FAVELLE FAVCO

Annual Report 2017

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

A MEMBER OF MUHIBBAH ENGINEERING (M) BHD

Corporate Information

Tower crane, Poland, windmill installation

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)

Sobri bin Abu
(Independent Non-Executive Director)

Dato' Sri Khazali bin Haji Ahmad
(Independent Non-Executive Director)

Audit Committee

Sobri bin Abu *(Chairman)*
Tan Sri A. Razak bin Ramli
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Dato' Sri Khazali bin Haji Ahmad

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
Tel : (603) 2783 9299
Fax : (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 Address

ffb@favellefavco.com.my

Offshore crane, Azerbaijan, Shah Deniz II

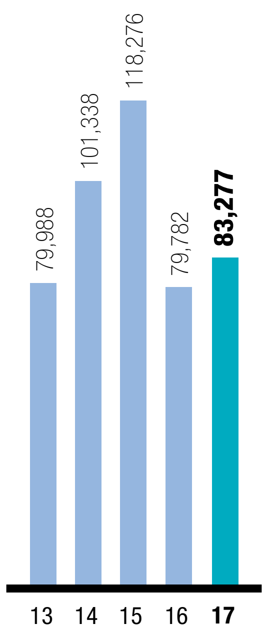
Contents

Group Financial Highlights

	2013	2014	2015	2016	2017
Turnover (RM'000)	764,185	797,895	867,348	582,273	526,484
Profit Before Tax (RM'000)	79,988	101,338	118,276	79,782	83,277
Profit After Tax Attributable to Owners of the Company (RM'000)	67,400	87,618	94,706	74,649	63,097
Total Equity Attributable to Owners of the Company (RM'000)	398,132	460,835	547,103	593,995	629,509
Share Capital (RM'000)	107,606	108,756	109,568	110,701	155,170
Basic Earnings Per Ordinary Share (Sen)	31.61	40.55	43.40	33.83	28.50
Net Assets Per Ordinary Share (RM)	1.87	2.11	2.50	2.67	2.84

Profit Before Tax

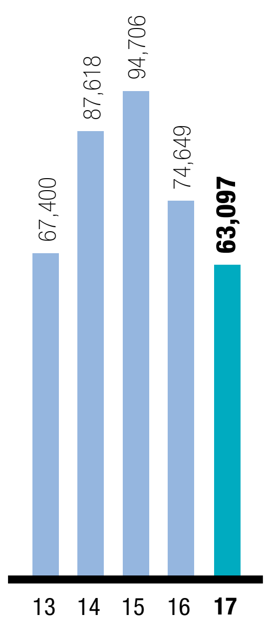
(RM'000)



Profit After Tax

Attributable to Owners of the Company

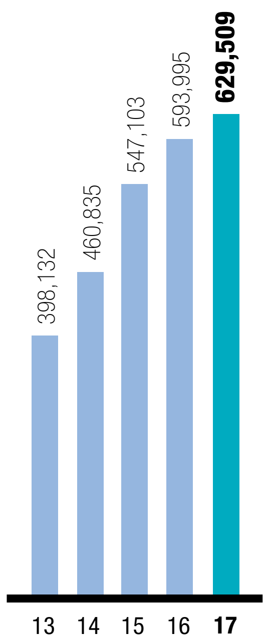
(RM'000)



Total Equity

Attributable to Owners of the Company

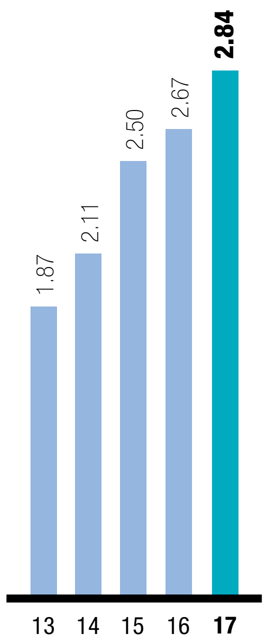
(RM'000)



Net Assets

Per Ordinary Share

(RM)



Group Structure

as at 30 March 2018

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

Management Discussion and Analysis

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.

Tower crane, Russia, Bridge to Russky Island

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

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 of cranes and service and maintenance. We have 7 operating facilities (Malaysia, Australia, Denmark, USA, China, Singapore and UAE) with a total workforce of approximately 1050 teammates spanning the globe. This global structure allows us to build these heavy lift cranes as close to the delivery point as economically feasible.

Port crane at J-25, Singapore

Market Review, Strategies

2017 was a rather slow year in the market. The oil and gas market remained as subdued as before. Notwithstanding the low activity, the stability in oil prices appears to have created some level of stability in the platform market globally. However, we expect the Jack-up and Floater market to remain subdued for the foreseeable future.

The construction crane market remained steady at a low level. We are however finding opportunities in the rental market. It is clearly a large addressable market which we intend on further penetrating. In that sense our strategy has been to invest in this area and it has been bearing results so far.

Furthermore, our strategy of penetrating the smaller construction crane market has also borne results with several new contracts for these smaller sized cranes.

Review and Discussion of Financial Results

Our revenue for the full year of 2017 dropped from RM582 million (2016) to RM526 million. Correspondingly our Profit After Tax dropped from RM72 million (2016) to RM64 million.

The drop was primarily due to the slow replenishment of order book. Our order intake for the full year dropped 35% compared with the previous year. This is not totally unexpected as we have always held the position that the market has not yet recovered.

Nevertheless, we have proposed a dividend of 13.5sen representing approximately 50% of the full year's Earnings Per Share.

Capex Requirements and Treasury Commentary

We are currently in a net cash position of RM338 million. As reported before, we will continue to invest further in our rental fleet.

Additionally, we have now signed a conditional share purchase agreement regarding the acquisition of a 70% stake in each of Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd (collectively known as the "Exact Group").

These two initiatives should put a fair amount of our cash to work.

Operational Review

This year we continued to focus on staying vigilant on our costs. The workload was reasonably stable at low volumes.

We have been working on custom designing several new cranes targeted for the wind turbine industries and for the Prefabricated Prefinished Volumetric Construction market in Singapore. Some of these cranes have already started to be delivered during the 1st half of 2018. The early indications are looking good as they fit the market segment well.

The market is starting to accept that the cycle times for our cranes beat the current mode of erection of these wind turbines. As such, we expect to further deepen our penetration into the onshore wind turbine market.

Additionally, this year we recorded our highest ever revenue for our after-sales segment. This was driven primarily by the investment in tower crane accessories and tower crane rentals. We have achieved this growth despite the fact that we haven't even started to penetrate outside of our home markets so it gives us some optimism that we can further increase our presence in the tower crane rental market.

Curent Challenges and Risks

The crane market appears to stay "lower for longer". We are positioning ourselves to be sustainably profitable at these low levels. The market seems to be stabilizing at least and does not look to go down too much further from here.

We see challenges from governments around the world unpredictably implementing various policies which may affect us in the future. This would not be the first time but the global regulatory environment seems to be the most disturbed in recent memory. Nevertheless, it affects all competitors and we shall adapt accordingly.

We are also anticipating rising steel prices and wage inflation as the market eventually recovers. This will have to be offset by increasing our focus on productivity gains.

Corporate Development

On 28 March 2018, we entered into a conditional share purchase agreement to acquire a 70% controlling stake in the Exact Group for a total indicative cash purchase consideration of approximately RM90.7 million ("Proposed Acquisition").

The principal business activities of the Exact Group are the provision of design, engineering and maintenance services for integrated automation solutions, process analysers and specialised equipment for various industries.

Leveraging on our international network of business associates, financial strength and expertise coupled with the vendors' technical expertise and track record in the industrial automation business, this Proposed Acquisition is expected to enhance and widen the earnings base of our Group.

Future Expectations

We currently have an order book of RM481 million as at 30 March 2018. We do expect a slight pickup in the oil and gas crane market buoyed by a stable oil price.

For the construction crane market, we are working on several new geographic markets as well as further models for the wind turbine industry. Combining these initiatives with our increased rental fleet, we expect the tower crane market to provide us with a good base load.

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

Profile of Directors

Tan Sri A. Razak bin Ramli

Aged 69, Male, Malaysian

(Chairman, Senior Independent Non-Executive Director)

Chairman of the Remuneration Committee and Nominating Committee, Member of the Audit 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 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 Audit Committee and Remuneration Committee and re-designated as member of Audit Committee on 28 February 2018. 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 is a Chairman of Shangri-La Hotels (Malaysia) Berhad.

Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor

Aged 74, Male, Malaysian

(Vice Chairman, Independent Non-Executive Director)

Member of the Audit Committee, Nominating Committee and Remuneration 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. On 28 February 2018 he was appointed as member of the Remuneration Committee of FFB. He was also an Independent Non-Executive Director of MEB, a position he had assumed since 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 40, 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 Supervisory Board Member in 1999 and was responsible in assisting the 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 seventeen (17) years.

Mac Ngan Boon @ Mac Yin Boon

Aged 74, Male, Malaysian
(Executive Director)

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 Nominating (up to 18 January 2013) and Remuneration Committees. On 28 February 2018, he resigned as member of the Remuneration Committee of FFB. 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 and the Chairman of Machinery and Engineering Industries Federation (MEIF)) since 2016. Mac Ngan Boon @ Mac Yin Boon has been playing the 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 52, 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 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 three (23) years.

Mazlan bin Abdul Hamid

Aged 55, 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.

Sobri bin Abu

Aged 65, Male, Malaysian
(Independent Non-Executive Director)

Chairman of the Audit Committee, Member of the 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. On 28 February 2018, he was re-designated as Chairman of Audit Committee. 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, PETRONAS but also major international engineering construction companies like Babcock King Wilkinson (UK) Ltd of 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.

Dato' Sri Khazali bin Haji Ahmad

Aged 63, Male, Malaysian
(Independent Non-Executive Director)

Member of the Audit Committee

Dato' Sri Khazali bin Haji Ahmad was appointed as an Independent Non-Executive Director and member of the Audit Committee of FFB on 16 April 2018. He is also an Independent Non-Executive Director of MEB.

He graduated with a Bachelor of Economics degree from University Kebangsaan Malaysia in 1980 and obtained a Diploma in Public Administration from Institute Tadbiran Awam Malaysia (INTAN) in 1981. He received a Masters Degree in Economics from the University of Central Oklahoma, USA in 1991. He was the recipient of the Excellence Service Awards in 2003 and 2006 by the Ministry of Finance. He was also awarded the Asia Tax Commissioner of The Year 2015 for his excellent leadership in the Royal Malaysian Customs (Customs), particularly in the implementation of Goods and Services Tax.

Dato' Sri Khazali bin Haji Ahmad began his career as Assistant Director in the Public Service Department Malaysia in 1981. He was subsequently posted to the International Trade Division of the Ministry of International Trade and Industry (MITI) where he held various positions before he was transferred to Tax Analysis Division under the Ministry of Finance in 1997 and became Section Chief in the Division from 2005 to 2007. Between 2007 and 2008, he served as Special Functions Officer to the Chief Secretary to the Government in the Prime Ministers Department. In early 2009, Dato' Sri Khazali was appointed Deputy Director General of Customs. His last held position before his retirement in 2017 was Director General of Customs. He is also an Independent Director and Audit Committee member of Malaysia Venture Capital Management Bhd, Bank Islam Malaysia Berhad and Shangri-la Hotels (Malaysia) Berhad.

Profile of Key Senior Management

Tew Siew Chong

Aged 49, 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 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 69, Male, Malaysia

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 63, 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 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

56, 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 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, a 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 50, 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 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 1993 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 60, 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 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.

Profile of key Senior Management I *Cont'd*

Henrik Brønsholm Nielsen

Aged 49, Male, Danish

Henrik Brønsholm Nielsen was appointed as General Manager of Krøll Cranes A/S on January 1, 2008. He is responsible for the overall 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 53, Male, Malaysiam

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 a 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.

Other Information

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 and Mac Chung Hui. 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.

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

None of the Directors have been convicted for offences.

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

The amount of fees payable/paid to the external auditors for the financial year ended 31 December 2017 were as follows:

	Group RM'000	Company RM'000
Audit services	153	62
Non-audit services		
- Tax compliance and advisory	38	20
- Financial Due Diligence	80	80

3. 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 2017 or entered into since the end of the previous financial year ended 31 December 2016.

4. Recurrent Related Party Transactions

At the Annual General Meeting held on 22 June 2017, 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 28 April 2017.

In accordance with Section 3.1.5 of Practice Note No. 12 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 2017 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 2017 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	18,875
		Sales and rental of cranes and parts, and the provision of crane maintenance and services by FFB Group to MEB Group	2,466
		# 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	1,045
		# 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
		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
		Rental of land held under PN 109083 Lot No. 104626, Mukim & District of Klang, State of Selangor measuring in area approximately 36,000 square metres by MEB Group to FFB Group.	2,566
		Rental of plant and equipment and scaffolding service by FFB Group to MEB Group	64

Transacting Parties	Related Party	Nature of Transactions	Actual Transactions Value for the Financial Year Ended 31 December 2017 RM'000
FFB Group and FO	Mac Ngan Boon @ Mac Yin Boon and Mazlan bin Abdul Hamid	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

Overview 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.

On 26th April 2017, the Securities Commission ("SC") released the new Malaysian Code on Corporate Governance 2017 ("MCCG 2017" or "the Code") which supersedes the Malaysian code on Corporate Governance 2012, its earlier edition.

This statement describes how the Group has applied the principles set out in the MCCG 2017 and except where stated otherwise, its compliance with the recommended practices of the MCCG 2017 for the financial year ended 31 December 2017.

