



F a v e l l e F a v c o B e r h a d

(249243-W)

A N N U A L R E P O R T 2 0 0 6

Board Of Directors

Tuan Haji Mohamed Taib bin Ibrahim
(Chairman, Independent Non-Executive Director)

Tan Sri A. Razak bin Ramli
(Independent Non-Executive Director)

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd. Nor
(Independent Non-Executive Director)

Mac Ngan Boon @ Mac Yin Boon
(Managing Director)

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

Lee Poh Kwee
(Executive Director)

Mazlan bin Abdul Hamid
(Executive Director)

Audit Committee

Chairman

Tuan Haji Mohamed Taib bin Ibrahim
Independent Non-Executive Chairman

Member

Tan Sri A. Razak bin Ramli
Independent Non-Executive Director

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd. Nor
Independent Non-Executive Director

Lee Poh Kwee
Executive Director

Mazlan bin Abdul Hamid
Executive Director

Company Secretaries

Nuruluyun Binti Abdul Jabar (MIA 9113)
Woo Ying Pun (MAICSA 7001280)
Tew Siew Chong (MIA 20729)
Chan Wai Fun (MIA 23537)

Registered Office

Lot 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan,
West Malaysia
Telephone no.: (603)-3349 5465
Facsimile no. : (603)-3342 9807

Auditors

KPMG (AF 0758)
Chartered Accountants
Wisma KPMG
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

Principal Bankers

Malayan Banking Berhad
Hong Leong Bank Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
Ambank (Malaysia) Berhad

Share Registrar

Tenaga Koperat Sdn Bhd
20th floor, Plaza Permata
Jalan Kampar
Off Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Telephone no.: (603) 4041 6522
Facsimile no. : (603) 4042 6352

Stock Exchange Listing

Second Board of Bursa Malaysia
Securities Berhad
Stock Name: Favco
Stock Code: 7229
Bloomberg stock code: FFB MK
Listing date: 15 August 2006

Websites

Webpage: www.favellefavco.com
E-mail: ffb@favellefavco.com.my



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Favelle Favco Offshore Crane

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Fifteenth Annual General Meeting of Favelle Favco Berhad will be held at Rebana 3, Level 1, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Section 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 25 June 2007 at 10.00 a.m. for the following purposes:-

Agenda

To receive the Audited Financial Statements for the financial year ended 31 December 2006 and the Reports of the Directors and Auditors thereon.	Resolution 1
To approve a First and Final Tax Exempt dividend of 1.75 sen per share in respect of the financial year ended 31 December 2006.	Resolution 2
To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2006.	Resolution 3
To fix the annual fees for the Directors at an amount of not exceeding RM700,000 in aggregate.	Resolution 4
To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association:-	
(i) Mr. Mac Chung Hui	Resolution 5
(ii) Ms. Lee Poh Kwee	Resolution 6
To consider, and if thought fit, pass the following resolution:-	
“THAT Tuan Haji Mohamed Taib bin Ibrahim, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-elected as a Director of the Company in accordance with Section 129(6) of the Companies Act, 1965 and to hold office until the conclusion of the next Annual General Meeting.”	Resolution 7
To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.	Resolution 8

As Special Business

ORDINARY RESOLUTION

Authority to allot shares pursuant to Section 132D of the Companies Act, 1965

“THAT pursuant to Section 132D of the Companies Act, 1965 and subject always to the approval of the relevant authorities, the



Notice of Annual General Meeting (continued)

Directors be and are hereby empowered to issue shares in the capital of the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”

Resolution 9

To transact any other business that may be transacted at an Annual General Meeting of which, due notice shall have been previously given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

BY ORDER OF THE BOARD

NURULUYUN BINTI ABDUL JABAR

WOO YING PUN

TEW SIEW CHONG

CHAN WAI FUN

Company Secretaries

Selangor Darul Ehsan

1 June 2007

NOTES:

1. A member entitled to attend and vote at this Meeting is entitled to appoint proxy/proxies to attend and vote in his/her stead. Proxy/proxies may but need not be a member/members of the Company and the provisions of Section 149(1)(b) shall not apply to the Company.
2. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Registered Office at Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.
5. Explanatory notes on Special Business:
The proposed Resolution No. 9, if passed, will authorise the Directors to issue up to 10% of the paid-up capital of the Company. This is to avoid any delay and cost involved a general meeting to approve such an issue of shares. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting.

Notice of Dividend Entitlement & Payment Date

NOTICE IS HEREBY GIVEN THAT a First and Final Tax Exempt dividend of 1.75 sen per share in respect of the financial year ended 31 December 2006, if approved at the forthcoming Fifteenth Annual General Meeting, will be payable on 24 September 2007 to Depositors registered in the Record of Depositors at the close of business on 30 August 2007.

