920	-	-
Less: Allowance for impairment losses		(56,708)	(58,743)	-	-
	9.1	152,665	208,177	-	-
Amount due from ultimate holding company	9.4	137	22	-	-
Amount due from related companies	9.6	1,736	78	-	-
Amount due from associates	9.7	71,784	59,456	-	-
		73,657	59,556	-	-
Non-trade					
Advance to a subsidiary	9.2	-	-	8,540	-
Amount due from ultimate holding company	9.4	-	9	-	-
Amount due from subsidiaries	9.5	-	-	66,963	74,688
Amount due from related companies	9.6	3	-	-	-
Amount due from associates	9.7	5	-	-	-
Other receivables	9.8	7,349	12,443	39	-
Deposits		1,105	1,373	11	11
Prepayments		6,333	5,861	44	41
		14,795	19,686	75,597	74,740
		241,117	287,419	75,597	74,740

9. Receivables, deposits and prepayments (continued)

9.1 Analysis of foreign currency exposure for significant receivables

Significant trade receivables outstanding at year end that are not in the functional currencies of the Group entities are as follows:

Functional currency	Foreign currency	Group 2016 RM'000	Group 2015 RM'000
RM	AUD	372	351
RM	EUR	207	158
RM	RMB	-	695
RM	SGD	331	806
RM	USD	39,334	64,030
AUD	RMB	-	1,341
AUD	SGD	8,432	-
SGD	USD	3,618	19,896

9.2 Advances to a subsidiary

The advance to a subsidiary is non-trade in nature, unsecured, interest-free which is repayable in 2017. The amount owing is to be settled in cash.

9.3 Advances to an associate

The advance to an associate is non-trade in nature, unsecured, subject to interest at 1% (2015 – 1%) per annum and are not expected to be repaid within the next twelve months.

9.4 Amount due from ultimate holding company

The trade amount due from ultimate holding company is subject to the normal trade term of 30 days.

The non-trade amount due from ultimate holding company is non-trade in nature, unsecured, interest-free and repayable on demand.

9.5 Amounts due from subsidiaries

The non-trade amount due from subsidiaries is unsecured, interest-free and repayable on demand.

9.6 Amounts due from related companies

The trade amount due from related companies is subject to the normal trade term of 30 days.

The non-trade amount due from related companies is unsecured, interest-free and repayable on demand.

9. Receivables, deposits and prepayments (continued)

9.7 Amounts due from associates

The trade amount due from associates is subject to the normal trade term of 30 days.

The non-trade amount due from associates is unsecured, interest-free and repayable on demand.

9.8 Other receivables

Other receivables mainly comprise an insurance claim of RM1,255,000 (2015 – RM5,130,000).

10. Contract work-in-progress

	Group	
	2016 RM'000	2015 RM'000
Aggregate costs incurred to date	1,222,665	1,461,690
Add: Attributable profits less foreseeable losses	175,330	294,305
	1,397,995	1,755,995
Less: Progress billings	(1,529,399)	(1,918,492)
	(131,404)	(162,497)
Representing:-		
Contract work-in-progress	130,553	160,767
Amount due to contract customers	(261,957)	(323,264)
	(131,404)	(162,497)

11. Inventories

	Group	
	2016 RM'000	2015 RM'000
At cost:		
Crane components	69,031	86,685
Work-in-progress	54,926	83,610
	123,957	170,295
At net realisable value:		
Cranes	967	1,896
Crane components	16,156	12,808
	141,080	184,999
Recognsied in profit or loss:-		
Inventories recognised as cost of sales	341,352	474,766
Amount written down to net realisable value	13,015	1,099

12. Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statement of financial position amounts:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Short-term investments	70,844	15,737	8,269	3,370
Fixed deposits placed with licensed banks	184,368	26,254	29,897	-
Cash and bank balances	111,625	291,988	663	14,718
	366,837	333,979	38,829	18,088

(a) Short-term investments represent investment in highly liquid money market, which are readily convertible to a known amount of cash. The effective interest rates ranging from 1.97% to 2.94% (2015 – 2.60% to 3.30%) and 1.97% to 2.94% (2015 – 2.60% to 3.30%) per annum for the Group and the Company respectively.

(b) The fixed deposits with licensed banks of the Group and of the Company at the end of the reporting period bore effective interest rates ranging from 0.76% to 1.70% (2015 – 3.25%) per annum and 0.76% – 1.70% (2015 – Nil) per annum respectively. The fixed deposits have maturity periods ranging from 11 to 92 (2015 – 60 to 105) days and 60 (2015 – Nil) days for the Group and the Company respectively.

13. Share capital and reserves

13.1 Share capital

	Group and Company			
	Amount 2016 RM'000	Number of shares 2016 '000	Amount 2015 RM'000	Number of shares 2015 '000
Ordinary shares of RM0.50 each				
Authorised	500,000	1,000,000	500,000	1,000,000
Issued and fully paid				
At 1 January	109,568	219,137	108,756	217,512
Issued under ESOS scheme	1,133	2,266	812	1,625
At 31 December	110,701	221,403	109,568	219,137

The Company has also issued share options in accordance with its ESOS Scheme (see Note 18). During the financial year, the ESOS scheme had expired on 5 July 2016.

13.2 Treasury shares

This amount represents the acquisition cost for the purchase of the Company's own ordinary shares, net of the proceeds received on their subsequent sale or issuance of the shares repurchased.

The number of treasury shares held is 10,000 (2015 - 10,000).

13. Share capital and reserves (continued)

13.3 Share premium

The share premium of the Group and of the Company represents premium arising from the issuance of ordinary shares of the Company at an issued price above par value and the transfer of share option reserve to share premium when the share options are exercised.

The share premium may be applied only for the purposes as specified in the Companies Act, 1965.

13.4 Revaluation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

13.5 Revaluation reserve

The revaluation reserve relates to the revaluation of freehold land. Deferred tax liabilities arising upon revaluation of freehold land are recognised directly in equity.

13.6 Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

13.7 Retained earnings

Under the single tier tax system, tax on the Company's profit is the final tax and accordingly, any dividends to the shareholders are not subject to tax.

