# ANNUAL REPORT 2019

# MUHIBBAH ENGINEERING (M) BHD

Registration No.: 197201001137 (12737-K)

# CORPORATE INFORMATION

## Board Of Directors

**Tan Sri Zakaria bin Abdul Hamid**
*(Chairman, Senior Independent Non-Executive Director)*

**Mac Ngan Boon @ Mac Yin Boon**
*(Group Managing Director)*

**Ooi Sen Eng**
*(Executive Director)*

**Mac Chung Jin**
*(Executive Director/Deputy Chief Executive Officer)*

**Shirleen Lee Poh Kwee**
*(Group Finance Director)*

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

**Abd Hamid bin Ibrahim**
*(Independent Non-Executive Director)*

**Dato' Mohamad Kamarudin bin Hassan**
*(Independent Non-Executive Director)*

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

**Mazlan bin Abdul Hamid**
*(Non-Independent Non-Executive Director)*

## Audit Committee

Sobri bin Abu *(Chairman)*
Tan Sri Zakaria bin Abdul Hamid
Dato' Mohamad Kamarudin bin Hassan

## Company Secretaries

Irene Choe Mee Kam @
Irene Chow Mee Kam *(MIA 16775)*
Woo Siau Shen (MIA 33077)
Tia Hwei Ping *(MAICSA 7057636)*

## Registered Office

Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan, Malaysia
Tel: (603) 3342 4323 Fax: (603) 3342 4327

## Auditors

Crowe Malaysia PLT
*Firm No. 201906000005 (LLP0018817-LCA) & AF 1018*
Chartered Accountants
Level 16, Tower C, Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur, Malaysia

## Principal Bankers

Affin Bank Berhad
Ambank (Malaysia) Berhad
Bangkok Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
Hong Leong Bank Berhad
HSBC Bank Malaysia Berhad
Industrial and Commercial Bank of China (Malaysia) Berhad
Kuwait Finance House (Malaysia) Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

## Share Registrar

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

## Stock Exchange Listing

**Muhibbah Engineering (M) Bhd**
Main Market of Bursa Malaysia Securities Berhad
Stock Name: Muhibah
Bursa Stock Code: 5703
Bloomberg Stock Code: MUHI MK
Listing Date: 25 February 1994

**Favelle Favco Berhad**
Main Market of Bursa Malaysia Securities Berhad
Stock Name: Favco
Bursa Stock Code: 7229
Bloomberg Stock Code: FFB MK
Listing Date: 15 August 2006

## Investor Relations

Tel: (603) 3376 2530 Fax: (603) 3344 6302
Email: ir@muhibbah.com.my

## Website

www.muhibbah.com
www.favellefavco.com

# Contents

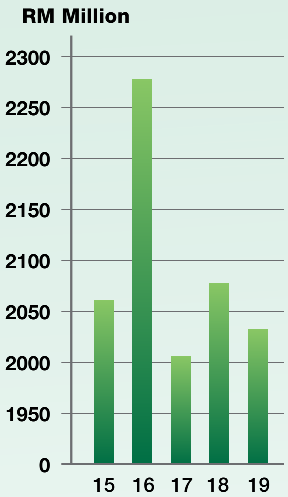


TNB International Transmission Platform at Senibong, Johor Bahru, Johor

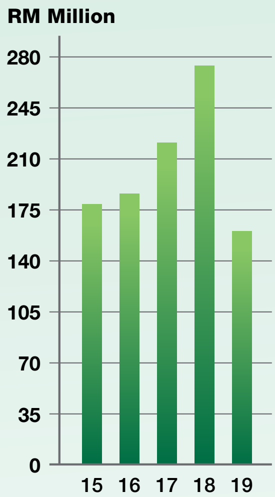
# Group Financial Highlights

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Turnover (RM'000)* | 2,093,593 | 2,272,084 | 2,004,356 | 2,077,281 | **2,024,324** |
| Profit Before Tax (RM'000) | 178,378 | 182,546 | 219,322 | 273,829 | **156,021** |
| Profit After Tax (RM'000) | 150,534 | 160,955 | 191,327 | 231,549 | **116,860** |
| Profit After Tax and Non-controlling Interest (RM'000) | 87,492 | 105,501 | 131,608 | 144,800 | **34,884** |
| Total Equity Attributable to Owners of the Company (RM'000) | 839,041 | 976,202 | 1,038,052 | 1,120,435 | **1,113,001** |
| Share Capital (RM'000) | 235,297 | 241,057 | 241,057 | 301,746 | **306,438** |
| Basic Earnings Per Ordinary Share Attributable to Owners of the Company (Sen) | 19.11 | 22.19 | 27.40 | 30.12 | **7.23** |
| Net Assets Per Ordinary Share Attributable to Owners of the Company (RM) | 1.79 | 2.03 | 2.16 | 2.33 | **2.30** |

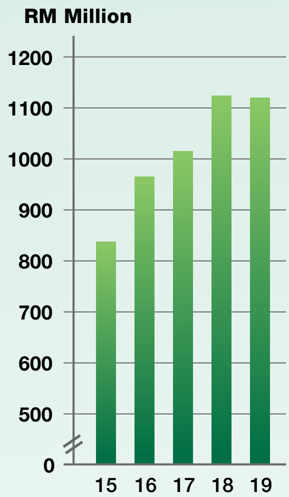
* Group revenue include Group's share of revenue of associates



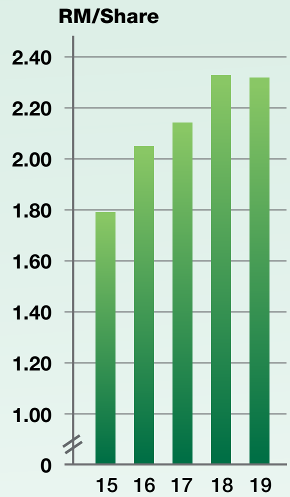

**Turnover**




**Profit Before Tax**




**Total Equity Attributable to Owners of the Company**




**Net Assets Per Ordinary Share Attributable to Owners of the Company**

# Core Divisions as at 29 April 2020

## MUHIBBAH ENGINEERING (M) BHD

### CONCESSIONS

- 70% MUHIBBAH MASTERON CAMBODIA JV LIMITED
  - 30% SOCIETE CONCESSIONAIRE DE I' AEROPORT
- 21% ROADCARE (M) SDN. BHD.

### INFRASTRUCTURE CONSTRUCTION

- 100% MEB CONSTRUCTION SDN. BHD.
- 100% MUHIBBAH STEEL INDUSTRIES SDN. BHD.
- 100% MUHIBBAH AIRLINE SUPPORT INDUSTRIES SDN. BHD.
- 100% CITECH ENERGY RECOVERY SYSTEM MALAYSIA SDN. BHD.
  - 100% CITECH ENERGY RECOVERY SOLUTIONS UK (LTD)
- 95% MUHIBBAH MARINE ENGINEERING (DEUTSCHLAND) GmbH
- 60% MUHIBBAH ENGINEERING (CAMBODIA) CO. LTD.
- 50% FREYSSINET PSC (M) SDN. BHD.
- 30% WABAG MUHIBBAH JV SDN. BHD.

### CRANES

- 59.28% FAVELLE FAVCO BERHAD
  - (A) CRANES
    - 100% FAVELLE FAVCO CRANES (M) SDN. BHD.
    - 100% FAVELLE FAVCO CRANES PTE. LTD.
    - 100% FAVELLE FAVCO CRANES PTY. LIMITED
    - 100% FAVELLE FAVCO CRANES (USA), INC.
    - 100% KROLL CRANES A/S
    - 100% FES EQUIPMENT SERVICES SDN. BHD.
    - 80% SHANGHAI FAVCO ENGINEERING MACHINERY MANUFACTURING CO. LTD.
  - (B) INTELLIGENT AUTOMATION
    - 70% SEDIA TEGUH SDN. BHD.
    - 70% EXACT AUTOMATION SDN. BHD.
    - 70% EXACT ANALYTICAL SDN. BHD.
    - 70% EXACT OIL & GAS SDN. BHD.

### SHIPYARD

- 100% MUHIBBAH MARINE ENGINEERING SDN. BHD.

** Only major active companies are included here*

# Management Discussion and Analysis

## Overview of Businesses

Muhibbah was incorporated in Malaysia on 4 September 1972 and has been listed on the Main Market of Bursa Malaysia Securities Berhad ("Main Market") since 1994.

Since its inception, Muhibbah has established its track record as an international engineering construction company and integrated solutions provider for maritime, oil and gas, and infrastructure projects in both local and global markets.

Muhibbah owns a Bursa Malaysia Main Market listed crane manufacturing subsidiary, Favelle Favco Berhad ("Favco"), which provides one-stop solutions for specialised offshore oil and gas pedestal cranes as well as tower cranes for the global markets.

In 2018, the Group, vide Favco, acquired 70% equity interest in each of the following four companies, namely Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd (the four companies collectively known as "Intelligent Automation Group") which provide design, engineering and maintenance services for automation solution and process analysers as well as specialised equipment.

Our Cambodia Airports Division has a Build-Operate-Transfer concession for the development and management of Cambodia's international airports. These airports are in Phnom Penh (the capital city of Cambodia), Siem Reap (home to the UNESCO World Heritage Angkor Archaeological Complex) and Sihanoukville (the port and beach resort city).

From its headquarters in Klang, Malaysia, Muhibbah and its subsidiaries ("the Group") has established its global presence and offices in Australia, Denmark, Germany, the United Stated of America, Qatar, the United Kingdom, Cambodia, Myanmar, Indonesia, Singapore, Philippines and China.

We have grown the Group by making strategic acquisitions and realising organic growth from our existing businesses. We will continue to build our presence in our core businesses to develop a strong and diversified portfolio of assets and leading market positions, both domestically and internationally.

## Mission and Strategies

The Group's long term vision is to be in concessions as owner and operator as well as to be an infrastructure and construction solutions provider. Such vision also includes being a heavy-lifting crane manufacturer as well as automation service provider for the global oil and gas and commercial industries.

Our long term strategy is to continue building the right mix of diversified businesses to provide synergistic growth in the Group.


**1st Steel Cut Ceremony for EPCI for Wellhead Platform for East Cendor Field Development (Phase 1) for Petrofac Malaysia**

## Market Overview in 2019

2019 was affected by weakened global growth due to trade wars between China and the USA, ongoing restrictive trade policies, slowdown in Eurozone which saw Germany and Italy coming close to recession. Oil producers remained cautious in capital spending.

On the home front, the Government continues to take several measures to reduce government debt and expenditure by suspending large-scale infrastructure projects across the country. In 2019, Malaysia achieved a 4.3% of the Gross Domestic Product ("GDP") (2018: 4.7%).

Amid the challenging environment, the Group remained focused and persistent to drive more value creation and meet customers' demand.

## Review of Financial Results and Operating Activities

## Key Financial Highlights

- Group's revenue which includes revenue of associates and joint venture projects decreased to RM2.0 billion (2018: RM2.1 billion);
- Group's earnings before interest, depreciation, amortisation and tax ("EBITDA") decreased to RM303.0 million (2018: RM415.4 million);
- Group's net profit after tax decreased to RM116.9 million (2018: RM231.6 million);
- Group's net profit after tax and non-controlling interests decreased to RM34.9 million (2018: RM144.8 million);
- Group's basic earnings per share decreased to 7.23 sen (2018: 30.1 sen);
- Group's net assets per share decreased to RM2.30 (2018: RM2.33); and
- Group's net gearing was 0.57 times (2018: 0.40 times).

## Dividend Policy and Dividend

The Board recommended a first and final tax exempt dividend of 2.5 sen (2018: 7.5 sen) per ordinary share in respect of the financial year under review subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend payable amounts to RM12.1 million (2018: RM36.23 million).

## Awards and Recognition

On 14 November 2019, one of our Cambodia Airports, the Phnom Penh International Airport was awarded the Best Asia Pacific Regional Airport 2019 by the Centre for Aviation ("CAPA"). The CAPA accolade is one of the most trusted and esteemed in the aviation industry.

**Revenue**

decreased by 2.5% to

**RM2.0 billion**

**EBITDA**

decreased by 27.1% to

**RM303.0 million**

**Profit After Tax**

decreased by 49.5% to

**RM116.9 million**


**Asia Pacific Regional Airport of the Year 2019 - Phnom Penh Airport, Cambodia**

# Management Discussion and Analysis (continued)

**Installation of Shiplift Platform in UM ALHOUL ECONOMIC ZONE, QATAR**

## Review of Core Business Operations Performance and Outlook

Review of the performance and outlook of each division of the Group for the financial year ended 31 December 2019 and the future prospects of the Group are as follows:-

## Concessions Division

In 2019, the Concessions Division, which operates three (3) Cambodia Airports, continues to perform well except for the last quarter of 2019, where we saw a decline in passenger traffic in Sihanouk International Airport when the Cambodian Government banned online gambling in Sihanoukville.

All the three (3) Cambodia international airports namely Phnom Penh International Airport, Siem Reap International Airport and Sihanouk International Airport saw growth at an average rate of 10% year-on-year in 2019 (2018: 20%). The Cambodia international airports achieved 11.6 million passengers in 2019 (2018: 10.6 million passengers).

In November 2019, Phnom Penh International Airport was recognised by CAPA as the regional airport that progressed the most in the aviation industry by adopting an innovative strategy leading to passenger traffic increasing more than 25% over the period from 2017 to 2018 and 15% between the first and third quarters of 2019.

Revenue from other aeronautical related activities such as cargo movements and ground handling services reported a growth of 11% in 2019 whilst non-aeronautical services such as retail business also experienced a growth of 16% in 2019.

Over the last few years, our development strategies have been aimed to welcome more airlines of wide range from different markets, open new air connectivity routes and increase frequencies in air traffic. In 2019, our airports served 66 airlines with 75 destinations.

Since the beginning of February 2020, severe traffic slowdown was seen in our Cambodia airports due to the COVID-19 outbreak. The air traffic will gradually return to the normal level once the world manages to control this pandemic. Business continuity plans are in place in our airports to maintain a constant level of services for our customers and our business partners while complying with the required health measures. Although it is not possible at this juncture to assess the financial impact of the pandemic, immediate actions have been taken to reduce costs including adjustment of the variable resources, recruitment freeze, reduction of administrative costs and revision of the investment programme wherever relevant.

## Construction and Engineering Division

Amongst the notable projects delivered in year 2019 were the Engineering, Procurement, Construction and Commissioning ("EPCC") for temporary executive village and management office facilities for Petronas' Refinery and Petrochemicals Integrated Development Project in Pengerang, Johor, Malaysia ("RAPID Project") and RAPID Project - Design Competition for Re-FEED and EPCC of the Effluent Treatment Plant.

On 23 January 2019, the Company was awarded RM165 million worth of contracts for the design, supply, delivery, installation, testing and commissioning of noise barriers for the Sungai Besi - Ulu Kelang Elevated Expressway Project and the Damansara - Shah Alam Elevated Expressway Project by Turnpike Synergy Sdn Bhd.

On 28 August 2019, the Company was awarded a RM150 million contract by Petrofac (Malaysia-PM304) Limited for the execution of the Engineering, Procurement, Construction and Installation ("EPCI") of wellhead platform for East Cendor Field Development (Phase 1) Project located offshore Peninsular Malaysia.

Other ongoing projects, including the infrastructure works for Engineering, Procurement, Construction, Installation and Commissioning ("EPCIC") projects in Melaka and Myanmar , EPCI for wellhead platform for East Cendor Field Development (Phase 1), Kertih Biopolymer Park, construction of reinforced concrete jetty for Tenaga Nasional Berhad, noise barrier enclosures for the Sungai Besi - Ulu Kelang Elevated Expressway Project and the Damansara - Shah Alam Elevated Expressway , Mass Rail Transit (MRT) Line 2 and LRT3 as well as our Manateq project at Um Alhoul Special Economic Zone, Qatar, are making good progress.

These projects along with our track record of undertaking major infrastructure projects will provide compelling credentials for us to grow this division further when Malaysia's economy recovers.

**Noise Barrier (semi-enclosure) for KVMRT Line 2**

# Management Discussion and Analysis (continued)


**Menara Warisan Merdeka PNB KL 118, Kuala Lumpur**

During 2019, the project in the Middle East experienced unexpected adverse soil conditions and cost overrun. Back home, some delay is seen in the processing of claims and compensation for a government linked project due to the change in the Malaysian government in February 2020. The Group has therefore made a provision to cover the above incidents.

Following the Movement Control Order ("MCO") imposed by the Malaysian Government, the Group's construction projects were halted during this period. The extent of the impact is yet to be ascertained.

As at 29 April 2020, the outstanding secured order book for the construction and engineering division stands at approximately RM897 million.

## Crane and Intelligent Automation Division

## (I) Crane Division

Our listed crane subsidiary - Favelle Favco offers a full range of products including Offshores cranes, Tower cranes, Wharf cranes, rental of cranes, service and maintenance. We have 7 operating facilities (Malaysia, Australia, Denmark, the USA, China, Singapore and the UAE) with a total workforce of approximately 1,050 teammates spanning the globe. This global structure allows us to build these heavy lift cranes as close to the delivery point as economically feasible.

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

With the completion of acquisition of the Exact Automation Group in mid-2018, the Favelle Favco Group comprises 2 main divisions, the Crane division and the Intelligent Automation division.

During the year 2019, the offshores cranes market was relatively neutral. On the contrary, the construction crane market was relatively good mainly driven by the Australian market. Additionally, we continued our penetration into smaller sized crane segment in other new markets in Europe continent with some new crane models. We have further invested RM55 million in our tower crane rental fleet in 2019 for this purpose.

Our tower crane rental fleet remained well utilized during the year. We continued to invest in our rental fleet albeit at a lower level as we had a wait-and-see attitude on the absorption of our fleet of cranes. Furthermore, Kroll delivered 2 new models, the K1230F to Canada and K860F to Singapore, both in 2019.

For the onshore wind turbine market perspective, our presence is now felt with a delivery of our wind turbine crane into Canada which could help develop our presence in this continent. We had several new model developments during the year. The most notable is our first order for a Knuckle Boom offshore crane, which will be delivered in year 2020 to cater to the floating rig and vessel market.

In addition, our latest generation of recovery cranes, the M50R and 243R to be used for the dismantling of the main construction crane at the top of a building will set the benchmark for us in our recovery cranes series.

We also started work on an upgraded new model MK380 which features an electric winch, upgraded structural features and a very cost-conscious design mindset. This is again part of our strategy of entering the smaller sized light crane market which has a large addressable market.

## (II) Intelligent Automation Division

The Intelligent Automation Group ("Exact Group") division comprises many business segments which include Automation, Control and Instrumentation, Rotating Machinery systems, Renewable Energy systems, Gas and Liquid Analysis systems, Valves Automation and Industrial Information Digital systems.

Exact Group currently holds more than 20 live maintenance contracts established with most of the oil majors in Malaysia. We provide systems for Rotating Machinery like compressors and turbines, and also supply hybrid wind turbine solutions for offshore facilities. Furthermore, we provide various gas and liquid analytical equipment including portable and fixed detection systems as well as fire and gas systems.

**Provision of Supply, Installation and Commissioning of Solar Hybrid Wind Turbine System for Tembikai Non Associated Gas Wellhead Platform (TNAG) by Exact Group**

# Management Discussion and Analysis (continued)

The Industrial Information systems supplied by Exact Group include pipeline monitoring and plant intelligence solutions. Exact Group will be our way of penetrating the intersection of industrial processes and the automation world, generally coined today as Industry 4.0.

As at 29 April 2020, the outstanding total secured order book for the Crane and Automation division stands at approximately RM521 million. Intelligent Automation Group's outstanding order book is RM73.4 million, representing 14.1% of Favco's total outstanding order book.

In year 2020, the COVID-19 crisis has affected many countries with various degrees of lockdowns being imposed by the respective governments. This has resulted in a shutdown of our factories with production being halted.

It is currently not possible to anticipate how this COVID-19 crisis may develop from here. It may turn out to be a short economic hiccup with a quick recovery or it may turn out to be a prolonged recession scenario.

## Marine Division

Our Shipyard has substantially completed the largest vessel in its track record - measuring 108 metres with 7,000 deadweight tonnes ("DWT") tanker to a long term Malaysia client in 2019.

This tanker has ten (10) cargos compartments and two (2) slope tanks configuration, each tank fitted with separate deep well cargo pump, enable her to carry different type of cargos simultaneously.

## Corporate Development

We are committed to grow our business organically and through acquisitions. The new business addition of the Intelligent Automation Group in 2018 continue to become an important contributor to the Group's profitability. The Intelligent Automation Group reported a total revenue of RM158 million and profit after tax of RM 23 million.

2019 was a consolidation year after we completed our acquisition of the Exact Group in 2018 where


**7000 DWT Product/Chemical Tanker**

strategies are being formulated and implemented. We believe this strategy will improve total shareholders' returns and help us build a sustainable performance in the future.

## Future Prospects

The unprecedented challenge caused by the COVID-19 pandemic and its effects are deeply felt in the tourism sector due to air travel ban and movement restriction orders which have severely affected our airport concessions in Cambodia. The sharp drop in the global oil price has also affected Malaysia's economy as Malaysia is a net oil exporter.

The developments in Malaysia's political landscape continue to redefine Malaysia's economic and financial landscapes as well.

The Group will continue to tender for public and private projects and build on the fundamentals of its diverse business portfolios both in Malaysia and overseas.

We have been in business for over 40 years. We have gone through various ups and downs of business cycles. The Group is formulating and implementing strategies in tandem with the development of the abovementioned issues as well as positioning ourselves to meet the surge in demand following the recovery of the global economy in the future.

## Acknowledgement and Appreciation

The Board and I would also like to express our heartfelt gratitude to our people who have contributed to our positive performance over the past year. On behalf of the Board of Directors, I would like to express my appreciation for the valuable contribution from our Senior Management and staff, in Malaysia and overseas.

We also thank our valued customers, shareholders, business associates, bankers, subcontractors, suppliers and the various government agencies who have all been pivotal contributors to our past, present and future growth despite difficult times.

We thank the Group who donated masks and gloves to the front-line medical personnel. We are grateful to the healthcare workers for their big sacrifices and dedications in combating the COVID-19 pandemic. We acknowledge the containment of the health crisis is pivotal before the economic problems can be solved faster and businesses can reopen and people return to the normal activities.

Finally, I would like to extend my appreciation to my fellow board members for all your contribution and commitment. May we continue to work hand in hand in driving the business forward, to promote growth, to embrace improvement and development for the Group.

**Mac Ngan Boon @ Mac Yin Boon**
**Group Managing Director**

# Profile of Directors

## Tan Sri Zakaria bin Abdul Hamid

Aged 76, Male, Malaysian

- *Chairman*
- *Senior Independent Non-Executive Director*
- *Chairman of the Remuneration Committee and Nominating Committee*
- *Member of the Audit Committee*

Tan Sri Zakaria bin Abdul Hamid was appointed as Vice Chairman of the Company on 20 February 2002 and a member of the Audit Committee on 28 March 2003. He was redesignated as Chairman of the Company, Chairman of the Audit Committee, Remuneration Committee and Nominating Committee and appointed as Senior Independent Non-Executive Director on 15 May 2014. Tan Sri Zakaria was further redesignated as a member of the Audit Committee on 2 March 2018 following the introduction of the Malaysian Code on Corporate Governance 2017.

He obtained a Bachelor of Arts with Honours Degree from the University of Malaya in 1969 and later furthered his studies in 1993 at the Royal College of Defence Studies in London. He started working in 1969 in the Government Service and later in the Prime Minister's Department. His last held position was Director General when he retired in early 2002.

He is also a Non-Independent Non-Executive Director of Landmarks Berhad.

## Mac Ngan Boon @ Mac Yin Boon

Aged 76, Male, Malaysian

- *Group Managing Director*

Mr Mac Ngan Boon @ Mac Yin Boon is the co-founder of Muhibbah Engineering (M) Bhd and was appointed as the Managing Director of the Company on 22 May 1973. He was a member of the Remuneration Committee from 21 February 2002 until 2 March 2018.

He obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967. He is also a professional engineer with the Institute of Engineers Malaysia. He started work as a construction engineer in 1967. He has been the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998 and the Chairman of the Machinery and Engineering Industries Federation (MEIF) since 2016.

He is also an Executive Director of Favelle Favco Berhad, a subsidiary of Muhibbah Engineering (M) Bhd listed on the Main Market of Bursa Malaysia Securities Berhad.

## Ooi Sen Eng

Aged 78, Male, Malaysian

- *Executive Director*

Mr Ooi Sen Eng obtained his Bachelor of Engineering (Civil) Degree from the University of Malaya in 1966. He was registered with the Board of Engineers (Malaysia) as a Professional Engineer in 1976 and became a member of the Institute of Engineers Malaysia in 1978. In 2015, he achieved the distinction of having been a member of the Institution of Civil Engineers for 50 years. He gained his early marine engineering construction experience from Zublin AG, a German construction company, where he worked for six (6) years until he co-founded the Company in 1972. He was appointed as Director of the Company on 26 May 1973 and was a member of the Remuneration Committee from 21 February 2002 until 2 March 2018.

## Mac Chung Jin

Aged 46, Male, Malaysian

- *Executive Director/ Deputy Chief Executive Officer*

Mr Mac Chung Jin was appointed as Executive Director of Muhibbah Engineering (M) Bhd on 15 May 2014. He was Alternate Director to Mr. Ooi Sen Eng from 2 May 2008 to 15 May 2014. He holds a Bachelor of Civil Engineering Degree from Oxford Brookes University, United Kingdom. He joined Muhibbah Engineering (M) Bhd in 1995 as a Project Engineer and was promoted to Head of Business Development in 1999, spearheading local and international projects. He was appointed Deputy Chief Executive Officer of the Company on 2 September 2013. He is currently also a member of the Risk Management Committee of Muhibbah Group.

## Shirleen Lee Poh Kwee

Aged 54, Female, Malaysian

- *Group Finance Director*

Ms Shirleen Lee Poh Kwee was appointed as Group Finance Director to the Board of Muhibbah Engineering (M) Bhd on 15 May 2014. She is also a member of the Risk Management Committee of Muhibbah Group.

Prior to joining Muhibbah Group, she was a Senior Auditor with an international accounting firm, KPMG with experience in statutory audit, special audit, due diligence, strategic tax planning and compliance services.

She joined Muhibbah Group in 1993 as Group Chief Financial Officer to spearhead Muhibbah Group's corporate banking and treasury management, corporate finance and development, mergers and acquisitions, financial management reporting, tax planning, corporate affairs and investor relations as well as the Group's investment strategy and appraisal.

Ms Shirleen Lee is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and a Chartered Accountant with the Malaysian Institute of Accountants. She is also a Certified Financial Planner of the Financial Planning Association of Malaysia.

Ms Shirleen Lee is also the Group Finance Director of Favelle Favco Berhad, a subsidiary of Muhibbah Engineering (M) Bhd listed on the Main Market of Bursa Malaysia Securities Berhad.

## Sobri bin Abu

Aged 67, Male, Malaysian

- *Independent Non-Executive Director*
- *Chairman of the Audit Committee*
- *Member of the Remuneration Committee and Nominating Committee*

Encik Sobri bin Abu was appointed to the Board as an Independent Non-Executive Director on 27 June 2013. He was further appointed as a member of the Audit Committee as well as the Remuneration and Nominating Committees on 28 August 2013 and redesignated as Chairman of the Audit Committee on 2 March 2018.

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

He is also an Independent Director of Favelle Favco Berhad, a subsidiary of Muhibbah Engineering (M) Bhd listed on the Main Market of Bursa Malaysia Securities Berhad.

# Profile of Directors (continued)

## Abd Hamid bin Ibrahim

Aged 71, Male, Malaysian

- *Independent Non-Executive Director*

Encik Abd Hamid bin Ibrahim was appointed to the Board of Muhibbah Engineering (M) Bhd on 18 January 2006 as an Independent Non-Executive Director.

He holds a Master's degree in Petroleum Engineering from Heriot-Watt University, Scotland and a degree in Mining from Camborne School of Mines, UK. He also attended the Advanced Management Program at the University of Hawaii in 1980 and the Wharton School of Management, University of Pennsylvania, USA in 2000.

Encik Abd Hamid joined PETRONAS in June 1976 as a Production Engineer in the Production Department and since then had held several managerial positions in the Upstream Sector (including General Manager, Development Division, PETRONAS Carigali Sdn Bhd) until April 1991. He was the Managing Director/Chief Executive Officer of Ethylene Malaysia Sdn Bhd and Polyethylene Malaysia Sdn Bhd from May 1991 till May 1996, Managing Director/Chief Executive Officer of Malaysia LNG Sdn Bhd and MLNG Dua Sdn Bhd, and Project Director of MLNG Tiga Sdn Bhd in June 1996 prior to his appointment as the Managing Director/Chief Executive Officer of PETRONAS Gas Bhd from September 1999 to June 2003. He was a member of the PETRONAS Management Committee from July 1996 until June 2003.

