Favelle Favco Berhad

(Company No. 249243-W)
(Incorporated in Malaysia)

and its subsidiaries

Financial statements for the financial year ended 31 December 2017

Favelle Favco Berhad

(Company No. 249243-W)
(Incorporated in Malaysia)

and its subsidiaries

Directors' report for the financial year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

Principal activities

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

Results

	Group RM'000	Company RM'000
Profit attributable to:		
Owners of the Company	63,097	43,970
Non-controlling interests	900	-
Profit after taxation for the financial year	63,997	43,970

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the Company paid a first and final ordinary tax exempt dividend of 15.00 sen per ordinary share totaling RM33,208,914 in respect of the financial year ended 31 December 2016 on 20 September 2017.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2017 is 13.50 sen per ordinary share totaling RM29,888,023 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Company No. 249243-W

Directors of the Company

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

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

Directors' interests

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

	Number of ordinary shares			
	At 1.1.2017	**Bought**	**Sold**	**At 31.12.2017**
Interests in the Company				
Tan Sri A.Razak bin Ramli				
- Direct	300,000	-	-	300,000
- Indirect	800	-	-	800
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	300,000	-	-	300,000
Mac Chung Hui	2,342,000	-	-	2,342,000
Mac Ngan Boon @ Mac Yin Boon				
- Direct	9,142,913	-	-	9,142,913
- Indirect	1,738,800	-	-	1,738,800
Lee Poh Kwee	1,715,000	-	-	1,715,000
Mazlan bin Abdul Hamid	2,432,000	-	-	2,432,000

Directors' interests (continued)

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017
Indirect interest in the Company				
Mac Ngan Boon @ Mac Yin Boon*	131,241,043	-	-	131,241,043

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

	Number of ordinary shares			
	At 1.1.2017	Bought	Sold	At 31.12.2017
Interest in the ultimate holding company - Muhibbah Engineering (M) Bhd				
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	3,000	-	-	3,000
Mac Chung Hui	5,705,000	-	-	5,705,000
Mac Ngan Boon @ Mac Yin Boon				
- Direct	73,501,416	-	-	73,501,416
- Indirect	21,317,500	-	(300,000)	21,017,500
Lee Poh Kwee				
- Direct	6,046,272	-	-	6,046,272
- Indirect	650,000	-	-	650,000
Mazlan bin Abdul Hamid	605,000	-	(105,000)	500,000
Lim Teik Hin				
- Indirect	50,000	-	(20,000)	30,000

Company No. 249243-W

Directors' interests (continued)

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

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

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

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

Other than the abovementioned Directors, none of the Directors holding office at 31 December 2017 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than the benefit shown under the Key Management Personnel Compensation of our report) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for any benefits which may be deemed to arise from transaction entered into in the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 29 to the financial statements.

Directors' benefits (continued)

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

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

Holding Company

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

Subsidiaries

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

Issue of shares and debentures

During the financial year:-

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

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

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the Company's Share Issuance Scheme ("SIS").

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

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

Indemnity and insurance cost

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

Significant event during the financial year

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

Significant event occurring after the financial year

The significant event occurring after the reporting period is disclosed in Note 33 to the financial statements.

Other statutory information

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

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

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

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

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

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

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

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

At the date of this report, there does not exist:

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

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

No contingent liability or other liability of the Group and of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Company No. 249243-W

Auditors

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

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

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

…………………………………………………………

Mac Ngan Boon @ Mac Yin Boon

…………………………………………………………

Lee Poh Kwee

Klang,

28 March 2018

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

Statements of financial position as at 31 December 2017

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

Company No. 249243-W

Statements of financial position as at 31 December 2017 (continued)

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

The notes set on pages 19 to 103 are an integral part of these financial statements.

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

Statements of profit or loss and other comprehensive income for the financial year ended 31 December 2017

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

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Statements of profit or loss and other comprehensive income for the financial year ended 31 December 2017 (continued)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit for the year		63,997	72,040	43,970	28,104
Other comprehensive income for the financial year, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Movement in revaluation of property, plant and equipment, net of tax		6,844	-	-	-
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		(2,378)	3,068	-	-
Other comprehensive income for the year, net tax		4,466	3,068	-	-
Total comprehensive income for the year		68,463	75,108	43,970	28,104
Profit attributable to:					
Owners of the Company		63,097	74,649	43,970	28,104
Non-controlling interests		900	(2,609)	-	-
Profit for the year		63,997	72,040	43,970	28,104
Total comprehensive income attributable to:					
Owners of the Company		67,506	77,819	43,970	28,104
Non-controlling interests		957	(2,711)	-	-
Total comprehensive income for the year		68,463	75,108	43,970	28,104
Earnings per ordinary share (sen)					
- Basic	26	28.50	33.83		
- Diluted	26	28.24	33.83		

The notes set on pages 19 to 103 are an integral part of these financial statements.