14. Loans and borrowings

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current				
Unsecured revolving credits	-	12,861	-	12,861
Unsecured insurance premium finance	3,577	3,968	-	-
Bills payable	22,466	47,182	-	-
	26,043	64,011	-	12,861

14.1 Security

The collateral for the bank facilities granted to a subsidiary is the subsidiary's property, plant and equipment (Note 3) and is supported by the corporate guarantee from the Company.

The unsecured bank facilities of the Group are supported by the corporate guarantee from the Company.

14. Loans and borrowings (continued)

14.2 Terms and debt repayment schedule

	Year of maturity RM'000	Carrying amount RM'000
Group		
Unsecured revolving credits – USD	2016	-
Unsecured insurance premium finance – AUD	2017	3,577
Bills payable	2017	22,466
		26,043
Company		
Unsecured revolving credits – USD	2016	-

2016 Under 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	2015 Carrying amount RM'000	Under 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000
-	-	-	12,861	12,861	-	-
3,577	-	-	3,968	3,968	-	-
22,466	-	-	47,182	47,182	-	-
26,043	-	-	64,011	64,011	-	-
-	-	-	12,861	12,861	-	-

15. Payables and accruals

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Trade					
Trade payables	15.1	143,573	156,590	-	-
Amount due to ultimate holding company	15.2	805	412	-	-
Amounts due to related companies	15.3	57	974	-	-
		144,435	157,976	-	-
Non-trade					
Amount due to ultimate holding company	15.2	1,074	861	-	-
Amount due to a subsidiary	15.4	-	-	1,114	1,138
Amounts due to related companies	15.3	628	690	-	-
Amounts due to associates	15.5	3,491	3,304	-	-
Other payables		19,527	21,293	1	-
Accrued expenses		58,949	46,989	67	66
		83,669	73,137	1,182	1,204
		228,104	231,113	1,182	1,204

15.1 Analysis of foreign currency exposure for significant payables

Significant trade payables that are not in the functional currencies of the Group are as follows:

Functional currency	Foreign currency	Group 2016 RM'000	Group 2015 RM'000
RM	AUD	321	821
RM	SGD	990	2,304
RM	EUR	4,029	10,716
RM	USD	4,415	11,170
RM	RMB	2,545	219
RM	GBP	323	293
AUD	EUR	408	369
AUD	RMB	675	350

15. Payables and accruals (continued)

15.2 Amount due to ultimate holding company

The non-trade amount due to the ultimate holding company is subject to the normal trade term of 30 days.

The non-trade amount due to the ultimate holding company is unsecured, interest-free and repayable on demand.

15.3 Amounts due to related companies

The trade amount due to related companies is subject to the normal trade term of 30 days.

The non-trade amount due to related companies is unsecured, interest-free and repayable on demand.

15.4 Amount due to a subsidiary

The non-trade amount due to a subsidiary is unsecured, interest-free and repayable on demand.

15.5 Amount due to associates

The non-trade amount due to associates is unsecured, interest-free and repayable on demand.

16. Provision for warranties

	Group	
	2016 RM'000	2015 RM'000
At 1 January	27,805	27,022
Provision made during the year	10,619	11,109
Utilised during the year	(5,827)	(7,542)
Reversal during the year	(7,613)	(3,868)
Effect of movements in exchange rates	182	1,084
At 31 December	25,166	27,805

The provision for warranties relates to provision for defect rectification costs for manufactured cranes sold.

17. Derivative liabilities

	2016		2015	
Group	**Contract/ Notional amount RM'000**	**Derivative liabilities RM'000**	**Contract/ Notional amount RM'000**	**Derivative liabilities RM'000**
Forward foreign currency contracts	301,153	(13,136)	520,272	(11,863)

Forward exchange contracts are used to manage the foreign currency exposure arising from the Group's receivables and payables denominated in currencies other than the functional currency of the Group.

18. Employee benefits

18.1 Share-based payments

In 2011, an employees' share option scheme ("ESOS Scheme") was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 28 June 2011 to the eligible employees including Directors of the Company and its subsidiaries.

The main features of the ESOS scheme, and details of the share options offered and exercised during the financial year are as follows:

i) The maximum number of approved unissued new ordinary shares of RM0.50 each available for allotment under the ESOS scheme shall not exceed in aggregate of ten per cent (10%) of the issued and paid-up share capital of the Company at any point in time during the duration of the ESOS scheme;

ii) Save for Directors, the eligible employees are those confirmed full time employees of the Group and who have served for a continuous period of at least one (1) year;

iii) A grantee shall be allowed to exercise the options granted subject to the following percentage limits based on entitlement granted:

		Year option is granted				
		2011	**2012**	**2013**	**2014**	**2015**
Cumulative %	Year 1	-	-	-	-	-
of options	Year 2	33.33%	-	-	-	-
exercisable	Year 3	66.67%	33.33%	-	-	-
during the	Year 4	100%	66.67%	33.33%	-	-
option period in:	Year 5	100%	100%	100%	100%	100%

iv) The exercise price shall be based on the weighted average market price of the shares of the Company for the five (5) market days immediately preceding the offer date subject to a discount of not more than ten per cent (10%) or at the par value of the shares of the Company, whichever is higher.

18. Employee benefits (continued)

18.1 Share-based payments (continued)

The following options were granted under the ESOS scheme to take up the unissued ordinary shares of RM0.50 each:

Grant date	Exercise price	At 1.1.2016 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2016 '000	Expiry date
ESOS Scheme							
28.09.2011	RM0.80	1,458	-	(1,445)	(13)	-	05.7.2016
28.09.2012	RM1.57	125	-	(114)	(11)	-	05.7.2016
01.10.2013	RM2.50	344	-	(42)	(302)	-	05.7.2016
26.09.2014	RM3.05	472	-	-	(472)	-	05.7.2016
28.09.2015	RM2.25	920	-	(665)	(255)	-	05.7.2016
		3,319	-	(2,266)	(1,053)	-	

Grant date	Exercise price	At 1.1.2015 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2015 '000	Expiry date
ESOS Scheme							
28.09.2011	RM0.80	3,017	-	(1,547)	(12)	1,458	05.7.2016
28.09.2012	RM1.57	174	-	(49)	-	125	05.7.2016
01.10.2013	RM2.50	422	-	(5)	(73)	344	05.7.2016
26.09.2014	RM3.05	562	-	-	(90)	472	05.7.2016
28.09.2015	RM2.25	-	1,004	(24)	(60)	920	05.7.2016
		4,175	1,004	(1,625)	(235)	3,319	

During the financial year, 1,445,000, 114,000, 42,000 and 665,000 (2015 – 1,547,000, 49,000, 5,000 and 24,000) share options at exercise prices of RM0.80, RM1.57, RM2.50 and RM2.25 each respectively under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the financial year was RM2.55 (2015 – RM2.74).