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 businesses.

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of eight (8) members, comprising four (4) Independent Non-Executive Directors and four (4) Executive Directors. As such, more than one third (1/3) of the Board comprises Independent Non-Executive Directors. This composition is in compliance with Paragraph 15.02 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") and MCCG 2017.

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 7 to 9 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. The Chairman leads the Board and manages the Board's effectiveness by focusing on strategy, governance and compliance.

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 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 Statement on Risk Management and Internal Control;
- Review related party transactions;
- Review and adopt the Board Charter, Whistleblowing Policy and Code of Ethics;
- 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 the 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 the authority delegated by the Board have been defined by the Board in the Terms of Reference of the respective committees. These committees are Audit Committee, Nominating Committee and Remuneration Committee. In addition, the Board is also assisted by 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 next 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 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 MMLR 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 2017
Tan Sri A. Razak bin Ramli	4/4
Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor	3/4
Mac Chung Hui	3/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Lee Poh Kwee	4/4
Mazlan bin Abdul Hamid	4/4
Lim Teik Hin *(Resigned on 16 April 2018)*	4/4
Sobri Bin Abu	4/4
Dato' Sri Khazali bin Haji Ahmad *(Appointed on 16 April 2018)*	Not applicable

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, 2016 and MMLR 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 meeting 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 (1) 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 which include Minutes of Meetings, details of operational, financial, safety and corporate development 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.

Furthermore, the Board is regularly kept updated and apprised of any regulations and guidelines as well as amendments thereto issued by regulators, particularly the effects of such new and amended regulations and guidelines on directors specifically, and the Company and the Group generally.

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 Secretary 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 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 2017 are disclosed in the Management Discussion and Analysis of this Annual Report.

Board Charter and Code of Ethics

Board Charter

The Board had adopted a Board Charter, which set out the roles and responsibilities of the Board, the division of authority and responsibilities of the Board and Management, terms of reference and composition of Board Committees and other administrative policies and procedures in relation to the operation of the Board as a whole.

The Board Charter is available on the Company's website at www.favellefavco.com.

Code of Ethics

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, exercising caution and due care in safeguarding the Company's assets and confidential information.

A summary of the Code of Conduct is available on the Company's website at www.favellefavco.com.

Whistleblowing Policy

The Board has also adopted a Whistleblowing Policy to provide avenues for stakeholders of the Company to raise legitimate concerns relating to potential breaches of business conduct, non-compliance with legal and regulatory requirements as well as other malpractices.

The Whistleblowing Policy is made available in the Company's website for reference and for ease of access for reporting by employees and associates of the Group at www.favellefavco.com.

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 will present the respective committee's recommendations and seek Board 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 to be disclosed, the scope of works and management letter of the external auditors as well as undertaking any such other functions as may be determined by the Board from time to time.

All the members of the Audit Committee are Independent Non-Executive Directors.

The Audit Committee met four (4) times during the year.

A report detailing the membership, attendance, role, activities and of the Audit Committee is presented from pages 26 to 27 of this Annual Report.

(ii) Nominating Committee

The present members of the Nominating Committee consist of all Non-Executive Directors 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 requirement of Bursa guideline on the composition of the Board and other sub-board committees.

(ii) *Nominating Committee (continued)*

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

- Reviewed the performance of Independent Directors including the criteria as required under the MMLR 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 of Directors and and Board committees through an evaluation survey questionnaire known as Board and Board Committee assessment Questionnaire. The duly completed questionnaire was 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 subject to re-election at the forthcoming Annual General Meeting; and
- Reviewed the terms of reference of Nominating Committee to ensure to be in line with the latest MMLR of Bursa Securities and also to formalize some existing practices of the nominating committee.

The Nominating Committee's 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) *(Resigned as RC member on 28 February 2018)*
Sobri bin Abu	Member *(Independent Non-Executive Director)*
Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor	Member *(Independent Non-Executive Director)* *(Appointed as RC member on 28 February 2018)*

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, benchmarking against other companies from similar industries to ensure the Company is able to attract 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 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 has been performed on an annual basis to ensure that the remunerations of the Directors are competitive with the market and consistent with their duties and responsibilities.

Board Evaluation

The process of assessing Directors is an ongoing responsibility of the entire Board. 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 was reviewed and enhanced by the Nominating Committee during the financial year.

The Board evaluation comprises Board and Committees assessments and an assessment of independence of Independent Directors and the contribution of each individual directors which are conducted on an annual basis. The evaluations involve individual Directors and members of Committees 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 includes assessing their respective relationship with the Group and their involvement in any significant transactions with the Group. The Board also undertook a self-assessment in which they assessed their own performance.

Appointments, 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 benefit 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. Nevertheless, to ensure effective appointment of female Directors, the Board does not set any specific target for female Directors but continues to work actively towards having more female Directors on the Board, all things being equal.

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 four (4) 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 MMLR of Bursa Securities and the Company meets the minimum requirement prescribed by the MMLR of Bursa Securities to have at least one-third (1/3) of its Board members being Independent Non-Executive Directors.

In line with the recommendation of MCCG 2017, the tenure of an Independent Director should not exceed a cumulative term of nine (9) years. Should the Board intend to retain a Director as Independent Director after serving beyond nine (9) years, shareholders' approval will be sought. If the Board continues to retain the Independent Director after the twelfth (12th) year, the Board should seek annual shareholders' approval through a two-tier voting process.

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 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 Nominating Committee proposed their re-appointment as Independent Directors at the forthcoming Annual General Meeting based on their independence, vast experience cumulated from the relevant industries, networking and ability to continue to provide valuable contributions and independent insights to support the Board.

Each Independent Director is responsible to notify the Board of any changes to the circumstances or development of any new interest or relationship that would affect their independence as an Independent Director of the Company.

Reinforcement of Independence (continued)

The Board takes cognisance of Practice 4.2 of the Code that the tenure of an Independent Director should not exceed a cumulative term limit of nine (9) years. Nevertheless, the Board is of the view that the ability of long serving Independent Directors to remain independent and to discharge their duties with integrity and competency should not be measured solely by tenure of service or any pre-determined age.

The Board continues to strike an appropriate balance between tenure of service and continuity of experience of the Board. However, such change will take some time in order to maintain stability to the Board. Furthermore, the Company acknowledged the benefits from the Independent Directors who have, over time, gained invaluable insights into the Group, its market and the industry.

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 include topics relating to corporate governance, Companies Act, 2016, 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
What Directors Need To Know On Reporting & Disclosure Obligations to Prevent Public Repreimand & Fines By The Regulators	Bursatra Sdn Bhd
The Psychology of Peak Performance	Entrepreneurs' Organization Malaysia
MIA 50th Anniversary Commemorative Lecture - Integrity: The Game Changer	Malaysian Institute of Accountants
Advocacy Sessions To Enhance Quality of Management Discussion & Analysis ("MD&A") For Chief Executive Officers ("CEO") And Chief Financial Officers ("CFO") Of Listed Issuers	Bursa Malaysia
2018 National Budget & Tax Planning Conference Riding The Wave of National Transformation - Surf of Slide	Crowe Horwath CPE Sdn Bhd
KPMG Tax and Business Summit 2017	KPMG Tax Services Sdn Bhd
Changes Affecting Directors Under The Companies Act 2016: What Every Director Needs To Know	Bursatra Sdn Bhd
Highlights of The Companies Act 2016 - Changes & Implications	Bursatra Sdn Bhd
The Release of The Malaysian Code on Corporate Governance	Securities Commission Malaysia
The New Companies Act 2017 - Raising the Bar for Directors	Affin Bank Berhad

Directors' Training (continued)

Programme title	Organiser
Latest updates on Directors' Remuneration in Compliance with the new Companies Act and the Upcoming Amendment to the listing requirements 2017	Affin Bank Berhad
Panel Speaker for RHB Regional Conference "One Belt, One Road, One Asia" - MIM	RHB
6th MIMA South China Sea Conference (SCS) 2017	MIMA
Implementing The Companies Act 2016 & The Malaysian Code of Corporate Governance 2017	Bursatra 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	1,503,560	1,498,880
	1,827,560	1,786,880
Independent Non-Executive:		
Fees	300,000	288,000
Other emoluments	59,840	58,280
	359,840	346,280
Total Directors' remuneration	2,187,400	2,133,160

The number of Directors in each remuneration band for the financial year 2017 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

The Board has considered the disclosures of details of the remuneration of each Director as required in MMLR of Bursa Securities and Practice 7.1 of the MCCG 2017. The Board is of the view that the transparency and accountability aspects of corporate governance as applicable to Directors' Remuneration are appropriately served by the "band disclosure" as above.

The Company departs from Practices 7.2 and 7.3 of the MCCG 2017 in view that there would be adverse implication including dissatisfaction and animosity among the staff in the event that the Company discloses salaries, bonuses, benefits in-kind and other emoluments of Senior Management on a named basis.

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; and
iii) Financial statements have been prepared on a going concern basis.

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 approved accounting 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 in 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 twice 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 28 to 30 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 page 26 and 27 of this Annual Report.

Recurring Related Party Transactions

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

All recurring 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 recurring 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 MMLR 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 and 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 the 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 ("AGM") 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 were 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.

Voting at the AGM is conducted on a poll. All shareholders are briefed on the voting procedures by the poll administrator prior to the poll voting and an independent Scrutineer is appointed to validate the votes cast and announce the poll results.

COMPLIANCE STATEMENT
The Company has complied with the Principles as set out in the MCCG 2017 and the relevant chapter of MMLR of Bursa Securities on Corporate Governance to the extent as set out above throughout the financial year ended 31 December 2017.

This Statement on Corporate Governance was approved by the Board of Directors on 16 April 2018.

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 2017.

Composition and Attendance

The Audit Committee ("AC") comprises four (4) Independent Non-Executive Directors. The AC therefore complied with paragraphs 15.09 (1) and 15.10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad 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 2017 are as follows:

Members	Designation	Attendance at meetings in 2017
Sobri bin Abu	Chairman *(Independent Non-Executive Director)* *(Re-designated as Chairman of Audit Committee on 28 February 2018)*	4/ 4
Tan Sri A. Razak bin Ramli	Member *(Senior Independent Non-Executive Director)* *(Re-designated as member of Audit Committee on 28 February 2018)*	3/ 4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Independent Non-Executive Director)*	2/ 4
Lim Teik Hin	Member *(Non-Independent Non-Executive Director)* *(Resigned on 16 April 2018)*	4/ 4
Dato' Sri Khazali bin Haji Ahmad	Member *(Independent Non-Executive Director)* *(Appointed on 16 April 2018)*	Not Applicable

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. Representative 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 2017

The AC carries 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 feedbacks.

Summary of Activities in 2017 (continued)

(ii) Internal Audit

- Reviewed and approved the internal audit plan to ensure adequacy of the scope of coverage;
- Reviewed the recurrent related party transactions review report and corporate governance review report;
- Reviewed the internal audit reports tabled by the Internal Auditors together with the recommendations and management's committed action plans; and
- Reviewed the results of follow-up audits conducted by the Internal Auditors on the status of Management's implementation of the committed action plans.

(iii) Reviewed the recurrent related party transactions 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 litigation affecting the Group.

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

Internal Audit Function

The Group Internal Audit Department ("GIAD") of the holding company provides internal audit services to the Company. GIAD is an independent function that reports directly to the AC and performs objective assessment on the adequacy and effectiveness of the Group's system of internal control, risk management and governance processes. It is guided by the Internal Audit Charter approved by the AC that defines the scope, authority, roles and responsibilities of the function.

GIAD is led by Foo Sek Thai who is a member of the Malaysian Institute of Accountants and a Chartered Member of the Institute of Internal Auditors Malaysia. He has professional experience in diverse industries and prior to joining the Group, he was working with a consulting firm that provides advisory services on internal audit, risk management, corporate governance as well as internal controls review on listed companies and companies intending to go for initial public offering. During the financial year ended 2017, the number of supporting internal audit staff under him fluctuated between two (2) and four (4) and they possess professional qualifications and/or a university degree. All members of GIAD are free from any relationships or conflicts of interest which could impair their objectivity and independence. GIAD is guided by the International Professional Practice Framework (IPPF) and the internal audit works conducted use the risk based approach.

During the financial year ended 2017, GIAD carried out its works in accordance with the risk-based internal audit plan approved by the AC. The internal audit plan was developed by taking into account the evolving risk profiles of the Group and its business units, concerns of Senior Management, Risk Management Committee, Board Members and the AC. The scopes of review for the year include the following:

- Procurement Process
- Corporate Governance
- Recurrent Related Party Transactions
- Inbound Logistics Process
- Manpower Tracking and Reporting

The results of reviews had been documented in reports which included findings, recommendations and management's mitigation action plans. The reports had been discussed with Senior Management before they were tabled to the AC. GIAD also conducted follow-up visits to ascertain the status of management's implementation of the committed action plans and report to the AC accordingly. In addition, GIAD facilitated Risk Management Committee meetings at Group level and the reporting by the Risk Management Units of various business units.

GIAD incurred approximately RM237,000 in respect of the financial year ended 31 December 2017.

Terms of Reference

The AC 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 assurance 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 Risk Management Units ("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 play 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

- <u>Organisation Structure & Authorisation Procedures</u>

  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.

- <u>Authority Limits</u>

  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 and subsequently, ISO 9001:2015 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

  The 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 that 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 2017 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 reasonably 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.

