Favelle Favco Berhad

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

and its subsidiaries

Financial statements for the financial year ended 31 December 2018

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

Directors' report for the financial year ended 31 December 2018

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 2018.

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 7 and 8 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	63,328	46,502
Non-controlling interests	5,264	-
Profit after taxation for the financial year	68,592	46,502

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 13.50 sen per ordinary share totaling RM29,888,023 in respect of the financial year ended 31 December 2017 on 24 September 2018.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2018 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.

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Directors of the Company

The Directors who served since the date of the last report and at the date of this 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
Sobri bin Abu
Dato' Sri Khazali bin Haji Ahmad (Appointed on 16.4.18)
Lim Teik Hin (Resigned on 16.4.18)

The names of directors of the Company's subsidiaries who served during the financial year and up to the date of this report, not including those directors mentioned above, are as follows:-

Andrew Yan Hean Howe
Azly Bin Abdul Kadir
Bong Yong Ching
Dr. Rolf Buhr
Henrik Thal Jantzen
Hui Siew May
Michael Khoo Kok Eng
Michael Klit Stjernholm
Mogens BrØnsholm Nielsen
Mohammad Amin Bin Yahya
Ng Keng San
Shenandoah Chong Shin Kwek
Shih-Chuan Chen
Soh Huk Lin
Soren Rasmus Carstens
Syed Firdaus Alsagoff Bin S Imran
Syed Ismail Bin Syed Abdillah
Teo Kai Sze, Henry
Tew Siew Chong
Tey Hwee Yee
Thomas Steen Jensen

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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 1.1.2018	**Bought**	**Sold**	**At 31.12.2018**
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	-	(155,100)	2,276,900

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Directors' interests (continued)

	Number of ordinary shares			
	At 1.1.2018	**Bought**	**Sold**	**At 31.12.2018**
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 1.1.2018	**Bought**	**Sold**	**At 31.12.2018**
Interest in the 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	21,017,500	-	(100,000)	20,917,500
Lee Poh Kwee				
- Direct	6,046,272	-	-	6,046,272
- Indirect	650,000	-	-	650,000
Mazlan bin Abdul Hamid	500,000	-	-	500,000

Company No. 249243-W

Directors' interests (continued)

The options granted to eligible Directors over unissued ordinary shares in the Company and the holding company pursuant to the Company's and the holding company's Share Issuance Scheme are set out below:

	Number of options over ordinary shares			
	At 1.1.2018	**Granted**	**Exercised**	**At 31.12.2018**
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 1.1.2018	**Granted**	**Exercised**	**At 31.12.2018**
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 20% 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 2018 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 31 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 25 to the financial statements.

Holding Company

The 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 7 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 except for the transfer of share premium pursuant to section 615(2) of the Company Act 2016 amounting to RM44,469,000 which became part of the issued 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, details of share options offered and exercised during the financial year are disclosed in Note 19. The SIS 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 36 to the financial statements.

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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) there are no known bad debts 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 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 2018 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, Crowe Malaysia PLT (converted from a conventional partnership, Crowe Malaysia which was previously known as Crowe Horwath), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 24 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, Selangor Darul Ehsan

11 April 2019

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

Statements of financial position as at 31 December 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Assets					
Property, plant and equipment	3	333,875	241,827	313	341
Intangible assets	4	100	203	-	-
Goodwill	5	71,183	-	-	-
Investment property	6	-	-	51,455	51,896
Investment in subsidiaries	7	-	-	172,031	35,130
Investment in associates	8	12,186	14,746	19,266	19,266
Deferred tax assets	9	24,949	25,234	620	-
Receivables, deposits and prepayments	10	4,465	6,129	4,465	6,129
Total non-current assets		446,758	288,139	248,150	112,762
Receivables, deposits and prepayments	10	213,112	199,972	38,502	57,893
Contract assets	11	124,597	164,184	-	-
Inventories	12	164,120	156,455	-	-
Current tax assets		7,885	20,096	-	-
Derivative assets	18	336	6,467	-	-
Cash and cash equivalents	13	323,800	372,128	2,090	68,042
Total current assets		833,850	919,302	40,592	125,935
Total assets		1,280,608	1,207,441	288,742	238,697

Company No. 249243-W

Statements of financial position as at 31 December 2018 (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Equity					
Share capital	14	155,170	110,701	155,170	110,701
Reserves		36,275	81,068	5,479	45,665
Retained earnings		468,266	437,740	96,076	82,117
Total equity attributable to owners of the Company		659,711	629,509	256,725	238,483
Non-controlling interests		30,103	(1,281)	-	-
Total equity		689,814	628,228	256,725	238,483
Liabilities					
Deferred tax liabilities	9	11,194	11,179	-	-
Loans and borrowings	15	23,123	18,780	-	-
Payables and accruals	16	15,575	-	15,575	-
Total non-current liabilities		49,892	29,959	15,575	-
Contract liabilities	11	211,061	270,308	-	-
Loans and borrowings	15	24,042	15,149	-	-
Payables and accruals	16	258,586	232,886	16,370	82
Provision for warranties	17	31,774	25,347	-	-
Current tax liabilities		15,439	5,564	72	132
Total current liabilities		540,902	549,254	16,442	214
Total liabilities		590,794	579,213	32,017	214
Total equity and liabilities		1,280,608	1,207,441	288,742	238,697

The notes set on pages 20 to 132 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 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Revenue	20	530,590	526,484	54,368	46,863
Cost of sales		(353,819)	(376,355)	-	-
Gross profit		176,771	150,129	54,368	46,863
Other income		2,226	3,287	-	-
Distribution costs		(7,769)	(7,732)	-	-
Administrative expenses		(85,887)	(59,977)	(9,864)	(6,437)
Results from operating activities		85,341	85,707	44,504	40,426
Finance income	21	6,519	7,075	1,850	4,255
Finance costs	22	(2,602)	(2,024)	(56)	(98)
Net impairment losses on financial assets and contract assets	23	12,329	(6,678)	908	-
Operating profit		101,587	84,080	47,206	44,583
Share of loss in associates, net of tax		(2,561)	(803)	-	-
Profit before tax	24	99,026	83,277	47,206	44,583
Income tax	26	(30,434)	(19,280)	(704)	(613)
Profit for the year		68,592	63,997	46,502	43,970

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Statements of profit or loss and other comprehensive income for the financial year ended 31 December 2018 (continued)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit for the year		68,592	63,997	46,502	43,970
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		(4,512)	(2,378)	-	-
Other comprehensive income for the year, net of tax		(4,512)	4,466	-	-
Total comprehensive income for the year		64,080	68,463	46,502	43,970
Profit attributable to:					
Owners of the Company		63,328	63,097	46,502	43,970
Non-controlling interests		5,264	900	-	-
Profit for the year		68,592	63,997	46,502	43,970
Total comprehensive income attributable to:					
Owners of the Company		58,721	67,506	46,502	43,970
Non-controlling interests		5,359	957	-	-
Total comprehensive income for the year		64,080	68,463	46,502	43,970
Earnings per ordinary share (sen)					
- Basic	28	28.60	28.50		
- Diluted	28	28.60	28.24		

The notes set on pages 20 to 132 are an integral part of these financial statements.

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

Consolidated statement of changes in equity for the financial year ended 31 December 2018

		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 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	19	-	-	-	-	-	1,217	-	1,217	-	1,217
- Dividend to shareholders	27	-	-	-	-	-	-	(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 14.1	Note 14.2	Note 14.1	Note 14.3	Note 14.4	Note 14.5	Note 14.6			

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Consolidated statement of changes in equity for the financial year ended 31 December 2018 (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 2017/1 January 2018		110,701	(21)	44,469	13,186	22,217	1,217	437,740	629,509	(1,281)	628,228
Change in accounting policies		-	-	-	-	-	-	(2,914)	(2,914)	(2,183)	(5,097)
At 31 December 2017/1 January 2018 (restated)		110,701	(21)	44,469	13,186	22,217	1,217	434,826	626,595	(3,464)	623,131
Profit for the financial year		-	-	-	-	-	-	63,328	63,328	5,264	68,592
Foreign currency translation differences for foreign operations		-	-	-	(4,607)	-	-	-	(4,607)	95	(4,512)
Movement in revaluation of property, plant and equipment, net of tax		-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the financial year		-	-	-	(4,607)	-	-	63,328	58,721	5,359	64,080
Contribution by and distribution to owners of the Company:											
- Acquisition of subsidiaries	34	-	-	-	-	-	-	-	-	28,208	28,208
- Share-based payment	19	-	-	-	-	-	4,283	-	4,283	-	4,283
- Dividend to shareholders	27	-	-	-	-	-	-	(29,888)	(29,888)	-	(29,888)
Transfer to share capital due to implementation of Companies Act 2016		44,469	-	(44,469)	-	-	-	-	-	-	-
At 31 December 2018		155,170	(21)	-	8,579	22,217	5,500	468,266	659,711	30,103	689,814
		Note 14.1	Note 14.2	Note 14.1	Note 14.3	Note 14.4	Note 14.5	Note 14.6			

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Statement of changes in equity for the financial year ended 31 December 2018 (continued)