He was conferred an Honorary Membership of Malaysia Gas Association (MGA) in 2014 and was made an Honorary Member and Advisor to the Malaysian Oil & Gas Engineering Council (MOGEC) in May 2015. He was also appointed as an Advisor to the Malaysian Oil & Gas Services Council (MOGSC) in April 2018 for his significant contribution to the Association and industry respectively.

## Dato' Mohamad Kamarudin bin Hassan

Aged 64, Male, Malaysian

- *Independent Non-Executive Director*
- *Member of the Audit Committee, Remuneration Committee and Nominating Committee*

Dato' Mohamad Kamarudin bin Hassan was appointed to the Board of Muhibbah Engineering (M) Bhd as an Independent Non-Executive Director and a member of the Audit Committee, Nominating Committee and Remuneration Committee on 15 May 2014.

He graduated with a Bachelor of Economics degree (Majoring in Business Administration) from the University of Malaya in 1978 and obtained a Diploma in Public Management from Institute Tadbiran Awam Malaysia (INTAN) in 1979. He received a Master's Degree in Business Administration (Majoring in Finance) from Oklahoma City University, USA in 1987.

Dato' Mohamad Kamarudin began his career with the Administrative and Diplomatic Service in 1979 with his first posting to the Macro-economic Division of the Economic Planning Unit in the Prime Minister's Department. In 1987, he was transferred to the Ministry of International Trade and Industry (MITI) where he had served in various divisions of the Ministry. He was then posted to the Malaysian Embassy in Washington DC as the Economic Counsellor from 1992 to 1994. From January 2006 until his retirement on 31 August 2013, he was seconded to Malaysia External Trade Development Corporation (MATRADE) as the Deputy Chief Executive Officer.

He is also an Independent Director in three (3) other public listed companies, namely, Duopharma Biotech Berhad, ManagePay Systems Berhad and Malaysian Pacific Industries Berhad.

## Dato' Sri Khazali bin Haji Ahmad

Aged 65, Male, Malaysian

- *Independent Non-Executive Director*

Dato' Sri Khazali bin Haji Ahmad was appointed to the Board of Muhibbah Engineering (M) Bhd as an Independent Non-Executive Director on 16 April 2018.

He graduated with a Bachelor of Economics degree from University Kebangsaan Malaysia in 1980 and obtained a Diploma in Public Administration from Institute Tadbiran Awam Malaysia (INTAN) in 1981. He received a Master's Degree in Economics from the University of Central Oklahoma, USA in 1991.

He was the recipient of the Excellence Service Awards in 2003 and 2006 by the Ministry of Finance. He was also awarded the Asia Tax Commissioner of the year 2015 for his excellent leadership in the Royal Malaysian Customs (Customs), particularly in the implementation of Goods and Services Tax.

Dato' Sri Khazali began his career as Assistant Director in the Public Service Department Malaysia in 1981. He was subsequently posted to the International Trade Division of the Ministry of International Trade and Industry (MITI) where he held various positions before he was transferred to the Tax Analysis Division under the Ministry of Finance in 1997 and became Section Chief in the Division from 2005 to 2007. Between 2007 and 2008, he served as Special Functions Officer to the Chief Secretary to the Government in the Prime Minister's Department. In early 2009, Dato' Sri Khazali was appointed Deputy Director General of Customs. His last held position before his retirement in 2017 was Director General of Customs.

He is an Executive Director of Cuscapi Berhad and Independent Director and Audit Committee member of Favelle Favco Berhad, Bank Islam Malaysia Berhad and Shangri-la Hotels (Malaysia) Berhad. He is also the Chairman of the Nomination and Remuneration Committee in Shangri-la Hotels (Malaysia) Berhad and a member of the Board Information Technology Committee in Bank Islam Malaysia Berhad.

## Mazlan bin Abdul Hamid

Aged 57, Male, Malaysian

- *Non-Independent Non-Executive Director*

Encik Mazlan bin Abdul Hamid was appointed to the Board of Muhibbah Engineering (M) Bhd on 15 May 2014 as a Non-Independent Non-Executive Director.

He obtained a Diploma in Engineering from the University of Mara Technology in 1984 and attended an Advanced Metallurgy course in the United Kingdom in 1985. In the same year, he started his career as a project coordinator in DNT (M) Sdn Bhd. He then joined SCS Petrotechnical (M) Sdn Bhd and was seconded to Sarawak Shell Berhad. Thereafter, he joined Bureau Veritas (M) Sdn Bhd as Surveyor and Marketing Manager. He joined Favelle Favco Cranes (M) Sdn Bhd in 1996 as the Sales & Marketing General Manager and has played a key role in penetrating the international cranes manufacturing market.

Encik Mazlan is also an Executive Director of Favelle Favco Berhad, a subsidiary of Muhibbah Engineering (M) Bhd listed on the Main Market of Bursa Malaysia Securities Berhad.

# Profile of Key Senior Management

## Mac Chung Hui

Aged 41, Male, Malaysian

- *Managing Director/ Chief Executive Officer of Favelle Favco Berhad, A subsidiary of Muhibbah Engineering (M) Bhd listed on the Main Market of Bursa Malaysia Securities Berhad*

Mac Chung Hui was appointed as Chief Executive Officer of Favelle Favco Berhad ("FFB") on 5 May 2004. He was re-designated as Managing Director on 26 August 2013. He holds a Bachelor of Civil Engineering degree from the University of Nottingham, United Kingdom. He joined FFB as Supervisory Board Member in 1999 and was responsible in assisting the Managing Director in the execution of operational decisions of the FFB Group. He has also been overseeing the production and operation of Favelle Favco Cranes Pty Limited ("FFA") and Favelle Favco Cranes (M) Sdn Bhd ("FFM") over the past nineteen (19) years.

He has no directorships in other public listed companies and listed issuers. He is the son of Mr Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of the Company. He has no conflict of interest with the Company and has not been convicted of any offences within the past five (5) years, nor any public sanction or penalty imposed by relevant regulatory bodies during the financial year.

## Ooi Kien Chuan

Aged 68, Male, Malaysian

Mr Ooi Kien Chuan joined Muhibbah Marine Engineering Sdn Bhd (MME) initially as a Shipyard Manager in 1995. He was appointed as the General Manager and subsequently appointed as a Director in 2015 in the shipyard subsidiary to spearhead the Group's shipyard operation which includes shipbuilding, ship repairs and other marine engineering services.

He started his working career in 1970. Prior to joining MME in 1995, he gained hands-on knowledge and experience in various capacities in the maritime oil & gas and shipyard industries in Singapore, Brunei and Malaysia. He obtained a Diploma in Management from the Malaysia Institute of Management (MIM) in 1990.

Mr Ooi has no directorships in other public listed companies and listed issuers. He does not have family relationship with any Director and/or major shareholder of the Company. He has no conflict of interest with the Company and has not been convicted of any offences within the past five (5) years, nor any public sanction or penalty imposed by relevant regulatory bodies during the financial year.

# Other Information

## Additional Information on Directors

1. **Family Relationship with any Director and/or major shareholder of Muhibbah Engineering (M) Bhd**

   None of the Directors have any relationship with each other and/or major shareholders of Muhibbah Engineering (M) Bhd except Mac Chung Jin. Mac Chung Jin is the son of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of the Company.

2. **Conflict of Interest**

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

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

   None of the Directors have been convicted for offences.

## Additional Compliance Information

1. **Utilisation of Proceeds from Corporate Proposals**

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

2. **Fees for services rendered by External Auditors**

   The amount of fees payable/paid to the Company's external auditors for the financial year ended 31 December 2019 were as follows:

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Audit services | 672 | 210 |
| Non-audit services | | |
| - Tax compliance | 42 | 19 |
| - Others | 8 | - |
| | 722 | 229 |

3. **Material Contracts**

   Save for the recurrent related party transactions disclosed under item 4, there were no material contracts entered into by the Company and its subsidiaries involving the interests of Directors and major shareholders, either still subsisting as at 31 December 2019 or entered into since the end of the previous financial year ended 31 December 2018.

4. **Recurrent Related Party Transactions**

   At the Annual General Meeting held on 12 June 2019, the Company obtained shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 30 April 2019. In accordance with Section 3.1.5 of Practice Note No. 12 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2019 pursuant to the shareholders' mandate are disclosed as follows:-

# Other Information (continued)

| Transacting Parties | Related Party | Nature of Transactions | Actual Transaction Value for the Financial Year Ended 31 December 2019 RM'000 |
|---|---|---|---|
| MEB Group and FFB Group | Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui, Mac Chung Jin and Mazlan bin Abdul Hamid | Sales of cranes and parts and rental of cranes, plant and equipment by MEB Group to FFB Group; and subcontracting work awarded by FFB Group to MEB Group | 837 |
| | | Purchases, rental of cranes by MEB Group from FFB Group, and the provision of maintenance and services by FFB Group to MEB Group | 1,763 |
| | | # Rental of factory and office premises located at Lot 9895, Geran #26559, Kg.Jawa, Mukim of Klang, State of Selangor by MEB Group to FFB Group, measuring 5.0 acres | 1,349 |
| | | # Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft. | 87 |
| | | # Rental of land located at PN 109083 Lot No. 104626 Mukim of Klang, State of Selangor by MEB Group to FFB Group, measuring 36,000 square meters | 2,566 |
| | | Shared services expenses/charges by MEB Group to FFB Group which includes amongst others, legal, information technology and internal audit | 2,000 |

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

**Abbreviations**

| | |
|---|---|
| "MEB" | : Muhibbah Engineering (M) Bhd |
| "MEB Group" | : MEB, its subsidiaries and associated companies collectively |
| "FFB" | : Favelle Favco Berhad |
| "FFB Group" | : FFB, its subsidiaries and associated companies collectively |

# Corporate Governance Overview Statement

## Introduction

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

This Corporate Governance Overview Statement ("**CG Overview Statement**") describes how the Group has applied the principles set out in the Malaysian Code on Corporate Governance 2017 ("**MCCG 2017**") issued by the Securities Commission of Malaysia and except where stated otherwise, its compliance with the recommended practices of the MCCG 2017 for the financial year ended 31 December 2019.

This CG Overview Statement is also prepared in compliance with Paragraph 15.25(1) of the Main Market Listing Requirements ("**MMLR**") of Bursa Malaysia Securities Berhad ("**Bursa Securities**") and should be read together with the CG Report of the Company which is published on the Company's website at www.muhibbah.com.

The Board is pleased to present this CG Overview Statement to provide an overview of the CG practices adopted by the Company in achieving the intended outcomes as set out in the MCCG 2017 with reference to the following three (3) key principles under the stewardship of the Board:-

a) Principle A: Board Leadership and Effectiveness;
b) Principle B: Effective Audit and Risk Management; and
c) Principle C: Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.

## PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

## I. Board of Directors

**Duties and Responsibilities of the Board**

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

- Oversee the conduct of the Group's businesses and financial performance to determine if the business is being properly managed and provide stewardship in monitoring that the businesses are aligned with the Group's long and short-term objectives and goals;
- Review and adopt strategic plans/directions of the Company and its Group and to monitor the implementation of such plans/directions by the Management;
- Review and adopt financial results of the Company and the Group as well as review the adequacy of financial information disclosure;
- Review the conduct and performance of major projects to determine whether they are properly managed;
- Assess and review principal risks affecting the Group and supervise the implementation of appropriate systems or processes to manage such risks effectively. Details of the processes are set out in the Statement on Risk Management and Internal Control;
- Ensure there is sound framework for internal controls and risk management;
- Review related party transactions;
- Establish and implement succession planning for the Directors and the Group's key senior management for the purpose of business continuity. This includes ensuring implementation of appropriate systems for recruitment, training and retention;
- Review and adopt corporate strategy, business plans, major investment and financing plans; and
- Review material litigations, Group's order book, debt collection status, capital expenditure, borrowing and cash statuses.

# Corporate Governance Overview Statement (continued)

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

**Board Charter**

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

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

**Composition and Balance**

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

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of ten (10) members, comprising five (5) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and four (4) Executive Directors. As such, half of the Board comprises Independent Directors. This present composition complies with Paragraph 15.02 of the MMLR of Bursa Securities and the MCCG 2017. The Board believes that the current composition is appropriate given the nature of the Group's businesses and scale of operations. Profiles of the Directors are presented in this Annual Report.

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

A Senior Independent Non-Executive Director of the Company leads the Board, to whom concerns of the Group may be conveyed. The Chairman manages the Board's effectiveness by focusing on strategy, governance and compliance.

**Division of roles and responsibilities between Chairman and Managing Director**

The Board subscribes to the principle that clear division of responsibilities between the Chairman of the Board and the Managing Director is beneficial to facilitate a check and balance mechanism for the effective functioning of the Board. The Chairman of the Board, Tan Sri Zakaria bin Abdul Hamid who is a Senior Independent Non-Executive Director leads the Board in overseeing the management while Mac Ngan Boon @ Mac Yin Boon as the Group Managing Director focuses on the business and the day-to-day management of the Group. Such separation of roles and positions promotes accountability and ensures that there is a balance of power and authority in the Board's overseeing the management of the Company.

**Company Secretaries**

The Board is supported by the Company Secretaries who are qualified under the Companies Act 2016. The Company Secretaries advise the Board on CG related matters and ensure the Board adheres to the relevant rules and regulatory requirements as well as Board's policies and procedures.

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

**Board Meetings**

Board meetings are held at regular intervals with additional meetings convened as and when necessary. Board meetings for each financial year are scheduled before the end of the previous financial year so as to enable the Directors to plan their schedules accordingly. During the financial year under review, the Board met four (4) times to review the Group's operations, review and approve the quarterly financial results, annual financial statements and the relevant operational strategic matters requiring the Board's approval. The Company Secretary records in the minutes of Board meetings all the deliberations, particularly the issues discussed in reaching that decision. Directors have complied with the minimum requirement of 50% attendance at Board meetings as stipulated in the MMLR of Bursa Securities.

Details of the Directors' attendance at the Board meetings held during the financial year under review are as follows:

| Names of Directors | Attendance at Meetings in 2019 |
|---|---|
| Tan Sri Zakaria bin Abdul Hamid | 4/4 |
| Mac Ngan Boon @ Mac Yin Boon | 4/4 |
| Ooi Sen Eng | 4/4 |
| Abd Hamid bin Ibrahim | 3/4 |
| Sobri bin Abu | 4/4 |
| Mac Chung Jin | 4/4 |
| Shirleen Lee Poh Kwee | 4/4 |
| Dato' Mohamad Kamarudin bin Hassan | 4/4 |
| Mazlan bin Abdul Hamid | 4/4 |
| Dato' Sri Khazali bin Haji Ahmad | 4/4 |

All Board members are required to declare their respective directorships in other companies to the Board and are expected to devote sufficient time and attention to carry out their roles and responsibilities as Directors. The Board is of the opinion the requirements under the Companies Act 2016 and MMLR of Bursa Securities are sufficient to ensure adequate commitment by the Directors to perform their duties, including devoting sufficient time to the Company without it being formally regulated. This is evidenced by the Directors' attendance at Board meetings as shown above. Schedule for the Company's Board meeting was formulated and shared with the Directors prior to the beginning of each financial year to ensure the Directors' commitment.

**Access to Information and Advice**

Due notice is given to the Directors prior to each Board and Board Committee meeting. All Directors are provided with the agenda and Board papers which include minutes of meetings, details of operational, financial, safety and corporate developments and other relevant documents prior to each Board meeting so as to enable the Directors to make well-informed decisions on matters arising at the meetings. It is the primary responsibility of the Chairman of the Board to organise such information necessary for the Board to deal with the agenda and the Board adopts a formal schedule of matters specifically referred to it for decision.

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

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

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

The Code of Ethics and Business Practice and Conduct is available on the Company's website at www.muhibbah.com.

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

The Whistleblower Policy is available on the Company's website at www.muhibbah.com.

**Sustainability**
The Board views the commitment to sustainability and environment, social and governance performance as part of its broader responsibility to clients, shareholders, workplace and the communities in which the Group operates. Every business decision that the Group makes pertaining to growth and profitability is consistent with its social and environmental needs for sustainability. The corporate responsibility initiatives undertaken by the Company for the financial year ended 31 December 2019 are disclosed in the Sustainability Statement of this Annual Report.

## II. Board Committees

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

***a) Audit Committee***

The present members of the Audit Committee are as follows:

| Name of Committee Members | Designation |
|---|---|
| Sobri bin Abu | Chairman<br>*(Independent Non-Executive Director)* |
| Tan Sri Zakaria bin Abdul Hamid | Member<br>*(Senior Independent Non-Executive Director)* |
| Dato' Mohamad Kamarudin bin Hassan | Member<br>*(Independent Non-Executive Director)* |

The principal objective of the Audit Committee is to assist the Board in carrying out its statutory duties and responsibilities relating to the accounting and reporting practices of the Group. This includes reviewing the quarterly financial results to be disclosed, the scope of works and management letter of the external auditors as well as undertaking any such other functions as may be determined by the Board from time to time.

The Audit Committee consists exclusively of Independent Non-Executive Directors. The Audit Committee met four (4) times during the year.

A report detailing the membership, attendance, roles, and activities of the Audit Committee is presented in the Audit Committee Report of this Annual Report.

***b) Nominating Committee***

The present members of the Nominating Committee are as follows:

| Name of Committee Members | Designation |
|---|---|
| Tan Sri Zakaria bin Abdul Hamid | Chairman<br>*(Senior Independent Non-Executive Director)* |
| Sobri bin Abu | Member<br>*(Independent Non-Executive Director)* |
| Dato' Mohamad Kamarudin bin Hassan | Member<br>*(Independent Non-Executive Director)* |

The Nominating Committee met once during the financial year 2019. In accordance with its Terms of Reference, the Nominating Committee reviewed the Board structure, size and composition in the Board to ensure that the Board has the appropriate mix of skills, experience and other core competencies in fulfilling the relevant requirements or guidelines of Bursa Securities.

The Nominating Committee had carried out the following key activities during the financial year under review in discharging its duties:-

- Reviewed and assessed the independence and performance of each Independent Director in bringing independent and objective judgement for Board's deliberation. All assessments and evaluations carried out by the Nominating Committee are properly documented whereby the Nominating Committee was satisfied by the level of independence demonstrated and performance of all the Independent Directors;

- Reviewed the existing balance, size, composition, mix of skills, diversity (including gender, ethnicity and age diversity) and effectiveness of the Board and its committees as whole, the performance of individual Directors and Audit Committee members through an evaluation survey questionnaire known as Board and Board Committees Assessment Questionnaire. The duly completed questionnaire was compiled and used as guidance for the recommendation of appropriate actions for further improvement; and

- Identified and recommended to the Board, the Directors who were due for retirement by rotation subject to re-election at the forthcoming Annual General Meeting.

The Nominating Committee's Terms of Reference is available on the Company's website at www.muhibbah.com.

**c) Remuneration Committee**

The present members of the Remuneration Committee are as follows:

| Name of Committee Members | Designation |
|---|---|
| Tan Sri Zakaria bin Abdul Hamid | Chairman<br>*(Senior Independent Non-Executive Director)* |
| Sobri bin Abu | Member<br>*(Independent Non-Executive Director)* |
| Dato' Mohamad Kamarudin bin Hassan | Member<br>*(Independent Non-Executive Director)* |

The Remuneration Committee met once during the financial year 2019. In accordance with its Terms of Reference, the Remuneration Committee reviewed the remuneration packages of the Executive Directors in accordance with their performance, contribution and level of responsibilities undertaken for the Board and benchmarked against other companies in similar industries to ensure that the Company's remuneration packages remain competitive to attract and retain high calibre executives to run the Company successfully. Directors do not participate in deliberations and decisions on their own remuneration.

Although the Group does not have written remuneration policies, remuneration comparison for similar positions with other Malaysian public listed companies operating in similar industries is performed on an annual basis so as to ensure that the remuneration packages of the Directors remain competitive with the market and is reflective of their respective duties and responsibilities.

The Remuneration Committee's Terms of Reference is available on the Company's website at www.muhibbah.com.

## III. Board Evaluation

The process of assessing Directors is an ongoing responsibility of the entire Board. For the financial year under review, the Board assisted by the Nominating Committee, reviewed the skills and experience of the individual Directors and assessed the effectiveness of the Board as a whole.

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

The Board evaluation comprises Board and Board committee assessments as well as an assessment on the independence of Independent Directors and the contribution of each individual Director which are conducted on an annual basis. The evaluation process which is led by the Nominating Committee and supported by the Company Secretary, involve the individual Directors and committee members completing a set of evaluation questionnaires on a yearly basis regarding the processes of the Board and its Committees, their effectiveness and where improvements could be considered by the Company. Based on the outcome of evaluations, the Nominating Committee shall recommend to the Board the areas requiring continuous improvement and form a basis for recommending the directors due for re-election.

The criteria for assessing the independence of an Independent Director includes assessing their respective relationship with the Group and their involvement in any significant transaction with the Group. The Board also undertook a self-assessment in which they assessed their own performance.

## IV. Appointment, Re-appointment and Re-election of Directors

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

The Board believes that diversity in the Board's composition will bring value to Board deliberation. The Board recognises the benefit of diversity in gender and hence gender had been inherently considered in the recruitment and appointment of Directors. The Board has one (1) woman Director and the Board is comfortable with its current composition. Nevertheless, to ensure effective appointment of female Directors, the Board does not set any specific target for female Directors but continues to work actively towards having more female Directors on the Board, all things being equal.

## V. Reinforcement of Independence

The Board acknowledges the importance of Independent Non-Executive Directors in bringing objectivity and impartiality in providing unbiased opinion and judgment to ensure that the interests of the Group, shareholders, customers and other stakeholders are taken into account during its decision making process. The Board consists of five (5) Independent Directors who were neither involved in the business transactions nor participated in the day-to-day management of the Group. The Independent Directors satisfy the definition set out in the MMLR of Bursa Securities and the Company meets the requirement prescribed by the MMLR of Bursa Securities to have at least one-third (1/3) of its Board members being Independent Directors, and the MCCG 2017 recommendation to have at least half of the Board comprising Independent Directors.

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

Currently, there are two (2) Board members who have served as Independent Directors for more than twelve (12) years. The Nominating Committee and the Board have performed the assessment on independence of the Independent Directors and noted that Tan Sri Zakaria bin Abdul Hamid and En Abd Hamid bin Ibrahim had served the Board for more than twelve (12) years as Independent Directors. The Board on the recommendation of the Nominating Committee has proposed for their re-appointment as Independent Directors at the forthcoming Annual General Meeting based on their independence, vast experience cumulated from the relevant industries, networking and ability to continue to provide valuable contributions and independent insights to support the Board.

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

The Board takes cognisance of Practice 4.2 of the MCCG 2017 that the tenure of an Independent Director should not exceed a cumulative term limit of nine (9) years. Nevertheless, the Board is of the view that the ability of long serving Independent Directors to remain independent and to discharge their duties with integrity and competency should not be measured solely by tenure of service or any pre-determined age.

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

# Corporate Governance Overview Statement (continued)

## VI. Directors' Training

The Board is cognisant of the value add that the Directors can bring when they are kept up to date with the industry and regulatory development. All the Directors have attended and successfully completed the Mandatory Accreditation Programme as prescribed by Bursa Securities. During the financial year, seminars and training programmes attended include topics relating to corporate governance, risk management, corporate strategy, finance, taxation and new legislations. Training for Directors will be provided continuously so as to ensure that they are kept abreast with the latest developments in relevant laws, regulations and business practices and to enable them to discharge their duties effectively.

An induction briefing is provided by the Board and Senior Management to any newly appointed Independent Non-Executive Directors to provide them with in-depth knowledge of the Group's businesses and strategies.

The seminars, training programmes, conferences and forums attended by the Directors during the financial year under review include the following:-

| Programme title | Organiser |
|---|---|
| Business Transformation | Malaysian Institute of Corporate Governance |
| Board Dynamics<br>- What are the Key Essential Requirements | Malaysian Institute of Corporate Governance |
| Annual General Meeting<br>- Venue of the New Regime in Corporate Governance | Bursatra Sdn. Bhd. |
| Board Evaluation & Effectiveness Assessment<br>- Clarify The Board's Performance Objectives | Malaysian Institute of Corporate Governance |
| Practical Approach and Guidelines<br>for Risk Management and Internal Control | Bursatra Sdn. Bhd. |
| Auditor's Reports and Auditor's Duty<br>of Care to Third Parties | Malaysian Institute of Accountants |
| Labuan : New Regulations and Rules From 2019 | Malaysian Institute of Accountants |
| Bloomberg Asean Business Summit | Bloomberg Live |
| Corporate Seminar Global Market Outlook | UOB Bank |
| Optimising Tax Benefits for Companies & Related Entities | Malaysian Institute of Accountants |
| Transfer Pricing Documentation & Country-by-Country Reporting | Malaysian Institute of Accountants |
| Budget 2020 : Key Updates and Changes<br>for Corporate Accountants | Malaysian Institute of Accountants |
| International Directors Summit 2019<br>The Trust Compass: Resetting The Course | Institute of Corporate Directors Malaysia |
| Anti-Money Laundering & Counter Financing of Terrorism<br>(AMLCFT) Essentials for Boards, Partners & Senior Officers | Malaysian Institute of Accountants |
| Section 17A of the MACC Act 2009 (Amendment 2018) | Securities Industry Development Corporation |

| Programme title | Organiser |
|---|---|
| Directors' Duties & Powers<br>- "Recent Developments in the law and how it affects you" | Raja, Darryl & Loh |
| Corporate Liability for Corrupt Practices<br>- Amended MACC Act 2019 & Proposed SC Guidelines on Initial Public Offerings (IPO) : Monetising Loyalty Points | Messrs HL Tan Lim & Partners |
| Conference on Enterprise Risk Management (ERM) | Institute of Enterprise Risk Practitioners (IERP) |
| Understanding Accounting & Analysing Financial Statements for Better Decision-Making for Directors & Corporate Managers | 3ntity Sdn Bhd |
| Managing Cash Flow In Difficult Times | 3ntity Sdn Bhd |
| Role of Social Media in Corporate Branding | Duopharma Biotech Berhad |
| Addressing Corruption Risk to Safeguards Directors Against Corporate Liability | Duopharma Biotech Berhad |
| CG Basic Fundamental and Reporting Frame Work<br>- Understand the Essential Insights and Disclosure Requirements | Bursatra Sdn. Bhd. |
| Corporate Liability Provision (Section 17A) of the MACC Act 2009 | Bursa Malaysia |
| Directors' Duties and Responsibilities<br>- A Refresher & Anti-Money Laundering in Malaysia | PPB Corporate Services Sdn Bhd |

## VII. Directors' Remuneration

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

| | Group RM'000 | Company RM'000 |
|---|---:|---:|
| **Executive:** | | |
| Fees | 726 | 288 |
| Other emoluments | 4,287 | 3,933 |
| | 5,013 | 4,221 |
| **Non-Executive (but holding executive position in subsidiaries):** | | |
| Fees | 198 | 72 |
| Other emoluments | 775 | 14 |
| | 973 | 86 |
| **Independent Non-Executive:** | | |
| Fees | 540 | 360 |
| Other emoluments | 100 | 68 |
| | 640 | 428 |
| Total Directors' remuneration | 6,626 | 4,735 |

# Corporate Governance Overview Statement (continued)

The number of Directors in each remuneration band for the financial year ended 31 December 2019 is as follows:

| Range of Remuneration | Executive Directors | Non-Independent Non-Executive Director | Independent Non-Executive Directors | Total |
|---|---|---|---|---|
| Below RM100,000 | - | - | 3 | 3 |
| RM150,001 to RM200,000 | - | - | 1 | 1 |
| RM200,001 to RM250,000 | - | - | 1 | 1 |
| RM950,001 to RM1,000,000 | 1 | 1 | - | 2 |
| RM1,000,001 to RM1,050,000 | 1 | - | - | 1 |
| RM1,250,001 to RM1,300,000 | 1 | - | - | 1 |
| RM1,750,001 to RM1,800,000 | 1 | - | - | 1 |
| | 4 | 1 | 5 | 10 |

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

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

## PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

**I. Audit Committee**

The Audit Committee ("AC") comprises three (3) members who are Independent Non-Executive Directors and is chaired by Encik Sobri bin Abu. All members of the AC possess the required skills and experience to effectively discharge their duties and responsibilities as members of the AC. None of the members were former key audit partners for the Company or the Group in the past two (2) years.

Further details of the AC and its activities are set out in the Audit Committee Report of this Annual Report.

**II. Relationship with the Auditors**

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

The external auditors have declared that they are independent and do not have any conflict of interest to carry out the audits and provision of non-audit services to the Group.