Directors' Responsibility Statement

The Directors are required by the Companies Act 2016 ("the Act") to ensure that the annual financial statements of the Group and the Company are prepared in accordance with the applicable approved accounting standards in Malaysia , the provisions of the Act and the Main Market Listing Requirements of Bursa Securities, and that these financial statements provide a true and fair view of the financial position, financial performance and cash flows of the Group and the Company for the financial year ended 31 December 2017.

In preparing these financial statements, the Directors have adopted appropriate accounting policies on a consistent basis, made judgments and estimates that are reasonable and prudent and ensured that the financial statements are prepared on a going concern basis in accordance with the applicable accounting standards.

The Directors are required to keep proper accounting records with reasonable accuracy to enable them to ensure that the financial statements comply with the Act. The Directors have overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and the Company, and to detect and prevent fraud and other irregularities.

Sustainability Statement

At Favelle Favco, our business is run based on continuous improvement and striving to be the best in the industry. This year, we have taken up the call towards sustainable development, integrating our business operations with sustainable practices that will not only enhance our market presence, but safeguard the environment and improve the livelihood of society and future generations as well.

About this Statement
LIFTING THE SCENE TO KEEPING IT SUSTAINABLE

Long-term planning and responsible actions have led to our success as one of the builders of the world's fastest cranes. By steering our focus towards sustainability, we efficiently manage our economic, environmental and social ("EES") risks that may impact our business value chain whilst showcasing our commitment towards building a sustainable future for the Group.

We have prepared our inaugural sustainability statement in accordance with the requirements set out by the Sustainability Reporting Guide published by Bursa Malaysia Securities Berhad (Bursa Malaysia). The format that we have adopted is in line with the Global Reporting Initiative ("GRI") G4 Guidelines.

Scope and Boundary
For our first year of reporting (FY2017), we have focused on our operations in Malaysia, specifically, our sustainability initiatives at our corporate headquarters in Klang and, our manufacturing operations in Senawang, Seremban.

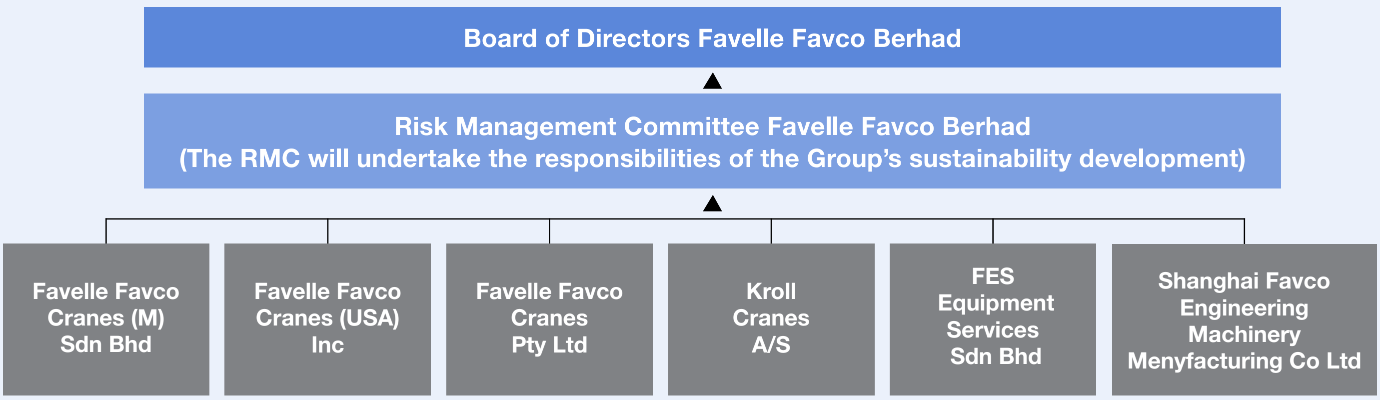
Governing Our Sustainability Efforts
A robust governance structure is fundamental in the integration of sustainable practices across the Group. The Group's **Risk Management Committee ("RMC")** has taken on the additional responsibility of managing sustainability across the Group to ensure the initiatives put in place are aligned with the Group's long-term business strategy.

The dual-tiered structure consists of the **Sustainability Committee ("SC")** comprising representatives from the six entities within the Group, Favelle Favco's **RMC** and the **Board of Directors** at its apex.

Roles and Responsibilities

Board of Directors
- Issues the final approval for all sustainability strategies and material issues identified by the **SC**
- Oversees the overall progress of the committee's sustainability efforts

RMC
- Monitors the Group's risk exposures by reviewing the organisation's risk profile on a quarterly basis
- Monitors sustainability initiatives and planning carried out by the SC and reports the sustainability progress to the Board of Directors
- Develops an overarching sustainability strategy for the Group and implement approved sustainability initiatives across the Group levels and
- Recommends sustainability matters that are applicable to the Group.



Maintaining Good Stakeholders Engagement

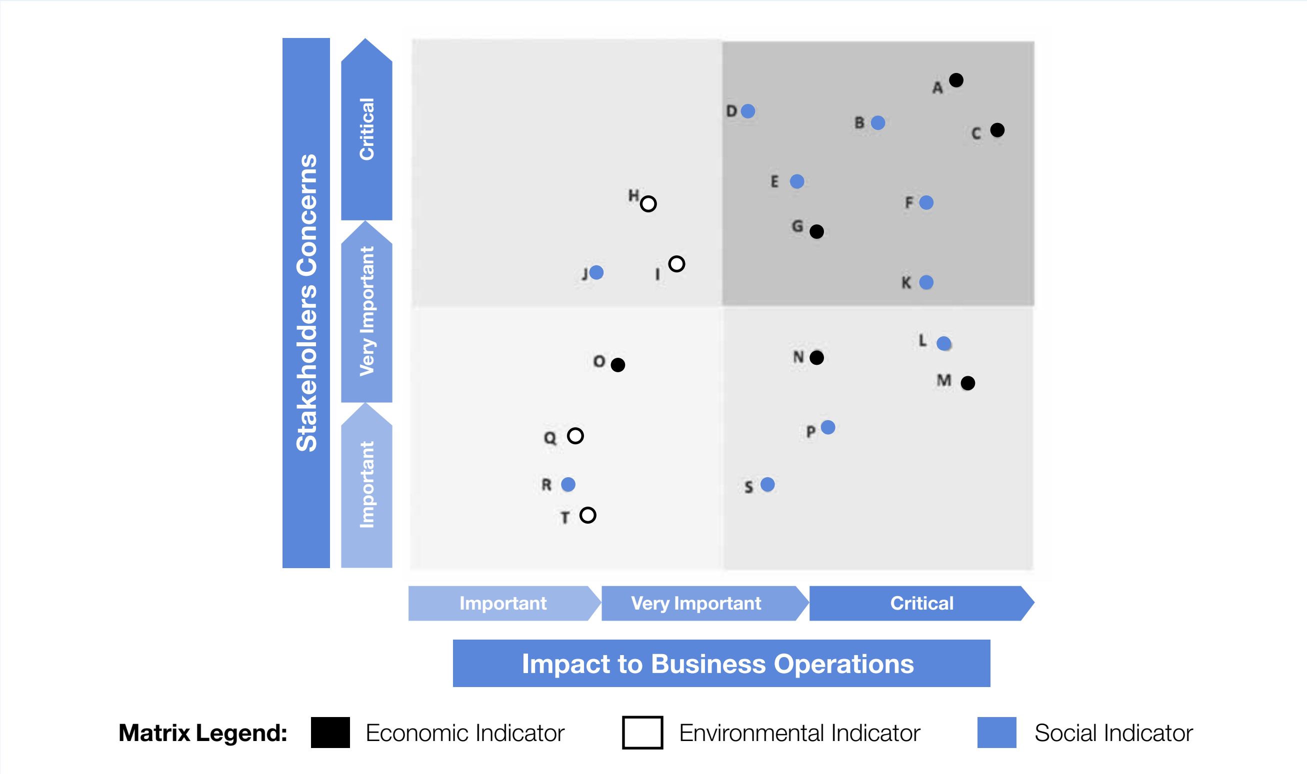
The Group's stakeholders comprises internal and external groups that are directly or indirectly impacted by our organisation and the crane industry. Through multi-platform communication channels, we engage our stakeholders, and their respective concerns, to effectively address and manage their issues and expectations.

Employees	Regulatory Agencies and Statutory Bodies	Customers
Areas of Concern		
• Performance Management System • Learning, Competency and Career Development • Industrial Harmony • Work-life Balance • Equal Pay • Safe and Healthy Working Environment	• Governance Compliance • Statutory and Regulatory Compliance • Labour Practies • Occupational Safety and Health • Environmental Management and Compliance	• Efficient Complaints Resolution • Customer-Company Relationship Management • Safety and Security • Meeting Technical and Commercial Requirements • After-sales Service Support • Training of Customers' Technical Personnel
Engagement Platform		
• Circulation of Internal Policies • Management Meetings • Annual Staff Appraisals • Competency-based Training • Communal Sensitivities in Counselling and Housing Practices • Sports and Recreation Activities • HSE Committee meetings, Inspections and Audits activities • Unsafe Condition and Unsafe Act (UCUA) Activities	• Renewal of Permits and Licensing • Waste and Effluent Management • Inspection by Local Authority • Annual Reports • General Meetings with Managers and Local Regulators • Internal and External Audit	• Regular Client Reports and Meeting • Customer Feedback Management • Customer Satisfaction Survey • Community and Networking Events • Training

Suppliers and Contractors	Local Communities	Investors
Areas of Concern		
• Transparent Procurement Practices • Intellectual Properties • Clear Scope of Supply and Requirements • Payment Schedule • Pricing of Services • Prioritisation of Local Product • Capability and Facilities to Meet Requirements	• Social Issues • Impact of Business Operation • Transparency and Accountability • Environmental Impacts • Mismatch of Qualification with Job Requirements • Industry Safety	• Group Financial Performance • Group Business Strategy • Sustainable and Stable Distribution Income • Share Price Growth
Engagement Platform		
• Supplier Performance Appraisal • Supplier Quality Management • Contract / Quotation Negotiation • Vendor Registration • Open Tender	• Community Engagement with Local Council • Job Opportunities • Training	• Investors Seminars and Conference • Investors Meetings • Annual General Meetings • Annual Reports • Non-Deal Roadshows

Our Materiality Assessment

Identifying our material sustainability matters is an important step towards recognising the EES that are embedded in our value chain. To better understand the material sustainability matters that impact the Group's business activities and, that are important to our stakeholders, the **SC** identified and ranked the material issues based on GRI's economic, environmental and social aspects using a weighted ranking method.



	Material Sustainability Issues	Corresponding GRI Aspects	Stakeholder(s) Concerned
A.	Corporate Governance and Transparency	GRI General Standard Disclosure	Employees and Investors
B.	Regulatory Compliance	Compliance	Regulatory Agencies, Investors and Customers
C.	Financial Performance	Economic Performance	Employees and Investors
D.	Training and Development	Training and Education	Employees
E.	Quality Control	Product Service and Labelling	Supplies and Contractors, and Customers
F.	Occupational Health and Safety	Occupational Health and Safety	Employees, Regulatory Agencies and Suppliers and Contractors
G.	Risk Management	GRI General Standard Disclosure	Investors
H.	Hazardous Waste Management	Effluent and Waste	Local Communities, Investors and Regulatory Agencies
I.	Air Emissions	Emissions	Local Communities and Regulatory Agencies
J.	Employee Wellbeing	Diversity and Equal Opportunity	Employees

	Material Sustainability Issues	Corresponding GRI Aspects	Stakeholder(s) Concerned
K.	Ethics and Integrity	GRI General Standard Disclosure	Employees, Investors and Customers
L.	Investors Relation	GRI General Standard Disclosure	Investors
M.	Human Rights and Labour Practices	Child Labour and Forced or Compulsory Labour	Employees and Regulatory Agencies
N.	Contractor Management	GRI General Standard Disclosure	Suppliers and Contractors
O.	Supply Chain Management	GRI General Standard Disclosure	Suppliers and Contractors
P.	Customer Satisfaction	Product Service and Labelling	Customers
Q.	Manufacturing Materials	Materials	Local Communities, Investors and Regulatory Agencies
R.	Contribution to Society	Local Communities	Local Communities
S.	Talent Retention	Training and Education	Employees
T.	Water Consumption	Water	Local Communities, Investors and Regulatory Agencies

Our Road to Sustainability

Our sustainability efforts will be guided by an overarching strategy to achieve our goals on sustainable development. We begin by presenting a sustainability vision that encompasses the Group's overall sustainability aspirations, drawing upon four main pillars *(Marketplace, Workplace, Environment and Community)* that will become building blocks for us to achieve our vision.

Sustainable Workplace

As one of the market leaders in the cranes manufacturing industry, we are committed to delivering sustainable long-term returns to our shareholders in an ethical and transparent manner while sustaining healthy economic growth. Our policies and guidelines shape the way we conduct our business operations.

Embedding Ethical Business Practices

Effectively managing EES risks ensures business sustainability while meeting stakeholders' expectations. The listed policies and guidelines we adhere to further highlights our commitment to maintaining corporate integrity through effective governing.

Product Quality and Control

The Group manufactures some of the best cranes used globally. To maintain this reputation, we conduct product quality monitoring on a real-time basis using inspection and test plans on each of the cranes that we manufacture.

A Quality Policy was also established in 2017 to formalize our monitoring procedure and quality assurance methods. The monitoring process includes product quality objectives to be met for the following aspects: financial, customer, internal process, people management and suppliers.