Company	Note	Share capital RM'000	Treasury shares RM'000	← *Non-distributable* Share premium RM'000	Share option reserve RM'000 →	*Distributable* Retained earnings RM'000	Total equity RM'000
At 31 December 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	19	-	-	-	1,217	-	1,217
- Dividend to shareholders	27	-	-	-	-	(33,209)	(33,209)
At 31 December 2017/1 January 2018		110,701	(21)	44,469	1,217	82,117	238,483
Change in accounting policies		-	-	-	-	(2,655)	(2,655)
At 31 December 2017/1 January 2018 (restated)		110,701	(21)	44,469	1,217	79,462	235,828
Profit for the financial year/Total comprehensive income for the financial year		-	-	-	-	46,502	46,502
Contribution by and distribution to owners of the Company:							
- Share-based payment	19	-	-	-	4,283	-	4,283
- Dividend to shareholders	27	-	-	-	-	(29,888)	(29,888)
Transfer to share capital due to implementation of Companies Act 2016		44,469	-	(44,469)	-	-	-
At 31 December 2018		155,170	(21)	-	5,500	96,076	256,725
		Note 14.1	Note 14.2	Note 14.1	Note 14.5	Note 14.6	

The notes set on pages 20 to 132 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 2018

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities					
Profit before tax		99,026	83,277	47,206	44,583
Adjustments for:					
Amortisation of intangible assets		129	130	-	-
Allowance for impairment losses on receivables		6,159	16,989	-	-
Reversal of impairment losses		(18,488)	(10,311)	(908)	-
Allowance for impairment losses on investment in a subsidiary		-	-	100	-
Inventories written down		2,090	2,657	-	-
Depreciation expenses:					
- investment property		-	-	441	441
- property, plant and equipment		20,998	20,419	40	39
Dividend income from subsidiaries		-	-	(52,143)	(44,437)
Finance costs	22	2,602	2,024	56	98
Finance income	21	(6,519)	(7,075)	(1,850)	(4,255)
Gain on disposal of property, plant and equipment		(171)	(109)	-	-
Net unrealised loss/(gain) on foreign exchange		9,474	(704)	1,462	4,815
Provision for warranties		16,440	12,060	-	-
Share-based payments		4,283	1,217	4,283	1,217
Share of loss in associates, net of tax		2,561	803	-	-
Reversal of provision for warranties		(7,149)	(9,306)	-	-
Writedown of inventories		4,190	5,393	-	-
Provision of foreseeable losses		750	200	-	-
Operating profit/(loss) before changes in working capital		136,375	117,664	(1,313)	2,501

Company No. 249243-W

Statements of cash flows for the financial year ended 31 December 2018 (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Operating profit/(loss) before changes in working capital (continued)		136,375	117,664	(1,313)	2,501
Changes in working capital:					
Development cost		(29)	-	-	-
Inventories		(6,698)	(23,425)	-	-
Receivables, deposits and prepayments		54,353	5,409	71,304	63,532
Payables and accruals		(57,489)	(3)	666	(1,100)
Interest received		5,866	6,228	1,154	1,211
Interest paid		(1,015)	(79)	-	-
Warranties paid		(1,844)	(1,983)	-	-
Income tax paid		(4,222)	(19,211)	(546)	(569)
Net cash generated from operating activities		125,297	84,600	71,265	65,575
Cash flows for investing activities					
Acquisition of property, plant and equipment	13.2	(102,022)	(33,885)	(12)	(339)
Acquisition of investment property		-	-	-	(137)
Acquisition of subsidiary		(38,347)	-	(105,860)	-
Proceeds from disposal of property, plant and equipment		2,819	2,511	-	-
Net cash used in investing activities		(137,550)	(31,374)	(105,872)	(476)
Cash flows for financing activities					
Dividend paid to shareholders of the Company	27	(29,888)	(33,209)	(29,888)	(33,209)
Interest paid		(76)	(546)	-	-
Net proceeds/(repayment) of loans and borrowings		(1,723)	(3,614)	-	-
Net cash used in financing activities		(31,687)	(37,369)	(29,888)	(33,209)

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Statements of cash flows for the financial year ended 31 December 2018 (continued)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Exchange differences on translation of the financial statements of foreign operations		(5,031)	(2,195)	-	-
Net increase in cash and cash equivalents		(48,971)	13,662	(64,495)	31,890
Effect of exchange rate fluctuations on cash held		(2,169)	(10,706)	(1,457)	(2,677)
Cash and cash equivalents at 1 January		369,793	366,837	68,042	38,829
Cash and cash equivalents at 31 December	13	318,653	369,793	2,090	68,042

The notes set on pages 20 to 132 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 2018 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 2018 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 7 and 8 respectively to the financial statements.

The 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 11 April 2019.

1. Basis of preparation

(a) Statement of compliance

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

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

Company No. 249243-W

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs and/or IC Interpretations (Including The Consequential Amendments)

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014)

MFRS 15 Revenue from Contracts with Customers

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions

Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts

Amendments to MFRS 15: Effective Date of MFRS 15

Amendments to MFRS 15: Clarifications to MFRS 15 'Revenue from Contracts with Customers'

Amendments to MFRS 140 – Transfers of Investment Property

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

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 follows:-

MFRS 9 introduces a new classification and measurement requirements for financial assets that reflects the business model in which the financial assets are managed and their cash flow characteristics. MFRS 9 contains 3 principal classification categories for financial assets i.e. measured at amortised cost, fair value through profit or loss, fair value through other comprehensive income and eliminates the previous categories of held to maturity, loans and receivables and available-for-sale financial assets. In addition, MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an 'expected credit loss' model. This new impairment approach is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The impacts on the financial statements upon the initial application of this accounting standard are disclosed in Note 35 to the financial statements.

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) did not have any material impact on the Group's and the Company's financial statements except as follow:- (continued)

MFRS 15 requires an entity to recognise revenue to depict the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services. In addition, more guidance has been added in MFRS15 to deal with specific scenarios.

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/or IC Interpretations (Including The Consequential Amendments)	**Effective Date**
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
IC Interpretation 23 Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to MFRS 3: Definition of a Business	1 January 2020
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
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement	1 January 2019

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/or IC Interpretations (Including The Consequential Amendments)	Effective Date
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Annual Improvements to MFRS Standards 2015 – 2017 Cycles	1 January 2019

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

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace the current guidance on lease accounting when it becomes effective. Under MFRS 16, the classification of leases as either finance leases or operating leases is eliminated for lessees. All lessees are required to recognise their leased assets and the related lease obligations in the statement of financial positon (with limited exceptions). The leased assets are subject to depreciation and the interest on lease liabilities are calculated using the effective interest method. The Group and Company are currently assessing the financial impact that may arise from the adoption of this standard.

Company No. 249243-W

1. Basis of preparation (continued)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

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

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

- Note 2 (c) – financial instruments
- Note 2 (o) – provisions - warranties
- Note 2 (q) – revenue from contract with customers
- Note 2 (u) – income tax
- Note 2 (x) – purchase price allocation

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.

Company No. 249243-W

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 from 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.

Company No. 249243-W

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

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments,* the Group and the Company have elected not to restate the comparatives.

(i) Recognition and initial 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.

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured 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.

Company No. 249243-W

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Company No. 249243-W

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

Current financial year (continued)

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

Current financial year (continued)

(b) Fair value through other comprehensive income

(i) Debt investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see note 2(h)(i)) where the effective interest rate is applied to the amortised cost.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

Current financial year (continued)

(b) Fair value through other comprehensive income (continued)

(ii) Equity investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

(c) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial assets (continued)

Current financial year (continued)

(c) Fair value through profit or loss (continued)

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see note 2(k)(i)).

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

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

Fair value through profit or loss category comprised financial assets that were held for trading, including derivatives (except for a derivative that was a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination or financial assets that were specifically designated into this category upon initial recognition.

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

Other financial assets categorised as fair value through profit or loss were 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)

Previous financial year (continued)

(b) Loans and receivables

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents.

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

All financial assets, except for those measured at fair value through profit or loss were subject to impairment assessment (see note 2(k)(i)).

Company No. 249243-W

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

(a) 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), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities (continued)

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments that did not have a quoted price in an active market for identical instruments whose fair values otherwise could not be reliably measured were measured at cost.

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

(iii) 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 transferred, 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 of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) 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)

(iv) Regular way purchase or sale of financial assets

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

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

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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 specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Current financial year

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15, Revenue from Contracts with Customers.

Previous financial year

In the previous financial year, fair value arising from financial guarantee contracts were classified as deferred income and was amortised to profit or loss using a straight-line method over the contractual period or, when there was no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract was probable, an estimate of the obligation was made. If the carrying value of the financial guarantee contract was lower than the obligation, the carrying value was adjusted to the obligation amount and accounted for as a provision.

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:

• land	Over the lease period of 60 years
• 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.

Company No. 249243-W

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.

Company No. 249243-W

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. The cost of inventories is measured based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work in progress, manufactured inventories and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

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.