Details relating to options exercised during the financial year

	Group and Company 2016 RM'000	2015 RM'000
Ordinary share capital at par	1,133	812
Share premium	1,803	569
Proceeds received on exercise of share options	2,936	1,381
Fair value of shares issued (based on average exercise price)	2.55	2.74

18. Employee benefits (continued)

18.1 Share-based payments (continued)

Value of employee services received for issue of share options

The value of employee services received for issue of share options is as follows:

	Group and Company	
	2016 RM'000	2015 RM'000
Share option granted in 2011	-	-
Share option granted in 2012	-	15
Share option granted in 2013	-	106
Share option granted in 2014	-	298
Share option granted in 2015	-	416
Total expense recognised as share-based payments	-	835

Fair value of share options and assumptions

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black Scholes Model with the following inputs:

	Group and Company	
	2016	2015
Fair value at grant date (RM)		
- Granted in Year 2011	RM0.34 – RM0.42	RM0.34 – RM0.42
- Granted in Year 2012	RM0.49 – RM0.67	RM0.49 – RM0.67
- Granted in Year 2013	RM0.83 – RM1.01	RM0.83 – RM1.01
- Granted in Year 2014	RM0.69	RM0.69
- Granted in Year 2015	RM0.46	RM0.46
Weighted average share price		
- Granted in Year 2011	0.88	0.88
- Granted in Year 2012	1.74	1.74
- Granted in Year 2013	2.75	2.75
- Granted in Year 2014	3.36	3.36
- Granted in Year 2015	2.46	2.46
Exercise price		
- Granted in Year 2011	RM0.80	RM0.80
- Granted in Year 2012	RM1.57	RM1.57
- Granted in Year 2013	RM2.50	RM2.50
- Granted in Year 2014	RM3.05	RM3.05
- Granted in Year 2015	RM2.25	RM2.25
Expected volatility (weighted average volatility)	22.19% - 46.94%	22.19% - 46.94%
Option life	-	1 year

18. Employee benefits (continued)

18.1 Share-based payments (continued)

Fair value of share options and assumptions (continued)

	Group and Company 2016	2015
Risk-free interest rate (based on Malaysian Government bonds)		
- Granted in Year 2011	3.23% - 3.41%	3.23% - 3.41%
- Granted in Year 2012	3.06% - 3.24%	3.06% - 3.24%
- Granted in Year 2013	3.21% - 3.38%	3.21% - 3.38%
- Granted in Year 2014	3.35%	3.35%
- Granted in Year 2015	3.18%	3.18%
Expected staff turnover	10%	10%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends and not necessarily be the actual outcome. The expected option life is based on historical data, which may also not necessarily be indicative of exercise patterns that may occur. The ESOS scheme expired on 5 July 2016.

19. Revenue

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Contract revenue	471,752	762,150	-	-
Sales of goods	70,286	77,429	-	-
Services rendered	40,235	27,769	-	-
Dividends	-	-	47,222	52,347
Rental income	-	-	2,257	2,138
	582,273	867,348	49,479	54,485

20. Finance income

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income:				
- fixed deposit	2,357	1,552	408	312
- related companies	63	59	63	59
Interest income arising on financial assets/ (liabilities) measured under MFRS139	1,539	13,583	2,311	1,583
	3,959	15,194	2,782	1,954

21. Finance costs

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Interest expenses:				
- Bills payable	431	1,715	-	-
- Bank overdrafts	29	117	-	-
- Revolving credits	376	347	376	347
- Term loan	-	35	-	-
- Insurance premium finance	46	59	-	-
Interest expenses arising on financial assets/ (liabilities) measured under MFRS139	1,795	5,749	45	4,668
	2,677	8,022	421	5,015

22. Profit before tax

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Operating profit is arrived at after crediting:					
Allowance for impairment losses on receivables written back		11,503	12,168	-	-
Dividend income from subsidiaries	19	-	-	47,222	52,347
Gain on disposal of property, plant and equipment		475	18	-	-
Net realised foreign exchange gain		9,513	-		97
Net unrealised foreign exchange gain		-	25,861	3,373	3,728
Rental income on:					
- premises		-	6	2,257	2,138
- cranes		17,887	12,278	-	-
Reversal of provision for warranties	16	7,613	3,868	-	-
Reversal of provision for restructuring cost		-	281	-	-

22. Profit before tax (continued)

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
and after charging:					
Allowance for impairment losses on:					
- investment in a subsidiary		-	-	23,061	-
- receivables		10,176	43,587	-	-
Allowance for slow moving inventories		1,213	4,075	-	-
Auditors' remuneration:					
- holding company's auditors		144	137	57	52
- other auditors		485	492	-	-
Other services					
- holding company's auditors		10	10	10	10
Amortisation of intangible assets	4	936	1,191	-	-
Contract costs		372,661	526,545	-	-
Depreciation expenses:					
- investment property	5	-	-	427	392
- property, plant and equipment	3	18,140	15,986	5	3
Net realised foreign exchange loss		-	61,936	812	-
Net unrealised foreign exchange loss		3,625	-	-	-
Non-audit fees		19	16	-	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		9,291	9,671	225	219
- Share-based payments	18	-	835	-	835
- Wages, salaries and others		83,711	82,376	1,394	1,320
Property, plant and equipment written off	3	6	2,121	-	-
Provision for foreseeable losses		1,700	150	-	-
Provision for warranties	16	10,619	11,109	-	-
Rental expenses on:					
- cranes		10,589	6,647	-	-
- premises		4,781	4,915	93	92
- equipment		576	822	-	-
Writedown of inventories	11	13,015	1,099	-	-

23. Key management personnel compensation

The key management personnel of the Group and of the Company include executive directors and non-executive directors of the Company and certain members of senior management of the Group and of the Company.