Sustainable Workplace

Human capital is the most valuable and integral part of our business sustainability. In view of this, we have made it our priority to nurture a work environment that is both well-balanced and rewarding for our employees. We empower our workforce through systematic training programmes and career development opportunities to facilitate best practices and work performance.

Diversity and Inclusion

Our continuous efforts to uphold fair employment practices safeguards a working environment that is respectful, safe and fair - regardless of gender, age or racial distribution - for all our employees.

Employment Level

The Group employs a total of 706 individuals consisting primarily of non-executives who make up 74% of the total workforce. The executive level employees account for 23% and the remaining 3% are at employed at management level.

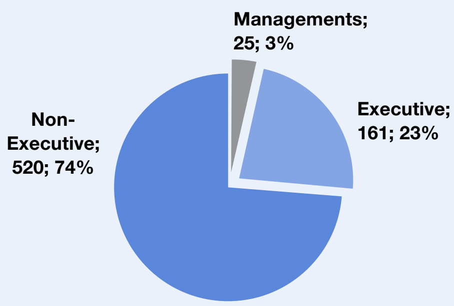
Gender and Age Distribution

While we strive towards gender diversity in the workplace, we also appreciate that the manufacturing industry is heavily dominated by males due to the tasks performed and risk associated with working in such an environment. Thus, the majority of our employees (90%) are men.

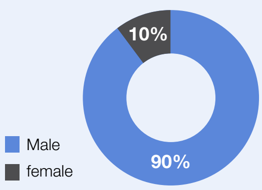
The employee age distribution is made up of 57% employees within the 30 to 50 years old age range, followed by 37% and 6% in the less than 30 years old and more than 50 years old age range respectively.

Favelle Favco's Policies and Procedures
National Policy
Malaysia's Minimum Wage Order 2016
Employment Act 1955
Accountants Act 1967; In compliance to Malaysia's Financial Reporting Standards (FRS)
Companies Act 1965
Electricity Supply Act 1990
Factories and Machinery Act 1967
Fire Services Act 1988
Occupational Safety and Health Act 1994
Environmental Quality (Scheduled Waste) Regulations 2005
Quality Management Systems ISO 19001:2015
American Petroleum Institute (API) Specification Q1; Quality Management System Requirements for Manufacturing Organisations for the Petroleum and Natural Gas Industry
API Specification 2C; Offshore Pedestal Mounted Cranes
Internal Policy
Safety, Health and Environment Policy 2015
Quality Policy 2017
Drug and Alcohol Policy 2015

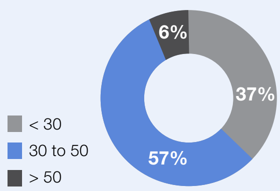
Favelle Favco's Employment Levels Based on Number of Individuals



Gender Distribution



Age Distribution, Years



Employee Advancement and Development

A competent workforce is crucial for the Group's performance. The investments we make in fostering the individual skills of our employees through targeted programmes that include a wide range of competency-related training courses and industry related seminars.

Training Course
Basic Chemical Spill Control
ISO 9001:2015 Interpretation and Application
Authorised Entrant and Standby Person for Confined Space
IMM Protective Coatings Technician Certification Scheme
Basic Scaffolding Competency Course for Frame, Modular and Tubular
Basic Offshore Safety Induction and Emergency Training including Additional Norwegian Oil and Gas Association Modules and Travel Safely by Boat (OPITO Approved)
Basic H2S Training (OPITO)
Seminar: Bridging the Gap of Understanding and Enforcement of OSHA
Crawler Crane Operation Training
Basic Fire Prevention and Fire Safety
Loss Prevention System with SSHE Induction
FMM Certificate in Safety and Health Officer
Essential First Aid
Understanding the Employment Insurance System (EIS) Bill and Retrenchment Procedures

Health and Safety Measures

At our Group, we make safety a part of everything we do and continuously review and improve our working conditions and ensure adherence to the Occupational Safety and Health Act, 1996. Our Safety, Health and Environment Policy is a reflection of our commitment to ensuring a safe and conducive workplace.

The management of safety and health initiatives is helmed by our Environment, Health and Safety Committee comprising 29 members. Their responsibilities include the implementation and monitoring of safety and health practices at our active work sites and at our manufacturing facilities. Our employees are trained to stop unsafe work at any of our locations, make safety observations and report near-misses and loss time injury.

For FY2017, we clocked in approximately 185,500 working days from the 700 employees that work at our manufacturing facilities. We report that we recorded a total of 52 lost working days, equivalent to 0.03% of our total working days. This exemplary record is fostered by our unwavering commitment to building workplace safety.

Successfully clocked in approximately **185,500 working days** based on **700 employees.**

Archieved approximately **99,97%** of total working days with **52 lost working days** logged.

Sustainable Environment

A sustainable and responsible use of energy and environmental resources is an integral part of our Group's corporate culture. We abide by the Environmental Quality Act, 1974 and its subsidiary regulations as well as the policies and guidelines put in place by the Department of Environment.

Reducing Energy Usage

Climate change remains an ongoing material sustainability issue that affects all industries at a global level. The effects of climate change are exacerbated by uncontrolled carbon emissions through industrial processes and urbanization. We installed transparent roof cladding at our Senawang manufacturing facility to utilise natural lighting which reduces the amount of electricity consumption, one of the main contributors to carbon emissions, used to light the factory. Additionally, we implemented a timer-system for the light fixtures that lights the outside of our factory.

Monitoring Emission Levels

Our manufacturing operations include the assembly and spray painting of the cranes that we build. We monitor and manage our emissions by conducting the painting activities within a designated paint booth equipped with a water curtain. The impurities from the painting activity is removed by the water curtains and only the clean air is released to the environment via a stack. To monitor the efficiency of the system, we undertake stack monitoring three times a year.

Managing Air Emissions

- Water curtain
- Stack monitoring

Responsible Waste Management

Scheduled wastes are by-products of most manufacturing processes. Examples of the scheduled waste produced by our manufacturing operations include spent lubricating oil, spent hydraulic oil, spent mineral oil-water emulsions; and rags, plastics, papers or filters contaminated with scheduled wastes. As required under the Environmental Quality (Scheduled Wates) Regulations 2005, we comply with the requirements for handling, storage and disposal by contractors licensed by the Department of Environment, Malaysia. We also keep up to date inventory of the waste quantities generated, stored and disposed.

Sustainable Community

As our business continues to expand regionally and globally, we remain committed to improving the lives and wellbeing of those living in the community we operate in. our community contribution is mainly focused on enhancing the local economy and job employability of the people living in Senawang, Seremban. The Group hires most of its employees from the surrounding local community, providing job opportunities for local talents rather than hire foreign human capital.

We further contribute towards uplifting job employability and technical skills for our local hires by providing sponsorship for vocational training. This includes the sponsorship of 257 local employees residing in Senawang for job-related training programmes which covers technical skills, safety and health awareness, chemical safety training, financial and administration training for FY2017. We further sponsored 6 employees for specialized health and safety training and conferences held by DOSH.

Moving forward for the coming years, we aim to deepen our understanding of material societal issues that can be managed or improved by the Group to achieve harmonious living and societal prosperity.

Enchancing Local Employability and Skills

- 257 local employees sent for techinical and admin-related training programmes
- 6 local employees sponsored for specialized OHS training

We conclude our 2017 sustainability efforts on a positive note and remain optimistic of future prospects with regards to sustainable development. The Group remains driven and eager to continue and build on our sustainability efforts in the coming years, further improving the way we manage our material sustainability issues identified in this financial year.

Financial Statements

Directors' Report

for the financial year ended 31 December 2017

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 2017.

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	63,097	43,970
Non-controlling interests	900	-
Profit after taxation for the financial year	63,997	43,970

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 2016 on 20 September 2017.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2017 is 13.50 sen per ordinary share totaling RM29,888,023 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 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			
	At 1.1.2017	Bought	Sold	At 31.12.2017
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	9,142,913	-	-	9,142,913
- Indirect	1,738,800	-	-	1,738,800
Lee Poh Kwee	1,715,000	-	-	1,715,000
Mazlan bin Abdul Hamid	2,432,000	-	-	2,432,000

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017
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			
	At 1.1.2017	Bought	Sold	At 31.12.2017
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	73,501,416	-	-	73,501,416
- Indirect	21,317,500	-	(300,000)	21,017,500
Lee Poh Kwee				
- Direct	6,046,272	-	-	6,046,272
- Indirect	650,000	-	-	650,000
Mazlan bin Abdul Hamid	605,000	-	(105,000)	500,000
Lim Teik Hin				
- Indirect	50,000	-	(20,000)	30,000

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 Share Issuance Schemes ("SIS") are set out below:

	Number of options over ordinary shares			
	At 1.1.2017	Granted	Exercised	At 31.12.2017
The Company				
Mac Chung Hui	-	1,500,000	-	1,500,000
Mac Ngan Boon @ Mac Yin Boon	-	1,700,000	-	1,700,000
Lee Poh Kwee	-	1,200,000	-	1,200,000
Mazlan bin Abdul Hamid	-	1,200,000	-	1,200,000

	Number of options over ordinary shares			
	At 1.1.2017	Granted	Exercised	At 31.12.2017
Ultimate holding company - Muhibbah Engineering (M) Bhd.				
Mac Chung Hui	-	1,250,000	-	1,250,000
Mac Ngan Boon @ Mac Yin Boon	-	3,500,000	-	3,500,000
Lee Poh Kwee	-	2,500,000	-	2,500,000
Mazlan bin Abdul Hamid	-	500,000	-	500,000

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 2017 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 has received or 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 interests as disclosed in Note 29 to the financial statements.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the share options granted to certain directors pursuant to the SIS of the Company.

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.

Issue of shares and debentures

During the financial year:-

(a) there were no changes in the issued and paid-up share capital of the Company; and

(b) there were no issues of debentures by the Company.

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 Company's Share Issuance Scheme ("SIS").

The Company operates an SIS that was established and approved by the shareholders of the Company at an extraordinary general meeting ("EGM") held on 22 June 2017.

The main features of the SIS Scheme, details of share options offered and exercised during the financial year are disclosed in Note 18. The SIS scheme will be expiring on 09 July 2022.

Indemnity and insurance cost

During the financial year, there is no indemnity given to or professional indemnity insurance effected for directors, officers or auditors of the Group and of the Company.

Significant event during the financial year

The significant event during the financial year is disclosed in Note 32 to the financial statements.

Significant event occurring after the financial year

The significant event occurring after the reporting period is disclosed in Note 33 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 had been written off and that adequate allowance had 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.

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

i) that would require the further writing off of 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.

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 2017 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.

The auditors' remuneration is disclosed in Note 22 to the financial statements.

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

....	....
Mac Ngan Boon @ Mac Yin Boon	**Lee Poh Kwee**

Klang,

28 March 2018

Statements of Financial Position

as at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Assets					
Property, plant and equipment	3	241,827	215,247	341	41
Intangible assets	4	203	323	-	-
Investment property	5	-	-	51,896	52,200
Investment in subsidiaries	6	-	-	35,130	35,130
Investment in associates	7	14,746	15,549	19,266	19,266
Deferred tax assets	8	25,234	25,933	-	-
Receivables	9	6,129	6,712	6,129	6,712
Total non-current assets		288,139	263,764	112,762	113,349
Receivables, deposits and prepayments	9	199,972	241,117	57,893	75,597
Contract work-in progress	10	164,184	130,553	-	-
Inventories	11	156,455	141,080	-	-
Current tax assets		20,096	17,186	-	-
Derivative assets	17	6,467	-	-	-
Cash and cash equivalents	12	372,128	366,837	68,042	38,829
Total current assets		919,302	896,773	125,935	114,426
Total assets		1,207,441	1,160,537	238,697	227,775

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Equity					
Share capital	13	110,701	110,701	110,701	110,701
Reserves		81,068	75,442	45,665	44,448
Retained earnings		437,740	407,852	82,117	71,356
Total equity attributable to owners of the Company		629,509	593,995	238,483	226,505
Non-controlling interests		(1,281)	(2,238)	-	-
Total equity		628,228	591,757	238,483	226,505
Liabilities					
Deferred tax liabilities	8	11,179	9,087	-	-
Loans and borrowings	14	18,780	11,638	-	-
Total non-current liabilities		29,959	20,725	-	-
Amount due to contract customers	10	270,308	261,957	-	-
Loans and borrowings	14	15,149	14,405	-	-
Payables and accruals	15	232,886	228,104	82	1,182
Provision for warranties	16	25,347	25,166	-	-
Current tax liabilities		5,564	5,287	132	88
Derivative liabilities	17	-	13,136	-	-
Total current liabilities		549,254	548,055	214	1,270
Total liabilities		579,213	568,780	214	1,270
Total equity and liabilities		1,207,441	1,160,537	238,697	227,775

The notes set on pages 55 to 115 are an integral part of these financial statements.

