# Annual Report 2015

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

*A MEMBER OF MUHIBBAH ENGINEERING (M) BHD*

Tower crane,
Wind Turbine Erection, Poland

Tower crane, Indonesia, 3800 meters above sea level

Offshore crane, Korea, Booster Compression

Offshore crane, Singapore,
Pacific Class 400 Jack Up Drilling Rig

# Corporate Information

## Board of Directors

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

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

**Mac Chung Hui** *(Managing Director/Chief Executive Officer)*

**Mac Ngan Boon @ Mac Yin Boon** *(Executive Director)*

**Lee Poh Kwee** *(Executive Director)*

**Mazlan bin Abdul Hamid** *(Executive Director)*

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

**Sobri bin Abu** *(Independent Non-Executive Director)*

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

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

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

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

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

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

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

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

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

Offshore crane, China, EDRILL 2

Wharf crane, Norway, Westcon Shipyard

Tower crane, New York, Hudson Yard

# Contents

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Twenty-Fourth Annual General Meeting of Favelle Favco Berhad will be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 2 June 2016 at 2.30 p.m. for the following purposes :-

## Agenda

### As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2015 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 30% (15 sen) per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2015. — Resolution 1

3. To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association:-

   (i) Tan Sri A. Razak bin Ramli; and — Resolution 2
   (ii) Sobri bin Abu. — Resolution 3

4. To consider and, if thought fit, to re-appoint the following Directors who retire pursuant to Section 129(2) of the Companies Act, 1965 and in accordance with Section 129(6) of the Companies Act, 1965 be re-appointed to hold office until the conclusion of the next Annual General Meeting :-

   (i) Lim Teik Hin; — Resolution 4
   (ii) Mac Ngan Boon @ Mac Yin Boon; and — Resolution 5
   (iii) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor. — Resolution 6

5. To re-appoint Messrs Crowe Horwath as Auditors of the Company 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 :-

6. **ORDINARY RESOLUTION**
   **Continuation of Terms of Office as Independent Directors**

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

7. **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, 1965 ("the Act"), and the Articles of Association of the Company, the Company be and is hereby authorised to purchase such number of ordinary shares of RM0.50 each 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 per cent (10%) of the issued and paid-up ordinary share capital of the Company at any point in time;

(ii) the funds allocated by the Company for the Proposed Share Buy-Back shall not exceed the aggregate retained profits and share premium accounts 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 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by an ordinary resolution passed by the shareholders of the Company in 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."

8. **ORDINARY RESOLUTION**
**Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature** Resolution 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 29 April 2016 provided that such transactions are undertaken in the ordinary course of business, at arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the interests of the minority shareholders of the Company; and

**THAT** a New Shareholders' Mandate be and is hereby granted for the Company and/or its subsidiaries to enter into additional recurrent related party transactions of a revenue or trading nature with related parties which are necessary for the day-to-day operations and on normal commercial terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders as set out in Section 2.1.2 of the Circular dated 29 April 2016;

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

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

a) the conclusion of the next AGM of the Company at which time it will lapse, unless by a 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 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

c) revoked or varied by a 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."

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

**FURTHER NOTICE IS HEREBY GIVEN THAT** for the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company pursuant to Article 60(d) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 24 May 2016 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 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 and the provision of Section 149(1)(b) of the Act shall not apply to the Company.

(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, at least forty-eight (48) hours before the time set for the holding of the Meeting or any adjournment thereof.

**Explanatory notes to Agenda**

1. **Audited Financial Statements for the Financial Year Ended 31 December 2015**
   The Audited Financial Statements in Agenda 1 is intended for discussion only as the provision of the Section 169(1) of the Act does not require a formal approval of the shareholders and hence is not put forward for voting.

2. **Resolutions 8 & 9: Approval for pertaining to the Continuation of Terms of Office as Independent Director**

   For Resolutions 8 and 9, in line with the Recommendation 3.1 of the MCCG 2012, the Nominating Committee and the Board of Directors had conducted an assessment of independence of Tan Sri A. Razak bin Ramli and Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor, who have served as Independent Non-Executive Directors of the Company for a cumulative terms of more than nine (9) years, and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

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

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

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

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

3. **Resolution 10 on Proposed Renewal of Authority for Share Buy-Back**
   For the detailed information on the Proposed Renewal of Authority for Share Buy-Back, shareholders are advised to refer to the Statement/Circular to Shareholders dated 29 April 2016 which is circulated together with the Company's Annual Report 2015.

4. **Resolution 11 on Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**
   For further information on the Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature, shareholders are advised to refer to the Circular to Shareholders dated 29 April 2016 which is circulated together with the Company's Annual Report 2015.

# Notice of Dividend Entitlement and Payment Date

Offshore crane, Singapore, P2045

**NOTICE IS HEREBY GIVEN THAT** a first and final tax exempt dividend of 30% (15 sen) per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2015, if approved by the shareholders at the forthcoming Twenty-Fourth Annual General Meeting, will be paid on 11 August 2016 to Depositors whose names appear in the Record of Depositors at the close of business on 1 August 2016.

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 1 August 2016 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

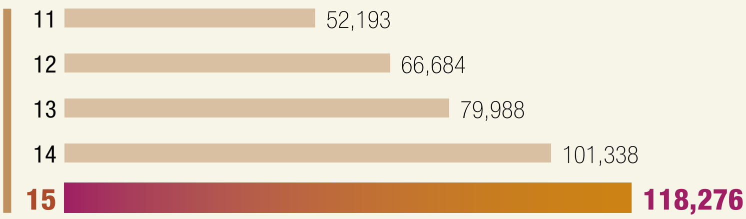
Selangor Darul Ehsan
29 April 2016

# Group Financial Highlights

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Turnover (RM'000) | 482,353 | 696,747 | 764,185 | 797,895 | 792,431 |
| Profit Before Tax (RM'000) | 52,193 | 66,684 | 79,988 | 101,338 | 118,276 |
| Profit After Tax Attributable to Owners of the Company (RM'000) | 47,606 | 61,746 | 67,400 | 87,618 | 94,706 |
| Total Equity Attributable to Owners of the Company (RM'000) | 236,982 | 341,687 | 398,132 | 460,835 | 547,103 |
| Share Capital (RM'000) | 89,584 | 106,000 | 107,606 | 108,756 | 109,568 |
| Basic Earnings Per Ordinary Share (Sen) | 26.69 | 33.64 | 31.61 | 40.55 | 43.40 |
| Net Assets Per Ordinary Share (RM) | 1.34 | 1.63 | 1.87 | 2.11 | 2.50 |

## Profit Before Tax

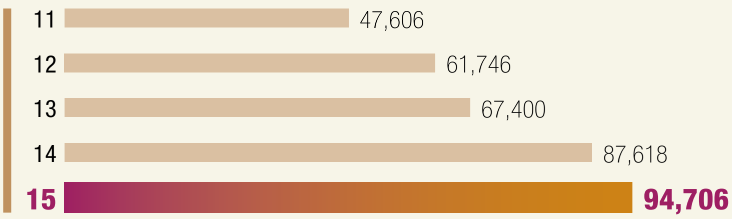
(RM'000)




## Profit After Tax

Attributable to Owners of the Company

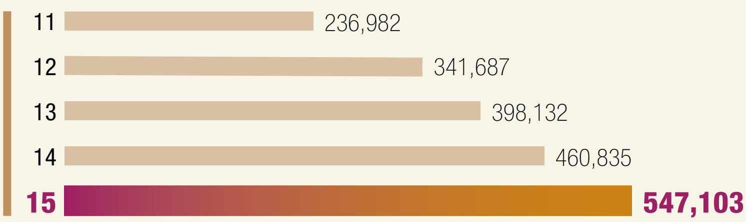
(RM'000)




## Total Equity

Attributable to Owners of the Company

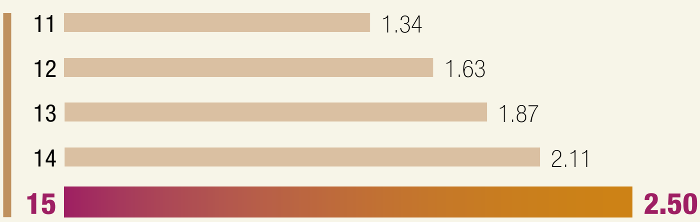
(RM'000)




## Net Assets

Per Ordinary Share

(RM)



# Group Structure | as at 31 March 2016

FAVELLE FAVCO BERHAD

- 100% FAVELLE FAVCO CRANES (M) SDN. BHD. **(MALAYSIA)**
- 100% FAVELLE FAVCO CRANES (USA), INC. **(USA)**
- 100% FAVELLE FAVCO CRANES PTE. LTD. **(SINGAPORE)**
- 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)**
- 49% FAVELLE FAVCO MACHINERY and EQUIPMENT L.L.C. **(ABU DHABI, UAE)**
- 30% FAVCO OFFSHORES SDN. BHD. **(MALAYSIA)**
- 50% FAVCO HEAVY INDUSTRY (CHANGSHU) CO., LTD. **(CHINA)**

* Dormant companies are excluded from the above Group Structure

**On behalf of the Board of Directors of Favelle Favco Berhad ("FFB"), I am pleased to present the Annual Report and the audited financial statements of FFB and its subsidiary companies ("Favelle Favco Group" or "Group") for the financial year ended 31 December 2015.**

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

### Financial Performance

For the financial year under review, the Group posted a total revenue of RM792 million with a profit after taxation of RM93.9 million. This represents a 1% marginal decrease in revenue and an 11.7% increase in profit after taxation as compared to the previous financial year. The improvement in profit after taxation is contributed by an improvement in operational efficiencies in the Group's operations.

### Dividend

The Board of Directors is recommending a first and final tax-exempt dividend of 15 sen per share subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend will amount to RM32.9 million.

### Industry and Market Review

The collapse of oil prices hit the Oil and Gas industry hard in 2015. Oil operators have cut back on capital expenditure whilst many drilling campaigns have been put on hold. In addition, rig building has slowed down as a result of rig owners delaying the deliveries of their new builds.

Rig builders, and Favelle Favco alike, have been adjusting their production schedules to accommodate this situation.

The construction crane industry also saw neutral activity globally. Whilst we saw increased activity in the USA, we saw a slowdown in a very unpredictable Chinese market.

Nevertheless, we see some promise in the onshore wind turbine market. As the wind turbines get taller, our tower crane solution seems to be more competitive in cycle times as compared to the traditional crawler crane. We have done some major customisation work to our cranes to cater to this market. Whilst this is a relatively new lifting concept for the onshore wind turbine industry, we are optimistic that this is a market to engage.

Tower crane, Indonesia, 3800 meters above sea level

### Operations review

Coming into 2015, we were fortunate to have quite a large outstanding order book that kept us busy throughout the year. This resulted in our largest ever number of crane deliveries.

We introduced one new offshore crane into our lineup, the 12/10K which was successfully delivered in the first quarter of 2016. Additionally, we completed further upgrades to our tower crane lineup resulting in a revamp of 3 tower crane models. All these cranes have been produced and put out to work.

Our investment in our Kemaman Service Centre is starting to bear fruit. We have started to make inroads into long-term maintenance contracts with our first contract to maintain a fleet of 17 cranes. We expect to increase our commitment to this Service Centre by investing further in our spare parts availability, skilled engineers and training programs. Overall we believe that we will be recognized accordingly by the industry.

### Outlook

As a result of the slow market, our order intake for 2015 dropped approximately 50% as compared to year 2014. Capital expenditure in the Oil and Gas industry has also significantly reduced. As such we expect that market conditions will remain challenging for the next few years.

Generally, whilst we see pockets of demand in our tower cranes, we find that the construction sentiment and activity globally to be slowing too.

Nevertheless, we view this as an opportunity to continue the revamp of our tower cranes lineup. We expect this to be complete in 2016, allowing us to penetrate the smaller crane market more aggressively in the future.

We also view the current market situation positively for acquisition opportunities. With our strong balance sheet, we hope to find some acquisition targets in our related fields.

### Corporate Social Responsibility

As part of our focus on knowledge development, we have been in the early stages of participating in the Malaysian Government's Working Group on developing a good vocational training program. The objectives are to help develop relevant skills for the industry whilst improving the household income of the country.

We also co-sponsored a Beach Cleaning and Turtle Conservation Program in Kerteh, Terengganu. The program was attended by 2,150 students, oil and gas industry personnel and NGO members from Terengganu.

Furthermore, in our Australia factory, we installed 100kW of Solar panels in our effort to increase the use of renewable energy and help reduce our environmental impact.

### Corporate Governance

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

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

### Acknowledgement And Appreciation

The Board of Directors of Favelle Favco Group 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.

**Tan Sri A. Razak bin Ramli**
Chairman

# Profile of Directors

## Tan Sri A. Razak bin Ramli

Aged 67, Malaysian

*(Chairman, Senior Independent Non-Executive Director)*

Chairman of the Audit Committee, Remuneration Committee and Nominating Committee

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

## Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor

Aged 72, Malaysian

*(Vice Chairman, Independent Non-Executive Director)*

Member of the Audit Committee and Nominating Committee

Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor was appointed as an Independent Non-Executive Director of FFB on 5 May 2004 and member of the Audit Committee on 10 May 2004. He was further appointed as a member of the Nominating Committee of FFB on 18 January 2013. On 4 February 2015, he was appointed as Independent Non-Executive, Vice Chairman. He was also an Independent Non-Executive Director of MEB, a position he had assumed 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 two (2) Public Companies namely Affin Islamic Bank Berhad and Boustead Heavy Industries Corporation Bhd.

## Mac Chung Hui

Aged 38, 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 fifteen (15) years.

## Mac Ngan Boon @ Mac Yin Boon

Aged 72, Malaysian
*(Executive Director)*

Member of the Remuneration Committee

Mac Ngan Boon @ Mac Yin Boon was appointed as the Managing Director of FFB on 23 March 1993 and re-designated as Executive Director on 26 August 2013. He was later appointed as member of both the Nominating (up to 18 January 2013) and Remuneration Committees. He is the co-founder of MEB and has been its Managing Director since its inception on 4 September 1972. He obtained a Bachelor of Engineering (Civil) degree from the University of Western Australia in 1967. He is a professional engineer and a member of the Institute of Engineers Malaysia. He has been the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998. Mac Ngan Boon @ Mac Yin Boon has been playing 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 50, Malaysian
*(Executive Director)*

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

She is currently the Group Finance Director of MEB and Finance Director of major subsidiaries of the MEB Group. She was involved in the acquisition of the business and assets of the FFB Group in 1995, and subsequently, financial planning and management of the FFB Group over the past twenty-one (21) years.