Company No. 249243-W

2. Significant accounting policies (continued)

(i) Contract assets/Contract liability

A contract asset is recognised when the Group's or the Company's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance to MFRS 9, *Financial Instruments* (see Note (2)(k)(i)).

A contract liability is stated at cost and represents the obligation of the Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(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.

Company No. 249243-W

2. Significant accounting policies (continued)

(k) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company elected not to restate the comparatives.

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income and contract assets. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

Current financial year (continued)

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

Company No. 249243-W

2. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and associates) were assessed at each reporting date whether there was 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, were not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost was an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

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

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and was measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset had been recognised in the other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that was carried at cost was recognised in profit or loss and was measured as the difference between the financial 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 was not reversed through profit or loss.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

Previous financial year (continued)

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

(ii) Other assets

The carrying amounts of other assets (except for inventories, contract assets, 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.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Other assets (continued)

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

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

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

(l) Equity instruments

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

(i) Issue expenses

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

(ii) Ordinary shares

Ordinary shares are classified as equity.

2. Significant accounting policies (continued)

(l) Equity instruments (continued)

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

(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 recognised in equity.

(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.

Company No. 249243-W

2. Significant accounting policies (continued)

(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.

Company No. 249243-W

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.

Company No. 249243-W

2. Significant accounting policies (continued)

(q) Revenue from contract with customers

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of sales and service tax, returns, rebates and discounts.

The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of that asset.

Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time. The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:-

- The customer simultaneously receives and consumes the benefits provided as the Group performs.

- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

- The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

(a) Sale of spare parts for crane and industrial information technology equipment

Revenue from sale of these products is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2. Significant accounting policies (continued)

(q) Revenue from contract with customers (continued)

(b) Rendering of crane and crane maintenance services

Revenue from providing crane maintenance services is recognised over time in the period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

(c) Construction crane

Contracts for construction of crane comprise multiple deliverables which include a significant integration service and are therefore recognised as a single performance obligation. Revenue from construction crane is recognised over time in the period in which the services are rendered using the input method, determined based the proportion of construction costs incurred for work performed to date over the estimated total construction costs. Transaction price is computed based on the price specified in the contract and adjusted for any variable consideration such as incentives and penalties. Past experience is used to estimate and provide for the variable consideration, using most likely method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

A receivable is recognised when the construction services are rendered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. If the construction services rendered exceed the payment received, a contract asset is recognised. If the payments exceed the construction services rendered, a contract liability is recognised.

Company No. 249243-W

2. Significant accounting policies (continued)

(r) Revenue from other sources and other operating income

(a) Dividend Income

Dividend income from investment is recognised when the right to receive dividend payment is established.

(b) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

(s) 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.

Company No. 249243-W

2. Significant accounting policies (continued)

(t) 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.

Company No. 249243-W

2. Significant accounting policies (continued)

(u) 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) Income tax (continued)

Revenues, expenses and assets are recognised net of GST except for the GST in a purchase of assets or services which are not recoverable from the taxation authorities, the GST are included as part of the costs of the assets acquired or as part of the expense item whichever is applicable. In addition, receivables and payables are also stated with the amount of GST included (where applicable). The net amount of the GST recoverable from or payable to the taxation authorities at the end of the reporting period is included in other receivables or other payables.

(v) 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.

(w) 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)

(x) Purchase Price Allocation

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value required the Group to make assumptions, estimates and judgements regarding future events. The allocation process is inherently subjective and impacts the amount assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impact the Group's reported assets (including goodwill) and liabilities, future net earnings due to the impact on future depreciation and amortisation expense and impairment tests. The fair values of the assets acquired and liabilities assumed under the business combinations made during the current financial year are disclosed in Note 34 to the financial statements.

(y) 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.

Company No. 249243-W

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 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/ 1 January 2018	78,558	59,570	168,910	107,119	42	414,199
Additions	-	5,806	93,359	2,857	-	102,022
Acquisition of new subsidiary	9,692	4,443	-	5,413	-	19,548
Disposals	-	-	(7,523)	(1,094)	-	(8,617)
Transfer	-	-	42	-	(42)	-
Written off	-	-	-	(12)	-	(12)
Effect of movements in exchange rates	(213)	(223)	(1,528)	(1,014)	-	(2,978)
At 31 December 2018	88,037	69,596	253,260	113,269	-	524,162
Representing items at:						
Cost	65,202	69,596	253,260	113,269	-	501,327
Valuation – 2008	12,291	-	-	-	-	12,291
Valuation – 2012	3,700	-	-	-	-	3,700
Valuation – 2017	6,844	-	-	-	-	6,844
	88,037	69,596	253,260	113,269	-	524,162

Company No. 249243-W

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 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
At 31 December 2017/ 1 January 2018	33	25,109	64,547	82,683	-	172,372
Depreciation for the year	5	1,240	13,405	6,348	-	20,998
Acquisition of new subsidiary	-	117	-	4,456		4,573
Disposals	-	-	(4,877)	(1,092)	-	(5,969)
Written off	-	-	-	(12)	-	(12)
Effect of movements in exchange rates	-	(187)	(635)	(853)	-	(1,675)
At 31 December 2018	38	26,279	72,440	91,530	-	190,287
Carrying amounts						
At 31 December 2017	**78,525**	**34,461**	**104,363**	**24,436**	**42**	**241,827**
At 31 December 2018	**87,999**	**43,317**	**180,820**	**21,739**	**-**	**333,875**

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3. Property, plant and equipment (continued)

Company	Property, plant and equipment RM'000
Cost	
At 1 January 2017	52
Additions	339
At 31 December 2017/1 January 2018	391
Additions	12
At 31 December 2018	403
Depreciation	
At 1 January 2017	11
Depreciation for the year	39
At 31 December 2017/1 January 2018	50
Depreciation for the year	40
At 31 December 2018	90
Carrying amounts	
At 31 December 2017	341
At 31 December 2018	313

3.1 Security

The freehold land and buildings of the Group with total net book value of RM30,597,000 (2017 – RM16,084,000) have been pledged to certain licensed bank as security for bank facilities granted to the Group (See Note 15).

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 RM55,230,000 (2017 – RM55,443,000).

3.3 Property, plant and equipment under the hire purchase terms

Included in the property, plant and equipment of the Group at the end of the financial year were crane with a total net book value of RM18,339,000 (2017 – RM19,779,000), which were acquired under hire purchase terms.

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4. Intangible assets

Group	Development costs RM'000
Cost	
At 1 January 2017	6,585
Effect of movement in exchange rates	(100)
At 31 December 2017/1 January 2018	6,485
Additional	29
Effect of movement in exchange rates	(386)
At 31 December 2018	6,128
Amortisation and impairment loss	
At 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 2017/1 January 2018	
Accumulated amortisation	5,955
Accumulated impairment loss	327
	6,282
Amortisation for the year	129
Effect of movements in exchange rates	(383)
At 31 December 2018	
Accumulated amortisation	5,701
Accumulated impairment loss	327
	6,028
At 31 December 2018	100
Carrying amounts	
At 31 December 2017	203
At 31 December 2018	100

Intangible assets mainly comprise 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 2 years (2017 – 1 year to 3 years).

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5. Goodwill

Group

	RM'000
31 December 2017/1 January 2018	-
Acquisition through business combination (Note 34)	71,183
At 31 December 2018	71,183
Carrying amounts	
At 31 December 2018	71,183

The Group has assessed the recoverable amounts of goodwill allocated and determined that no impairment is required. The recoverable amounts of the cash-generating units are determined using the value in use approach, and this is derived from the present value of the future cash flows from each cash-generating unit computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:

	Average Gross Margin		**Average Growth Rate**		**Discount Rate**		**Terminal Growth Rate**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	%		%		%		%	
Intelligent automation group	25	n/a	7	n/a	5	n/a	0	n/a

The key assumptions represent management's assessment based on past operating results and management's expectations of market conditions and assessment of future trends derived from both external and internal sources.

Management has determined the average gross profit margin and weighted average growth rate based on past performance and its expectation of market development. The discount rate used are computed based on the weighted average cost of capital of the industries that the Group operates in.

The management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the goodwill to be materially higher than its recoverable amount.