Statements of Profit or Loss and other Comprehensive Income for the year financial ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Revenue	19	526,484	582,273	46,863	49,479
Cost of sales		(376,355)	(440,572)	-	-
Gross profit		150,129	141,701	46,863	49,479
Other income		3,287	7,928	-	2,561
Distribution costs		(7,732)	(5,971)	-	-
Administrative expenses		(66,655)	(63,733)	(6,437)	(25,874)
Results from operating activities		79,029	79,925	40,426	26,166
Finance income	20	7,075	3,959	4,255	2,782
Finance costs	21	(2,024)	(2,677)	(98)	(421)
Operating profit		84,080	81,207	44,583	28,527
Share of loss in associates, net of tax		(803)	(1,425)	-	-
Profit before tax	22	83,277	79,782	44,583	28,527
Income tax	24	(19,280)	(7,742)	(613)	(423)
Profit for the year		63,997	72,040	43,970	28,104

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit for the year		63,997	72,040	43,970	28,104
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		6,844	-	-	-
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(2,378)	3,068	-	-
Other comprehensive income for the year, net of tax		4,466	3,068	-	-
Total comprehensive income for the year		68,463	75,108	43,970	28,104
Profit attributable to:					
Owners of the Company		63,097	74,649	43,970	28,104
Non-controlling interests		900	(2,609)	-	-
Profit for the year		63,997	72,040	43,970	28,104
Total comprehensive income attributable to:					
Owners of the Company		67,506	77,819	43,970	28,104
Non-controlling interests		957	(2,711)	-	-
Total comprehensive income for the year		68,463	75,108	43,970	28,104
Earnings per ordinary share (sen)					
- Basic	26	28.50	33.83		
- Diluted	26	28.24	33.83		

The notes set on pages 55 to 115 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the financial year ended 31 December 2017

Group	Note	Share capital RM'000	Treasury shares RM'000
At 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)
At 31 December 2016/1 January 2017		110,701	(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			
- Share-based payment	18	-	-
- Dividend to shareholders	25	-	-
At 31 December 2017		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
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
44,469	15,621	15,373	-	407,852	593,995	(2,238)	591,757
-	-	-	-	63,097	63,097	900	63,997
-	(2,435)	-	-	-	(2,435)	57	(2,378)
-	-	6,844	-	-	6,844	-	6,844
-	(2,435)	6,844	-	63,097	67,506	957	68,463
-	-	-	1,217	-	1,217	-	1,217
-	-	-	-	(33,209)	(33,209)	-	(33,209)
44,469	13,186	22,217	1,217	437,740	629,509	(1,281)	628,228
Note 13.3	Note 13.4	Note 13.5	Note 13.6	Note 13.7			

Statement of Changes in Equity

for the financial year ended 31 December 2017

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 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/ 1 January 2017		110,701	(21)	44,469	-	71,356	226,505
Profit for the financial year/ Total comprehensive income for the financial year		-	-	-	-	43,970	43,970
Contribution by and distribution to owners of the Company:							
- Share-based payment	18	-	-	-	1,217	-	1,217
- Dividend to shareholders	25	-	-	-	-	(33,209)	(33,209)
At 31 December 2017		110,701	(21)	44,469	1,217	82,117	238,483
		Note 13.1	Note 13.2	Note 13.3	Note 13.6	Note 13.7	

The notes set on pages 55 to 115 are an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from operating activities					
Profit before tax		83,277	79,782	44,583	28,527
Adjustments for:					
Amortisation of intangible assets		130	936	-	-
Allowance for impairment losses on receivables		16,989	10,176	-	-
Allowance for impairment losses on receivables written back		(10,311)	(11,503)	-	-
Allowance for impairment losses on investment in a subsidiary		-	-	-	23,061
Allowance for slow moving inventories		2,657	1,213	-	-
Depreciation expenses:					
- investment property		-	-	441	427
- property, plant and equipment		20,419	18,140	39	5
Dividend income from subsidiaries		-	-	(44,437)	(47,222)
Finance costs	21	2,024	2,677	98	421
Finance income	20	(7,075)	(3,959)	(4,255)	(2,782)
Gain on disposal of property, plant and equipment		(109)	(475)	-	-
Net unrealised (gain)/loss on foreign exchange		(704)	3,625	4,815	(3,373)
Property, plant and equipment written off		-	6	-	-
Provision for warranties		12,060	10,619	-	-
Share-based payments		1,217	-	1,217	-
Share of loss in associates, net of tax		803	1,425	-	-
Reversal of provision for warranties		(9,306)	(7,613)	-	-
Writedown of inventories		5,393	13,015	-	-
Operating profit/(loss) before changes in working capital		117,464	118,064	2,501	(936)
Changes in working capital:					
Inventories		(23,425)	33,462	-	-
Receivables, deposits and prepayments		5,609	66,631	63,532	63,199
Payables and accruals		(3)	(50,191)	(1,100)	(22)
Interest received		6,228	2,420	1,211	408
Interest paid		(79)	(1)	-	-
Warranties paid		(1,983)	(5,827)	-	-
Income tax paid		(19,211)	(17,475)	(569)	(430)
Net cash generated from operating activities		84,600	147,083	65,575	62,219

Statements of Cash Flows for the financial year ended 31 December 2017 I *Cont'd*

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment		(33,885)	(30,372)	(339)	(26)
Acquisition of investment property		-	-	(137)	(344)
Proceeds from subscription of shares in a subsidiary from non-controlling interests		-	(693)	-	(693)
Proceeds from disposal of property, plant and equipment		2,511	3,162	-	-
Net cash used in investing activities		(31,374)	(27,903)	(476)	(1,063)
Cash flows from financing activities					
Dividend paid to shareholders of the Company	25	(33,209)	(33,209)	(33,209)	(33,209)
Interest paid		(546)	(881)	-	(376)
Proceeds from issue of shares under ESOS scheme		-	2,936	-	2,936
Net repayment of revolving credit		-	(12,861)	-	(12,861)
Net proceeds/(repayment) of loans and borrowings		(3,614)	(52,846)	-	-
Net cash used in financing activities		(37,369)	(96,861)	(33,209)	(43,510)
Exchange differences on translation of the financial statements of foreign operations		(2,195)	1,502	-	-
Net increase in cash and cash equivalents		13,662	23,821	31,890	17,646
Effect of exchange rate fluctuations on cash held		(10,706)	9,037	(2,677)	3,095
Cash and cash equivalents at 1 January		366,837	333,979	38,829	18,088
Cash and cash equivalents at 31 December	12	369,793	366,837	68,042	38,829

The notes set on pages 55 to 115 are an integral part of these financial statements.

Notes to the 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, 2nd 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 2017 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 2017 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 28 March 2018.

1. Basis of preparation

(a) Statement of compliance

The 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 sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 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)
Amendments to MFRS 107: Disclosure Initiative
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to MFRS Standards 2014 – 2016 Cycles: Amendments to MFRS 12:
Clarification of the Scope of the Standard

The adoption of the above accounting standards and interpretations (including the consequential amendments, if any) did not have any material impact on the Group's and the Company's financial statements except as follow:-

Amendments to MFRS 107: Disclosure Initiative

The amendments to MFRS 107 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between opening and closing balances of these items is provided in Note 12.3 to the 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
MFRS 17 Insurance Contracts	1 January 2021
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
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 9: Prepayment Features with Negative Compensation	1 January 2019
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 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
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
Annual Improvements to MFRS Standards 2015 – 2017 Cycles	1 January 2019

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:-

<u>*MFRS 9 (IFRS 9 issued by IASB in July 2014)*</u>

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 and the Company is currently assessing the financial impact of adopting MFRS 9.

<u>*MFRS 15: Revenue from Contracts with Customers & Amendments to MFRS 15: Effective Date of MFRS 15 & Amendments to MFRS 15: Clarifications to MFRS 15*</u>

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 and the Company is currently assessing the financial impact that may arise from the adoption of MFRS 15.

1. Basis of preparation (continued)

(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 currency

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 (q) – revenue recognition
- 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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

(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.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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.

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(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.

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

(v) Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as liabilities at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee or, when there is no specific contractual period, recognised in profit or loss upon discharge of the guarantee. If the debtor fails to make payment relating to a financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and the amount initially recognised less cumulative amortisation.

(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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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.

(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.

2. Significant accounting policies (continued)

(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 statements 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.

(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.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(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. If any such objective evidence exists, then impairment loss of the financial asset is estimated.

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.

(ii) State plans

The Group's contributions to Employees Provident Fund 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.

(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.

(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.

(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.

2. Significant accounting policies (continued)

(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 statements 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

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.

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.

2. Significant accounting policies (continued)

(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 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)
Exchange of movements in exchange rates	22	266	74	873	-	1,235
At 31 December 2016/ 1 January 2017	71,338	58,764	132,412	107,251	26	369,791
Additions	-	752	39,079	1,654	16	41,501
Revaluation	6,844	-	-	-	-	6,844
Disposals	-	-	(4,462)	(762)	-	(5,224)
Written off	-	-	-	(27)	-	(27)
Effect of movements in exchange rates	376	54	1,881	(997)	-	1,314
At 31 December 2017	78,558	59,570	168,910	107,119	42	414,199
Representing items at:						
Cost	55,723	59,570	168,910	107,119	42	391,364
Valuation – 2008	12,291	-	-	-	-	12,291
Valuation – 2012	3,700	-	-	-	-	3,700
Valuation – 2017	6,844	-	-	-	-	6,844
	78,558	59,570	168,910	107,119	42	414,199

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 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
At 31 December 2016						
Accumulated depreciation	28	23,870	53,112	77,534	-	154,544
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2016/ 1 January 2017	28	23,870	53,112	77,534	-	154,544
Depreciation for the year	5	1,065	12,732	6,617	-	20,419
Disposals	-	-	(2,148)	(674)	-	(2,822)
Written off	-	-	-	(27)	-	(27)
Effect of movements in exchange rates	-	174	851	(767)	-	258
Accumulated depreciation	33	25,109	64,547	82,683	-	172,372
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2017	33	25,109	64,547	82,683	-	172,372
Carrying amounts						
At 1 January 2016	**71,310**	**34,894**	**79,300**	**29,717**	**26**	**215,247**
At 31 December 2017	**78,525**	**34,461**	**104,363**	**24,436**	**42**	**241,827**

3. Property, plant and equipment (continued)

Company	Property, plant and equipment RM'000
Cost	
At 1 January 2016	26
Additions	26
At 31 December 2016/1 January 2017	52
Additions	339
At 31 December 2017	391
Depreciation	
At 1 January 2016	6
Depreciation for the year	5
At 31 December 2015/1 January 2017	11
Depreciation for the year	39
At 31 December 2017	50
Carrying amounts	
At 31 December 2016	41
At 31 December 2017	341

3.1 Security

The freehold land and buildings of the Group with total net book value of RM16,084,000 (2016 – RM15,611,000) 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 2017, 2012 and 2008. The surpluses arising from the revaluations have been credited to other comprehensive income and accumulated in equity under the revaluation reserve. Had the freehold land been carried under the cost model, their carrying amounts would have been RM55,443,000 (2016 – RM55,067,000).

3.3 Property, plant and equipment under the hire purchase terms

Included in the property and equipment of the Group at the end of the financial year were crane with a total net book value of RM19,779,000 (2016 – RM14,105,000), which were acquired under hire purchase terms.

4. Intangible assets

Group	Development costs RM'000
Cost	
At 1 January 2016	6,423
Effect of movement in exchange rates	162
At 31 December 2016/1 January 2017	6,585
Effect of movement in exchange rates	(100)
At 31 December 2017	6,485
Amortisation and impairment loss	
At 1 January 2016	
Accumulated amortisation	9,568
Accumulated impairment loss	327
	9,895
Written off	(4,744)
	5,151
Amortisation for the year	936
Effect of movements in exchange rates	175
At 31 December 2016/1 January 2017	
Accumulated amortisation	5,935
Accumulated impairment loss	327
	6,262
Amortisation for the year	130
Effect of movements in exchange rates	(110)
At 31 December 2017	
Accumulated amortisation	5,955
Accumulated impairment loss	327
	6,282
At 31 December 2017	6,282
Carrying amounts	
At 31 December 2016	323
At 31 December 2017	203

Intangible assets mainly comprises 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 3 years (2016 – 1 year to 4 years).

5. Investment property

	Company 2017 RM'000	Company 2016 RM'000
Cost		
At 1 January	53,660	53,316
Addition	137	344
At 31 December	53,797	53,660
Depreciation and impairment loss		
At 1 January		
Accumulated depreciation	1,460	1,033
Accumulated impairment loss	-	-
	1,460	1,033
Addition	441	427
At 31 December		
Accumulated depreciation	1,901	1,460
Accumulated impairment loss	-	-
	1,901	1,460
Carrying amounts		
At 31 December	51,896	52,200

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 2017 RM'000	Company 2016 RM'000
Unquoted shares - at cost	138,694	138,694
Less: Impairment loss	(103,564)	(103,564)
	35,130	35,130

The details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Percentage of issued share capital held by parent 2017 %	2016 %
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 2017 %	2016 %
Favelle Favco Management Services Sdn. Bhd. #	Dormant	Malaysia	100	100
Shanghai Favco Engineering Machinery Manufacturing Co., Ltd. #	Manufacturing of cranes	China	80	80

Not audited by Messrs Crowe Horwath

(a) In the previous financial year, the Company carried out a review of the recoverable amounts of its investments in a subsidiary that had been persistently making losses. A total impairment losses of RM23,060,933, representing the write-down of the investments to their recoverable amounts, was recognised in "Administrative Expenses" line item of the statement of profit or loss and other comprehensive income.