The key management personnel compensation during the financial year are as follows:-

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors				
Executive Directors				
Short-term employee benefits:				
- Fees	324	332	288	288
- Remuneration	1,621	1,539	1,617	1,534
	1,945	1,871	1,905	1,822
Non-executive Directors				
Short-term employee benefits:				
- Fees	300	296	288	288
- Remuneration	66	66	64	65
	366	362	352	353
	2,311	2,233	2,257	2,175
Other Key Management Personnel				
Short-term employee benefits	5,038	4,726	1,359	1,268
Defined contribution benefits	374	347	163	152
	5,412	5,073	1,522	1,420

The Directors of the Company are the key management personnel for the Group with ultimate authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

24. Income tax

Recognised in profit or loss

Major components of income tax expense include:

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Current tax expense				
Malaysia - current	16,699	17,917	34	34
- (over)/underprovision in prior year	(5,940)	2,243	(22)	8
	10,759	20,160	12	42
Overseas - current	3,979	7,442	437	458)
- under/(over)provision in prior year	1,138	(1,287)	(26)	(95)
	5,117	6,155	411	363
Total current tax expense	15,876	26,315	423	405
Deferred tax expense (Note 8)				
Origination of temporary differences	2,420	(1,897)	-	-
Effect of change in corporate tax rate from 25% to 24%	922	-	-	-
Overprovision in prior years	(11,476)	(8)	-	-
Total deferred tax	(8,134)	(1,905)	-	-
Total tax expense	7,742	24,410	423	405
Reconciliation of tax expense				
Profit for the year	72,040	93,866	28,104	52,111
Total tax expense	7,742	24,410	423	405
Profit excluding tax	79,782	118,276	28,527	52,516
Tax at Malaysian tax rate of 24% (2015 – 25%)	19,148	29,569	6,846	13,129
Effect of different tax rates in foreign jurisdictions	913	(2,957)	-	-
Effect change in corporate tax rate	922	-	-	-
Non-deductible expense	6,563	10,177	6,116	1,348
Non-taxable gain	(800)	(847)	(554)	(396)
Double deductions	(332)	(387)	-	-
Tax exempt income	(681)	(1,195)	(11,937)	(13,684)
Tax incentives	849	-	-	-
Effect of utilisation of deferred tax assets previously not recognised	(2,238)	(11,261)	-	-
Effect of non-recognition of deferred tax benefits	(185)	(786)	-	-
(Over)/underprovision in prior years	(16,278)	948	(48)	8
Others	(139)	1,149	-	-
	7,742	24,410	423	405

Domestic income tax is calculated at the Malaysia statutory tax rate 24% (2015 – 25%) of the estimated assessable profit for the financial year.

25. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2016			
First and final 2015 ordinary	15.00	33,209	11 August 2016
2015			
First and final 2014 ordinary	12.00	26,265	11 September 2015

At the forthcoming Annual General Meeting, the following dividend in respect of the current financial year will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for as a liability in the financial year ending 31 December 2017.

	Sen Per Share (tax exempt)	Total amount RM'000
First and final ordinary	15.00	33,209

Dividend per ordinary share

The calculation of dividend per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2016 of RM33,208,914 (2015 – RM32,869,014) on the issued and paid-up share capital (excluding treasury shares) of 221,392,763 (2015 – 219,126,763) ordinary shares of RM0.50 each as at the end of the reporting date.

26. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per share for the financial year ended 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group 2016 RM'000	Group 2015 RM'000
Profit for the financial year attributable to owners of the Company	74,649	94,706

Weighted average number of ordinary shares

	Group 2016 '000	Group 2015 '000
Number of ordinary shares in issue at 1 January	219,137	217,512
Effect of shares repurchased	(10)	(10)
Effect of ordinary shares issued under ESOS	1,520	722
Total weighted average number of ordinary shares in issue (unit)	220,647	218,224
Basic earnings per ordinary share (sen)	33.83	43.40

26. Earnings per ordinary share (continued)

Diluted earnings per share

The Group has potential diluted ordinary shares from the options granted to eligible employees of the Group.

The calculation of diluted earnings per share for the year ended 31 December 2016 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

	Group	
	2016 RM'000	2015 RM'000
Profit for the financial year attributable to owners of the Company	74,649	94,706

Weighted average number of ordinary shares (diluted)

	Group	
	2016 '000	2015 '000
Weighted average number of ordinary shares at 31 December	220,647	218,224
Effect of share options in issue	-	1,288
Weighted average number of ordinary shares (diluted) at 31 December	220,647	219,512

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

	Group	
	2016 Sen	2015 Sen
Diluted earnings per ordinary share	33.83	43.14

27. Segment reporting

Segment information is presented in respect of the Group's geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

The Group operates only in one business segment. Accordingly, information by business segments is not presented.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses.

27. Segment reporting (continued)

Geographical segments

The Group's business is managed on a worldwide basis with its head office in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

	Inside Malaysia		Outside Malaysia		Eliminations		Consolidated	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Geographical segments								
Revenue from external customers	282,239	462,332	300,034	405,016	-	-	582,273	867,348
Inter-segment revenue	188,579	329,725	60,013	84,802	(248,592)	(414,527)	-	-
Total revenue	470,818	792,057	360,047	489,818	(248,592)	(414,527)	582,273	867,348
Operating profit							79,925	112,589
Finance income							3,959	15,194
Finance costs							(2,677)	(8,022)
Share of (loss)/profit of associates							(1,425)	(1,485)
Profit before tax							79,782	118,276
Segment assets	935,280	1,007,304	535,754	591,268	(326,046)	(395,851)	1,144,988	1,202,721
Investments in associates	22	22	19,244	19,244	(3,717)	(2,292)	15,549	16,974
Total assets	935,302	1,007,326	554,998	610,512	(329,763)	(398,143)	1,160,537	1,219,695
Segment liabilities	447,765	573,956	372,980	419,068	(251,965)	(320,944)	568,760	672,080
Capital expenditure								
- Property, plant and equipment	21,391	19,041	25,304	6,164	(1,445)	(798)	45,250	24,407
Depreciation and amortisation	11,711	11,267	7,365	5,910	-	-	19,076	17,177

28. Financial instruments

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Financial Assets				
Loans and Receivables Financial Assets				
Receivables and deposits	234,784	281,558	67,013	74,699
Short-term investments	70,844	15,737	8,269	3,370
Fixed deposits with licensed banks	184,368	26,254	29,897	-
Cash and bank balances	111,625	291,988	663	14,718
	601,621	615,537	105,842	92,787
Financial Liabilities				
Other Financial Liabilities				
Loan and borrowings	26,043	64,011	-	12,861
Payables and accruals	228,104	231,113	1,182	1,204
Provision for warranties	25,166	27,805	-	-
	279,313	322,929	1,182	14,065
Fair Value through Profit or Loss				
Derivative liabilities	13,136	11,863	-	-

Financial risk management

The group has exposure to the following risk from its use of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from customers. The Company's exposure to credit risk arises principally trade receivables.