## Mazlan bin Abdul Hamid

Aged 53, 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. Thereafter, he joined Bureau Veritas (M) Sdn Bhd as Surveyor and Marketing Manager. He joined FFM in 1996 as Sales & Marketing General Manager and has played a key role in penetrating the international cranes manufacturing market.

## Lim Teik Hin

Aged 74, Malaysian
*(Non-Independent Non-Executive Director)*

Member of the Audit Committee

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

## Sobri bin Abu

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

Member of the Audit Committee, Remuneration Committee and Nominating Committee.

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

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

## Additional Information on Directors

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

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

### 2. Conflict of interest

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

### 3. Convictions for Offences within the past 10 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. Share Buy-Backs

The Company did not buy back any ordinary shares of RM0.50 each of its own shares from the open market of Bursa Malaysia Securities Berhad during the financial year ended 31 December 2015.

### 3. Options, Warrants or Convertible Securities

Details of the exercise of employee share option of the Company are disclosed on page 37 and 38 of this Annual Report.

Other than the exercise of employee share option as mentioned above, the Company did not issue any warrants or convertible securities during the financial year.

### 4. Depository Receipt Programme

The Company did not sponsor any depository receipt programme during the financial year.

### 5. Imposition of Sanctions and/or Penalties

During the financial year under review, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

### 6. Non-Audit Fees

During the financial year, the non-audit fees paid to the external auditors amounted to RM10,000.00.

### 7. Variation in Results

There were no significant variations between the audited results for the financial year ended 31 December 2015 and the unaudited results previously announced.

## 8. Profit Estimate, Forecast or Projection

There was no profit estimate, forecast or projection announced by the Company and its subsidiary companies during the financial year ended 31 December 2015.

## 9. Profit Guarantee

There was no profit guarantee given/ received by the Company during the financial year.

## 10. 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 2015 or entered into since the end of the previous financial year ended 31 December 2014.

## 11. Recurrent Related Party Transactions

At the Annual General Meeting held on 24 June 2015, the Company had obtained a shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 29 May 2015.

In accordance with Section 3.1.5 of Practice Note No. 12/2001 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2015 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 2015 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 | 12,377 |
| | | Sales and rental of cranes and parts, and the provision of crane maintenance and services by FFB Group to MEB Group | 5,977 |
| | | # 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 | 1,655 |

| Transacting Parties | Related Party | Nature of Transactions | Actual Transactions Value for the Financial Year Ended 31 December 2015 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 | # Rental of open yard located at PN 11185, Lot 104505, Telok Gong, District of Klang, Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft. | - |
| | | # Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft. | 207 |
| | | # Rental of land held under HS(D) 99546 Lot No. 104625 Telok Gong, Mukim of Klang, District of Klang, State of Selangor by MEB Group to FFB Group measuring in area approximately 160,000 sq. ft. | 1,920 |
| | | # Rental of open yard located at HS(D) 99547 Lot 104626 & Hakmilik 6322, Lot 129073, Telok Gong, Mukim of Klang, District of Klang, Selangor by MEB Group to FFB Group, measuring 62,500 sq. ft. | 646 |
| | | Shared services expenses/charges by MEB Group to FFB Group which includes amongst others legal, information technology and internal audit by MEB Group to FFB Group. | 2,000 |
| FFB Group and FO | Mac Ngan Boon @ Mac Yin Boon and Mazlan bin Abdul Hamid | Rental of waterbags for load testing of cranes by FFB Group to FO<br><br>Sale of crane parts and provision of crane maintenance and services by FFB Group to FO<br><br>Rental of barges and its related maintenance cost and sale of spare parts by FFB Group to FO | 558 |
| | | Provision of crane maintenance and services and sale of crane parts by FO to FFB Group | - |

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

**Abbreviations**

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

# Statement on Corporate Governance

## INTRODUCTION

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

This statement describes how the Group has applied the principles set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") and except where stated otherwise, its compliance with the best practices of the MCCG 2012 for the financial year ended 31 December 2015.

## BOARD OF DIRECTORS

### Composition and Balance

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

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

The Board believes that the current composition is appropriate given the nature of business and scale of operations of the Group. Profiles of the Directors are presented on pages 12 to 14 of this Annual Report.

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

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

Offshore crane, Thailand, WP32

## 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 businesses and financial performance to determine if the business is being properly managed. 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;
- Review related party transactions;
- Review the material litigation, Group order book, debt collection status, capital expenditure, borrowing and cash status;
- Implement succession planning for business continuity; and
- Deliberate on the market outlook, corporate and business strategies.

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

## Board Meetings

Board meetings are held at regular intervals with additional meetings taking place as and when necessary. Board meetings for the ensuing financial year are scheduled in advance at the end of the previous financial year so that the Directors are able to plan ahead and record the 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 other matters requiring the Board's approval. The Company Secretary records all the deliberations, particularly the issues discussed, in reaching that decision in the minutes of Board meetings. All Directors attended all the board meetings held during the financial year and have complied with the minimum requirement of 50% attendance at Board meetings as stipulated in the Main Market Listing Requirements of Bursa Securities. Details of the attendance of the Directors at the board meetings held during the financial year under review are as follows:

| Names of Directors | Attendance at Meetings in 2015 |
|---|---|
| Tan Sri A. Razak bin Ramli | 4/4 |
| Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor* | 4/4 |
| Mac Chung Hui | 4/4 |
| Mac Ngan Boon @ Mac Yin Boon | 4/4 |
| Lee Poh Kwee | 4/4 |
| Mazlan bin Abdul Hamid | 4/4 |
| Lim Teik Hin | 4/4 |
| Sobri bin Abu | 4/4 |

** Re-designated as Vice Chairman on 4 February 2015*

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.

## Access to Information and Advice

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

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

The appointment of the Company Secretary is based on the capability and proficiency determined by the Board. The Company Secretary is available at all times to provide the Directors with the appropriate advice and services and also to ensure that the relevant procedures and all applicable rules and regulations are complied with. As permitted by the Articles of Association 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 roles 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 2015 are disclosed in the Chairman's Statement of this Annual Report.

## Board Charter and Code of Ethic

As at the date of this Statement, the Board has not adopted a Board Charter. The Board believes that the existing legislation collectively with the various policies, procedures and practices that have been in place for a long time, the Company's Articles of Association and statutory and regulatory requirements, have effectively encapsulated the essence of the suggested contents of a Board Charter.

The Board is committed to ensuring that all its business activities operate within the highest standards of business ethics and integrity as summarised in the Company's code on business practices, which are applicable Group-wide.

## 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.

*(i) Audit Committee*

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

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

A report detailing the membership, attendance, role, activities and Terms of Reference of the Audit Committee is presented from pages 26 to 29 of this Annual Report.

*(ii)* *Nominating Committee*

The present members of the Nominating Committee are as follows:

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

The Nominating Committee had carried out the following activities in accordance with its Terms of Reference:

- reviewed the performance of Independent Directors including the criteria as required under the Listing Requirements. All assessments and evaluations carried out by the Nominating Committee are properly documented.
- reviewed the existing balance, size and composition of the Board of Directors and discussed the criteria to be used for the appointment of new Directors which include gender diversity, ethnicity, age and succession planning.
- identified and recommended to the Board the Directors who were due for retirement by rotation and/or subject to re-appointment at the forthcoming Annual General Meeting.

(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<br>*(Senior Independent Non-Executive Director)* |
| Mac Ngan Boon @ Mac Yin Boon | Member<br>*(Executive Director)* |
| Sobri bin Abu | Member<br>*(Independent Non-Executive Director)* |

(iii) *Remuneration Committee (continued)*

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 contribution and level of responsibilities undertaken by the Board 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 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 discussion of their own remuneration packages.

Although the Group does not have written remuneration policies, remuneration comparison with other companies in the similar industries has been performed to ensure that the remunerations of the Directors are competitive with the market and consistent with their duties and responsibilities.

**Board Evaluation**

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

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

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

**Appointments, Re-appointment and Re-election of Directors**

In accordance with the Company's Articles of Association, 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.

Directors who are over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129(2) and Section 129(6) of the Companies Act, 1965. The performance of those Directors who are subject to re-appointment and re-election at the Annual General Meeting are assessed by the Nominating Committee and recommendations are submitted to the Board for approval.

The Board believes that diversity in the Board's composition will bring value 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.

### Reinforcement of Independence

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

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

Currently, there are two (2) Board Members who have served as Independent Directors for more than nine (9) years. The Nominating Committee and the Board have performed the assessment on 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, 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 and ability to act in the best interest of the Company.

### 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, risk management, corporate strategy, leadership management and new legislations. 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.

## DIRECTORS' REMUNERATION

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

| | Executive Directors RM | Non-Executive Directors RM | Total RM |
|---|---|---|---|
| Fees | 331,500 | 296,250 | 627,750 |
| Remuneration | 1,539,618 | 65,994 | 1,605,612 |
| | 1,871,118 | 362,244 | 2,233,362 |

## DIRECTORS' REMUNERATION (CONTINUED)

The number of Directors in each remuneration band for the financial year 2015 is as follows:

| Range of Remuneration | Executive Directors | Non-Executive Directors | Total |
|---|---|---|---|
| Below RM50,000 | - | - | - |
| RM50,001 to RM100,000 | - | 4 | 4 |
| RM150,001 to RM200,000 | 1 | - | 1 |
| RM200,001 to RM250,000 | 1 | - | 1 |
| RM700,001 to RM750,000 | 2 | - | 2 |
| | 4 | 4 | 8 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting and Statement of Directors' Responsibility

The Directors are responsible to ensure that the financial statements are drawn up in accordance with the Companies Act, 1965 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, 1965 and applicable Financial Reporting Standards in Malaysia.

### Relationship with the Auditors

Through the Audit Committee, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. The internal auditors report directly to the Audit Committee and details of their activities are provided in the Audit Committee Report. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views 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 frameworks and state of internal control within the Group is presented from pages 30 to 32 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 Main Market Listing Requirements of Bursa Securities as well as releases the Company's updates to the market and community through the Company's website, media releases and other appropriate channels.

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

## SHAREHOLDERS

### Investors and Shareholders Relationship

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

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

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

### Annual General Meeting

The Annual General Meeting is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire on the Company's progress and performance. The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting.

In accordance with the Company's Articles of Association, voting at general meetings will be conducted by show of hands or by poll if so demanded by the shareholders or Chairman of the meeting. The Chairman, at the commencement of the Annual General Meeting, informs shareholders of their right to vote by poll. Poll voting will be carried out on resolutions involving related party transactions as required by the Main Market Listing Requirements of Bursa Securities.

## COMPLIANCE STATEMENT

The Company has complied with the Principles as set out in the Malaysian Code on Corporate Governance 2012 and the relevant chapter of Main Market Listing Requirements of Bursa Securities on Corporate Governance to the extent as set out above throughout the financial year ended 31 December 2015.

This Statement on Corporate Governance was approved by the Board of Directors on 5 April 2016.

# 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 2015.

## Composition and Attendance

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

During the financial year under review, the AC held four (4) meetings. The members of the AC and record of their attendance at the Committee Meetings held during the financial year ended 31 December 2015 are as follows:

| Member | Designation | Attendance at meeting in 2015 |
|---|---|---|
| Tan Sri A. Razak bin Ramli | Chairman *(Senior Independent Non-Executive Director)* | 4/4 |
| Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member *(Independent Non-Executive Director)* | 4/4 |
| Lim Teik Hin | Member *(Non-Independent Non-Executive Director)* | 4/4 |
| Sobri bin Abu | Member *(Independent Non-Executive Director)* | 3/4 |

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

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

## Summary of Activities in 2015

The AC carries out its duties in accordance with its Terms of Reference. The main 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.
- 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 Independent Management to discuss relevant issues and obtain feedback.

## Summary of Activities in 2015 (continued)

(ii) Internal Audit

- Reviewed and approved the internal audit plan for the Group proposed by Internal Auditors to ensure adequacy of the scope of coverage.

- Reviewed the audit and follow-up reports presented by the Internal Auditors which include the findings and recommendations. The AC further deliberated those findings, Management's response and Internal Auditors' recommendations.

- Reviewed the recurrent related party transactions review report prepared by Internal Auditors.

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

(iv) Verified the allocation of the Employees' Share Option Scheme ("ESOS") to ensure that it is in accordance with criteria set out in the ESOS Bye-Laws of the Company.

(v) Deliberated on major business risks and material litigation affecting the Group.

## Internal Audit Function

The Group has an in-house internal audit function namely Group Internal Audit Department ("GIAD"). GIAD is governed by the Internal Audit Charter approved by the AC. GIAD reports directly to the AC and has direct access to the AC members on all the internal control and audit issues. During the financial year ended 31 December 2015, GIAD carried out the following:

- Performed a review on the recurrent related party transactions.

- Prepared and presented the audit plan for AC's review and approval.

- Performed follow-up reviews to determine if Management had implemented the action plans to address the findings highlighted in the previous internal audit reports.

- Prepared audit and review reports and sought Management's response on the issues highlighted.

- Presented the internal audit, follow-up as well as specific review reports to the AC for their deliberation.

The total cost incurred for the internal audit function in respect of the financial year ended 31 December 2015 amounted to approximately RM237,000.

## Terms of Reference

### Objectives
The principal objective of the AC is to assist the Board of Directors in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of Favelle Favco Berhad and its subsidiaries.

In addition, the AC shall:

- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information provided by Management is relevant, reliable and timely;
- oversee compliance with laws and regulations and observance of a proper code of conduct; and
- determine the adequacy of the Company's internal control system.

### Membership

The Board shall appoint the AC, comprising at least three (3) Directors; all of whom shall be Non-Executive Directors, with a majority of them being Independent Directors. The Chairman of the Committee, who is an Independent Director, shall be appointed by the members of the AC. No Alternate Director can be a member of the AC.