(b) 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares, at cost	19,424	19,424	19,424	19,424
Share of post-acquisition reserves	(4,678)	(3,875)	-	-
Less: Impairment loss	-	-	(158)	(158)
	14,746	15,549	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 2017 %	Effective ownership interest 2016 %
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:

	2017 RM'000	2016 RM'000
Total assets	123,860	138,368
Total liabilities	84,283	95,406
Revenue	29,350	42,354
Loss for the year	(1,736)	(2,893)

8. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

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

Group	Assets 2017 RM'000	Assets 2016 RM'000	Liabilities 2017 RM'000	Liabilities 2016 RM'000	Net 2017 RM'000	Net 2016 RM'000
Property, plant and equipment	-	-	11,806	10,748	11,806	10,748
(Deductible)/taxable temporary differences	(29,294)	(29,696)	3,433	2,102	(25,861)	(27,594)
Tax (assets)/liabilities	(29,294)	(29,696)	15,239	12,850	(14,055)	(16,846)
Set off	4,060	3,763	(4,060)	(3,763)	-	-
Net tax (assets)/liabilities	(25,234)	(25,933)	11,179	9,087	(14,055)	(16,846)

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment	(899)	729	-	-
Deductible temporary differences	28,742	22,933	-	-
Tax losses carry-forwards	48,173	65,447	-	-
	76,016	89,109	-	-

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carried forward amounting to RM45,669,000 (2016 – RM62,343,000) 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 they are 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 1.1.2016 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2016 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2017 RM'000
Property, plant and equipment	10,225	523	-	10,748	1,058	-	11,806
Other items	(18,958)	(8,657)	21	(27,594)	1,644	89	(25,861)
	(8,733)	(8,134)	21	(16,846)	2,702	89	(14,055)

9. Receivables, deposits and prepayments

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Non-current					
Non-trade					
Advance to an associate	9.1	6,129	6,712	6,129	6,712
		6,129	6,712	6,129	6,712
		6,129	6,712	6,129	6,712
Current					
Trade					
Trade receivables		189,082	209,373	-	-
Less: Allowance for impairment losses		(63,097)	(56,708)	-	-
	9.2	125,985	152,665	-	-
Amount due from ultimate holding company	9.3	287	137	-	-
Amount due from related companies	9.4	1,403	1,736	-	-
Amount due from associates	9.5	55,375	71,784	-	-
		57,065	73,657	-	-
Non-trade					
Advance to a subsidiary	9.6	-	-	-	8,540
Amount due from subsidiaries	9.7	-	-	57,771	66,963
Amount due from related companies	9.4	461	3	-	-
Amount due from associates	9.5	-	5	-	-
Other receivables		11,012	7,349	58	39
Deposits		724	1,105	11	11
Prepayments		4,725	6,333	53	44
		16,922	14,795	57,893	75,597
		199,972	241,117	57,893	75,597

9. Receivables, deposits and prepayments (continued)

9.1 Advance to an associate

The advance to an associate is non-trade in nature, unsecured, subject to interest at 1% (2016 – 1%) per annum and is not expected to be repaid within the next twelve months.

9.2 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:

		Group	
Functional currency	Foreign currency	2017 RM'000	2016 RM'000
RM	AUD	345	372
RM	EUR	8	207
RM	RMB	-	-
RM	SGD	91	331
RM	USD	23,169	39,334
AUD	RMB	-	-
AUD	SGD	189	8,432
SGD	USD	1,662	3,618

9.3 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.

9.4 Amount 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.

9.5 Amount 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.

9.6 Advance to a subsidiary

The advance to a subsidiary was non-trade in nature, unsecured, interest-free which has been settled during the current financial year.

9.7 Amount due from subsidiaries

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

10. Contract work-in-progress

	Group 2017 RM'000	Group 2016 RM'000
Aggregate costs incurred to date	1,102,122	1,222,665
Add: Attributable profits less foreseeable losses	172,986	175,330
	1,275,108	1,397,995
Less: Progress billings	(1,381,232)	(1,529,399)
	(106,124)	(131,404)
Representing:-		
Contract work-in-progress	164,184	130,553
Amount due to contract customers	(270,308)	(261,957)
	(106,124)	(131,404)

11. Inventories

	Group 2017 RM'000	Group 2016 RM'000
At cost:		
Crane components	70,613	69,031
Work-in-progress	65,528	54,926
	136,141	123,957
At net realisable value:		
Cranes	1,396	967
Crane components	17,022	16,156
Work-in-progress	1,896	-
	156,455	141,080
Recognsied in profit or loss:-		
Inventories recognised as cost of sales	272,560	341,352
Amount written down to net realisable value	5,393	13,015

12. Cash and cash equivalents

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short-term investments	84,341	70,844	12,673	8,269
Fixed deposits placed with licensed banks	198,666	184,368	54,892	29,897
Cash and bank balances	89,121	111,625	477	663
	372,128	366,837	68,042	38,829
Bank overdrafts (Note 14)	(2,335)	-	-	-
	369,793	366,837	68,042	38,829

(a) Short-term investments represent investment in highly liquid money market, which is readily convertible to a known amount of cash. The effective interest rates ranging from 2.33% to 3.96% (2016 – 1.97% to 2.94%) and 2.40% to 3.52% (2016 – 1.97% to 2.94%) 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 0.70% to 3.25% (2016 – 0.76% to 1.70%) per annum and 0.70% to 1.80% (2016 – 0.76% to 1.70%) per annum respectively. The fixed deposits have maturity periods ranging from 30 to 90 (2016 – 11 to 90) days and 30 to 90 (2016 – 60) days for the Group and the Company respectively.

12.2 The cash disbursed for the purchase of equipment is as follows:-

	Group	
	2017 RM'000	2016 RM'000
Cost of property, plant and equipment purchased (Note 3)	41,501	45,250
Amount financed through hire purchase	(7,616)	(14,878)
Cash disbursed for purchase of property, plant and equipment	33,885	30,372

12. Cash and cash equivalents (continued)

12.3 The reconciliations of liabilities arising from financing activities are as follows:-

Group	Bills Payable RM'000	Unsecured Insurance premium Finance RM'000	Hire Purchase RM'000	Total RM'000
2017				
At 1 January	8,940	3,577	13,526	26,043
Changes in Financing Cash Flows				
Proceeds from drawdown	26,677	4,170	-	30,847
Repayment of borrowing principal	(27,919)	(4,776)	(1,766)	(34,461)
Repayment of borrowing interests	(294)	(46)	(206)	(546)
Non-cash Changes				
Foreign exchange adjustments	(187)	(64)	406	155
Drawdown of hire purchase	-	-	9,010	9,010
Finance charges recognised in profit or loss	294	46	206	546
At 31 December	7,511	2,907	21,176	31,594

Comparative information is not presented by virtue of the exemption given in MFRS 107.

Included in the drawdown of hire purchase were the equipment purchased in previous financial year amounting to RM1.4 million.

13. Share capital and reserves

13.1 Share capital

	Group and Company			
	Amount 2017 RM'000	Number of shares 2017 '000	Amount 2016 RM'000	Number of shares 2016 '000
Ordinary shares with no Par Value (2016 - Par Value of RM0.50 Each)				
Authorised	N/A	N/A	500,000	1,000,000
Issued and fully paid				
At 1 January	110,701	221,403	109,568	219,137
Issued under ESOS scheme	-	-	1,133	2,266
At 31 December	110,701	221,403	110,701	221,403

13. Share capital and reserves (continued)

N/A Not applicable pursuant to Companies Act 2016 which came into operation on 31 January 2017 as disclosed in item (i) below.

(i) On 31 January 2017, the concepts of authorised share capital and par value of share capital were abolished in accordance with the Companies Act 2016. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

(ii) In the previous financial year, the Company issued share options in accordance with its ESOS Scheme (see Note 18).

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 (2016 – 10,000).

13.3 Share premium

The Company has adopted the transitional provisions set out in Setion 618(3) of the Companies Act 2016 ("Act") where the sum standing to the credit of the share premium may be utilised within twenty four months from the commencement date of 31 January 2017 in the manner as allowed for under the Act. Therefore, the Group and the Company has not consolidated the share premium into share capital within this transitional period.

13.4 Translation 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 capital. 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non current				
Hire purchase payables	18,780	11,638	-	-
Current				
Secured bank overdraft	2,335	-	-	-
Unsecured insurance premium finance	2,907	3,577	-	-
Bills payable	7,511	8,940	-	-
Hire purchase payables	2,396	1,888	-	-
	15,149	14,405	-	-
	33,929	26,043	-	-

14. Loans and borrowings (continued)

14.2 Terms and debt repayment schedule

	Year of maturity RM'000	Carrying amount RM'000
Group		
Secured bank overdraft	2017	2,335
Unsecured insurance premium finance – AUD	2017	2,907
Bills payable	2017	7,511
Hire purchase payables	2017	21,176
		33,929

2017 Under 1 year RM'000	2017 1 - 5 years RM'000	2017 Over 5 years RM'000	2016 Carrying amount RM'000	2016 Under 1 year RM'000	2016 1 – 5 years RM'000	2016 Over 5 years RM'000
2,335	-	-	-	-	-	-
2,907	-	-	3,577	3,577	-	-
7,511	-	-	8,940	8,940	-	-
2,864	16,200	2,112	13,526	1,561	8,133	3,832
15,617	16,200	2,112	26,043	14,078	8,133	3,832

15. Payables and accruals

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade					
Trade payables	15.1	139,066	143,573	-	-
Amount due to ultimate holding company	15.2	2,323	805	-	-
Amounts due to related companies	15.3	2,427	57	-	-
		143,816	144,435	-	-
Non-trade					
Amount due to ultimate holding company	15.2	1,956	1,074	-	-
Amount due to a subsidiary	15.4	-	-	-	1,114
Amount due to related companies	15.3	287	628	-	-
Amount due to associates	15.5	3,011	3,491	-	-
Other payables		23,745	19,527	-	1
Accrued expenses		60,071	58,949	82	67
		89,070	83,669	82	1,182
		232,886	228,104	82	1,182

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 2017 RM'000	Group 2016 RM'000
RM	AUD	454	321
RM	SGD	376	990
RM	EUR	2,660	4,029
RM	USD	3,185	4,415
RM	RMB	421	2,545
RM	GBP	240	323
AUD	EUR	-	408
AUD	RMB	123	675
AUD	USD	910	-
AUD	WON	476	-

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	
	2017 RM'000	2016 RM'000
At 1 January	25,166	27,805
Provision made during the year	12,060	10,619
Utilised during the year	(1,983)	(5,827)
Reversal during the year	(9,306)	(7,613)
Effect of movements in exchange rates	(590)	182
At 31 December	25,347	25,166

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

17. Derivative Assets / (liabilities)

Group	2017 Contract/ Notional amount RM'000	2017 Derivative liabilities RM'000	2016 Contract/ Notional amount RM'000	2016 Derivative liabilities RM'000
Forward foreign currency contracts	157,295	6,467	301,153	(13,136)

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 2017, a new share issuance scheme ("New SIS Scheme") was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 22 June 2017 to the eligible employees including Directors of the Company and its subsidiaries. The former employees' share option scheme ("Former ESOS Scheme") which was previously established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 28 June 2011, had expired on 05 July 2016.

The main features of the SIS 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 SIS 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 SIS 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 2017
Cumulative %	Year 1	-
of options	Year 2	20%
exercisable	Year 3	40%
during the option	Year 4	60%
period in:	Year 5	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 SIS scheme to take up the unissued ordinary shares:

New SIS Scheme

Grant date	Exercise price	At 1.1.2017 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2017 '000	Expiry date
15.09.2017	RM2.35	-	18,307	-	(95)	18,212	09.7.2022
		-	18,307	-	(95)	18,212	

Former ESOS Scheme

Grant date	Exercise price	At 1.1.2016 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2016 '000	Expiry date
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)	-	

In the previous financial year, 1,445,000, 114,000, 42,000 and 665,000 share options at exercise prices of RM0.80, RM1.57, RM2.50 and RM2.25 each respectively under the Former ESOS scheme of the Company were exercised. The weighted average share price of the Company for the previous financial year was RM2.55.

Details relating to options exercised during the financial year

	Group and Company 2017 RM'000	Group and Company 2016 RM'000
Ordinary share capital at par	-	1,133
Share premium	-	1,803
Proceeds received on exercise of share options	-	2,936
Fair value of shares issued (based on average exercise price)	2.76	2.55

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	
	2017 RM'000	2016 RM'000
Share option granted in 2017	1,217	-
Total expense recognised as share-based payments	1,217	-

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:

New SIS Scheme

	Group and Company 2017
Fair value at grant date (RM) - Granted in Year 2017	RM0.48 – RM0.74
Weighted average share price - Granted in Year 2017	2.62
Exercise price (RM) - Granted in Year 2017	2.35
Expected volatility (weighted average volatility)	15.58%
Option life	5 years
Risk-free interest rate (based on Malaysian Government bonds) - Granted in Year 2017	3.18% - 3.498%
Expected staff turnover	10%

18. Employee benefits (continued)

18.1 Share-based payments (continued)

Fair value of share options and assumptions (continued)

Former ESOS Scheme

	Group and Company 2016
Fair value at grant date (RM)	
- Granted in Year 2011	RM0.34 – RM0.42
- Granted in Year 2012	RM0.49 – RM0.67
- Granted in Year 2013	RM0.83 – RM1.01
- Granted in Year 2014	RM0.69
- Granted in Year 2015	RM0.46
Weighted average share price	
- Granted in Year 2011	0.88
- Granted in Year 2012	1.74
- Granted in Year 2013	2.75
- Granted in Year 2014	3.36
- Granted in Year 2015	2.46
Exercise price	
- Granted in Year 2011	RM0.80
- Granted in Year 2012	RM1.57
- Granted in Year 2013	RM2.50
- Granted in Year 2014	RM3.05
- Granted in Year 2015	RM2.25
Expected volatility (weighted average volatility)	22.19% - 46.94%
Option life	-
Risk-free interest rate (based on Malaysian Government bonds)	
- Granted in Year 2011	3.23% - 3.41%
- Granted in Year 2012	3.06% - 3.24%
- Granted in Year 2013	3.21% - 3.38%
- Granted in Year 2014	3.35%
- Granted in Year 2015	3.18%
Expected staff turnover	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 SIS scheme will be expiring on 9 July 2022.