Favelle Favco Berhad
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Consolidated statement of changes in equity for the financial year ended 31 December 2017

		← *Attributable to owners of the Company* →									
				← *Non-distributable* →				*Distributable*			
Group	**Note**	**Share capital RM'000**	**Treasury shares RM'000**	**Share premium RM'000**	**Translation reserve RM'000**	**Revaluation reserve RM'000**	**Share option reserve RM'000**	**Retained earnings RM'000**	**Total RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2016		109,568	(21)	41,746	12,451	15,373	1,711	366,275	547,103	512	547,615
Profit for the financial year		-	-	-	-	-	-	74,649	74,649	(2,609)	72,040
Foreign currency translation differences for foreign operations		-	-	-	3,170	-	-	-	3,170	(102)	3,068
Movement in revaluation of property, plant and equipment, net of tax		-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the financial year		-	-	-	3,170	-	-	74,649	77,819	(2,711)	75,108
Contribution by and distribution to owners of the Company:											
- Accretion of share in a subsidiary		-	-	-	-	-	-	(654)	(654)	(39)	(693)
- Share options exercised	18	1,133	-	1,803	-	-	-	-	2,936	-	2,936
- Transfer to share premium for share options exercised	18	-	-	920	-	-	(920)	-	-	-	-
- Expiry of ESOS	18	-	-	-	-	-	(791)	791	-	-	-
- Dividend to shareholders	25	-	-	-	-	-	-	(33,209)	(33,209)	-	(33,209)
At 31 December 2016		110,701	(21)	44,469	15,621	15,373	-	407,852	593,995	(2,238)	591,757
		Note 13.1	Note 13.2	Note 13.3	Note 13.4	Note 13.5	Note 13.6	Note 13.7			

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Consolidated statement of changes in equity for the financial year ended 31 December 2017 (continued)

Group	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Share option reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Attributable to owners of the Company									
				Non-distributable				*Distributable*			
At 31 December 2016/1 January 2017		110,701	(21)	44,469	15,621	15,373	-	407,852	593,995	(2,238)	591,757
Profit for the financial year		-	-	-	-	-	-	63,097	63,097	900	63,997
Foreign currency translation differences for foreign operations		-	-	-	(2,435)	-	-	-	(2,435)	57	(2,378)
Movement in revaluation of property, plant and equipment, net of tax		-	-	-	-	6,844	-	-	6,844	-	6,844
Total comprehensive income for the financial year		-	-	-	(2,435)	6,844	-	63,097	67,506	957	68,463
Contribution by and distribution to owners of the Company:											
- Share-based payment	18	-	-	-	-	-	1,217	-	1,217	-	1,217
- Dividend to shareholders	25	-	-	-	-	-	-	(33,209)	(33,209)	-	(33,209)
At 31 December 2017		110,701	(21)	44,469	13,186	22,217	1,217	437,740	629,509	(1,281)	628,228
		Note 13.1	Note 13.2	Note 13.3	Note 13.4	Note 13.5	Note 13.6	Note 13.7			

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Statement of changes in equity for the financial year ended 31 December 2017 (continued)

		← *Non-distributable*			→	*Distributable*	
	Note	**Share capital**	**Treasury shares**	**Share premium**	**Share option reserve**	**Retained earnings**	**Total equity**
Company		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 31 December 2015/1 January 2016		109,568	(21)	41,746	1,711	75,670	228,674
Profit for the financial year/Total comprehensive income the financial year		-	-	-	-	28,104	28,104
Contribution by and distribution to owners of the Company:							
- Share options exercised	18	1,133	-	1,803	-	-	2,936
- Transfer to share premium for share options exercised	18	-	-	920	(920)	-	-
- Expiry of ESOS	18	-	-	-	(791)	791	-
- Dividend to shareholders	25	-	-	-	-	(33,209)	(33,209)
At 31 December 2016/1 January 2017		110,701	(21)	44,469	-	71,356	226,505
Profit for the financial year/Total comprehensive income the financial year		-	-	-	-	43,970	43,970
Contribution by and distribution to owners of the Company:							
- Share-based payment	18	-	-	-	1,217	-	1,217
- Dividend to shareholders	25	-	-	-	-	(33,209)	(33,209)
At 31 December 2017		110,701	(21)	44,469	1,217	82,117	238,483
		Note 13.1	Note 13.2	Note 13.3	Note 13.6	Note 13.7	

The notes set on pages 19 to 103 are an integral part of these financial statements.

Favelle Favco Berhad
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Statements of cash flows for the financial year ended 31 December 2017

		Group		Company	
		2017	**2016**	**2017**	**2016**
	Note	**RM'000**	**RM'000 Restated**	**RM'000**	**RM'000**
Cash flows from operating activities					
Profit before tax		83,277	79,782	44,583	28,527
Adjustments for:					
Amortisation of intangible assets		130	936	-	-
Allowance for impairment losses on receivables		16,989	10,176	-	-
Allowance for impairment losses on receivables written back		(10,311)	(11,503)	-	-
Allowance for impairment losses on investment in a subsidiary		-	-	-	23,061
Allowance for slow moving inventories		2,657	1,213	-	-
Depreciation expenses:					
- investment property		-	-	441	427
- property, plant and equipment		20,419	18,140	39	5
Dividend income from subsidiaries		-	-	(44,437)	(47,222)
Finance costs	21	2,024	2,677	98	421
Finance income	20	(7,075)	(3,959)	(4,255)	(2,782)
Gain on disposal of property, plant and equipment		(109)	(475)	-	-
Net unrealised (gain)/loss on foreign exchange		(704)	3,625	4,815	(3,373)
Property, plant and equipment written off		-	6	-	-
Provision for warranties		12,060	10,619	-	-
Share-based payments		1,217	-	1,217	-
Share of loss in associates, net of tax		803	1,425	-	-
Reversal of provision for warranties		(9,306)	(7,613)	-	-
Writedown of inventories		5,393	13,015	-	-
Operating profit/(loss) before changes in working capital		117,464	118,064	2,501	(936)