At least one (1) member of the AC must be a member of the Malaysian Institute of Accountants or have similar qualifications as prescribed in Part I or Part II of the First Schedule of the Accountants Act, 1967 or fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

If a member of the AC ceases to be a member with the result that the number of members is reduced to two (2), the Board of Directors shall within three (3) months of the event, appoint such number of new members as may be required to fill the vacancy.

### Attendance at meetings

The AC shall hold at least four (4) regular meetings per year and such additional meeting as the Chairman shall decide in order to fulfil its duties.

The quorum for each meeting shall be two (2) members where a majority of the members present must be Independent Directors.

The Company Secretary shall act as Secretary of the AC.

The AC may invite any person to be in attendance at any particular AC meeting to assist it in its deliberations.

### Authority

The AC is authorised by the Board:

- to investigate any matter within its terms of reference;
- to have the resources which are required to perform its duties;
- to have full and unrestricted access to any information pertaining to the Company;
- to have direct communication with the external auditors and person(s) carrying out the internal audit;
- function or activity;
- to be able to obtain independent professional or other advice; and
- to be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Company, whenever deemed necessary.

### Duties and responsibilities

The duties and scope of work of the AC shall be:

1. To review the following and report the same to the Board of Directors:
    - with the external auditors, the audit plan, their evaluation of the system of internal controls and the audit reports on the financial statements.
    - the assistance given by the employees to the external auditors.
    - the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
    - the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.
    - the quarterly results and year end financial statements before submission to the Board of Directors for approval, focusing particularly on changes in or implementation of major accounting policy, significant and unusual events and compliance with applicable Financial Reporting Standards and other legal requirements.
    - any related party transactions and conflict of interest situations that may arise within the Group or Company including any transaction, procedure or course of conduct that raises questions of management integrity.
    - the appointment of the external auditors and audit fees, and any questions of resignation or dismissal.

2. To recommend the nomination of a person or persons as external auditors.

3. To ensure that the AC Report is prepared at the end of each financial year for inclusion in the Annual Report of the Company. The AC Report shall comprise:
   - the composition of the AC, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise).
   - the terms and references of the AC.
   - the number of AC meetings held during the financial year and details of attendance of each AC member.
   - a summary of the activities of the AC in the discharge of functions and duties for that financial year of the Company.
   - a summary of the activities of the internal audit function or activity.

4. To verify, on a yearly basis, the allocation of options under a share option scheme for employees to ensure compliance with the allocation criteria determined by the Company's share option committee and in accordance with the bye-laws of the relevant option scheme.

5. To promptly report to Bursa Malaysia Securities Berhad any matters reported by the AC to the Board of Directors which have not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

## Proceedings of the AC

*Calling of meetings*
The members may meet together for the despatch of business, adjourn and otherwise regulate their meetings. The Secretary shall on the requisition of a member summon a meeting of the AC.

*Notice of meeting*
Notice of a meeting of the AC shall be given to all the members in writing via facsimile, hand delivery or by courier service. Unless otherwise determined by the AC from time to time, seven (7) days' notice shall be given, except in the case of an emergency where shorter notice may be given.

*Voting and proceeding of meeting*
The decision of the AC shall be by a majority of votes and the determination by a majority of the members shall for all purposes be deemed a determination of the AC. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.

Circular Resolutions signed by all the members shall be valid and effective as if it had been passed at a meeting of the AC.

*Keeping of minutes*
The members shall cause minutes to be made of all meetings of the AC. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.

*Custody, production and inspection of minutes*
The minutes of meetings of the AC shall be kept by the Secretary at the registered office of the Company, and shall be opened to the inspection of any member of the Committee or any member of the Board of Directors.

## Review of AC

The Board shall review the term of office and performance of the AC and each of its members at least once every three (3) years to determine whether the AC and members have carried out their duties in accordance with their terms of reference.

# 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 for good corporate governance. The Board affirms its overall responsibility for maintaining a sound system of risk management and internal control so as to safeguard the shareholders' interests and the Group's assets. The Board has also received opinions from the Managing Director/Chief Executive Officer and Group Financial Controller that the Group's risk management and internal control system is reasonably adequate and effective.

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 exposure, 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 exposure by meeting on a quarterly basis to review the risk profile. During the meeting, the status of the Group's major risks is deliberated and the reports on the major risks submitted by the respective Risk Management Units ("RMUs") 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 the RMUs set up at the respective business entities. The RMU within each business entity meets on a quarterly basis to review the status of the risks profile and the results of their reviews are documented in the report that comprises risk profile and risk matrix.

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

## Key Elements of Internal Control

- Organisation Structure & Authorisation Procedures

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

- Authority Limits

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

## Key Elements of Internal Control (continued)

- Group Policies and Procedures

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

- Budgetary Review on Profit & Loss

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

- Quality Assurance / Quality Control

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

- Health, Safety and Environment

  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 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 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 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 2015 and have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system.

## Conclusion

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

This statement was approved by the Board of Directors on 5 April 2016.

Offshore crane, crane dismantling in offshore Malaysia


Offshore crane, Hong Kong

Offshore crane, China, CMHI 128

Tower crane, Malaysia, Federal Government Centre PutraJaya

# Financial Statements

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 2015.

## Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries and associates are as stated 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 | 94,706 | 52,111 |
| Non-controlling interests | (840) | - |
| Profit for the year | 93,866 | 52,111 |

## 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 12.00 sen per ordinary share totalling RM 26,265,332 in respect of the financial year ended 31 December 2014 on 11 September 2015.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2015 is 30% (15.00 sen) per ordinary share totalling RM 32,869,014 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

## Directors of the Company

Directors who served since the date of the last report are:

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

## Directors' interests

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

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Alloted | Sold | At 31.12.2015 |
| **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 | 2,132,000 | 210,000 | - | 2,342,000 |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 8,492,913 | - | - | 8,492,913 |
| - Indirect | 1,738,800 | - | - | 1,738,800 |
| Lee Poh Kwee | 1,295,000 | - | - | 1,295,000 |
| Mazlan bin Abdul Hamid | 2,224,000 | 210,000 | - | 2,434,000 |

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Alloted | Sold | At 31.12.2015 |
| **Indirect interest in the Company** | | | | |
| Mac Ngan Boon @ Mac Yin Boon* | 131,241,043 | - | - | 131,241,043 |

* Deemed interested pursuant to Section 6A of the Companies Act, 1965 by virtue of his substantial interest in Muhibbah Engineering (M) Bhd.

## Directors' interests (continued)

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Alloted | Sold | At 31.12.2015 |
| **Interests in the ultimate holding company - Muhibbah Engineering (M) Bhd.** | | | | |
| Mac Chung Hui | 5,616,000 | 233,000 | (144,000) | 5,705,000 |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 71,591,416 | - | - | 71,591,416 |
| - Indirect | 19,317,500 | - | - | 19,317,500 |
| Lee Poh Kwee | | | | |
| - Direct | 4,046,272 | - | - | 4,046,272 |
| - Indirect | 650,000 | - | - | 650,000 |
| Mazlan bin Abdul Hamid | 305,000 | - | - | 305,000 |
| Lim Teik Hin | | | | |
| - Indirect | 50,000 | - | - | 50,000 |

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

| | Number of options over ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Granted | Exercised | At 31.12.2015 |
| **Company** | | | | |
| Mac Chung Hui | 210,000 | - | (210,000) | - |
| Mac Ngan Boon @ Mac Yin Boon | 650,000 | - | - | 650,000 |
| Lee Poh Kwee | 420,000 | - | - | 420,000 |
| Mazlan bin Abdul Hamid | 210,000 | - | (210,000) | - |

| | Number of options over ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1.1.2015 | Granted | Exercised | At 31.12.2015 |
| **Ultimate holding company - Muhibbah Engineering (M) Bhd.** | | | | |
| Mac Chung Hui | 233,000 | - | (233,000) | - |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 1,880,000 | - | - | 1,880,000 |
| - Indirect | 2,000,000 | - | - | 2,000,000 |
| Lee Poh Kwee | 2,000,000 | - | - | 2,000,000 |
| Mazlan bin Abdul Hamid | 300,000 | - | - | 300,000 |

### Directors' interests (continued)

Other than the abovementioned Directors, none of the Directors holding office at 31 December 2015 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

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.

### Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporation) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for any benefits which may be deemed to arise from transaction entered into in the ordinary course of business with companies in which certain directors have substantial financial interest as disclosed in Note 30 to the financial statements.

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

### Issue of shares

During the financial year, the Company issued:

i) 1,547,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM0.80 per ordinary share;

ii) 49,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM1.57 per ordinary share;

iii) 5,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM2.50 per ordinary share; and

iv) 24,000 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at the exercise price of RM2.25 per ordinary share.

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

### Options granted over unissued shares

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

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

The main features of the ESOS Scheme, details of share options offered and exercised during the financial year are disclosed in Note 18.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who were granted options to subscribe for less than 12,000 shares during the financial year under the ESOS Scheme. This information has been separately filed with the Companies Commission of Malaysia.

## Options granted over unissued shares (continued)

The names of option holders granted options to subscribe for 12,000 or more ordinary shares of RM0.50 each during the financial year, other than the Directors of the Company which have been disclosed above, are as follows:-

| | Number of options over ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | Granted | Exercised | Forfeited | At 31.12.2015 |
| Chan Chee Tatt | 38,000 | 18,000 | - | 20,000 |
| Haza Suhairi B. Abdul Hamid | 12,000 | - | - | 12,000 |

## Other statutory information

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

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

ii) all current assets have been stated at the lower of cost and net realisable value.

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.

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

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

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

No contingent liability or other liability of any company in the Group 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 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## Auditors

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

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

| | |
|---|---|
| ................................................ | ................................................ |
| **Mac Ngan Boon @ Mac Yin Boon** | **Mac Chung Hui** |

Klang,

1st April 2016

# Statements of Financial Position | as at 31 December 2015

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 3 | 194,431 | 187,476 | 20 | 23 |
| Intangible assets | 4 | 1,273 | 1,807 | - | - |
| Investment property | 5 | - | - | 52,283 | 52,599 |
| Investment in subsidiaries | 6 | - | - | 57,498 | 48,981 |
| Investment in associates | 7 | 16,974 | 18,459 | 19,266 | 19,266 |
| Deferred tax assets | 8 | 16,906 | 13,328 | - | - |
| Receivables | 9 | 6,804 | 36,539 | 20,939 | 19,088 |
| **Total non-current assets** | | 236,388 | 257,609 | 150,006 | 139,957 |
| Receivables, deposits and prepayments | 9 | 287,419 | 302,612 | 74,740 | 57,624 |
| Contract work-in progress | 10 | 160,767 | 149,774 | - | - |
| Inventories | 11 | 184,999 | 201,461 | - | - |
| Current tax assets | | 16,143 | 12,146 | - | - |
| Cash and cash equivalents | 12 | 333,979 | 210,774 | 18,088 | 15,340 |
| **Total current assets** | | 983,307 | 876,767 | 92,828 | 72,964 |
| **Total assets** | | 1,219,695 | 1,134,376 | 242,834 | 212,921 |

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 13 | 109,568 | 108,756 | 109,568 | 108,756 |
| Reserves | | 71,260 | 54,020 | 43,436 | 42,032 |
| Retained earnings | | 366,275 | 298,059 | 75,670 | 49,824 |
| **Total equity attributable to owners of the Company** | | 547,103 | 460,835 | 228,674 | 200,612 |
| **Non-controlling interests** | | 512 | (1,106) | - | - |
| **Total equity** | | 547,615 | 459,729 | 228,674 | 200,612 |
| **Liabilities** | | | | | |
| Deferred tax liabilities | 8 | 8,173 | 6,428 | - | - |
| **Total non-current liabilities** | | 8,173 | 6,428 | - | - |
| Amount due to contract customers | 10 | 323,264 | 253,037 | - | - |
| Loans and borrowings | 14 | 64,011 | 77,417 | 12,861 | 10,505 |
| Payables and accruals | 15 | 231,113 | 275,996 | 1,204 | 1,256 |
| Provision for warranties | 16 | 27,805 | 27,022 | - | - |
| Current tax liabilities | | 5,851 | 12,184 | 95 | 548 |
| Derivative liabilities | 17 | 11,863 | 22,563 | - | - |
| **Total current liabilities** | | 663,907 | 668,219 | 14,160 | 12,309 |
| **Total liabilities** | | 672,080 | 674,647 | 14,160 | 12,309 |
| **Total equity and liabilities** | | 1,219,695 | 1,134,376 | 242,834 | 212,921 |

The notes set on pages 49 to 106 are an integral part of these financial statements.