A Depositor shall qualify for entitlement only in respect of :

- a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 30 August 2007, in respect of transfers; and
- b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

NURULUYUN BINTI ABDUL JABAR

WOO YING PUN

TEW SIEW CHONG

CHAN WAI FUN

Company Secretaries

Selangor Darul Ehsan

1 June 2007

Statement Accompanying Notice Of Annual General Meeting

Mr Mac Chung Hui, Ms Lee Poh Kwee and Tuan Haji Mohamed Taib bin Ibrahim are the Directors standing for re-election at the forthcoming Fifteenth Annual General Meeting of the Company and their respective further details are shown in the Annual Report, as follows :-

Further Details	Page no.
Age, nationality, qualification, and whether the position is of an executive or non-executive and whether of an independent director	14 -16
The working experience and occupation	14 -16
Any other directorships of public companies	14 -16
The details of any interest in the Company and its subsidiaries	37 -38
The Family relationship with any director and/or major shareholder of the Company	17
Any conflict of interest that they have with the Company	17
The list of convictions for offences within the past 10 years other than traffic offences, if any	17



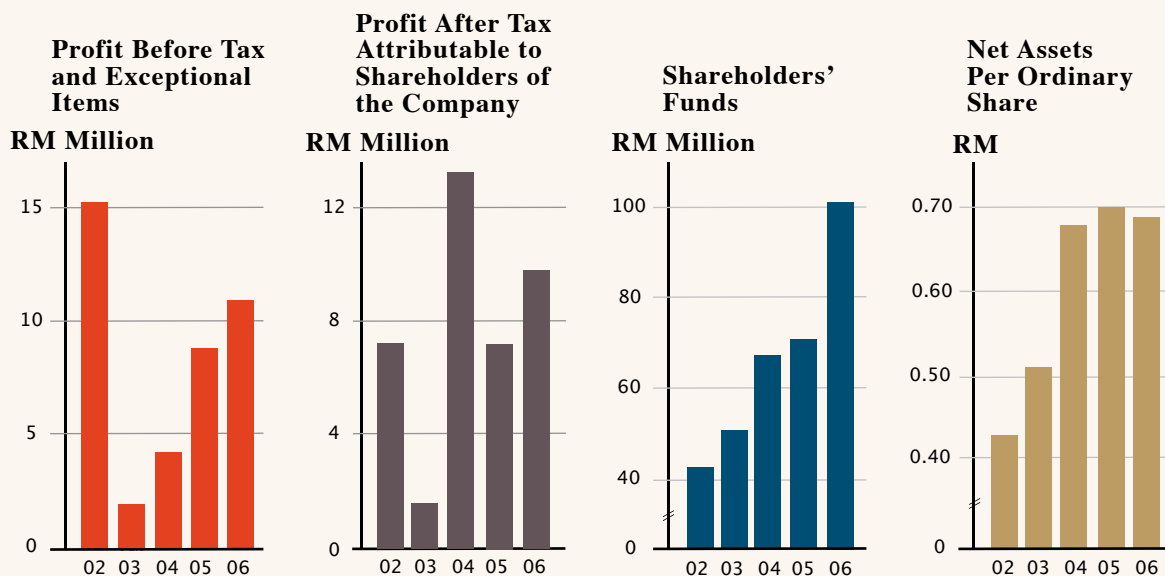
Group Financial Highlights

	2002	2003	2004	2005	2006
Turnover (RM'000)	216,287	193,510	266,965	335,646	357,956
Profit Before Tax and Exceptional Items (RM'000)	15,347	1,961	4,107	8,878	10,946
Profit After Tax Attributable to Shareholders of the Company (RM'000)	7,323	1,589	13,316	7,180	9,868
Shareholders' Fund (RM'000)	42,566	51,403	67,768	70,351	115,123
Share Capital (RM'000)	50,000*	50,000*	50,000*	50,000*	84,000**
Basic Earnings Per Ordinary Share (Sen)	7.32 [#]	1.59 [#]	13.32 [#]	7.18 [#]	7.31
Net Assets Per Ordinary Share (RM)	0.43 [#]	0.51 [#]	0.68 [#]	0.70 [#]	0.69