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Statements of cash flows for the financial year ended 31 December 2017 (continued)

		Group		Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000 Restated	RM'000	RM'000
Operating profit/(loss) before changes in working capital (continued)		117,464	118,064	2,501	(936)
Changes in working capital:					
Inventories		(23,425)	33,462	-	-
Receivables, deposits and prepayments		5,609	66,631	63,532	63,199
Payables and accruals		(3)	(50,191)	(1,100)	(22)
Interest received		6,228	2,420	1,211	408
Interest paid		(79)	(1)	-	-
Warranties paid		(1,983)	(5,827)	-	-
Income tax paid		(19,211)	(17,475)	(569)	(430)
Net cash generated from operating activities		84,600	147,083	65,575	62,219
Cash flows for investing activities					
Acquisition of property, plant and equipment		(33,885)	(30,372)	(339)	(26)
Acquisition of investment property		-	-	(137)	(344)
Proceeds from subscription of shares in a subsidiary from non-controlling interests		-	(693)	-	(693)
Proceeds from disposal of property, plant and equipment		2,511	3,162	-	-
Net cash used in investing activities		(31,374)	(27,903)	(476)	(1,063)
Cash flows for financing activities					
Dividend paid to shareholders of the Company	25	(33,209)	(33,209)	(33,209)	(33,209)
Interest paid		(546)	(881)	-	(376)
Proceeds from issue of shares under ESOS scheme		-	2,936	-	2,936
Net repayment of revolving credit		-	(12,861)	-	(12,861)
Net proceeds/(repayment) of loans and borrowings		(3,614)	(52,846)	-	-
Net cash used in financing activities		(37,369)	(96,861)	(33,209)	(43,510)

Company No. 249243-W

Statements of cash flows for the financial year ended 31 December 2017 (continued)

		Group		Company	
	Note	2017 RM'000	2016 RM'000 Restated	2017 RM'000	2016 RM'000
Exchange differences on translation of the financial statements of foreign operations		(2,195)	1,502	-	-
Net increase in cash and cash equivalents		13,662	23,821	31,890	17,646
Effect of exchange rate fluctuations on cash held		(10,706)	9,037	(2,677)	3,095
Cash and cash equivalents at 1 January		366,837	333,979	38,829	18,088
Cash and cash equivalents at 31 December	12	369,793	366,837	68,042	38,829

The notes set on pages 19 to 103 are an integral part of these financial statements.

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

Notes to the financial statements

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The financial statements of the Company as at and for the financial year ended 31 December 2017 do not include other entities.

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

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

The financial statements were authorised for issue by the Board of Directors on 28 March 2018.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Company No. 249243-W

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

MFRSs and IC Interpretations (Including The Consequential Amendments)

Amendments to MFRS 107: Disclosure Initiative

Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements to MFRS Standards 2014 – 2016 Cycles: Amendments to MFRS 12: Clarification of the Scope of the Standard

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

Amendments to MFRS 107: Disclosure Initiative

The amendments to MFRS 107 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between opening and closing balances of these items is provided in Note 12.3 to the financial statements.

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

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018

Company No. 249243-W

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:-(continued)

MFRSs and IC Interpretations (Including The Consequential Amendments) (continued)	Effective Date
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 15: Clarifications to MFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycles: • Amendments to MFRS 1: Deletion of Short-term Exemptions for First-time Adopters • Amendments to MFRS 128: Measuring an Associate or Joint Venture at Fair Value	1 January 2018
Annual Improvements to MFRS Standards 2015 – 2017 Cycles	1 January 2019

Company No. 249243-W

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

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

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

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

MFRS 15 establishes a single comprehensive model for revenue recognition and will supersede the current revenue recognition guidance and other related interpretations when it becomes effective. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the distinct promised goods or services underlying the particular performance obligation is transferred to the customers. The amendments to MFRS 15 further clarify the concept of 'distinct' for the purposes of this accounting standard. In addition, extensive disclosures are also required by MFRS 15. The Group and the Company is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(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.

1. Basis of preparation (continued)

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

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

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

- Note 2 (c) – financial instruments
- Note 2 (q) – revenue recognition
- Note 2 (t) – income tax

2. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations

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

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expenses as incurred.

(iii) Acquisitions of non-controlling interests

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Loss of control

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

(v) Associates

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

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

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

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

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) Non-controlling interests

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

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

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

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

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

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

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 categorise and measure financial instruments as follows:

Financial assets

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

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

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

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

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

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

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

Financial liabilities

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

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

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets

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

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

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

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

(iv) Derecognition

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Financial Guarantee Contracts

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

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

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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

2. Significant accounting policies (continued)

(e) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

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

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

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

2. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

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

(ii) Research and development

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

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

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

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

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Intellectual property

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(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.