# Statements of Profit or Loss and other Comprehensive Income | for the year ended 31 December 2015

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Revenue** | 19 | 792,431 | 797,895 | 54,485 | 30,045 |
| Cost of sales | | (573,692) | (618,887) | - | - |
| **Gross profit** | | 218,739 | 179,008 | 54,485 | 30,045 |
| Other income | | 2,126 | 820 | 3,825 | 76 |
| Distribution costs | | (11,869) | (12,119) | - | - |
| Administrative expenses | | (96,407) | (63,437) | (2,733) | (2,538) |
| **Results from operating activities** | | 112,589 | 104,272 | 55,577 | 27,583 |
| Interest income | 20 | 15,194 | 5,186 | 1,954 | 7,219 |
| Finance costs | 21 | (8,022) | (9,040) | (5,015) | (4,890) |
| **Operating profit** | | 119,761 | 100,418 | 52,516 | 29,912 |
| Share of (loss)/profit after tax and minority interest of equity accounted associates | | (1,485) | 920 | - | - |
| **Profit before tax** | 22 | 118,276 | 101,338 | 52,516 | 29,912 |
| Income tax | 24 | (24,410) | (17,326) | (405) | (1,093) |
| **Profit for the year** | | 93,866 | 84,012 | 52,111 | 28,819 |
| **Profit attributable to:** | | | | | |
| Owners of the Company | | 94,706 | 87,618 | 52,111 | 28,819 |
| Non-controlling interests | | (840) | (3,606) | - | - |
| **Profit for the year** | | 93,866 | 84,012 | 52,111 | 28,819 |
| **Earnings per ordinary share (sen)** | | | | | |
| - Basic | 26 | 43.40 | 40.55 | | |
| - Diluted | 26 | 43.14 | 40.13 | | |

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Profit for the year** | | 93,866 | 84,012 | 52,111 | 28,819 |
| **Other comprehensive income/(expense) for the financial year, net of tax** | | | | | |
| **Item that will not be reclassified subsequently to profit or loss** | | | | | |
| Movement in revaluation of property, plant and equipment, net of tax | | 182 | 166 | - | - |
| **Item that may be reclassified subsequently to profit or loss** | | | | | |
| Foreign currency translation differences for foreign operations | | 15,693 | (5,046) | - | - |
| **Other comprehensive income/(expense) for the year, net of tax** | | 15,875 | (4,880) | - | - |
| **Total comprehensive income for the year** | | 109,741 | 79,132 | 52,111 | 28,819 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | | 110,542 | 82,824 | 52,111 | 28,819 |
| Non-controlling interests | | (801) | (3,692) | - | - |
| **Total comprehensive income for the year** | | 109,741 | 79,132 | 52,111 | 28,819 |

The notes set on pages 49 to 106 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity | for the year ended 31 December 2015

| Group | Note | Share capital RM'000 | Share premium RM'000 |
|---|---|---|---|
| **At as 31 December 2013/1 January 2014** | | 107,606 | 38,785 |
| 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 | | | |
| - Subscription of share in a subsidiary | | - | - |
| - Accretion of interest in a subsidiary | | - | - |
| - Share options exercised | 18 | 1,150 | 897 |
| - Transfer to share premium for share options exercised | | - | 914 |
| - Share-based payments | 18 | - | - |
| - Dividend to shareholders | 25 | - | - |
| **At as 31 December 2014/1 January 2015** | | 108,756 | 40,596 |
| Profit for the financial year | | - | - |
| Foreign currency translation differences for foreign operations | | - | - |
| Movement in revaluation of property, plant and equipment, net of tax | | - | - |
| Total comprehensive income for the financial year | | - | - |
| Contribution by and distribution to owners of the Company | | | |
| - Accretion of share in a subsidiary | | - | - |
| - Subscription of shares in a subsidiary by non-controlling | | - | - |
| - Share options exercised | 18 | 812 | 569 |
| - Transfer to share premium for share options exercised | | - | 581 |
| - Share-based payments | 18 | - | - |
| - Dividend to shareholders | 25 | - | - |
| **At 31 December 2015** | | 109,568 | 41,746 |
| | | Note 13.1 | Note 13.2 |

| *Attributable to owners of the Company* | | | | | | | |
|---|---|---|---|---|---|---|---|
| *Non-distribution* | | | | *Distribution* | | | |
| Translation reserve RM'000 | Revaluation reserve RM'000 | Share option reserve RM'000 | Treasury reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| 1,757 | 15,025 | 1,666 | (21) | 233,314 | 398,132 | 3,234 | 401,366 |
| - | - | - | - | 87,618 | 87,618 | (3,606) | 84,012 |
| (4,960) | - | - | - | - | (4,960) | (86) | (5,046) |
| - | 166 | - | - | - | 166 | - | 166 |
| (4,960) | 166 | - | - | 87,618 | 82,824 | (3,692) | 79,132 |
| - | - | - | - | (659) | (659) | (1,212) | (1,871) |
| - | - | - | - | (564) | (564) | 564 | - |
| - | - | - | - | - | 2,047 | - | 2,047 |
| - | - | (914) | - | - | - | - | - |
| - | - | 705 | - | - | 705 | - | 705 |
| - | - | - | - | (21,650) | (21,650) | - | (21,650) |
| (3,203) | 15,191 | 1,457 | (21) | 298,059 | 460,835 | (1,106) | 459,729 |
| - | - | - | - | 94,706 | 94,706 | (840) | 93,866 |
| 15,654 | - | - | - | - | 15,654 | 39 | 15,693 |
| - | 182 | - | - | - | 182 | - | 182 |
| 15,654 | 182 | - | - | 94,706 | 110,542 | (801) | 109,741 |
| - | - | - | - | (225) | (225) | 225 | - |
| - | - | - | - | - | - | 2,194 | 2,194 |
| - | - | - | - | - | 1,381 | - | 1,381 |
| - | - | (581) | - | - | - | - | - |
| - | - | 835 | - | - | 835 | - | 835 |
| - | - | - | - | (26,265) | (26,265) | - | (26,265) |
| 12,451 | 15,373 | 1,711 | (21) | 366,275 | 547,103 | 512 | 547,615 |
| Note 13.3 | Note 13.4 | Note 13.5 | Note 13.6 | Note 13.7 | | | |

# Statement of changes in equity | for the year ended 31 December 2015

| Company | Note | Share capital RM'000 | Share premium RM'000 | Share option reserve RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|
| | | ← *Non-distribution* | | | → | *Distribution* | |
| **At 1 January 2014** | | 107,606 | 38,785 | 1,666 | (21) | 42,655 | 190,691 |
| Profit for the financial year/ Total comprehensive income for the financial year | | - | - | - | - | 28,819 | 28,819 |
| Contribution by and distribution to owners of the Company : | | | | | | | |
| - Share options exercised | 18 | 1,150 | 897 | - | - | - | 2,047 |
| - Transfer to share premium for share options exercised | 18 | - | 914 | (914) | - | - | - |
| - Share-based payments | 18 | - | - | 705 | - | - | 705 |
| - Dividend to shareholders | 25 | - | - | - | - | (21,650) | (21,650) |
| **At 31 December 2014/ 1 January 2015** | | 108,756 | 40,596 | 1,457 | (21) | 49,824 | 200,612 |
| Profit for the financial year/ Total comprehensive income for the financial year | | - | - | - | - | 52,111 | 52,111 |
| Contribution by and distribution to owners of the Company : | | | | | | | |
| - Share options exercised | 18 | 812 | 569 | - | - | - | 1,381 |
| - Transfer to share premium for share options exercised | 18 | - | 581 | (581) | - | - | - |
| - Share-based payments | 18 | - | - | 835 | - | - | 835 |
| - Dividend to shareholders | 25 | - | - | - | - | (26,265) | (26,265) |
| **At 31 December 2015** | | 109,568 | 41,746 | 1,711 | (21) | 75,670 | 228,674 |
| | | Note 13.1 | Note 13.2 | Note 13.5 | Note 13.6 | Note 13.7 | |

The notes set on pages 49 to 106 are an integral part of these financial statements.

# Statements of cash flows | for the year ended 31 December 2015

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before tax | | 118,276 | 101,338 | 52,516 | 29,912 |
| Adjustments for: | | | | | |
| Amortisation of intangible assets | | 1,191 | 1,093 | - | - |
| Allowance for impairment losses on receivables | | 43,587 | 21,107 | - | - |
| Allowance for impairment losses on receivables written back | | (12,168) | (2,771) | - | - |
| Allowance for slow moving inventories | | 4,075 | 2,487 | - | - |
| Depreciation expenses | | | | | |
| - investment property | | - | - | 392 | 385 |
| - property, plant and equipment | | 15,986 | 14,630 | 3 | 3 |
| Dividend income from subsidiaries | | - | - | (52,347) | (27,875) |
| Finance costs | 21 | 8,022 | 9,040 | 5,015 | 4,890 |
| Finance income | 20 | (15,194) | (5,186) | (1,954) | (7,219) |
| Gain on disposal of property, plant and equipment | | (18) | (49) | - | - |
| Net unrealised (gain)/loss on foreign exchange | | (25,861) | (8,587) | 1,147 | 572 |
| Property, plant and equipment written off | | 2,121 | 74 | - | - |
| Provision for warranties | | 11,109 | 6,590 | - | - |
| Share-based payments | | 835 | 705 | 835 | 705 |
| Share of loss of equity accounted associates | | 1,485 | (920) | - | - |
| Reversal of provision for warranties | | (3,868) | (6,713) | - | - |
| Writedown of inventories | | 1,099 | 168 | - | - |
| Provision for diminution | | - | - | - | (76) |
| Operating profit before changes in working capital | | 150,677 | 133,006 | 5,607 | 1,297 |
| Changes in working capital: | | | | | |
| Development costs of intangible asset | | (521) | - | - | - |
| Inventories | | 11,687 | (13,152) | - | - |
| Receivables, deposits and prepayments | | 40,208 | (106,611) | 29,074 | 29,770 |
| Payables and accruals | | 2,934 | 126,845 | 81 | (4,918) |
| Interest received | | 1,611 | 1,640 | 312 | 356 |
| Interest paid | | (1,891) | (1,804) | - | - |
| Warranties paid | | (7,542) | (8,629) | - | - |
| Income tax paid | | (36,645) | (27,355) | (858) | (545) |
| **Net cash generated from operating activities** | | 160,518 | 103,940 | 34,216 | 25,960 |

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | | (24,407) | (20,982) | - | (26) |
| Acquisition of investment property | | - | - | (76) | (2,567) |
| Proceed from subscription of shares in a subsidiary | | 2,194 | (1,871) | (8,517) | (3,253) |
| Proceeds from disposal of property, plant and equipment | | 2,650 | 428 | - | - |
| **Net cash used in investing activities** | | (19,563) | (22,425) | (8,593) | (5,846) |
| **Cash flows from financing activities** | | | | | |
| Dividend paid to shareholders of the Company | 25 | (26,265) | (21,650) | (26,265) | (21,650) |
| Interest paid | | (382) | (474) | (347) | (328) |
| Proceeds from issue of shares under ESOS scheme | | 1,381 | 2,047 | 1,381 | 2,047 |
| Net proceeds from revolving credit | | 2,356 | 639 | 2,356 | 639 |
| Net repayment of term loans | | (2,074) | (1,921) | - | - |
| **Net cash used in financing activities** | | (24,984) | (21,359) | (22,875) | (19,292) |
| **Exchange differences on translation of the financial statements of foreign operations** | | 9,739 | (5,127) | - | - |
| Net increase in cash and cash equivalents | | 125,710 | 55,029 | 2,748 | 822 |
| **Effect of exchange rate fluctuations on cash held** | | (527) | 8,217 | - | - |
| Cash and cash equivalents at 1 January | 12 | 208,796 | 145,550 | 15,340 | 14,518 |
| **Cash and cash equivalents at 31 December** | 12 | 333,979 | 208,796 | 18,088 | 15,340 |

The notes set on pages 49 to 106 are an integral part of these financial statements.

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

**Registered office/Principal place of business**
Lot 586, 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 2015 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 2015 do not include other entities.

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

The ultimate holding company during the financial year is Muhibbah Engineering (M) Bhd. which was incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors on 1st April 2016.

## 1. Basis of preparation

### (a) Statement of compliance

These financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 1965, in Malaysia.

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

**MFRSs and IC Interpretations (Including The Consequential Amendments)**
Amendments to MFRS 119: Defined Benefit Plans – Employee Contributions
Annual Improvements to MFRSs 2010 – 2012 Cycle
Annual Improvements to MFRSs 2011 – 2013 Cycle

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

## 1. Basis of preparation (continued)

### (a) Statement of compliance (continued)

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

| MFRSs, Interpretations and 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 & Amendments to MFRS 15: Effective Date of MFRS 15 | 1 January 2018 |
| Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred until further notice |
| Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| Amendments to MFRS 10, MFRS 12 and MFRS 128 (2011): Investment Entities – Applying the Consolidation Exception | 1 January 2016 |
| Amendments to MFRS 101: Presentation of Financial Statements – Disclosure Initiative | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants | 1 January 2016 |
| Amendments to MFRS 127 (2011): Equity Method in Separate Financial Statements | 1 January 2016 |
| Annual Improvements to MFRSs 2012 – 2014 Cycle | 1 January 2016 |

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.

### (b) Basis of measurement

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

### (c) Functional and presentation currencies

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM 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.

## 1. Basis of preparation (continued)

### (d) Use of estimates and judgements (continued)

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

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

## 2. Significant accounting policies

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

### (a) Basis of consolidation

#### *(i) Subsidiaries*

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

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

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

#### *(ii) Business combinations*

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

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *(ii) Business combinations (continued)*

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

#### *(iv) Loss of control*

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

#### *(v) Associates*

Associates are entities, including unincorporated entities, in which the Group has 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 or has made payments on behalf of the associate.

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.

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *(v) Associates (continued)*

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) Affiliated company*

An affiliated company to the Group is a company in which the ultimate holding company holds a long term investment of between 20% to 50% of the equity.

#### *(vii) 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.

#### *(viii) 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.

## 2. Significant accounting policies (continued)

### (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 retranslation 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.

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 or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

## 2. Significant accounting policies (continued)

### (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 categorises financial instruments as follows:

**Financial assets**

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

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

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

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

***(b) Loans and receivables***

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

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

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

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

**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.

#### *(iv) Derecognition*

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

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

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment

#### *(i) Recognition and measurement*

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

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

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

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

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

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

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

#### *(ii) Subsequent costs*

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

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment

#### *(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. 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 reassessed at the end of each reporting period.

### (e) Leased assets

#### *(i) Finance lease*

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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

#### *(ii) Operating lease*

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

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

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

## 2. Significant accounting policies (continued)

### (f) Intangible assets

#### *(i) Goodwill*

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

Goodwill with indefinite useful lives are not amortised but are tested for impairment at the end of each reporting period and whenever there is an indication that goodwill may be impaired.

#### *(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.

#### *(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*

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 of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets of 5 to 10 years.

## 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 is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Contract work-in-progress/Amount due to contract customers

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. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

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 profits recognised, 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 months or less.

### (k) Impairment

#### *(i) Financial assets*

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

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

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

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

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

#### *(ii) Other assets*

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

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

## 2. Significant accounting policies (continued)

### (k) Impairment (continued)

#### *(ii) Other assets (continued)*

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

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

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

### (l) Equity instruments

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

#### *(i) Issue expenses*

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

#### *(ii) Ordinary shares*

Ordinary shares are classified as equity.