Receivables

Risk management objectives, policies and processes for managing the risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

28. Financial instruments (continued)

Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

At the end of the reporting period, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 30 to 60 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables by geographical region is as follows:

	Group	
	2016 RM'000	2015 RM'000
Asia	93,564	162,286
Europe	40,000	19,505
America	10,943	14,073
Australia	8,158	12,687
	152,665	208,551

Impairment losses

The Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of reporting period was:

Group	Gross Amount RM'000	Individual Impairment RM'000	Collective Impairment RM'000	Carrying Amount RM'000
2016				
Not past due	21,352	-	-	21,352
Past due 0 - 90 days	32,271	-	-	32,271
Past due 91 -180 days	59,115	(372)	-	58,743
Past due more than 180 days	96,635	(56,336)	-	40,299
	209,373	(56,708)	-	152,665
2015				
Not past due	68,956	-	-	68,956
Past due 0 - 90 days	77,230	-	-	77,230
Past due 91 -180 days	24,641	-	-	24,641
Past due more than 180 days	96,467	(58,743)	-	37,724
	267,294	(58,743)	-	208,551

28. Financial instruments (continued)

Credit risk (continued)

Receivables (continued)

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

	Group 2016 RM'000	Group 2015 RM'000
At 1 January	58,743	25,823
Impairment losses recognised	10,176	43,587
Impairment losses written back	(11,503)	(12,168)
Written off during the financial year	(800)	-
Effect of movements in exchange rates	92	1,501
At 31 December	56,708	58,743

The Group's trade receivables as at 31 December 2016 which are past due but not impaired amounted to RM131,313,000 (2015 – RM139,595,000). Trade receivables which are past due and impaired as at 31 December 2016 amounted to RM56,708,000 (2015 – RM58,743,000). For those trade receivables which are past due but not impaired, the Group is satisfied that these debts are recoverable.

Liquidity risk

Liquidity risk is the risk that the Group will not able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on contractual undiscounted contractual payment:

Group	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2016						
Unsecured insurance premium finance	1.25	3,577	3,621	3,621	-	-
Bills payable	2.84 – 4.64	22,466	22,466	22,466	-	-
Unsecured payables and accruals	-	228,104	228,104	228,104	-	-
		254,147	254,191	254,191	-	-

28. Financial instruments (continued)

Liquidity risk (continued)

Group	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2015						
Unsecured revolving credits	2.91	12,861	12,889	12,889	-	-
Unsecured insurance premium finance	1.67	3,968	3,999	3,999	-	-
Bills payable	3.81	47,182	47,182	47,182	-	-
Unsecured payables and accruals	-	231,113	231,113	231,113	-	-
		295,124	295,183	295,183	-	-

Company	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2016						
Unsecured payables and accruals	-	1,182	1,182	1,182	-	-
2015						
Unsecured revolving credits	2.91	12,861	12,889	12,889	-	-
Unsecured payables and accruals	-	1,204	1,204	1,204	-	-
		14,065	14,093	14,093	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates that will affect the Group's financial position or cash flows.

Interest rate risk

The Group's interest rate risk arises from its interest bearing financial instruments that could impact fair value and future cash-flow due to fluctution in market interest rates. Interest rate exposure is managed through the use of fixed and floating rate debts.

28. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing-financial liabilities, the following table indicates their average effective interest rate at the end of the reporting period and periods in which they mature, or if earlier, reprice.

Group	Effective Interest rate %	Total RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2016					
Financial assets					
Fixed rate instruments					
Fixed deposit placed with licensed banks	0.76 – 1.70	184,368	184,368	-	-
Short-term investments	1.97 – 2.94	70,844	70,844	-	-
		255,212	255,212	-	-
Financial liabilities					
Fixed rate instruments					
Unsecured insurance premium finance – AUD	1.25	3,577	3,577	-	-
Floating rate instrument					
Bills payable	2.84 – 4.64	22,466	22,466	-	-
		26,043	26,043	-	-
2015					
Financial assets					
Fixed rate instruments					
Fixed deposit placed with licensed banks	3.25	26,254	26,254	-	-
Short-term investments	2.60 – 3.30	15,737	15,737	-	-
		41,991	41,991	-	-
Financial liabilities					
Fixed rate instruments					
Unsecured insurance premium finance – AUD	1.67	3,968	3,968	-	-
Floating rate instruments					
Unsecured revolving credits – USD	2.91	12,861	12,861	-	-
Bills payable	3.81	47,182	47,182	-	-
		64,011	64,011	-	-

28. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

Company	Effective interest rate % (2016)	Total RM'000 (2016)	Less than 1 year RM'000 (2016)	Effective interest rate % (2015)	Total RM'000 (2015)	Less than 1 year RM'000 (2015)
Financial assets						
Fixed rate instruments						
Fixed deposits placed with licensed banks	0.76 – 1.70	29,897	29,897	-	-	-
Short-term investments	1.97 – 2.94	8,269	8,269	2.60 – 3.30	3,370	3,370
		38,166	38,166		3,370	3,370
Financial liabilities						
Floating rate instruments						
Unsecured revolving credits	-	-	-	2.91	12,861	12,861

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not effect profit or loss.

Can flow sensitivity analysis for variable rate instruments

If interest rates as at the end of the reporting period increase by 100 basis points (bp) with all other variables being held constant, the Group's and the Company's profit after taxation would have decreased by RM170,742 (2015 - RM450,323) and Nil (2015 - RM96,458) respectively. A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

Foreign currency

The Group and the Company are exposed to currency risk as a result of transactions that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily United States Dollar ("USD"), Australian Dollar ("AUD") and Singapore Dollar ("SGD").

