Muhibbah Engineering (M) Bhd.

(Company No. 12737-K)
(Incorporated in Malaysia)

and its subsidiaries

Financial statements for the financial year ended 31 December 2018

Muhibbah Engineering (M) Bhd.
(Company No. 12737-K)
(Incorporated in Malaysia)
and its subsidiaries

Directors' report for the financial year ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

Principal activities

The Company is principally engaged in the 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	144,800	73,384
Non-controlling interests	86,749	-
Profit for the financial year	231,549	73,384

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 7.00 sen per ordinary share totaling RM33,623,188 in respect of the financial year ended 31 December 2017.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2018 is 7.50 sen per ordinary share totaling RM36,125,194 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 (Appointed on 16 April 2018)

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 financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2018	**Bought**	**Sold**	**At 31.12.2018**
<u>Muhibbah Engineering (M) Bhd</u>.:				
Mac Ngan Boon @ Mac Yin Boon				
- Direct	73,501,416	-	-	73,501,416
- Indirect	19,962,500	-	-	19,962,500
Ooi Sen Eng	13,924,066	-	-	13,924,066
Mac Chung Jin				
- Direct	6,760,000	-	(100,000)	6,660,000
- Indirect	50,000	-	-	50,000
Lee Poh Kwee				
- Direct	6,046,272	-	-	6,046,272
- Indirect	650,000	-	-	650,000
Mazlan bin Abdul Hamid	500,000	-	-	500,000

Directors' interests (continued)

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 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: (continued)

	Number of ordinary shares			
	At 1.1.2018	**Bought**	**Sold**	**At 31.12.2018**
Favelle Favco Berhad (a subsidiary):				
Tan Sri Zakaria bin Abdul Hamid	220,000	170,000	(220,000)	170,000
Mac Ngan Boon @ Mac Yin Boon				
- Direct	9,142,913	-	-	9,142,913
- Indirect	4,080,800	-	-	4,080,800
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	2,432,000	-	(155,100)	2,276,900

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 1.1.2018	**Granted**	**Exercise**	**At 31.12.2018**
Muhibbah Engineering (M) Bhd.:				
Mac Ngan Boon @ Mac Yin Boon				
- Direct	3,500,000	-	-	3,500,000
- Indirect	1,250,000	-	-	1,250,000
Ooi Sen Eng	2,700,000	-	-	2,700,000
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	-	-	1,700,000
- Indirect	1,500,000	-	-	1,500,000
Lee Poh Kwee	1,200,000	-	-	1,200,000
Mazlan bin Abdul Hamid	1,200,000	-	-	1,200,000

Other than the abovementioned Directors, none of the other Directors holding office at 31 December 2018 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than 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.

Directors' benefits (continued)

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

The details of the Directors' remuneration are disclosed in Note 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 RM241,057,000 to RM301,746,000 by way of:

  (i) an issuance of 1,338,000 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 RM3,660,000; and

  (ii) in accordance with Section 618(2) of the Companies Act 2016, the amount standing to the credit of the share premium of RM57,029,000 has become part of the Company's share capital.

(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 an 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) to ascertain that proper action had been taken in relation to the making of allowance for impairment losses on receivables, and satisfied themselves that adequate allowance had been made for impairment losses on receivables, and

ii) any current assets which were unlikely to be realised in the ordinary course of business 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.

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 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

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 RM1,319,000 and RM206,000 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 during the financial year

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

Auditors

The auditors, Crowe Malaysia PLT (converted from a conventional partnership, Crowe Malaysia which was previously known as Crowe Horwath), have indicated their willingness to accept re-appointment.

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: 11 April 2019

Muhibbah Engineering (M) Bhd.
(Company No. 12737-K)
(Incorporated in Malaysia)
and its subsidiaries

Statements of financial position
As at 31 December 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000 (Restated)	2018 RM'000	2017 RM'000
Assets					
Property, plant and equipment	3	903,892	846,906	123,915	135,883
Investment properties	4	224	234	11,770	12,047
Investments in subsidiaries	5	-	-	253,587	253,587
Investments in associates	6	594,822	503,782	8,723	8,723
Receivables, deposit and prepayment	7	4,465	6,129	-	-
Deferred tax assets	8	38,905	39,426	13,573	13,573
Other non-current assets	9	83,933	43,747	9	9
Total non-current assets		1,626,241	1,440,224	411,577	423,822
Receivables, deposit and prepayment	7	570,028	556,510	1,132,624	1,027,794
Contract assets	10	726,345	498,978	200,247	144,439
Inventories	11	257,699	232,185	502	3,860
Derivative assets	18	336	6,467	-	-
Current tax assets		19,756	34,322	-	-
Cash and cash equivalents	12	591,271	626,511	115,803	130,567
Total current assets		2,165,435	1,954,973	1,449,176	1,306,660
Total assets		3,791,676	3,395,197	1,860,753	1,730,482

The notes on pages 19 to 123 are an integral part of these financial statements.

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

	Note	Group 2018 RM'000	Group 2017 RM'000 (Restated)	Company 2018 RM'000	Company 2017 RM'000
Equity					
Share capital	13	301,746	241,057	301,746	241,057
Reserves	14	818,689	796,995	217,674	335,146
Total equity attributable to:					
Owners of the Company		1,120,435	1,038,052	519,420	576,203
Non-controlling interests		517,902	420,570	-	-
Total equity		1,638,337	1,458,622	519,420	576,203
Liabilities					
Loans and borrowings	15	69,273	91,829	46,500	65,500
Payables and accruals	16	23,045	9,283	-	-
Deferred tax liabilities	8	47,851	47,380	-	-
Total non-current liabilities		140,169	148,492	46,500	65,500
Payables and accruals	16	787,686	651,851	354,141	322,252
Contract liabilities	10	235,874	286,545	10,443	3,123
Bills payable	17	587,734	461,637	571,498	405,504
Loans and borrowings	15	381,748	373,218	358,751	353,200
Current tax liabilities		20,128	14,832	-	4,700
Total current liabilities		2,013,170	1,788,083	1,294,833	1,088,779
Total liabilities		2,153,339	1,936,575	1,341,333	1,154,279
Total equity and liabilities		3,791,676	3,395,197	1,860,753	1,730,482

The notes on pages 19 to 123 are an integral part of these financial statements.

Muhibbah Engineering (M) Bhd.

(Company No. 12737-K)
(Incorporated in Malaysia)

and its subsidiaries

Statements of profit or loss and other comprehensive income For the financial year ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Revenue	19	1,576,096	1,396,656	565,256	644,207
Cost of sales		(1,294,386)	(1,185,967)	(435,968)	(408,381)
Gross profit		281,710	210,689	129,288	235,826
Other income		15,454	9,536	1,714	4,386
Distribution costs		(23,673)	(18,893)	(11,879)	(7,980)
Administrative expenses		(138,226)	(125,387)	(18,242)	(17,143)
Net Gain on Impairment Financial Assets and Contract Assets		10,442	-	10,075	-
Results from operating activities		145,707	75,945	110,956	215,089
Interest income		10,164	15,087	20,975	33,864
Finance costs		(24,136)	(25,977)	(54,838)	(54,053)
Operating profit	20	131,735	65,055	77,093	194,900
Share of profit of associates, net of tax		142,094	154,267	-	-
Profit before tax		273,829	219,322	77,093	194,900
Income tax expense	22	(42,280)	(27,995)	(3,709)	16,231
Profit for the financial year		231,549	191,327	73,384	211,131
Profit for the financial year attributable to:					
Owners of the Company		144,800	131,608	73,384	211,131
Non-controlling interests		86,749	59,719	-	-
Profit for the financial year		231,549	191,327	73,384	211,131
Earnings per ordinary share (sen)					
Basic	23	30.12	27.40		
Diluted	23	29.59	27.21		

The notes on pages 19 to 123 are an integral part of these financial statements.

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

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Profit for the financial year		231,549	191,327	73,384	211,131
Other comprehensive income for the financial year, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Movement in revaluation of property, plant and equipment, net of tax		-	11,644	-	-
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		18,510	(57,410)	992	196
Other comprehensive income/ (expenses) for the financial year, net of tax		18,510	(45,766)	992	196
Total comprehensive income for the financial year		250,059	145,561	74,376	211,327
Total comprehensive income for the financial year attributable to:					
Owners of the Company		160,355	96,733	74,376	211,327
Non-controlling interests		89,704	48,828	-	-
Total comprehensive income for the financial year		250,059	145,561	74,376	211,327

The notes on pages 19 to 123 are an integral part of these financial statements.

Muhibbah Engineering (M) Bhd.
(Company No. 12737-K)
(Incorporated in Malaysia)
and its subsidiaries

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

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
		/---*Attributable to owners of the Company*							---/			
				/---*Non-distributable*				---/	**Distributable**			
At 1 January 2017 (as previously reported)		241,057	(5,561)	60,488	193,629	5,237	-	113,481	367,871	976,202	404,334	1,380,536
Prior year adjustments	35	-	-	-	(4,959)	-	-	(2,948)	(5,780)	(13,687)	(9,125)	(22,812)
At 1 January 2017 (as restated)		241,057	(5,561)	60,488	188,670	5,237	-	110,533	362,091	962,515	395,209	1,357,724
Other comprehensive income:												
Revaluation of property		-	-	-	8,857	-	-	-	-	8,857	2,787	11,644
Foreign currency translation differences for foreign operations		-	-	-	-	-	-	(43,732)	-	(43,732)	(13,678)	(57,410)
Profit for the financial year		-	-	-	-	-	-	-	131,608	131,608	59,719	191,327
Total comprehensive income		-	-	-	8,857	-	-	(43,732)	131,608	96,733	48,828	145,561
Share-based payment	24	-	-	-	-	-	5,222	-	-	5,222	-	5,222
Acquisition of subsidiary		-	-	-	-	-	-	-	-	-	267	267
Dividend to owners of the Company	25	-	-	-	-	-	-	-	(26,418)	(26,418)	-	(26,418)
Dividend to non-controlling interests		-	-	-	-	-	-	-	-	-	(23,734)	(23,734)
Total transactions with owners		-	-	-	-	-	5,222	-	(26,418)	(21,196)	(23,467)	(44,663)
At 31 December 2017		241,057	(5,561)	60,488	197,527	5,237	5,222	66,801	467,281	1,038,052	420,570	1,458,622
			/---Note 14						---/			

The notes on pages 19 to 123 are an integral part of these financial statements.