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6. Investment property

	Company	
	2018	**2017**
	RM'000	**RM'000**
Cost		
At 1 January	53,797	53,660
Addition	-	137
At 31 December	53,797	53,797
Accumulated Depreciation		
At 1 January		
Accumulated depreciation	1,901	1,460
	1,901	1,460
Addition	441	441
At 31 December		
Accumulated depreciation	2,342	1,901
	2,342	1,901
Carrying amounts		
At 31 December	51,455	51,896

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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7. Investments in subsidiaries

	Company 2018 RM'000	2017 RM'000
Unquoted shares – at cost	138,694	138,694
Additional	137,001	-
	275,695	138,694
Less: Impairment loss	(103,664)	(103,564)
	172,031	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 2018 %	2017 %
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

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7. 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 2018 %	2017 %
FF Management Pty. Limited #	Management services	Australia	100	100
Milperra Blasting and Coating Pty. Limited #	Dormant	Australia	100	100
Kroll Cranes A/S #	Designing, manufacturing, servicing, trading and renting of cranes	Denmark	100	100
Favelle Favco Cranes International Ltd.	Dormant	Malaysia	100	100
FES Equipment Services Sdn. Bhd.	Supply of spare parts for cranes, provision of crane maintenance services and renting of cranes	Malaysia	100	100
Favelle Favco Winches Pte. Ltd. #	Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment	Singapore	100	100
Favelle Favco Management Services Sdn. Bhd. #	Dormant	Malaysia	100	100

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7. 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**	
			2018 %	**2017 %**
Shanghai Favco Engineering Machinery Manufacturing Co., Ltd. #	Manufacturing of cranes	China	80	80
Exact Automation Sdn. Bhd.	Trading of industrial information technology equipment, automation and control components for power, quality measurement and providing integrated industrial automation solutions on the design, engineering, testing and project management of plant instrumentation as well as its related maintenance services	Malaysia	70	-
Exact Analytical Sdn. Bhd.	Trading of process analysers, continuous emission monitoring system and providing related engineering services on the installation, commissioning and maintenance of environmental and process analysers	Malaysia	70	-

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7. 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 2018 %	2017 %
Exact Oil & Gas Sdn. Bhd.	Trading and engineering of specialised equipment used in the oil and gas industry including calibration, verification, installation, commissioning, repairs and maintenance of the equipment and systems	Malaysia	70	-
Sedia Teguh Sdn. Bhd.	Trading of specialised equipment used in the oil and gas industry including calibration, verification, installation, commissioning, repairs and maintenance of control meters	Malaysia	70	-

\# Not audited by Crowe Malaysia PLT

(a) During the 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 RM100,007 (2017 – Nil) 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.

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8. Investments in associates

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares, at cost	19,424	19,424	19,424	19,424
Share of post-acquisition reserves	(7,238)	(4,678)	-	-
Less: Impairment loss	-	-	(158)	(158)
	12,186	14,746	19,266	19,266

The details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective Ownership interest 2018 %	Effective Ownership interest 2017 %
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

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8. Investments in associates

Summarised financial information on associates:

The major associates of the Group, adjusted for any differences in accounting policies and the carrying amounts in the consolidated financial statements, are disclosed below:

	2018 RM'000	2017 RM'000
Gross amount of the major associates		
Non-current assets	14,151	38,064
Current assets	105,450	90,278
Non-current liabilities	13,706	12,189
Current liabilities	73,013	76,577
Revenue	30,264	29,350
Profit for the year	(4,781)	(1,736)
Carrying amount in the consolidated financial statements	12,186	14,746

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9. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

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

Group	Assets 2018 RM'000	Assets 2017 RM'000	Liabilities 2018 RM'000	Liabilities 2017 RM'000	Net 2018 RM'000	Net 2017 RM'000
Property, plant and equipment	-	-	17,569	11,806	17,569	11,806
(Deductible)/taxable temporary differences	(30,692)	(29,294)	(632)	3,433	(31,324)	(25,861)
Tax (assets)/liabilities	(30,692)	(29,294)	16,937	15,239	(13,755)	(14,055)
Set off	5,743	4,060	(5,743)	(4,060)	-	-
Net tax (assets)/ liabilities	(24,949)	(25,234)	11,194	11,179	(13,755)	(14,055)

Company	2018 RM'000	2017 RM'000
Deductible temporary differences	(620)	-
Deferred tax assets	(620)	-

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9. 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	
	2018 **RM'000**	**2017** **RM'000**	**2018** **RM'000**	**2017** **RM'000**
Property, plant and equipment	(844)	(899)	-	-
Deductible temporary differences	41,109	28,742	-	-
Tax losses carry-forwards	43,778	48,173	-	-
	84,043	76,016	-	-

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carried forward amounting to RM43,778,000 (2017 – RM45,669,000) 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.

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

Movement in temporary differences during the financial year

Group	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
As at 1 January 2017	10,748	(27,594)	(16,846)
Recognised in profit or loss	1,058	1,644	2,702
Foreign exchange differences	-	89	89
Effect of adoption of MFRS 9	-	(1,621)	(1,621)
Effect of revaluation of PPE	-	184	184
As at 31 December 2017/1 January 2018	11,806	(27,298)	(15,492)
Recognised in profit or loss	5,579	(3,301)	2,278
Foreign exchange differences	-	(541)	(541)
As at 31 December 2018	17,385	(31,140)	(13,755)

Company	Other temporary differences RM'000	Total RM'000
As at 1 January 2017	-	-
Effect of adoption of MFRS 9	(838)	(838)
As at 31 December 2017/1 January 2018	(838)	(838)
Recognised in profit or loss	218	218
As at 31 December 2018	(620)	(620)

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10. Receivables, deposits and prepayments

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-current					
Non-trade					
Advance to an associate	10.1	6,265	6,129	6,265	6,129
Less: Allowance for impairment loss		(1,800)	-	(1,800)	-
		4,465	6,129	4,465	6,129
		4,465	6,129	4,465	6,129
Current					
Trade					
Trade receivables		198,101	189,082	-	-
Less: Allowance for impairment loss		(49,820)	(63,097)	-	-
	10.2	148,281	125,985	-	-
Amount due from ultimate holding company	10.3	189	287	-	-
Amount due from related companies	10.4	158	1,403	-	-
Amount due from associates	10.5	53,808	55,375	-	-
Less: Allowance for impairment loss		(13,729)	-	-	-
		40,426	57,065	-	-

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10. Receivables, deposits and prepayments (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-trade					
Amount due from ultimate holding company	10.3	3	-	-	-
Amount due from subsidiaries	10.6	-	-	39,175	57,771
Less: Allowance for impairment loss		-	-	(785)	-
		3	-	38,390	57,771
Amount due from related companies	10.4	-	461	-	-
Amount due from associates	10.5	53	-	-	-
Other receivables		15,500	11,012	54	58
Less: Allowance for impairment loss		(59)	-	-	-
		15,494	11,473	54	58
Deposits		1,200	724	11	11
Prepayments		7,708	4,725	47	53
		8,908	5,449	58	64
		24,405	16,922	38,502	57,893
Non-current and current		217,577	206,101	42,967	64,022

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10. Receivables, deposits and prepayments (continued)

	Trade Receivable RM'000	Other Receivable RM'000	Amount due from Associate RM'000	Total RM'000
Group				
Allowance for impairment losses:-				
At 1 January 2018				
- As previously reported	63,097	-	-	63,097
- Effects on adoption of MFRS 9	(11,387)	136	16,327	5,076
- Amount reported under MRFS 9 (2017 – MFRS 139)	51,710	136	16,327	68,173
Acquisition of new subsidiaries	9,050	-	-	9,050
Addition during the financial year	6,073	11	-	6,084
Reversal during the financial year	(16,858)	(88)	(798)	(17,744)
Foreign exchange differences	(155)	-	-	(155)
At 31 December 2018	49,820	59	15,529	65,408

	Amount due from Associate RM'000	Amount due from Subsidiary RM'000	Total RM'000
Company			
Allowance for impairment losses:-			
At 1 January 2018			
- As previously reported	-	-	-
- Effects on adoption of MFRS 9	1,862	1,631	3,493
- Amount reported under MRFS 9 (2017 – MFRS 139)	1,862	1,631	3,493
Reversal during the financial year	(62)	(846)	(908)
At 31 December 2018	1,800	785	2,585

10.1 Advance to an associate

The advance to an associate is non-trade in nature, unsecured, subject to interest at 1% (2017 – 1%) per annum and is not expected to be repaid within the next twelve months.

10. Receivables, deposits and prepayments (continued)

10.2 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**	**2018 RM'000**	**2017 RM'000**
RM	AUD	64	345
RM	EUR	23	8
RM	RMB	26,951	-
RM	SGD	467	91
RM	USD	46,295	23,169
AUD	USD	280	-
AUD	SGD	-	189
SGD	USD	289	1,662

10.3 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.

10.4 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.

10.5 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.

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10. Receivables, deposits and prepayments (continued)

10.6 Amount due from subsidiaries

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

11. Contract Assets/(Liabilities)

	Group	
	2018	**2017**
	RM'000	**RM'000**
Contract Assets		
Contract Assets relating to contracts	125,725	164,184
Allowance for impairment losses	(1,128)	-
	124,597	164,184
Allowance for impairment losses:-		
At 1 January:		
- As previously reported	-	-
- Effects on adoption of MFRS 9	1,642	-
- Amount reported under MFRS 9 (2017 – MFRS 139)	1,642	-
Additional during the financial year	75	-
Reversal during the financial year	(589)	-
At 31 December	1,128	-
Contract Liabilities	(211,061)	(270,308)

(a) The contract assets primarily relate to the Group's right to consideration for construction work completed on construction contracts but not yet billed as at the reporting date. The amount will be invoiced within 1 – 6 months (2017 – 1 to 6 months).