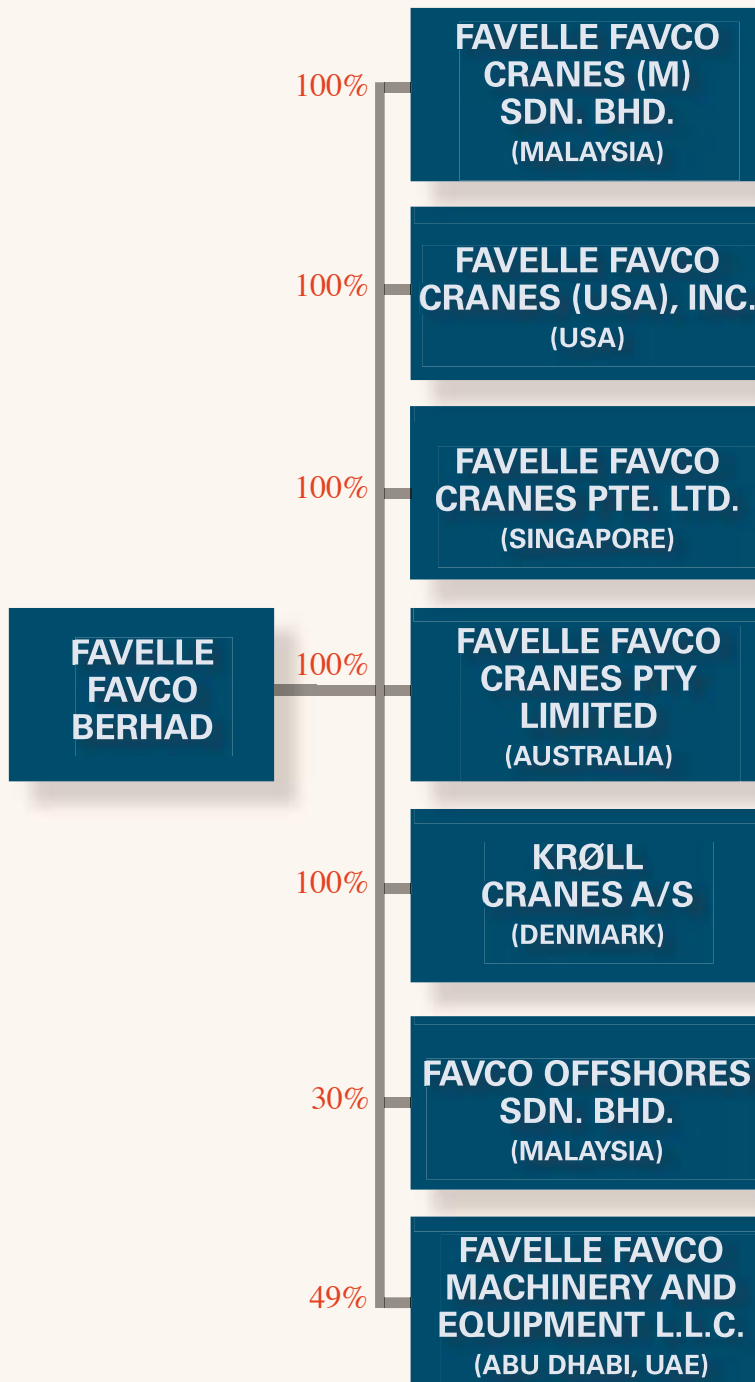
* Represents ordinary shares of RM1 each prior to the Initial Public Offer of Favelle Favco Berhad

** Represents ordinary shares of RM0.50 each upon completion of Initial Public Offer of Favelle Favco Berhad on 15 August 2006

[#] Computed based on ordinary share of RM0.50 each - for effective comparison purposes.



Group Structure As At 30 April 2007



* Dormant companies are excluded from the above Group Structure



K703V Multipurpose Wharf Crane, Northport

Chairman's Statement

Financial Performance

For the financial year under review, Favelle Favco Berhad ("FFB") and its subsidiary companies ("Favelle Favco Group") posted a total revenue of RM358 million and profit after tax of RM9.86 million respectively. Overall the Group experienced a 6.5% increase in revenue and a 37% increase in profit after tax as compared with a turnover of RM336 million and profit after tax of RM7.18 million in the previous financial year. The improvement in profit after tax is partly contributed by the increase in our order book in line with the continuing growth in the oil and gas industry and also the emergence of a new market for our bigger tower cranes in the power sector.

Initial Public Offering ("IPO")

The Favelle Favco Group has undertaken a major milestone in its corporate development through the



Tuan Haji Mohamad Taib Bin Ibrahim
(Chairman, Independent Non-Executive Director)

Favelle Favco Offshore Crane





Favelle Favco Offshore Crane

listing of Favelle Favco Berhad to the Second Board of Bursa Malaysia Securities Berhad on 15 August 2006. The IPO of 48 million shares of RM0.50 each at an offer price of RM0.55 per ordinary share raised a total of RM26.4 million. This was utilised to reduce bank borrowings, repayment of amounts owing to the holding company, additional working capital and research and development expenses.

Favelle Favco Group has successfully met the profit forecast submitted to the Securities Commission in conjunction with its listing on 15 August 2006. The Board intends to make an application to the Securities Commission for the transfer of listing status of FFB from the Second Board to the Main Board of Bursa Malaysia Securities Berhad.

Dividend

The Board of Directors is recommending a first and final tax exempt dividend of 1.75 sen (3.5%) per share subject to the approval of the shareholders at the forthcoming Annual General Meeting. The payable final dividend is amounted to RM2.940 million.

Industry and Market Review

The year saw an increase in activity in the equipment industry globally. Demand on the global market is buoyant for our cranes and we also see an upturn in construction activities.

Chairman's Statement (continued)

Industry and Market Review (continued)

The year in review was an eventful year for Favelle Favco Group on several important strategic fronts. Firstly, our Denmark subsidiary, Kroll Cranes A/S ("Kroll"), secured an order to build its first offshore crane. Kroll is positioned well for upcoming works in its region.