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

		/---*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	34	-	-	-	-	-	-	-	-	-	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---/									

The notes on pages 19 to 123 are an integral part of these financial statements.

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

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
				/------------*Non-distributable*			------------/	**Distributable**	
At 1 January 2017		241,057	(5,561)	57,029	35,043	-	266	59,456	387,290
Other comprehensive income:									
Foreign currency translation differences for foreign operations		-	-	-	-	-	196	-	196
Profit for the financial year		-	-	-	-	-	-	211,131	211,131
Total comprehensive income		-	-	-	-	-	196	211,131	211,327
Share-based payment		-	-	-	-	4,004	-	-	4,004
Dividend to owners of the Company	25	-	-	-	-	-	-	(26,418)	(26,418)
Total transactions with owners		-	-	-	-	4,004	-	(26,418)	(22,414)
At 31 December 2017		241,057	(5,561)	57,029	35,043	4,004	462	244,169	576,203
		/-----------	-----------	-----------	Note 14	-----------	-----------	-----------/	

The notes on pages 19 to 123 are an integral part of these financial statements.

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

Company	Note	Share capital RM'000	Treasury shares RM'000	/----Non-distributable---- Share premium RM'000	Revaluation reserve RM'000	Share options reserve RM'000	Translation reserve RM'000 ----/	Distributable 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						----/	

The notes on pages 19 to 123 are an integral part of these financial statements.

Muhibbah Engineering (M) Bhd.
(Company No. 12737-K)
(Incorporated in Malaysia)
and its subsidiaries

Statements of cash flows
For the financial year ended 31 December 2018

		Group		Company	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Cash flows from/(for) operating activities					
Profit before tax		273,829	219,322	77,093	194,900
Adjustments for:					
Allowance for impairment loss on property, plant and equipment		7,690	-	-	-
Amortisation of development costs and intellectual property		993	997	-	-
Depreciation of investment properties		10	10	277	268
Depreciation of property, plant and equipment		70,384	67,944	16,730	16,271
Dividend income		-	-	(132,024)	(100,323)
Finance costs		41,611	45,010	62,611	57,843
Gain on disposal of property, plant and equipment		(16,449)	(773)	(8)	(3,214)
Interest income		(10,164)	(15,087)	(20,975)	(33,864)
Inventories written off/(back)		3,977	-	(213)	-
Net fair value adjustment on derivative instruments		6,131	(20,018)	-	(447)
Net loss/(gain) on foreign exchange		3,435	19,158	(2,003)	(8,748)
Net impairment loss on investment in associates/subsidiaries		175	-	-	6,901
Net (recovery)/impairment loss on financial assets and receivables		(12,601)	6,679	(10,073)	-
Net impairment loss on other investments		510	34	-	-
Net provision/(reversal) for warranties		7,160	4,900	(797)	1,355
Property, plant and equipment written off		403	173	403	-
Share-based payments		11,247	5,222	4,964	2,518
Share of profit of associates		(142,094)	(154,267)	-	-
Operating profit/(loss) before changes in working capital		246,247	179,304	(4,015)	133,460

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

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Operating profit/(loss) before change in working capital (continued)		246,247	179,304	(4,015)	133,460
Receivables, deposits and prepayment		(40,313)	134,518	(209,595)	(61,845)
Inventories		9,695	(19,086)	3,571	(3,497)
Payables and accruals		109,112	(372,762)	27,986	(147,652)
Contract assets and contract liabilities		(283,713)	601,347	(50,592)	501,949
Cash generated from/(used in) operation		41,028	523,321	(232,645)	422,415
Net taxes paid		(17,465)	(71,807)	(3,709)	(8,769)
Net cash generated from/(used in) operating activities		23,563	451,514	(236,354)	413,646
Cash flows (for)/from investing activities					
Acquisition of shares from non-controlling interest		(802)	-	-	-
Acquisition of subsidiary net of cash outflow	34	(38,347)	-	-	-
Dividend received from:					
- subsidiaries		-	-	124,464	32,126
- associates		62,206	48,748	7,560	8,132
Interest received		9,496	10,156	1,193	1,361
Proceeds from disposal of property, plant and equipment		20,241	6,978	770	6,718
Purchase of property, plant and equipment		(125,005)	(106,039)	(5,981)	(9,940)
Net proceed from disposal/purchase of other non-current assets		619	(9,539)	-	-
Net cash (used in)/generated from investing activities		(71,592)	(49,696)	128,006	38,397

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

		Group		Company	
		2018	2017	2018	2017
	Note	RM’000	RM’000	RM’000	RM’000
Cash flows (for)/from financing activities					
Dividend paid to owners of the Company		(33,693)	(26,418)	(33,693)	(26,418)
Dividend paid to non-controlling interests		(18,394)	(23,734)	-	-
Interest paid		(40,100)	(44,897)	(28,331)	(23,966)
Proceeds from exercise of share options		3,660	-	3,010	-
Net advances/(repayment) of loans and borrowings		76,928	(403,548)	133,252	(331,565)
Net cash (used in)/generated from financing activities		(11,599)	(498,597)	74,238	(381,949)
Exchange differences on translation of the financial statements of foreign operations		2,283	(10,731)	53	(15)
Net (decrease)/increase in cash and cash equivalents		(57,345)	(107,510)	(34,057)	70,079
Cash and cash equivalents at beginning of the financial year		624,176	731,686	130,567	60,488
Cash and cash equivalent at end of the financial year	(i)	566,831	624,176	96,510	130,567

(i) Cash and cash equivalents

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

		Group		Company	
	Note	2018	2017	2018	2017
		RM’000	RM’000	RM’000	RM’000
Deposits placed with licensed banks	12	157,523	244,740	2,384	9,234
Short-term funds	12	143,023	94,341	650	10,000
Cash and bank balances	12	290,725	287,430	112,769	111,333
Bank overdrafts	15	(24,440)	(2,335)	(19,293)	-
		566,831	624,176	96,510	130,567

The notes on pages 19 to 123 are an integral part of these financial statements.

Muhibbah Engineering (M) Bhd.
(Company No. 12737-K)
(Incorporated in Malaysia)
and its subsidiaries

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 2018 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 2018 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 11 April 2019.

1. Basis of preparation

(a) Statement of compliance

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

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

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

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

MFRS 15 Revenue from Contracts with Customers

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

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

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

Amendments to MFRS 15: Effective Date of MFRS 15

Amendments to MFRS 15: Clarifications to MFRS 15 ‘Revenue from Contracts with Customers’

Amendments to MFRS 140 – Transfers of Investment Property

Annual Improvements to MFRS Standards 2014 – 2016 Cycles

- Amendments to MFRS 1: Deletion of Short-term Exemptions for First-time Adopters
- Amendments to MFRS 128: Measuring an Associate or Joint Venture at Fair Value

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

MFRS 9 introduces a new classification and measurement requirements for financial assets that reflects the business model in which the financial assets are managed and their cash flow characteristics. MFRS 9 contains 3 principal classification categories for financial assets i.e. measured at amortised cost, fair value through profit or loss, fair value through other comprehensive income and eliminates the previous categories of held to maturity, loans and receivables and available-for-sale financial assets. In addition, MFRS 9 replaces the ‘incurred loss’ model in MFRS 139 with an ‘expected credit loss’ model. This new impairment approach is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The impacts on the financial statements upon the initial application of this accounting standard are disclosed in Note 33 to the financial statements.

MFRS 15 requires an entity to recognise revenue to depict the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services. In addition, more guidance has been added in MFRS 15 to deal with specific scenarios. The impacts on the financial statements upon the initial application of this accounting standard are disclosed in Note 33 to the financial statements.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Group and the Company have not applied in advance the following accounting standards and/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
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
IC Interpretation 23 Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Annual Improvements to MFRS Standards 2015 – 2017 Cycles	1 January 2019

The adoption of the above accounting standards and/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 the historical cost basis except as disclosed in the notes to the financial statements.

1. Basis of preparation (continued)

(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 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.

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 those disclosed in following notes:

- recognition of revenue and profit from construction contracts
- valuation of investment properties
- impairment on receivables
- impairment on property, plant and equipment
- share-based payments
- depreciation
- income tax

2. Significant accounting policies

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

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, Financial Instruments, there are changes to the accounting policies of:

(i) financial instruments;
(ii) revenue recognition; and
(iii) impairment losses of financial instruments

As compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 33.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

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.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) *Associates (continued)*

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.

(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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

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

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

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

(c) Financial instruments

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

(i) Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group and the Company becomes a party to the contractual provisions of the instrument.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

Current financial year

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

An embedded derivative is recognised separately from the host contract 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.

Previous financial year

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

Current financial year

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

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

The Group and the Company categorise financial instruments as follows: (continued)

Financial assets (continued)

Previous financial year

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

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

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

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

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

(b) Loans and receivables

Loans and receivables category comprised debt instruments that were not quoted in an active market.

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

The Group and the Company categorise financial instruments as follows: (continued)

Financial liability

Current financial year

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.

Previous financial year

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

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

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

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

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(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) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

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

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

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

2. Significant accounting policies (continued)

(f) Investment properties

Investment properties carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purpose.