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11. Contract Assets/(Liabilities) (continued)

(b) The significant changes to contract assets and contract liabilities during the financial year:-

	Group 2018 RM'000	Group 2017 RM'000
Contract assets balance at the beginning of the financial year not transferred to trade receivables due to change in time frame	66,961	N/A
Impairment loss on contract asset	(1,345)	N/A
Contract liabilities balance at the beginning of the financial year recognised as revenue	288,970	N/A

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12. Inventories

	Group	
	2018 RM'000	2017 RM'000
At cost:		
Crane components	80,685	70,613
Work-in-progress	65,639	65,528
	146,324	136,141
At net realisable value:		
Cranes	806	1,396
Crane components	15,820	17,022
Work-in-progress	1,170	1,896
	164,120	156,455
Recognised in profit or loss:-		
Inventories recognised as cost of sales	194,876	272,560
Amount written down to net realisable value	4,190	5,393

13. Cash and cash equivalents

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Short-term investments	80,456	84,341	1,739	12,673
Fixed deposits placed with licensed banks	155,105	198,666	-	54,892
Cash and bank balances	88,239	89,121	351	477
	323,800	372,128	2,090	68,042
Bank overdrafts (Note 15)	(5,147)	(2,335)	-	-
	318,653	369,793	2,090	68,042

(a) Short-term investments represent investments in highly liquid money market, which are readily convertible to known amounts of cash. The effective interest rates range from 2.19% to 5.36% (2017 – 2.33% to 3.96%) and 2.48% to 3.66% (2017 – 2.40% to 3.52%) per annum for the Group and the Company respectively.

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13. Cash and cash equivalents (continued)

13.1 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 3.85% (2017 – 0.70% to 3.25%) per annum and 0.80% to 2.00% (2017 – 0.70% to 1.80%) per annum respectively. The fixed deposits have maturity periods ranging from 30 to 90 (2017 – 30 to 90) days and 30 to 90 (2017 – 30 to 90) days for the Group and the Company respectively.

13.2 The cash disbursed for the purchase of property, plant and equipment is as follows:-

	Group		**Company**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Cost of property, plant and equipment purchased (Note 3)	102,022	41,501	12	339
Amount financed through hire purchase	-	(7,616)	-	-
Cash disbursed for purchase of property, plant and equipment	102,022	33,885	12	339

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13. Cash and cash equivalents (continued)

13.3 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	Term Loan RM'000	Total RM'000
2018					
At 1 January	7,511	2,907	21,176	-	31,594
New acquisition	-	-	468	12,570	13,038
Changes in Financing Cash Flows					
Proceeds from drawdown	39,085	4,000	-	-	43,085
Repayment of borrowing principal	(34,403)	(3,929)	(3,351)	(3,125)	(44,808)
Repayment of borrowing interests	(369)	(12)	(336)	(257)	(974)
Non-cash Changes					
Foreign exchange adjustments	(349)	(187)	(355)	-	(891)
Finance charges recognised in profit or loss	369	12	336	257	974
At 31 December	11,844	2,791	17,938	9,445	42,018

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13. Cash and cash equivalents (continued)

13.3 The reconciliations of liabilities arising from financing activities are as follows:- (continued)

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

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14. Share capital and reserves

14.1 Share capital

	The Group and The Company			
	Amount 2018 RM'000	Number of shares 2018 '000	Amount 2017 RM'000	Number of shares 2017 '000
Issued and fully paid				
Ordinary shares				
At 1 January	110,701	221,403	110,701	221,403
Transfer from share premium	44,469	-	-	-
At 31 December	155,170	221,403	110,701	221,403

(i) The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company, and are entitled to one vote per ordinary share at meetings of the Company. The ordinary shares have no par value.

(ii) 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. Consequently, the amount standing to the credit of the Company's share premium account became part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of 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.

(iii) In the previous financial year, the Company issued share options in accordance with its Share Issuance Scheme (see Note 19).

14.2 Treasury shares

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

The number of treasury shares held is 10,000 (2017 – 10,000).

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14. Share capital and reserves (continued)

14.3 Translation reserve

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

14.4 Revaluation reserve

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

14.5 Share option reserve

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

14.6 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.

15. Loans and borrowings

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Non current				
Hire purchase payables	14,148	18,780	-	-
Term loan	8,975	-	-	-
	23,123	18,780	-	-
Current				
Secured bank overdraft	5,147	2,335	-	-
Unsecured insurance premium finance	2,791	2,907	-	-
Bills payable	11,844	7,511	-	-
Hire purchase payables	3,790	2,396	-	-
Term loan	470	-	-	-
	24,042	15,149	-	-
Non-current and current	47,165	33,929	-	-

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15. Loans and borrowings (continued)

15.2 Terms and debt repayment schedule

		2018				2017			
	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	2019	5,147	5,147	-	-	2,335	2,335	-	-
Unsecured insurance premium finance – AUD	2019	2,791	2,791	-	-	2,907	2,907	-	-
Bills payable	2019	11,844	11,844	-	-	7,511	7,511	-	-
Hire purchase payables	2019	17,938	3,790	14,148	-	21,176	2,396	16,200	2,580
Term loan		9,445	470	2,093	6,882	-	-	-	-
		47,165	24,042	16,241	6,882	33,929	15,149	16,200	2,580

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16. Payables and accruals

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-current					
Deferred consideration	16.6	15,575	-	15,575	-
Current					
Trade					
Trade payables	16.1	148,555	139,066	-	-
Amount due to holding company	16.2	408	2,323	-	-
Amount due to related companies	16.3	293	2,427	-	-
		149,256	143,816	-	-
Non trade					
Amount due to holding company	16.2	2,494	1,956	677	-
Amount due to a subsidiary	16.4	-	-	-	-
Amount due to related companies	16.3	523	287	-	-
Amount due to associates	16.5	3,055	3,011	-	-
Other payables		23,235	23,745	-	-
Accrued expenses		64,457	60,071	127	82
Deferred consideration	16.6	15,566	-	15,566	-
		109,330	89,070	16,370	82
Current		258,586	232,886	16,370	82
Non-current and current		274,161	232,886	31,945	82

16. Payables and accruals (continued)

16.1 Analysis of foreign currency exposure for significant payables

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

		Group	
Functional currency	**Foreign currency**	**2018 RM'000**	**2017 RM'000**
RM	AUD	459	454
RM	SGD	416	376
RM	EUR	7,534	2,660
RM	USD	7,205	3,185
RM	RMB	985	421
RM	GBP	-	240
AUD	EUR	27	-
AUD	RMB	1,137	123
AUD	USD	651	910
AUD	WON	277	476

16.2 Amount due to holding company

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

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

16.3 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.

16.4 Amount due to a subsidiary

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

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16. Payables and accruals (continued)

16.5 Amount due to associates

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

16.6 Deferred consideration

Total purchase consideration of RM137,001,000 included RM31,141,000 which is deferred and payable depending on Intelligent Automation Group meeting certain earnings and performance targets over the future two years.

Movement of deferred consideration:

Deferred consideration

	Group 2018 RM'000
At 1 January	-
Addition	31,141
At 31 December	31,141

	Group 2018 RM'000
Analysed as:	
Current	15,566
Non-current	15,575
	31,141

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17. Provision for warranties

	Group 2018 RM'000	Group 2017 RM'000
At 1 January	25,347	25,166
Provision made during the year	16,440	12,060
Utilised during the year	(1,844)	(1,983)
Reversal during the year	(7,149)	(9,306)
Effect of movements in exchange rates	(1,020)	(590)
At 31 December	31,774	25,347

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

18. Derivative Assets

	2018		2017	
Group	**Contract/ Notional amount RM'000**	**Derivative Assets RM'000**	**Contract/ Notional amount RM'000**	**Derivative Assets RM'000**
Forward foreign currency contracts	71,866	336	157,295	6,467

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.

19. Employee benefits

19.1 Share-based payments

In 2017, a share issuance scheme ("SIS") 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 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 5 July 2016.

The main features of the SIS, 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 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;

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.

19. Employee benefits (continued)

19.1 Share-based payments (continued)

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

SIS

Grant date	Exercise price	At 1.1.2018 ’000	Granted ’000	Exercised ’000	Forfeited ’000	At 31.12.2018 ’000	Expiry date
15.09.2017	RM2.35	18,212	-	-	(602)	17,610	09.7.2022
		18,212	-	-	(602)	17,610	

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	

Details relating to options exercised during the financial year

	Group and Company 2018 RM’000	Group and Company 2017 RM’000
Fair value of share issued (based on average exercise price)	2.47	2.76

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19. Employee benefits (continued)

19.1 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	
	2018	**2017**
	RM'000	**RM'000**
Total expenses recognised as share-based payments	4,283	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:

SIS

	Group and Company	
	2018	**2017**
Fair value at grant date (RM)		
- Granted in Year 2017	RM0.48 – RM0.74	RM0.48 – RM0.74
Weighted average share price		
- Granted in Year 2017	2.62	2.62
Exercise price (RM)		
- Granted in Year 2017	2.35	2.35
Expected volatility (weighted average volatility)	15.58%	15.58%
Option life	5 years	5 years
Risk-free interest rate (based on Malaysian Government bonds)		
- Granted in Year 2017	3.18% - 3.498%	3.18% - 3.498%
Expected staff turnover	10%	10%

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19. Employee benefits (continued)

19.1 Share-based payments (continued)

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 will be expiring on 9 July 2022.