Risk management objectives policies and processes for managing the risk

The Group uses forward exchange contracts to hedge its foreign currency risk although the Group does not have a fixed policy to hedge its sales and purchases in forward contracts. The exposure to foreign currency risk of the Group is monitored by the management from time to time. The Group does not hold forward exchange contracts for trading purposes. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward exchange contracts are rolled over at maturity.

The foreign exchange contracts are used as hedges to manage the operational exposures to foreign currency risks. They are entered into with high credit quality financial institutions and monitoring procedures. The exposure to foreign currency risk of the Group and of the Company is also mitigated by natural hedging via borrowings and payment of operational costs and expenses in the same currency of the major receivables.

28. Financial instruments (continued)

Market risk (continued)

Foreign currency (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk, based on carrying amounts as at end of the reporting period was:

Group	USD RM'000	AUD RM'000	SGD RM'000
2016			
Financial assets	210,605	56,401	104,551
Financial liabilities	(31,600)	(56,566)	(1,157)
Net financial assets/(liabilities)	179,005	(165)	103,394
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(20,155)	26,891	(30,401)
Less: Forward foreign currency contracts (contracted notional principal)	(219,600)	-	(62,572)
Net currency exposure	(60,750)	26,726	10,421
2015			
Financial assets	274,960	57,099	117,705
Financial liabilities	(37,275)	(65,175)	(4,062)
Net financial assets/(liabilities)	237,685	(8,076)	113,643
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(12,851)	11,434	(39,014)
Less: Forward foreign currency contracts (contracted notional principal)	(386,462)	(6,336)	(107,944)
Net currency exposure	(161,628)	(2,978)	(33,315)

Currency risk sensitivity analysis

This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchase.

Effects on profit after taxation

	USD	AUD	SGD
2016			
- strengthened by 5%	(2,308)	1,016	396
- weakened by 5%	2,308	(1,016)	(396)
2015			
- strengthened by 5%	(6,061)	(112)	(1,249)
- weakened by 5%	6,061	112	1,249

28. Financial instruments (continued)

Fair value information

The fair values of the financial assets and financial liabilities of the Group and of the Company which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:-

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value			Total Fair Value	Carrying Amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	RM'000	RM'000
Group								
2016								
Financial liability								
Derivative liabilities – forward currency contracts	-	13,136	-	-	-	-	13,136	13,136
2015								
Financial liability								
Derivative liabilities – forward currency contracts	-	11,863	-	-	-	-	11,863	11,863

29. Contingencies

Contingent liabilities - unsecured

	Company	
	2016 RM'000	**2015 RM'000**
Corporate guarantee for credit facilities granted to subsidiaries	51,965	114,084

In the ordinary course of business, the Company also issue some performance guarantees on behalf of subsidiaries.

Continuing financial support

The Company has undertaken to provide continuing financial support to certain subsidiaries to enable them to meet their financial obligations as and when they fall due.

30. Related parties

(i) Identities of related parties

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

The Group has related party relationships with its ultimate holding company, subsidiaries (see Note 6), related companies, associates (see Note 7) and Directors (see Note 23).

(ii) Significant transactions with related parties:

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Ultimate holding company				
Purchase of property, plant and equipment	166	75	-	-
Rental expense payable	1,019	1,608	-	-
Sale of goods and services	(690)	(86)	-	-
Subcontract cost payable	991	542	-	-
Share services expenses	2,000	2,000	-	-
Subsidiaries				
Dividend income receivable	-	-	(47,222)	(52,347)
Rental income receivable	-	-	(2,257)	(2,138)
Related companies				
Rental expense payable	3,452	3,782	93	92
Rental income receivable	(236)	(8)	-	-
Sale of goods	(520)	(5,883)	-	-
Subcontract cost payable	1,495	10,873	-	-

30. Related parties (continued)

Significant transactions with related parties (continued):

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Associates				
Interest income receivable	(63)	-	(63)	-
Sale of goods and services	(14,074)	(17,984)	-	-

The outstanding net amounts due from/(to) subsidiaries, related companies and associates as at 31 December are disclosed in Note 9 and Note 15 respectively.

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

There are no allowance for impairment losses on receivables as at 31 December 2016 in respect of the above related party balances.

31. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio 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 or expansion plans of the Group. 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 Group's approach to capital management during the year.

32. Significant event occurring after the reporting period

The Companies Act 2016 came into effect on 31 January 2017 (except for Section 241 and Division 8 of Part III of the said Act) and replaces the existing Companies Act 1965.

Amongst the key changes introduced under the Companies Act 2016 that will affect the financial statements of the Group and of the Company upon their initial adoption are:-

(i) Removal of the authorised share capital;
(ii) Ordinary shares will cease to have par value; and
(iii) Share premium account will become part of the share capital.

The adoption of the Companies Act 2016 is to be applied prospectively. Therefore, the changes in the accounting policies and the possible impacts on the financial statements upon its initial adoption will be disclosed in the financial statements of the Group and of the Company for the financial year ending 31 December 2017.

33. Comparative figures

The following figures have been reclassified to conform with the presentation of the current financial year:-

	Group	
	As Restated RM'000	As Previously Reported RM'000
Statement of profit or loss and other comprehensive income (Extract):-		
Revenue	867,348	792,431
Cost of sales	(648,609)	(573,692)

	Company	
	As Restated RM'000	As Previously Reported RM'000
Statement of cash flow (Extract):-		
Cash flows from operating activities		
Net unrealised (gain)/loss on foreign exchange	(3,728)	1,147
Receivable, deposits and prepayments	35,096	29,074
Net cash generated from operating activities	35,363	34,216
Effect of exchange rate fluctuations on cash held	(1,147)	-

34. Realised and unrealised profits/(losses)

The breakdown of the retained profits of the Group and of the Company as at the end of the reporting period into realised and unrealised profits/(losses) are presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:-

	2016 RM'000	2015 RM'000
Total retained profits of Favelle Favco Berhad and its subsidiaries:		
- Realised	263,075	275,883
- Unrealised	53,197	42,283
	316,272	318,166
Total retained profit from associated companies		
- Realised	(4,655)	(3,080)
- Unrealised	57	38
	311,674	315,124
Less: Consolidation adjustments	96,178	51,151
Total Group retained profits	407,852	366,275

Statement by Directors | pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 44 to 111 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 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 2016 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 34 on page 112 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....

Mac Ngan Boon @ Mac Yin Boon

....