**III. Internal Audit Function**

Details of the Internal Audit Function and activities are set out in the Audit Committee Report of this Annual Report.

**IV. Recurrent Related Party Transactions**

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

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

**V. Risk Management Framework and Internal Control**

The Group's Statement on Risk Management & Internal Control presented in this Annual Report provides an overview of the risk management framework and state of internal control within the Group.

## PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

**I. Corporate Disclosure Policy**

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

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

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

**II. Communication with Investors and Shareholders**

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

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

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

# Corporate Governance Overview Statement (continued)

**III. Annual General Meeting**

The Annual General Meeting ("**AGM**") is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire on the Company's progress and performance. Shareholders who are unable to attend the AGM are allowed to appoint proxy/proxies to attend, participate, speak and vote on their behalf. In line with good CG practices, the notice of the AGM was circulated at least 28 days before the date of AGM to enable shareholders to make the necessary arrangements to attend and make informed voting decisions at the AGM.

The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting. External auditors were also invited to attend the AGM to provide independent clarification on issues relating to the conduct of the audit and Auditors' Report, if any.

In accordance with the MMLR of Bursa Securities, voting at the AGM shall be conducted by poll. All shareholders shall be briefed on the voting procedures by the poll administrator prior to the poll voting and the appointed independent scrutineer shall validate the votes cast and announce the poll results.

## Compliance Statement

The Company has complied to a substantial extent, with the principles set out in the MCCG 2017 and the relevant requirements of the MMLR of Bursa Securities on CG to the extent as set out above throughout the financial year ended 31 December 2019.

This CG Overview Statement was approved by the Board on 29 April 2020.

# Audit Committee Report

The Board of Directors ("**the Board**") of Muhibbah Engineering (M) Bhd is pleased to present the Audit Committee Report for the financial year ended 31 December 2019.

## Composition and Attendance

Board members who served on the Audit Committee ("**AC**") during the financial year ended 31 December 2019 and details of their attendance are as follows:

| Name of Committee Members | Designation | No of Committee Meetings Attended |
|---|---|---|
| Sobri bin Abu | Chairman<br>*(Independent Non-Executive Director)* | 4/4 |
| Tan Sri Zakaria bin Abdul Hamid | Member<br>*(Senior Independent Non-Executive Director)* | 4/4 |
| Dato' Mohamad Kamarudin bin Hassan | Member<br>*(Independent Non-Executive Director)* | 4/4 |

The AC comprises entirely Independent Non-Executive Directors. Dato' Mohamad Kamarudin bin Hassan has fulfilled the financial expertise requisite of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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

The Group's Finance Director and the Group's Internal Audit Manager attended all AC meetings by invitation. A representative of the External Auditors, other Board members and Group's Head of Legal and Contracts also attended some of the meetings upon invitation by the Chairman of the AC.

## Summary of Activities in 2019

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

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

(ii) Internal Audit
- Reviewed and approved the internal audit plan to ensure the adequacy of its scope of coverage;
- Reviewed the recurrent related party transactions review report;
- Reviewed the internal audit reports and specific review reports presented by the Internal Auditors which comprise internal auditors' recommendations and Management's committed action plans.
- Reviewed the results of follow-up audits performed by the Internal Auditors to monitor the status of Management's implementation of the committed action plans.

# Audit Committee Report (continued)

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

(iv) Reviewed major business issues/risks of projects in the Group as well as material litigations affecting the Group.

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

## Internal Audit Function

Group Internal Audit Department ("**GIAD**") is an in-house function that carries out its activities in accordance with the Internal Audit Charter which defines the scope, authority, roles and responsibilities of internal audit function. It is an independent function that reports directly to the AC and administratively to the Deputy Chief Executive Officer.

GIAD is headed by Mr Foo Sek Thai who is a member of the Malaysian Institute of Accountants and a Chartered Member of Institute of Internal Auditors Malaysia. He has regular and direct communication with the AC and unrestricted access to the Executive Directors. He is supported by four (4) auditors who have university degree and/or professional qualification. All the internal auditors have signed a written confirmation that they comply with the code of conduct of the Group and are free from any form of conflicts of interest which could impair their objectivity.

Based on the internal audit plan approved by the AC, GIAD performs independent assessment on the adequacy and effectiveness of the Group's system of internal control, risk management and governance processes. GIAD is guided by the International Professional Practice Framework (IPPF) in their works and the approach is risk based. For the financial year ended 31 December 2019, the scope of review included the following:

- Tender Administration
- Employees Compensation Management
- Project Initiation and Planning
- Procurement
- Inventory Management
- Diesel Management
- Contracts Management
- Labour Management
- Recurrent and Related Party Transactions
- Overheads Administration
- Cheques Payment Process
- Compliance to Section 17A of the Malaysian Anti-Corruption Commission Act 2009

GIAD reported the findings of the above audits to the Audit Committee for their deliberation where the reports included recommendations and mitigation action plans established by the Management to mitigate the issues of concerns. In addition, GIAD carried out the following:

- Facilitated Risk Management Committee meetings and Risk Management Unit meetings for the various business units without compromising its independence.
- Participated in Key Management meetings to keep abreast of the evolvement of the risks pertaining to the business environment.
- Reviewed the Statement on Risk Management and Internal Control for the Company's 2019 Annual Report.
- Provided internal audit services and facilitated risk management meetings for the listed subsidiary i.e. Favelle Favco Berhad.

The total cost incurred by GIAD for the financial year ended 31 December 2019 was approximately RM630,947.

## Terms of Reference

The AC Terms of Reference is made available on the Company's corporate website at www.muhibbah.com.

# Statement on Risk Management & Internal Control

## Introduction

The Board of Directors ("**the Board**") of Muhibbah Engineering (M) Berhad is pleased to include this statement as required by paragraph 15.26(b) of the Main Market Listing Requirements ("**MMLR**") of Bursa Malaysia Securities Berhad ("**Bursa Securities**") as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

## Board's Responsibilities

The Board, in upholding the principles of corporate governance, is committed to maintaining a sound system of risk management and internal control ("**the System**") to safeguard the shareholders' interests and the Group's assets. The Board, however, recognised that due to inherent limitations in any system, such system established by the Management can only provide reasonable and not absolute assurance against the risk of material error, misstatement or loss, hence does not totally eliminate the risk of not achieving the Group's business objectives.

## Risk Management

In line with good practice to closely monitor the Group's risk exposure, a Risk Management Committee ("**RMC**") with its principal roles and responsibilities stated in the risk management policy and procedure was established at the Group level. The RMC that consists of Executive Directors and members from Senior Management, monitors the Group's risk exposure by meeting on a half yearly basis to review the risk profile.

The RMC is supported by Risk Management Units ("**RMUs**") set up at the respective business units. The RMU within each business entity meets on a half yearly basis to review and update the risk profiles and risk matrix before submitting them to the RMC.

The RMC and RMUs are established with the aim of providing a continuous systematic approach in identifying and assessing risks as well as ensuring that the risk mitigation processes are established to address the ever evolving risks. Such risk management process has been in place for the financial year and up to the date of approval of this statement.

## Key Elements of Internal Control

- Organisation Structure & Authorisation Procedures
  The Group maintains a formal organisational structure that defines accountabilities and delegation of responsibilities. The roles and responsibilities that are set out comprise review and approval procedures to uphold the internal control system of the Group's various business units.

- Limit of Authority
  The authority limits for corporate and project levels provide clear delegations of authority. Wherever deemed possible, such authority limits are clearly defined in the Enterprise Resource Planning System.

- Code of Conduct
  The Code of Conduct is in place to foster a culture of accountability and integrity. It serves as a guidance to shape the acceptable behaviour of the employees.

- Group Policies and Procedures
  Standard operating procedures for key business processes are formalised in quality procedures to govern the Group's business operations. The Corporate Quality Assurance/Quality Control ("**QA/QC**") Department conducts quarterly Internal Quality Audits and checks to ensure that the operational processes are in accordance with ISO 9001:2015 and ISO/TS29001:2010.

# Statement on Risk Management & Internal Control (continued)

- Periodic Management Review of Project Performance
  The Group has established a process to review performance of selected projects on a periodic basis. The project teams meet at these times to examine their progress and performance. In addition, management reports are prepared and tabled to the Senior Management for their review and deliberation in the periodic meetings attended by the Project Directors, Project Management Team and Executive Directors.

- Quality Assurance / Quality Control
  The Corporate QA/QC Department focuses on Quality Assurance of the construction and fabrication works of the Group. A team of Quality Control Inspectors are posted at various project sites and fabrication yards where they carry out quality control activities at sites/yards to ensure that the work performance complies with the quality specifications and safety requirements.

- Safety, Health and Environment
  In addition to the site safety audits, the Health, Safety and Environment Department has been conducting continuous programs including induction and training to ensure safety awareness among the staff. The Department also conducts periodic audits and checks to confirm that the operational processes conformed to ISO 18001:2007 Occupational Health and Safety Management as well as 14001:2015 Environmental Management Systems.

- External Audit
  If the external auditors detect any internal control weakness during the course of their audit, they will highlight such weakness in the Audit Review Memorandum to the Audit Committee ("**AC**") for their attention.

The Group's system of internal control does not apply to Associate Companies and Jointly Controlled Entities where the Group does not have full management control over these entities. However, the Group's interest is served through representations on the Board of the respective associate companies and jointly controlled entities.

The Board delegated its role of reviewing the adequacy and effectiveness of internal controls to the AC. The AC assesses the internal controls via its review of the quarterly reports submitted by Management, observations reported by the external auditors and internal audit reports submitted by the Group Internal Audit Department. In addition, for the period under review, the Board has received opinions from the Managing Director, Deputy Chief Executive Officer and Finance Director that the Group's risk management and internal control system is reasonably adequate and effective in material respects.

**Review of Statement by External Auditors**

As required by Paragraph 15.23 of the MMLR of Bursa Securities, the external auditors have reviewed this Statement on Risk Management and Internal Control, and reported to the Board that nothing has come to their attention that cause them to believe that the Statement on Risk Management and Internal Control, in all material aspects, has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control : Guidelines for Directors of Listed Issuers, or is factually inaccurate. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide 3 (formerly known as Recommended Practice Guide 5 (Revised 2015)) issued by the Malaysian Institute of Accountants.

**Conclusion**

The Board is of the opinion that the risk management and internal control system put in place for the year under review and up to the date of approval of this statement is reasonably adequate to safeguard the shareholders' interests and the Group's assets.

The Board will continue to monitor and ensure that the risk management and internal control system continues to function effectively in the changing and challenging business environment.

This statement was approved by the Board on 29 April 2020.

# Directors' Responsibility Statement

The Directors are required by the Companies Act 2016 ("the Act") to ensure that the annual financial statements of the Group and the Company are prepared in accordance with the applicable approved accounting statements in Malaysia, the provisions of the Act and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The financial statements have provided a true and fair view of the financial position, financial performance and cash flows of the Group and the Company for the financial year ended 31 December 2019.

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

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

# Sustainability Statement

**In Muhibbah, we strive to integrate sustainability into our business model and in our diverse range of operations. We believe sustainability is the key to corporate success. Muhibbah is proud to be able to play a vital role in promoting sustainable development by creating long-term financial value, reducing our environmental footprint, empowering our workforce and contributing to our community.**

## 1 About this Statement

We are pleased to present our inaugural sustainability statement that shows how we, Muhibbah Engineering (M) Bhd ("**Muhibbah**" or "**the Group**") manage sustainability-related risks and opportunities in our business operations.

This statement has been prepared in accordance with the Bursa Malaysia Securities Berhad's Sustainability Reporting Guide. The format is aligned with the recommended Global Reporting Initiatives (GRI) 4.0 Sustainability Reporting Guidelines.

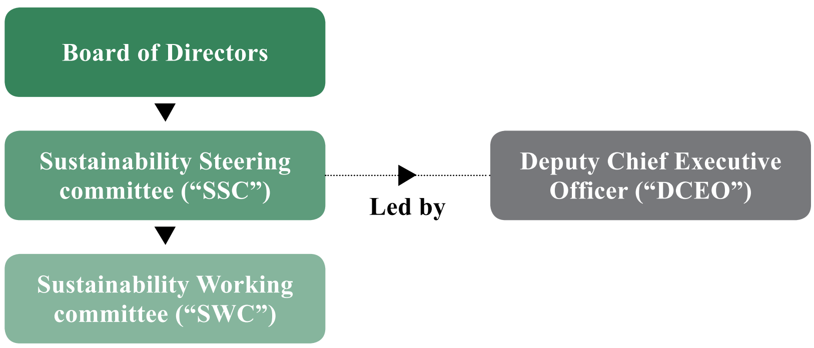
### 1.1 Statement Scope and Boundary

Our business portfolio comprises 4 core divisions; namely Concessions, Infrastructure Construction, Cranes and Shipyard. The Construction and Engineering division is primarily engaged in infrastructure, civil and structural engineering, marine, oil and gas, shipbuilding, contract works while the Concessions division consists of Cambodia Airports privatisation and road maintenance for the Federal Government of Malaysia. For the purpose of this sustainability statement, we only cover our operation in Malaysia[1].

This statement presents our sustainability performance for the financial year ended 31 December 2019.

## 2 Sustainability Governance

We have developed a 2-tier structure that reports to the Board of Directors to ensure the implementation and monitoring of our sustainability initiatives and performance.




**Muhibbah Sustainability Governance Structure**

The **Board of Directors** is responsible in building sustainability by endorsing the Group's sustainability strategy and setting the direction for sustainability within the Group. The **SSC** is responsible to report the sustainability performance to the Board on a periodic basis. Led by the **DCEO**, the **SSC** provides guidance to the **SWC** on the implementation of sustainability-related strategies. The **SWC** consists of internal departments that manage the day-to-day implementation, data collection and monitoring of the sustainability initiatives.

[1] The sustainability statement issued by the Group's crane manufacturing subsidiary company, Favelle Favco Berhad which is a public listed company is presented in Favelle Favco Berhad's Annual Report.

## 3 Stakeholder Engagement

We actively engage with our key stakeholders to understand their expectations and this enables us to address their issues of interest. For efficient engagement, we engage our stakeholders through various platforms as described below.

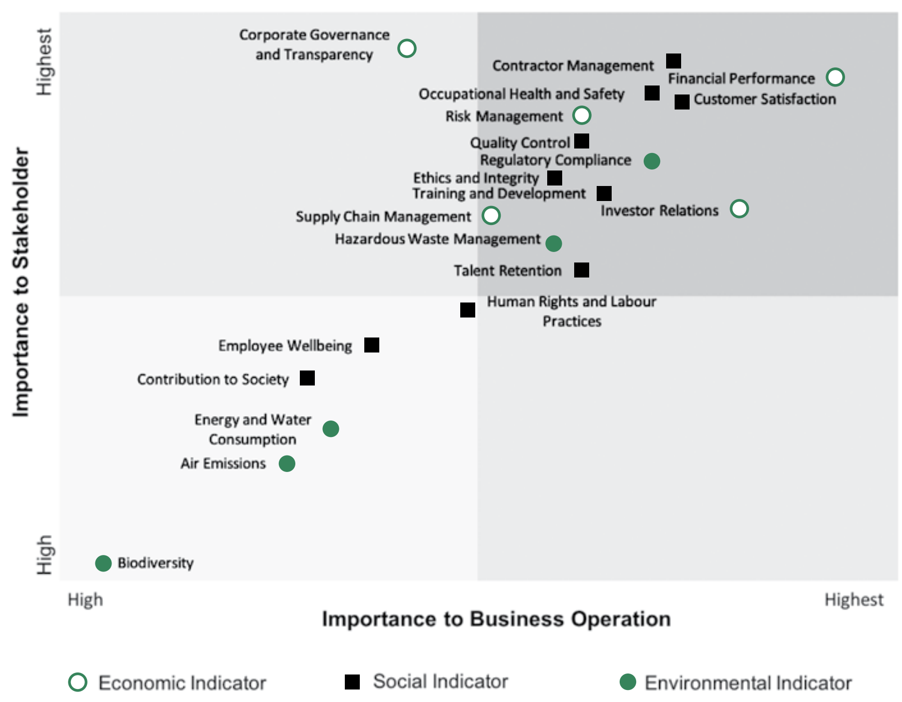
| Our Stakeholders | Issues of Interest | Our Methods of Engagement |
|---|---|---|
| Regulatory Agencies | • Regulatory compliance<br>• Labour practices<br>• Occupational safety and health<br>• Environmental management and compliance<br>• Operating licence | • Inspection by local authority<br>• General meetings with local regulators<br>• Relevant circulations on authorities' / regulators' policies<br>• Communication of new law and changes in law<br>• Attending seminars held by regulators |
| Shareholders / Investors and Financiers / Bankers | • Group financial performance<br>• Group business strategy<br>• Corporate governance and compliance<br>• Ethical business conduct<br>• Share price growth<br>• Cash flow and profit forecast of the company | • Investors meetings<br>• Annual general meetings<br>• Quarterly financial reporting and annual reports<br>• Investors seminars and conferences<br>• Communication via emails or tele-conferencing<br>• Regular meetings with financiers |
| Client | • Quality of work and services<br>• Customer-company relationship management<br>• Compliance with HSE (Health, Safety and Environment) and security policies/ requirements | • Regular client meetings<br>• Feedback sessions<br>• Satisfaction surveys<br>• Company's website<br>• Periodic quality control checks and audits at project sites<br>• HSE walkabouts and audits |
| Employees | • Performance management<br>• Career development<br>• Compliance with HSE policies at workplace<br>• Training and development / competency training<br>• Employee engagement<br>• Company policies<br>• Rewards and remuneration | • MySurvey (Staff Satisfaction Survey)<br>• Circulation of internal policies<br>• Management retreat<br>• On-Board induction<br>• Mandatory and organisational training<br>• Performance Management System (Staff Performance Appraisal)<br>• Benchmark against general market benefits and remuneration packages<br>• HSE Induction and Awareness training |
| Suppliers / Sub-Contractors | • Procurement practices<br>• Payment schedule<br>• Ability and capability of suppliers or sub-contractors<br>• Financial stability of sub-contractors<br>• Compliance with HSE Management | • Evaluation and performance reviews<br>• Contract negotiation<br>• Vendor registration<br>• Evaluation and performance reviews<br>• Establishment of e-procurement with long-term strategic suppliers<br>• Third party appraisal of sub-contractors<br>• Periodic audit and inspection |
| Local Communities | • Social issues<br>• Impact of business operations<br>• Transparency and accountability<br>• Compliance with HSE Management | • Community engagement<br>• CSR (corporate social responsibility) programmes<br>• Press releases |

# Sustainability Statement (continued)

## 4 Materiality Assessment

Material sustainability matters refer to the key issues related to economic, environmental and social factors that impact the sustainability of our business.

**Materiality Matrix**




## 5 Road to Sustainability

To achieve our sustainability vision, we have developed a strategy that focuses on the four (4) main pillars encompassing the Marketplace, Workplace, Environment and Community in our business operations.

**Sustainability Vision:**
**Forging ahead with steady growing potential in the pursuit of excellence**

**Marketplace**

Delivering sustainable return to our shareholders

**Workplace**

Keeping our people safe at work through proper planning and training

**Environment**

Optimising usage of natural resources and minimising environmental impacts

**Community**

Engaging our community through contribution of labour and financial support

### 5.1 Marketplace

Sustainability is the core of Muhibbah's business model and strategy since its incorporation in 1972. Muhibbah has established its track record as a leading engineering contractor servicing a diverse range of industries by providing integrated construction solutions for maritime, oil and gas and infrastructure projects for both local and global markets. We are committed to delivering a sustainable financial growth while contributing to the local economy.

### 5.1.1 Financial Performance

We achieved RM34.9 million net profit after tax and non-controlling interests for the financial year ended 31 December 2019. The Group's historical summary of 5-year economic performance is disclosed in the Group Financial Highlights of this Annual Report.

### 5.1.2 Quality Assurance and Quality Control

We continue to strengthen our commitment to the pursuit of delivering quality products and services to our clients with our Quality Policy and internationally certified Quality Management Systems. Internal Quality Audits are conducted periodically to ensure compliance with all requirements of the standards listed below by each of our certified subsidiaries.

| Standard | Company / Subsidiary |
|---|---|
| **ISO 9001:2015:** Quality Management Systems | 1. Muhibbah Engineering (M) Bhd (MEB)<br>2. Muhibbah Steel Industries Sdn Bhd (MSI)<br>3. CiTECH Energy Recovery System Malaysia Sdn Bhd (CiTECH)<br>4. Muhibbah Airline Support Industries Sdn Bhd (MASI)<br>5. Favelle Favco Cranes (M) Sdn Bhd (FFC) - Senawang & Telok Gong<br>6. Muhibbah Marine Engineering Sdn Bhd (MME)<br>7. Muhibbah Engineering Middle East L.L.C (MEME) |
| **ISO/TS 29001:2010:** Quality Management System for product and service supply organizations for the petroleum, petrochemical and natural gas industries. | 1. Muhibbah Engineering (M) Bhd (MEB)<br>2. Muhibbah Steel Industries Sdn Bhd (MSI)<br>3. CiTECH Energy Recovery System Malaysia Sdn Bhd (CiTECH)<br>4. Muhibbah Airline Support Industries Sdn Bhd (MASI) |
| **ASME 'U' Stamp** – Boilers and Pressure Vessel Certification | 1. CiTECH Energy Recovery System Malaysia Sdn Bhd (CiTECH) |
| **NBBI 'R' Stamp** – Repairs and alterations on pressure vessels, boilers, and pressure-retaining items. | 1. CiTECH Energy Recovery System Malaysia Sdn Bhd (CiTECH) |
| **ASME 'S' Stamp** – Manufacture and Assembly of Power Boilers. | 1. CiTECH Energy Recovery System Malaysia Sdn Bhd (CiTECH) |

### 5.1.3 Risk Management

Our detailed system of risk management and internal control is reported in the Statement of Risk Management and Internal Control in our Annual Report.

# Sustainability Statement (continued)

### 5.2 Workplace

Our employees play a fundamental role in driving the business operation to meet the best industry standards. Realising their value, we strive to provide our employees with a productive work environment to continue to retain talent within the Group by empowering them with training and development.

### 5.2.1 Occupational Health and Safety

Due to the nature of our business, Muhibbah is firmly committed to creating a safe workplace for our employees. We treat Safety and Health with the highest level of priority. Our commitment is demonstrated in our Safety and Health Policy which is adhered to across the Group.

**Safety and Health Policy Statement**

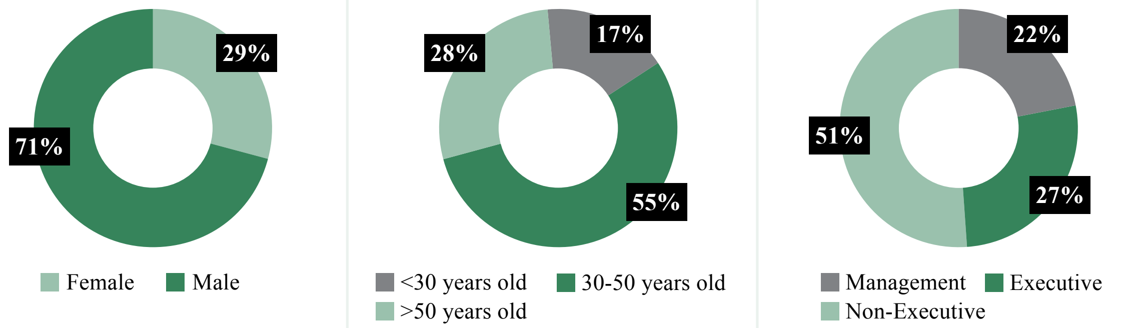
- To treat Safety and Health with the highest priority and demonstrate visible leadership in all our business activities by providing adequate resources necessary to manage and communicate Safety & Health commitment, expectations and accountability in the same manner as any other critical business function.
- Muhibbah shall assign clear emphasis on Safety and Health responsibilities to all employees as a fundamental part of their duties.
- Muhibbah shall comply with all requirements of legislation related to Safety and Health as stated in the Occupational Safety and Health Act 1994, as well as other approved regulations and codes of practice.
- Muhibbah shall proactively identify, manage associated risks and abide by the accident prevention scheme in its activities to minimize impact to its employees, stakeholders and communities.
- All Safety and Health information and literature shall be disseminated and well communicated to all staff and sub-contractors.
- Muhibbah shall ensure continual performance improvement to its Safety and Health Management System through periodic meetings, programs, audits and reviews.

Throughout our Group, we work towards full compliance with the requirements of the Occupational Safety and Health Act 1994 and the Factories and Machineries Act, 1967. We are proud to announce that we have achieved the OHSAS 18001:2007 certification for our Occupational Health and Safety management system within the Group.

Safety, Health and Environment Committees ("SHEC") are established within our Group to develop and carry out measures for the protection and safeguard of our employees at their respective workplace. The SHEC comprise employee and employer representatives from each department who work in partnerships together on various safety and health programmes, undertake job hazard analysis and investigate accidents/incidents to implement appropriate remedial measures and reduce potential hazards at the workplace. To further improve our workplace safety, we undertake periodic risk assessments for each work task to identify the hazards and risks involved and provide the necessary mitigating controls.

### 5.2.2 Employee Diversity

We treat our employees with respect and dignity. Muhibbah appreciates the diversity among our workforce and continues with its endeavours to create a diversified workforce by hiring talented people without any form of discrimination.




**(i) Employees Breakdown by Gender**

**(ii) Employees Breakdown by Age**

**(iii) Employees Breakdown by Category**

(i) Male employees contribute to 71% of the Group's workforce. Our workforce is male-dominated due to the nature of our business operations.

(ii) Muhibbah has a diverse and well-distributed age group of workforce. The demographic data above shows the diversity of age that enables us to develop a sustainable workforce via ensuring the implementation of effective succession planning.

(iii) In Muhibbah, management makes up 22% of the employee distribution followed by executive (27%) and non-executive (51%).

### 5.2.3 Training and Development

We continuously empower our employees through training and development either in-house or externally and focus mainly on safety, human resources management, time management, project management and other relevant competency training.

### 5.2.4 Talent Retention

The Group complies with the Minimum Wage Order 2018 and provides competitive remuneration packages and employees benefit schemes to retain our best talents. All employees are covered under our Group Insurance and Health Plans which include Group Personal Accident, Group Term Life and Group Hospitalization & Surgical (GHS) coverage. The GHS coverage is also extended to their immediate family members.

### 5.2.5 Ethics and Integrity

Muhibbah impresses upon sound moral and ethical principles at work by maintaining high ethical standards among employees. Failure to adhere to the Group's Code of Conduct results in disciplinary action in accordance with our Disciplinary Management Policy.

# Sustainability Statement (continued)

**5.3 Environment**

The Group's commitment toward environmental protection is by employing responsible environmental practices through ensuring regulatory compliance, promoting environmental responsibility through the Group's Environmental Policy and encouraging the development and use of environmental-friendly designs and technologies.

**Environmental Policy Statement**

- Establishing, implementing and maintaining the Environmental Management System by continuously improving its processes by setting up Specific, Measurable, Achievable, Realistic and Time (SMART) bound objectives, targets and Environment Management Programme (EMP).
- Conducting training for all the employees of Muhibbah for them to understand their roles and responsibilies in establishing an environmental management system that meets and excels client / statutory requirements.
- Ensuring conformance and commitment to the relevant environmental compliance obligations.
- Encouraging environmental sustainable concept through all Muhibbah's activities.
- Consideration of environmental aspects and impacts in all business strategies and initiatives.
- Communicating the Company's Environment Policy to all persons working for or on behalf of the Group and to interested parties, which is made available to all relevant persons.

**5.3.1 Regulatory Compliance**

We are committed to pursue, implement and continuously improve our Environmental Management System in accordance with our certification in ISO 14001: 2015 for each and every project undertaken.

**5.3.2 Hazardous Waste Management**

At Muhibbah's project sites and subsidiaries such as MSI, MASI, CiTech and Muhibbah Equipment Division, we implement an operational control plan on waste management in accordance with the Environmental Quality (Scheduled Waste) Regulations, 2005. Common hazardous wastes generated within projects and by subsidiaries are contaminated containers, filters, gloves & rags including spent lubricating and hydraulic oil. All of these are wastes being managed properly from the stage of generation until disposal based on regulatory requirements.

**5.4 Community**

As a Group that believes in giving back to the society, we take responsibility to invest our resources to contribute to the local communities that we operate within. In line with this, we have set up Muhibbah's CSR Rangers to contribute to the society.