2. Significant accounting policies (continued)

(g) Investment property (continued)

Investment properties carried at cost (continued)

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

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

(h) Inventories

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

Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Contract work-in-progress

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

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

2. Significant accounting policies (continued)

(j) Cash and cash equivalents

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

(k) Impairment

(i) Financial assets

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

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

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

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

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

2. Significant accounting policies (continued)

(k) Impairment (continued)

(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.

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.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Other assets (continued)

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

(l) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Repurchase of share capital

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

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

2. Significant accounting policies (continued)

(m) Loans and borrowings

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

(n) Employee benefits

(i) Short term employee benefits

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

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

(ii) State plans

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

(iii) Share-based payment transactions

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

2. Significant accounting policies (continued)

(o) Provisions

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

Warranties

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

(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.

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.

(iii) Rental income

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

(iv) Dividend income

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

2. Significant accounting policies (continued)

(r) Interest income

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

(s) Borrowing costs

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

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

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

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

2. Significant accounting policies (continued)

(t) Income tax

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

(u) Earnings per share

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

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

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

(v) Segment reporting

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

2. Significant accounting policies (continued)

(w) Fair value measurements

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

Level 3: Unobservable inputs for the asset or liability.

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

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3. Property, plant and equipment

Group	Land	Buildings	Cranes	Plant, equipment and motor vehicles	Capital work-in-progress	Total
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost/Valuation						
At 1 January 2016	71,316	57,254	102,921	103,944	221	335,656
Additions	-	1,212	39,265	4,773	-	45,250
Reclassification	-	32	163	-	(195)	-
Disposals	-	-	(6,154)	(1,132)	-	(7,286)
Transfer	-	-	(3,857)	(1,168)	-	(5,025)
Written off	-	-	-	(39)	-	(39)
Effect of movements in exchange rates	22	266	74	873	-	1,235
At 31 December 2016/ 1 January 2017	71,338	58,764	132,412	107,251	26	369,791
Additions	-	752	39,079	1,654	16	41,501
Revaluation	6,844	-	-	-	-	6,844
Disposals	-	-	(4,462)	(762)	-	(5,224)
Written off	-	-	-	(27)	-	(27)
Effect of movements in exchange rates	376	54	1,881	(997)	-	1,314
At 31 December 2017	78,558	59,570	168,910	107,119	42	414,199
Representing items at:						
Cost	55,723	59,570	168,910	107,119	42	391,364
Valuation – 2008	12,291	-	-	-	-	12,291
Valuation – 2012	3,700	-	-	-	-	3,700
Valuation – 2017	6,844	-	-	-	-	6,844
	78,558	59,570	168,910	107,119	42	414,199

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3. Property, plant and equipment (continued)

Group	Land	Buildings	Cranes	Plant, equipment and motor vehicles	Capital work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation and impairment loss						
At 1 January 2016	24	22,693	47,670	70,838	-	141,225
Depreciation for the year	4	1,021	9,518	7,597	-	18,140
Reclassification	-	-	3	(3)	-	-
Disposals	-	-	(3,483)	(1,116)	-	(4,599)
Transfer	-	-	(767)	(487)	-	(1,254)
Written off	-	-	-	(33)	-	(33)
Effect of movements in exchange rates	-	156	171	738	-	1,065
At 31 December 2016						
Accumulated depreciation	28	23,870	53,112	77,534	-	154,544
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2016/ 1 January 2017	28	23,870	53,112	77,534	-	154,544
Depreciation for the year	5	1,065	12,732	6,617	-	20,419
Disposals	-	-	(2,148)	(674)	-	(2,822)
Written off	-	-	-	(27)	-	(27)
Effect of movements in exchange rates	-	174	851	(767)	-	258
Accumulated depreciation	33	25,109	64,547	82,683	-	172,372
Accumulated impairment losses	-	-	-	-	-	-
At 31 December 2017	33	25,109	64,547	82,683	-	172,372
Carrying amounts						
At 31 December 2016	**71,310**	**34,894**	**79,300**	**29,717**	**26**	**215,247**
At 31 December 2017	**78,525**	**34,461**	**104,363**	**24,436**	**42**	**241,827**

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3. Property, plant and equipment (continued)

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

3.1 Security

The freehold land and buildings of the Group with total net book value of RM16,084,000 (2016 – RM15,611,000) have been pledged to certain licensed bank as security for bank facilities granted to the Group (See Note 14).

3.2 Property, plant and equipment under the revaluation model

The Group's freehold land were revalued by independent professional qualified valuers using an open market value method in financial year ended 2017, 2012 and 2008. The surpluses arising from the revaluations have been credited to other comprehensive income and accumulated in equity under the revaluation reserve. Had the freehold land been carried under the cost model, their carrying amounts would have been RM55,443,000 (2016 – RM55,067,000).

3.3 Property, plant and equipment under the hire purchase terms

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

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4. Intangible assets

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

Intangible assets mainly comprises development and software costs which were internally generated expenditure by subsidiaries on new or substantially improved major crane projects. It is reasonably anticipated that the cost will be recovered through future commercial activity. The remaining amortisation period range from 1 year to 3 years (2016 – 1 year to 4 years).