Our entry into the Russian construction market also proved exciting as we secured several orders including one which will see Favelle Favco building Europe's tallest building, the Federation Tower. We are confident of the prospects of this market.

This year also saw the successful development of a knuckle boom grab handling crane for Northport in Malaysia. This opens opportunities within the port industry and the offshore industry for this crane.

In the year several large high-speed cranes were delivered to China. These are involved in the construction of the Shanghai World Financial Centre, China Central Television building and a 1,000 megawatt power plant.



K400 at Can Tho, Vietnam

Operations Review

The Group will continue to focus on the integration of our global operations to optimise production to reduce cost.

Our new facility in Senawang entered its second year of operations and allowed us to cater to our increased sales.

Outlook

The Ninth Malaysia Plan will see an improvement in the local construction market. We also see an upturn in the construction market globally. Oil and gas investment will continue for the foreseeable years.

Power plant construction is expected to grow in China, USA and Russia, and is expected to be our main market.

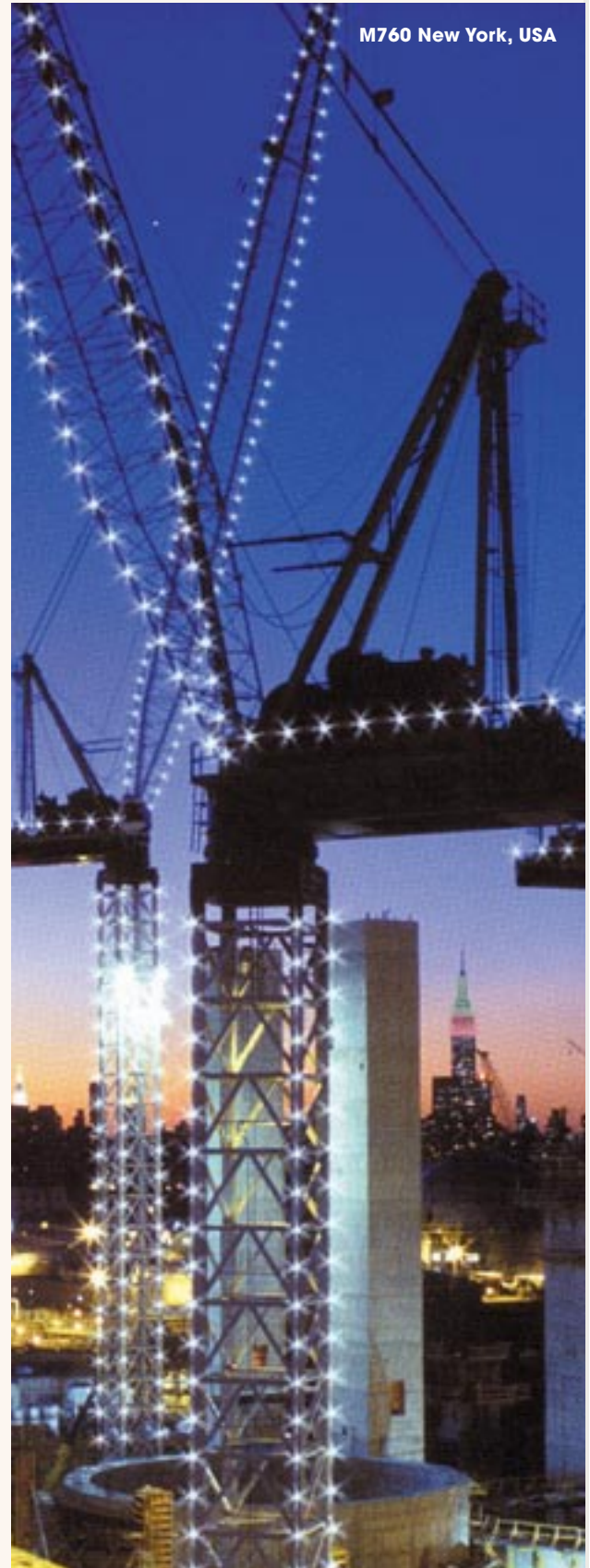
As at 5 May 2007, the outstanding order book is approximately RM428 million. This is the highest that the Group has achieved.

Human Resources

Continuous investment in our human resource development is crucial for the Group. In-house programs, headed by our Technical Training Committee, are conducted for our staff.

Corporate Governance

The application of and compliance with the principles and best practices as set out in the Code of Corporate Governance including a Statement on Internal Control have been disclosed in this Annual Report in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.



Chairman's Statement (continued)



Favelle Favco Offshore Crane

Corporate Governance (continued)

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

Acknowledgement And Appreciation

The Board of Directors of the Favelle Favco Group would like to thank the valued management team and employees of the Group for their continuous work commitment, perseverance and on-going dedication and effort, all of which have enabled the Group to achieve a greater successful year.