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(d).

Where the fair value of the investment property under construction is not reliably determined, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

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

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

(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.

2. Significant accounting policies (continued)

(g) Other non-current assets (continued)

(i) Intangible asset (continued)

(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.

2. Significant accounting policies (continued)

(g) Other non-current assets (continued)

(i) Intangible asset (continued)

(e) Amortisation (continued)

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

(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.

2. Significant accounting policies (continued)

(i) 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.

(j) 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.

(k) Impairment

(i) Financial assets

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

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, 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.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

Current financial year (continued)

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.

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 recover amounts due.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(i) Financial assets (continued)

Previous financial year

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

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

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

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

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

2. Significant accounting policies (continued)

(k) Impairment (continued)

(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)

(l) Equity instruments

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

(i) Issue expenses

Costs directly attributable to 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.

2. Significant accounting policies (continued)

(m) Bonds

The Redeemable Islamic bonds with detachable provisional rights to allotment of warrants are issued in the form of Sukuk Mudharabah in accordance with the Shariah principles of Mudharabah. The Islamic bonds are based on the Master Mudharabah (Profit Sharing) Agreement ("MAA") entered into between the Company (Mudharib) and Trustee on behalf of the investor (rabb al-mal). The investors provide the required capital to the Company under the principle of Mudharabah Mutlaqah or unrestricted Mudharabah for the relevant investment period, subject to specified terms and conditions, where absolute entrepreneurial authority was granted to the Company to manage the investment capital in Shariah compliant, general business activities of the Company.

The proceeds from the issue of Warrants, net of issue costs, will be credited to a warrants reserve account which is non-distributable. Warrants reserve will be transferred to the share premium accounts upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants on the expiry date of the exercise period will be transferred to retained earnings.

(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.

(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.

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(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 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 overtime criteria is met:

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

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

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

(i) Engineering, procurement, construction and commissioning

Construction contracts involving engineering, procurement, construction and commissioning comprise multiple deliverables, i.e. preparation of designs, plans and technical specification of equipment, procurement of equipment and materials, erection, commissioning and completion of the facility of an infrastructure project. The deliverables are highly integrated and are therefore recognised as a single performance obligation. Revenue is recognised progressively based on the proportion of construction costs incurred for work performed to date over estimated total construction costs.

(ii) Engineering services and construction work

Construction contracts involving engineering and construction work comprise multiple deliverables which are highly integrated and are therefore recognised as a single performance obligation. Revenue is recognised progressively based on the proportion of construction costs incurred for work performed to date over estimated total construction costs.

2. Significant accounting policies (continued)

(q) Revenue from contracts with customers (continued)

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

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

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

(iv) 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.

(v) Construction crane

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

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

2. Significant accounting policies (continued)

(q) Revenue from contracts with customers (continued)

(vi) Construction of vessels

The Group builds vessels under long-term construction contracts on both a build-to-order and build-to-stock basis. For build-to-order vessels, it typically commences the construction process only upon securing a firm order from a customer. For build-to-stock vessels, however, it commences the construction of the vessels in anticipation of future or potential orders and seeks to sell the vessels to customers at a later stage when the selling prices are favourable.

The Group previously recognised all construction contracts by reference to the stage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The Group would qualify for revenue recognition over time if the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; the Group's performance creates or enhances an asset (i.e. work in progress vessel) that the customer controls as the asset is created or enhanced; or the Group's performance does not create an asset with an alternative use to the entity, and the Group has an enforceable right to payment for performance completed to date.

The Group has assessed and determined that the performance obligations for built-to-stock vessels are satisfied at a point in time as none of the criteria for satisfaction of performance obligations over time is met. For built-to-order vessels, in particular, the Group has noted under the terms of the contract that notwithstanding that the Group does not have an alternative use for the vessel under construction, the Group does not have an enforceable right to payment for work completed to date. Accordingly, performance obligations are also satisfied at a point in time.

2. Significant accounting policies (continued)

(q) Revenue from contracts with customers (continued)

(vii) 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.

(r) Revenue from other sources and other operating 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) 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.

(iii) 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).

2. Significant accounting policies (continued)

(t) Income tax (continued)

(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)

(t) Income tax (continued)

(iii) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of GST except for the GST in a purchase of assets or services which are not recoverable from the taxation authorities, the GST are included as part of the costs of the assets acquired or as part of the expense item whichever is applicable.

In addition, receivables and payables are also stated with the amount of GST included (where applicable).

The net amount of the GST recoverable from or payable to the taxation authorities at the end of the reporting period is included in other receivables or other payables.

(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.

2. Significant accounting policies (continued)

(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. The fair values of the assets acquired and liabilities assumed under the business combinations made during the current financial year are disclosed in Note 34 to the financial statements.

(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	Total RM'000
Cost/Valuation							
At 1 January 2017 (as previously reported)	333,748	223,456	45,368	197,131	652,829	6,230	1,458,762
Prior year adjustment (Note 35)	(40,840)	-	-	-	-	-	(40,840)
At 1 January 2017 (as restated)	292,908	223,456	45,368	197,131	652,829	6,230	1,417,922
Additions	-	1,972	-	39,176	64,432	459	106,039
Disposals	-	-	-	(4,579)	(28,967)	-	(33,546)
Written off	-	-	-	-	(27)	(173)	(200)
Exchange differences	(3,361)	(715)	-	1,881	(21,148)	(57)	(23,400)
Revaluation	11,644	-	-	-	-	-	11,644
Transfer	-	-	-	-	52,807	(525)	52,282
Reclassification	-	2,404	-	(53)	310	(2,661)	-
At 31 December 2017/ 1 January 2018	301,191	227,117	45,368	233,556	720,236	3,273	1,530,741
Additions	-	5,875	-	93,452	25,426	252	125,005
Acquisition of subsidiary	-	-	-	-	15,037	-	15,037
Disposals	-	-	-	(7,843)	(7,564)	-	(15,407)
Written off	-	-	-	-	(4,963)	-	(4,963)
Exchange differences	(132)	(41)	-	(1,528)	4,211	10	2,520
Transfer	-	-	-	42	(53)	-	(11)
Reclassification	-	-	-	-	2,594	(3,158)	(564)
At 31 December 2018	301,059	232,951	45,368	317,679	754,924	377	1,652,358
Representing items at:							
Valuation	301,059	232,951	45,368	317,679	754,924	377	1,652,358
Accumulated depreciation and impairment losses							
At 1 January 2017	14,501	75,125	18,167	69,112	480,738	-	657,643
Depreciation for the year	2,314	4,822	1,019	14,156	45,633	-	67,944
Disposals	-	-	-	(2,266)	(25,075)	-	(27,341)
Written off	-	-	-	-	(27)	-	(27)
Exchange differences	-	(253)	-	851	(14,982)	-	(14,384)
Accumulated depreciation	16,815	64,014	19,186	81,317	481,361	-	662,693
Accumulated impairment loss	-	15,680	-	536	4,926	-	21,142
At 31 December 2017/ 1 January 2018	16,815	79,694	19,186	81,853	486,287	-	683,835
Depreciation for the year	2,315	5,218	1,019	14,663	47,169	-	70,384
Disposals	-	-	-	(5,075)	(6,540)	-	(11,615)
Written off	-	-	-	-	(4,560)	-	(4,560)
Exchange differences	-	(58)	-	(635)	3,428	-	2,735
Impairment loss	-	-	-	-	7,690	-	7,690
Transfer	-	-	-	-	(3)	-	(3)
Accumulated depreciation	19,130	69,232	20,205	90,270	520,855	-	719,692
Accumulated impairment loss	-	15,622	-	536	12,616	-	28,774
At 31 December 2018	19,130	84,854	20,205	90,806	533,471	-	748,466

3. Property, plant and equipment (continued)

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	Total RM'000
Carrying amounts							
At 1 January 2017	278,407	148,331	27,201	128,019	172,091	6,230	760,279
At 31 December 2017/ 1 January 2018	284,376	147,423	26,182	151,703	233,949	3,273	846,906
At 31 December 2018	281,929	148,097	25,163	226,873	221,453	377	903,892

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 2017	55,108	6,990	31,141	177,850	5,373	276,462
Additions	-	-	97	9,264	579	9,940
Disposals	-	-	(118)	(25,768)	-	(25,886)
Reclassification/transfer	-	1,754	(53)	310	(3,185)	(1,174)
Exchange differences	-	-	-	(74)	-	(74)
At 31 December 2017/ 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	-	-	-	2,595	(2,595)	-
Exchange differences	-	-	-	33	-	33
At 31 December 2018	55,108	8,744	30,839	161,914	351	256,956
Accumulated depreciation						
At 1 January 2017	3,762	350	17,380	108,093	-	129,585
Depreciation for the year	624	148	2,237	13,262	-	16,271
Disposals	-	-	(118)	(22,264)	-	(22,382)
Exchange differences	-	-	-	(89)	-	(89)
At 31 December 2017/ 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	5,010	673	21,310	106,048	-	133,041
Carrying amounts						
At 1 January 2017	51,346	6,640	13,761	69,757	5,373	146,877
At 31 December 2017/ 1 January 2018	50,722	8,246	11,568	62,580	2,767	135,883
At 31 December 2018	50,098	8,071	9,529	55,866	351	123,915

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 RM159,810,000 (2017 - RM162,251,000) 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 RM71,946,000 (2017 – RM71,946,000) and Group and Company's leasehold land would have been RM50,449,000 (2017 - RM50,544,000) and RM7,912,000 (2017 - RM8,007,000) respectively.