20. Revenue

Revenue comprises the following:

	Group		**Company**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Revenue from contracts with customers	476,736	494,420	-	-
Revenue from other sources				
- rental income	53,854	32,064	2,225	2,426
- dividend income	-	-	52,143	44,437
	530,590	526,484	54,368	46,863

Breakdown of the Group's revenue:

	Crane		**Intelligent Automation Group**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Sale of spare part for crane	120,872	106,199	-	-
Sale of industrial information technology equipment	-	-	72,876	-
Crane maintenance	29,835	26,966	-	-
Rental of crane	53,854	32,064	-	-
Construction equipment	253,153	361,255	-	-
	457,714	526,484	72,876	-

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20. Revenue (continued)

Breakdown of the Group's revenue: (continued)

	Crane		Intelligent Automation Group	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Geographical market				
Inside Malaysia	168,375	123,338	72,876	-
Outside Malaysia	289,339	403,146	-	-
	457,714	526,484	72,876	-
Timing of revenue recognition				
- at a point of time	204,561	165,229	72,876	-
- over time	253,153	361,255	-	-
	457,714	526,484	72,876	-

Revenue expected to be recognised in the future relating to performance obligations that are unsatisfied at the reporting date are as follows:-

	2019 RM'000	**2020 RM'000**	**Total RM'000**
Contract revenue	363,909	164,550	528,459

21. Finance income

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Interest income:				
- Fixed deposit	5,805	6,165	1,092	1,149
- Related company	61	63	61	63
Interest income arising on financial assets/(liabilities) measured under MFRS139	653	847	697	3,043
	6,519	7,075	1,850	4,255

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22. Finance costs

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest expenses:				
- Bills payable	369	294	-	-
- Bank overdrafts	40	79	-	-
- Revolving credits	77	-	-	-
- Hire purchases	336	206	-	-
- Insurance premium finance	12	46	-	-
- Term loan interest	257	-	-	-
Interest expenses arising on financial assets/(liabilities) measured under MFRS139	1,511	1,399	56	98
	2,602	2,024	56	98

23. Net impairment losses on financial assets and contract assets

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Impairment losses during the financial year:				
- -Individually impaired under MFRS 139:				
- -Trade receivable	-	10,001,671	-	-
- -Additions under MFRS 9				
- -Trade receivable	5,189,774	-	-	-
- -Other receivable	11,838	-	-	-
- -Contract Assets	26,927	-	-	-
- -Amount due from Associate	-	-		
- -Amount due from Related Companies	-	-	-	-
-	(88)	-	-	-
-	(798)	-	(62)	-
-	(589)	-	-	-
-				
	-	-	(846)	-
-	(155)	-	-	-

(12,329)	6,678	(908)	-

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24. Profit before tax

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Operating profit is arrived at after crediting:					
Gain on disposal of property, plant and equipment		171	109	-	-
Net realised foreign exchange gain		-	697	-	1,998
Net unrealised foreign exchange gain		-	704	-	-
Reversal of provision for warranties	17	7,149	9,306	-	-
and after charging:					
Allowance for impairment losses on investment in a subsidiary		-	-	100	-
Allowance for slow moving inventories		2,090	2,657	-	-
Auditors' remuneration:					
-holding company's auditors		250	153	80	62
-other auditors		506	521	-	-
Other services					
- holding company's auditors		30	80	25	80
Amortisation of intangible assets	4	129	130	-	-
Contract costs		194,876	289,071	-	-
Depreciation expenses:					
- investment property	6	-	-	441	441
- property, plant and equipment	3	20,998	20,419	40	39
Net realised foreign exchange loss		9,225	-	647	-
Net unrealised foreign exchange loss		9,474	-	1,462	4,815
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		10,307	8,821	210	206
- Share-based payments	19	4,283	1,217	4,283	1,217
- Wages, salaries and others		101,281	88,264	1,316	1,286

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24. Profit before tax (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
and after charging (continued):					
Provision for foreseeable losses		750	200	-	-
Provision for warranties	17	16,440	12,060	-	-
Rental expenses on:					
- cranes		30,002	17,642	-	-
- premises		4,943	4,589	33	93
- equipment		478	399	-	-
Writedown of inventories	12	4,190	5,393	-	-

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25. Key management personnel compensation

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

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

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Directors				
Executive Directors				
Short-term employee benefits:				
- fees	360	324	288	288
- remuneration	1,538	1,503	1,529	1,499
	1,898	1,827	1,817	1,787
Non-executive Directors				
Short-term employee benefits:				
- fees	309	300	285	288
- remuneration	62	60	59	58
	371	360	344	346
	2,269	2,187	2,161	2,133

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25. Key management personnel compensation (continued)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Other Key Management Personnel				
Short-term employee benefits	5,202	5,251	1,165	1,253
Defined contribution benefits	355	371	140	150
	5,557	5,622	1,305	1,403

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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26. Income tax

Recognised in profit or loss

Major components of income tax expense include:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax expense				
Malaysia - current	11,004	8,892	112	135
- under/(over)provision in prior year	462	1,081	-	-
	11,466	9,973	112	135
Overseas - current	16,707	8,094	385	468
- (over)/underprovision in prior year	(17)	(1,489)	(11)	10
	16,690	6,605	374	478
Total current tax expense	28,156	16,578	486	613
Deferred tax expense (Note 9)				
Origination and reversal of temporary differences	(1,633)	3,395	218	-
Under/(over)provision in prior years	3,911	(693)	-	-
Total deferred tax	2,278	2,702	218	-
Total tax expense	30,434	19,280	704	613

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26. Income tax (continued)

Reconciliation of tax expense

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Profit for the year	68,592	63,997	46,502	43,970
Total tax expense	30,434	19,280	704	613
Profit excluding tax	99,026	83,277	47,206	44,583
Tax at Malaysian tax rate of 24% (2017 – 24%)	23,766	19,986	11,329	10,700
Effect of different tax rates in foreign jurisdictions	1,953	1,038	-	-
Effect of lower tax rate	(60)	-	-	-
Non-deductible expense	5,576	4,740	2,750	2,018
Non-taxable gain	(3,575)	(926)	(167)	(730)
Double deductions	-	(837)	-	-
Tax exempt income	(682)	(801)	(13,197)	(11,385)
Tax incentives	1,315	732	-	-
Effect of utilisation of deferred tax assets previously not recognised	(1,926)	(3,142)	-	-
Under/(over)provision in prior years	4,356	(1,101)	(11)	10
Others	(289)	(409)	-	-
	30,434	19,280	704	613

Domestic income tax is calculated at the Malaysia statutory tax rate 24% (2017 – 24%) of the estimated assessable profit for the financial year.

27. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2018			
First and final 2017 ordinary	13.50	29,888	24 September 2018
2017			
First and final 2016 ordinary	15.00	33,209	20 September 2017

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 2019.

	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 2018 of RM29,888,023 (2017 – RM29,888,023) on the issued and paid-up share capital (excluding treasury shares) of 221,392,763 (2017 – 221,392,763) ordinary shares as at the end of the reporting date.

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28. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per share for the financial year ended 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2018	**2017**
	RM'000	**RM'000**
Profit for the financial year attributable to owners of the Company	63,328	63,097

Weighted average number of ordinary shares

	Group	
	2018	**2017**
	'000	**'000**
Number of ordinary shares in issue	221,403	221,403
Effect of shares repurchased	(10)	(10)
Total weighted average number of ordinary shares in issue (unit)	221,393	221,393
Basic earnings per ordinary share (sen)	28.60	28.50

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28. 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 2018 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	
	2018	**2017**
	RM'000	**RM'000**
Profit for the financial year attributable to Owners of the Company	63,328	63,097

Weighted average number of ordinary shares (diluted)

	Group	
	2018	**2017**
	'000	**'000**
Weighted average number of ordinary shares	221,393	221,393
Effect of share options in issue	-	2,050
Weighted average number of ordinary shares (diluted) at 31 December	221,393	223,443

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	
	2018	**2017**
	Sen	**Sen**
Diluted earnings per ordinary share	28.60	28.24

29. 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.

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 the respective principal operations. Segment assets are also based on the geographical location of assets.

Operating segments

The Group is organised into business units based on their products and services provided.

The Group comprises the following main business segments.

Cranes	Design, manufacture, supply, trading, leasing and services provider of offshore oil and gas pedestal cranes, tower cranes, shipyard cranes and other heavy lifting equipment cranes.
Intelligent Automation Group	Design, engineering and maintenance services for integrated automation solutions, process analysers and specialised equipment for various industries.