**5.4.1 Contribution to Society**

In collaboration with Mothers against Pornography (MAP) Secretariat, we had organised an educational talk on "Bijak Media Sosial & Dunia Siber" on 1 October 2019 at Sekolah Kebangsaan Cyberjaya. A total of 270 Standard Six students participated in this programme. This programme was conducted to create awareness among young children on using the social media smartly and safely. It is also to help protect children against the growing numbers of serious online issues such as viewing inappropriate content, exposure to cyberbullying, cyber predators and screen addiction.

Environmental CSR initiatives play a key role for major corporations to impact climate change, water usage and energy use effectiveness. In line with this initiative, Muhibbah organised a Tree Planting event "Plant a Tree, Plant a Life" at Kg Sijangkang Mangrove Recreational Park on 30 November 2019. A group of 43 participants from Muhibbah joined the event. We hope that our participation has contributed to the rehabilitation of the Mangrove Park and above all promoted the need to sustain Mangroves for the future.

Muhibbah also made a contribution of RM10,000 to the Penang Welfare Association for Mentally Retarded Children and RM1,000 for School Children Team Development.

## 6 Conclusion

We are cognisant that embedding sustainability effectively across the Group is a journey. This Statement describes our sustainability initiatives and how we managed our material sustainability issues in our operations for financial year ended 31 December 2019. Moving forward, we will continue to build and enhance our initiatives progressively with the ultimate goal of achieving our sustainability vision.

# FINANCIAL STATEMENTS

# Directors' Report for the financial year ended 31 December 2019

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 2019.

## Principal activities

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airport concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 26 to the financial statements. The principal activities of the subsidiaries are stated in Note 5 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 | 34,884 | 15,732 |
| Non-controlling interests | 81,976 | - |
| Profit for the year | 116,860 | 15,732 |

## Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review other than those 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 7.50 sen per ordinary share totaling RM36,230,644 in respect of the financial year ended 31 December 2018.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2019 is 2.50 sen per ordinary share amounting to approximately RM12,085,000 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

## Directors of the Company

Directors who served since the date of the last report and at the date of this report are:

Tan Sri Zakaria bin Abdul Hamid
Mac Ngan Boon @ Mac Yin Boon
Ooi Sen Eng
Mac Chung Jin
Lee Poh Kwee
Abd Hamid bin Ibrahim
Sobri bin Abu
Dato' Mohamad Kamarudin bin Hassan
Mazlan bin Abdul Hamid
Dato' Sri Khazali bin Haji Ahmad

The names of Directors of the Company's subsidiaries are set out in the respective subsidiaries' financial statements, where applicable, and the said information is deemed incorporated herein by such reference and made a part hereof.

## Directors' interests

The direct and indirect interests in the shares and employees' share 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 1.1.2019 | Bought | Sold | At 31.12.2019 |
| <u>Muhibbah Engineering (M) Bhd.:</u> | | | | |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 73,501,416 | 700,000 | - | 74,201,416 |
| - Indirect | 19,962,500 | - | - | 19,962,500 |
| Ooi Sen Eng | 13,924,066 | 200,000 | (160,000) | 13,964,066 |
| Mac Chung Jin | | | | |
| - Direct | 6,660,000 | - | - | 6,660,000 |
| - Indirect | 50,000 | - | - | 50,000 |
| Lee Poh Kwee | | | | |
| - Direct | 6,046,272 | 300 | - | 6,046,572 |
| - Indirect | 650,000 | - | - | 650,000 |
| Mazlan bin Abdul Hamid | 500,000 | - | - | 500,000 |
| <u>Favelle Favco Berhad (a subsidiary):</u> | | | | |
| Tan Sri Zakaria bin Abdul Hamid | 170,000 | - | (170,000) | - |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 9,142,913 | 340,000 | - | 9,482,913 |
| - Indirect | 3,403,800 | 300,000 | - | 3,703,800 |
| Ooi Sen Eng | | | | |
| - Direct | 1,156,000 | - | - | 1,156,000 |
| - Indirect | 900 | - | - | 900 |
| Mac Chung Jin | 677,000 | - | - | 677,000 |
| Lee Poh Kwee | 1,715,000 | - | - | 1,715,000 |
| Abd Hamid bin Ibrahim | 95,000 | - | - | 95,000 |
| Mazlan bin Abdul Hamid | 2,276,900 | 240,000 | (212,100) | 2,304,800 |

## Directors' interests (continued)

The options granted to eligible Directors over unissued ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) pursuant to the Employees' Share Issuance Scheme ("SIS") are set out below:

| | Number of options over ordinary shares | | | |
|---|---|---|---|---|
| | At 1.1.2019 | Granted | Exercised | At 31.12.2019 |
| Muhibbah Engineering (M) Bhd: | | | | |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 3,500,000 | - | (700,000) | 2,800,000 |
| - Indirect | 1,250,000 | - | - | 1,250,000 |
| Ooi Sen Eng | 2,700,000 | - | (200,000) | 2,500,000 |
| Mac Chung Jin | 2,500,000 | - | - | 2,500,000 |
| Lee Poh Kwee | 2,500,000 | - | - | 2,500,000 |
| Mazlan bin Abdul Hamid | 500,000 | - | - | 500,000 |
| Favelle Favco Berhad (a subsidiary): | | | | |
| Mac Ngan Boon @ Mac Yin Boon | | | | |
| - Direct | 1,700,000 | - | (340,000) | 1,360,000 |
| - Indirect | 1,500,000 | - | (300,000) | 1,200,000 |
| Lee Poh Kwee | 1,200,000 | - | - | 1,200,000 |
| Mazlan bin Abdul Hamid | 1,200,000 | - | (240,000) | 960,000 |

Other than the abovementioned Directors, none of the other Directors holding office at 31 December 2019 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 a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the financial statements, or the fixed salary of a full time employee of the Company or related corporations) 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 transactions entered into in the ordinary course of business with companies in which certain Directors have substantial financial interests as disclosed in Note 30 to the financial statements.

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

The details of the Directors' remuneration are disclosed in Note 21 to the financial statements.

## Issue of shares and debentures

During the financial year,

(a) the Company increased its issued and paid-up share capital from RM301,746,000 to RM306,438,000 by way of an issuance of 1,716,000 new ordinary shares from the exercise of options under the Company's SIS at the exercise prices as disclosed in Note 24 to the financial statements which amounted to RM3,861,000; and

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

## Treasury shares

The treasury shares are disclosed in Note 14 to the financial statements.

## 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 SIS.

The Company operates a SIS that was established and approved by the shareholders of the Company at an Extraordinary General Meeting 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 24. The SIS is expiring on 9 July 2022.

## Other statutory information

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

i) proper action had been taken in relation to the writing off of bad debts and making of allowance for impairment losses on receivables, and satisfied themselves that all known bad debts have been written off and 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 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 render the amount written off for bad debts or the amount of allowance for impairment losses on receivables in the Group and in the Company inadequate to any substantial extent, and

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.

## Other statutory information (continued)

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

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

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

No contingent liability or other liability of 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 2019 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.

## Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 5 to the financial statements.

## Auditors' Remuneration

During the financial year, total amount paid to or receivable by the auditors for the Group and the Company as remuneration for their services rendered amounted to RM1,537,000 and RM210,000 respectively.

## 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 events occurring after the financial year

The significant events occurring after the financial year are disclosed in Note 32 to the financial statements.

## Auditors

The auditors, Crowe Malaysia PLT, have indicated their willingness to accept re-appointment.

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

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

**Mac Ngan Boon @ Mac Yin Boon** **Ooi Sen Eng**

Klang, Selangor Darul Ehsan

Date: 1 April 2020

# Statements of Financial Position as at 31 December 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Assets** | | | | | |
| Property, plant and equipment | 3 | 930,983 | 903,892 | 119,216 | 123,915 |
| Investment properties | 4 | 214 | 224 | 11,492 | 11,770 |
| Investments in subsidiaries | 5 | - | - | 239,536 | 253,587 |
| Investments in associates | 6 | 688,446 | 594,822 | 8,723 | 8,723 |
| Receivables, deposit and prepayment | 7 | 4,449 | 4,465 | - | - |
| Deferred tax assets | 8 | 36,602 | 38,905 | 13,573 | 13,573 |
| Other non-current assets | 9 | 88,367 | 83,933 | 9 | 9 |
| **Total non-current assets** | | 1,749,061 | 1,626,241 | 392,549 | 411,577 |
| Receivables, deposit and prepayment | 7 | 681,485 | 570,028 | 1,185,355 | 1,131,477 |
| Contract assets | 10 | 608,488 | 726,345 | 216,207 | 200,247 |
| Inventories | 11 | 266,497 | 257,699 | 396 | 502 |
| Derivative assets | 18 | 120 | 336 | - | - |
| Current tax assets | | 10,705 | 19,756 | 155 | 1,147 |
| Cash and bank balances | 12 | 604,994 | 591,271 | 164,492 | 115,803 |
| **Total current assets** | | 2,172,289 | 2,165,435 | 1,566,605 | 1,449,176 |
| **Total assets** | | 3,921,350 | 3,791,676 | 1,959,154 | 1,860,753 |

| | Note | Group 2019 RM'000 | Group 2018 RM'000 | Company 2019 RM'000 | Company 2018 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 13 | 306,438 | 301,746 | 306,438 | 301,746 |
| Reserves | 14 | 806,563 | 818,689 | 199,775 | 217,674 |
| **Total equity attributable to:** | | | | | |
| **Owners of the Company** | | 1,113,001 | 1,120,435 | 506,213 | 519,420 |
| **Non-controlling interests** | | 563,724 | 517,902 | - | - |
| **Total equity** | | 1,676,725 | 1,638,337 | 506,213 | 519,420 |
| **Liabilities** | | | | | |
| Loans and borrowings | 15 | 48,230 | 69,273 | 27,000 | 46,500 |
| Payables and accruals | 16 | 3,205 | 23,045 | - | - |
| Deferred tax liabilities | 8 | 52,203 | 47,851 | - | - |
| **Total non-current liabilities** | | 103,638 | 140,169 | 27,000 | 46,500 |
| Payables and accruals | 16 | 691,396 | 787,686 | 323,991 | 354,141 |
| Contract liabilities | 10 | 232,456 | 235,874 | 13,721 | 10,443 |
| Derivative liabilities | 18 | 9 | - | - | - |
| Bills payable | 17 | 695,065 | 587,734 | 672,578 | 571,498 |
| Loans and borrowings | 15 | 497,259 | 381,748 | 415,651 | 358,751 |
| Current tax liabilities | | 24,802 | 20,128 | - | - |
| **Total current liabilities** | | 2,140,987 | 2,013,170 | 1,425,941 | 1,294,833 |
| **Total liabilities** | | 2,244,625 | 2,153,339 | 1,452,941 | 1,341,333 |
| **Total equity and liabilities** | | 3,921,350 | 3,791,676 | 1,959,154 | 1,860,753 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statements of Profit or Loss and Other Comprehensive Income

for the financial year ended 31 December 2019

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Revenue** | 19 | 1,537,406 | 1,576,096 | 544,154 | 565,256 |
| Cost of sales | | (1,353,917) | (1,294,386) | (406,000) | (435,968) |
| **Gross profit** | | 183,489 | 281,710 | 138,154 | 129,288 |
| Other income | | 12,644 | 15,454 | 3,343 | 1,714 |
| Distribution costs | | (25,184) | (23,673) | (7,133) | (11,879) |
| Administrative expenses | | (144,429) | (138,226) | (25,168) | (18,240) |
| Net (Loss)/gain on impairment of financial assets and contract assets | | (13,806) | 10,442 | (52,681) | 10,073 |
| **Results from operating activities** | | 12,714 | 145,707 | 56,515 | 110,956 |
| Interest income | | 12,810 | 10,164 | 32,519 | 20,975 |
| Finance costs | | (25,437) | (24,136) | (73,710) | (54,838) |
| **Operating profit** | 20 | 87 | 131,735 | 15,324 | 77,093 |
| Share of profit of associates, net of tax | | 155,934 | 142,094 | - | - |
| **Profit before tax** | | 156,021 | 273,829 | 15,324 | 77,093 |
| Income tax (expense)/credit | 22 | (39,161) | (42,280) | 408 | (3,709) |
| **Profit for the financial year** | | 116,860 | 231,549 | 15,732 | 73,384 |
| **Profit for the financial year attributable to:** | | | | | |
| Owners of the Company | | 34,884 | 144,800 | 15,732 | 73,384 |
| Non-controlling interests | | 81,976 | 86,749 | - | - |
| **Profit for the financial year** | | 116,860 | 231,549 | 15,732 | 73,384 |
| **Earnings per ordinary share (sen)** | | | | | |
| Basic | 23 | 7.23 | 30.12 | | |
| Diluted | 23 | 7.15 | 29.59 | | |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Profit for the financial year** | | 116,860 | 231,549 | 15,732 | 73,384 |
| **Other comprehensive income for the financial year, net of tax** | | | | | |
| **Item that may be reclassified subsequently to profit or loss** | | | | | |
| Foreign currency translation differences for foreign operations | | (22,513) | 18,510 | (532) | 992 |
| **Other comprehensive (expense)/ income for the financial year, net of tax** | | (22,513) | 18,510 | (532) | 992 |
| **Total comprehensive income for the financial year** | | 94,347 | 250,059 | 15,200 | 74,376 |
| **Total comprehensive income for the financial year attributable to:** | | | | | |
| Owners of the Company | | 20,805 | 160,355 | 15,200 | 74,376 |
| Non-controlling interests | | 73,542 | 89,704 | - | - |
| **Total comprehensive income for the financial year** | | 94,347 | 250,059 | 15,200 | 74,376 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2019

| | | /----Attributable to owners of the Company---- | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | /----Non-distributable---- | | | | | | | Distributable | | | |
| Group | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Revaluation reserve RM'000 | Capital reserve RM'000 | Share options reserve RM'000 | Translation reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
| At 1 January 2018 (as previously reported) | | 241,057 | (5,561) | 60,488 | 197,527 | 5,237 | 5,222 | 66,801 | 467,281 | 1,038,052 | 420,570 | 1,458,622 |
| Adjustment on initial application of MFRS 9, net of tax | | - | - | - | - | - | - | - | (57,276) | (57,276) | (3,368) | (60,644) |
| At 1 January 2018 (as restated) | | 241,057 | (5,561) | 60,488 | 197,527 | 5,237 | 5,222 | 66,801 | 410,005 | 980,776 | 417,202 | 1,397,978 |
| Other comprehensive income: | | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | - | - | - | - | 15,555 | - | 15,555 | 2,955 | 18,510 |
| Profit for the financial year | | - | - | - | - | - | - | - | 144,800 | 144,800 | 86,749 | 231,549 |
| Total comprehensive income | | - | - | - | - | - | - | 15,555 | 144,800 | 160,355 | 89,704 | 250,059 |
| Share option exercised | 13 | 669 | - | 2,991 | - | - | - | - | - | 3,660 | - | 3,660 |
| Share-based payment | 24 | - | - | - | - | - | 9,008 | - | - | 9,008 | 2,239 | 11,247 |
| Dividend to owners of the Company | 25 | - | - | - | - | - | - | - | (33,693) | (33,693) | - | (33,693) |
| Dividend to non-controlling interests | | - | - | - | - | - | - | - | - | - | (18,394) | (18,394) |
| Acquisition of subsidiary | | - | - | - | - | - | - | - | - | - | 28,282 | 28,282 |
| Acquisition of share from non-controlling interests | | - | - | - | - | - | - | - | 329 | 329 | (1,131) | (802) |
| Transfer to share capital due to implementation of Companies Act 2016 | | 60,020 | - | (63,479) | - | - | - | - | 3,459 | - | - | - |
| Total transactions with owners | | 60,689 | - | (60,488) | - | - | 9,008 | - | (29,905) | (20,696) | 10,996 | (9,700) |
| At 31 December 2018 | | 301,746 | (5,561) | - | 197,527 | 5,237 | 14,230 | 82,356 | 524,900 | 1,120,435 | 517,902 | 1,638,337 |
| | | /----Note 14---- | | | | | | | | | | |

| Group | Note | Share capital RM'000 | Treasury shares RM'000 | Revaluation reserve RM'000 | Capital reserve RM'000 | Share options reserve RM'000 | Translation 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 1 January 2019 | | 301,746 | (5,561) | 197,527 | 5,237 | 14,230 | 82,356 | 524,900 | 1,120,435 | 517,902 | 1,638,337 |
| Other comprehensive income: | | | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | - | - | - | (14,079) | - | (14,079) | (8,434) | (22,513) |
| Profit for the financial year | | - | - | - | - | - | - | 34,884 | 34,884 | 81,976 | 116,860 |
| Total comprehensive income | | - | - | - | - | - | (14,079) | 34,884 | 20,805 | 73,542 | 94,347 |
| Share option exercised | 13 | 3,861 | - | - | - | - | - | - | 3,861 | - | 3,861 |
| Transfer to share capital for share options exercised | | 831 | - | - | - | (831) | - | - | - | - | - |
| Share-based payment | 24 | - | - | - | - | 5,367 | - | - | 5,367 | 964 | 6,331 |
| Dividend to owners of the Company | 25 | - | - | - | - | - | - | (36,231) | (36,231) | - | (36,231) |
| Dividend to non-controlling interests | | - | - | - | - | - | - | - | - | (35,710) | (35,710) |
| Dilution of interest in subsidiary | | - | - | (145) | - | (39) | (23) | 30 | (177) | 177 | - |
| Issuance of share to non-controlling interests | | - | - | - | - | (1,059) | - | - | (1,059) | 6,849 | 5,790 |
| Total transactions with owners | | 4,692 | - | (145) | - | 3,438 | (23) | (36,201) | (28,239) | (27,720) | (55,959) |
| At 31 December 2019 | | 306,438 | (5,561) | 197,382 | 5,237 | 17,668 | 68,254 | 523,583 | 1,113,001 | 563,724 | 1,676,725 |
| | | /----Note 14 | | | | | | ----/ | | | |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statement of Changes in Equity

for the financial year ended 31 December 2019

| | | /----Non-distributable---- | | | | | | Distributable | |
|---|---|---|---|---|---|---|---|---|---|
| Company | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Revaluation reserve RM'000 | Share options reserve RM'000 | Translation reserve RM'000 | Retained earnings RM'000 | Total RM'000 |
| At 1 January 2018 (as previously reported) | | 241,057 | (5,561) | 57,029 | 35,043 | 4,004 | 462 | 244,169 | 576,203 |
| Adjustment on initial application of MFRS9, net of tax | | - | - | - | - | - | - | (108,092) | (108,092) |
| At 1 January 2018 (as restated) | | 241,057 | (5,561) | 57,029 | 35,043 | 4,004 | 462 | 136,077 | 468,111 |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | - | - | - | 992 | - | 992 |
| Profit for the financial year | | - | - | - | - | - | - | 73,384 | 73,384 |
| Total comprehensive income | | - | - | - | - | - | 992 | 73,384 | 74,376 |
| Share option exercised | 13 | 669 | - | 2,991 | - | - | - | - | 3,660 |
| Share-based payment | 24 | - | - | - | - | 6,966 | - | - | 6,966 |
| Dividend to owners of the Company | 25 | - | - | - | - | - | - | (33,693) | (33,693) |
| Transfer to share capital due to implementation of Companies Act 2016 | | 60,020 | - | (60,020) | - | - | - | - | - |
| Total transactions with owners | | 60,689 | - | (57,029) | - | 6,966 | - | (33,693) | (23,067) |
| At 31 December 2018 | | 301,746 | (5,561) | - | 35,043 | 10,970 | 1,454 | 175,768 | 519,420 |
| | | /----Note 14---- | | | | | | | |

| | | /--------------------Non-distributable | | | | ---------------------/ | Distributable | |
|---|---|---|---|---|---|---|---|---|
| Company | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Revaluation reserve RM'000 | Share options reserve RM'000 | Translation reserve RM'000 | Retained earnings RM'000 | Total RM'000 |
| At 1 January 2019 | | 301,746 | (5,561) | - | 35,043 | 10,970 | 1,454 | 175,768 | 519,420 |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation differences for foreign operations | | - | - | - | - | - | (532) | - | (532) |
| Profit for the financial year | | - | - | - | - | - | - | 15,732 | 15,732 |
| Total comprehensive income | | - | - | - | - | - | (532) | 15,732 | 15,200 |
| Share option exercised | 13 | 3,861 | - | - | - | - | - | - | 3,861 |
| Share-based payment | 24 | - | - | - | - | 3,963 | - | - | 3,963 |
| Dividend to owners of the Company | 25 | - | - | - | - | - | - | (36,231) | (36,231) |
| Transfer to share capital for share options exercised | | 831 | - | - | - | (831) | - | - | - |
| Total transactions with owners | | 4,692 | - | - | - | 3,132 | - | (36,231) | (28,407) |
| At 31 December 2019 | | 306,438 | (5,561) | - | 35,043 | 14,102 | 922 | 155,269 | 506,213 |
| | | /------------------------------------------Note 14 | | | | | | ------------------------------------------/ | |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statements of Cash Flows for the financial year ended 31 December 2019

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Cash flows from/(for) operating activities** | | | | |
| Profit before tax | 156,021 | 273,829 | 15,324 | 77,093 |
| Adjustments for: | | | | |
| Allowance for slow moving inventories | 4,864 | - | - | - |
| Amortisation/depreciation of: | | | | |
| - development costs and intellectual property | 929 | 993 | - | - |
| - Right-of-use assets | 5,975 | - | - | - |
| - Investment properties | 10 | 10 | 278 | 277 |
| - Property, plant and equipment | 71,438 | 70,384 | 14,434 | 16,730 |
| Development costs written-back | (2,136) | - | - | - |
| Dividend income | - | - | (127,841) | (132,024) |
| Finance costs | 36,525 | 41,611 | 73,710 | 62,611 |
| Gain on disposal of property, plant and equipment | (6,835) | (16,449) | (337) | (8) |
| Interest income | (12,810) | (10,164) | (32,519) | (20,975) |
| Inventories written off/(back) | 5,164 | 3,977 | (126) | (213) |
| Net fair value adjustment on derivative instruments | 225 | 6,131 | - | - |
| Net loss/(gain) on foreign exchange | 10,290 | 3,435 | (3,215) | (2,003) |
| Net impairment loss/(reversal) on: | | | | |
| - Contract assets and receivables | 13,806 | (12,601) | 52,681 | (10,073) |
| - Investment in associates/subsidiaries | - | 175 | 14,051 | - |
| - Other investments | - | 510 | - | - |
| - Property, plant and equipment | - | 7,690 | - | - |
| Net provision/(reversal) for: | | | | |
| - Warranties | 6,105 | 7,160 | (234) | (797) |
| - Foreseeable losses | 18,440 | (2,196) | 3,274 | (2,946) |
| - Liquidated and ascertained damages | (10,046) | - | - | - |
| Property, plant and equipment written off | 87 | 403 | - | 403 |
| Share-based payments | 6,331 | 11,247 | 2,607 | 4,964 |
| Share of profit of associates | (155,934) | (142,094) | - | - |
| **Operating profit/(loss) before changes in working capital** | 148,449 | 244,051 | 12,087 | (6,961) |
| Receivables, deposits and prepayment | (124,387) | (40,313) | (76,757) | (209,595) |
| Inventories | (18,827) | 9,695 | 232 | 3,571 |
| Payables and accruals | (111,296) | 109,112 | (29,917) | 27,986 |
| Contract assets and contract liabilities | 100,361 | (281,517) | (16,036) | (47,646) |
| **Cash (used in)/generated from operations** | (5,700) | 41,028 | (110,391) | (232,645) |
| Net taxes paid | (18,991) | (17,465) | (1,869) | (3,709) |
| **Net cash (used in)/ generated from operating activities** | (24,691) | 23,563 | (112,260) | (236,354) |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Cash flows (for)/from investing activities** | | | | | |
| Acquisition of shares from non-controlling interest | | - | (802) | - | - |
| Deferred consideration payment/ Acquisition of subsidiary | | (15,566) | (38,347) | - | - |
| Dividend received from: | | | | | |
| - subsidiaries | | - | - | 72,141 | 124,464 |
| - associates | | 49,545 | 62,206 | 10,700 | 7,560 |
| Interest received | | 11,813 | 9,496 | 1,037 | 1,193 |
| Proceeds from disposal of property, plant and equipment | | 11,683 | 20,241 | 514 | 770 |
| Purchase of property, plant and equipment | 12.2 | (91,896) | (125,005) | (9,912) | (5,981) |
| (Addition to)/Net proceeds from disposal of other non-current assets | | (2,703) | 619 | - | - |
| **Net cash (used in)/generated from investing activities** | | (37,124) | (71,592) | 74,480 | 128,006 |
| **Cash flows (for)/from financing activities** | | | | | |
| Dividend paid to owners of the Company | | (36,231) | (33,693) | (36,231) | (33,693) |
| Dividend paid to non-controlling interests | | (35,710) | (18,394) | - | - |
| Interest paid | | (34,041) | (40,100) | (19,641) | (28,331) |
| Proceeds from exercise of share options | | 3,861 | 3,660 | 3,861 | 3,010 |
| Proceeds from issuance of shares by a public listed subsidiary | | 5,790 | - | - | - |
| Net advances of loans and borrowings | | 193,011 | 76,928 | 157,622 | 133,252 |
| **Net cash generated from/(used in) financing activities** | | 96,680 | (11,599) | 105,611 | 74,238 |
| **Exchange differences on translation of the financial statements of foreign operations** | | (25,777) | 2,283 | - | 53 |
| **Net increase/(decrease) in cash and cash equivalents** | | 9,088 | (57,345) | 67,831 | (34,057) |
| **Cash and cash equivalents at beginning of the financial year** | | 566,831 | 624,176 | 96,510 | 130,567 |
| **Cash and cash equivalents at end of the financial year** | (i) | 575,919 | 566,831 | 164,341 | 96,510 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Statements of Cash Flows for the financial year ended 31 December 2019 (continued)

*(i) Cash and cash equivalents*

Cash and cash equivalents included in the statements of cash flows comprise the following:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Deposits placed with licensed banks | 12 | 152,660 | 157,523 | 1,077 | 2,384 |
| Short-term funds | 12 | 241,650 | 143,023 | 115,018 | 650 |
| Cash and bank balances | 12 | 210,684 | 290,725 | 48,397 | 112,769 |
| Bank overdrafts | 15 | (29,075) | (24,440) | (151) | (19,293) |
| | | 575,919 | 566,831 | 164,341 | 96,510 |

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

# Notes to the Financial Statements

Muhibbah Engineering (M) Bhd. is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is Lot 579 and 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia.

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled operations. The financial statements of the Company as at and for the financial year ended 31 December 2019 do not include other entities.

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airport concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 26 to the financial statements. The principal activities of its subsidiaries are as stated in Note 5. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors on 1 April 2020.

## 1. Basis of preparation

**(a) Statement of compliance**

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

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

**MFRSs and/or IC Interpretations (Including the Consequential Amendments)**

MFRS 16 Leases
IC Interpretation 23 Uncertainty over Income Tax Treatments
Amendments to MFRS 9: Prepayment Features with Negative Compensation
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures
Annual Improvements to MFRS Standards 2015 – 2017 Cycles

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

Arising from the adoption of MFRS 16: Leases, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 33.

# Notes to the Financial Statements (continued)

## 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/or 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 |
|---|---|
| Amendments to MFRS 3: Definition of a Business | 1 January 2020 |
| Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform | 1 January 2020 |
| Amendments to MFRS 101 and MFRS 108: Definition of Material | 1 January 2020 |
| Amendments to References to the Conceptual Framework in MFRS Standards | 1 January 2020 |
| Amendments to MFRS 101: Classification of liabilities as Current or Non-current | 1 January 2022 |
| MFRS 17 Insurance Contracts | 1 January 2021 |
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred |

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

### (b) Basis of measurement

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

### (c) Functional and presentation currencies

The individual financial statements of each entity in the Group are presented in the currency of the 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. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

### (d) Use of estimates and judgements

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

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

## 1. Basis of preparation (continued)

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

There are no significant areas of estimation of uncertainty and critical judgements in applying accounting policies that have significant effects on the amounts recognised in the financial statements other than the estimation and judgment exercised by the Group as disclosed below:

***(i) Recognition of revenue and profit from construction contracts***

- Estimated total construction costs are based on approved budgets, which are subject to management's periodic review from time to time until completion. In making judgement, management relies on past experience to estimate and provide for variable consideration, using expected value or most likely amount.

***(ii) Impairment of receivables***

For trade receivables and contract assets, the Group:
- uses the simplified approach to estimate a lifetime expected credit loss allowance; and
- shall adjust (where necessary) for qualitative and quantitative reasonable and supportable forward-looking information.

For non-trade financial assets, the loss allowances are estimated based on the assumptions on risk of default and expected loss rates.

***(iii) Impairment of Property and Equipment, Investment Properties, Investments in Associates and Right-of-use Assets***

- Evaluation for impairment is subject to changes such as market performance, economic and political situation of the country.