We would like to extend our appreciation to all our esteemed clients, business associates, suppliers, sub-contractors and the regulatory authorities for their continuing support to the Group.

We would also like to express our appreciation to the bankers and shareholders for their undiminished confidence and support extended to the Group throughout these years.

Finally, my special thanks also to my colleagues on the Board of the Favelle Favco Group for their invaluable support and guidance.

Tuan Haji Mohamed Taib bin Ibrahim
Chairman

Favelle Favco Offshore Crane



Profile of Directors

Tuan Haji Mohamed Taib bin Ibrahim

Aged 82, Malaysian

(Chairman, Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Tuan Haji Mohamed Taib bin Ibrahim was appointed as a Director of FFB on 15 September 1995. On 10 May 2004, he was appointed the Independent Non-Executive Chairman and Chairman of the Audit Committee. He is the co-founder of Muhibbah Engineering (M) Bhd (“MEB”), the holding company and has been an Independent Non-Executive Director of MEB since its inception on 4 September 1972. He was later appointed as Chairman of MEB on 22 May 1973. He obtained the Senior Cambridge Certificate of Education in 1941. In 1967, he helped set up Federal Flour Mills Berhad. His last position in Federal Flour Mills Berhad was Alternate Director. He left Federal Flour Mills Berhad and ventured into the marine industry in 1969 when he was appointed the first Company Secretary of Malaysian International Shipping Corporation. In 1977, he was nominated to lead Johor-based Malaysian Shipyard and Engineering Bhd as the Company’s President and Chief Executive Officer, a position which he relinquished in 1988. He was also the Chairman of Kuantan Flour Mills Bhd in 1984.

Tan Sri A. Razak bin Ramli

Aged 58, Malaysian

(Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

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



Profile of Directors (continued)

Mac Ngan Boon @ Mac Yin Boon

Aged 63, Malaysian
(Managing Director)

Member of the Remuneration Committee and Nomination Committee

Mac Ngan Boon was appointed as the Managing Director of FFB on 23 March 1993. He is the co-founder and Managing Director of MEB since its inception on 4 September 1972. Mac Ngan Boon obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967. He is a professional engineer and a member of the Institute of Engineers Malaysia. He has been the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998. Mac Ngan Boon has been playing the leading role in the business expansion and strategic growth of the FFB Group since its acquisition by MEB in 1995. He is also the representative of MEB on the Board of Directors of FFB.

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor

Aged 63, Malaysian
(Independent Non-Executive Director)

Member of the Audit Committee

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor was appointed as an Independent Non-Executive Director on 5 May 2004 and member of the Audit Committee of FFB on 10 May 2004. He is also the Independent Non-Executive Director of MEB, a position he has assumed since 19 April 2001. On 27 December 2001, he was appointed a member of the Audit Committee of MEB, and Senior Independent Non-Executive Director of MEB in accordance with the Malaysian Code of Corporate Governance. He was further appointed a member to the Nomination and Remuneration Committee of MEB on 21 February 2002. He retired as the Chief of the Royal Malaysian Navy in January 1999. During his 35 years of service in the Navy, he received numerous awards, both local and international. He holds a Masters degree in Public Administration from Harvard University, USA. He is a director of several private limited companies and is also a director of Affin Bank Berhad, PSC Industries Berhad and Comintel Corporation Bhd.

Mac Chung Hui

Aged 29, Malaysian
(Deputy Managing Director/Chief Executive Officer)

Mac Chung Hui was appointed as the Deputy Managing Director of FFB Group on 5 May 2004. He was also appointed as the Chief Executive Officer of FFB

Profile of Directors (continued)

in 2004. He holds a Bachelor of Civil Engineering degree from the University of Nottingham, United Kingdom. He joined FFB as Supervisory Board Member in 1999 and was responsible in assisting the Managing Director in the execution of operational decisions of the FFB Group. He has also been overseeing the production and operation of Favelle Favco Cranes Pty Limited (“FFA”) and Favelle Favco Cranes (M) Sdn Bhd (“FFM”) for the past six (6) years.

Lee Poh Kwee

Aged 42, Malaysian
(Executive Director)

Member of the Audit Committee

Lee Poh Kwee was appointed to the Board of FFB on 24 January 2003 as Executive Director. She was also appointed as member of the Audit Committee of FFB on 10 May 2004. She is a qualified Chartered Accountant with the Malaysian Institute of Accountants and a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom. She is also a Certified Financial Planner of Financial Planning Association of Malaysia. Prior to joining MEB as Group Financial Controller in 1993, she was attached to an international accounting firm, KPMG Malaysia, for 4 years. She was involved in the listing exercise of MEB on the Main Board of the Bursa Securities in 1994.

She is currently the Chief Financial Officer of MEB and Finance Director of major subsidiaries of MEB Group. She was involved in the acquisition of the business and assets of FFB Group in 1995, and subsequently, financial planning and management of the FFB Group over the past twelve (12) years.