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5. Investment property

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

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

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6. Investments in subsidiaries

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

The details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Percentage of issued share capital held by parent 2017 %	2016 %
Favelle Favco Cranes (M) Sdn. Bhd.	Designing, manufacturing, supply, servicing, trading and renting of cranes	Malaysia	100	100
Favelle Favco Cranes Pte. Ltd. #	Supplying, servicing, trading and renting of cranes and sales of spare parts and services	Singapore	100	100
Favelle Favco Cranes (USA), Inc. #	Designing, manufacturing, supplying, servicing, trading and renting of cranes	United States of America	100	100
Favelle Favco Cranes Pty. Limited # and its subsidiaries	Design, manufacture, supply, renting and servicing of industrial cranes	Australia	100	100
FF Management Pty. Limited #	Management services	Australia	100	100
Milperra Blasting and Coating Pty. Limited #	Dormant	Australia	100	100

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6. Investments in subsidiaries (continued)

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

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

Not audited by Messrs Crowe Horwath

6. Investments in subsidiaries (continued)

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

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

7. Investments in associates

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares, at cost	19,424	19,424	19,424	19,424
Share of post-acquisition reserves	(4,678)	(3,875)	-	-
Less: Impairment loss	-	-	(158)	(158)
	14,746	15,549	19,266	19,266

The details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective Ownership interest 2017 %	2016 %
Favco Offshores Sdn Bhd	Manufacture, supply, servicing and renting of cranes	Malaysia	30	30
Favelle Favco Machinery and Equipment L.L.C	Trading and rental of construction equipment	United Arab Emirates	49	49
Favco Heavy Industry (Changshu) Co., Ltd.	Supply, renting and servicing of lifting equipment and spare parts	China	50	50

Summarised financial information on associates:

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

8. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

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

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

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

Unrecognised deferred tax assets

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

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

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carried forward amounting to RM45,669,000 (2016 – RM62,343,000) shown above which can only be carried forward for 20 years from the year the losses were incurred. These tax losses will begin to expire from 2019. Deferred tax assets have not been recognised in respect of these items because they are uncertain that future taxable profits will be available against which the Group can utilise the benefits there from.

Movement in temporary differences during the financial year

Group	At 1.1.2016 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2016 RM'000	Recognised in statement of profit or loss (Note 24) RM'000	Exchange differences RM'000	At 31.12.2017 RM'000
Property, plant and equipment	10,225	523	-	10,748	1,058	-	11,806
Other items	(18,958)	(8,657)	21	(27,594)	1,644	89	(25,861)
	(8,733)	(8,134)	21	(16,846)	2,702	89	(14,055)

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9. Receivables, deposits and prepayments

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

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9. Receivables, deposits and prepayments (continued)

9.1 Advance to an associate

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

9.2 Analysis of foreign currency exposure for significant receivables

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

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

9.3 Amount due from ultimate holding company

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

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

9.4 Amount due from related companies

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

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

9.5 Amount due from associates

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

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

9. Receivables, deposits and prepayments (continued)

9.6 Advance to a subsidiary

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

9.7 Amount due from subsidiaries

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

10. Contract work-in-progress

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

11. Inventories

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

12. Cash and cash equivalents

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

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

(a) Short-term investments represent investment in highly liquid money market, which is readily convertible to a known amount of cash. The effective interest rates ranging from 2.33% to 3.96% (2016 – 1.97% to 2.94%) and 2.40% to 3.52% (2016 – 1.97% to 2.94%) per annum for the Group and the Company respectively.

12. Cash and cash equivalents (continued)

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

(b) The fixed deposits with licensed banks of the Group and of the Company at the end of the reporting period bore effective interest rates ranging from 0.70% to 3.25% (2016 – 0.76% to 1.70%) per annum and 0.70% to 1.80% (2016 – 0.76% to 1.70%) per annum respectively. The fixed deposits have maturity periods ranging from 30 to 90 (2016 – 11 to 90) days and 30 to 90 (2016 – 60) days for the Group and the Company respectively.

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

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

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12. Cash and cash equivalents (continued)

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

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

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

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

13. Share capital and reserves

13.1 Share capital

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

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

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

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

13.2 Treasury shares

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

The number of treasury shares held is 10,000 (2016 – 10,000).

13.3 Share premium

The Company has adopted the transitional provisions set out in Section 618(3) of the Companies Act2016 ("Act") where the sum standing to the credit of the share premium may be utilised within twenty four months from the commencement date of 31 January 2017 in the manner as allowed for under the Act. Therefore, the Group and the Company has not consolidated the share premium into share capital within this transitional period.