Land

Included in the carrying amounts of land are:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Freehold land	113,503	113,635	50	50
Long term leasehold land	168,426	170,741	50,048	50,672
	281,929	284,376	50,098	50,722

4. Investment properties

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cost				
At 1 January	629	629	13,993	13,343
Reclassification	-	-	-	650
At 31 December	629	629	13,993	13,993
Accumulated depreciation and impairment loss				
At 1 January	395	385	1,946	1,678
Depreciation for the year	10	10	277	268
At 31 December	405	395	2,223	1,946
Carrying amounts				
At 31 December	224	234	11,770	12,047
Included in the above are:				
Freehold land	94	94	94	94
Buildings	130	140	11,676	11,953
	224	234	11,770	12,047

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Market value of investment properties - aggregated basis	1,089	370	111,367	80,854

4. Investment properties (continued)

Market value (continued)

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.

5. Investments in subsidiaries

		Company	
	Note	**2018 RM'000**	**2017 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		(102,460)	(102,460)
		253,587	253,587
Market value			
Quoted shares in Malaysia		301,854	358,288

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2018 %	Effective ownership interest 2017 %
Cranes segment				
Favelle Favco Berhad	Investment holding	Malaysia	59.28	59.28
Favelle Favco Cranes (M) Sdn. Bhd.	Manufacturing of cranes	Malaysia	59.28	59.28
Favelle Favco Cranes Pte. Ltd.*	Trading of cranes, spare parts and services	Singapore	59.28	59.28
Favelle Favco Cranes (USA), Inc.*	Manufacturing of cranes	United States of America	59.28	59.28
Favelle Favco Cranes Pty Limited* and its subsidiaries:	Manufacturing of cranes	Australia	59.28	59.28
FF Management Pty. Limited*	Management services	Australia	59.28	59.28
Milperra Blasting and Coating Pty. Limited*	Dormant	Australia	59.28	59.28
Kroll Cranes A/S*	Manufacturing of cranes	Denmark	59.28	59.28
Favelle Favco Cranes International Ltd.	Dormant	Labuan	59.28	59.28
FES Equipment Services Sdn. Bhd.	Hiring and repair of cranes	Malaysia	59.28	59.28
Favelle Favco Winches Pte. Ltd.*	Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment	Singapore	59.28	59.28
Favelle Favco Management Services Sdn. Bhd.*	Dormant	Malaysia	59.28	59.28
Shanghai Favco Engineering Machinery Manufacturing Co. Ltd.*^	Manufacturing of cranes	China	47.42	47.42

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows: (continued)

Company	**Principal activities**	**Country of incorporation**	**Effective ownership interest 2018 %**	**2017 %**
Cranes segment (continued)				
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	41.5	-
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	41.5	-
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	41.5	-
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	41.5	-

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows: (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2018 %	2017 %
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	60
Muhibbah Petrochemical Engineering 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
Muhibbah Marine Engineering (Deutschland) GmbH*	Constructing and leasing of marine plants	Germany	95	95

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows: (continued)

Company	**Principal activities**	**Country of incorporation**	**Effective ownership interest 2018 %**	**Effective ownership interest 2017 %**
Infrastructure construction segment (continued)				
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 Reefers Sdn. Bhd.*	Manufacturing of containers and refrigerator containers	Malaysia	100	100
Khas Jejaka Sdn. Bhd.*	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

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows: (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2018 %	Effective ownership interest 2017 %
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.*#	Dormant	Malaysia	100	100
Karisma Project. Management Inc*#	Dormant	Philippines	100	-
MCI Philippines Corp. *#	Dormant	Philippines	100	-
Muhibbah Oil & Gas Sdn. Bhd.*	Dormant	Malaysia	100	100
Konsortium Muhibbah Eng-LTAT Sdn. Bhd.	Dormant	Malaysia	100	100
Sun Vibrant Sdn. Bhd.*	Dormant	Malaysia	51	51
MEB Equipment Sdn. Bhd.*#	Dormant	Malaysia	100	100

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows: (continued)

Company	**Principal activities**	**Country of incorporation**	**Effective ownership interest 2018 %**	**2017 %**
Infrastructure construction segment (continued)				
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	-
Muhibbah Airport Management Sdn. Bhd.*	Dormant	Malaysia	100	-
Active Impressions Sdn. Bhd.*	Dormant	Malaysia	100	-
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.

5. Investments in subsidiaries (continued)

In the previous financial year, the Company assessed the recoverable amount of investments in subsidiaries due to the net assets position of certain subsidiaries as at the end of the previous reporting period has declined as a consequence of continuing losses incurred. An impairment loss of RM 6.9million was provided on the cost of investments. The recoverable amount of the cash-generating unit was determined using the fair value less costs to sell approach.

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	
	2018	**2017**
	RM'000	**RM'000**
NCI percentage	40.72%	40.72%
Carrying amount of NCI	269,540	263,654
Profit allocated to NCI	20,665	26,593
Dividends paid to NCI	12,170	13,523
Total assets	1,280,845	1,207,441
Total liabilities	590,579	579,213
Revenue	530,742	526,484
Profit for the year	68,970	63,997

6. Investments in associates

	Group		**Company**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unquoted shares				
- At cost	77,355	77,530	8,723	8,723
- Share of post-acquisition reserves	517,467	426,252	-	-
	594,822	503,782	8,723	8,723

6. Investments in associates (continued)

Details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective Ownership interest 2018 %	2017 %
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	17.8	17.8
Favelle Favco Machinery and Equipment L.L.C*#	Trading and rental of construction equipment	United Arab Emirates	29.2	29.2
Favco Heavy Industry (Changshu) Co., Ltd.*#	Supply, renting and servicing of lifting equipment and spare parts	China	29.6	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	
	2018	**2017**
	RM'000	**RM'000**
Gross amount of the major associates		
Non-current assets	1,415,917	1,326,326
Current assets	1,128,471	802,652
Non-current liabilities	221,877	39,767
Current liabilities	9,804,194	603,376
Revenue	1,699,433	2,056,283
Profit for the year	500,805	557,301
Dividends received	947	48,748
Carrying amount in the consolidated financial statements	578,850	484,751

Aggregate information of immaterial associates

	Group	
	2018	**2017**
	RM'000	**RM'000**
Aggregate carrying amount	15,972	19,031
Aggregate amount of the group share:		
- Loss for the year	(6,624)	(875)

7. Receivables, deposits and prepayments

		Group		Company	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Non-current					
Non-trade					
Amount due from associates	7.1	6,265	6,129	-	-
Less: Allowance for impairment loss	28.3	(1,800)	-	-	-
		4,465	6,129	-	-
Current					
Trade					
Trade receivables	7.2	434,191	364,640	97,916	95,599
Amount due from subsidiaries	7.3	-	-	851,868	683,158
Amount due from associates	7.1	120,093	140,485	25,041	45,713
		554,284	505,125	974,825	824,470
Less: Allowance for impairment loss	28.3	(84,942)	(63,685)	(93,942)	(26,032)
		469,342	441,440	880,883	798,438
Non-trade					
Amount due from subsidiaries	7.3	-	-	275,092	227,631
Amount due from associates	7.1	29,653	35,050	5,119	2,806
Other receivables		63,421	63,004	11,836	14,116
		93,074	98,054	292,047	244,553
Less: Allowance for impairment loss	28.3	(19,255)	(3,180)	(47,836)	(19,831)
		73,819	94,874	244,211	224,722
Deposits		5,902	7,032	2,715	1,285
Prepayments		20,965	13,164	4,815	3,349
		100,686	115,070	251,741	229,356
		570,028	556,510	1,132,624	1,027,794
Non-current and current		574,493	562,639	1,132,624	1,027,794

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 RM4,465,000 (2017 - RM6,129,000) which is subject to interest of 1% (2017 - 1%) per annum.

7.2 Trade receivables

Analysis of foreign currency exposure for significant receivables

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

	Group		**Company**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Australian Dollar	-	348	-	-
Euro	3,947	191	-	-
Qatari Riyal	37,900	37,166	37,900	37,166
Singapore Dollar	-	91	-	-
US Dollar	58,970	32,886	25,009	26,796

Also included in trade receivables of the Group and of the Company are retention sums of RM75,589,000 (2017 - RM72,185,000) and Nil (2017 - RM72,092,012) respectively.

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 (2017 - 30 to 150 days).

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

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group						
Property, plant and equipment	(5)	-	61,445	58,331	61,440	58,331
Tax losses carry forward	(25,000)	(25,262)	-	-	(25,000)	(25,262)
Other temporary differences	(31,070)	(29,651)	3,576	4,536	(27,494)	(25,115)
Tax (assets)/ liabilities	(56,075)	(54,913)	65,021	62,867	8,946	7,954
Set off of tax	17,170	15,487	(17,170)	(15,487)	-	-
Net tax (assets)/ liabilities	(38,905)	(39,426)	47,851	47,380	8,946	7,954
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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Accelerated capital allowances	(53,986)	(63,426)	(53,851)	(62,378)
Unabsorbed capital allowances	163,879	109,061	107,451	97,909
Tax losses carry forward	665,531	649,010	390,544	369,447
Other temporary differences	(1,006)	28,742	-	-
	774,418	723,387	444,144	404,978

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

Unrecognised deferred tax assets (continued)

The deductible temporary differences do not expire under current tax legislation. 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.