#### *(iii) Repurchase of share capital*

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

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

## 2. Significant accounting policies (continued)

### (m) Loans and borrowings

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

### (n) Employee benefits

#### *(i) Short-term employee benefits*

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

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

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

#### *(ii) 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.

***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.

### (p) Contingent liabilities

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

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

## 2. Significant accounting policies (continued)

### (q) Revenue recognition

#### *(i) Contracts*

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

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

#### *(ii) Goods sold and services rendered*

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

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

#### *(iii) Rental income*

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

#### *(iv) Dividend income*

Dividend income is recognised in profit or loss on the date that the group 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 directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

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

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

### (t) Income tax

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

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

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

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

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

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: Inputs are 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 2014 | 70,934 | 47,756 | 97,006 | 84,331 | 1,917 | 301,944 |
| Additions | - | 4,047 | 8,119 | 8,225 | 591 | 20,982 |
| Transfer | - | - | (3,814) | - | - | (3,814) |
| Disposals | - | - | (5,224) | (1,297) | - | (6,521) |
| Written off | - | - | - | (298) | - | (298) |
| Exchange of movements in exchange rates | (724) | (844) | (2,249) | (334) | - | (4,151) |
| At 31 December 2014/ 1 January 2015 | 70,210 | 50,959 | 93,838 | 90,627 | 2,508 | 308,142 |
| Additions | - | 351 | 12,055 | 11,675 | 326 | 24,407 |
| Reclassification | - | 3,629 | - | (1,415) | (2,214) | - |
| Disposals | - | - | (3,298) | (978) | - | (4,276) |
| Transfer | - | - | - | - | (399) | (399) |
| Written off | - | - | (3,057) | (425) | - | (3,482) |
| Effect of movements in exchange rates | 1,106 | 2,315 | 3,383 | 4,460 | - | 11,264 |
| At 31 December 2015 | 71,316 | 57,254 | 102,921 | 103,944 | 221 | 335,656 |
| ***Representing items at:*** | | | | | | |
| Cost | 55,325 | 57,254 | 102,921 | 103,944 | 221 | 319,665 |
| Valuation – 2008 | 12,291 | - | - | - | - | 12,291 |
| Valuation – 2012 | 3,700 | - | - | - | - | 3,700 |
| | 71,316 | 57,254 | 102,921 | 103,944 | 221 | 335,656 |

## 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 2014 | 14 | 19,877 | 39,894 | 56,776 | - | 116,561 |
| Depreciation for the year | 5 | (303) | 7,349 | 7,579 | - | 14,630 |
| Reclassification | - | - | 495 | (495) | - | - |
| Transfer | - | - | (1,348) | - | - | (1,348) |
| Disposals | - | - | (4,899) | (1,243) | - | (6,142) |
| Written off | - | - | - | (224) | - | (224) |
| Effect of movements in exchange rates | - | (844) | (1,625) | (342) | - | (2,811) |
| At 31 December 2014 | | | | | | |
| Accumulated depreciation | 19 | 18,730 | 39,866 | 62,051 | - | 120,666 |
| Accumulated impairment losses | - | - | - | - | - | - |
| At 31 December 2014/ 1 January 2015 | 19 | 18,730 | 39,866 | 62,051 | - | 120,666 |
| Depreciation for the year | 5 | 968 | 7,364 | 7,649 | - | 15,986 |
| Reclassification | - | 1,445 | - | (1,445) | - | - |
| Disposals | - | - | (859) | (785) | - | (1,644) |
| Written off | - | - | (1,184) | (177) | - | (1,361) |
| Effect of movements in exchange rates | - | 1,550 | 2,483 | 3,545 | - | 7,578 |
| Accumulated depreciation | 24 | 22,693 | 47,670 | 70,838 | - | 141,225 |
| Accumulated impairment losses | - | - | - | - | - | - |
| At 31 December 2015 | 24 | 22,693 | 47,670 | 70,838 | - | 141,225 |
| **Carrying amounts** | | | | | | |
| **At 1 January 2015** | **70,191** | **32,229** | **53,972** | **28,576** | **2,508** | **187,476** |
| **At 31 December 2015** | **71,292** | **34,561** | **55,251** | **33,106** | **221** | **194,431** |

## 3. Property, plant and equipment (continued)

| Company | Property, plant and equipment RM'000 |
|---|---|
| ***Cost*** | |
| At 1 January 2014 | - |
| Additions | 26 |
| At 31 December 2014/1 January 2015 | 26 |
| Additions | - |
| At 31 December 2015 | 26 |
| **Depreciation** | |
| At 1 January 2014 | - |
| Depreciation for the year | 3 |
| At 31 December 2014/1 January 2015 | 3 |
| Depreciation for the year | 3 |
| | 6 |
| **Carrying amounts** | |
| At 31 December 2014/1 January 2015 | 23 |
| At 31 December 2015/1 January 2016 | 20 |

### *3.1 Security*

The freehold land and buildings of the Group with total net book value of RM 15,584,000 (2014 – RM 47,393,000) have been pledged to certain licensed bank as security for bank facilities granted to the Group (See Note 14).

### *3.2 Property, plant and equipment under the revaluation model*

The Group's freehold land were revalued by independent professional qualified valuers using an open market value method in financial year ended 2012 and 2008. The cost of a piece of the Group's freehold land was written down by RM 662,000 during the financial year ended 31 December 2009 as management was of the view that the fair value had differed materially from its carrying value. Had the freehold land been carried under the cost model, their carrying amounts would have been RM 26,782,000 (2014 – RM 25,676,000).

## 4. Intangible assets

| *Group* | Development costs RM'000 |
|---|---|
| **Cost** | |
| At 1 January 2014 | 10,175 |
| Effect of movement in exchange rates | (281) |
| At 31 December 2014/1 January 2015 | 9,894 |
| Effect of movement in exchange rates | 685 |
| Addition | 521 |
| Written off | (4,744) |
| At 31 December 2015 | 6,356 |
| **Amortisation and impairment loss** | |
| At 1 January 2014 | |
| Accumulated amortisation | 6,902 |
| Accumulated impairment loss | 327 |
| | 7,229 |
| Amortisation for the year | 1,093 |
| Effect of movements in exchange rates | (235) |
| At 31 December 2014/1 January 2015 | |
| Accumulated amortisation | 7,760 |
| Accumulated impairment loss | 327 |
| | 8,087 |
| Amortisation for the year | 1,191 |
| Effect of movements in exchange rates | 549 |
| At 31 December 2015 | |
| Accumulated amortisation | 9,500 |
| Accumulated impairment loss | 327 |
| | 9,827 |
| Written off | (4,744) |
| At 31 December 2015 | 5,083 |
| **Carrying amounts** | |
| At 1 January 2015 | 1,807 |
| At 31 December 2015 | 1,273 |

Development and software costs represent 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 5 years (2014 - 1 year to 2 years).

## 5. Investment property

| | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 53,240 | 50,673 |
| Addition | 76 | 2,567 |
| At 31 December | 53,316 | 53,240 |
| **Depreciation and impairment loss** | | |
| At 1 January | | |
| Accumulated depreciation | 641 | 256 |
| Accumulated impairment loss | - | - |
| | 641 | 256 |
| Addition | 392 | 385 |
| At 31 December | | |
| Accumulated depreciation | 1,033 | 641 |
| Accumulated impairment loss | - | - |
| | 1,033 | 641 |
| **Carrying amounts** | | |
| At 31 December | 52,283 | 52,599 |

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

## 6. Investments in subsidiaries

| | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|
| Unquoted shares - at cost | 138,001 | 129,484 |
| Less: Impairment loss | (80,503) | (80,503) |
| | 57,498 | 48,981 |

Details of the subsidiaries are as follows:

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2015 % | Effective ownership interest 2014 % |
|---|---|---|---|---|
| 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)

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2015 % | Effective ownership interest 2014 % |
|---|---|---|---|---|
| Favelle Favco Management Services Sdn. Bhd. # | Dormant | Malaysia | 100 | 100 |
| Shanghai Favco Engineering Machinery Manufacturing Co., Ltd. # | Manufacturing of cranes | China | 78 | 77 |

# Not audited by Messrs Crowe Horwath

## 7. Investments in associates

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Unquoted shares, at cost | 19,424 | 19,424 | 19,424 | 19,424 |
| Share of post-acquisition reserves | (2,450) | (965) | - | - |
| Less: Impairment loss | - | - | (158) | (158) |
| | 16,974 | 18,459 | 19,266 | 19,266 |

**Summarised financial information on associates:**

| Group | 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Total assets (100%) | 131,010 | 127,133 |
| Total liabilities (100%) | 84,024 | 83,958 |
| Revenue (100%) | 50,879 | 102,468 |
| Profit/(Loss) for the year (100%) | (2,983) | 1,846 |

## 7. Investments in associates (continued)

Details of the associates are as follows:

| Company | Principal activities | Country of incorporation | Effective ownership interest 2015 % | Effective ownership interest 2014 % |
|---|---|---|---|---|
| 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 |

## 8. Deferred tax (assets) and liabilities

**Recognised deferred tax (assets) and liabilities**

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

| Group | Assets 2015 RM'000 | Assets 2014 RM'000 | Liabilities 2015 RM'000 | Liabilities 2014 RM'000 | Net 2015 RM'000 | Net 2014 RM'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | - | - | 10,225 | 9,241 | 10,225 | 9,241 |
| (Deductible)/taxable temporary differences | (20,262) | (15,597) | 1,304 | (544) | (18,958) | (16,141) |
| Tax (assets)/liabilities | (20,262) | (15,597) | 11,529 | 8,697 | (8,733) | (6,900) |
| Set off | 3,356 | 2,269 | (3,356) | (2,269) | - | - |
| Net tax (assets)/liabilities | (16,906) | (13,328) | 8,173 | 6,428 | (8,733) | (6,900) |

## 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 | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Property, plant and equipment | (298) | (1,576) | - | - |
| Deductible temporary differences | 24,395 | 73,143 | - | - |
| Tax losses carry-forwards | 72,929 | 70,501 | - | - |
| | 97,026 | 142,068 | - | - |

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carried forward amounting to RM 69,908,000 (2014 – RM 67,747,000) shown above which can only be carried forward for 20 years from the year the losses were incurred. These tax losses will begin to expire from 2019. Deferred tax assets have not been recognised in respect of these items because it is uncertain that future taxable profits will be available against which the Group can utilise the benefits there from.

### Movement in temporary differences during the financial year

| Group | At 1.1.2014 RM'000 | Recognised in statement of profit or loss in income (Note 24) RM'000 | Exchange differences RM'000 | At 31.12.2014 RM'000 | Recognised in statement of profit or loss income (Note 24) RM'000 | Exchange differences RM'000 | At 31.12.2015 RM'000 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 9,866 | (625) | - | 9,241 | 984 | - | 10,225 |
| Other items | (3,943) | (11,845) | (353) | (16,141) | (2,889) | 72 | (18,958) |
| | 5,923 | (12,470) | (353) | (6,900) | (1,905) | 72 | (8,733) |

## 9. Receivables, deposits and prepayments

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | | 374 | 38,710 | - | - |
| Less: Allowance for impairment losses | | - | (7,051) | - | - |
| | 9.1 | 374 | 31,659 | - | - |
| **Non-trade** | | | | | |
| Advances to a subsidiary | 9.2 | - | - | 14,509 | 14,208 |
| Advances to an associate | 9.3 | 6,430 | 4,880 | 6,430 | 4,880 |
| | | 6,430 | 4,880 | 20,939 | 19,088 |
| | | 6,804 | 36,539 | 20,939 | 19,088 |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | | 266,920 | 281,839 | - | - |
| Less: Allowance for impairment losses | | (58,743) | (18,772) | - | - |
| | 9.1 | 208,177 | 263,067 | - | - |
| Amounts due from ultimate holding company | 9.4 | 22 | 548 | - | - |
| Amounts due from related companies | 9.6 | 78 | - | - | - |
| Amounts due from associates | 9.7 | 59,456 | 19,094 | - | - |
| | | 59,556 | 19,642 | - | - |
| **Non-trade** | | | | | |
| Amount due from ultimate holding company | 9.4 | 9 | 3 | - | - |
| Amounts due from subsidiaries | 9.5 | - | - | 74,688 | 57,487 |
| Amounts due from related companies | 9.6 | - | 3 | - | - |
| Other receivables | 9.8 | 12,443 | 9,460 | - | - |
| Deposits | | 1,373 | 702 | 11 | 104 |
| Prepayments | | 5,861 | 9,735 | 41 | 33 |
| | | 19,686 | 19,903 | 74,740 | 57,624 |
| | | 287,419 | 302,612 | 74,740 | 57,624 |

## 9. Receivables, deposits and prepayments (continued)

### *9.1 Analysis of foreign currency exposure for significant receivables*

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

| Functional currency | Foreign currency | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| RM | AUD | 3,508 | 17,029 |
| RM | EURO | 158 | 12,555 |
| RM | RMB | 43,378 | 35,693 |
| RM | SGD | 806 | 1,203 |
| RM | USD | 71,293 | 96,935 |
| AUD | EURO | - | 29 |
| AUD | RMB | 1,341 | 14,455 |
| AUD | USD | - | 29 |
| SGD | USD | 19,896 | 16,945 |

### *9.2 Advances to a subsidiary*

The advances to a subsidiary are unsecured, interest-free and are not expected to be repaid within the next twelve months.

### *9.3 Advances to an associate*

The advances to an associate are unsecured, subject to interest at 1% (2014: 1%) per annum and are not expected to be repaid within the next twelve months.

### *9.4 Amount due from ultimate holding company*

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

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

### *9.5 Amounts due from subsidiaries*

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

### *9.6 Amounts due from related companies*

The trade receivables due from related companies were subject to the normal trade term of 30 days.

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

## 9. Receivables, deposits and prepayments (continued)

### *9.7 Amounts due from associates*

The trade receivables due from associates are subject to the normal trade term of 30 days.

### *9.8 Other receivables*

Other receivables mainly comprise an insurance claim of RM 5,130,000 (2014 – RM 4,676,000) and advances to suppliers amounting to RM 1,363,632 (2014 – RM 2,943,673).