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29. Segment reporting (continued)

Geographical segments (continued)

	Inside Malaysia 2018 RM'000	Inside Malaysia 2017 RM'000	Outside Malaysia 2018 RM'000	Outside Malaysia 2017 RM'000	Eliminations 2018 RM'000	Eliminations 2017 RM'000	Consolidated 2018 RM'000	Consolidated 2017 RM'000
Geographical segments								
Revenue from external customers	241,251	123,338	289,339	403,146	-	-	530,590	526,484
Inter-segment revenue	170,869	226,104	66,779	59,270	(237,648)	(285,374)	-	-
Total revenue	412,120	349,442	356,118	462,416	(237,648)	(285,374)	530,590	526,484
Operating profit							97,670	79,029
Finance income							6,519	7,075
Finance costs							(2,602)	(2,024)
Share of (loss)/profit of associates							(2,561)	(803)
Profit before tax							99,026	83,277
Segment assets	1,045,884	920,425	528,401	549,404	(305,863)	(277,134)	1,268,422	1,192,695
Investments in associates	22	22	19,244	19,244	(7,080)	(4,520)	12,186	14,746
Total assets	1,045,906	920,447	547,645	568,648	(312,943)	(281,654)	1,280,608	1,207,441
Segment liabilities	425,857	414,416	355,033	366,233	(190,096)	(201,436)	590,794	579,213
Capital expenditure								
- Property, plant and equipment	46,085	12,956	58,813	29,546	(2,876)	(1,001)	102,022	41,501
Depreciation and amortisation	13,382	11,411	7,745	9,138	-	-	21,127	20,549

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29. Segment reporting (continued)

Business segments (continued)

	Cranes		Intelligent Automation Group		Eliminations		Consolidated	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Geographical segments								
Inside Malaysia	339,244	349,442	72,876	-	(170,869)	(226,104)	241,251	123,338
Outside Malaysia	356,118	462,416	-	-	(66,779)	(59,270)	289,339	403,146
Total revenue	695,362	811,858	72,876	-	(237,648)	(285,374)	530,590	526,484
Operating profit							97,670	79,029
Finance income							6,519	7,075
Finance costs							(2,602)	(2,024)
Share of (loss)/profit of associates							(2,561)	(803)
Profit before tax							99,026	83,277
Segment assets	1,437,774	1,469,829	136,511	-	(305,863)	(277,134)	1,268,422	1,192,695
Investments in associates	19,266	19,266	-	-	(7,080)	(4,520)	12,186	14,746
Total assets	1,457,040	1,489,095	136,511	-	(312,943)	(281,654)	1,280,608	1,207,441
Segment liabilities	755,360	780,649	25,530	-	(190,096)	(201,436)	590,794	579,213
Capital expenditure								
- Property, plant and equipment	104,820	12,956	78	-	(2,876)	(1,001)	102,022	41,501
Depreciation and amortisation	20,852	11,411	275	-	-	-	21,127	20,549

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30. Financial instruments

Categories of financial instruments

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Loans and Receivables				
Receivables and deposits	209,869	201,376	42,920	63,969
Fixed deposits with licensed banks	155,105	198,666	-	54,892
Cash and bank balances	88,239	89,121	351	477
	453,213	489,163	43,271	119,338
Fair Value through Profit or Loss				
Derivative assets	336	6,467	-	-
Short-term investments	80,456	84,341	1,739	12,673
	80,792	90,808	1,739	12,673
Financial Liabilities				
Other Financial Liabilities				
Loan and borrowings	47,165	33,929	-	-
Payables and accruals	243,020	232,886	804	82
Provision for warranties	31,774	25,347	-	-
	321,959	292,162	804	82

30. Financial instruments (continued)

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.

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30. Financial instruments (continued)

Credit risk (continued)

Receivable (continued)

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

	Group	
	2018	**2017**
	RM'000	**RM'000**
Asia	108,620	52,891
Europe	9,396	35,730
America	4,458	10,366
Australia	23,807	26,998
Middle East	2,000	-
	148,281	125,985

Assessment of impairment losses

The information about the exposure to credit risk and the loss allowance calculated under MFRS 9 for both trade receivables are summarised below:-

Group	**Gross Amount RM'000**	**Lifetime Loss Allowance RM'000**	**Carrying Amount RM'000**
2018			
Not past due	59,489	(341)	59,148
Past due 0 - 90 days	40,073	(564)	39,509
Past due 91 -180 days	17,544	(1,591)	15,953
Past due more than 180 days	80,995	(47,324)	33,671
	198,101	(49,820)	148,281
Credit impaired:			
-more than 30 days past due	173,265	(24,984)	148,281
-individually impaired	24,836	(24,836)	-
	198,101	(49,820)	148,281
Contract Assets	125,725	(1,128)	124,597

Company No. 249243-W

30. Financial instruments (continued)

Credit risk (continued)

Receivable (continued)

Assessment of impairment losses (continued)

Group	**Gross Amount RM'000**	**Individual 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

Other receivable

The Group applies the general approach to measuring expected credit losses for the other receivables. Generally, the Group consider the advances to other receivables have low credit risk. The Group assumes that there is a significant increase in credit risk when the probability of securing that the contract deteriorates significantly. As the Group is able to determine the riming of payments of the other receivables advances when they are payable, the Group considers the advances to be in default when the others receivables are not able to pay when demanded. The Group considers the advances to be credit impaired when the other receivables are unlikely to repay the advances in full.

Group	**Gross Amount RM'000**	**Lifetime loss Allowances RM'000**	**Carrying Amount RM'000**
2018			
Low credit risk	14,813	-	14,813
Significant increase in credit risk	687	(59)	628
	15,500	(59)	15,441

30. 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 RM19.6 million (2017 – RM30.1 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.

Company No. 249243-W

30. 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**
2018				
Unsecured insurance premium finance	1.25	2,791	-	-
Hire purchase payable	1.85	3,790	14,148	-
Bills payable	4.27	11,844	-	-
Secured bank overdraft	2.75	5,147	-	-
Secured term loan	4.68	470	2,093	6,882
Unsecured payables and accruals		243,020	-	-
		267,062	16,241	6,882
2017				
Unsecured insurance premium finance	1.25	2,907	-	-
Hire purchase payable	1.85	2,396	16,200	2,580
Bills payable	2.84	7,511	-	-
Secured bank overdraft	2.75	2,335	-	-
Unsecured payables and accruals	-	232,886	-	-
		248,035	16,200	2,580

30. Financial instruments (continued)

Liquidity risk (continued)

Maturity Analysis (continued)

Company	Less Than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2018			
Unsecured payables and accruals	127	-	-
Financial guarantee	19,593	-	-
	19,720	-	-
2017			
Unsecured payables and accruals	82	-	-
Financial guarantee	30,109	-	-
	30,191	-	-

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.

Company No. 249243-W

30. 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.

	2018		2017	
	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 – 3.85	155,105	0.70 – 3.25	198,666
Short-term investments	2.19 – 5.36	80,456	2.33 – 3.96	84,341
		235,561		283,007
Financial liabilities				
Fixed rate instruments				
Unsecured insurance premium finance – AUD	1.25	2,791	1.25	2,907
Secured bank overdraft	2.75	5,147	2.75	2,335
Hire purchase payables	1.85	17,938	1.85	21,176
Secured Term loan	4.68	9,445	-	-
Floating rate instrument				
Bills payable	4.27	11,844	2.84	7,511
		47,165		33,929

Company No. 249243-W

30. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

	2018		2017	
Company	**Effective interest rate %**	**Total RM’000**	**Effective interest rate %**	**Total RM’000**
Financial assets				
Fixed rate instruments				
Fixed deposits placed with licensed banks	0.80 – 2.00	-	0.70 – 1.80	54,892
Short-term investments	2.48 – 3.66	1,739	2.40 – 3.52	12,673
		1,739		67,565

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 RM90,014 (2017 – RM57,084) and Nil (2017 – RM Nil) respectively. A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

30. 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.

Company No. 249243-W

30. 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**
2018			
Financial assets	124,624	142,309	18,707
Financial liabilities	(16,560)	(68,630)	(601)
Net financial assets/(liabilities)	108,064	73,679	18,106
Less: Net financial assets/(liabilities) denominated in the respective entities functional currencies	(18,996)	(56,171)	(5,274)
Less: Forward foreign currency contracts (contracted notional principal)	(28,693)	(4,538)	(14,790)
Net currency exposure	60,375	12,970	(1,958)
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

Company No. 249243-W

30. 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
2018			
- strengthened by 5%	2,294	493	(74)
- weakened by 5%	(2,294)	(493)	74
2017			
- strengthened by 5%	114	1,525	746
- weakened by 5%	(114)	(1,525)	(746)

30. Financial instruments (continued)

Fair value information

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

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

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value			**Total Fair Value**	**Carrying Amount**
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	**RM'000**	**RM'000**
2018								
Financial assets								
Derivative assets –								
forward currency contracts	-	336	-	-	-	-	336	336
Short- term investments	80,456	-	-	-	-	-	80,456	80,456
	80,456	336	-	-	-	-	80,792	80,792

30. 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)

Group	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value			**Total Fair Value**	**Carrying Amount**
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	**RM'000**	**RM'000**
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

Company No. 249243-W

31. 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 holding company, subsidiaries (see Note 7), related companies, associates (see Note 8) and Directors (see Note 25).