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 2017	54,733	(827)	(23,847)	30,059
Recognised in profit or loss (Note 22)	3,598	(24,435)	(1,357)	(22,194)
Foreign exchange differences	-	-	89	89
As at 31 December 2017/ 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	61,440	(25,000)	(27,494)	8,946
Company				
As at 1 January 2017/ 31 December 2017/ 1 January 2018/ 31 December 2018	11,427	(25,000)	-	(13,573)

9. Other non-current assets

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Goodwill	71,010	-	-	-
Land held for development	7,655	38,370	-	-
Development costs	4,988	4,880	9	9
Intellectual property	280	497	-	-
	83,933	43,747	9	9

	Land held for development Group		Development costs Group	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cost				
At 1 January (as previously reported)	38,370	11,199	21,880	18,979
Prior year adjustment (Note 35)	-	18,028	-	-
At 1 January (as restated)	38,370	29,227	21,880	18,979
Additions	-	7,151	1,190	2,388
Disposal	(6,532)	-	-	-
Transfer from WIP	-	2,963	-	1,790
Exchange difference	(113)	(971)	(306)	(1,277)
Transfer to inventories	(24,070)	-	-	-
At 31 December	7,655	38,370	22,764	21,880
Accumulated impairment/ amortisation				
At 1 January	-	-	17,000	16,332
Amortisation charge for the year	-	-	776	780
Exchange difference	-	-	-	(112)
At 31 December	-	-	17,776	17,000
Carrying amounts				
At 1 January (as restated)	38,370	29,227	4,880	2,647
At 31 December	7,655	38,370	4,988	4,880

9. Other non-current assets (continued)

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 (2017 - 1 year to 5 years).

Title

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.

	Intellectual property Group	
	2018	**2017**
	RM'000	**RM'000**
Cost		
At 1 January/31 December	1,800	1,800
Accumulated impairment/amortisation		
At 1 January	1,303	1,086
Amortisation charge for the year	217	217
	1,520	1,303
Carrying amounts		
At 1 January	497	714
At 31 December	280	497

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.

9. Other non-current assets (continued)

	Goodwill Group RM'000
Cost	
At 1 January 2018	-
Acquisition through business combination (Note 34)	71,010
At 31 December 2018	71,010
Carrying amounts	
At 31 December 2018	71,010

The Group has accessed the recoverable amounts of goodwill allocated and determined that no additional 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 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 rate 2018	Average growth rate 2018	Discount rate 2018	Terminal growth rate 2018
Intelligent automation	25%	7%	5%	-

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 weighted average cost of capital of the industries that the Group operates in.

10. Contract assets/(liabilities)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Contract assets				
Contract assets relating to construction contracts	731,888	498,978	202,351	144,439
Allowance for impairment losses (Note 28.3(ii))	(5,543)	-	(2,104)	-
	726,345	498,978	200,247	144,439
Contract liabilities	(235,874)	(286,545)	(10,443)	(3,123)

11. Inventories

	2018 RM'000	2017 RM'000
Group		
At cost:		
Raw material	17,685	21,852
Crane components	79,854	70,646
Work-in-progress	117,345	118,093
Manufactured and trading inventories	-	1,245
Land held for sale	24,070	-
	238,954	211,836
At net realisable value:		
Cranes	807	1,396
Crane components	15,820	17,057
Work-in-progress	1,170	1,896
Manufactured and trading inventories	948	-
	257,699	232,185
Company		
At cost:		
Work-in-progress	502	3,860

12. Cash and cash equivalents

The cash and cash equivalents comprised the following:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposits placed with licensed banks	157,523	244,740	2,384	9,234
Short-term funds	143,023	94,341	650	10,000
Cash and bank balances	290,725	287,430	112,769	111,333
	591,271	626,511	115,803	130,567

Short-term funds represent investment in highly liquid money market, which is readily convertible to a known amount of cash. The effective interest rates range from 2.16% to 5.36% (2017: 2.4% to 3.6%) per annum.

13. Share capital

		Group and Company			
		Number of shares		Amount	
	Note	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Ordinary shares with no Par Value					
Issued and fully paid:					
At 1 January		482,114	482,114	241,057	241,057
Exercise of employee share options	(ii)	1,338	-	3,660	-
Transfer of share premium to share capital due to implementation of Companies Act 2016	(iii)	-	-	57,029	-
At 31 December		483,452	482,114	301,746	241,057

(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 1,338,000 (2017 - Nil) 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 (2017 - 1,783,000). None of the treasury shares held was sold or cancelled during the financial year ended 31 December 2018.

Share premium

The Company has adopted the transitional provisions set out in Section 618(3) of the Companies Act 2016 ("Act") where the sum standing to the credit of the share premium may be utilised within twenty four months from the commencement date of 31 January 2017 in the manner as allowed for under the Act. The Group and the Company has consolidated the share premium into share capital within this transitional period.

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.

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 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	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Non-current				
Secured				
Term loans	8,625	7,549	-	-
Hire purchase payables	14,148	18,780	-	-
Unsecured				
Term loans	46,500	65,500	46,500	65,500
	69,273	91,829	46,500	65,500
Current				
Secured				
Term loans	8,369	9,480	-	-
Bank overdrafts	5,147	2,335	-	-
Hire purchase payables	3,791	2,396	-	-
Unsecured				
Term loans	16,458	12,200	16,458	12,200
Bank overdrafts	19,293	-	19,293	-
Revolving credits	325,900	343,900	323,000	341,000
Insurance premium finance	2,790	2,907	-	-
	381,748	373,218	358,751	353,200
Non-current and current	451,021	465,047	405,251	418,700

15. Loans and borrowings (continued)

Terms and debt repayment schedule

	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 – 5 years RM'000	Over 5 years RM'000
Group						
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
2017						
Term loans						
- secured	2019-2020	17,029	9,480	3,992	3,557	-
- unsecured	2021	77,700	12,200	31,000	34,500	-
Bank overdrafts						
- secured	-	2,335	2,335	-	-	-
Revolving credits						
- unsecured	-	343,900	343,900	-	-	-
Insurance premium finance						
- unsecured	-	2,907	2,907	-	-	-
Hire purchase	-	21,176	2,396	2,864	13,336	2,580
		465,047	373,218	37,856	51,393	2,580

15. Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 – 5 years RM'000
Company					
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
2017					
Unsecured					
Term loans	2021	77,700	12,200	31,000	34,500
Revolving credits	-	341,000	341,000	-	-
		418,700	353,200	31,000	34,500

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

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Non-current					
Non-trade					
Advance from minority shareholders	(i)	7,439	9,283	-	-
Payable and accruals		15,606	-	-	-
		23,045	9,283	-	-
Current					
Trade					
Trade payables	(ii)	612,415	473,272	258,760	243,476
Amount due to subsidiaries	(iii)	-	-	61,008	50,882
Amount due to associates	(iv)	-	349	-	-
		612,415	473,621	319,768	294,358
Non-trade					
Amount due to subsidiaries	(iii)	-	-	17,792	14,255
Amount due to associates	(iv)	1,059	7,603	-	-
Provision for warranty costs	(v)	32,685	28,891	331	1,669
Other payables		69,307	68,026	12,030	7,350
Accrued expenses		72,220	73,710	4,220	4,620
		175,271	178,230	34,373	27,894
Total current		787,686	651,851	354,141	322,252
Non-current and current		810,731	661,134	354,141	322,252

(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 RM66,334,000 (2017 - RM58,879,222).

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Australian Dollar	1,136	568	-	-
Euro	7,760	3,880	-	-
Qatari Riyal	31,925	34,500	31,925	34,500
Singapore Dollar	993	508	-	-
US Dollar	15,116	9,663	282	4,394
Sterling Pound	410	205	-	-
Japanese Yen	182	91	-	-
Hong Kong Dollar	12	6	-	-
Chinese Renminbi	1,088	544	-	-
TWD	126	-	-	-
Korean Won	476	-	-	-
NZD	35	-	-	-

(iii) The trade payables due to subsidiaries are subject to the normal credit terms ranging from 30 to 60 days (2017 – 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. The provision is made based on historical warranty data and a weighting of all possible outcomes against the associated probability of further costs being incurred on the completed projects where defect liability periods have commenced.

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

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

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

19. Revenue

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Construction contract	1,169,490	1,183,393	394,599	522,780
Sale of goods	156,047	131,086	-	-
Services rendered	250,559	82,177	38,633	21,104
Dividend income	-	-	132,024	100,323
	1,576,096	1,396,656	565,256	644,207

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

	2018 RM'000	2017 RM'000
Group		
Revenue of the Group	1,576,096	1,396,656
Share of revenue of associates	501,185	607,700
	2,077,281	2,004,356

20. Operating profit

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating profit is arrived at after charging:				
Allowance for impairment loss on property, plant and equipment	7,690	-	-	-
Amortisation of development costs	776	780	-	-
Amortisation of intellectual property	217	217	-	-
Auditors' remuneration:				
- Holding company's auditors				
- statutory audit				
- current year	581	584	200	194
- (over)/underprovision in prior years	(7)	65	6	10
- others	-	-	-	10
	574	649	206	214
- other services	20	80	-	-
- Other auditors	725	726	-	-
Depreciation of investment properties	10	10	277	268
Depreciation of property, plant and equipment	70,384	67,944	16,730	16,271
Finance costs				
- borrowings	22,625	25,864	20,558	20,176
- interest expenses arising on financial assets/liabilities measured under MFRS 9	1,511	113	34,280	33,877
- contract costs	17,475	19,033	7,773	3,790
	41,611	45,010	62,611	57,843
Net impairment loss on financial assets and contract assets	1,918	-	660	-
Net (recovery)/impairment loss on receivables	(14,519)	6,679	(10,733)	-
Net impairment loss on other investments	510	34	-	-
Net impairment loss on investment in subsidiaries	-	-	-	6,901
Net impairment loss on investment in associates	175	-	-	-