## 10. Contract work-in-progress/Amount due to contract customers

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Aggregate costs incurred to date | 1,461,690 | 1,196,161 |
| Add: Attributable profits less foreseeable losses | 294,305 | 164,819 |
| | 1,755,995 | 1,360,980 |
| Less: Progress billings | (1,918,492) | (1,464,243) |
| | (162,497) | (103,263) |
| Representing:- | | |
| Contract work-in-progress | 160,767 | 149,774 |
| Amount due to contract customers | (323,264) | (253,037) |
| | (162,497) | (103,263) |

## 11. Inventories

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| At cost: | | |
| Crane components | 86,685 | 132,952 |
| Work-in-progress | 83,610 | 58,788 |
| | 170,295 | 191,740 |
| At net realisable value: | | |
| Cranes | 1,896 | 2,333 |
| Crane components | 12,808 | 7,388 |
| | 184,999 | 201,461 |

## 12. Cash and cash equivalents

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Cash and bank balances | 291,988 | 170,576 | 3,370 | 5,097 |
| Deposits placed with licensed banks | 41,991 | 40,198 | 14,718 | 10,243 |
| | 333,979 | 210,774 | 18,088 | 15,340 |
| Bank overdrafts (Note 14) | - | (1,978) | - | - |
| | 333,979 | 208,796 | 18,088 | 15,340 |

## 13. Share capital and reserves

### 13.1 Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | Amount 2015 RM'000 | Number of shares 2015 '000 | Amount 2014 RM'000 | Number of shares 2014 '000 |
| **Ordinary shares of RM0.50 each** | | | | |
| Authorised | 500,000 | 1,000,000 | 500,000 | 1,000,000 |
| Issued and fully paid | | | | |
| At 1 January | 108,756 | 217,512 | 107,606 | 215,212 |
| Issued under ESOS scheme | 812 | 1,625 | 1,150 | 2,300 |
| At 31 December | 109,568 | 219,137 | 108,756 | 217,512 |

The Company has also issued share options in accordance with its ESOS Scheme (see Note 18).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## 13. Share capital and reserves (continued)

### 13.2 Share premium

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

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

### 13.3 Translation reserve

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

### 13.4 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.

### 13.5 Share option reserve

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

### 13.6 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 Company purchased 10,000 of its issued share capital from the open market in 2007. The total consideration paid was RM 20,749 including transaction costs. The purchase transactions were financed by internally generated funds. The shares purchased are retained as treasury shares.

### 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 | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **Current** | | | | |
| Secured term loan | - | 1,570 | - | - |
| Bank overdrafts - unsecured (Note 12) | - | 1,978 | - | - |
| Unsecured revolving credits | 12,861 | 10,505 | 12,861 | 10,505 |
| Unsecured insurance premium finance | 3,968 | 4,472 | - | - |
| Bills payable | 47,182 | 58,892 | - | - |
| | 64,011 | 77,417 | 12,861 | 10,505 |
| | 64,011 | 77,417 | 12,861 | 10,505 |

### *14.1 Security*

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

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

## 14. Loans and borrowings (continued)

### *14.2 Terms and debt repayment schedule*

| | Year of maturity RM'000 | Carrying amount RM'000 |
|---|---|---|
| **Group** | | |
| Secured term loan – RM | | - |
| Unsecured bank overdrafts – DKK | | - |
| Unsecured revolving credits – USD | 2016 | 12,861 |
| Unsecured insurance premium finance – AUD | 2016 | 3,968 |
| Bills payable | 2016 | 47,182 |
| | | 64,011 |
| **Company** | | |
| Unsecured revolving credits – USD | 2016 | 12,861 |

| 2015 Under 1 year RM'000 | 2015 1 - 5 years RM'000 | 2015 Over 5 years RM'000 | 2014 Carrying amount RM'000 | 2014 Under 1 year RM'000 | 2014 1 – 5 years RM'000 | 2014 Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| - | - | - | 1,570 | 1,570 | - | - |
| - | - | - | 1,978 | 1,978 | - | - |
| 12,861 | - | - | 10,505 | 10,505 | - | - |
| 3,968 | - | - | 4,472 | 4,472 | - | - |
| 47,182 | - | - | 58,892 | 58,892 | - | - |
| 64,011 | - | - | 77,417 | 77,417 | - | - |
| 12,861 | - | - | 10,505 | 10,505 | - | - |

## 15. Payables and accruals

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **Trade** | | | | | |
| Trade payables | 15.1 | 156,590 | 192,786 | - | - |
| Amount due to ultimate holding company | 15.2 | 412 | 361 | - | - |
| Amounts due to related companies | 15.3 | 974 | 4,780 | - | - |
| | | 157,976 | 197,927 | - | - |
| **Non-trade** | | | | | |
| Amount due to ultimate holding company | 15.2 | 861 | 2,278 | - | - |
| Amount due to a subsidiary | 15.4 | - | - | 1,138 | 1,146 |
| Amounts due to related companies | 15.3 | 690 | 835 | - | 10 |
| Amounts due to associates | 15.5 | 3,304 | 1,568 | - | - |
| Other payables | | 21,293 | 33,128 | - | 1 |
| Accrued expenses | | 46,989 | 40,260 | 66 | 99 |
| | | 73,137 | 78,069 | 1,204 | 1,256 |
| | | 231,113 | 275,996 | 1,204 | 1,256 |

### *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 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|---|
| RM | AUD | 821 | 1,846 |
| RM | SGD | 2,304 | 2,978 |
| RM | EUR | 10,716 | 22,320 |
| RM | USD | 11,170 | 11,210 |
| RM | RMB | 219 | - |
| RM | GBP | 293 | 340 |
| SGD | USD | - | 74 |
| AUD | WON | 1 | 2,038 |
| AUD | USD | - | 74 |
| AUD | EUR | 369 | 77 |
| AUD | RMB | 350 | 8,996 |
| AUD | GBP | - | 105 |
| AUD | YEN | 88 | 71 |

## 15. Payables and accruals (continued)

### *15.2 Amount due to ultimate holding company*

The trade payables due to ultimate holding company are subject to the normal trade term of 30 days.

The non-trade payables due to ultimate holding company are unsecured, interest-free and repayable on demand.

### *15.3 Amounts due to related companies*

The trade payables due to related companies are subject to the normal trade term of 30 days.

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

### *15.4 Amount due to subsidiary*

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

### *15.5 Amount due to associates*

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

## 16. Provision for warranties

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| At 1 January | 27,022 | 36,229 |
| Provision made during the year | 11,109 | 6,590 |
| Utilised during the year | (7,542) | (8,629) |
| Reversal during the year | (3,868) | (6,713) |
| Effect of movements in exchange rates | 1,084 | (455) |
| At 31 December | 27,805 | 27,022 |

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

## 17. Derivative liabilities

| Group | 2015 Contract/ Notional amount RM'000 | 2015 Derivative liabilities RM'000 | 2014 Contract/ Notional amount RM'000 | 2014 Derivative liabilities RM'000 |
|---|---|---|---|---|
| Forward foreign currency contracts | 520,272 | ( 11,863) | 760,819 | ( 22,563) |

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

## 18. Employee benefits

### *18.1 Share-based payments*

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

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

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

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

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

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

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

## 18. Employee benefits (continued)

### *18.1 Share-based payments (continued)*

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

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

| Grant date | Exercise price | At 1.1.2014 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2014 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| **ESOS Scheme** | | | | | | | |
| 28.09.2011 | RM0.80 | 5,145 | - | (2,118) | (10) | 3,017 | 05.7.2016 |
| 28.09.2012 | RM1.57 | 296 | - | (110) | (12) | 174 | 05.7.2016 |
| 01.10.2013 | RM2.50 | 611 | - | (72) | (117) | 422 | 05.7.2016 |
| 26.09.2014 | RM3.05 | - | 640 | - | (78) | 562 | 05.7.2016 |
| | | 6,052 | 640 | (2,300) | (217) | 4,175 | |

The options granted in 2015, 2014, 2013, 2012 and 2011 under the ESOS scheme of the Company, which remain outstanding as at 31 December 2015 have exercise prices of RM2.25, RM3.05, RM2.50, RM1.57 and RM0.80 respectively per ordinary share of RM0.50 each and a remaining contractual life of 1/2 year (2014 - 1 1/2 years).

During the financial year, 1,547,000, 49,000, 5,000 and 24,000 (2014 – 2,118,000, 110,000 and 72,000) share options at exercise prices of RM0.80, RM1.57, RM2.50 and RM2.25 each respectively under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the financial year was RM2.74 (2014 – RM3.37).

**Details relating to options exercised during the financial year**

| | Group and Company 2015 RM'000 | Group and Company 2014 RM'000 |
|---|---|---|
| Ordinary share capital at par | 812 | 1,150 |
| Share premium | 569 | 897 |
| Proceeds received on exercise of share options | 1,381 | 2,047 |
| Fair value of shares issued (based on average exercise price) | 2.74 | 3.37 |

## 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 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Share option granted in 2011 | - | 252 |
| Share option granted in 2012 | 15 | 48 |
| Share option granted in 2013 | 106 | 306 |
| Share option granted in 2014 | 298 | 99 |
| Share option granted in 2015 | 416 | - |
| Total expense recognised as share-based payments | 835 | 705 |

**Fair value of share options and assumptions**

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

| | Group and Company 2015 | 2014 |
|---|---|---|
| Fair value at grant date (RM) | | |
| - Granted in Year 2011 | RM0.34 – RM0.42 | RM0.34 – RM0.42 |
| - Granted in Year 2012 | RM0.49 – RM0.67 | RM0.49 – RM0.67 |
| - Granted in Year 2013 | RM0.83 – RM1.01 | RM0.83 – RM1.01 |
| - Granted in Year 2014 | RM0.69 | RM0.69 |
| - Granted in Year 2015 | RM0.46 | - |
| Weighted average share price | | |
| - Granted in Year 2011 | 0.88 | 0.88 |
| - Granted in Year 2012 | 1.74 | 1.74 |
| - Granted in Year 2013 | 2.75 | 2.75 |
| - Granted in Year 2014 | 3.36 | 3.36 |
| - Granted in Year 2015 | 2.46 | - |
| Exercise price | | |
| - Granted in Year 2011 | RM0.80 | RM0.80 |
| - Granted in Year 2012 | RM1.57 | RM1.57 |
| - Granted in Year 2013 | RM2.50 | RM2.50 |
| - Granted in Year 2014 | RM3.05 | RM3.05 |
| - Granted in Year 2015 | RM2.25 | - |
| Expected volatility (weighted average volatility) | 22.19% - 46.94% | 22.19% - 46.94% |
| Option life | 1 year | 2 years |

## 18. Employee benefits (continued)

### *18.1 Share-based payments (continued)*

**Fair value of share options and assumptions (continued)**

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

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

## 19. Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Contract revenue | 680,475 | 692,697 | - | - |
| Sales of goods | 77,253 | 77,429 | - | - |
| Services rendered | 34,703 | 27,769 | - | - |
| Dividends | - | - | 52,347 | 27,875 |
| Rental income | - | - | 2,138 | 2,170 |
| | 792,431 | 797,895 | 54,485 | 30,045 |

## 20. Finance income

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Interest income: | | | | |
| - fixed deposit | 1,552 | 1,640 | 312 | 356 |
| - related companies | 59 | - | 59 | 4,963 |
| Interest income arising on financial assets/ (liabilities) measured under MFRS139 | 13,583 | 3,546 | 1,583 | 1,900 |
| | 15,194 | 5,186 | 1,954 | 7,219 |

## 21. Finance costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Interest expenses: | | | | |
| - Bills payable | 1,715 | 1,348 | - | - |
| - Bank overdrafts | 117 | 376 | - | - |
| - Revolving credits | 347 | 328 | 347 | 328 |
| - Term loan | 35 | 146 | - | - |
| - Insurance premium finance | 59 | 80 | - | - |
| - Inter-company | - | - | - | 3,525 |
| Interest expenses arising on financial assets/ (liabilities) measured under MFRS139 | 5,749 | 6,762 | 4,668 | 1,037 |
| | 8,022 | 9,040 | 5,015 | 4,890 |

## 22. Profit before tax

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **Operating profit is arrived at after crediting:** | | | | | |
| Allowance for impairment losses on receivables written back | | 12,168 | 2,771 | - | - |
| Dividend income from subsidiaries | 19 | - | - | 52,347 | 27,875 |
| Gain on disposal of property, plant and equipment | | 18 | 49 | - | - |
| Rental income on: | | | | | |
| - premises | | 6 | 21 | 2,138 | 2,170 |
| - cranes | | 12,278 | 8,368 | - | - |
| Reversal of provision for warranties | 16 | 3,868 | 6,713 | - | - |
| Reversal of provision for restructuring cost | | 281 | - | - | - |
| Reversal of diminution written back | | - | - | - | 76 |
| Net unrealised foreign exchange gain | | 25,861 | 8,587 | - | - |
| **and after charging:** | | | | | |
| Allowance for impairment losses on receivables | | 43,587 | 21,107 | - | - |
| Allowance for slow moving inventories | | 4,075 | 2,487 | - | - |
| Auditors' remuneration: | | | | | |
| - holding company's auditors | | 137 | 130 | 52 | 52 |
| - other auditors | | 492 | 487 | - | - |
| Other services | | | | | |
| - holding company's auditors | | 10 | 10 | 10 | 10 |
| Amortisation of intangible assets | 4 | 1,191 | 1,093 | - | - |
| Contract costs | | 526,545 | 592,068 | - | - |

## 22. Operating profit (continued)

| | Note | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|---|
| **and after charging (continued):** | | | | | |
| Depreciation expenses: | | | | | |
| - investment property | 5 | - | - | 392 | 385 |
| - property, plant and equipment | 3 | 15,986 | 14,630 | 3 | 3 |
| Personnel expenses (including key management personnel): | | | | | |
| - Contributions to Employees Provident Fund | | 9,671 | 8,068 | 219 | 201 |
| - Share-based payments | 18 | 835 | 705 | 835 | 705 |
| - Wages, salaries and others | | 82,376 | 67,239 | 1,320 | 1,242 |
| Property, plant and equipment written off | 3 | 2,121 | 74 | - | - |
| Provision for foreseeable losses | | 150 | 2,016 | - | - |
| Provision for warranties | 16 | 11,109 | 6,590 | - | - |
| Rental expenses on: | | | | | |
| - cranes | | 6,647 | 7,715 | - | - |
| - premises | | 4,915 | 4,519 | 92 | 93 |
| - equipment | | 822 | 1,110 | - | - |
| Writedown of inventories | | 1,099 | 168 | - | - |
| Net realised foreign exchange loss | | 61,936 | 635 | - | - |
| Net unrealised foreign exchange loss | | - | - | 1,147 | 572 |