(ii) Significant transactions with related parties:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Holding company				
Purchase of property, plant and equipment	-	115	-	-
Rental expense payable	2,778	2,774	-	-
Sale of goods and services	(49)	(571)	-	-
Subcontract cost payable	301	1,241	-	-
Share services expenses	2,000	2,000	-	-
Rental income receivable	(204)	(170)	-	-
Subsidiaries				
Dividend income receivable	-	-	(52,143)	(44,437)
Rental income receivable	-	-	(2,225)	(2,426)
Related companies				
Rental expense payable	1,330	1,222	32	93
Rental income receivable	-	(928)	-	-
Sale of goods	(129)	(861)	-	-
Subcontract cost payable	1,472	17,425	-	-
Associates				
Interest income receivable	(61)	(63)	(61)	(63)
Sale of goods and services	(6,350)	(4,799)	-	-

The outstanding net amounts due from/(to) subsidiaries, related companies and associates as at 31 December are disclosed in Note 10 and Note 16 respectively.

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

Company No. 249243-W

32. Capital commitments

	2018 RM'000	2017 RM'000
Purchase of property, plant and equipment	-	3,561

33. 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.

Company No. 249243-W

34. Acquisition of subsidiaries

On 3 July 2018, the Group completed acquisitions of 70% of Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd respectively (the four (4) companies are collectively referred to as the "Intelligent Automation Group") which provides design, engineering and maintenance services for integrated automation solutions, process analysers and specialised equipment.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Group RM'000
Property, Plant and Equipment	14,975
Cash and cash equivalents	67,513
Inventories	7,247
Receivables and other receivables	24,115
Current tax assets	1,807
Trade payables and other payables	(8,593)
Loans and borrowings	(13,038)
Net identifiable assets acquired	94,026
Add: Non-controlling interests, measured at the proportion share of the fair value of the net identifiable assets	(28,208)
Goodwill from the acquisition (Note 5)	71,183
Total purchase consideration	137,001
Less: Cash and bank balances of subsidiaries acquired	(67,513)
Less: Deferred consideration	(31,141)
Total net cash outflow from the acquisition of subsidiaries	38,347

(a) The goodwill is attributable mainly to the control premium paid. In addition, the purchase consideration also included benefits derived from the expected revenue growth of the subsidiary, its future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill is not deductible for tax purposes.

(b) The acquired subsidiaries have contributed revenue of RM73million and profit after taxation of RM17million to the Group since the date of acquisition.

Company No. 249243-W

35. Changes in accounting policies

As mentioned in Note 1 to the financial statements, the Group has adopted MFRS 9 and MFRS 15 during the financial year. The financial impacts upon the adoption of these accounting standards are summarised below:-

Statement of Financial Position

	<----------- At 1 January 2018 ----------->		
	As Previously Reported RM'000	**MFRS 9 Adjustments RM'000**	**As Restated RM'000**
Group			
Non-Current assets			
Deferred tax assets	25,234	1,621	26,855
Receivables	6,129	(1,862)	4,267
Current assets			
Receivables, deposits and prepayments	199,972	(3,214)	196,758
Contract Assets	164,184	(1,642)	162,542
Equity			
Retained earnings	437,740	(2,914)	434,826
Non-controlling interests	(1,281)	(2,183)	(3,464)
Company			
Non-Current assets			
Deferred tax assets	-	838	838
Receivables	6,129	(1,862)	4,267
Current assets			
Amount owing by subsidiaries	57,771	(1,631)	56,140
Equity			
Retained earnings	82,117	(2,655)	79,462

35. Changes in accounting policies (continued)

Initial Application of MFRS 9

Group

The Group has adopted MFRS 9 without restating any comparatives information (transitional exemption). Therefore, the financial impacts arising from the new classification and measurement of financial instruments, and the new impairment requirements are not reflected in the its consolidated statement of financial position as at 31 December 2017; but are recognised in the opening consolidated statement of financial position on 1 January 2018 (date of initial application of MFRS 9).

Company

There were no material financial impacts upon the transition to MFRS 9 at the date of initial application other than an increase in the loss allowance for amount owing by subsidiaries arising from the change in impairment loss assessment.

36. Significant event during the financial year

On 3 July 2018, the Company acquired 70% equity interest in Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd at an indicative cash consideration ranging between RM90.7 million to RM142.1 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 Sale and Purchase Agreement.

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 pages 10 to 131 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 2018 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, Selangor Daruh Ehsan

11 April 2019

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**, MIA Membership Number: 8033, 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 10 to 131 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 11 April 2019.

…………………..
Lee Poh Kwee

Before me:

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 2018 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 10 to 132.

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 2018 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.

<table>
<tr><td colspan="2">Revenue recognition and contract accounting
Refer to Note 20 to the financial statements</td></tr>
<tr><td>Key Audit Matter</td><td>How our audit addressed the Key Audit Matter</td></tr>
<tr><td>Construction contract accounting is inherently complex due to the contracting nature of the business, which involves significant judgements. This includes the determination of the total budgeted contract costs to complete the projects and the calculation of percentage of completion which affects the quantum of revenue and profit to be recognised.

In estimating the revenue to be recognised, the management considers past experience and work done certified by customers and/or independent third parties, where applicable.

In estimating the total budgeted contract costs to completion, the management considers the completeness and accuracy of its costs estimation, including its obligations to contract variations and claims. The total costs to completion are subject to a number of variables including the accuracy of designs, market conditions in respect of materials and sub-contractor cost and construction issues.

An error in the estimated profit on contracts could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period. The profit recognition on contract includes key judgements over the expected recovery of costs arising from variations and claims and assessment on liquidated and ascertained damages costs, where applicable. In addition, changes in judgements, and the related estimates, as contracts progress, can result in material adjustments to margin, which can be both positive and negative. The potential outcome for contracts can have an individually and collectively material impact on the financial statements, whether through error or management bias.</td><td>Our audit procedures included, amongst others:

• Read all key contracts and discussed with management to obtain a full understanding of the terms and risks to assess our consideration of whether revenue was appropriately recognised;

• Testing the operating effectiveness of internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements;

• Assessing the management's assumptions in determining the percentage of completion of projects, estimations of revenue and costs, provisions for foreseeable losses, liquidated and ascertained damages as well as recoverability of billed receivables and costs incurred on variation orders;

• Assessing the reasonableness of percentage of completion by comparing to certification by external parties;

• Assessing the estimated profit and costs to completion, adjustments for job costing and potential contract losses;

• Performing subsequent event review to support year-end judgements;

• Assessing whether the amounts recognised in the financial statements were in line with the Group's accounting policy and relevant accounting standards; and</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FAVELLE FAVCO BERHAD (CONTINUED)

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

Key Audit Matters (Continued)

Revenue recognition and contract accounting Refer to Note 20 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
We determined this to be a key audit matter due to the complexity and judgemental nature of the budgeting of contract costs to completion, calculation of percentage of completion and the determination of revenue and profit to be recognised.	Our audit procedures included, amongst others: (continued) • Considering the adequacy of the Group's disclosures in respect of the judgements taken with respect to profit recognition and the key risks relating to these amounts.

Recoverability of trade receivables Refer to Note 10 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.

Inventories – Inventories under Work-In-Progress Refer to Note 12 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.

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

Key Audit Matters (Continued)

Acquisition accounting for Exact Automation Sdn Bhd, Exact Analytical Sdn Bhd, Exact Oil & Gas Sdn Bhd and Sedia Teguh Sdn Bhd ("Intelligent Automation Group") under MFRS 3 - *Business Combinations*
Refer to Note 34 to the financial statements

Key Audit Matter	How our audit addressed the Key Audit Matter
The acquisition of Intelligent Automation Group was accounted for as a business combination based on MFRS 3 - Business Combinations ("MFRS 3"). A purchase price allocation exercise was performed by management, assisted by an external expert, and was determined that the fair value of the net identifiable assets for the acquisition is RM94.026 million.	Our audit procedures included, amongst others: • Evaluating the objectivity, independence and capabilities of the external expert; • Assessing the methodology adopted by management for calculating the fair values, key valuation assumptions and validating the key inputs used; and • Reviewing the adequacy of disclosure of acquisition in the financial statements.

Goodwill impairment
Refer to Note 5 to the financial statements

Key Audit Matter	How our audit addressed the Key Audit Matter
As at 31 December 2018, the Group has goodwill of RM71.183 million for the acquisition of the Intelligent Automation Group. This is an area of focus given the materiality of the Group's goodwill balances and the inherent subjectivity in impairment testing. The judgement in relation to goodwill impairment relates primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the long-term business plans.	Our audit procedures included, amongst others: • Making enquiries and challenging the management on the key assumptions made, including the consistent application of management's methodology, the achievability of the business plans, assumptions in relation to terminal growth in the business at the end of the plan period, and revenue growth, operating margin and discount rates; • Evaluating the reasonableness of the management's estimate of expected future cash flows by taking into consideration the past performance of the Intelligent Automation Group; • Performing sensitivity analysis to assess the impact on the recoverable amount of the cash generating units; and • Reviewing the adequacy of disclosure of goodwill in the financial statements.

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

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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 7 to the financial statements.

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

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

Crowe Malaysia PLT
LLP0018817-LCA & AF 1018
Chartered Accountants

Ung Voon Huay
03233/09/2020 J
Chartered Accountant

Kuala Lumpur

11 April 2019