20. Operating profit (continued)

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Operating profit is arrived at after charging: (continued)				
Net provision/(reversal) for warranties	7,160	4,900	(797)	1,355
Personnel expenses (including key management personnel)				
- contribution to Employees Provident Fund	13,971	21,794	1,213	1,223
- wages, salaries and others	158,188	165,663	12,334	11,233
Property, plant and equipment written off	403	173	403	-
Rental expenses	63,350	58,330	26,299	32,947
Share-based payments	11,247	5,222	4,964	2,518
Written down/(back) of inventories	3,977	-	(213)	-
Operating profit is arrived at after crediting:				
Gain on disposal of property, plant and equipment	16,449	773	8	3,214
Dividend income	-	-	132,024	100,323
Interest income	9,496	10,156	1,193	1,361
Interest income arising on financial assets/liabilities measured under MFRS 9	668	4,931	19,782	32,503
	10,164	15,087	20,975	33,864
Net fair value adjustment on derivative instruments	(6,131)	20,018	-	447
Net (loss)/gain on foreign exchange	(3,435)	(19,158)	(2,003)	8,748
Rental income on:				
- premises	4,443	605	96	95
- plant and equipment	54,581	16,519	-	-

21. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Company				
- Fees	1,323	1,201	699	648
- Remuneration	4,668	4,583	3,726	3,664
	5,991	5,784	4,425	4,312

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current tax expense/(benefit)				
Malaysia - current	14,062	3,837	-	(5,097)
- underprovision in prior year	2,288	21,138	-	6,451
	16,350	24,975	-	1,354
Foreign - current	23,290	26,704	2,367	7,415
- under/(over)provision in prior year	1,326	(1,490)	1,342	-
	24,616	25,214	3,709	7,415
Deferred tax expense (Note 8)				
Origination of temporary differences	(2,327)	3,457	-	-
Under/(Over)provision in prior years	3,641	(25,651)	-	(25,000)
	1,314	(22,194)	-	(25,000)
	42,280	27,995	3,709	(16,231)

22. Income tax expense (continued)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Reconciliation of tax expense				
Profit before tax	273,829	219,322	77,093	194,900
Income tax using Malaysian tax rate at 24% (2017 - 24%)	65,719	52,637	18,502	46,776
Effect of different tax rates in foreign jurisdictions	(12,012)	(3,073)	-	-
Effect of deferred tax benefits not recognised	26,754	45,385	9,574	13,231
Utilisation of deferred tax assets not recognised in previous year	(14,507)	(2,944)	(175)	-
Non-deductible expenses	36,424	81,045	9,954	13,412
Non-taxable income	(63,555)	(106,259)	(32,702)	(41,709)
Double deduction	-	(838)	-	-
Tax incentives	-	(7)	-	-
Tax exempt income	(724)	(853)	-	-
Non-deductible foreign projects expenses	-	17,459	-	13,051
Non-taxable foreign projects income	(5,153)	(50,808)	(5,153)	(39,728)
Withholding tax for foreign projects	2,367	2,704	2,367	(2,715)
Others	(288)	(450)	-	-
	35,025	33,998	2,367	2,318
Under/(Over)provision in prior years				
- current tax expense	3,614	19,648	1,342	6,451
- deferred tax expense	3,641	(25,651)	-	(25,000)
Total income tax expense/ (benefit)	42,280	27,995	3,709	(16,231)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017 - 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 2018 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2018	**2017**
	RM'000	**RM'000**
Profit for the financial year attributable to owners of the Company	144,800	131,608

	Group	
	2018	**2017**
	'000	**'000**
Number of ordinary shares issued at 1 January	480,757	480,331
Effect of shares issued under employee share options	-	-
Total weighted average number of ordinary shares in issue	480,757	480,331

	Group	
	2018	**2017**
Basic earnings per share (sen)	30.12	27.40

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

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 2018 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	
	2018 RM'000	**2017 RM'000**
Profit attributable to owners of the Company	144,800	131,608

	Group	
	2018 '000	**2017 '000**
Weighted average number of ordinary shares	480,757	480,331
Effect of dilution arising from conversion of remaining employee share options	8,653	3,411
Adjusted weighted average number of ordinary shares at 31 December	489,410	483,742

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	
	2018	**2017**
Diluted earnings per share (sen)	29.59	27.21

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 1.1.2018 '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

SIS

Grant date	Exercise price	At 1.1.2017 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2017 '000	Expiry date
26.7.2017	RM2.25	-	38,138	-	-	38,138	9.7.2022

Subsidiary

SIS

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

SIS

Grant date	Exercise price	At 1.1.2017 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2017 '000	Expiry date
15.9.2017	RM2.35	-	18,307	-	(95)	18,212	9.7.2022

24. Employee benefits (continued)

Details relating to options exercised during the year

	Group	
	2018	**2017**
	RM'000	**RM'000**
Proceeds received from exercise of share options	3,660	-

	Company		Subsidiary	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Average share price for the year	2.97	2.72	2.47	2.76

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Expense recognised as share-based payments	11,247	5,222	4,964	2,518

24. Employee benefits (continued)

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) - Granted in Year 2017	0.55 - 0.84	0.48 - 0.74
Weighted average share price (RM) - Granted in Year 2017	2.50	2.62
Exercise price (RM) - 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) (%) - 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
2018			
Final per ordinary share tax exempt - for the year ended 31 December 2017	7.00	33,693	24 September 2018
2017			
Final per ordinary share tax exempt - for the year ended 31 December 2016	5.50	26,418	20 September 2017

Proposed final dividend for the year ended 31 December 2018

The Directors have recommended a first and final ordinary tax exempt dividend of 7.50 sen (2017 - 7.00 sen) per ordinary share totaling RM36,125,194 in respect of the financial year ended 31 December 2018, 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 2018.

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 481,669,250 (2017 - 480,331,250) ordinary shares as at 31 December 2018.

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
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.

26. Operating segments (continued)

Business segments

	Infrastructure construction		Cranes		Marine shipbuilding and ship repair		Concession		Eliminations		Consolidated	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'00	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Segment profit	197,319	113,065	99,149	83,277	1,347	42,041	150,458	120,533	(174,444)	(139,594)	273,829	219,322
Included in the measure of segment profit are:												
Revenue from external customers	967,344	826,270	530,438	524,461	78,314	45,925	-	-	-	-	1,576,096	1,396,656
Group share of revenue of associates	96,585	227,420	14,729	14,611	-	-	389,871	365,669	-	-	501,185	607,700
Group's revenue	1,063,929	1,053,690	545,167	539,072	78,314	45,925	389,871	365,669	-	-	2,077,281	2,004,356
Inter-segment revenue	521,522	474,639	304	2,023	405	69,187	1,438	1,428	(523,669)	(547,277)	-	-
Interest income	46,134	46,691	6,519	7,075	10,749	15,341	-	-	(53,238)	(54,020)	10,164	15,087
Finance costs	(59,113)	(62,453)	(2,602)	(2,024)	(14,608)	(8,397)	-	(156)	52,187	47,053	(24,136)	(25,977)
Share of results of associates	(5,822)	34,348	(2,561)	(803)	-	(72)	150,477	120,794	-	-	142,094	154,267
Net segment assets	503,339	480,470	690,267	628,228	252,086	234,734	535,350	429,634	(342,705)	(314,444)	1,638,337	1,458,622

26. Operating segments (continued)

Geographical segments

The infrastructure construction segment is operating mainly in Malaysia, Qatar, Singapore 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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Geographical information								
Revenue	1,145,189	1,225,816	954,576	718,117	(523,669)	(547,277)	1,576,096	1,396,656
Group share of associates revenue	172,025	209,412	329,160	398,288	-	-	501,185	607,700
Total revenue	1,317,214	1,435,228	1,283,736	1,116,405	(523,669)	(547,277)	2,077,281	2,004,356
Total assets	3,732,231	3,601,052	1,686,904	1,588,632	(1,627,459)	(1,794,487)	3,791,676	3,395,197

27. Capital commitments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Capital expenditure in respect of purchase of property, plant and equipment:				
- contracted for	23,833	29,843	5,864	6,067

28. Financial instruments

28.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 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			
2018			
Financial assets			
Receivables and deposits	553,528	553,528	-
Cash and cash equivalents	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	1,127,809	1,127,809	-
Cash and cash equivalents	115,803	115,803	-
	1,243,612	1,243,612	-
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. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL);
(c) Held for trading (HFT); and
(d) Financial liabilities measured at amortised cost (FL).

	Carrying amount RM'000	L&R/(FL) RM'000	FVTPL - HFT RM'000
Group			
2017			
Financial assets			
Receivables and deposits	549,475	549,475	-
Cash and cash equivalents	626,511	626,511	-
Derivative assets	6,467	-	6,467
	1,182,453	1,175,986	6,467
Financial liabilities			
Loan and borrowings	(465,047)	(465,047)	-
Payables and accruals	(661,134)	(661,134)	-
Bills payable	(461,637)	(461,637)	-
	(1,587,818)	(1,587,818)	-
Company			
2017			
Financial assets			
Receivables and deposits	1,024,445	1,024,445	-
Cash and cash equivalents	130,567	130,567	-
	1,155,012	1,155,012	-
Financial liabilities			
Loan and borrowings	(418,700)	(418,700)	-
Payables and accruals	(322,252)	(322,252)	-
Bills payable	(405,504)	(405,504)	-
	(1,146,456)	(1,146,456)	-

28. Financial instruments (continued)

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.

28.3 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 by geographical region is as follows:

	Group		**Company**	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Asia	215,726	30,265	94,583	95,599
Europe	9,419	35,753	-	-
America	4,465	10,373	-	-
Middle East	105,097	67,031	-	-
Australia	23,807	23,877	-	-
	358,514	167,299	94,583	95,599

28. Financial instruments (continued)

28.3 Credit risk (continued)

(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.

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.