## 23. Key management personnel compensation

The key management personnel compensations are as follows:

| | Group 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| Directors | | | | |
| - Fees | 628 | 630 | 576 | 576 |
| - Remuneration | 1,605 | 1,503 | 1,599 | 1,496 |
| | 2,233 | 2,133 | 2,175 | 2,072 |

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 2015 RM'000 | Group 2014 RM'000 | Company 2015 RM'000 | Company 2014 RM'000 |
|---|---|---|---|---|
| **Current tax expense** | | | | |
| Malaysia - current | 17,917 | 25,239 | 34 | 150 |
| - under/(over)provision in prior year | 2,243 | (317) | 8 | (24) |
| | 20,160 | 24,922 | 42 | 126 |
| Overseas - current | 7,442 | 5,788 | 458 | 967 |
| - overprovision in prior year | (1,287) | (914) | (95) | - |
| | 6,155 | 4,874 | 363 | 967 |
| Total current tax expense | 26,315 | 29,796 | 405 | 1,093 |
| **Deferred tax expense (Note 8)** | | | | |
| Origination of temporary differences | (1,897) | (3,795) | - | - |
| Overprovision in prior years | (8) | (8,675) | - | - |
| Total deferred tax | (1,905) | (12,470) | - | - |
| Total tax expense | 24,410 | 17,326 | 405 | 1,093 |
| **Reconciliation of tax expense** | | | | |
| Profit for the year | 93,866 | 84,012 | 52,111 | 28,819 |
| Total tax expense | 24,410 | 17,326 | 405 | 1,093 |
| Profit excluding tax | 118,276 | 101,338 | 52,516 | 29,912 |
| Tax at Malaysian tax rate of 25% | 29,569 | 25,335 | 13,129 | 7,478 |
| Effect of different tax rates in foreign jurisdictions | (2,957) | 652 | - | - |
| Non-deductible expense | 10,177 | 13,250 | 1,348 | 1,701 |
| Non-taxable gain | (847) | (971) | (396) | (475) |
| Double deductions | (387) | (311) | - | - |
| Tax exempt income | (1,195) | (686) | (13,684) | (7,587) |
| Tax incentives | - | (6,065) | - | - |
| Effect of utilisation of deferred tax assets previously not recognised | (11,261) | (4,000) | - | - |
| Effect of non-recognition of deferred tax benefits | (786) | 1,076 | - | - |
| Under/(over)provision in prior years | 948 | (9,906) | 8 | (24) |
| Others | 1,149 | (1,048) | - | - |
| | 24,410 | 17,326 | 405 | 1,093 |

The statutory tax rate will be reduced to 24% from the current financial year's rate of 25%, effective year of assessment 2016.

## 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 |
|---|---|---|---|
| **2015** | | | |
| First and final 2014 ordinary | 12.00 | 26,265 | 11 September 2015 |
| **2014** | | | |
| First and final 2013 ordinary | 10.00 | 21,650 | 25 August 2014 |

After the end of the reporting period, the following dividend was proposed by the Directors. This dividend will be recognised in the subsequent financial statements upon approval by the shareholders.

| | Sen Per Share (tax exempt) | Total amount RM'000 |
|---|---|---|
| First and final ordinary | 15.00 | 32,869 |

***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 2015 of RM 32,869,014 (2014 – RM 26,100,212) on the issued and paid-up share capital (excluding treasury shares) of 219,126,763 (2014 – 217,501,763) ordinary shares of RM0.50 each as at the end of the reporting date.

## 26. Earnings per ordinary share

**Basic earnings per ordinary share**

The calculation of basic earnings per share for the financial year ended 31 December 2015 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Profit for the financial year attributable to owners of the Company | 94,706 | 87,618 |

**Weighted average number of ordinary shares**

| | Group | |
|---|---|---|
| | 2015 '000 | 2014 '000 |
| Number of ordinary shares in issue at 1 January | 217,512 | 215,212 |
| Effect of shares repurchased | (10) | (10) |
| Effect of ordinary shares issued under ESOS | 722 | 879 |
| Total weighted average number of ordinary shares in issue (unit) | 218,224 | 216,081 |
| Basic earnings per ordinary share (sen) | 43.40 | 40.55 |

## 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 2015 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 | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| Profit for the financial year attributable to owners of the Company | 94,706 | 87,618 |

**Weighted average number of ordinary shares (diluted)**

| | Group | |
|---|---|---|
| | 2015 '000 | 2014 '000 |
| Weighted average number of ordinary shares at 31 December | 218,224 | 216,081 |
| Effect of share options in issue | 1,288 | 2,252 |
| Weighted average number of ordinary shares (diluted) at 31 December | 219,512 | 218,333 |

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 | |
|---|---|---|
| | 2015 Sen | 2014 Sen |
| Diluted earnings per ordinary share | 43.14 | 40.13 |

## 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **Geographical segments** | | | | | | | | |
| Revenue from external customers | 386,755 | 427,096 | 405,676 | 370,799 | - | - | 792,431 | 797,895 |
| Inter-segment revenue | 329,725 | 230,383 | 84,802 | 61,249 | (414,527) | (291,632) | - | - |
| **Total revenue** | 716,480 | 657,479 | 490,478 | 432,048 | (414,527) | (291,632) | 792,431 | 797,895 |
| Operating profit | | | | | | | 112,589 | 104,272 |
| Interest income | | | | | | | 15,194 | 5,186 |
| Interest expense | | | | | | | (8,022) | (9,040) |
| Share of (loss)/profit of associates | | | | | | | (1,485) | 920 |
| Profit before tax | | | | | | | 118,276 | 101,338 |
| Segment assets | 1,007,304 | 986,086 | 591,268 | 481,653 | (395,851) | (351,822) | 1,202,721 | 1,115,917 |
| Investments in associates | 22 | 22 | 19,244 | 19,244 | (2,292) | (807) | 16,974 | 18,459 |
| Total assets | 1,007,326 | 986,108 | 610,512 | 500,897 | (398,143) | (352,629) | 1,219,695 | 1,134,376 |
| Segment liabilities | 573,956 | 594,939 | 419,068 | 355,437 | (320,944) | (275,729) | 672,080 | 674,647 |
| Capital expenditure | | | | | | | | |
| - Property, plant and equipment | 19,041 | 15,672 | 6,164 | 5,685 | (798) | (375) | 24,407 | 20,982 |
| Depreciation and amortisation | 11,267 | 10,648 | 5,910 | 5,075 | - | - | 17,177 | 15,723 |

## 28. Financial instruments

### Categories of financial instruments

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| **Financial Assets** | | | | |
| Loans and receivables financial assets | | | | |
| Receivables and deposits | 281,558 | 292,877 | 74,699 | 57,591 |
| Fixed deposits with licensed banks | 41,991 | 40,198 | 14,718 | 10,243 |
| Cash and bank balances | 291,988 | 170,576 | 3,370 | 5,097 |
| | 615,537 | 503,651 | 92,787 | 72,931 |
| **Financial Liabilities** | | | | |
| Other Financial Liabilities | | | | |
| Loan and borrowings | 64,011 | 77,417 | 12,861 | 10,505 |
| Payables and accruals | 231,113 | 275,996 | 1,204 | 1,256 |
| Provision for warranties | 27,805 | 27,022 | - | - |
| Derivative liabilities | 11,863 | 22,563 | - | - |
| | 334,792 | 402,998 | 14,065 | 11,761 |

### Financial risk management

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

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

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

Receivables
*Risk management objectives, policies and processes for managing the risk*
The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

## 28. Financial instruments (continued)

**Credit risk (continued)**

Receivable (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 | |
|---|---|---|
| | 2015<br>RM'000 | 2014<br>RM'000 |
| Asia | 162,286 | 225,345 |
| Europe | 19,505 | 35,090 |
| America | 14,073 | 12,875 |
| Australia | 12,687 | 21,416 |
| | 208,551 | 294,726 |

*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 |
|---|---|---|---|---|
| **2015** | | | | |
| Not past due | 68,956 | - | - | 68,956 |
| Past due 0 - 90 days | 77,230 | - | - | 77,230 |
| Past due 91 -180 days | 24,641 | - | - | 24,641 |
| Past due more than 180 days | 96,467 | (58,743) | - | 37,724 |
| | 267,294 | (58,743) | - | 208,551 |
| **2014** | | | | |
| Not past due | 150,156 | - | - | 150,156 |
| Past due 0 - 90 days | 33,511 | (2,873) | - | 30,638 |
| Past due 91 -180 days | 23,845 | - | - | 23,845 |
| Past due more than 180 days | 113,037 | (22,950) | - | 90,087 |
| | 320,549 | (25,823) | - | 294,726 |

## 28. Financial instruments (continued)

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

| | Group | |
|---|---|---|
| | 2015 RM'000 | 2014 RM'000 |
| At 1 January | 25,823 | 7,512 |
| Impairment losses recognised | 43,587 | 21,107 |
| Impairment losses written back | (12,168) | (2,771) |
| Effect of movements in exchange rates | 1,501 | (25) |
| At 31 December | 58,743 | 25,823 |

The Group's trade receivables as at 31 December 2015 which is past due but not impaired amounted to RM 139,595,000 (2014 – RM 144,570,000). Trade receivables which are past due and impaired as at 31 December 2015 amounted to RM 58,743,000 (2014 – RM 25,823,000). For those trade receivables which are past due but not impaired, the Group is satisfied that these debts are recoverable.

**Liquidity risk**

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

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

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

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

| Group | Effective interest rate % | Carrying amount RM'000 | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| Unsecured revolving credits | 2.91 | 12,861 | 12,889 | 12,889 | - | - |
| Unsecured insurance premium finance | 2.20 | 3,968 | 3,999 | 3,999 | - | - |
| Bills payable | 3.81 | 47,182 | 47,182 | 47,182 | - | - |
| Unsecured payables and accruals | - | 231,113 | 231,113 | 231,113 | - | - |
| | | 295,124 | 295,183 | 295,183 | - | - |

## 28. Financial instruments (continued)

### Liquidity risk (continued)

| Group | Effective interest rate % | Carrying amount RM'000 | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Secured term loan | 5.56 | 1,570 | 1,619 | 1,619 | - | - |
| Unsecured revolving credits | 3.22 | 10,505 | 10,525 | 10,525 | - | - |
| Unsecured bank overdrafts | 2.85 | 1,978 | 2,026 | 2,026 | - | - |
| Unsecured insurance premium finance | 2.20 | 4,472 | 4,498 | 4,498 | - | - |
| Bills payable | 4.33 | 58,892 | 58,892 | 58,892 | - | - |
| Unsecured payables and accruals | - | 275,996 | 275,996 | 275,996 | - | - |
| | | 353,413 | 353,556 | 353,556 | - | - |

| Company | Effective interest rate % | Carrying amount RM'000 | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| Unsecured revolving credits | 2.91 | 12,861 | 12,889 | 12,889 | - | - |
| Unsecured payables and accruals | - | 1,204 | 1,204 | 1,204 | - | - |
| | | 14,065 | 14,093 | 14,093 | - | - |
| **2014** | | | | | | |
| Unsecured revolving credits | 3.22 | 10,505 | 10,525 | 10,525 | - | - |
| Unsecured payables and accruals | - | 1,256 | 1,256 | 1,256 | - | - |
| | | 11,761 | 11,781 | 11,781 | - | - |

### 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 flow.

### Interest rate risk

The Group's investments in fixed rate debt securities and its fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rate. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

## 28. Financial instruments (continued)

### Market risk (continued)

### Interest rate risk (continued)

### Effective interest rates and repricing analysis

The interest rate profile of the Group's significant interest-bearing financial instrument, based on carrying amounts as at the end of the reporting period was:

| Group | Effective Interest rate % | Total RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Fixed rate instruments** | | | | | |
| Deposit placed with licensed banks | 2.61 – 3.31 | 41,991 | 41,991 | - | - |
| **Fixed rate instruments** | | | | | |
| Unsecured insurance premium Finance – AUD | 2.20 | 3,968 | 3,968 | - | - |
| **Floating rate instruments** | | | | | |
| Unsecured revolving credits – USD | 2.91 | 12,861 | 12,861 | - | - |
| Bills payable | 3.81 | 47,182 | 47,182 | - | - |
| | | 64,011 | 64,011 | - | - |
| **2014** | | | | | |
| **Fixed rate instruments** | | | | | |
| Deposit placed with licensed banks | 4.07 – 5.60 | 40,198 | 40,198 | - | - |
| **Fixed rate instruments** | | | | | |
| Unsecured insurance premium Finance – AUD | 2.20 | 4,472 | 4,472 | - | - |
| **Floating rate instruments** | | | | | |
| Secured term loan | 5.56 | 1,570 | 1,570 | - | - |
| Unsecured revolving credits – USD | 3.22 | 10,505 | 10,505 | - | - |
| Unsecured bank overdraft – SGD | 2.85 | 1,978 | 1,978 | - | - |
| Bills payable | 4.33 | 58,892 | 58,892 | - | - |
| | | 77,417 | 77,417 | - | - |

## 28. Financial instruments (continued)

**Market risk (continued)**

**Interest rate risk (continued)**

**Effective interest rates and repricing analysis**

The interest rate profile of the Group's significant interest-bearing financial instrument, based on carrying amounts as at the end of the reporting period was:

| Company | 2015 Effective interest rate % | Total RM'000 | Less than 1 year RM'000 | 2014 Effective interest rate % | Total RM'000 | Less than 1 year RM'000 |
|---|---|---|---|---|---|---|
| **Fixed rate instruments** | | | | | | |
| Deposits placed with licensed banks | 2.61 | 14,718 | 14,718 | 2.50 | 10,243 | 10,243 |
| **Floating rate instruments** | | | | | | |
| Unsecured revolving credits | 2.91 | 12,861 | 12,861 | 3.22 | 10,505 | 10,505 |

***Interest rate risk sensitivity analysis***

If interest rates as at the end of the reporting period increase by 100 basis points (bp) with all other variables being held constant, the Group's profit after taxation would have decreased by RM174,000. 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 entered into by subsidiaries in currencies other than Ringgit Malaysia.