Mac Chung Hui

Klang,

30th March 2017

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

I, **Lee Poh Kwee**, , the Director primarily responsible for the financial management of Favelle Favco Berhad, do solemnly and sincerely declare that the financial statements set out on pages 44 to 111 are, to the best of my knowledge and belief, 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 above named in Klang on 30th March 2017.

……………………..
Lee Poh Kwee

Before me:

Azmi bin Ishak
Persuruhjaya Sumpah Malaysia
(No. B413)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Favelle Favco Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 44 to 111.

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 2016 and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant 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.

Key Audit Matters (Continued)

We have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition and contract accounting Refer to Note 19 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
There is an inherent risk around the existence of revenue recorded as significant management judgment and estimate are required in determining cost budgets, recognition of variation orders, project costs to-complete and estimation of provision for foreseeable loss and Liquidated Ascertained Damages.	Our audit procedures included, amongst others: • Assessing internal control procedures by flowchart and walkthrough tests; • Assessing basis used in determining the budgeted contract costs; • Assessing project status fall under our sample; • Verifying progress billings and contract costs incurred; • Testing percentage of completion which reflects contract costs incurred to-date; • Reviewing calculation of recognition of revenue, cost and profit to be consistent with the percentage of completion; and • Assessing reasonableness and adequacy of provision for foreseeable losses and Liquidated Ascertained Damages.

Recoverability of trade receivables Refer to Note 9 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Trade receivables are a major component of the financial position of the Group, given the economic downturn and the risk of customers becoming insolvent may be high due to the low global crude oil prices. Accordingly, significant judgment is required in the assessment of recoverability of receivables.	Our audit procedures included, amongst others: • Reviewing recoverability of major receivables including but not limited to the review of subsequent collections; • Enquiring with management on project/receivables status for major customers; • Reviewing collections and sales trends during the financial year for major receivables; and • Reviewing management's basis of estimation on the adequacy of the Group's allowance for impairment losses on trade receivables.

Key Audit Matters (Continued)

Inventories – Inventories under Work-In-Progress Refer to Note 11 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Inventories are a major component of the financial position, given the economic downturn and decline of the global crude oil prices impacted the demand of cranes which might lead to writedown of inventories. Accordingly, significant judgment is required in the assessment on the writedown of inventories.	Our audit procedures included, amongst others: • Reviewing whether inventories are carried at the lower of costs and net realisable value; and • Assessing adequacy of writedown of inventories.

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 and Statement of Risk Management and Internal control (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 and other sections of the 2016 annual report, which is expected to be made available to us after that date.

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 Directors for the Financial Statements

The directors of the Company are responsible for the preparation of the 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 1965 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

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 judgment 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that subsidiaries of which we have not acted as auditors, are disclosed in Note 6 to the financial statements.

Other Reporting Responsibilities

The supplementary information set out in Note 34 on page 112 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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.

Crowe Horwath
Firm Number: AF 1018
Chartered Accountants

Chan Kuan Chee
Approval No: 2271/10/17 (J)
Chartered Accountant

Kuala Lumpur

30th March 2017

Group Properties | as at 31 December 2016

No.	Location	Description /Existing Use	Year of Valuation/ Acquisition	Tenure/ Expiry Date	Land Area	Age of Building	Carrying Value RM'000
1.	4 Mile East, FM 106, Port of Harlingen, Harlingen, Texas, 78551-3049 USA.	Office building cum manufacturing plant	1997	Leasehold expiry 2031	17.826 acres	18 years	2,555
2.	Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan	Factory building with office block	2012#	Freehold	68,846 sq. m	11 years	32,835
3.	7AL, Nordkranvej, 2 3540, Lynge DK Denmark	Factory building with office block	2012#	Freehold	59,525 sq. m.	46 years	15,611
4.	PN4072 Lot 3683 & PN4073 Lot 3684 Mukim of Teluk Kalung, District of Kemaman, Terengganu Darul Iman.	Factory building with office block	2010	Leasehold expiry 2057	4,007 sq.m.	NA	3,004
5.	28, Yarrunga Street, Preston, NSW 2170, Australia	Office building and factory	2012	Freehold	11.6 acres	46 years	52,199
					Total properties		106,204

Note:
Year of Valuation

Share Capital

Total number of issued shares	:	RM110,701,382
Class of shares	:	Ordinary shares
Voting rights	:	One (1) vote per ordinary share

Distribution of shareholdings of ordinary shares

Size of Holdings	No of holders*1	% of holders*1	No. of shares held*1	% of issued capital*1
Less than 100	159	3.367	1,934	0.000
100 to 1,000	1,159	24.545	874,771	0.395
1,001 to 10,000	2,606	55.188	11,314,730	5.111
10,001 to 100,000	697	14.761	20,652,870	9.329
100,001 to 11,069,637*2	99	2.097	57,307,415	25.885
11,069,638*2 and above	2	0.042	131,241,043	59.280
TOTAL	**4,722**	**100.000**	**221,392,763**	**100.000**

Notes:

* 1. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2017.

Directors' shareholdings as per the Register of Directors' Shareholdings

Name of Directors	Direct interests (no. of shares)	% of issued capital(8)	Indirect/ Deemed interest (no. of shares)	% of issued capital(8)
1. Tan Sri A. Razak bin Ramli	300,000	0.136	800(1)	-(2)
2. Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	300,000(3)	0.136	-	-
3. Mac Chung Hui	2,342,000(4)	1.058	-	-
4. Mac Ngan Boon @ Mac Yin Boon	9,142,913(5)	4.130	135,321,843(6)	61.123
5. Lee Poh Kwee	1,715,000(7)	0.775	-	-
6. Mazlan bin Abdul Hamid	2,432,000	1.099	-	-
7. Sobri bin Abu	-	-	-	-

Notes:

1. Deemed interested pursuant to Section 59(11)(c) of the Companies Act, 2016 ("the Act"), held through his children.
2. Less than 0.001%.
3. Shares held through AllianceGroup Nominees (Tempatan) Sdn Bhd.
4. Certain shares held through Maybank Securities Nominees (Tempatan) Sdn Bhd.
5. Certain shares held through RHB Capital Nominees (Tempatan) Sdn Bhd, Maybank Securities Nominees (Tempatan) Sdn Bhd and EB Nominees (Tempatan) Sendirian Berhad.
6. Deemed interested pursuant to Section 8 of the Act by virtue of his substantial interests in MEB and the shares held by his wife and children pursuant to Section 59(11)(c) of the Act.
7. Shares held through HLB Nominees (Tempatan) Sdn Bhd and RHB Capital Nominees (Tempatan) Sdn Bhd.
8. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2017.