13. Share capital and reserves (continued)

13.4 Translation reserve

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

13.5 Revaluation reserve

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

13.6 Share option reserve

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

13.7 Retained earnings

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

14. Loans and borrowings

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

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14. Loans and borrowings (continued)

14.2 Terms and debt repayment schedule

		2017				2016			
	Year of maturity RM'000	Carrying amount RM'000	Under 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	Carrying amount RM'000	Under 1 year RM'000	1-5 years RM'000	Over 5 years RM'000
Group									
Secured bank overdraft	2017	2,335	2,335	-	-	-	-	-	-
Unsecured insurance premium finance – AUD	2017	2,907	2,907	-	-	3,577	3,577	-	-
Bills payable	2017	7,511	7,511	-	-	8,940	8,940	-	-
Hire purchase payables	2017	21,176	2,864	16,200	2,112	13,526	1,561	8,133	3,832
		33,929	15,617	16,200	2,112	26,043	14,078	8,133	3,832

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15. Payables and accruals

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

15.1 Analysis of foreign currency exposure for significant payables

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

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

15. Payables and accruals (continued)

15.2 Amount due to ultimate holding company

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

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

15.3 Amount due to related companies

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

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

15.4 Amount due to a subsidiary

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

15.5 Amount due to associates

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

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16. Provision for warranties

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

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

17. Derivative Assets / (liabilities)

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

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

18. Employee benefits

18.1 Share-based payments

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

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

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

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

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

		Year option is granted
		2017
Cumulative %	Year 1	-
of options	Year 2	20%
exercisable	Year 3	40%
during the option	Year 4	60%
period in:	Year 5	100%

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

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18. Employee benefits (continued)

18.1 Share-based payments (continued)

The following options were granted under the SIS scheme to take up the unissued ordinary shares:

New SIS Scheme

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

Former ESOS Scheme

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

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

Details relating to options exercised during the financial year

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

18. Employee benefits (continued)

18.1 Share-based payments (continued)

Value of employee services received for issue of share options

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

	Group and Company	
	2017	**2016**
	RM'000	**RM'000**
Share option granted in 2017	1,217	-
Total expenses recognised as share-based payments	1,217	-

Fair value of share options and assumptions

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

<u>New SIS Scheme</u>

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

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18. Employee benefits (continued)

18.1 Share-based payments (continued)

Fair value of share options and assumptions (continued)

<u>Former ESOS Scheme</u>

	Group and Company 2016
Fair value at grant date (RM)	
- Granted in Year 2011	RM0.34 – RM0.42
- Granted in Year 2012	RM0.49 – RM0.67
- Granted in Year 2013	RM0.83 – RM1.01
- Granted in Year 2014	RM0.69
- Granted in Year 2015	RM0.46
Weighted average share price	
- Granted in Year 2011	0.88
- Granted in Year 2012	1.74
- Granted in Year 2013	2.75
- Granted in Year 2014	3.36
- Granted in Year 2015	2.46
Exercise price	
- Granted in Year 2011	RM0.80
- Granted in Year 2012	RM1.57
- Granted in Year 2013	RM2.50
- Granted in Year 2014	RM3.05
- Granted in Year 2015	RM2.25
Expected volatility (weighted average volatility)	22.19% - 46.94%
Option life	-
Risk-free interest rate (based on Malaysian Government bonds)	
- Granted in Year 2011	3.23% - 3.41%
- Granted in Year 2012	3.06% - 3.24%
- Granted in Year 2013	3.21% - 3.38%
- Granted in Year 2014	3.35%
- Granted in Year 2015	3.18%
Expected staff turnover	10%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends and not necessarily be the actual outcome. The expected option life is based on historical data, which may also not necessarily be indicative of exercise patterns that may occur. The SIS scheme will be expiring on 9 July 2022.

19. Revenue

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

20. Finance income

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

21. Finance costs

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

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22. Profit before tax

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

22. Profit before tax (continued)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
and after charging (continued):					
Property, plant and equipment written off	3	-	6	-	-
Provision for foreseeable losses		200	1,700	-	-
Provision for warranties	16	12,060	10,619	-	-
Rental expenses on:					
- cranes		17,642	10,589	-	-
- premises		4,589	4,781	93	93
- equipment		399	576	-	-
Writedown of inventories	11	5,393	13,015	-	-

23. Key management personnel compensation

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

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

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Directors				
Executive Directors				
Short-term employee benefits:				
- fees	324	324	288	288
- remuneration	1,503	1,621	1,499	1,617
	1,827	1,945	1,787	1,905
Non-executive Directors				
Short-term employee benefits:				
- fees	300	300	288	288
- remuneration	60	66	58	64
	360	366	346	352
	2,187	2,311	2,133	2,257

23. Key management personnel compensation (continued)

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other Key Management Personnel				
Short-term employee benefits	5,251	5,038	1,253	1,359
Defined contribution benefits	371	374	150	163
	5,622	5,412	1,403	1,522

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

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24. Income tax

Recognised in profit or loss

Major components of income tax expense include:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax expense				
Malaysia - current	8,892	16,699	135	34
- under/(over)provision in prior year	1,081	(5,940)	-	(22)
	9,973	10,759	135	12
Overseas - current	8,094	3,979	468	437
- (over)/underprovision in prior year	(1,489)	1,138	10	(26)
	6,605	5,117	478	411
Total current tax expense	16,578	15,876	613	423
Deferred tax expense (Note 8)				
Origination of temporary differences	3,395	2,420	-	-
Effect of change in corporate tax rate from 25% to 24%	-	922	-	-
Overprovision in prior years	(693)	(11,476)	-	-
Total deferred tax	2,702	(8,134)	-	-
Total tax expense	19,280	7,742	613	423