Mazlan bin Abdul Hamid

Aged 44, Malaysian
(Executive Director)

Member of the Audit Committee

Mazlan bin Abdul Hamid was appointed as the Executive Director of FFB on 17 May 2004 and heads the Marketing and Business Development of the FFB Group. He is also the Director of FFM, Favco Offshores Sdn Bhd and Muhibbah Marine Engineering Sdn Bhd, a subsidiary of MEB. He obtained a Diploma in Engineering from the University of Mara Technology in 1984 and attended an Advanced Metallurgy course in the United Kingdom in 1985. In the same year, he started his career as a project coordinator in DNT (M) Sdn Bhd. He then joined SCS Petrotechnical (M) Sdn Bhd on a contractual basis, and thereafter, Bureau Veritas (M) Sdn Bhd as a Surveyor and Marketing Manager. He joined FFM in 1996 as the Sales & Marketing General Manager. He played a key role in penetrating the cranes manufacturing market in the Asia Pacific region.



Other Information

Other Information on Directors

Any Family Relationship with any Directors and/or major shareholders of Favelle Favco Berhad

None of the Directors have any relationship with each other and/or major shareholders of Favelle Favco Berhad except Mac Ngan Boon @ Mac Yin Boon and Mac Chung Hui. Mac Ngan Boon @ Mac Yin Boon is the Managing Director and substantial major shareholder of Favelle Favco Berhad (indirectly via MEB) and is also the father of Mac Chung Hui, the Deputy Managing Director / Chief Executive Officer of Favelle Favco Berhad.

Conflict of interest

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

List of Convictions for Offences within the past 10 years other than traffic offences

None of the Directors have been convicted for offences.

Other Information

1. Utilisation of Proceeds

As at 31 December 2006, the status of the utilization of the proceeds of RM26,400,000 raised by the Company from its Initial Public Offering is as follows:

	Proposed utilisation of proceeds RM'000	Utilised as at 31.12.2006 RM'000	Balance RM'000
Repayment of bank borrowings	10,000	10,000	-
Repayment of net amount owing to holding company	8,500	8,500	-
Research and development	3,000	1,638	1,362
Listing expenses	2,000	2,000	-
Working capital	2,900	2,900	-
	----- 26,400 =====	----- 25,038 =====	----- 1,362 =====

2. Share Buy-Back

During the financial year, there was no share buyback by the Company.

3. American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programmes

The Company did not sponsor any American Depository Receipt or Global Depository Receipt programmes during the financial year.

Other Information (continued)

Other Information (continued)

4. Sanctions and/or Penalties

There were no sanctions or penalties imposed by the relevant regulatory bodies on the Company or its subsidiaries, directors or management during the financial year.

5. Non-Audit Fees

During the financial year, the external auditors were paid RM180,000 for the professional services rendered in connection with the listing of the Company on the Second Board of Bursa Malaysia Securities Berhad.

6. Variation in Results

There were no material variances between the audited results of the financial year and the unaudited results previously announced.

7. Variation in Profit Forecast

Save for the profit forecast issued in the prospectus dated 30 June 2006, the Group did not issue any forecast for the current financial year. There were no material variances between the forecast results and the audited results for the financial year ended 31 December 2006.

8. Profit Guarantees

During the financial year, there were no profit guarantees given by the Company.

9. Material Contracts involving Directors and Major Shareholders

There were no material contracts outside the ordinary course of business entered by the Company or its subsidiaries involving directors and major shareholders during the financial year ended 31 December 2006.

10. Options, Warrants or Convertible Securities

The particulars of employees' share options of the Company are disclosed on pages 40 and 41 of this Annual Report.

There was no issuance of warrants or convertible securities during the financial year.

11. Revaluation Policy

There were no revaluation policies on landed properties adopted by the Group during the financial year under review.

12. Recurrent related party transactions

The value and the type of significant related party transactions are set out in note 28 to the Financial Statements from pages 111 and 112 of this Annual Report. The Company is proposing the following to the shareholders at the forthcoming Annual General Meeting of the Company:-

- a. to ratify the recurrent related party transactions of a revenue or trading nature entered from the date of listing of the Company, 15 August 2006 up to the date of the forthcoming Annual General Meeting of the Company; and
- b. to approve the shareholders' mandate for recurrent related party transactions of a revenue or trading nature for the period from the date of the forthcoming Annual General Meeting of the Company to the next Annual General Meeting of the Company.



Statement on Corporate Governance

Introduction

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

Board Of Directors

Composition and Balance

An experienced Board consisting of members with wide range of business, technical, financial and public service backgrounds, lead and control the Group. This brings insightful depth and diversity to the acute leadership and management of an eminent and evolutionary engineering business.

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of seven (7) members, comprising three (3) Independent Non-Executive Directors and four (4) Executive Directors. Profiles of the Directors are presented on pages 14 to 16 of this Annual Report.

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

The roles of the Chairman and Managing Director are separated with a clear division of responsibilities between them to ensure balance of power and authority. The Chairman leads the strategic planning at the Board level, while the Managing Director is responsible for the implementation of the policies laid down and executive decision-making.