***(iv) Impairment of Goodwill***

- Estimation of the value in use and the expected cash flows.

***(v) Depreciation of Property and Equipment***

- Estimation of the residual values, useful lives and related depreciation charges.

***(vi) Income Taxes***

- Estimation of the tax liabilities based on the Group's understanding of the prevailing tax laws.

Please refer to the respective notes set out in this financial statements for further information on the accounting policies adopted by the Group.

## 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 factor power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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

#### *(ii) Business combinations*

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

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

(a) the fair value of the consideration transferred; plus
(b) the recognised amount of any non-controlling interests in the acquiree; plus
(c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
(d) 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 expensed as incurred.

#### *(iii) Acquisitions of non-controlling interests*

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

# 2. Significant accounting policies (continued)

## (a) Basis of consolidation (continued)

### *(iv) Loss of control*

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

### *(v) Associates*

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

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

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

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

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

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

## 2. Significant accounting policies (continued)

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

#### *(vi) Joint arrangements*

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

(a) A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.

(b) A joint arrangement is classified as "joint venture" when the Group or the Company has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investment in joint venture 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.

#### *(vii) Affiliated company*

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

#### *(viii) 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.

#### *(ix) 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 transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

# 2. Significant accounting policies (continued)

## (b) Foreign currency

### *(i) Foreign currency transactions*

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements (continued)

## 2. Significant accounting policies (continued)

### (c) Financial instruments

#### *(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 and the Company becomes a party to the contractual provisions of the instrument.

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 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 contact 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.

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

The Group and the Company categorise financial instruments as follows:

**Financial assets**

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.

(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 where the effective interest rate is applied to the amortised cost.

(b) Fair value through other comprehensive income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

(c) Fair value through profit or loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

**Financial liability**

The category of financial liability at initial recognition is as follows:

(a) 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.

#### *(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 the consideration received (including any new asset obtained less any new liability assumed) is recognised in the 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 the profit or loss.

### (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 also 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.

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

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

Dry-docking costs are recognised in the carrying amount of ships, rigs, etc. when incurred and depreciated over the period until the next dry-docking.

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

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

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

#### *(ii) Subsequent costs*

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

#### *(iii) Depreciation*

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

The estimated useful lives are as follows:

| | |
|---|---|
| Drydock and slipway | 45 years |
| Cranes | 10 - 15 years |
| Plant and equipment | 3 - 20 years |
| Motor vehicles | 5 years |

Buildings are depreciated on a straight-line basis over the shorter of 50 years or the lease period.

Capital work-in-progress included in property and equipment are not depreciated as these assets are not yet available for use.

The depreciable amount is determined after deducting the residual value.

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

## 2. Significant accounting policies (continued)

### (e) Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for low-value assets and short-term leases with 12 months or less. For these leases, the Group recognises the lease payments as an operating expense on a straight-line method over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The right-of-use asset is initially measured at cost. Cost includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjustment for any remeasurement of the lease liability. The depreciation starts from the commencement date of the lease. If the lease transfers ownership of the underlying asset to the Group or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those property, plant and equipment.

### (f) Investment properties

***Investment properties carried at cost***

Investment properties are properties which are owned or have right-of-use asset held 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 which are owned 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). Cost includes expenditure that is directly attributable to the acquisition of the investment property.

The right-of-use asset held under a lease contract that meets the definition of investment property is measured initially similarly as other right-of-use assets.

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.

## 2. Significant accounting policies (continued)

### (g) Other non-current assets

#### (i) Intangible asset

##### *(a) Goodwill*

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

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

##### *(b) 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 overheads 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.

##### *(c) 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.

##### *(d) 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.

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

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

## 2. Significant accounting policies (continued)

**(g) Other non-current assets (continued)**

**(ii) Land held for property development**

Development costs consists of land and development costs where no development activities are carried out or where development activities are not expected to be completed within the normal operating cycle. Such land and development costs are carried at cost less and accumulated impairment losses.

Costs associated with the acquisition of land include the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Pre-acquisition costs are charged to profit or loss as incurred unless such costs are directly identifiable to the consequent property development activity.

Non-current property development costs are transferred to the current asset when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

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

**(i) Contract costs**

***Cost to fulfil a contract***

The Group recognises costs that relate directly to a contract (or an anticipated contract) with customer as an asset when the costs generate or enhance resources of the Group, will be used in satisfying performance obligation in the future and are recovered.

The contract costs are initially measured at cost and amortised on a systematic basis that is consistent with the pattern of revenue recognition to which the asset relates.

An impairment loss is recognised in the profit or loss when the carrying amount of the contract cost exceeds the expected revenue less expected cost that will be incurred. Any impairment loss recovered shall be reversed to the extent of the carrying amount of the contract cost does not exceed the amount that would have been recognised had there been no impairment loss recognised previously.

# Notes to the Financial Statements (continued)

## 2. Significant accounting policies (continued)

**(j) Contract asset/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.

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.

**(k) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, bank balances, demand deposits, bank overdrafts and deposits with financial institution and highly liquid investments that are readily convertible to known amounts of cash and which have an insignificant risk of changes in value with original maturity periods of 3 months or less.

**(l) Impairment**

***(i) Financial assets***

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, contract assets and lease receivables. 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, contract assets and lease receivables 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 and the Company'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.

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.

# 2. Significant accounting policies (continued)

## (l) Impairment (continued)

### *(i) Financial assets*

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 assesses 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 and the Company's procedures for recovery amounts due.

### *(ii) Other assets*

The carrying amounts of other assets (except for inventories, contract assets and deferred tax) 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 unit.

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

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

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

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.

## 2. Significant accounting policies (continued)

### (m) Equity instruments

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

***(i) Issue expenses***

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

***(ii) Ordinary shares***

Ordinary shares are classified as equity.

***(iii) Preference share capital***

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distribution within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

***(iv) 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 distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

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.

### (n) 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.

# 2. Significant accounting policies (continued)

## (o) Employee benefits

(i) Short-term employee benefits

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

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

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

***(ii) Share-based payment transactions***

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

## (p) 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 finance cost.

***(i) 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.

***(ii) Contingent liabilities***

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

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

## 2. Significant accounting policies (continued)

### (q) Revenue

***Revenue from contracts 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 over time 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.

**Contract Revenue**

*(i) Engineering, procurement, construction and commissioning works, engineering services, construction of cranes and vessels*

Construction contracts for the above works comprise multiple deliverable which are highly integrated and are therefore recognised as a single performance obligation.

Revenue from the above (other than construction of vessels) is recognised progressively based on the proportion of construction costs incurred for work performed to date over estimated total construction costs. Revenue from construction contract for built-to-order vessel is recognised over time in the period in which the services are rendered using the output method by reference to the construction progress based on the physical proportion of construction work.

Transaction price for construction contract 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 varieble 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.

# 2. Significant accounting policies (continued)

## (q) Revenue (continued)

**Sales of goods and components**

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

Revenue from sale of these products, including ready-made cranes and vessels, are only 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.

**Services rendered**

*(iii) Rendering of crane maintenance and rental services*

Revenue from providing crane maintenance and rental 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.

*(iv) Vessel chartering*

The service element of the Group's time charter contracts is recognised over time in the period when the services are rendered, since the performance obligation is satisfied over time. When the customer simultaneously receives and consumes the benefits provided by the Group's performance (such as revenues from reimbursements, bunkers and other goods and services provided to customers), related revenues are recognised in the period in which such goods or services are transferred to the customers.

**Other revenue**

*(v) Dividend income*

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

## (r) Other income

*(i) Rental income*

Rental income from investment property is recognised in profit or loss as it accrues over the term of the lease.

*(ii) Interest income*

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

## 2. Significant accounting policies (continued)

### (s) Borrowing costs

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

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

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

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

### (t) Income tax

#### *(i) Current Tax*

Current tax assets and liabilities are expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

#### *(ii) Deferred Tax*

Deferred tax are recognised using the liability method for all temporary differences other than those that arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

## 2. Significant accounting policies (continued)

### (u) Earnings per ordinary 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 convertible notes and share options granted to employees.

### (v) Operating segments

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 results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

### (w) 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.

### (x) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, 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 principle 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 Group 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 transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

## 3. Property, plant and equipment

| Group | Land RM'000 | Buildings RM'000 | Drydock and slipway RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Subtotal RM'000 | Right-of-use assets RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| ***Cost/Valuation*** | | | | | | | | | |
| At 1 January 2018 | 301,191 | 227,117 | 45,368 | 233,556 | 720,236 | 3,273 | 1,530,741 | - | 1,530,741 |
| Additions | - | 5,875 | - | 93,452 | 25,426 | 252 | 125,005 | - | 125,005 |
| Acquisition of subsidiary | - | - | - | - | 15,037 | - | 15,037 | - | 15,037 |
| Disposals | - | - | - | (7,843) | (7,564) | - | (15,407) | - | (15,407) |
| Written off | - | - | - | - | (4,963) | - | (4,963) | - | (4,963) |
| Exchange differences | (132) | (41) | - | (1,528) | 4,211 | 10 | 2,520 | - | 2,520 |
| Transfer | - | - | - | 42 | (53) | - | (11) | - | (11) |
| Reclassification | - | - | - | - | 2,594 | (3,158) | (564) | - | (564) |
| At 31 December 2018/ 1 January 2019 | 301,059 | 232,951 | 45,368 | 317,679 | 754,924 | 377 | 1,652,358 | - | 1,652,358 |
| Adjustment on initial application of MFRS 16 | - | (8,350) | - | (22,754) | (842) | - | (31,946) | 31,946 | - |
| At 1 January 2019, as restated | 301,059 | 224,601 | 45,368 | 294,925 | 754,082 | 377 | 1,620,412 | 31,946 | 1,652,358 |
| Additions | 8,085 | 1,548 | 935 | 50,749 | 34,083 | 1,350 | 96,750 | 12,726 | 109,476 |
| Disposals | (1,077) | (1,228) | - | (5,282) | (12,088) | - | (19,675) | - | (19,675) |
| Written off | - | - | - | - | (2,961) | - | (2,961) | - | (2,961) |
| Exchange differences | 5,262 | (856) | - | (4,654) | (5,723) | (1) | (5,972) | (958) | (6,930) |
| At 31 December 2019 | 313,329 | 224,065 | 46,303 | 335,738 | 767,393 | 1,726 | 1,688,554 | 43,714 | 1,732,268 |
| ***Accumulated depreciation and impairment losses*** | | | | | | | | | |
| At 1 January 2018 | 16,815 | 79,694 | 19,186 | 81,853 | 486,287 | - | 683,835 | - | 683,835 |
| Depreciation for the year | 2,315 | 5,218 | 1,019 | 14,663 | 47,169 | - | 70,384 | - | 70,384 |
| Disposals | - | - | - | (5,075) | (6,540) | - | (11,615) | - | (11,615) |
| Written off | - | - | - | - | (4,560) | - | (4,560) | - | (4,560) |
| Exchange differences | - | (58) | - | (635) | 3,428 | - | 2,735 | - | 2,735 |
| Impairment loss | - | - | - | - | 7,690 | - | 7,690 | - | 7,690 |
| Transfer | - | - | - | - | (3) | - | (3) | - | (3) |
| Accumulated depreciation | 19,130 | 69,232 | 20,205 | 90,270 | 520,855 | - | 719,692 | - | 719,692 |
| Accumulated impairment loss | - | 15,622 | - | 536 | 12,616 | - | 28,774 | - | 28,774 |
| At 31 December 2018/ 1 January 2019 | 19,130 | 84,854 | 20,205 | 90,806 | 533,471 | - | 748,466 | - | 748,466 |
| Adjustment on initial application of MFRS 16 | - | (3,255) | - | (4,415) | (619) | - | (8,289) | 8,289 | - |
| At 1 January 2019, as restated | 19,130 | 81,599 | 20,205 | 86,391 | 532,852 | - | 740,177 | 8,289 | 748,466 |
| Depreciation for the year | 2,377 | 5,203 | 1,019 | 16,036 | 46,803 | - | 71,438 | 5,975 | 77,413 |
| Disposals | (416) | (476) | - | (2,841) | (11,094) | - | (14,827) | - | (14,827) |
| Written off | - | - | - | - | (2,874) | - | (2,874) | - | (2,874) |
| Exchange differences | - | (676) | - | (1,493) | (4,479) | - | (6,648) | (245) | (6,893) |
| Accumulated depreciation | 21,091 | 70,028 | 21,224 | 97,557 | 548,592 | - | 758,492 | 14,019 | 772,511 |
| Accumulated impairment loss | - | 15,622 | - | 536 | 12,616 | - | 28,774 | - | 28,774 |
| At 31 December 2019 | 21,091 | 85,650 | 21,224 | 98,093 | 561,208 | - | 787,266 | 14,019 | 801,285 |
| ***Carrying amounts*** | | | | | | | | | |
| At 1 January 2018 | 284,376 | 147,423 | 26,182 | 151,703 | 233,949 | 3,273 | 846,906 | - | 846,906 |
| At 31 December 2018/ 1 January 2019, as restated | 281,929 | 143,002 | 25,163 | 208,534 | 221,230 | 377 | 880,235 | 23,657 | 903,892 |
| At 31 December 2019 | 292,238 | 138,415 | 25,079 | 237,645 | 206,185 | 1,726 | 901,288 | 29,695 | 930,983 |

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

| Company | Land RM'000 | Buildings RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| ***Cost/Valuation*** | | | | | | |
| At 1 January 2018 | 55,108 | 8,744 | 31,067 | 161,582 | 2,767 | 259,268 |
| Additions | - | - | 93 | 5,709 | 179 | 5,981 |
| Disposals | - | - | (321) | (3,053) | - | (3,374) |
| Written off | - | - | - | (4,952) | - | (4,952) |
| Reclassification/transfer | - | - | - | 2,595 | (2,595) | - |
| Exchange differences | - | - | - | 33 | - | 33 |
| At 31 December 2018/ 1 January 2019 | 55,108 | 8,744 | 30,839 | 161,914 | 351 | 256,956 |
| Additions | 8,085 | - | 867 | 955 | 5 | 9,912 |
| Disposals | - | - | (170) | (1,989) | - | (2,159) |
| At 31 December 2019 | 63,193 | 8,744 | 31,536 | 160,880 | 356 | 264,709 |
| ***Accumulated depreciation*** | | | | | | |
| At 1 January 2018 | 4,386 | 498 | 19,499 | 99,002 | - | 123,385 |
| Depreciation for the year | 624 | 175 | 2,009 | 13,922 | - | 16,730 |
| Disposals | - | - | (198) | (2,414) | - | (2,612) |
| Written off | - | - | - | (4,549) | - | (4,549) |
| Exchange differences | - | - | - | 87 | - | 87 |
| At 31 December 2018/ 1 January 2019 | 5,010 | 673 | 21,310 | 106,048 | - | 133,041 |
| Depreciation for the year | 697 | 175 | 2,008 | 11,554 | - | 14,434 |
| Disposals | - | - | (109) | (1,873) | - | (1,982) |
| At 31 December 2019 | 5,707 | 848 | 23,209 | 115,729 | - | 145,493 |
| ***Carrying amounts*** | | | | | | |
| At 1 January 2018 | 50,722 | 8,246 | 11,568 | 62,580 | 2,767 | 135,883 |
| At 31 December 2018/ 1 January 2019 | 50,098 | 8,071 | 9,529 | 55,866 | 351 | 123,915 |
| At 31 December 2019 | 57,486 | 7,896 | 8,327 | 45,151 | 356 | 119,216 |

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

***Security***

The freehold land, buildings and certain long term leasehold land of the Group with total net book value of RM172,511,000 (2018 – RM159,810,000) have been pledged to certain licensed banks as security for term loan facilities granted to the Group (Note 15).

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

Had the freehold land and leasehold land been carried under the cost model, the net book value of the Group's freehold land would have been RM71,262,000 (2018 – RM71,946,000) and Group and Company's leasehold land would have been RM56,610,000 (2018 - RM50,449,000) and RM15,829,000 (2018 – RM7,912,000) respectively.

***Land***

Included in the carrying amounts of land are:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 | 2019<br>RM'000 | 2018<br>RM'000 |
| Freehold land | 118,766 | 113,503 | 50 | 50 |
| Long term leasehold land* | 173,472 | 168,426 | 57,436 | 50,048 |
| | 292,238 | 281,929 | 57,486 | 50,098 |

* Leasehold land are in respect of right-of-use assets of which the Group has land titles.

***Right-of-use assets***

Included in the carrying amounts of the right-of-use assets are:

| Group | Buildings<br>RM'000 | Cranes<br>RM'000 | Plant, equipment and motor vehicles<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| **2019** | | | | |
| Initial application of MFRS 16 as at 1 January 2019 | 5,095 | 18,339 | 223 | 23,657 |
| Additions during the year | 8,002 | 4,724 | - | 12,726 |
| Depreciation | (4,062) | (1,773) | (140) | (5,975) |
| Exchange differences | (43) | (670) | - | (713) |
| At 31 December 2019 | 8,992 | 20,620 | 83 | 29,695 |

The comparative information is not presented as the Group has applied MFRS 16 using modified retrospective approach.

## 4. Investment properties

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| ***Cost*** | | | | |
| At 1 January/31 December | 629 | 629 | 13,993 | 13,993 |
| ***Accumulated depreciation and impairment loss*** | | | | |
| At 1 January | 405 | 395 | 2,223 | 1,946 |
| Depreciation for the year | 10 | 10 | 278 | 277 |
| At 31 December | 415 | 405 | 2,501 | 2,223 |
| ***Carrying amounts*** | | | | |
| At 31 December | 214 | 224 | 11,492 | 11,770 |
| Included in the above are: | | | | |
| Freehold land | 94 | 94 | 94 | 94 |
| Buildings | 120 | 130 | 11,398 | 11,676 |
| | 214 | 224 | 11,492 | 11,770 |

Investment properties of the Group comprise a number of commercial properties that are leased to third parties. Certain investment properties of the Company were leased to companies within the Group for their respective own use and accordingly classified as property, plant and equipment in the consolidated statements of financial position.

**Market value**

The market value of the investment properties presented on an aggregated basis is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Market value of investment properties - aggregated basis | 1,057 | 1,089 | 112,803 | 111,367 |

The market value of the investment properties of the Group and of the Company were derived at by reference to market indication of transaction prices for similar properties within the same/adjacent location. Market indication of transaction prices are adjusted for differences in key attributes such as property size.

The Directors estimated the fair values of the Group's investment properties without involvement of independent valuers.

# Notes to the Financial Statements (continued)

## 5. Investments in subsidiaries

| | Company | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Ordinary shares | | |
| Quoted shares - in Malaysia | 98,663 | 98,663 |
| Unquoted shares - at cost | 257,384 | 257,384 |
| | 356,047 | 356,047 |
| Less: Impairment losses | (116,511) | (102,460) |
| | 239,536 | 253,587 |
| **Market value** | | |
| Quoted shares in Malaysia | 362,225 | 301,854 |

The principal activities of the subsidiaries, their places of incorporation and the interest of the Company are as follows:

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | Effective ownership interest 2018 % |
|---|---|---|---|---|
| ***Cranes segment*** | | | | |
| Favelle Favco Berhad | Investment holding | Malaysia | 58.63 | 59.28 |
| Favelle Favco Cranes (M) Sdn. Bhd. | Manufacturing of cranes | Malaysia | 58.63 | 59.28 |
| Favelle Favco Cranes Pte. Ltd.* | Trading of cranes, spare parts and services | Singapore | 58.63 | 59.28 |
| Favelle Favco Cranes (USA), Inc.* | Manufacturing of cranes | United States of America | 58.63 | 59.28 |
| Favelle Favco Cranes Pty Limited* and its subsidiaries: | Manufacturing of cranes | Australia | 58.63 | 59.28 |
| FF Management Pty. Limited* | Management services | Australia | 58.63 | 59.28 |
| Milperra Blasting and Coating Pty. Limited* | Dormant | Australia | 58.63 | 59.28 |
| Kroll Cranes A/S* | Manufacturing of cranes | Denmark | 58.63 | 59.28 |
| Favelle Favco Cranes International Ltd. | Dormant | Labuan | 58.63 | 59.28 |

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | 2018 % |
|---|---|---|---|---|
| ***Cranes segment (continued)*** | | | | |
| FES Equipment Services Sdn. Bhd. | Hiring and repair of cranes | Malaysia | 58.63 | 59.28 |
| Favelle Favco Winches Pte. Ltd.* | Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment | Singapore | 58.63 | 59.28 |
| Favelle Favco Management Services Sdn. Bhd.* | Dormant | Malaysia | 58.63 | 59.28 |
| Shanghai Favco Engineering Machinery Manufacturing Co. Ltd.*^ | Manufacturing of cranes | China | 46.90 | 47.42 |
| 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 | 41.04 | 41.50 |
| Exact Analytical Sdn Bhd.^ | Trading of process analysers, continuous emission and providing related engineering services on the installation, commissioning and maintenance of environmental and process analysers | Malaysia | 41.04 | 41.50 |
| 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 | 41.04 | 41.50 |

# Notes to the Financial Statements (continued)

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | Effective ownership interest 2018 % |
|---|---|---|---|---|
| ***Cranes segment (continued)*** | | | | |
| 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 | 41.04 | 41.50 |
| ***Marine shipbuilding and ship repair segment*** | | | | |
| Muhibbah Marine Engineering Sdn. Bhd. and its subsidiary: | Shipbuilding, renting of ship, providing ship repair services, trading of marine supplies and provision of other engineering works | Malaysia | 100 | 100 |
| Energy Ocean Ltd. | Trading of motor vessels, spare parts and other services | Labuan | 100 | 100 |
| ***Infrastructure construction segment*** | | | | |
| Juara Lagi Sdn. Bhd.# | Vessel chartering services | Malaysia | 100 | 100 |
| Elelink Sdn. Bhd.* and its subsidiary: | Investment holding | Malaysia | 100 | 100 |
| ITS Konsortium Sdn. Bhd. | Commissioning of intelligent transport system solution | Malaysia | 100 | 100 |
| PT Muhibbah Enjiniring Indonesia* | Dormant | Indonesia | 100 | 100 |
| Muhibbah O&G Sdn. Bhd.# | Oil, gas, petrochemical engineering and related works | Malaysia | 100 | 100 |
| Muhibbah Engineering (Singapore) Pte. Ltd.* | Civil and structural engineering contract works | Singapore | 100 | 100 |
| MEB Construction Sdn. Bhd.# | Civil and structural engineering contract works | Malaysia | 100 | 100 |
| Muhibbah Steel Industries Sdn. Bhd.* | Structural steel fabrication and related works | Malaysia | 100 | 100 |
| Muhibbah Airline Support Industries Sdn. Bhd. | Manufacturing and services for airline support equipment | Malaysia | 100 | 100 |

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | 2018 % |
|---|---|---|---|---|
| ***Infrastructure construction segment (continued)*** | | | | |
| Muhibbah Marine Engineering (Deutschland) GmbH* | Constructing and leasing of marine plants | Germany | 95 | 95 |
| Muhibbah Masteron Cambodia JV Limited* | Investment holding and civil and structural engineering contract works | Cambodia | 70 | 70 |
| Ann Bee (M) Sdn. Bhd.* | Manufacture of aluminium foils and carbonless papers | Malaysia | 100 | 100 |
| Muhibbah Maritime Hub Sdn. Bhd.* | Distribution and marketing of construction materials | Malaysia | 100 | 100 |
| Aspect Saga Sdn. Bhd.* and its subsidiaries: | Investment holding | Malaysia | 100 | 100 |
| IDS Cahaya Sdn. Bhd.* | Investment holding | Malaysia | 100 | 100 |
| IDS Cahaya Ltd.# | Offshore leasing business | Labuan | 100 | 100 |
| Muhibbah Steel Kuantan Sdn. Bhd.* | Manufacturing of containers and refrigerator containers | Malaysia | 100 | 100 |
| Khas Jejaka Sdn. Bhd.* and its subsidiary: | Investment holding | Malaysia | 100 | 100 |
| Inno Marine Services Sdn. Bhd.*# | Marine leasing activities | Malaysia | 74 | 74 |
| Muhibbah International Labuan Ltd. | Offshore leasing and international trade business | Labuan | 100 | 100 |
| Muhibbah Offshore Services Ltd. | Offshore leasing business | Labuan | 95 | 95 |
| Muhibbah Engineering (Cambodia) Co. Ltd.*# | Property development and trading in real estates | Cambodia | 60 | 60 |
| Muhibbah-LTAT JV Sdn. Bhd. | Civil, marine and structural engineering contract works | Malaysia | 51 | 51 |

# Notes to the Financial Statements (continued)

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | 2018 % |
|---|---|---|---|---|
| ***Infrastructure construction segment (continued)*** | | | | |
| Citech Energy Recovery System Malaysia Sdn. Bhd.* and its subsidiary: | Manufacture of waste heat recovery units for the oil and gas industry | Malaysia | 100 | 100 |
| Citech Energy Recovery Solutions UK (Ltd)* | Trading of waste heat recovery units, spare parts and other services | United Kingdom | 100 | 100 |
| CB International Engineering Sdn. Bhd. | Rental of investment properties and related services and provision of vessel chartering services | Malaysia | 100 | 100 |
| Muhibbah Construction Pty. Limited.*# | Marine and port construction work | Australia | 100 | 100 |
| Muhibbah Engineering Middle East LLC*# | Civil and structural engineering contract works | Qatar | 90 | 90 |
| Karisma Duta Sdn. Bhd.*# and its subsidiary | Dormant | Malaysia | 100 | 100 |
| Karisma Project. Management Inc*# | Dormant | Philippines | 100 | 100 |
| MCI Philippines Corp.*# | Dormant | Philippines | 100 | 100 |
| Muhibbah Oil & Gas Sdn. Bhd.* | Dormant | Malaysia | 100 | 100 |
| Muhibbah Defense Engineering Sdn. Bhd. | Dormant | Malaysia | 100 | 100 |
| Sun Vibrant Sdn. Bhd.* | Dormant | Malaysia | 100 | 100 |
| Muhibbah Marine Kuantan Sdn. Bhd.*# | Dormant | Malaysia | 100 | 100 |
| Muhibbah Corporation (L) Ltd.# | Dormant | Labuan | 100 | 100 |
| Cambodia Land Ltd.# | Dormant | Labuan | 100 | 100 |
| Muhibbah Engineering (Philippines) Corporation*# | Civil and structural engineering contract works | Philippines | 99.99 | 99.99 |
| Muhibbah Myanmar Company Ltd* | Civil and structural engineering contract works | Myanmar | 100 | 100 |
| Muhibbah Airport Management Sdn Bhd* | Dormant | Malaysia | 100 | 100 |

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | 2018 % |
|---|---|---|---|---|
| ***Concession segment*** | | | | |
| Muhibbah Airport Services (Labuan) Ltd.# | Investment holding | Labuan | 70 | 70 |

* Subsidiaries not audited by Crowe Malaysia PLT.

# The auditors' reports on the audited financial statements of the subsidiaries contained an emphasis on the reliance of these subsidiaries on the continuing financial support from the Company and/or bankers in order to continue operating as going concerns.

^ The subsidiaries are considered a subsidiary although the Company does not own more than 50% of its equity shares because the financing and operating policies are governed by the Board which is controlled by the Company.

During the financial year, the Group's effective ownership interest in Favelle Favco Berhad diluted to 58.63% (2018: 59.28%) following the issuance of additional ordinary shares in Favelle Favco Berhad upon the exercise of its employees' share options.

During the financial year, the Company has assessed the recoverable amount of investments in subsidiaries due to the decline in net assets position and continuing losses incurred by certain subsidiaries as at the end of the current reporting period. An impairment loss of RM 14.1 million (2018: Nil) was provided on the cost of investments.

**Non-controlling interests in subsidiaries**

The following table lists out the information relating to Favelle Favco Berhad, which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amount before any inter-company elimination.