*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 currencies giving rise to this risk are mainly United States Dollar, Australian Dollar and Singapore Dollar.

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 |
|---|---|---|---|
| **2015** | | | |
| Financial assets | 274,960 | 57,099 | 117,705 |
| Financial liabilities | (37,275) | (65,175) | (4,062) |
| Net financial assets/(liabilities) | 237,685 | (8,076) | 113,643 |
| Less: Net financial assets/(liabilities) denominated in the respective entities' functional currencies | (12,851) | 11,434 | (39,014) |
| Less: Forward foreign currency contracts (contracted notional principal) | (386,462) | (6,336) | (107,944) |
| **Net currency exposure** | (161,628) | (2,978) | (33,315) |
| **2014** | | | |
| Financial assets | 241,094 | 42,814 | 53,262 |
| Financial liabilities | (23,619) | (64,572) | (26,916) |
| Net financial assets/(liabilities) | 217,475 | (21,758) | 26,346 |
| Less: Net financial assets/(liabilities) denominated in the respective entities' functional currencies | (12,563) | 33,608 | 4,090 |
| Less: Forward foreign currency contracts (contracted notional principal) | (529,562) | (15,027) | (192,634) |
| **Net currency exposure** | (324,650) | (3,177) | (162,198) |

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

**Effects on profit after taxation**

| | USD | AUD | SGD |
|---|---|---|---|
| **2015** | | | |
| - strengthened by 5% | (6,061) | (112) | (1,249) |
| - weakened by 5% | 6,061 | 112 | 1,249 |
| **2014** | | | |
| - strengthened by 5% | (12,174) | (119) | (6,082) |
| - weakened by 5% | 12,174 | 119 | 6,082 |

## 28. Financial instruments (continued)

### Fair values

The carrying amounts of cash and cash equivalents, receivables, deposits and prepayments, other payables and accruals, and short term borrowings, approximate fair values due to the relatively short term nature of these financial instruments.

It is not practicable to estimate the fair value of the Company's investments in subsidiaries and associates due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

The fair values of other financial liabilities, together with the carrying amounts shown in the statements of financial position as at 31 December are as follows:

| Group | 2015 Carrying amount RM'000 | 2015 Fair value RM'000 | 2014 Carrying amount RM'000 | 2014 Fair value RM'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Secured term loans | - | - | 1,570 | 1,570 |

The fair values of secured term loans with variable interest rates approximate their carrying values as they are on floating rates and reprice to market interest rates for liabilities with similar risk profile.

The Company provides financial guarantees to financial institutions for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the subsidiaries are managed by the management team without any expectation of default on the credit lines.

### *Fair value hierarchy*

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.
- Level 3: Unobservable inputs for the asset or liability.

| Group | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2015** | | | | |
| **Financial liability** | | | | |
| Derivative liabilities | - | (11,863) | - | (11,863) |
| **2014** | | | | |
| **Financial liability** | | | | |
| Derivative liabilities | - | (22,563) | - | (22,563) |

## 29. Contingencies

### Contingent liabilities - unsecured

| | Group 2015 RM'000 | Group 2014 RM'000 |
|---|---|---|
| Corporate guarantee for credit facilities granted to subsidiaries | 114,084 | 157,561 |

In the ordinary course of business, the Group and the Company also issue bank and performance guarantees to customers who awarded contracts to the Group and the Company.

### Continuing financial support

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

### Contingent liabilities - litigation

***Litigation against the Company, its subsidiary Favelle Favco Berhad ("FFB") and FFB's subsidiary Favelle Favco Cranes (USA) inc. ("FFCUSA") in the Supreme Court of the State of New York***

The litigation relates to an incident in 2008 involving the collapse of a Favelle Favco crane caused by rigging activity carried out by a third party. The U.S. Occupational Safety & Health Administration ("OSHA") found that slings (independent of the crane per se) used during the rigging activity tore open causing the said incident. The litigation remains ongoing and it is premature to assess the outcome of the actions at this point in time.

***Litigation against a subsidiary, Favelle Favco Cranes (USA) Inc. in the Supreme Court of the State of New York, County of New York***

Mr Robert Paranella is claiming against FFCUSA for personal injuries resulting from an accident while descending a ladder of a crane. As advised by the lawyers, the Board of Directors of FFCUSA is of the view that there are merits to his claims.

## 30. Related parties

### Identity 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 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).

***Significant transactions with related parties:***

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2015 RM'000 | 2014 RM'000 |
| Ultimate holding company | | | | |
| Purchase of property, plant and equipment | 75 | 133 | - | - |
| Rental expense payable | 1,608 | 1,412 | - | - |
| Sale of goods and services | (86) | (714) | - | - |
| Subcontract cost payable | 542 | 927 | - | - |
| Share services expenses | 2,000 | 1,900 | - | - |
| Subsidiaries | | | | |
| Dividend income receivable | - | - | (52,347) | (27,875) |
| Rental income receivable | - | - | (2,138) | (2,170) |
| Related companies | | | | |
| Purchase of property, plant and equipment | - | 580 | - | - |
| Rental expense payable | 3,782 | 3,156 | 92 | 93 |
| Rental income receivable | (8) | (21) | - | - |
| Sale of goods | (5,883) | (23) | - | - |
| Subcontract cost payable | 10,873 | 28,064 | - | - |

## 30. Related parties (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 RM'000 | 2014 RM'000 | 2014 RM'000 | 2014 RM'000 |
| Associates | | | | |
| Sale of goods and services | (17,984) | (35,101) | - | - |

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

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

There are no allowance for impairment losses on receivables as at 31 December 2015 in respect of the above related party balances.

## 31. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic and business conditions or expansion plans of the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in Group's approach to capital management during the year.

## 32. 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 Cash Flows (Extract):- | | |
| **Cash flows from operating activities** | | |
| Bad debt written off | - | 9,187 |
| Receivables, deposits and prepayments | (106,611) | (115,798) |

## 33. Realised and unrealised profits/(losses)

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

| | 2015 RM'000 | 2014 RM'000 |
|---|---|---|
| Total retained profits of | | |
| Favelle Favco Berhad and its subsidiaries: | | |
| - Realised | 275,883 | 237,327 |
| - Unrealised | 42,283 | (5,268) |
| | 318,166 | 232,059 |
| Total retained profit from associated companies | | |
| - Realised | (3,080) | (1,538) |
| - Unrealised | 38 | 11 |
| | 315,124 | 230,532 |
| Less: Consolidation adjustments | 51,151 | 67,527 |
| Total Group retained profits | 366,275 | 298,059 |

# Statement by Directors | pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 40 to 106 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of their financial performance and cash flows for the year then ended.

In opinion of the Directors, the information set out in note 33 on page 107 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

..................................................................

**Mac Ngan Boon @ Mac Yin Boon**

..................................................................

**Mac Chung Hui**

Klang,

1st April 2016

# Statutory declaration | pursuant to Section 169(16) of the Companies Act, 1965

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 40 to 107 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 1st April 2016.

……………………..
**Lee Poh Kwee**

Before me:

**Azmi bin Ishak**
Persuruhjaya Sumpah Malaysia
(No. B413)

## Report on the Financial Statements

We have audited the financial statements of Favelle Favco Berhad, which comprise the statements of financial position as at 31 December 2015 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 a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 106.

*Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:-

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 6 to the financial statements.

### Report on Other Legal and Regulatory Requirements (continued)

c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

### Other Reporting Responsibilities

The supplementary information set out on page 107 in Note 33 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

### Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**Crowe Horwath**
Firm Number: AF 1018
Chartered Accountants

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

1st April 2016

Kuala Lumpur

# Group Properties | as at 31 December 2015

| 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 | 17 years | 2,534 |
| 2. | Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan | Factory building with office block | 2012# | Freehold | 68,846 sq. m | 10 years | 32,885 |
| 3. | 7AL, Nordkranvej, 2 3540, Lynge DK Denmark | Factory building with office block | 2012# | Freehold | 59,525 sq. m. | 45 years | 15,583 |
| 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 | 2,568 |
| 5. | 28, Yarrunga Street, Preston, NSW 2170, Australia | Office building and factory | 2012 | Freehold | 11.6 acres | 45 years | 52,283 |
| | | | | | **Total properties** | | 105,853 |

**Note:**
# Year of Valuation

## Share Capital

| | | |
|---|---|---|
| Authorised share capital | : | RM500 million |
| Issued and fully paid-up capital | : | RM109,900,382 |
| Class of shares | : | Ordinary shares of RM0.50 each |
| 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 | 112 | 3.101 | 1,473 | 0.000 |
| 100 to 1,000 | 982 | 27.187 | 767,971 | 0.349 |
| 1,001 to 10,000 | 1,927 | 53.350 | 8,329,390 | 3.790 |
| 10,001 to 100,000 | 503 | 13.926 | 14,556,250 | 6.623 |
| 100,001 to 10,989,537*2 | 86 | 2.381 | 64,894,636 | 29.526 |
| 10,989,538*2 and above | 2 | 0.055 | 131,241,043 | 59.712 |
| **TOTAL** | **3,612** | **100.000** | **219,790,763** | **100.000** |

*Notes:*
* 1. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2016.

## 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) | 1.066 | - | - |
| 4. Mac Ngan Boon @ Mac Yin Boon | 8,492,913(5) | 3.864 | 135,321,843(6) | 61.568 |
| 5. Lee Poh Kwee | 1,295,000(7) | 0.589 | - | - |
| 6. Mazlan bin Abdul Hamid | 2,434,000 | 1.107 | - | - |
| 7. Sobri bin Abu | - | - | - | - |

*Notes:*
1. Indirect interest pursuant to Section 134 of the Companies Act, 1965 ("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 6A of the Act by virtue of his substantial interests in MEB and the shares held by his wife and children pursuant to Section 134 of the Act.
7. Shares held through HLB Nominees (Tempatan) Sdn Bhd and RHB Capital Nominees (Tempatan) Sdn Bhd.
8. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2016.

**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 2015 from pages 35 to 37 of this Annual Report.

**Options in the Company**

The change in the employee share options held by the Directors in the Company are as disclosed in the Directors' Report for the year ended 31 December 2015 on page 36 and 37 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 | 59.712 | - | - |
| 2. Mac Ngan Boon @ Mac Yin Boon | 8,492,913(1) | 3.864 | 131,241,043(2) | 59.712 |

*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 6A of the Act by virtue of his substantial interests in MEB.
3. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2016.

**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 | 44.588 |
| 2 | Muhibbah Engineering (M) Bhd | 33,241,043 | 15.124 |
| 3 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan) (VCAM Equity FD) | 5,358,600 | 2.438 |
| 4 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 5,264,000 | 2.395 |
| 5 | CIMB Group Nominees (Tempatan) Sdn Bhd<br>Yayasan Hasanah (AUR-VCAM) | 5,224,600 | 2.377 |
| 6 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (CIMB PRIN) | 3,870,500 | 1.761 |
| 7 | Citigroup Nominees (Asing) Sdn Bhd<br>Exempt An For Citibank New York (Norges Bank 1) | 3,207,041 | 1.459 |
| 8 | TA Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Koon Yew Yin | 2,900,700 | 1.320 |
| 9 | Mazlan bin Abdul Hamid | 2,420,000 | 1.101 |
| 10 | Mac Ngan Boon @ Mac Yin Boon | 2,328,913 | 1.060 |
| 11 | Mac Chung Hui | 2,242,000 | 1.020 |
| 12 | Aminah binti Mohd Taib | 1,931,600 | 0.879 |

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

| No. | Name of Shareholders | No. of Shares held | % of issued capital* |
|---|---|---|---|
| 13 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities) | 1,702,700 | 0.775 |
| 14 | Ooi Sen Eng | 1,156,000 | 0.526 |
| 15 | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>Deutsche Trustees Malaysia Berhad For Eastspring Investmentssmall-Cap Fund | 1,109,400 | 0.505 |
| 16 | HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Lee Poh Kwee | 1,015,000 | 0.462 |
| 17 | Maybank Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Tan Kit Pheng | 974,400 | 0.443 |
| 18 | Kenanga Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Koon Yew Yin (002) | 925,000 | 0.421 |
| 19 | OREC Engineering Holdings Pty Ltd | 900,000 | 0.409 |
| 20 | TA Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Tan Kit Pheng | 900,000 | 0.409 |
| 21 | Chong Cho Kiong | 770,000 | 0.350 |
| 22 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Noriyati binti Hassan | 750,000 | 0.341 |
| 23 | Amanahraya Trustees Berhad<br>Public Islamic Opportunities Fund | 747,400 | 0.340 |
| 24 | Noriyati binti Hassan | 728,123 | 0.331 |
| 25 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Chew Keng Siew | 700,000 | 0.318 |
| 26 | Yap Eng Jin | 665,000 | 0.303 |
| 27 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 600,000 | 0.273 |
| 28 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Mac Chung Jin | 600,000 | 0.273 |
| 29 | Lim Swee Pheng | 594,346 | 0.270 |
| 30 | Caroline Khoo | 583,000 | 0.265 |
| | | **181,409,366** | **82.536** |

*Note:*

* Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 31 March 2016.

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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 Name)*

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-Fourth Annual General Meeting of the Company to be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 2 June 2016 at 2.30 p.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 30% (15 sen) per ordinary share. | | |
| 2. | To re-elect Tan Sri A. Razak bin Ramli as Director. | | |
| 3. | To re-elect Sobri bin Abu as Director. | | |
| 4. | To re-appoint Lim Teik Hin as Director. | | |
| 5. | To re-appoint Mac Ngan Boon @ Mac Yin Boon as Director. | | |
| 6. | To re-appoint Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor as Director. | | |
| 7. | To re-appoint Messrs Crowe Horwath as Auditors of the Company for the ensuing year 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 and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |

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

Dated this ............... day of ............................... 2016

[* 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 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 and the provision of Section 149(1)(b) of the Act shall not apply to the Company.

(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, at least forty-eight (48) hours before the time set for the holding of the Meeting or any adjournment thereof.

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