28. Financial instruments (continued)

28.3 Credit risk (continued)

(ii) Assessment of impairment losses (continued)

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			
2018			
Trade receivables			
Not past due	170,954	(470)	170,484
Past due 0 - 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 0 - 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

28. Financial instruments (continued)

28.3 Credit risk (continued)

(ii) Assessment of impairment losses (continued)

In the last financial year, the loss allowance on trade receivables was calculated under MFRS 139. The ageing of trade receivables as at the end of the reporting period was:

	Gross amount RM'000	**Individual impairment RM'000**	**Carrying amount RM'000**
Group			
2017			
Trade receivables			
Not past due	168,680	-	168,680
Past due 0 - 90 days	49,990	-	49,990
Past due 91 - 180 days	34,379	-	34,379
Past due more than 180 days	111,591	(63,685)	47,906
	364,640	(63,685)	300,955
Company			
2017			
Trade receivables			
Not past due	71,811	-	71,811
Past due 0 - 90 days	21,517	-	21,517
Past due 91 - 180 days	2,271	-	2,271
Past due more than 180 days	-	-	-
	95,599	-	95,599

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			
2018			
Low credit risk	63,421	(2,671)	60,750
Company			
2018			
Low credit risk	8,969	(1,206)	7,763
Credit impaired	2,867	(2,867)	-
	11,836	(4,073)	7,763

28. Financial instruments (continued)

28.3 Credit risk (continued)

(ii) Assessment of impairment losses (continued)

Amount Owing By Subsidiaries

The Company considers the amount owing by 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 owing by subsidiaries are summarised below:

	Gross amount RM'000	Lifetime loss allowance RM'000	Carrying amount RM'000
Company			
2018			
Low credit risk	1,126,960	(130,377)	996,583

In the last financial year, the loss allowance on amount owing by subsidiaries was calculated under MFRS 139.

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 subsidiaries RM'000	Contract assets RM'000	Total RM'000
Group						
2018						
Allowance for impairment losses:						
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 (2017 - MFRS 139)	70,867	5,276	44,373	-	3,625	124,141
Additional 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						
Allowance for impairment losses:						
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 (2017 - MFRS 139)	10,301	4,308	7,565	130,337	1,444	153,955
Additional 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 movements in the allowance for impairment losses of trade receivables in the previous year were:

	2017 RM'000
Group	
At 1 January	59,862
Impairment loss recognised	16,990
Reversal of impairment loss	(10,311)
Impairment loss has written off against previous allowances	(2,693)
Exchange difference	(163)
At 31 December	63,685
Company	
At 1 January	28,586
Impairment loss has written off against previous allowances	(2,554)
At 31 December	26,032

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

The maximum exposure to credit risk amounted to RM151.8 million (2017 - RM193.6 million) representing the outstanding banking facilities of the subsidiaries as at the end of the financial year.

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

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

28. Financial instruments (continued)

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 cash equivalents 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:

Group	Effective interest rate %	Less than 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000
2018				
Secured borrowings				
- Term loans	1.8 - 5.4	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 - 4.7	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	2.8 – 4.4	587,734	-	-
Unsecured payables and accruals	-	787,686	23,045	-
		1,757,168	87,173	5,145
2017				
Secured borrowings				
- Term loans	1.8 - 5.5	9,480	7,549	-
- Bank overdrafts	2.8	2,335	-	-
- Hire purchase	1.8	2,396	16,200	2,580
Unsecured borrowings				
- Term loans	4.6 - 4.7	12,200	65,500	-
- Revolving credits	4.1 - 8.2	343,900	-	-
- Insurance premium finance	1.3	2,907	-	-
Unsecured bills payable	2.8 - 6.1	461,637	-	-
Unsecured payables and accruals	-	651,851	-	9,283
		1,486,706	89,249	11,863

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
Company				
2018				
Unsecured borrowings				
- Term loans	4.6 - 4.7	16,458	46,500	-
- Bank overdrafts	7.7 - 8.0	19,293	-	-
- Revolving credits	3.8 - 4.6	323,000	-	-
Unsecured bills payable	3.8 - 4.4	571,498	-	-
Unsecured payables and accruals	-	354,141	-	-
		1,284,390	46,500	-
2017				
Unsecured borrowings				
- Term loans	4.6 - 4.7	12,200	65,500	-
- Revolving credits	4.1 - 4.9	341,000	-	-
Unsecured bills payable	3.8 - 5.1	405,504	-	-
Unsecured payables and accruals	-	322,252	-	-
		1,080,956	65,500	-

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)

Group	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	2017 Effective interest rate %	2017 Total RM'000	2017 Less than 1 year RM'000	2017 1 - 5 years RM'0000	2017 Over 5 years RM'000
Financial assets										
Deposits placed with licensed banks	0.7 - 5.0	157,523	157,523	-	-	0.7 - 5.0	244,740	244,740	-	-
Short-term funds	2.1 - 5.3	143,023	143,023	-	-	2.4 - 3.6	94,341	94,341	-	-
		300,546	300,546	-	-		339,081	339,081	-	-
Financial liabilities										
Secured borrowings										
- Term loans	1.8 - 5.4	16,994	8,369	3,480	5,145	1.8 - 5.5	17,029	9,480	7,549	-
- Bank overdrafts	2.7	5,147	5,147	-	-	2.8	2,335	2,335	-	-
- Hire purchase	1.8	17,939	3,791	14,148	-	1.8	21,176	2,396	16,200	2,580
Unsecured borrowings										
- Term loans	4.6 - 4.7	62,958	16,458	46,500	-	4.6 - 4.7	77,700	12,200	65,500	-
- Bank overdrafts	7.7 - 8.0	19,293	19,293	-	-	-	-	-	-	-
- Revolving credits	2.9 - 5.8	325,900	325,900	-	-	4.1 - 8.2	343,900	343,900	-	-
- Insurance premium finance	1.2	2,790	2,790	-	-	1.3	2,907	2,907	-	-
Unsecured bills payable	2.8 - 4.4	587,734	587,734	-	-	2.8 - 6.1	461,637	461,637	-	-
		1,038,755	969,482	64,128	5,145		926,684	834,855	89,249	2,580

28. Financial instruments (continued)

28.5 Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

Company	2018 Effective interest rate %	2018 Total RM'000	2018 Less than 1 year RM'000	2018 1 - 5 years RM'000	2017 Effective interest rate %	2017 Total RM'000	2017 Less than 1 year RM'000	2017 1 - 5 years RM'0000
Financial assets								
Deposits placed with licensed banks	2.6 - 2.9	2,384	2,384	-	2.6 - 2.9	9,234	9,234	-
Short-term funds	2.4 - 3.6	650	650	-	2.4 - 3.6	10,000	10,000	-
		3,034	3,034	-		19,234	19,234	-
Financial liabilities								
Unsecured borrowings								
- Term loans	4.6 - 4.7	62,958	16,458	46,500	4.6 - 4.7	77,700	12,200	65,500
- Bank overdrafts	7.7 - 8.0	19,293	19,293	-	7.6	-	-	-
- Revolving credits	3.8 - 4.6	323,000	323,000	-	4.1 - 4.9	341,000	341,000	-
Unsecured bills payable	3.8 - 4.4	571,498	571,498	-	3.8 - 5.1	405,504	405,504	-
		976,749	930,249	46,500		824,204	758,704	65,500

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 RM4,913,000 (2017 – RM5,107,000) and RM4,913,000 (2017 – RM6,118,000). 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.

28. Financial instruments (continued)

28.6 Foreign currency risk

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

	USD RM'000	Euro RM'000	AUD RM'000	DKK RM'000	QAR RM'000
Group					
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

	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
2017					
Financial assets	175,632	4,983	128,603	65,406	74,225
Financial liabilities	(54,804)	(6,367)	(52,002)	(7,869)	(859)
Net financial assets/(liabilities)	120,828	(1,384)	76,601	57,537	73,366
Less:					
- Net financial assets/(liabilities) denominated in the respective entities' functional currencies	5,140	1,403	(38,050)	(50,662)	(12,213)
Forward foreign currency contracts (contracted notional principal)	(111,718)	(20,102)	(60)	-	(23,983)
	14,250	(20,083)	38,491	6,875	37,170

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

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

	USD RM'000	**Euro RM'000**	**AUD RM'000**	**RMB RM'000**	**SGD RM'000**
2017					
- strengthened by 5%	542	(763)	1,463	261	1,412
- weakened by 5%	(542)	763	(1,463)	(261)	(1,412)

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

	USD RM'000	**Euro RM'000**	**AUD RM'000**	**RMB RM'000**	**SGD RM'000**
Company					
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)	(37,410)	37,899
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)	(37,410)	37,899

28. Financial instruments (continued)

28.6 Foreign currency risk (continued)

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

	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
Company					
2017					
Financial assets	26,796	-	1,160	-	37,166
Financial liabilities	(94,878)	(2)	(1,864)	(37,313)	-
Net financial (liabilities)/assets	(68,082)	(2)	(704)	(37,313)	37,166
Less:					
- Net financial assets/(liabilities) denominated in the respective entities' functional currencies	-	-	-	-	-
Forward foreign currency contracts (contracted notional principal)	-	-	-	-	-
Net currency exposure	(68,082)	(2)	(704)	(37,313)	37,166

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

	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
Company					
2018					
- strengthened by 5%	(3,045)	-	(25)	(1,421)	1,440
- weakened by 5%	3,045	-	25	1,421	(1,440)
2017					
- strengthened by 5%	(2,587)	-	(27)	(1,418)	1,412
- weakened by 5%	2,587	-	27	1,418	(1,412)

28. Financial instruments (continued)

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).

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group				
2018				
Financial assets				
Forward exchange contracts	-	336	-	336
Short-term funds	143,023	-	-	143,023
	143,023	336	-	143,359
2017				
Financial assets				
Forward exchange contracts	-	6,467	-	6,467
Short-term funds	94,341	-	-	94,341
	94,341	6,467	-	100,808

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 (Group)

Eisenmann Anlagenbau GmbH ("EIS") & Co. KG and Envac Scandinavia A.B. ("Envac") v Muhibbah Engineering (M) Bhd ("the Company")

EIS and Envac, Nominated Subcontractors for Hamad International Airport have filed arbitration proceedings against the Company for alleged claims of approximately QAR70.1 million. The Company is disputing the claims including through counter claims.