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| NCI percentage | 41.37% | 40.72% |
| Carrying amount of NCI | 305,097 | 277,859 |
| Profit allocated to NCI | 33,569 | 20,665 |
| Dividends paid to NCI | 12,393 | 12,170 |
| Total assets | 1,313,292 | 1,280,608 |
| Total liabilities | 562,620 | 590,794 |
| Revenue | 687,994 | 530,590 |
| Profit for the year | 89,711 | 68,592 |
| Net cash flows from operating activities | 53,592 | 125,297 |
| Net cash flows used in investing activities | (59,301) | (137,550) |
| Net cash flows used in financing activities | (46,644) | (31,687) |

# Notes to the Financial Statements (continued)

## 6. Investments in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Unquoted shares | | | | |
| - At cost | 77,197 | 77,355 | 8,723 | 8,723 |
| - Share of post-acquisition reserves | 611,249 | 517,467 | - | - |
| | 688,446 | 594,822 | 8,723 | 8,723 |

Details of the associates are as follows:

| Company | Principal activities | Country of incorporation | Effective ownership interest 2019 % | Effective ownership interest 2018 % |
|---|---|---|---|---|
| ***Concession segment*** | | | | |
| Roadcare (M) Sdn. Bhd.*@ | Operation and maintenance of roadways and bridges | Malaysia | 21 | 21 |
| Société Concessionnaire de l' Aéroport *# | Operator and concessionaire of airports in Cambodia | Cambodia | 21 | 21 |
| Cambodia Airport Management Services Ltd.*# | Provision of airport management services | Cambodia | 21 | 21 |
| ***Infrastructure construction segment*** | | | | |
| Freyssinet PSC (M) Sdn. Bhd.*@ | Civil engineering and construction works | Malaysia | 50 | 50 |
| IDS Darussalam Sdn. Bhd.*# | Ship management services | Malaysia | 50 | 50 |
| IDS Offshore Sdn. Bhd.*# | Ship management services | Malaysia | 50 | 50 |
| Wabag Muhibbah JV Sdn. Bhd.*+ | Engineering, procurement, construction and commissioning of effluent treatment plant | Malaysia | 30 | 30 |
| ***Cranes segment*** | | | | |
| Favco Offshores Sdn. Bhd.# | Manufacture, supply, servicing and renting of cranes | Malaysia | 17.6 | 17.8 |
| Favelle Favco Machinery and Equipment L.L.C*# | Trading and rental of construction equipment | United Arab Emirates | 28.7 | 29.2 |
| Favco Heavy Industry (Changshu) Co., Ltd.*# | Supply, renting and servicing of lifting equipment and spare parts | China | 29.3 | 29.6 |

## 6. Investments in associates (continued)

Details of the associates are as follows: (continued)

* Associates not audited by Crowe Malaysia PLT

\# Associates of subsidiaries of Muhibbah Engineering (M) Bhd.

\+ Financial year ended as at 31 March. Special audit is performed for financial period as at 31 December for consolidated financial statements purpose.

@ The results of the associate are consolidated using management accounts.

**Summary financial information of major 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:

| | Group | |
|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 |
| **Gross amount of the major associates** | | |
| Non-current assets | 1,621,475 | 1,415,917 |
| Current assets | 1,250,261 | 1,128,471 |
| Non-current liabilities | 476,869 | 221,877 |
| Current liabilities | 214,821 | 532,275 |
| Revenue | 1,613,976 | 1,699,433 |
| Profit for the year | 516,380 | 500,805 |
| Dividends received | 49,545 | 69,386 |
| **Carrying amount in the consolidated financial statements** | 675,046 | 578,850 |

**Aggregate information of immaterial associates**

| | Group | |
|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 |
| Aggregate carrying amount | 13,401 | 15,972 |
| Aggregate amount of the group share: | | |
| - Loss for the year | (2,154) | (6,624) |

# Notes to the Financial Statements (continued)

## 7. Receivables, deposits and prepayments

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Non-current** | | | | | |
| **Non-Trade** | | | | | |
| Amount due from associates | 7.1 | 6,140 | 6,265 | - | - |
| Less: Allowance for impairment loss | 28.3 | (1,691) | (1,800) | - | - |
| | | 4,449 | 4,465 | - | - |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | 7.2 | 522,385 | 434,191 | 115,994 | 97,916 |
| Amount due from subsidiaries | 7.3 | - | - | 986,982 | 851,868 |
| Amount due from associates | 7.1 | 136,391 | 120,093 | 26,382 | 25,041 |
| | | 658,776 | 554,284 | 1,129,358 | 974,825 |
| Less: Allowance for impairment loss | 28.3 | (105,317) | (84,942) | (136,340) | (93,942) |
| | | 553,459 | 469,342 | 993,018 | 880,883 |
| **Non-trade** | | | | | |
| Amount due from subsidiaries | 7.3 | - | - | 222,889 | 275,092 |
| Amount due from associates | 7.1 | 23,665 | 29,653 | 11,688 | 5,119 |
| Other receivables | | 78,801 | 63,421 | 6,936 | 10,689 |
| | | 102,466 | 93,074 | 241,513 | 290,900 |
| Less: Allowance for impairment loss | 28.3 | (23,812) | (19,255) | (58,040) | (47,836) |
| | | 78,654 | 73,819 | 183,473 | 243,064 |
| Deposits | | 8,715 | 5,902 | 785 | 2,715 |
| Prepayment | | 40,657 | 20,965 | 8,079 | 4,815 |
| | | 128,026 | 100,686 | 192,337 | 250,594 |
| | | 681,485 | 570,028 | 1,185,355 | 1,131,477 |
| **Non-current and current** | | 685,934 | 574,493 | 1,185,355 | 1,131,477 |

# 7. Receivables, deposits and prepayments (continued)

### *7.1 Amounts due from associates*

The amounts due from associates of the Group and of the Company are unsecured, interest-free and have no fixed terms of repayment, other than an amount due from an associate of RM4,449,000 (2018 - RM4,465,000) which is subject to interest of 1% (2018 - 1%) per annum.

### *7.2 Trade receivables*

Analysis of foreign currency exposure for significant receivables

Included in trade receivables (net of impairment) are major receivables denominated in currencies other than the functional currency, as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Euro | 23,110 | 3,947 | - | - |
| Qatari Riyal | 37,184 | 37,900 | 37,184 | 37,900 |
| Singapore Dollar | 5,938 | 3,268 | - | - |
| US Dollar | 24,488 | 58,970 | 2,313 | 25,009 |

Also included in trade receivables of the Group and of the Company are retention sums of RM115,682,000 (2018 – RM75,589,000) and RM54,277,000 (2018 – RM49,548,722) respectively, the collection of which are expected upon expiry of the respective projects' warranty period.

### *7.3 Amount due from subsidiaries*

The trade receivables due from subsidiaries are subject to the normal credit terms ranging from 30 to 150 days (2018 - 30 to 150 days).

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

# Notes to the Financial Statements (continued)

## 8. Deferred tax (assets) and liabilities

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

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

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| **Group** | | | | | | |
| Property, plant and equipment | - | (5) | 71,466 | 61,445 | 71,466 | 61,440 |
| Tax losses carry forward | (25,933) | (25,000) | - | - | (25,933) | (25,000) |
| Other temporary differences | (31,079) | (31,070) | 1,147 | 3,576 | (29,932) | (27,494) |
| Tax (assets)/ liabilities | (57,012) | (56,075) | 72,613 | 65,021 | 15,601 | 8,946 |
| Set off of tax | 20,410 | 17,170 | (20,410) | (17,170) | - | - |
| Net tax (assets)/liabilities | (36,602) | (38,905) | 52,203 | 47,851 | 15,601 | 8,946 |
| **Company** | | | | | | |
| Property, plant and equipment | - | - | 11,427 | 11,427 | 11,427 | 11,427 |
| Tax losses | (25,000) | (25,000) | - | - | (25,000) | (25,000) |
| Tax (assets)/liabilities | (25,000) | (25,000) | 11,427 | 11,427 | (13,573) | (13,573) |
| Set off of tax | 11,427 | 11,427 | (11,427) | (11,427) | - | - |
| Net tax assets | (13,573) | (13,573) | - | - | (13,573) | (13,573) |

**Unrecognised deferred tax assets**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Unabsorbed capital allowances ` | 196,139 | 185,970 | 117,139 | 108,099 |
| Tax losses carry forward | 689,316 | 651,525 | 417,154 | 376,024 |
| Other temporary differences | (3,967) | 2,908 | - | - |
| | 881,488 | 840,403 | 534,293 | 484,123 |

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

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

**Movement in temporary differences during the financial year**

| | Property plant and equipment RM'000 | Tax losses carry forward RM'000 | Other temporary differences RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| As at 1 January 2018 | 58,331 | (25,262) | (25,115) | 7,954 |
| Recognised in profit or loss (Note 22) | 3,109 | 262 | (2,057) | 1,314 |
| Foreign exchange differences | - | - | (322) | (322) |
| As at 31 December 2018/ 1 January 2019 | 61,440 | (25,000) | (27,494) | 8,946 |
| Recognised in profit or loss (Note 22) | 10,026 | (933) | (2,722) | 6,371 |
| Foreign exchange differences | - | - | 284 | 284 |
| As at 31 December 2019 | 71,466 | (25,933) | (29,932) | 15,601 |
| **Company** | | | | |
| As at 1 January 2018/ 31 December 2018/ 1 January 2019/ 31 December 2019 | 11,427 | (25,000) | - | (13,573) |

## 9. Other non-current assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Other investments | 125 | - | - | - |
| Goodwill | 71,183 | 71,010 | - | - |
| Land held for development | 9,901 | 7,655 | - | - |
| Development costs | 7,096 | 4,988 | 9 | 9 |
| Intellectual property | 62 | 280 | - | - |
| | 88,367 | 83,933 | 9 | 9 |

# Notes to the Financial Statements (continued)

## 9. Other non-current assets (continued)

| | Land held for development Group | | Development costs Group | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| ***Cost*** | | | | |
| At 1 January | 7,655 | 38,370 | 22,764 | 21,880 |
| Additions | 2,246 | - | 457 | 1,190 |
| Disposal | - | (6,532) | - | - |
| Write off | - | - | (5,340) | - |
| Write back | - | - | 2,136 | - |
| Exchange difference | - | (113) | 86 | (306) |
| Transfer to inventories | - | (24,070) | - | - |
| At 31 December | 9,901 | 7,655 | 20,103 | 22,764 |
| ***Accumulated impairment/amortisation*** | | | | |
| At 1 January | - | - | 17,776 | 17,000 |
| Amortisation charge for the year | - | - | 711 | 776 |
| Write off | - | - | (5,340) | - |
| Exchange difference | - | - | (140) | - |
| At 31 December | - | - | 13,007 | 17,776 |
| ***Carrying amounts*** | | | | |
| At 1 January | 7,655 | 38,370 | 4,988 | 4,880 |
| At 31 December | 9,901 | 7,655 | 7,096 | 4,988 |

***Land held for development***

The long term leasehold land in a foreign subsidiary is registered in the name of its director cum minority shareholder who holds the property in trust for the foreign subsidiary.

***Development costs***

Development costs represent internally generated development expenditure by subsidiaries on new or substantially improved projects. It is reasonably anticipated that the development expenditure will be recovered through future commercial activity. The amortisation period of development expenditure ranged from 1 year to 5 years (2018 - 1 year to 5 years).

## 9. Other non-current assets (continued)

| | Intellectual property Group | |
|---|---|---|
| | **2019 RM'000** | **2018 RM'000** |
| ***Cost*** | | |
| At 1 January / 31 December | 1,800 | 1,800 |
| ***Accumulated impairment/amortisation*** | | |
| At 1 January | 1,520 | 1,303 |
| Amortisation charge for the year | 218 | 217 |
| At 31 December | 1,738 | 1,520 |
| ***Carrying amounts*** | | |
| At 1 January | 280 | 497 |
| At 31 December | 62 | 280 |

Intellectual property represents the acquisition of know-how, rights to industrial property and trade name by subsidiaries. It is reasonably anticipated that the intellectual property will be recovered through future commercial activity.

| | **Goodwill Group RM'000** |
|---|---|
| ***Cost*** | |
| At 1 January 2019 | 71,010 |
| Adjustment of goodwill arising from previous year's acquisition | 173 |
| At 31 December 2019 | 71,183 |
| ***Carrying amounts*** | |
| At 31 December 2019 | 71,183 |

# Notes to the Financial Statements (continued)

## 9. Other non-current assets (continued)

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 | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | % | % | % | % | % | % | % | % |
| Intelligent automation group | 25 | 25 | 7 | 7 | 5 | 5 | 0 | 0 |

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.

## 10. Contract assets/(liabilities)

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Contract Assets** | | | | |
| Contract assets relating to contracts | 613,389 | 731,888 | 218,391 | 202,351 |
| Allowance for impairment losses (Note 28.3(ii)) | (4,901) | (5,543) | (2,184) | (2,104) |
| | 608,488 | 726,345 | 216,207 | 200,247 |
| **Contract liabilities** | (232,456) | (235,874) | (13,721) | (10,443) |

## 10. Contract assets/(liabilities) (continued)

The changes to contract asset and contract liability balances during the financial year are summarised below:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| At 1 January | | | | |
| As previously reported | 490,471 | 212,434 | 189,804 | 141,317 |
| Effects on adoption of MFRS 9 | - | (3,625) | - | (1,444) |
| | 490,471 | 208,809 | 189,804 | 139,873 |
| Revenue recognised in profit or loss during the financial year | 1,094,594 | 1,169,490 | 393,683 | 394,599 |
| Progress billings | (1,187,694) | (902,566) | (377,647) | (346,954) |
| Reversal/(Impairment loss) on contract assets | 733 | (1,918) | (80) | (660) |
| (Provisions)/Reversal of provision for contract assets | (18,440) | 2,196 | (3,274) | 2,946 |
| Exchange difference | (3,632) | 14,460 | - | - |
| At 31 December | 376,032 | 490,471 | 202,486 | 189,804 |
| Represented by: | | | | |
| Contract assets | 608,488 | 726,345 | 216,207 | 200,247 |
| Contract liabilities | (232,456) | (235,874) | (13,721) | (10,443) |
| | 376,032 | 490,471 | 202,486 | 189,804 |

## 11. Inventories

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| **Group** | | |
| At cost: | | |
| Raw material | 11,917 | 17,685 |
| Crane components | 84,331 | 79,854 |
| Work-in-progress | 127,099 | 117,345 |
| Manufactured and trading inventories | 1,181 | - |
| Land held for sale | 16,952 | 24,070 |
| | 241,480 | 238,954 |
| At net realisable value: | | |
| Cranes | 279 | 807 |
| Crane components | 22,018 | 15,820 |
| Work-in-progress | 1,097 | 1,170 |
| Manufactured and trading inventories | 1,623 | 948 |
| | 266,497 | 257,699 |

# Notes to the Financial Statements (continued)

## 11. Inventories (continued)

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| **Company** | | |
| At cost: | | |
| Work-in-progress | 396 | 502 |

## 12. Cash flow information

12.1 The cash and bank balances comprised the following:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Deposits placed with licensed banks | 152,660 | 157,523 | 1,077 | 2,384 |
| Short-term funds | 241,650 | 143,023 | 115,018 | 650 |
| Cash and bank balances | 210,684 | 290,725 | 48,397 | 112,769 |
| | 604,994 | 591,271 | 164,492 | 115,803 |

The deposits with licensed banks of the Group and of the Company at the end of the reporting period bore effective interest rates ranging from 0.5% to 4.3% (2018 – 0.7% to 3.9%) per annum and 3.1% (2018 – 3.2%) per annum respectively.

Short-term funds represent investment in highly liquid money market, which is readily convertible to a known amount of cash. The effective interest rates of the Group and of the Company range from 1.7% to 3.9% (2018: 2.2% to 5.4%) and 2.4% to 3.4% (2018 - 2.9%) per annum respectively.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Cost of property, plant and equipment purchased (Note 3) | 96,750 | 125,005 | 9,912 | 5,981 |
| Amount financed through hire purchase | (4,854) | - | - | - |
| Cash disbursed for purchase of property, plant and equipment | 91,896 | 125,005 | 9,912 | 5,981 |

## 12. Cash flow information (continued)

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

| The Group | Term Loans & Revolving Credit RM'000 | Bills Payable RM'000 | Hire Purchase & Insurance Premium Finance RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2019** | | | | |
| At 1 January | 405,852 | 587,734 | 20,730 | 1,014,316 |
| Changes in Financing Cash Flows | | | | |
| Proceeds from drawdown | 245,664 | 1,695,159 | 4,000 | 1,944,823 |
| Repayment of principal | (155,896) | (1,587,864) | (8,052) | (1,751,812) |
| | 89,768 | 107,295 | (4,052) | 193,011 |
| Non-cash Changes | | | | |
| New hire purchase | - | - | 4,854 | 4,854 |
| Exchange differences | (1) | 36 | (737) | (702) |
| | (1) | 36 | 4,117 | 4,152 |
| At 31 December | 495,619 | 695,065 | 20,795 | 1,211,479 |
| **2018** | | | | |
| At 1 January | 438,629 | 461,636 | 24,083 | 924,348 |
| Changes in Financing Cash Flows | | | | |
| Proceeds from drawdown | 287,108 | 1,336,840 | 4,000 | 1,627,948 |
| Repayment of principal | (333,347) | (1,210,393) | (7,280) | (1,551,020) |
| | (46,239) | 126,447 | (3,280) | 76,928 |
| Non-cash Changes | | | | |
| Acquisition of subsidiaries | 12,570 | - | - | 12,570 |
| Exchange differences | 892 | (349) | (73) | 470 |
| | 13,462 | (349) | (73) | 13,040 |
| At 31 December | 405,852 | 587,734 | 20,730 | 1,014,316 |

# Notes to the Financial Statements (continued)

## 12. Cash flow information (continued)

12.3 The reconciliation of liabilities arising from financing activities are as follows: (continued)

| The Company | Term Loans & Revolving Credit RM'000 | Bills Payable RM'000 | Total RM'000 |
|---|---|---|---|
| **2019** | | | |
| At 1 January | 385,958 | 571,498 | 957,456 |
| Changes in Financing Cash Flows | | | |
| Proceeds from drawdown | 201,000 | 1,676,632 | 1,877,632 |
| Repayment of principal | (144,458) | (1,575,552) | (1,720,010) |
| | 56,542 | 101,080 | 157,622 |
| At 31 December | 442,500 | 672,578 | 1,115,078 |
| **2018** | | | |
| At 1 January | 418,700 | 405,504 | 824,204 |
| Changes in Financing Cash Flows | | | |
| Proceeds from drawdown | 288,000 | 1,289,391 | 1,577,391 |
| Repayment of principal | (320,742) | (1,123,397) | (1,444,139) |
| | (32,742) | 165,994 | 133,252 |
| At 31 December | 385,958 | 571,498 | 957,456 |

## 13. Share capital

| | | Group and Company | | | |
|---|---|---|---|---|---|
| | | Number of shares | | Amount | |
| | Note | 2019 '000 | 2018 '000 | 2019 RM'000 | 2018 RM'000 |
| ***Issued and fully paid ordinary shares:*** | | | | | |
| At 1 January | | 483,452 | 482,114 | 301,746 | 241,057 |
| Exercise of employee share options | (ii) | 1,716 | 1,338 | 3,861 | 3,660 |
| Transfer from share options | | - | - | 831 | - |
| Transfer of share premium to share capital due to implementation of Companies Act 2016 | (iii) | - | - | - | 57,029 |
| At 31 December | | 485,168 | 483,452 | 306,438 | 301,746 |

(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) In current financial year, a total of 1,716,000 (2018 – 1,338,000) new ordinary shares were issued for cash pursuant to the employees' share issuance scheme ("SIS") of the Company. The details of options granted under the Company's share options are disclosed in Note 24.

(iii) In accordance with Section 618 of Companies Act 2016, any amount standing to credit of the share premium account has become part of the Company's share capital.

## 14. Reserves

**Treasury shares**

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

The number of treasury shares held is 1,783,000 (2018 - 1,783,000). None of the treasury shares held was sold or cancelled during the financial year ended 31 December 2019.

**Revaluation reserve**

Revaluation reserve of the Group relates to the revaluation of freehold land and leasehold land of the Company and certain subsidiaries, and the revaluation of an investment in a subsidiary by the Company in 1982.

**Capital reserve**

The capital reserve of the Group represents reserve arising from the redemption of preference shares issued by a subsidiary, and the capitalisation of distributable reserve for issuance of bonus shares by subsidiaries in previous years.

## 14. Reserves (continued)

**Share options reserve**

The share options reserve of the Group and of the Company comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share options reserve is transferred to share capital (2018: share premium). When the share options expire, the amount from the share options reserve is transferred to retained earnings.

**Translation reserve**

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

**Retained earnings**

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

## 15. Loans and borrowings

The note provides information about the contractual terms of the Group's and the Company's interest bearing loans and borrowings. For more information about the Group's and Company's exposure to interest rate risk, see Note 28.

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Non-current** | | | | |
| ***Secured*** | | | | |
| Term loans | 8,534 | 8,625 | - | - |
| Hire purchase payables | 12,696 | 14,148 | - | - |
| ***Unsecured*** | | | | |
| Term loans | 27,000 | 46,500 | 27,000 | 46,500 |
| | 48,230 | 69,273 | 27,000 | 46,500 |
| **Current** | | | | |
| ***Secured*** | | | | |
| Term loans | 1,685 | 8,369 | - | - |
| Bank overdrafts | 25,684 | 5,147 | - | - |
| Hire purchase payables | 4,910 | 3,791 | - | - |
| ***Unsecured*** | | | | |
| Term loans | 19,500 | 16,458 | 19,500 | 16,458 |
| Bank overdrafts | 3,391 | 19,293 | 151 | 19,293 |
| Revolving credits | 438,900 | 325,900 | 396,000 | 323,000 |
| Insurance premium finance | 3,189 | 2,790 | - | - |
| | 497,259 | 381,748 | 415,651 | 358,751 |
| **Non-current and current** | 545,489 | 451,021 | 442,651 | 405,251 |

## 15. Loans and borrowings (continued)

***Terms and debt repayment schedule***

| Group | Year of maturity | Total Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Term loans | | | | | | |
| - secured | 2020-2037 | 10,219 | 1,685 | 505 | 1,661 | 6,368 |
| - unsecured | 2021 | 46,500 | 19,500 | 27,000 | - | - |
| Bank overdrafts | | | | | | |
| - secured | - | 25,684 | 25,684 | - | - | - |
| - unsecured | - | 3,391 | 3,391 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | - | 438,900 | 438,900 | - | - | - |
| Insurance premium finance | | | | | | |
| - unsecured | - | 3,189 | 3,189 | - | - | - |
| Hire purchase | - | 17,606 | 4,910 | 9,840 | 2,856 | - |
| | | 545,489 | 497,259 | 37,345 | 4,517 | 6,368 |
| **2018** | | | | | | |
| Term loans | | | | | | |
| - secured | 2019-2037 | 16,994 | 8,369 | 900 | 2,580 | 5,145 |
| - unsecured | 2021 | 62,958 | 16,458 | 28,300 | 18,200 | - |
| Bank overdrafts | | | | | | |
| - secured | - | 5,147 | 5,147 | - | - | - |
| - unsecured | - | 19,293 | 19,293 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | - | 325,900 | 325,900 | - | - | - |
| Insurance premium finance | | | | | | |
| - unsecured | - | 2,790 | 2,790 | - | - | - |
| Hire purchase | - | 17,939 | 3,791 | 3,791 | 10,357 | - |
| | | 451,021 | 381,748 | 32,991 | 31,137 | 5,145 |

| Company | Year of maturity | Total Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| ***Unsecured*** | | | | | |
| Term loans | 2021 | 46,500 | 19,500 | 27,000 | - |
| Bank overdraft | - | 151 | 151 | - | - |
| Revolving credits | - | 396,000 | 396,000 | - | - |
| | | 442,651 | 415,651 | 27,000 | - |

# Notes to the Financial Statements (continued)

## 15. Loans and borrowings (continued)

***Terms and debt repayment schedule (continued)***

| Company | Year of maturity | Total Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| ***Unsecured*** | | | | | |
| Term loans | 2021 | 62,958 | 16,458 | 28,300 | 18,200 |
| Bank overdraft | - | 19,293 | 19,293 | - | - |
| Revolving credits | - | 323,000 | 323,000 | - | - |
| | | 405,251 | 358,751 | 28,300 | 18,200 |

***Term loans***

The secured term loans of the subsidiaries are charged against long-term leasehold land, freehold land and buildings of subsidiaries (Note 3).

## 16. Payables and accruals

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Non-current** | | | | | |
| ***Non-trade*** | | | | | |
| Advance from minority shareholders | (i) | 3,205 | 7,439 | - | - |
| Payable and accruals | | - | 15,606 | - | - |
| | | 3,205 | 23,045 | - | - |
| **Current** | | | | | |
| ***Trade*** | | | | | |
| Trade payables | (ii) | 526,024 | 612,415 | 213,058 | 258,760 |
| Amount due to subsidiaries | (iii) | - | - | 88,340 | 61,008 |
| | | 526,024 | 612,415 | 301,398 | 319,768 |
| ***Non-trade*** | | | | | |
| Amount due to subsidiaries | (iii) | - | - | 18,027 | 17,792 |
| Amount due to associates | (iv) | 1,050 | 1,059 | - | - |
| Provision for warranty costs | (v) | 37,653 | 32,685 | 43 | 331 |
| Other payables | | 64,298 | 69,307 | 1,132 | 12,030 |
| Accrued expenses | | 58,153 | 72,220 | 3,391 | 4,220 |
| Lease liabilities | (vi) | 4,218 | - | - | - |
| | | 165,372 | 175,271 | 22,593 | 34,373 |
| Total current | | 691,396 | 787,686 | 323,991 | 354,141 |
| **Non-current and current** | | 694,601 | 810,731 | 323,991 | 354,141 |

(i) The advances from minority shareholders of a subsidiary are interest free, unsecured and are not expected to be repayable within the next twelve months.

## 16. Payables and accruals (continued)

(ii) Included in trade payables of the Group and of the Company are advances received from contract customers amounting to RM42,898,000 (2018 - RM58,879,222) and RM5,622,000 (2018 – RM9,523,000) respectively.

Included in trade payables are major payables denominated in currencies other than the functional currency, as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Australian Dollar | 1,057 | 1,136 | - | - |
| Euro | 12,964 | 7,760 | 153 | - |
| Qatari Riyal | 31,506 | 31,925 | 31,506 | 31,925 |
| Singapore Dollar | 517 | 993 | - | - |
| US Dollar | 9,850 | 15,116 | 521 | 282 |
| Sterling Pound | 519 | 410 | - | - |
| Japanese Yen | 339 | 182 | - | - |
| Hong Kong Dollar | 273 | 12 | - | - |
| Chinese Renminbi | 4,457 | 1,088 | - | - |
| TWD | 37 | 126 | - | - |
| Korean Won | 20 | 476 | - | - |
| SEK | 175 | - | - | - |
| NZD | - | 35 | - | - |

(iii) The trade payables due to subsidiaries are subject to the normal credit terms ranging from 30 to 60 days (2018 – 30 to 60 days).

The non-trade payables due to subsidiaries are non-trade in nature, unsecured, interest free and repayable on demand.

(iv) The amounts due to associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment.

(v) Provision for warranty costs relates to provision for defect rectification costs for manufactured cranes sold.

(vi) Lease liabilities

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| At 1 January | | |
| - As previously reported | - | - |
| - Initial application of MFRS 16 | 7,932 | - |
| - As restated | 7,932 | - |
| Interest recognised in profit or loss | 496 | - |
| Repayment of principal | (3,849) | - |
| Repayment of interest expense | (352) | - |
| Exchange difference | (9) | - |
| At 31 December | 4,218 | - |

The comparative information is not presented as the Group has applied MFRS 16 using modified retrospective approach.

# Notes to the Financial Statements (continued)

## 17. Bills payable

All bills payable of the Group and of the Company are unsecured and payable within a year and not subject to repricing before maturity.