24. Income tax (continued)

Reconciliation of tax expense

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Profit for the year	63,997	72,040	43,970	28,104
Total tax expense	19,280	7,742	613	423
Profit excluding tax	83,277	79,782	44,583	28,527
Tax at Malaysian tax rate of 24% (2016 – 24%)	19,986	19,148	10,700	6,846
Effect of different tax rates in foreign jurisdictions	1,038	913	-	-
Effect change in corporate tax rate	-	922	-	-
Non-deductible expense	4,740	6,563	2,018	6,116
Non-taxable gain	(926)	(800)	(730)	(554)
Double deductions	(837)	(332)	-	-
Tax exempt income	(801)	(681)	(11,385)	(11,937)
Tax incentives	732	849	-	-
Effect of utilisation of deferred tax assets previously not recognised	(3,142)	(2,238)	-	-
Effect of non-recognition of deferred tax benefits	-	(185)	-	-
(Over)/underprovision in prior years	(1,101)	(16,278)	10	(48)
Others	(409)	(139)	-	-
	19,280	7,742	613	423

Domestic income tax is calculated at the Malaysia statutory tax rate 24% (2016 – 24%) of the estimated assessable profit for the financial year.

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25. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2017			
First and final 2016 ordinary	15.00	33,209	20 September 2017
2016			
First and final 2015 ordinary	15.00	33,209	11 August 2016

At the forthcoming Annual General Meeting, the following dividend in respect of the current financial year will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for as a liability in the financial year ending 31 December 2018.

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

Dividend per ordinary share

The calculation of dividend per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2017 of RM29,888,023 (2016 – RM33,208,914) on the issued and paid-up share capital (excluding treasury shares) of 221,392,763 (2016 – 221,392,763) ordinary shares as at the end of the reporting date.

26. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per share for the financial year ended 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

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

Weighted average number of ordinary shares

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

26. Earnings per ordinary share (continued)

Diluted earnings per share

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

The calculation of diluted earnings per share for the year ended 31 December 2017 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

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

Weighted average number of ordinary shares (diluted)

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

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

	Group	
	2017	**2016**
	Sen	**Sen**
Diluted earnings per ordinary share	28.24	33.83

27. Segment reporting

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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.

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.

Company No. 249243-W

27. Segment reporting (continued)

Geographical segments (continued)

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

Company No. 249243-W

28. Financial instruments

Categories of financial instruments

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

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

28. Financial instruments (continue)

Financial risk management

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

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

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from customers. The Company's exposure to credit risk arises principally from advances to subsidiaries and financial guarantees given to banks for borrowings granted to subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

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

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

28. Financial instruments (continued)

Credit risk (continued)

Receivable (continued)

Impairment losses

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

Group	Gross Amount RM'000	Individual Impairment RM'000	Collective Impairment RM'000	Carrying Amount RM'000
2017				
Not past due	28,584	-	-	28,584
Past due 0 - 90 days	43,092	-	-	43,092
Past due 91 -180 days	23,154	-	-	23,154
Past due more than 180 days	94,252	(63,097)	-	31,155
	189,082	(63,097)	-	125,985
2016				
Not past due	21,352	-	-	21,352
Past due 0 - 90 days	32,271	-	-	32,271
Past due 91 -180 days	59,115	(372)	-	58,743
Past due more than 180 days	96,635	(56,336)	-	40,299
	209,373	(56,708)	-	152,665

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

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

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

28. Financial instruments (continued)

Credit risk (continued)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

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

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28. Financial instruments (continued)

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.

Maturity Analysis

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

Group	**Effective interest rate %**	**Less than 1 year RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**
2017				
Unsecured insurance premium finance	1.25	2,907	-	-
Hire purchase payable	1.85	3,554	16,561	1,763
Bills payable	2.84	7,511	-	-
Secured bank overdraft	2.75	2,335	-	-
Unsecured payables and accruals	-	232,886	-	-
		249,193	16,561	1,763
2016				
Unsecured insurance premium finance	1.25	3,621	-	-
Hire purchase payable	1.85	1,927	9,250	3,091
Bills payable	2.84 – 4.64	8,940	-	-
Unsecured payables and accruals	-	228,104	-	-
		242,592	9,250	3,091

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28. Financial instruments (continued)

Liquidity risk (continued)

Maturity Analysis (continued)

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

Market risk

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

Interest rate risk

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

28. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis

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

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

28. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

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

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rates as at the end of the reporting period increase by 100 basis points (bp) with all other variables being held constant, the Group and the Company's profit after taxation would have decreased by RM57,084 (2016 – RM68,172) and Nil (2016 – RM Nil) respectively. A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

28. Financial instruments (continued)

Market risk (continued)

Foreign currency

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

Risk management objectives policies and processes for managing the risk

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

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

28. Financial instruments (continued)

Market risk (continued)

Foreign currency (continued)