The Independent Non-Executive Directors are of the calibre necessary to provide independent judgment on the issues of strategy, performance and resource allocation. They carry sufficient weight in Board decisions to ensure long-term interest of the shareholders, employees, customers and other stakeholders.

The Board has identified Tan Sri A. Razak bin Ramli as the Independent Non-Executive Director to whom concerns of the Group may be conveyed.

Statement on Corporate Governance (continued)

Board Meetings

Board meetings are held at regular intervals with additional meetings taking place when necessary. During the year, the Board met four (4) times to review the Group's operations, review and approve the quarterly financial results and other matters requiring the Board's approval. Details of the attendance of the Directors are as follows:

Names of Directors	Attendance at Meetings in 2006
Tuan Haji Mohamed Taib bin Ibrahim	4/4
Tan Sri A. Razak bin Ramli	3/4
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	4/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Mac Chung Hui	4/4
Mazlan bin Abdul Hamid	4/4
Lee Poh Kwee	4/4

Supply of Information

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

The appointment of the Company Secretary is based on the capability and proficiency determined by the Board. The Company Secretary is available at all times to provide the Directors with the appropriate advice and services and also to ensure that the relevant procedures and all applicable rules and regulations are complied with. The Articles of Association of the Company permits the removal of the Company Secretary by the Board of Directors as a whole.

In addition, the Directors have authority to access all information within the Group in furtherance of their duties and they are also empowered to seek external independent professional advice at the Company's expense, to enable them to make well-informed decisions.

Board Committees

The following committees have been established to assist the Board to discharge its duties and responsibilities. The Board has delegated certain powers and duties to these committees, which operate within the defined terms of reference.



Statement on Corporate Governance (continued)

Board Committees (continued)

(i) Audit Committee

The principal objective of the Audit Committee is to assist the Board in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of the Group. This includes reviewing the quarterly financial results to be disclosed, the scope of works and management letter of the external and internal auditors.

The Audit Committee comprises five (5) members out of which three (3) are Independent Non-Executive Directors. Tuan Haji Mohamed Taib bin Ibrahim, an Independent Non-Executive Director, is the Chairman of this Committee.

The Audit Committee met three (3) times during the year.

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on pages 26 to 31 of this Annual Report.

(ii) Nomination Committee

The present members of the Nomination Committee are as follows:

Names of Committee Members	Designation
Tuan Haji Mohamed Taib bin Ibrahim	Chairman (Independent Non-Executive Director)
Tan Sri A. Razak bin Ramli	Member (Independent Non-Executive Director)
Mac Ngan Boon @ Mac Yin Boon	Member (Managing Director)

The Nomination Committee met once (1) for the financial year ended 31 December 2006. The Nomination Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Director of the Company to ensure that the Board has the required mix of skills, experience and other core competencies. The Nomination Committee also reviewed the existing balance, size and composition of the Board of Directors, and recommended appointments of new Directors to the Board. The Nomination Committee recommended to the Board on the Directors who were due for retirement by rotation at the forthcoming Annual General Meeting.

Statement on Corporate Governance (continued)

Board Committees (continued)

(iii) Remuneration Committee

The present members of the Remuneration Committee are as follows:

Names of Committee Members	Designation
Tuan Haji Mohamed Taib bin Ibrahim	Chairman (Independent Non-Executive Director)
Tan Sri A. Razak bin Ramli	Member (Independent Non-Executive Director)
Mac Ngan Boon @ Mac Yin Boon	Member (Managing Director)

The Remuneration Committee met once (1) during the financial year ended 31 December 2006. The Remuneration Committee reviewed the remuneration packages and benefits of the Executive Directors to ensure the Company is able to attract high calibre executives to run the Company successfully. Directors do not participate in decisions on their own remuneration. At the same time, the Non-Executive Directors' fees were also reviewed and recommended for the Board's approval. The individual Non-Executive Directors concerned had abstained from discussion of their own remuneration packages.

Appointments and Re-election

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

Directors who are over 70 years of age are required to submit themselves for re-appointment and re-election annually in accordance with Section 129 (2) and Section 129 (6) of the Companies Act, 1965.

Directors' Training

All the Directors of the Company have attended and successfully completed the Mandatory Accreditation Programme conducted by Bursa Malaysia Securities Berhad within the stipulated time frame under the Listing requirements.



Statement on Corporate Governance (continued)

Directors' Training (continued)

Regular continuing training programmes, courses and seminars are organised for the Directors to help them keep abreast of latest developments in the industry and advances in Corporate Governance.

It is the practice of the Group, whereby, following the appointment of new Directors to the Board, an induction program is arranged to facilitate their understanding of the nature of the business, current issues within the Company, the corporate strategy, the expectations of the Company concerning input from Directors, the general responsibilities of Directors, operations of the Group as well as the products and services offered by the Group.