## 18. Derivative asset

| | 2019 | | | 2018 | |
|---|---|---|---|---|---|
| | Contract/ Notional amount RM'000 | Derivative Assets RM'000 | Derivative liabilities RM'000 | Contract/ Notional amount RM'000 | Derivative Assets RM'000 |
| **Group** | | | | | |
| Forward foreign currency contracts | 27,027 | 120 | (9) | 71,866 | 336 |

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. Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Works done under contracts for constructions, cranes & vessels | 1,094,594 | 1,169,490 | 393,683 | 394,599 |
| Sale of goods and components | 144,593 | 156,047 | - | - |
| Services rendered | 298,201 | 250,559 | 22,630 | 38,633 |
| Dividend income | 18 | - | 127,841 | 132,024 |
| | 1,537,406 | 1,576,096 | 544,154 | 565,256 |

Supplementary information on revenue of the Group inclusive of the Group's share of revenue of associates are as follows:

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Revenue of the Group | 1,537,406 | 1,576,096 |
| Share of revenue of associates | 486,918 | 501,185 |
| | 2,024,324 | 2,077,281 |

## 20. Operating profit

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Operating profit is arrived at after charging/(crediting):** | | | | |
| Allowance for slow moving inventories | 4,864 | - | - | - |
| Amortisation of development costs and intellectual property | 929 | 993 | - | - |
| Auditors' remuneration: | | | | |
| - Holding company's auditors | | | | |
| - statutory audit | | | | |
| - current year | 652 | 625 | 210 | 200 |
| - under/(over) provision in prior years | 20 | (7) | - | 6 |
| | 672 | 618 | 210 | 206 |
| - other services | 10 | 20 | - | - |
| - Other auditors | 855 | 725 | - | - |
| | 1,537 | 1,363 | 210 | 206 |
| Depreciation expenses: | | | | |
| - investment properties | 10 | 10 | 278 | 277 |
| - property, plant and equipment | 71,438 | 70,384 | 14,434 | 16,730 |
| - right-of-use assets | 5,975 | - | - | - |
| Finance costs | | | | |
| - borrowings | 24,752 | 22,625 | 18,216 | 20,558 |
| - interest expenses arising on financial assets/liabilities measured under MFRS 9 | 685 | 1,511 | 54,069 | 34,280 |
| | 25,437 | 24,136 | 72,285 | 54,838 |
| - contract costs | 11,088 | 17,475 | 1,425 | 7,773 |
| | 36,525 | 41,611 | 73,710 | 62,611 |
| Net impairment loss/(reversal) on: | | | | |
| - contract assets | 733 | 1,918 | 80 | 660 |
| - receivables | 13,073 | (14,519) | 52,601 | (10,733) |
| | 13,806 | (12,601) | 52,681 | (10,073) |
| - investment in subsidiaries | - | - | 14,051 | - |
| - investment in associates | - | 175 | - | - |
| - other investments | - | 510 | - | - |
| - property, plant and equipment | - | 7,690 | - | - |

# Notes to the Financial Statements (continued)

## 20. Operating profit (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Operating profit is arrived at after charging/(crediting): (continued)** | | | | |
| Net provision/(reversal) for warranties | 6,105 | 7,160 | (234) | (797) |
| Net provision/(reversal) for foreseeable losses | 18,440 | (2,196) | 3,274 | (2,946) |
| Personnel expenses (including key management personnel) | | | | |
| - contribution to Employees Provident Fund | 16,750 | 15,556 | 3,113 | 2,798 |
| - wages, salaries and others | 203,326 | 171,343 | 27,979 | 25,489 |
| Property, plant and equipment written off | 87 | 403 | - | 403 |
| Rental expenses | 55,695 | 63,350 | 27,392 | 26,299 |
| Share-based payments | 6,331 | 11,247 | 2,607 | 4,964 |
| Written off/(back) of inventories | 5,164 | 3,977 | (126) | (213) |
| Development costs written-back | (2,136) | - | - | - |
| Gain on disposal of property, plant and equipment | (6,835) | (16,449) | (337) | (8) |
| Reversal of liquidated and ascertained damages | (10,046) | - | - | - |
| Dividend income | - | - | (127,841) | (132,024) |
| Interest income | (11,813) | (9,496) | (1,037) | (1,193) |
| Interest income arising on financial assets/liabilities measured under MFRS 9 | (997) | (668) | (31,482) | (19,782) |
| | (12,810) | (10,164) | (32,519) | (20,975) |
| Net fair value adjustment on derivative instruments | 225 | 6,131 | - | - |
| Net loss/(gain) on foreign exchange | 10,290 | 3,435 | (3,215) | (2,003) |
| Rental income on: | | | | |
| - premises | (4,110) | (4,443) | (96) | (96) |
| - plant and equipment | (58,292) | (54,581) | - | - |

## 21. Key management personnel compensation

The key management personnel compensations are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Directors of the Company | | | | |
| - Fees | 1,464 | 1,323 | 720 | 699 |
| - Remuneration | 4,091 | 3,997 | 3,270 | 3,216 |
| | 5,555 | 5,320 | 3,990 | 3,915 |
| Defined contribution benefits | 629 | 606 | 454 | 445 |
| Share option expenses | 442 | 65 | 291 | 65 |
| | 6,626 | 5,991 | 4,735 | 4,425 |

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.

## 22. Income tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Current tax expense/(benefit)** | | | | |
| Malaysia - current | 9,068 | 14,062 | (3,269) | - |
| - under provision in prior year | 2,213 | 2,288 | - | - |
| | 11,281 | 16,350 | (3,269) | - |
| Foreign - current | 21,578 | 23,290 | 2,861 | 2,367 |
| - (over)/ under provision in prior year | (69) | 1,326 | - | 1,342 |
| | 21,509 | 24,616 | 2,861 | 3,709 |
| **Deferred tax expense (Note 8)** | | | | |
| Origination of temporary differences | 4,663 | (2,327) | - | - |
| Under provision in prior years | 1,708 | 3,641 | - | - |
| | 6,371 | 1,314 | - | - |
| | 39,161 | 42,280 | (408) | 3,709 |

# Notes to the Financial Statements (continued)

## 22. Income tax expense (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Reconciliation of tax expense** | | | | |
| Profit before tax | 156,021 | 273,829 | 15,324 | 77,093 |
| Income tax using Malaysian tax rate at 24% (2018 - 24%) | 37,445 | 65,719 | 3,678 | 18,502 |
| Effect of different tax rates in foreign jurisdictions | (4,712) | (12,012) | - | - |
| Effect of deferred tax benefits not recognised | 14,854 | 26,754 | 12,041 | 9,574 |
| Utilisation of deferred tax assets not recognised in previous year | (4,993) | (14,507) | - | (175) |
| Non-deductible expenses | 28,396 | 36,424 | 22,821 | 9,954 |
| Non-taxable income | (34,202) | (63,555) | (38,567) | (32,702) |
| Double deduction | - | - | - | - |
| Tax incentives | 305 | - | - | - |
| Tax exempt income | (108) | (724) | - | - |
| Non-deductible foreign projects expenses | - | - | - | - |
| Non-taxable foreign projects income | (3,420) | (5,153) | (3,242) | (5,153) |
| Withholding tax for foreign projects | 2,861 | 2,367 | 2,861 | 2,367 |
| Others | (1,117) | (288) | - | - |
| | 35,309 | 35,025 | (408) | 2,367 |
| Under/(Over) provision in prior years | | | | |
| - current tax expense | 2,144 | 3,614 | - | 1,342 |
| - deferred tax expense | 1,708 | 3,641 | - | - |
| Total income tax expense/ (benefit) | 39,161 | 42,280 | (408) | 3,709 |

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2018 - 24%) of the estimated assessable profit for the financial year.

## 23. Earnings per ordinary share (sen)

***Basic earnings per share***

The calculation of basic earnings per share for the financial year ended 31 December 2019 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding calculated as follows:

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Profit for the financial year attributable to owners of the Company | 34,884 | 144,800 |

## 23. Earnings per ordinary share (sen) (continued)

| | Group | |
|---|---|---|
| | 2019<br>'000 | 2018<br>'000 |
| Number of ordinary shares issued at 1 January | 481,669 | 480,331 |
| Effect of shares issued under employee share options | 917 | 426 |
| Total weighted average number of ordinary shares in issue | 482,586 | 480,757 |

| | Group | |
|---|---|---|
| | 2019 | 2018 |
| Basic earnings per share (sen) | 7.23 | 30.12 |

***Diluted earnings per share***

The Group has dilutive potential 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 2019 was based on profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

| | Group | |
|---|---|---|
| | 2019<br>RM'000 | 2018<br>RM'000 |
| Profit attributable to owners of the Company | 34,884 | 144,800 |

| | Group | |
|---|---|---|
| | 2019<br>'000 | 2018<br>'000 |
| Weighted average number of ordinary shares | 482,586 | 480,757 |
| Effect of dilution arising from conversion of remaining employee share options | 5,035 | 8,653 |
| Adjusted weighted average number of ordinary shares at 31 December | 487,621 | 489,410 |

# Notes to the Financial Statements (continued)

## 23. Earnings per ordinary share (sen) (continued)

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 share options were outstanding.

| | Group | |
|---|---|---|
| | 2019 | 2018 |
| Diluted earnings per share (sen) | 7.15 | 29.59 |

## 24. Employee benefits

**Share-based payments**

In 2017, an Employees' 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 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 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 scheme;

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

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

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

## 24. Employee benefits (continued)

**Share-based payments (continued)**

The following options were granted under the Option scheme:

**Group and Company**

**SIS**

| Grant date | Exercise price | At 1.1.2019 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2019 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| 26.7.2017 | RM2.25 | 35,852 | - | (1,716) | (1,482) | 32,654 | 9.7.2022 |

**SIS**

| Grant date | Exercise price | At 1.1.2018 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2018 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| 26.7.2017 | RM2.25 | 38,138 | - | (1,338) | (948) | 35,852 | 9.7.2022 |

**Subsidiary**

**SIS**

| Grant date | Exercise price | At 1.1.2019 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2019 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| 15.9.2017 | RM2.35 | 17,610 | - | (2,464) | (321) | 14,825 | 9.7.2022 |

| Grant date | Exercise price | At 1.1.2018 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2018 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| 15.9.2017 | RM2.35 | 18,212 | - | - | (602) | 17,610 | 9.7.2022 |

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

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Proceeds received from exercise of share options | 3,861 | 3,660 |

# Notes to the Financial Statements (continued)

## 24. Employee benefits (continued)

| | Company | | Subsidiary | |
|---|---|---|---|---|
| | 2019 RM | 2018 RM | 2019 RM | 2018 RM |
| Average share price for the year | 2.66 | 2.97 | 2.71 | 2.47 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Expense recognised as share-based payments | 6,331 | 11,247 | 2,607 | 4,964 |

**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**

| | Company | Subsidiary |
|---|---|---|
| Fair value at grant date (RM)<br>- Granted in Year 2017 | 0.55 - 0.84 | 0.48 - 0.74 |
| Weighted average share price (RM)<br>- Granted in Year 2017 | 2.50 | 2.62 |
| Exercise price (RM)<br>- Granted in Year 2017 | 2.25 | 2.35 |
| Expected volatility (%) (weighted average volatility) | 24.24 | 15.58 |
| Option life | 5 years | 5 years |
| Risk-free interest rate (based on Malaysian Government bonds) (%)<br>- Granted in Year 2017 | 3.29 – 3.68 | 3.18 - 3.498 |
| Expected staff turnover (%) | 15 | 10 |

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

## 25. Dividend

The dividend recognised in the current year by the Company is:

| Ordinary dividend | Per share Sen | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2019** | | | |
| Final per ordinary share tax exempt | | | |
| – for the year ended 31 December 2018 | 7.50 | 36,231 | 29 July 2019 |
| **2018** | | | |
| Final per ordinary share tax exempt | | | |
| – for the year ended 31 December 2017 | 7.00 | 33,693 | 24 September 2018 |

***Proposed final dividend for the year ended 31 December 2019***

The Directors have recommended a first and final ordinary tax exempt dividend of 2.50 sen (2018 - 7.50 sen) per ordinary share amounting to approximately RM12,085,000 in respect of the financial year ended 31 December 2019, which will be paid after the financial year end subject to the approval of the shareholders at the forthcoming Annual General Meeting. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2019.

***Dividend per ordinary share***

The calculation of dividend per ordinary share is based on the issued and paid-up share capital (excluding treasury shares) of 483,385,250 (2018 - 483,075,250) ordinary shares as at 31 December 2019.

## 26. Operating segments

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purposes, the Group is organised into business units based on their products and services provided.

The Group comprises the following main business segments:

| | |
|---|---|
| Infrastructure construction | Construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals runway and facility support buildings, heavy concrete foundations and other similar construction works |
| Cranes | Design, manufacture, supply, trading, leasing and service provider of offshore oil and gas pedestal cranes, tower cranes, shipyard cranes and other heavy lifting equipment cranes; and design, engineering and maintenance services for integrated automation solutions, process analysers and specialised equipment for various industries |
| Marine shipbuilding and ship repair | Design, engineering, building and service provider of anchor handling tug boats, supply vessels, accommodation ships and marine vessels for the offshore oil and gas exploration and production works |
| Concession | Privatisation of international airports in Cambodia and road maintenance works in the central region of Peninsular Malaysia |

***Segment assets and segment liabilities***

The Group Executive Committee reviews the segments' operating performance on segment net assets basis. Hence the segment assets and segment liabilities are presented on the same basis.

# Notes to the Financial Statements (continued)

## 26. Operating segments (continued)

**Business segments**

| | Infrastructure construction 2019 RM'000 | Infrastructure construction 2018 RM'000 | Cranes 2019 RM'000 | Cranes 2018 RM'000 | Marine shipbuilding and ship repair 2019 RM'000 | Marine shipbuilding and ship repair 2018 RM'000 | Concession 2019 RM'000 | Concession 2018 RM'000 | Eliminations 2019 RM'000 | Eliminations 2018 RM'000 | Consolidated 2019 RM'000 | Consolidated 2018 RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segment profit/(loss)** | (45,883) | 197,319 | 119,670 | 99,149 | 6,388 | 1,347 | 167,977 | 150,458 | (92,131) | (174,444) | 156,021 | 273,829 |
| Included in the measure of segment profit are: | | | | | | | | | | | | |
| Revenue from external customers | 818,563 | 967,344 | 687,630 | 530,438 | 31,213 | 78,314 | - | - | - | - | 1,537,406 | 1,576,096 |
| Group share of revenue of associates | 52,563 | 96,585 | 11,067 | 14,729 | - | - | 423,288 | 389,871 | - | - | 486,918 | 501,185 |
| Group's revenue | 871,126 | 1,063,929 | 698,697 | 545,167 | 31,213 | 78,314 | 423,288 | 389,871 | - | - | 2,024,324 | 2,077,281 |
| Inter-segment revenue | 419,155 | 521,522 | 363 | 304 | 4,392 | 405 | 1,583 | 1,438 | (425,493) | (523,669) | - | - |
| Interest income | 36,737 | 46,134 | 8,712 | 6,519 | 12,399 | 10,749 | - | - | (45,038) | (53,238) | 12,810 | 10,164 |
| Finance costs | (77,388) | (59,113) | (3,115) | (2,602) | (863) | (14,608) | - | - | 55,929 | 52,187 | (25,437) | (24,136) |
| Share of results of associates | (9,900) | (5,822) | (2,154) | (2,561) | - | - | 167,988 | 150,477 | - | - | 155,934 | 142,094 |
| **Net segment assets** | 340,427 | 503,339 | 741,854 | 690,267 | 206,655 | 252,086 | 648,703 | 535,350 | (260,914) | (342,705) | 1,676,725 | 1,638,337 |

## 26. Operating segments (continued)

**Geographical segments**

The infrastructure construction segment is operating mainly in Malaysia, Qatar and Cambodia. The cranes segment is managed on a worldwide basis with its head office in Malaysia. The cranes segment has manufacturing plants in Malaysia, Australia, United States of America and Denmark. The marine shipbuilding and ship repair segment operates in Malaysia. The airport concession segment is managed in Cambodia and the road maintenance concession works are carried out in the central region of Peninsular Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of the respective principal operations.

| | Inside Malaysia | | Outside Malaysia | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| **Geographical information** | | | | | | | | |
| **Revenue** | 1,162,527 | 1,145,189 | 800,372 | 954,576 | (425,493) | (523,669) | 1,537,406 | 1,576,096 |
| **Group share of associates revenue** | 102,596 | 172,025 | 384,322 | 329,160 | - | - | 486,918 | 501,185 |
| **Total revenue** | 1,265,123 | 1,317,214 | 1,184,694 | 1,283,736 | (425,493) | (523,669) | 2,024,324 | 2,077,281 |
| **Total assets** | 3,827,794 | 3,732,231 | 1,765,454 | 1,686,904 | (1,671,898) | (1,627,459) | 3,921,350 | 3,791,676 |

## 27. Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Capital expenditure in respect of purchase of property, plant and equipment: | | | | |
| - contracted for | 15,523 | 23,833 | - | 5,864 |

# Notes to the Financial Statements (continued)

## 28. Financial instruments

### 28.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2019 categorised as follows:

(a) Amortised cost; and
(b) Mandatorily at fair value through profit or loss - derivatives used for hedging.

| | Carrying amount RM'000 | Amortised cost RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2019** | | | |
| **Financial assets** | | | |
| Receivables and deposits | 645,277 | 645,277 | - |
| Cash and bank balances | 604,994 | 604,994 | - |
| Derivative assets | 120 | - | 120 |
| | 1,250,391 | 1,250,271 | 120 |
| **Financial liabilities** | | | |
| Loan and borrowings | (545,489) | (545,489) | - |
| Payables and accruals | (694,601) | (694,601) | - |
| Bills payable | (695,065) | (695,065) | - |
| Derivative liabilities | (9) | - | (9) |
| | (1,935,164) | (1,935,155) | (9) |
| **Company** | | | |
| **2019** | | | |
| **Financial assets** | | | |
| Receivables and deposits | 1,177,276 | 1,177,276 | - |
| Cash and bank balances | 164,492 | 164,492 | - |
| | 1,341,768 | 1,341,768 | - |
| **Financial liabilities** | | | |
| Loan and borrowings | (442,651) | (442,651) | - |
| Payables and accruals | (323,991) | (323,991) | - |
| Bills payable | (672,578) | (672,578) | - |
| | (1,439,220) | (1,439,220) | - |

# 28. Financial instruments (continued)

## 28.1 Categories of financial instruments (continued)

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

| | Carrying amount RM'000 | Amortised cost RM'000 | Derivatives used for hedging RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2018** | | | |
| **Financial assets** | | | |
| Receivables and deposits | 553,528 | 553,528 | - |
| Cash and bank balances | 591,271 | 591,271 | - |
| Derivative assets | 336 | - | 336 |
| | 1,145,135 | 1,144,799 | 336 |
| **Financial liabilities** | | | |
| Loan and borrowings | (451,021) | (451,021) | - |
| Payables and accruals | (810,731) | (810,731) | - |
| Bills payable | (587,734) | (587,734) | - |
| | (1,849,486) | (1,849,486) | - |
| **Company** | | | |
| **2018** | | | |
| **Financial assets** | | | |
| Receivables and deposits | 1,126,662 | 1,126,662 | - |
| Cash and bank balances | 115,803 | 115,803 | - |
| | 1,242,465 | 1,242,465 | - |
| **Financial liabilities** | | | |
| Loan and borrowings | (405,251) | (405,251) | - |
| Payables and accruals | (354,141) | (354,141) | - |
| Bills payable | (571,498) | (571,498) | - |
| | (1,330,890) | (1,330,890) | - |

## 28.2 Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its credit, liquidity, interest rate and foreign currency risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

## 28. Financial instruments (continued)

### 28.3 Credit 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.

The Company's exposure to credit risk arises principally from advances to subsidiaries and financial guarantees given to banks for borrowings granted to subsidiaries.

***(i) Exposure of credit risk***

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.

The exposure of credit risk for trade receivables (net of impairment) by geographical region is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019 RM'000** | **2018 RM'000** | **2019 RM'000** | **2018 RM'000** |
| Asia | 217,592 | 215,726 | 111,725 | 94,583 |
| Europe | 24,212 | 9,419 | - | - |
| America | 1,996 | 4,465 | - | - |
| Middle East | 193,564 | 105,097 | - | - |
| Australia | 15,321 | 23,807 | - | - |
| | 452,685 | 358,514 | 111,725 | 94,583 |

***(ii) Assessment of impairment losses***

At each reporting date, the Group assesses whether any of financial assets at amortised cost and contract assets at fair value through other comprehensive income are credit impaired.

The gross carrying amounts of those financial assets are written off when there is no reasonable expectation of recovery (i.e. the debtor does not have assets or sources of income to generate sufficient cash flows to repay the debt) despite they are still subject to enforcement activities.

*Trade Receivables and Contract Assets*

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Therefore, the Group concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group considers any receivables having significant balances and more than 90 days overdue are deemed credit impaired.

# 28. Financial instruments (continued)

## 28.3 Credit risk (continued)

### *(ii) Assessment of impairment losses (continued)*

The expected loss rates are based on the payment profiles of sales over a period of 12 months from the measurement date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

For construction contracts, the Group assessed the expected credit loss of each customer individually based on their financial information and past trends of payments as there are only a few customers. All of these customers have low risk of default as they have a strong capacity to meet their debts.

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

| | Gross amount RM'000 | Lifetime loss allowance RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2019** | | | |
| Trade Receivables | | | |
| Not past due | 296,367 | (662) | 295,705 |
| Past due 1 - 90 days | 86,588 | (852) | 85,736 |
| Past due 91 - 180 days | 17,259 | (1,718) | 15,541 |
| Past due more than 180 days | 122,171 | (66,468) | 55,703 |
| | 522,385 | (69,700) | 452,685 |
| **Company** | | | |
| **2019** | | | |
| Trade Receivables | | | |
| Not past due | 69,266 | (137) | 69,129 |
| Past due 1 - 90 days | 23,368 | (4) | 23,364 |
| Past due 91 - 180 days | 60 | - | 60 |
| Past due more than 180 days | 23,300 | (4,128) | 19,172 |
| | 115,994 | (4,269) | 111,725 |
| **Group** | | | |
| **2019** | | | |
| Contract assets | 613,389 | (4,901) | 608,488 |
| **Company** | | | |
| **2019** | | | |
| Contract assets | 218,391 | (2,184) | 216,207 |

# Notes to the Financial Statements (continued)

## 28. Financial instruments (continued)

### 28.3 Credit risk (continued)

#### *(ii) Assessment of impairment losses (continued)*

| | Gross amount RM'000 | Individual Impairment RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2018** | | | |
| Trade Receivables | | | |
| Not past due | 170,954 | (470) | 170,484 |
| Past due 1 - 90 days | 85,411 | (623) | 84,788 |
| Past due 91 - 180 days | 73,044 | (4,658) | 68,386 |
| Past due more than 180 days | 104,782 | (69,926) | 34,856 |
| | 434,191 | (75,677) | 358,514 |
| **Company** | | | |
| **2018** | | | |
| Trade Receivables | | | |
| Not past due | 49,549 | (116) | 49,433 |
| Past due 1 - 90 days | 2,483 | (31) | 2,452 |
| Past due 91 - 180 days | 45,428 | (3,073) | 42,355 |
| Past due more than 180 days | 456 | (113) | 343 |
| | 97,916 | (3,333) | 94,583 |
| **Group** | | | |
| **2018** | | | |
| Contract assets | 731,888 | (5,543) | 726,345 |
| **Company** | | | |
| **2018** | | | |
| Contract assets | 202,351 | (2,104) | 200,247 |

*Fixed Deposits with Licensed Banks, Cash and Bank Balances*

The Group considers these banks and financial institutions have low credit risks. Therefore, the Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

# 28. Financial instruments (continued)

## 28.3 Credit risk (continued)

### *(ii) Assessment of impairment losses (continued)*

*Other Receivables*

The Group applies the general approach to measuring expected credit losses for the other receivables. Generally, the Group considers the advances to other receivables have low credit risks.

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for the other receivables are summarized below:

| | Gross amount RM'000 | Lifetime loss allowance RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Group** | | | |
| **2019** | | | |
| Low credit risk | 78,801 | (3,914) | 74,887 |
| **2018** | | | |
| Low credit risk | 63,421 | (2,671) | 60,750 |
| **Company** | | | |
| **2019** | | | |
| Low credit risk | 4,069 | (447) | 3,622 |
| Credit impaired | 2,867 | (2,867) | - |
| | 6,936 | (3,314) | 3,622 |
| **2018** | | | |
| Low credit risk | 7,822 | (1,206) | 6,616 |
| Credit impaired | 2,867 | (2,867) | - |
| | 10,689 | (4,073) | 6,616 |

# 28. Financial instruments (continued)

## 28.3 Credit risk (continued)

### *(ii) Assessment of impairment losses (continued)*

*Amount due from Subsidiaries*

The Company considers the amount due from subsidiaries to be in default when the subsidiaries are not able to pay when demanded. The Company considers a subsidiary's outstanding balances to be credit impaired when the subsidiary is unlikely to repay its loan or advances to the Company in full.

The Company determines the probability of default for these loans and advances individually using internal information available.

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for amount due from subsidiaries are summarised below:

| | Gross amount RM'000 | Lifetime loss allowance RM'000 | Carrying amount RM'000 |
|---|---|---|---|
| **Company** | | | |
| **2019** | | | |
| Low credit risk | 1,063,599 | (131,043) | 932,556 |
| Credit impaired | 146,272 | (48,964) | 97,308 |
| | 1,209,871 | (180,007) | 1,029,864 |
| **2018** | | | |
| Low credit risk | 1,026,702 | (87,380) | 939,322 |
| Credit impaired | 100,258 | (42,997) | 57,261 |
| | 1,126,960 | (130,377) | 996,583 |

## 28. Financial instruments (continued)

### 28.3 Credit risk (continued)

*(ii) Assessment of impairment losses (continued)*

The movements in the allowance for impairment losses during the year were:

| | Trade receivables RM'000 | Other receivables RM'000 | Amount due from associates RM'000 | Amount due from subsidiary RM'000 | Contract Assets RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2019** | | | | | | |
| At 1 January | 75,677 | 2,671 | 27,649 | - | 5,543 | 111,540 |
| Reclassification | (16,402) | 2,002 | 14,135 | - | 265 | - |
| Addition during the financial year | 20,780 | 1,540 | 20,293 | - | 1,372 | 43,985 |
| Reversal during the financial year | (10,222) | (2,295) | (15,557) | - | (2,105) | (30,179) |
| Written off | (6) | - | - | - | - | (6) |
| Exchange difference | (127) | (4) | 10,686 | - | (174) | 10,381 |
| At 31 December | 69,700 | 3,914 | 57,206 | - | 4,901 | 135,721 |
| **Company** | | | | | | |
| **2019** | | | | | | |
| At 1 January | 3,333 | 4,073 | 3,995 | 130,377 | 2,104 | 143,882 |
| Addition during the financial year | 936 | - | 5,691 | 49,630 | 80 | 56,337 |
| Reversal during the financial year | - | (759) | (2,897) | - | - | (3,656) |
| At 31 December | 4,269 | 3,314 | 6,789 | 180,007 | 2,184 | 196,563 |

# 28. Financial instruments (continued)

## 28.3 Credit risk (continued)

### *(ii) Assessment of impairment losses (continued)*

The movements in the allowance for impairment losses in the previous year were:

| | Trade receivables RM'000 | Other receivables RM'000 | Amount due from associates RM'000 | Amount due from subsidiary RM'000 | Contract Assets RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2018** | | | | | | |
| At 1 January: | | | | | | |
| - As previously reported | 63,685 | 3,180 | - | - | - | 66,865 |
| - Effects on adoption MFRS9 | 7,182 | 2,096 | 44,373 | - | 3,625 | 57,276 |
| - Amount reported under MFRS 9 | 70,867 | 5,276 | 44,373 | - | 3,625 | 124,141 |
| Addition during the financial year | 4,810 | - | - | - | 1,918 | 6,728 |
| Reversal during the financial year | - | (2,605) | (16,724) | - | - | (19,329) |
| At 31 December | 75,677 | 2,671 | 27,649 | - | 5,543 | 111,540 |
| **Company** | | | | | | |
| **2018** | | | | | | |
| At 1 January: | | | | | | |
| - As previously reported | - | 2,866 | - | 42,997 | - | 45,863 |
| - Effects on adoption MFRS9 | 10,301 | 1,442 | 7,565 | 87,340 | 1,444 | 108,092 |
| - Amount reported under MFRS 9 | 10,301 | 4,308 | 7,565 | 130,337 | 1,444 | 153,955 |
| Addition during the financial year | - | - | 409 | 40 | 660 | 1,109 |
| Reversal during the financial year | (6,968) | (235) | (3,979) | - | - | (11,182) |
| At 31 December | 3,333 | 4,073 | 3,995 | 130,377 | 2,104 | 143,882 |

# 28. Financial instruments (continued)

## 28.3 Credit risk (continued)

### *(ii) Assessment of impairment losses (continued)*

The Company provides unsecured corporate 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.

The maximum exposure to credit risk amounted to RM195.6 million (2018 - RM151.8 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 corporate guarantees have not been recognised since the fair value on initial recognition was not material.

## 28.4 Liquidity risk

The Group's exposure to liquidity risk primarily arises from its capabilities to meet its financial obligations, principally its trade payables, loan and borrowings, as and when they fall due.

The Group and the Company monitor and maintain a level of cash and bank balances deemed adequate by management to finance the operations and to mitigate the effects of fluctuations in cash flows.