19. Revenue

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Contract revenue	361,255	471,752	-	-
Sales of goods	106,199	70,286	-	-
Services rendered	26,966	22,348	-	-
Rental income – premises	-	-	2,426	2,257
– cranes	32,064	17,887	-	-
Dividends	-	-	44,437	47,222
	526,484	582,273	46,863	49,479

20. Finance income

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income:				
- fixed deposit	6,165	2,357	1,149	408
- related companies	63	63	63	63
Interest income arising on financial assets/ (liabilities) measured under MFRS139	847	1,539	3,043	2,311
	7,075	3,959	4,255	2,782

21. Finance costs

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest expenses:				
- Bills payable	294	431	-	-
- Bank overdrafts	79	1	-	-
- Revolving credits	-	376	-	376
- Hire purchases	206	28	-	-
- Insurance premium finance	46	46	-	-
Interest expenses arising on financial assets/ (liabilities) measured under MFRS139	1,399	1,795	98	45
	2,024	2,677	98	421

22. Profit before tax

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating profit is arrived at after crediting:					
Allowance for impairment losses on receivables written back		10,311	11,503	-	-
Gain on disposal of property, plant and equipment		109	475	-	-
Net realised foreign exchange gain		697	9,513	1,998	-
Net unrealised foreign exchange gain		704	-	-	3,373
Reversal of provision for warranties	16	9,306	7,613	-	-
and after charging:					
Allowance for impairment losses on:					
- investment in a subsidiary		-	-	-	23,061
- receivables		16,989	10,176	-	-
Allowance for slow moving inventories		2,657	1,213	-	-
Auditors' remuneration:					
- holding company's auditors		153	144	62	57
- other auditors		521	485	-	-
Other services					
- holding company's auditors		80	10	80	10
Amortisation of intangible assets	4	130	936	-	-
Contract costs		289,071	372,661	-	-
Depreciation expenses:					
- investment property	5	-	-	441	427
- property, plant and equipment	3	20,419	18,140	39	5
Net realised foreign exchange loss		-	-	-	812
Net unrealised foreign exchange loss		-	3,625	4,815	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		8,821	9,291	206	225
- Share-based payments	18	1,217	-	1,217	-
- Wages, salaries and others		88,264	83,711	1,286	1,394
Property, plant and equipment written off	3	-	6	-	-
Provision for foreseeable losses		200	1,700	-	-
Provision for warranties	16	12,060	10,619	-	-
Rental expenses on:					
- cranes		17,642	10,589	-	-
- premises		4,589	4,781	93	93
- equipment		399	576	-	-
Writedown of inventories	11	5,393	13,015	-	-

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors				
Executive Directors				
Short-term employee benefits:				
- Fees	324	324	288	288
- Remuneration	1,503	1,621	1,499	1,617
	1,827	1,945	1,787	1,905
Non-executive Directors				
Short-term employee benefits:				
- Fees	300	300	288	288
- Remuneration	60	66	58	64
	360	366	346	352
	2,187	2,311	2,133	2,257
Other Key Management Personnel				
Short-term employee benefits	5,251	5,038	1,253	1,359
Defined contribution benefits	371	374	150	163
	5,622	5,412	1,403	1,522

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 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current tax expense				
Malaysia - current	8,892	16,699	135	34
- under/(over)provision in prior year	1,081	(5,940)	-	(22)
	9,973	10,759	135	12
Overseas - current	8,094	3,979	468	437
- (over)/underprovision in prior year	(1,489)	1,138	10	(26)
	6,605	5,117	478	411
Total current tax expense	16,578	15,876	613	423
Deferred tax expense (Note 8)				
Origination of temporary differences	3,395	2,420	-	-
Effect of change in corporate tax rate from 25% to 24%	-	922	-	-
Overprovision in prior years	(693)	(11,476)	-	-
Total deferred tax	2,702	(8,134)	-	-
Total tax expense	19,280	7,742	613	423
Reconciliation of tax expense				
Profit for the year	63,997	72,040	43,970	28,104
Total tax expense	19,280	7,742	613	423
Profit excluding tax	83,277	79,782	44,583	28,527
Tax at Malaysian tax rate of 24% (2016 – 24%)	19,986	19,148	10,700	6,846
Effect of different tax rates in foreign jurisdictions	1,038	913	-	-
Effect change in corporate tax rate	-	922	-	-
Non-deductible expense	4,740	6,563	2,018	6,116
Non-taxable gain	(926)	(800)	(730)	(554)
Double deductions	(837)	(332)	-	-
Tax exempt income	(801)	(681)	(11,385)	(11,937)
Tax incentives	732	849	-	-
Effect of utilisation of deferred tax assets previously not recognised	(3,142)	(2,238)	-	-
Effect of non-recognition of deferred tax benefits	-	(185)	-	-
(Over)/underprovision in prior years	(1,101)	(16,278)	10	(48)
Others	(409)	(139)	-	-
	19,280	7,742	613	423

Domestic income tax is calculated at the Malaysia statutory tax rate 24% (2016 – 24%) 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
2017			
First and final 2016 ordinary	15.00	33,209	20 September 2017
2016			
First and final 2015 ordinary	15.00	33,209	11 August 2016

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 2018.

	Sen Per Share (tax exempt)	Total amount RM'000
First and final ordinary	13.50	29,888

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 2017 of RM29,888,023 (2016 – RM33,208,914) on the issued and paid-up share capital (excluding treasury shares) of 221,392,763 (2016 – 221,392,763) ordinary shares 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 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2017 RM'000	2016 RM'000
Profit for the financial year attributable to owners of the Company	63,097	74,649

Weighted average number of ordinary shares

	Group	
	2017 '000	2016 '000
Number of ordinary shares in issue at 1 January	221,403	219,137
Effect of shares repurchased	(10)	(10)
Effect of ordinary shares issued under ESOS	-	1,520
Total weighted average number of ordinary shares in issue (unit)	221,393	220,647
Basic earnings per ordinary share (sen)	28.50	33.83

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 2017 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	
	2017 RM'000	2016 RM'000
Profit for the financial year attributable to owners of the Company	63,097	74,649

Weighted average number of ordinary shares (diluted)

	Group	
	2017 '000	2016 '000
Weighted average number of ordinary shares at 31 December	221,393	220,647
Effect of share options in issue	2,050	-
Weighted average number of ordinary shares (diluted) at 31 December	223,443	220,647

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	
	2017 Sen	2016 Sen
Diluted earnings per ordinary share	28.24	33.83

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Geographical segments								
Revenue from external customers	123,338	282,239	403,146	300,034	-	-	526,484	582,273
Inter-segment revenue	226,104	188,579	59,270	60,013	(285,374)	(248,592)	-	-
Total revenue	349,442	470,818	462,416	360,047	(285,374)	(248,592)	526,484	582,273
Operating profit							79,029	79,925
Finance income							7,075	3,959
Finance costs							(2,024)	(2,677)
Share of (loss)/profit of associates							(803)	(1,425)
Profit before tax							83,277	79,782
Segment assets	920,425	935,280	549,404	535,754	(277,134)	(326,046)	1,192,695	1,144,988
Investments in associates	22	22	19,244	19,244	(4,520)	(3,717)	14,746	15,549
Total assets	920,447	935,302	568,648	554,998	(281,654)	(329,763)	1,207,441	1,160,537
Segment liabilities	414,416	447,765	366,233	372,980	(201,436)	(251,965)	579,213	568,760
Capital expenditure								
- Property, plant and equipment	12,956	21,391	29,546	25,304	(1,001)	(1,445)	41,501	45,250
Depreciation and amortisation	11,411	11,711	9,138	7,365	-	-	20,549	19,076

28. Financial instruments

Categories of financial instruments

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financial Assets				
Loans and Receivables				
Receivables and deposits	195,247	234,784	57,840	67,013
Fixed deposits with licensed banks	198,666	184,368	54,892	29,897
Cash and bank balances	89,121	111,625	477	663
	483,034	530,777	113,209	97,573
Fair Value through Profit or Loss				
Derivative assets	6,467	-	-	-
Short-term investments	84,341	70,844	12,673	8,269
	90,808	70,844	12,673	8,269
Financial Liabilities				
Other Financial Liabilities				
Loan and borrowings	33,929	26,043	-	-
Payables and accruals	232,886	228,104	82	1,182
Provision for warranties	25,347	25,166	-	-
	292,162	279,313	82	1,182
Fair Value through Profit or Loss				
Derivative liabilities	-	13,136	-	-

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 from advances to subsidiaries and financial guarantees given to banks for borrowings granted to subsidiaries.

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	
	2017 RM'000	2016 RM'000
Asia	52,891	93,564
Europe	35,730	40,000
America	10,366	10,943
Australia	26,998	8,158
	125,985	152,665

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
2017				
Not past due	28,584	-	-	28,584
Past due 0 - 90 days	43,092	-	-	43,092
Past due 91 -180 days	23,154	-	-	23,154
Past due more than 180 days	94,252	(63,097)	-	31,155
	189,082	(63,097)	-	125,985
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

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	
	2017 RM'000	2016 RM'000
At 1 January	56,708	58,743
Impairment losses recognised	16,989	10,176
Impairment losses written back	(10,311)	(11,503)
Written off during the financial year	(139)	(800)
Effect of movements in exchange rates	(150)	92
At 31 December	63,097	56,708

The Group's trade receivables as at 31 December 2017 which are past due but not impaired amounted to RM97,401,000 (2016 – RM131,313,000). Trade receivables which are past due and impaired as at 31 December 2017 amounted to RM63,097,000 (2016 – RM56,708,000). For those trade receivables which are past due but not impaired, the Group is satisfied that these debts are recoverable.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounted to RM30.1 million (2016 – RM52 million) representing the outstanding banking facilities of the subsidiaries as at the end of the financial year.

As at the end of the financial year, there was no indication that any subsidiary would default on repayment.

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

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.

28. Financial instruments (continued)

Liquidity risk (continued)

Maturity Analysis

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 %	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2017				
Unsecured insurance premium finance	1.25	2,907	-	-
Hire purchase payable	1.85	3,554	16,561	1,763
Bills payable	2.84	7,511	-	-
Secured bank overdraft	2.75	2,335	-	-
Unsecured payables and accruals	-	232,886	-	-
		249,193	16,561	1,763

Group	Effective interest rate %	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2016				
Unsecured insurance premium finance	1.25	3,621	-	-
Hire purchase payable	1.85	1,927	9,250	3,091
Bills payable	2.84 – 4.64	8,940	-	-
Unsecured payables and accruals	-	228,104	-	-
		242,592	9,250	3,091

Company	Effective interest rate %	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2017				
Unsecured payables and accruals	-	82	-	-
Financial guarantee	-	30,109	-	-
		30,191	-	-
2016				
Unsecured payables and accruals	-	1,182	-	-
Financial guarantee	-	51,965	-	-
		53,147	-	-

28. Financial instruments (continued)

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 fluctuation in market interest rates. Interest rate exposure is managed through the use of fixed and floating rate debts.

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 rates at the end of the reporting period and the periods in which they mature, or if earlier, reprice.

Group	2017 Effective interest rate %	2017 Total RM'000	2016 Effective interest rate %	2016 Total RM'000
Financial assets				
Fixed rate instruments				
Fixed deposits placed with licensed banks	0.70 – 3.25	198,666	0.76 – 1.70	184,368
Short-term investments	2.40 – 3.59	84,341	1.97 – 2.94	70,844
		283,007		255,212
Financial liabilities				
Fixed rate instruments				
Unsecured insurance premium finance – AUD	1.25	2,907	1.25	3,577
Secured bank overdraft	2.75	2,335	-	-
Hire purchase payables	1.85	21,176	1.85	13,526
Floating rate instrument				
Bills payable	2.84	7,511	2.84 – 4.64	8,940
		33,929		26,043

28. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

Company	2017 Effective interest rate %	2017 Total RM'000	2016 Effective interest rate %	2016 Total RM'000
Financial assets				
Fixed rate instruments				
Fixed deposits placed with licensed banks	0.70 – 1.80	54,892	0.76 – 1.70	29,897
Short-term investments	2.40 – 3.52	12,673	1.97 – 2.94	8,269
		67,565		38,166

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 affect profit or loss.

Cash 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 and the Company's profit after taxation would have decreased by RM57,084 (2016 – RM68,172) and Nil (2016 – RM Nil) 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
2017			
Financial assets	137,522	131,006	56,093
Financial liabilities	(12,887)	(52,002)	(698)
Net financial assets/(liabilities)	124,635	79,004	55,395
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(9,926)	(37,375)	(11,773)
Less: Forward foreign currency contracts (contracted notional principal)	(111,718)	(1,492)	(23,983)
Net currency exposure	2,991	40,137	19,639
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

Currency risk sensitivity analysis

A 5% strengthening of the RM against the following currencies at the end of the reporting period would have increased/(decrease) profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

Effects on profit after taxation

	USD RM'000	AUD RM'000	SGD RM'000
2017			
- strengthened by 5%	114	1,525	746
- weakened by 5%	(114)	(1,525)	(746)
2016			
- strengthened by 5%	(2,308)	1,016	396
- weakened by 5%	2,308	(1,016)	(396)

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								
2017								
Financial assets								
Derivative liabilities – forward currency contracts	-	6,467	-	-	-	-	6,467	6,467
Short-term investments	84,341	-	-	-	-	-	84,341	84,34
	84,341	6,467	-	-	-	-	90,808	90,808
2016								
Financial Asset								
Short-term investments	70,844	-	-	-	-	-	70,844	70,844
Financial liability								
Derivative liabilities – forward currency contracts	-	13,136	-	-	-	-	13,136	13,136

29. 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Ultimate holding company				
Purchase of property, plant and equipment	115	166	-	-
Rental expense payable	2,774	1,019	-	-
Sale of goods and services	(571)	(690)	-	-
Subcontract cost payable	1,241	991	-	-
Share services expenses	2,000	2,000	-	-
Rental income receivable	(170)	-	-	-
Subsidiaries				
Dividend income receivable	-	-	(44,437)	(47,222)
Rental income receivable	-	-	(2,426)	(2,257)
Related companies				
Rental expense payable	1,222	3,452	93	93
Rental income receivable	(928)	(236)	-	-
Sale of goods	(861)	(520)	-	-
Subcontract cost payable	17,425	1,495	-	-
Associates				
Interest income receivable	(63)	(63)	(63)	(63)
Sale of goods and services	(4,799)	(14,074)	-	-

29. Related parties (continued)

(ii) Significant transactions with related parties: (continued):

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.