Exposure to foreign currency risk

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

Group	**USD RM'000**	**AUD RM'000**	**SGD RM'000**
2017			
Financial assets	137,522	131,006	56,093
Financial liabilities	(12,887)	(52,002)	(698)
Net financial assets/(liabilities)	124,635	79,004	55,395
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(9,926)	(37,375)	(11,773)
Less: Forward foreign currency contracts (contracted notional principal)	(111,718)	(1,492)	(23,983)
Net currency exposure	2,991	40,137	19,639
2016			
Financial assets	210,605	56,401	104,551
Financial liabilities	(31,600)	(56,566)	(1,157)
Net financial assets/(liabilities)	179,005	(165)	103,394
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(20,155)	26,891	(30,401)
Less: Forward foreign currency contracts (contracted notional principal)	(219,600)	-	(62,572)
Net currency exposure	(60,750)	26,726	10,421

28. Financial instruments (continued)

Market risk (continued)

Foreign currency (continued)

Currency risk sensitivity analysis

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

Effects on profit after taxation

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

Company No. 249243-W

28. Financial instruments (continued)

Fair value information

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

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

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value				
Group	Level 1 RM’000	Level 2 RM’000	Level 3 RM’000	Level 1 RM’000	Level 2 RM’000	Level 3 RM’000	**Total Fair Value RM’000**	**Carrying Amount RM’000**
2017								
Financial assets								
Derivative assets –								
forward currency contracts	-	6,467	-	-	-	-	6,467	6,467
Short- term investments	84,341	-	-	-	-	-	84,341	84,341
	84,341	6,467	- -	-	-	-	90,808	90,808

28. Financial instruments (continued)

Fair value information (continued)

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

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value				
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	**Total Fair Value RM'000**	**Carrying Amount RM'000**
2016								
<u>Financial Asset</u>								
Short-term investments	70,844	-	-	-	-	-	70,844	70,844
<u>Financial liability</u>								
Derivative liabilities – forward currency contracts	-	13,136	-	-	-	-	13,136	13,136

29. Related parties

(i) Identities of related parties

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

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

(ii) Significant transactions with related parties:

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

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

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

30. Capital commitments

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

31. Capital management

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

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

32. Significant event during the financial year

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

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

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

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

33. Significant event occurring after the financial year

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

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

34. Comparative figures

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

	Group	
	As Restated RM'000	**As Previously Reported RM'000**
Statement of financial position (Extract):-		
Non-current liabilities		
Loans and borrowings	11,638	-
Current liabilities		
Loans and borrowings	14,405	26,043

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

Company No. 249243-W

Favelle Favco Berhad

(Company No. 249243-W)
(Incorporated in Malaysia)

and its subsidiaries

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

In the opinion of the Directors, the financial statements set out on pages9 to 103 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

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

…………………………………………………………

Mac Ngan Boon @ Mac Yin Boon

…………………………………………………………

Lee Poh Kwee

Klang,

28 March 2018

Favelle Favco Berhad

(Company No. 249243-W)
(Incorporated in Malaysia)

and its subsidiaries

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

I, **Lee Poh Kwee**, the Director primarily responsible for the financial management of Favelle Favco Berhad, do solemnly and sincerely declare that the financial statements set out on pages 9 to 103 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Klang on 28 March 2018.

…………………..
Lee Poh Kwee

Before me:

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD
(Company No. 249243-W)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Favelle Favco Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 9 to 103.

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

We are independent of the Group and Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Cod*e"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)
(Company No. 249243-W)
(Incorporated in Malaysia)

Key Audit Matters (Continued)

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

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

Recoverability of trade receivables Refer to Note 9 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Trade receivables are a major component of the financial position of the Group. Given the unfavourable macro-economic factors from prolonged weakness in global crude oil prices, the risk of customers becoming insolvent may be high. Accordingly, there is significant judgement involved in the assessment of recoverability of receivables, particularly regarding estimation of future cash collection and in calculating allowance for doubtful debts.	Our audit procedures included, amongst others: • Reviewing recoverability of major receivables including but not limited to the review of subsequent collections; • Enquiring with management on project/receivables status for major customers; • Reviewing collections and sales trends during the financial year for major receivables; and • Reviewing management's basis of estimation on the adequacy of the Group's allowance for impairment losses on trade receivables.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)
(Company No. 249243-W)
(Incorporated in Malaysia)

Key Audit Matters (Continued)

Inventories – Inventories under Work-In-Progress Refer to Note 11 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Inventories are a major component of the financial position of the Group. The unfavourable macro-economic factors from prolonged weakness in global crude oil prices have impacted the demand of cranes which might lead to slow moving stocks. Accordingly, significant judgement is required in the assessment on write-down of slow moving stocks.	Our audit procedures included, amongst others: • Reviewing whether inventories are carried at the lower of costs and net realisable value; and • Assessing adequacy of writedown of inventories.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report and Statement of Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditor's report thereon), which we obtained prior to the date of this auditors' report, and other sections of the 2017 annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)
(Company No. 249243-W)
(Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)
(Company No. 249243-W)
(Incorporated in Malaysia)

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)
(Company No. 249243-W)
(Incorporated in Malaysia)

OTHER MATTERS

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

Crowe Horwath
Firm No: AF 1018
Chartered Accountants

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

Kuala Lumpur

28 March 2018