The table below summaries the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows:

| | Effective interest rate % | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2019** | | | | |
| Secured borrowings | | | | |
| - Term loans | 4.2 - 5.5 | 1,685 | 2,166 | 6,368 |
| - Bank overdrafts | 2.5 - 6.7 | 25,684 | - | - |
| - Hire purchase | 1.9 | 4,910 | 12,696 | - |
| Unsecured borrowings | | | | |
| - Term loans | 4.7 - 4.8 | 19,500 | 27,000 | - |
| - Bank overdrafts | 7.7 - 8.4 | 3,391 | - | - |
| - Revolving credits | 2.9 – 5.6 | 438,900 | - | - |
| - Insurance premium finance | 1.2 | 3,189 | - | - |
| Unsecured bills payable | 3.9 – 4.5 | 695,065 | - | - |
| Unsecured payables and accruals | - | 691,396 | 3,205 | - |
| | | 1,883,720 | 45,067 | 6,368 |

# Notes to the Financial Statements (continued)

## 28. Financial instruments (continued)

### 28.4 Liquidity risk (continued)

The table below summaries the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows: (continued)

| | Effective interest rate % | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|
| **2018** | | | | |
| Secured borrowings | | | | |
| - Term loans | 5.2 - 5.7 | 8,369 | 3,480 | 5,145 |
| - Bank overdrafts | 2.7 | 5,147 | - | - |
| - Hire purchase | 1.8 | 3,791 | 14,148 | - |
| Unsecured borrowings | | | | |
| - Term loans | 4.6 - 4.9 | 16,458 | 46,500 | - |
| - Bank overdrafts | 7.7 - 8.0 | 19,293 | - | - |
| - Revolving credits | 2.9 - 5.8 | 325,900 | - | - |
| - Insurance premium finance | 1.2 | 2,790 | - | - |
| Unsecured bills payable | 3.9 – 5.6 | 587,734 | - | - |
| Unsecured payables and accruals | - | 787,686 | 23,045 | - |
| | | 1,757,168 | 87,173 | 5,145 |

| | Effective interest rate % | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2019** | | | | |
| Unsecured borrowings | | | | |
| - Term loans | 4.7 - 4.8 | 19,500 | 27,000 | - |
| - Bank overdrafts | 7.7 | 151 | - | - |
| - Revolving credits | 4.3 | 396,000 | - | - |
| Unsecured bills payable | 4.0 | 672,578 | - | - |
| Unsecured payables and accruals | - | 323,991 | - | - |
| | | 1,412,220 | 27,000 | - |
| **2018** | | | | |
| Unsecured borrowings | | | | |
| - Term loans | 4.6 - 4.9 | 16,458 | 46,500 | - |
| - Bank overdrafts | 7.9 | 19,293 | - | - |
| - Revolving credits | 4.4 | 323,000 | - | - |
| Unsecured bills payable | 4.1 | 571,498 | - | - |
| Unsecured payables and accruals | - | 354,141 | - | - |
| | | 1,284,390 | 46,500 | - |

## 28. Financial instruments (continued)

### 28.5 Interest rate risk

The Group's interest rate risk arises from its interest bearing financial instruments that could impact fair value and future cash-flows due to fluctuation in market interest rates. The Group and the Company borrow to fund the acquisition of property, plant and equipment and for working capital purposes from banks and financial institutions, and have fixed deposits placed with licensed banks. Interest rate exposure is managed through the use of fixed and floating rate debts.

***Effective interest rates and repricing analysis***

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

## 28. Financial instruments (continued)

### 28.5 Interest rate risk (continued)

*Effective interest rates and repricing analysis (continued)*

| | 2019 Effective interest rate % | 2019 Total RM'000 | 2019 Less than 1 year RM'000 | 2019 1 - 5 years RM'000 | 2019 Over 5 years RM'000 | 2018 Effective interest rate % | 2018 Total RM'000 | 2018 Less than 1 year RM'000 | 2018 1 – 5 years RM'000 | 2018 Over 5 years RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| **Group** | | | | | | | | | | |
| Deposits placed with licensed banks | 0.5 - 4.3 | 152,660 | 152,660 | - | - | 0.7 - 3.9 | 157,523 | 157,523 | - | - |
| Short-term funds | 1.7 - 3.9 | 241,650 | 241,650 | - | - | 2.2 - 5.4 | 143,023 | 143,023 | - | - |
| | | 394,310 | 394,310 | - | - | | 300,546 | 300,546 | - | - |
| **Company** | | | | | | | | | | |
| Deposits placed with licensed banks | 3.1 | 1,077 | 1,077 | - | - | 3.2 | 2,384 | 2,384 | - | - |
| Short-term funds | 2.4 - 3.4 | 115,018 | 115,018 | - | - | 2.9 | 650 | 650 | - | - |
| | | 116,095 | 116,095 | - | - | | 3,034 | 3,034 | - | - |

**Financial liabilities**

The information on interest-bearing financial liabilities are disclosed in Note 28.4.

# 28. Financial instruments (continued)

### 28.5 Interest rate risk (continued)

***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 RM3,891,000 (2018 – RM4,913,000) and RM3,692,000 (2018 – RM4,913,000). A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

### 28.6 Foreign currency risk

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United State Dollar ("USD"), Euro, Australian Dollar ("AUD"), Norwegian Krone ("DKK") and Qatari Riyal ("QAR").

The Group and the Company hold derivative financial instruments to hedge their foreign currency risk exposures. The exposure to foreign currency risk of the Group and of the Company is monitored by the management from time to time.

The foreign exchange contracts are used as hedges to manage the operational exposures to foreign currency risks. 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.

The Group's exposure to major foreign currencies risk, based on carrying amounts as at the end of the reporting period are as follows:

| Group | USD RM'000 | EURO RM'000 | AUD RM'000 | DKK RM'000 | QAR RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Financial assets | 209,643 | 31,702 | 132,362 | 9,600 | 192,845 |
| Financial liabilities | (67,448) | (20,620) | (45,294) | (71,443) | (92,271) |
| Net financial assets/(liabilities) | 142,195 | 11,082 | 87,068 | (61,843) | 100,574 |
| *Less:* | | | | | |
| - Net financial liabilities denominated in the respective entities' functional currencies | (90,778) | (6,895) | (87,499) | 64,129 | (94,750) |
| Forward foreign currency contracts (contracted notional principal) | (3,935) | - | (9,792) | - | - |
| | 47,482 | 4,187 | (10,223) | 2,286 | 5,824 |

## 28. Financial instruments (continued)

### 28.6 Foreign currency risk (continued)

| Group | USD RM'000 | EURO RM'000 | AUD RM'000 | DKK RM'000 | SGD RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Financial assets | 306,772 | 7,209 | 142,400 | 12,364 | 131,919 |
| Financial liabilities | (73,389) | (9,422) | (55,224) | (33,837) | (128,183) |
| Net financial assets/(liabilities) | 233,383 | (2,213) | 87,176 | (21,473) | 3,736 |
| *Less:* | | | | | |
| - Net financial liabilities denominated in the respective entities' functional currencies | (144,081) | (796) | (121,878) | (56,818) | 20,939 |
| Forward foreign currency contracts (contracted notional principal) | (28,693) | (18,939) | (36) | - | - |
| | 60,609 | (21,948) | (34,738) | (78,291) | 24,675 |

Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:

**Effects on profit after taxation**

| Group | USD RM'000 | EURO RM'000 | AUD RM'000 | DKK RM'000 | QAR RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| - strengthened by 5% | 1,804 | 159 | (388) | 87 | 221 |
| - weakened by 5% | (1,804) | (159) | 388 | (87) | (221) |

| Group | USD RM'000 | EURO RM'000 | AUD RM'000 | DKK RM'000 | SGD RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| - strengthened by 5% | 2,303 | (834) | (1,320) | (2,975) | 938 |
| - weakened by 5% | (2,303) | 834 | 1,320 | 2,975 | (938) |

## 28. Financial instruments (continued)

### 28.6 Foreign currency risk (continued)

The Company's exposure to major foreign currency is as follows:

| Company | USD RM'000 | EURO RM'000 | AUD RM'000 | QAR RM'000 | SGD RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Financial assets | 6,765 | 21,597 | 676 | 37,273 | - |
| Financial liabilities | (59,966) | - | (12) | - | (37,341) |
| Net financial (liabilities)/assets | (53,201) | 21,597 | 664 | 37,273 | (37,341) |
| *Less:* | | | | | |
| - Net financial assets/(liabilities) denominated in the respective entities' functional currencies | - | - | - | - | - |
| Forward foreign currency contracts (contracted notional principal) | - | - | - | - | - |
| **Net currency exposure** | (53,201) | 21,597 | 664 | 37,273 | (37,341) |

| Company | USD RM'000 | EURO RM'000 | AUD RM'000 | QAR RM'000 | SGD RM'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Financial assets | 15,037 | - | 1,086 | 37,899 | - |
| Financial liabilities | (95,179) | (2) | (1,745) | - | (37,410) |
| Net financial (liabilities)/assets | (80,142) | (2) | (659) | 37,899 | (37,410) |
| *Less:* | | | | | |
| - Net financial assets/(liabilities) denominated in the respective entities' functional currencies | - | - | - | - | - |
| Forward foreign currency contracts (contracted notional principal) | - | - | - | - | - |
| **Net currency exposure** | (80,142) | (2) | (659) | 37,899 | (37,410) |

## 28. Financial instruments (continued)

### 28.6 Foreign currency risk (continued)

Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:

**Effects on profit after taxation**

| Company | USD RM'000 | EURO RM'000 | AUD RM'000 | QAR RM'000 | SGD RM'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| - strengthened by 5% | (2,021) | 820 | 25 | 1,416 | (1,418) |
| - weakened by 5% | 2,021 | (820) | (25) | (1,416) | 1,418 |
| **2018** | | | | | |
| - strengthened by 5% | (3,045) | - | (25) | 1,440 | (1,421) |
| - weakened by 5% | 3,045 | - | 25 | (1,440) | 1,421 |

### 28.7 Fair value information

The carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values.

For those financial assets and financial liabilities that are impractical to establish the market value or fair value, are carried at cost less impairment, if any.

***Fair value hierarchy***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

# 28. Financial instruments (continued)

### 28.7 Fair value information (continued)

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2019** | | | | |
| **Financial asset** | | | | |
| Forward exchange contracts | - | 120 | - | 120 |
| Short-term funds | 241,650 | - | - | 241,650 |
| | 241,650 | 120 | - | 241,770 |
| **Financial liabilities** | | | | |
| Forward exchange contracts | - | (9) | - | (9) |
| **2018** | | | | |
| **Financial asset** | | | | |
| Forward exchange contracts | - | 336 | - | 336 |
| Short-term funds | 143,023 | - | - | 143,023 |
| | 143,023 | 336 | - | 143,359 |

# 29. Contingent liabilities

**Continuing financial support**

The Company has undertaken to provide continuing financial support to certain subsidiaries to enable them to meet their financial obligations as and when they fall due (Note 5).

**Contingent liabilities - litigation**

***Muhibbah Engineering (M) Bhd ("the Company") v Syrian Civil Aviation Authority ("SCAA")***

The Company has commenced arbitration proceedings at the Dubai International Arbitration Centre to claim against SCAA for approximately Euro 25.7 million, interest and costs for works done in relation to the rehabilitation and upgrading of some of the Damascus International Airport facilities in Syria which was substantially completed by the Company previously. The Company is refuting SCAA's Claim in Syria Court including on the ground that the Courts in Syria lack jurisdiction.

***Toyo Thai Malaysia Sdn Bhd ("TTML") v Muhibbah Engineering (M) Bhd ("the Company")***

The Company has commenced arbitration proceedings against TTML and issued a demand letter to TTML's parent company, TTCL Public Company Limited ("TTCL"), for an outstanding sum of approximately RM157.3 million which includes but is not limited to the value of work done pursuant to re-measurement of the actual quantities of work, change orders and all relevant claims.

The Company is also refuting TTML's counterclaim against the Company for an amount of approximately RM16.4 million as it is not in compliance with the conditions of the contract.

# Notes to the Financial Statements (continued)

## 30. 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 or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiaries (see Note 5) and its associates (see Note 6).

The significant related party transactions of the Group and of the Company, other than key management personnel compensation are as follows:

| | Group | |
|---|---|---|
| | 2019 RM'000 | 2018 RM'000 |
| Significant transactions with subsidiaries: | | |
| Gross dividend income | (117,123) | (124,464) |
| Purchase of materials and services | 264,300 | 213,694 |
| Rental expense | 28,166 | 27,780 |
| Interest expense | 139 | 143 |
| Rental income | (36) | (36) |
| Sale of property, plant and equipment | (302) | (505) |
| Shared services | (2,000) | (2,000) |

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 RM'000 | 2018 RM'000 | 2019 RM'000 | 2018 RM'000 |
| Significant transactions with associates: | | | | |
| Gross dividend income | (49,545) | (62,206) | (10,700) | (7,100) |
| Technical assistance fee | (20,434) | (18,733) | (20,434) | (18,733) |
| Sale of goods | (7,187) | (14,054) | - | - |

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

The outstanding net amounts due from/(to) subsidiaries and associates as at 31 December 2019 are disclosed in Note 7 and Note 16 respectively.

## 31. Capital management

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

## 32. Significant events

**Significant events after the financial year**

The degree of financial and operational impact arising from the global outbreak of COVID-19 pandemic will depend on the preventive measures adopted by various countries and the duration of the pandemic. Such financial impact could not be reasonably ascertained at this stage.

## 33. Changes in accounting policies

As mentioned in Note 1 to the financial statements, the Group has adopted MFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognised as an adjustment to the retained profits as at 1 January 2019 (date of initial application) without restating any comparative information.

The Group has applied MFRS 16 only to contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'. Therefore, MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

**(a) Lessee Accounting**

The Group has used the following practical expedients in applying MFRS 16 for the first time:-

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied for the exemption not to recognise operating leases with a remaining lease term of less than 12 months as at 1 January 2019;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the lease contract contains options to extend or terminate the lease.

For leases that were classified as finance leases, the Group has recognised the carrying amount of the leased asset and lease liability immediately before 1 January 2019 as the carrying amount of the right-of-use asset and the lease liability as at the date of initial application.

There were no financial impacts to the Company's financial statements upon the transition to MFRS 16 at the date of initial application.

## 33. Changes in accounting policies (continued)

**(b) Lessor Accounting**

The Group did not make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of MFRS 16.

Under MFRS 16, an intermediate lessor accounts for the head lease and the sublease as 2 separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under MFRS 117).

There were no financial impacts to the Group's and the Company's retained earnings as at 1 January 2019.

**(c) Financial Impacts**

The main impacts resulting from the adoption of MFRS 16 at 1 January 2019 are summarised below:-

| | <---------------- At 1 January 2019 | | ---------------> |
|---|---|---|---|
| | As Previously Reported RM'000 | MFRS 16 Adjustments RM'000 | As Restated RM'000 |
| **Group** | | | |
| *Statements of Financial Position* | | | |
| Property and equipment (Note 3) | 903,892 | (23,657) | 880,235 |
| Right-of-use assets (Note 3) | - | 23,657 | 23,657 |
| Lease liabilities (Note 16(vi)): | | | |
| – current liabilities | - | 7,932 | 7,932 |

# 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 50 to 142 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 of 31 December 2019 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**
Klang, Selangor Darul Ehsan
Date: 1 April 2020

............................................
**Ooi Sen Eng**

# 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 Muhibbah Engineering (M) Bhd., do solemnly and sincerely declare that the financial statements set out on pages 50 to 142 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 abovenamed in Klang on 1 April 2020.

...........................
**Lee Poh Kwee**

Before me

**P. Dev Anand Pillai**
Pesuruhjaya Sumpah Malaysia
(No. B253)

# Independent Auditors' Report to the members of Muhibbah Engineering (M) Bhd.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Muhibbah Engineering (M) Bhd., which comprise the statements of financial position as at 31 December 2019 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 for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 50 to 142.

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 2019, 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 of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for *Accountants' Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Key Audit Matters

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

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

| **Revenue and profit recognition for construction contracts**<br>Refer to Note 2(q) and Note 19 to the financial statements | |
|---|---|
| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
| 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.<br><br>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. | Our audit procedures included, among others:<br><br>• 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;<br><br>• Testing the operating effectiveness of internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements;<br><br>• 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; |

## Key Audit Matters (continued)

| Revenue and profit recognition for construction contracts<br>Refer to Note 2(q) and Note 19 to the financial statements | |
|---|---|
| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
| 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 subcontractor cost and construction issues.<br><br>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.<br><br>The potential outcome for contracts can have an individually and collectively material impact on the financial statements, whether through error or management bias.<br><br>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, among others (continued):<br><br>• Assessing the reasonableness of percentage of completion by comparing to certification by external parties;<br><br>• Assessing the estimated profit and costs to completion, adjustments for job costing and potential contract losses; and<br><br>• Assessing whether the amounts recognised in the financial statements were in line with the Group's accounting policy and relevant accounting standards. |

| Investments in associates<br>Refer to Note 6 to the financial statements | |
|---|---|
| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
| **Key Audit Matters in relation to major associate**<br><br>The major associate is audited by a component auditor of the Group. In the context of our audit of the Group's consolidated financial statements, the component auditor has identified revenue recognition amongst others as key audit matter. Revenue is a presumed fraud risk area in the financial statements. Thus, the risk of material misstatement may be high and a good degree of professional scepticism is necessary.<br><br>Given the significant risk involved when auditing revenue, we have reviewed the component auditor's workings papers to ensure sufficient audit procedures had been performed to ensure the Company's revenue recognition policy was consistent with the accounting standards and has been applied consistently. | We have met with the major associate's component auditor and discussed the significant audit risks relating to revenue recognition and audit approach, and have reviewed their workings papers and discussed with them the results of their work.<br><br>The procedures performed by the component auditor on revenue included:-<br><br>• Performing test on the operating effectiveness of the associate's controls relevant to recognition of revenue;<br><br>• Performing sales transaction test to ensure the accuracy and validity of revenue recognised; and<br><br>• Performing sales cut off test to ensure revenue is recognised in the proper accounting period. |

# Independent Auditors' Report to the members of Muhibbah Engineering (M) Bhd. (continued)

**Key Audit Matters (continued)**

| Recoverability of trade receivables<br>Refer to Note 7 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 risk of default and expected credit loss allowance. | Our audit procedures included, among others:<br>• Reviewing recoverability of major receivables including but not limited to the review of subsequent collections;<br>• Enquiring management on project/ receivables status for major customers;<br>• Reviewing collections and sales trends during financial year of major receivables; and<br>• Reviewing management's basis of estimation on the adequacy of the Group's expected credit loss allowance on trade receivables. |

| Net Realisable Value of Inventories under Work-In-Progress<br>Refer to Note 11 to the financial statements | |
|---|---|
| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
| Inventories are a major component in the financial position of the Group. The unfavourable macro economic factors from prolonged weakness in global crude oil prices has impacted the demand of cranes and offshore support vessels 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, among others:<br>• Reviewing whether inventories are carried at lower of costs and net realisable value;<br>• Evaluating the qualifications, objectivity and competency of the independent external valuer engaged in the valuation of the vessels and assessed the reasonableness of the assumptions used in arriving at the valuation;<br>• Assessing the methodologies use by the independent external valuer to estimate the net realisable value of the vessels; and<br>• Assessing the adequacy of write-down of inventories. |

**Key Audit Matters (continued)**

| Goodwill impairment<br>Refer to Note 9 to the financial statements | |
|---|---|
| **Key Audit Matter** | **How our audit addressed the Key Audit Matter** |
| As at 31 December 2019, the Group has goodwill of RM71.183 million for the acquisition of the Intelligent Automation Group.<br><br>This is an area of focus given the materiality of the Group's goodwill balances and the inherent subjectivity in impairment testing.<br><br>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, among others:<br><br>• 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;<br><br>• 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;<br><br>• Performing sensitivity analysis to assess the impact on the recoverable amount of the cash generating units; and<br><br>• Reviewing the adequacy of disclosure of goodwill in the financial statements. |

**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 auditor's 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 Muhibbah Engineering (M) Bhd. (continued)

**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 skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries, of which we have not acted as auditors, are disclosed in Note 5 to the financial statements.

## OTHER MATTERS

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

**Crowe Malaysia PLT**
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

**Ung Voon Huay**
03233/09/2020 J
Chartered Accountant

Kuala Lumpur

1 April 2020

# List of Top 10 Properties as at 31 December 2019

| No. | Location | Description of Property | Year of Revaluation | Tenure | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|---|---|---|---|
| 1 | HS(D) 99546, Lot 104625, Telok Gong, Mukim & District of Klang, Selangor | Office building and factory | 2015 | Leasehold expiring 2103 | 148,400 sq. m. | 13 years | 116,650 |
| 2 | Hakmilik 75336, Lot 104505, Mukim & District of Klang, Selangor | Office building, factory and warehouse | 2015 | Leasehold expiring 2106 | 86,937 sq. m. | 23 years | 63,099 |
| 3 | 28, Yarrunga Street, Prestons, NSW 2170, Australia | Office building and factory | 2017 | Freehold | 11.6 acres | 49 years | 52,615 |
| 4 | Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan | Factory building with office block | 2017 | Freehold | 68,846 sq. m. | 14 years | 39,740 |
| 5 | Geran Mukim 17872, Lot 69222, Mukim Kapar, District of Klang, Selangor | Office building and factory | 2017 | Freehold | 18,207 sq. m. | 37 years | 29,308 |
| 6 | HS(D) 99547, Lot 104626, Telok Gong, Mukim & District of Klang, Selangor | Factory building and workshop | 2015 | Leasehold expiring 2103 | 52,490 sq. m. | 9 years | 25,493 |
| 7 | Geran # 26559, Lot 9895, Kg. Jawa, Mukim & District of Klang, Selangor | Office building and factory | 2017 | Freehold | 5.0 acres | 27 years | 17,963 |
| 8 | 7 AL, Nordkranvej 2, 3540, Lynge DK Denmark | Factory building with office block | 2017 | Freehold | 59,525 sq. m. | 49 years | 15,223 |
| 9 | Hakmilik 6322, Lot 129073, Telok Gong, Mukim & District of Klang Selangor | Vacant land | 2015 | Leasehold expiring 2104 | 30,889 sq. m. | NA | 14,018 |
| 10 | Hakmilik 109115, Lot 104623, Telok Gong, Mukim & District of Klang Selangor | Vacant land | 2019 | Leasehold expiring 2093 | 10.52 acres | NA | 8,012 |

# Statistics of Shareholdings as at 29 April 2020

## Share Capital

| | | |
|---|---|---|
| Total number of Issued shares | : | 483,445,250* shares |
| Class of shares | : | Ordinary shares |
| Voting rights | : | One vote per ordinary share |

| Size of Holdings | No. of Shareholders | % of Shareholders | No. of Shares Held | % of Issued Capital* |
|---|---|---|---|---|
| 1 – 99 | 266 | 3.897 | 3,435 | 0.001 |
| 100 – 1,000 | 1,251 | 18.327 | 851,748 | 0.175 |
| 1,001 –10,000 | 3,705 | 54.278 | 17,788,604 | 3.680 |
| 10,001 –100,000 | 1,308 | 19.162 | 40,763,103 | 8.432 |
| 100,001 – 24,172,261** | 294 | 4.307 | 339,863,244 | 70.300 |
| 24,172,262 and above *** | 2 | 0.029 | 84,175,116 | 17.412 |
| Total | 6,826 | 100.000 | 483,445,250 | 100.000 |

***Note:***

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2020.*

** *Less than 5% of issued shares.*

*** *5% and above of issued shares.*

**Directors' Shareholdings as per Register of Directors' Shareholdings as at 29 April 2020**

| Name | Direct Interest | %* | Deemed Interest | %* |
|---|---|---|---|---|
| Mac Ngan Boon @ Mac Yin Boon | 74,201,416 | 15.348 | 19,962,500 (a) | 4.129 |
| Ooi Sen Eng | 13,964,066 | 2.888 | - | - |
| Mac Chung Jin | 6,660,000 | 1.378 | 50,000 (a) | 0.010 |
| Lee Poh Kwee | 6,046,572 | 1.251 | 650,000 (a) | 0.134 |
| Mazlan bin Abdul Hamid | 500,000 | 0.103 | - | - |

***Notes:-***

*(a) Deemed interest by virtue of the shares held by his/her spouse and/or children pursuant to Section 59(11)(c) of the Companies Act, 2016*

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2020.*

# Statistics of Shareholdings as at 29 April 2020 (continued)

**Shares in related corporation**
The interest of the Company's Directors in related companies are disclosed in the Directors' Report for the year ended 31 December 2019 enclosed in this Annual Report.

**Options in the Company**
The employee share options held by the Directors in the Company are disclosed in Directors' Report for the year ended 31 December 2019 enclosed in this Annual Report.

**Substantial Shareholders as per Register of Substantial Shareholders as at 29 April 2020**

| Name | Direct Interest | %* | Deemed Interest | %* |
|---|---|---|---|---|
| Mac Ngan Boon @ Mac Yin Boon | 74,201,416 | 15.348 | - | - |
| Lembaga Tabung Haji | 30,033,700 (a) | 6.212 | - | - |
| FIL Limited | 34,707,900 (a) | 7.179 | - | - |

***Notes:-***

(a) *Based on the notice of interest of substantial shareholders pursuant to Section 141 and Section 138 of the Companies Act, 2016 which had been received by the Company.*

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2020.*

**List of 30 Largest Shareholders as at 29 April 2020**

| No. | Name | No. of Shares Held | % of Issued Capital* |
|---|---|---|---|
| 1 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Mac Ngan Boon @ Mac Yin Boon | 54,141,416 | 11.199 |
| 2 | Lembaga Tabung Haji | 30,033,700 | 6.212 |
| 3 | Cartaban Nominees (Asing) Sdn Bhd<br>BBH (LUX) SCA For Fidelity Funds Pacific | 19,333,000 | 3.999 |
| 4 | Universal Capital Resources Sdn Bhd | 17,232,700 | 3.565 |
| 5 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account<br>For Mac Ngan Boon @ Mac Yin Boon (551002) | 12,800,000 | 2.648 |
| 6 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Ooi Sen Eng | 12,500,000 | 2.586 |
| 7 | Kumpulan Wang Persaraan (Diperbadankan) | 11,299,500 | 2.337 |
| 8 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Chew Keng Siew | 10,217,500 | 2.113 |
| 9 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (PHEIM) | 8,081,900 | 1.672 |
| 10 | Cartaban Nominees (Asing) Sdn Bhd<br>BBH (LUX) SCA For Fidelity Funds Asean | 7,444,200 | 1.540 |
| 11 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Mac Chung Jin | 6,660,000 | 1.378 |
| 12 | Maybank Nominees (Tempatan) Sdn Bhd<br>MTrustee Berhad For Principal Dali Equity Growth Fund<br>(UT-CIMB-DALI) (419455) | 6,581,300 | 1.361 |
| 13 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (AMUNDI) | 6,011,700 | 1.244 |
| 14 | HSBC Nominees (Asing) Sdn Bhd<br>JPMCB NA For Vanguard Total International Stock Index Fund | 5,505,045 | 1.139 |
| 15 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Mac Chung Hui | 5,405,000 | 1.118 |
| 16 | Amanahraya Trustees Berhad<br>Amanah Saham Malaysia 2 – Wawasan | 5,000,000 | 1.034 |

# Statistics of Shareholdings as at 29 April 2020 (continued)

**List of 30 Largest Shareholders as at 29 April 2020 (continued)**

| No. | Name | No. of Shares Held | % of Issued Capital* |
|---|---|---|---|
| 17 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account<br>For Mac Ngan Boon @ Mac Yin Boon (SFC) | 4,650,000 | 0.962 |
| 18 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Great Eastern Life Assurance (Malaysia) Berhad (LBF) | 4,391,500 | 0.908 |
| 19 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (RHBISLAMIC) | 4,345,600 | 0.899 |
| 20 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Great Eastern Life Assurance (Malaysia) Berhad (LPF) | 4,239,500 | 0.877 |
| 21 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan)(MIDF ABSR EQ) | 4,207,200 | 0.870 |
| 22 | Maybank Securities Nominees (Tempatan) Sdn Bhd<br>Mac Chung Lynn | 4,000,000 | 0.827 |
| 23 | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>Deutsche Trustees Malaysia Berhad For<br>EastSpring Investmentssmall-Cap Fund | 3,990,800 | 0.825 |
| 24 | Amanahraya Trustees Berhad<br>Public Islamic Select Treasures Fund | 3,980,000 | 0.823 |
| 25 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY For Dimensional Emerging Market Value Fund | 3,732,300 | 0.772 |
| 26 | HSBC Nominees (Asing) Sdn Bhd<br>JPMCB NA For Vanguard Emerging Markets Stock Index Fund | 3,557,100 | 0.736 |
| 27 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN for Clearstream Banking S.A. | 3,552,200 | 0.735 |
| 28 | Maybank Nominees (Tempatan) Sdn Bhd<br>Maybank Trustees Berhad for Dana Makmur PHEIM (211901) | 3,496,700 | 0.723 |
| 29 | Amanahraya Trustees Berhad<br>ASN Umbrella for ASN SARA (Mixed Asset Conservative) 1 | 3,383,100 | 0.700 |
| 30 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Great Eastern Life Assurance (Malaysia) Berhad (LEEF) | 3,370,900 | 0.697 |
| | | 273,143,861 | 56.499 |