30. Capital commitments

	2017 RM'000	2016 RM'000
Purchase of property, plant and equipment	3,561	295

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 during the financial year

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 replaced Companies Act 1965.

Amongst the key changes introduced under the Companies Act 2016 that have affected 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 ceased to have par value; and
(iii) Share premium account become part of the share capital amount.

The Companies Act 2016 was applied prospectively and the impacts on implementation are disclosed in the respective note(s) to financial statements.

33. Significant event occurring after the financial year

On 28 March 2018, the Company entered into a conditional Share Purchase Agreement ("SPA") with the individual vendors of Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd (the four (4) companies are collectively referred to as the "Target Companies") to acquire 70% equity interest in each of the Target Companies ("Proposed Acquisition"), at an indicative cash consideration ranging between RM90.7 million to RM143.1 million, subject to amongst others, the relevant profit thresholds to be met over the financial years ended 31 December 2017 to 2019 as well as the terms of the SPA.

The SPA is expected to be unconditional within 4 months from the date of the SPA.

34. 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):-		
Loans and borrowings	11,638	-
Current liabilities		
Loans and borrowings	14,405	26,043

	Company	
	As Restated RM'000	As Previously Reported RM'000
Statement of cash flow (Extract):-		
Cash flows from operating activities		
Changes in working capital:		
Interest paid	(1)	(506)
Payables and accruals	(50,191)	(87,768)
Net cash generated from operating activities	147,083	109,001
Acquisition of property, plant and equipment	(30,372)	(45,250)
Net cash used in investing activities	(27,903)	(42,781)
Interest paid	(881)	(376)
Net proceeds/(repayment) of loans and borrowings	(52,846)	(391)
Net cash used in financing activities	(96,861)	(43,901)

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 46 to 115 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

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

....

Mac Ngan Boon @ Mac Yin Boon

....

Lee Poh Kwee

Klang,

28 March 2018

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 46 to 115 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 28 March 2018.

……………………..
Lee Poh Kwee

Before me:

Nadzrul Azali bin Abdul Aziz
Persuruhjaya Sumpah Malaysia
(No. B548)

Independent Auditors' Report

to the Members of Favelle Favco Berhad

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 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 46 to 115.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

We are independent of the Group and 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 unfavourable macro-economic factors from prolonged weakness in global crude oil prices, the risk of customers becoming insolvent may be high. Accordingly, there is significant judgement involved in the assessment of recoverability of receivables, particularly regarding estimation of future cash collection and in calculating allowance for doubtful debts.	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 of the Group. The unfavourable macro-economic factors from prolonged weakness in global crude oil prices have impacted the demand of cranes which might lead to slow moving stocks. Accordingly, significant judgement is required in the assessment on write-down of slow moving stocks.	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 auditor's report thereon), which we obtained prior to the date of this auditors' report, and other sections of the 2017 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 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

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 the subsidiaries of which we have not acted as auditors, are disclosed in Note 6 to the financial statements.

Other Matters

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

Crowe Horwath
Firm Number: AF 1018
Chartered Accountants

Chan Kuan Chee
Approval No: 02271/10/2019 J
Chartered Accountant

Kuala Lumpur
28 March 2018

Group Properties

as at 31 December 2017

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	19 years	2,247
2.	Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan	Factory building with office block	2017#	Freehold	68,846 sq. m	12 years	35,137
3.	7AL, Nordkranvej, 2 3540, Lynge DK Denmark	Factory building with office block	2017#	Freehold	59,525 sq. m.	47 years	16,084
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	2,943
5.	28, Yarrunga Street, Preston, NSW 2170, Australia	Office building and factory	2017#	Freehold	11.6 acres	47 years	56,575
					Total properties		112,986

Note:
Year of Valuation

Analysis of Shareholdings

as at 30 March 2018

Share Capital

Total number of issued shares	:	221,402,703
Class of shares	:	Ordinary shares
Voting rights	:	One 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	175	4.019	1,681	0.001
100 to 1,000	1,169	26.849	842,141	0.380
1,001 to 10,000	2,325	53.399	10,151,613	4.586
10,001 to 100,000	596	13.689	18,071,070	8.162
100,001 to 11,069,637*2	87	1.998	61,085,215	27.591
11,069,638*3 and above	2	0.046	131,241,043	59.280
TOTAL	**4,354**	**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 30 March 2017.
2. Less than 5% of issued shares.
3. 5% and above of issued shares.

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	132,979,843(6)	60.065
5. Lee Poh Kwee	1,715,000(7)	0.775	-	-
6. Mazlan bin Abdul Hamid	2,276,900	1.028	-	-

Notes:

1. Deemed interest pursuant to Section 59(11)(c) of the Companies Act, 2016 (" the Act"), held through his spouse and 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 interest 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 30 March 2018.

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 2017 from pages 41 to 43 of this Annual Report.

Options in the Company

There is no change in the share options held by the Directors in the Company as disclosed in the Directors' Report for the year ended 31 December 2017 on page 42 of this Annual Report.

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 interest 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 30 March 2018.

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)	5,428,100	2.452
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	Valuecap Sdn Bhd	3,967,600	1.792
7	Mac Ngan Boon @ Mac Yin Boon	2,978,913	1.346
8	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	2,762,600	1.248
9	Aminah binti Mohd Taib	2,301,900	1.040
10	Mazlan bin Abdul Hamid	2,262,900	1.022
11	Mac Chung Hui	2,242,000	1.013
12	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lee Poh Kwee	1,435,000	0.648
13	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	1,204,000	0.544

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

No.	Name of Shareholders	No. of Shares held	% of issued capital*
14	Ooi Sen Eng	1,156,000	0.522
15	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad For Eastspring Investmentssmall-Cap Fund	1,109,400	0.501
16	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank For Skyture Capital Sdn Bhd	1,046,200	0.473
17	OREC Engineering Holdings Pty Ltd	900,000	0.407
18	Teo Chang Hock	870,000	0.393
19	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (ESPG IV SC E))	795,300	0.359
20	Shenandoah Chong Shin Kwek	770,000	0.348
21	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati binti Hassan	750,100	0.339
22	Noriyati binti Hassan	728,123	0.329
23	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	701,200	0.317
24	Maybank Securities Nominees (Tempatan) Sdn Bhd Chew Keng Siew	700,000	0.316
25	Teoh Yong Churn	668,600	0.302
26	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	600,000	0.271
27	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Jin	600,000	0.271
28	Lim Swee Pheng	594,346	0.268
29	Caroline Khoo	583,000	0.263
30	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Manulife Investment Progress Fund	458,000	0.207
		179,342,925	**81.009**

Note:

* Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 30 March 2018.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Sixth Annual General Meeting ("AGM") of Favelle Favco Berhad will be held at Concorde Hotel Shah Alam, Concorde I, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Tuesday, 26 June 2018 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 2017 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 13.5 sen per ordinary share in respect of the financial year ended 31 December 2017.	Resolution 1
3.	To re-elect Dato' Sri Khazali Bin Haji Ahmad who retires pursuant to Article 86 of the Constitution of the Company.	Resolution 2
4.	To re-elect the following Directors who retire pursuant to Article 80 of the Constitution of the Company:-	
	(i) Mr. Mac Ngan Boon @ Mac Yin Boon; and	Resolution 3
	(ii) Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor.	Resolution 4
5.	To approve the payment of Directors' fees and benefits of RM800,000.00 in respect of the financial year ended 31 December 2017.	Resolution 5
6.	To approve the payment of Directors' fees and benefits payable up to an amount of RM1,300,000.00, from 1 January 2018 until the next AGM of the Company.	Resolution 6
7.	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 7

As Special Business

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

8.	**Ordinary Resolution** **Retention of Independent Directors**	
	"**THAT** the following Directors who have each served for more than nine (9) years to retain as Independent Directors of the Company:-	
	(i) Tan Sri A. Razak Bin Ramli; and	Resolution 8
	(ii) Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor.	Resolution 9

9. **Ordinary Resolution**
Proposed Renewal of Authority for Share Buy-Back Resolution 10

"**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 occurs first.

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."

10. **ORDINARY RESOLUTION**
Proposed Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature Resolution 11

"**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 30 April 2018 ("Proposed Shareholders' Mandate") 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.

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 will lapse, unless by 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."

11. 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 59(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 19 June 2018 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 Meeting or any adjournment thereof.*

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

Explanatory Notes to the Agenda

1. **Audited Financial Statements for the Financial Year Ended 31 December 2017**
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 5 and 6: Approval for payment of Directors' fees and benefits**
Section 230(1) of the Companies Act, 2016 provides amongst others, that "the fees" of the Directors and "any benefits" payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, shareholders' approval shall be sought at the forthcoming Twenty-Sixth Annual General Meeting on the Directors' fees and benefits under Resolutions 5 and 6 respectively. The Director' benefits comprise meeting allowances, travelling allowances and other benefits such as directors' and officers' liability insurance.

3. **Resolutions 8 & 9: Approval pertaining to the Continuation of Terms of Office as Independent Director**
The Board of Directors has vide the Nominating Committee conducted an assessment of independence of the following directors who have each served as Independent Director for a cumulative term of more than nine (9) years and recommended them to continue to act as Independent Directors based on the following justifications:

   (i) Tan Sri A. Razak Bin Ramli; and
   (ii) Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor.

   Justifications

   (a) They have met the independence criteria set out in Chapter 1 of the Main Market Listing Requirements of Bursa Securities and are therefore they would be able to give independent opinion to the Board;
   (b) Being directors for more than nine (9) years have enabled them to contribute positively during deliberations/discussions at meetings as they are familiar with the operations of the Company and possess tremendous insight and knowledge of the Company's operations;
   (c) They have contributed sufficient time and exercised due care during their tenure as Independent Directors;
   (d) They have discharged their professional duties in good faith and also in the best interest of the Company and shareholders;
   (e) They have vigilantly safeguarded the interests of the minority shareholders of the Company;
   (f) They have the calibre, qualifications, experiences and personal qualities to challenge management in an effective and constructive manner;
   (g) They have never compromised on their independent judgement;
   (h) They have provided objective views on the performance of the Executive Director and Management in meeting the agreed goals and objectives; and
   (i) They have ensured that there were effective checks and balances in Board proceedings.

4. **Resolution 10: Proposed Renewal of Authority for Share Buy-Back**
For Resolution 10, the detailed information on the Proposed Renewal of Authority for Share Buy-Back Authority is set out in the Statement/Circular to Shareholders dated 30 April 2018 which is despatched together with the Company's Annual Report 2017.

5. **Resolution 11: Proposed Renewal of the Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**
For Resolution 11, the detailed information on the Proposed Shareholders' Mandate is set out in Statement/Circular to Shareholders dated 30 April 2018 which is despatched together with the Company's Annual Report 2017.

Notice of
Dividend Entitlement and Payment Date

NOTICE IS HEREBY GIVEN THAT a first and final tax exempt Dividend of 13.5 sen per ordinary share in respect of the financial year ended 31 December 2017, if approved by the shareholders at the forthcoming Twenty-Sixth Annual General Meeting, will be paid on 24 September 2018 to Depositors whose names appear in the Record of Depositors at the close of business on 13 September 2018.

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 13 September 2018 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
30 April 2018

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

Number of Shares Held
CDS Account Number

PROXY FORM

*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-Sixth Annual General Meeting of the Company to be held at Concorde Hotel Shah Alam, Concorde I, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on **Tuesday, 26 June 2018 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 13.5 sen per ordinary share.		
2.	To re-elect Dato' Sri Khazali Bin Haji Ahmad as Director of the Company.		
3.	To re-elect Mr. Mac Ngan Boon @ Mac Yin Boon as Director of the Company.		
4.	To re-elect Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor as Director of the Company.		
5.	To approve the payment of Directors' Fees and benefits of RM800,000.00 for the financial year ended 31 December 2017.		
6.	To approve the payment of Directors' Fees and benefits payable of RM1,300,000.00 from 1 January 2018 until the next Annual General Meeting.		
7.	To re-appoint Messrs Crowe Horwath as the Company's Auditors and to authorise the Directors to fix their remuneration.		
	Special Business :		
8.	To retain Tan Sri A. Razak Bin Ramli as an Independent Non-Executive Director.		
9.	To retain Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor as an Independent Non-Executive Director.		
10.	To approve the Proposed Renewal of Authority for Share Buy-Back.		
11.	To approve the Proposed Renewal of the Existing 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 2018
[*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 Securities, 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