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).

30. Related parties (continued)

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

	Group	
	2018	2017
	RM'000	RM'000
Significant transactions with subsidiaries:		
Gross dividend income	(124,464)	(92,197)
Interest income	-	(142)
Purchase of materials and services	213,694	349,190
Rental expense	27,780	30,251
Interest expense	143	-
Rental income	(36)	(36)
Repair and services	(88)	(52)
Sale of property, plant and equipment	(505)	(80)
Shared services	(2,000)	(2,000)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Significant transactions with associates:				
Gross dividend income	(62,206)	(48,748)	(7,100)	(8,125)
Technical assistance fee	(16,353)	(17,342)	(16,353)	(17,342)
Sale of goods	(14,054)	(12,639)	-	-

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 2018 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 shareholder value.

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

32. Significant events during the financial year

(i) On 3 July 2018, Favelle Favco Bhd, a subsidiary of the Company listed on the main market of Bursa Malaysia Securities Berhad acquired 70% equity interest in Exact Automation Sdn Bhd, Sedia Teguh Sdn Bhd, Exact Analytical Sdn Bhd and Exact Oil & Gas Sdn Bhd at an indicative cash consideration ranging between RM90.7 million to RM142.1 million, subject to amongst others, the relevant profit thresholds to be met over the financial years ended 31 December 2017 to 2019 as well as the terms of the SPA.

(ii) On November 2018, the Company acquired 100% equity interest in Active Impression Sdn. Bhd., a company incorporate and domiciled in Malaysia, for a consideration of RM2.

33. Changes in accounting policies

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

Statement of Financial Position

	<----------- At 1 January 2018 ----------->		
	As Previously Reported RM'000	**MFRS 9 Adjustments RM'000**	**As Restated RM'000**
Group			
Current assets			
Trade receivables	230,984	(7,182)	223,802
Other receivables	63,004	(2,096)	60,908
Amount due from associates	140,485	(44,373)	96,112
Amount due from contract customers	498,978	(3,625)	495,353
Company			
Current assets			
Trade receivables	95,599	(10,301)	85,298
Other receivables	14,116	(1,442)	12,674
Amount due from associates	48,519	(7,565)	40,954
Amount due from contract customers	144,439	(1,444)	142,995
Amount due from subsidiaries	683,158	(87,340)	595,818

33. Changes in accounting policies (continued)

Initial Application of MFRS 9

Group

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

Company

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

Initial Application of MFRS 15

The Group has adopted MFRS 15 with modified retrospective application using the following practical expedients of which the cumulative financial impacts are recognised in the opening consolidated statements of financial position on 1 January 2018 (date of initial application of MFRS 15):

- The Group has chosen to apply MFRS 15 retrospectively only to contracts that were not completed at the date of initial application.

- For completed contracts that have variable consideration, the Group has chosen to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts.

- The Group has chosen to account for the effects of contract modifications that occurred before the date of initial application in aggregate instead of determining each modification individually.

The Group is unable to estimate the effects from the application of the practical expedients above.

34. Acquisitions of a subsidiary and non-controlling interests

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

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

	Group RM'000
Property, Plant and Equipment	15,037
Cash and cash equivalents	67,514
Inventories	7,247
Receivables and other receivables	24,299
Current tax assets	1,807
Trade payables and other payables	(8,593)
Loans and borrowings	(13,038)
Net identifiable assets acquired	94,273
Add: Non-controlling interests, measured at the proportion share of the fair value of the net identifiable assets	(28,282)
Goodwill from the acquisition	71,010
Total purchase consideration	137,001
Less: Cash and bank balances of subsidiaries acquired	(67,513)
Less: Deferred consideration	(31,141)
Total net cash outflow from the acquisition of subsidiaries	38,347

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

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

35. Prior year adjustment ("PYA")

The prior year adjustment arose from the misclassification of the Group's assets. In prior years, certain land held for property development was misclassified as property, plant and equipment. The prior year adjustment has no effect on the Group's profit attributable to shareholders for the financial year ended 31 December 2017.

The above changes in assets classification have been accounted for retrospectively and the effects on prior years have been taken up as prior year adjustments in the financial statements. Accordingly, the following comparative figures have been restated to reflect the effects of the change:

	As Previously Reported RM'000	**Effect of PYA RM'000**	**As Restated RM'000**
Group			
Statements of Financial Position as at 31.12.2017 (Extract):			
Property, plant and equipment	887,746	(40,840)	846,906
Other non-current assets	25,719	18,028	43,747
Reserves	810,682	(13,687)	796,995
Total equity attributable to:			
Owners of the company	1,051,739	(13,687)	1,038,052
Non-Controlling interests	429,695	(9,125)	420,570

Muhibbah Engineering (M) Bhd.

(Company No. 12737-K)
(Incorporated in Malaysia)

and its subsidiaries

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

In the opinion of the Directors, the financial statements set out on pages 8 to 123 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 2018 and of their financial performance and cash flows for the year then ended.

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

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

Klang, Selangor Darul Ehsan
Date: 11 April 2019

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 8 to 123 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 11 April 2019.

………………………………………
Lee Poh Kwee

Before me:

Tee Hsiao Mei, Pesuruhjaya Sumpah (No.B272)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD.
(Company No. 12737-K)
(Incorporated in Malaysia)

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 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 8 to 123.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

We are independent of the Group and 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
(Company No. 12737-K)
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Key Audit Matters (Cont'd)

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

<table>
<tr><td colspan="2">Revenue and profit recognition for construction contracts
Refer to Note 2(q) and Note 19 to the financial statements</td></tr>
<tr><td>Key Audit Matter</td><td>How our audit addressed the Key Audit Matter</td></tr>
<tr><td>Construction contract accounting is inherently complex due to the contracting nature of the business, which involves significant judgements. This includes the determination of the total budgeted contract costs to complete the projects and the calculation of percentage of completion which affects the quantum of revenue and profit to be recognised.

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
(Company No. 12737-K)
(Incorporated in Malaysia)

Key Audit Matters (Cont'd)

Revenue recognition and contract accounting (Cont'd) Refer to Note 2(q) and Note 19 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
The potential outcome for contracts can have an individually and collectively material impact on the financial statements, whether through error or management bias. 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.	

Investments in associates Refer to Note 6 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Key Audit Matter in relation to major associate 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. 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. The procedures performed by the component auditor on revenue included:- • Performing test on the operating effectiveness of the associate's controls relevant to recognition of revenue; • Performing sales transaction test to ensure the accuracy and validity of revenue recognised; and • 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. (CONT'D)
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Key Audit Matters (Cont'd)

Recoverability of trade receivables 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: • Reviewing recoverability of major receivables including but not limited to the review of subsequent collections; • Enquiring management on project/ receivables status for major customers; • Reviewing collections and sales trends during financial year of major receivables; and • Reviewing management's basis of estimation on the adequacy of the Group's expected credit loss allowance on trade receivables.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
(Company No. 12737-K)
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Key Audit Matters (Cont'd)

Net Realisable Value of Inventories under Work-In-Progress Refer to Note 11 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
Inventories are a major component of the financial position of the Group. The unfavourable macro economic factors from prolonged weakness in global crude oil prices 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: • Reviewing whether inventories are carried at lower of costs and net realisable value; • 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; • Assessing the methodologies use by the independent external valuer to estimate the net realisable value of the vessels; and • Assessing the adequacy of write-down of inventories.

Acquisition accounting for Exact Automation Sdn Bhd, Exact Analytical Sdn Bhd, Exact Oil & Gas Sdn Bhd and Sedia Teguh Sdn Bhd ("Intelligent Automation Group") under MFRS 3 - *Business Combinations* Refer to Note 34 to the financial statements	
Key Audit Matter	**How our audit addressed the Key Audit Matter**
The acquisition of Intelligent Automation Group was accounted for as a business combination based on MFRS 3 - Business Combinations ("MFRS 3"). A purchase price allocation exercise was performed by management, assisted by an external expert, and was determined that the fair value of the net identifiable assets for the acquisition is RM38.347 million.	Our audit procedures included, among others: • Evaluating the objectivity, independence and capabilities of the external expert; • Assessing the methodology adopted by management for calculating the fair values, key valuation assumptions and validating the key inputs used; and • Reviewing the adequacy of disclosure of acquisition in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
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Key Audit Matters (Cont'd)

<table>
<tr><td colspan="2">Goodwill impairment
Refer to Note 9 to the financial statements</td></tr>
<tr><td>Key Audit Matter</td><td>How our audit addressed the Key Audit Matter</td></tr>
<tr><td>As at 31 December 2018, the Group has goodwill of RM71.010 million for the acquisition of the Intelligent Automation Group.

This is an area of focus given the materiality of the Group's goodwill balances and the inherent subjectivity in impairment testing.

The judgement in relation to goodwill impairment relates primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the long-term business plans.</td><td>Our audit procedures included, among others:

• Making enquiries and challenging the management on the key assumptions made, including the consistent application of management's methodology, the achievability of the business plans, assumptions in relation to terminal growth in the business at the end of the plan period, and revenue growth, operating margin and discount rates;

• Evaluating the reasonableness of the management's estimate of expected future cash flows by taking into consideration the past performance of the Intelligent Automation Group;

• Performing sensitivity analysis to assess the impact on the recoverable amount of the cash generating units; and

• Reviewing the adequacy of disclosure of goodwill in the financial statements.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
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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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
(Company No. 12737-K)
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Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUHIBBAH ENGINEERING (M) BHD. (CONT'D)
(Company No. 12737-K)
(Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

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
LLP0018817-LCA&AF1018
Chartered Accountants

Ung Voon Huay
03233/09/2020 J
Chartered Accountant

Kuala Lumpur

11 April 2019