Shares in related corporation

There is no change in the deemed interest of directors in related corporation as disclosed in the Directors' Report for the year ended 31 December 2016 from pages 39 to 41 of this Annual Report.

Options in the Company

The shares options has expired on 5 July 2016.

Substantial Shareholdings as per the Register of Substantial Shareholders

Name	Direct interests (no. of shares)	% of issued capital(3)	Deemed interest (no. of shares)	% of issued capital(3)
1. Muhibbah Engineering (M) Bhd	131,241,043	59.280	-	-
2. Mac Ngan Boon @ Mac Yin Boon	9,142,913(1)	4.130	131,241,043(2)	59.280

Notes:
1. Certain shares held through RHB Capital Nominees (Tempatan) Sdn Bhd, Maybank Securities Nominees (Tempatan) Sdn Bhd and EB Nominees (Tempatan) Sendirian Berhad.
2. Deemed interested pursuant to Section 8 of the Act by virtue of his substantial interests in MEB.
3. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2017.

List of thirty (30) largest shareholders

No.	Name of Shareholders	No. of Shares held	% of issued capital*
1	Muhibbah Engineering (M) Bhd	98,000,000	44.265
2	Muhibbah Engineering (M) Bhd	33,241,043	15.015
3	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (VCAM Equity FD)	5,358,600	2.420
4	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	5,264,000	2.378
5	CIMB Group Nominees (Tempatan) Sdn Bhd Yayasan Hasanah (AUR-VCAM)	5,224,600	2.360
6	Mac Ngan Boon @ Mac Yin Boon	2,978,913	1.346
7	Mazlan bin Abdul Hamid	2,418,000	1.092
8	Mac Chung Hui	2,242,000	1.013
9	Aminah binti Mohd Taib	2,194,500	0.991
10	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities)	1,702,700	0.769
11	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lee Poh Kwee	1,435,000	0.648
12	Citigroup Nominees (Asing) Sdn Bhd Exempt An For Citibank New York (Norges Bank 9)	1,218,600	0.550

List of thirty (30) largest shareholders (cont'd)

No.	Name of Shareholders	No. of Shares held	% of issued capital*
13	Ooi Sen Eng	1,156,000	0.522
14	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad For Eastspring Investmentssmall-Cap Fund	1,109,400	0.501
15	OREC Engineering Holdings Pty Ltd	900,000	0.407
16	Chong Cho Kiong	770,000	0.348
17	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati binti Hassan	750,000	0.339
18	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	747,400	0.338
19	Noriyati binti Hassan	728,123	0.329
20	Maybank Securities Nominees (Tempatan) Sdn Bhd Chew Keng Siew	700,000	0.316
21	Teoh Yong Churn	668,600	0.302
22	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	621,800	0.281
23	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	600,000	0.271
24	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad For RHB Dynamic Fund	600,000	0.271
25	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Jin	600,000	0.271
26	Lim Swee Pheng	594,346	0.268
27	Caroline Khoo	583,000	0.263
28	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank For Skyture Capital Sdn Bhd	500,300	0.226
29	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad For RHB Capital Fund	500,000	0.226
30	Yap Eng Jin	455,000	0.206
		173,861,925	**78.532**

Note:

* Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2017.

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FAVELLE FAVCO BERHAD (249243-W)
(Incorporated in Malaysia)

PROXY FORM

Number of Shares Held
CDS Account Number

*I/*We ____
(Full Name as per NRIC/Certificate of Incorporation in Capital letters)

NRIC No. /Passport No. /Company No. ____

of ____
(Full Address)

being a member/members of **FAVELLE FAVCO BERHAD**, hereby appoint Mr/Ms ______________________

______________________ NRIC No. /Passport No. ______________________

of ____

OR failing whom, Mr/Ms ____

NRIC No. /Passport No. ____

of ____

OR failing whom, the Chairman of the Meeting as *my/*our proxy to vote for *me/*us and on *my/*our behalf at the Twenty-Fifth Annual General Meeting of the Company to be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on **Thursday, 22 June 2017 at 11.00 a.m.** and at any adjournment thereof.

The Proportions of *my/*our holding to be represented by *my/*our proxies are as follows :

Proxy 1	%	Proxy 2	%	100%

*My/*Our proxy(ies) is/are to vote as indicated below :-

Resolution No.	Ordinary Business :	For	Against
1.	To approve the declaration of a first and final tax exempt dividend of 15 sen per ordinary share.		
2.	To re-elect Mazlan bin Abdul Hamid as Director of the Company.		
3.	To re-elect Lee Poh Kwee as Director of the Company.		
4.	To re-elect Mac Chung Hui as Director of the Company.		
5.	To re-appoint Messrs Crowe Horwath as the Company Auditors for the ensuing year and to authorise the Directors to fix their remuneration.		
	Special Business :		
6.	To retain Tan Sri A. Razak bin Ramli as an Independent Non-Executive Director.		
7.	To retain Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor as an Independent Non-Executive Director.		
8.	To approve the Proposed Renewal of Authority for Share Buy-Back.		
9.	To approve the Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		

Please indicate with (X) on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Dated this .... day of 2017

[*Delete if not applicable]

....
[Signature/Common Seal of Shareholder(s)]

Notes:

(a) A member entitled to attend and vote at this meeting is entitled to appoint not more than two (2) proxies to attend, speak and vote in his/her stead. Each proxy appointed, shall represent a minimum of one hundred (100) shares. Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his/her shareholdings to be represented by each proxy.

(b) A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.

(c) The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.

(d) Where a Member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

(e) Where a Member of the Company 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.

(f) The duly completed Proxy Form must be deposited at the Share Registrar's Office, Tricor Investor & Issuing House Services Sdn Bhd, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi 59200 Kuala Lumpur, Malaysia, not less than forty-eight (48) hours before the time set for the holding of the Meeting or any adjournment thereof.

(g) Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice will be put to vote by way of poll.

Affix
Stamp
Here

FAVELLE FAVCO BERHAD (249243-W)

Share Registrar
Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur, Malaysia