Directors' Remuneration

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

	Executive Directors	Non Executive Directors	Total
	RM	RM	RM
Fees	41,000	89,000	130,000
Remuneration	625,164	-	625,164
	<u>666,164</u>	<u>89,000</u>	<u>755,164</u>
	=====	=====	=====

The number of Directors in each remuneration band for the financial year 2006 is as follows:

Range of Remuneration	Executive Directors	Non Executive Directors	Total
Below RM50,000	-	2	2
RM50,001 to RM100,000	1	1	2
RM100,001 to RM150,000	1	-	1
RM150,001 to RM200,000	1	-	1
RM200,001 to RM250,000	-	-	-
RM250,001 to RM300,000	1	-	1
	<u>4</u>	<u>3</u>	<u>7</u>
	=====	=====	=====

Statement on Corporate Governance (continued)

Investors And Shareholders Relationship

The Board recognises the importance of maintaining effective communication with its investors and shareholders.

The Group communicates with its investors and shareholders regularly through release of quarterly financial results, announcements and press releases which provides an overview of Group's performance and operations.

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

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

Accountability And Audit

Financial Reporting and Statement of Directors' Responsibility

The Directors are responsible to ensure that the financial statements are drawn up in accordance with the provision of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

The Board is responsible for ensuring that the financial statements for each financial year give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the results of operations, changes in equity and cash flows of the Group and the Company for the financial year.

In preparation of the financial statements, the Board has ensured that:

- i) Suitable accounting policies were adopted and applied consistently;
- ii) Judgements and statements made are reasonable and prudent; and
- iii) Financial statements were prepared on a going concern basis.



Statement on Corporate Governance (continued)

Accountability And Audit (continued)

Financial Reporting and Statement of Directors' Responsibility (continued)

The Audit Committee assists the Board by overseeing that financial reporting reflects the substance of the business and transactions apart from being compliant with relevant standards and legislation.

The Board is responsible for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure the financial statements comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

Relationship with the Auditors

Through the Audit Committee of the Board, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views in issues requiring attention. The external auditors are also invited to attend meetings on special matters when necessary.

Risk Management Framework and Internal Control

The Board acknowledges their responsibility for the Group's system of internal controls and reviewing its effectiveness regularly via the Group Internal Audit Department of MEB, the holding company, which provides support to the Audit Committee in discharging its duties with respect to the adequacy and integrity of the system of internal controls within the Group.

A Statement on Internal Control outlining the internal controls within the Group is presented on pages 32 and 33 of this Annual Report.

Compliance Statement

The Company has applied the Best Practices in Corporate Governance as set out in Part 2 of the Malaysian Code on Corporate Governance to the extent as set out above.

Audit Committee Report

Membership And Meetings

Details of the membership of the Audit Committee and the attendance of meetings in respect of the current financial year are as follows:

Names of Committee Members	Designation	Attendance at Meetings in 2006
Tuan Haji Mohamed Taib bin Ibrahim	Chairman <i>(Independent Non-Executive Director)</i>	3/3
Tan Sri A. Razak bin Ramli	Member <i>(Independent Non-Executive Director)</i>	3/3
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member <i>(Independent Non-Executive Director)</i>	3/3
Mazlan bin Abdul Hamid	Member <i>(Executive Director)</i>	2/3
Lee Poh Kwee	Member <i>(Executive Director)</i>	3/3

The Audit Committee held three (3) meetings during the financial year ended 31 December 2006. The Group's Financial Controller and the Group's Internal Audit Manager attended all meetings. The Group's external auditors attended one (1) meeting during the year.

Summary of Activities

During the year, the Audit Committee carried out its duties as set out in the terms of reference. These include:

- (i) Reviewing the quarterly financial results before submission to the Board of Directors for consideration and approval for announcement to Bursa Malaysia Securities Berhad.
- (ii) Reviewing with external auditors the general approach and overall scope of works required for the annual audit.
- (iii) Reviewing the adequacy and relevance of the scope of work and functions of the external auditors and making recommendations to the Board on the appointment of the external auditor and the determination of the audit fees.



Audit Committee Report (continued)

Summary of Activities (continued)

- (iv) Reviewing with the Internal Audit Department the adequacy and relevance of the scope, function and risk based on audit plan and results of the internal audit processes.
- (v) Reviewing and discussing on issues and recommendations presented in the internal audit reports and thereafter considering whether or not appropriate corrective actions had been taken in addressing and resolving the issues on a timely basis.
- (vi) Verifying the allocation of the Employees' Share Option Scheme ("ESOS") to ensure that it is in accordance with criteria set out in the ESOS Bye-Laws of the Company.

Internal Audit Function

The internal audit function was carried out by the Group Internal Audit Department of MEB, the holding company. The Group Internal Audit Department carries out its duties impartially and independently of the activities reviewed to provide reasonable assurance that the system of internal controls continues to operate satisfactorily and effectively within the Group. The internal audit function adopts a risk based audit methodology, which is aligned to the operational and financial activities that are significant to the overall performance of the Group.

The activities carried out by the Group Internal Audit Department include, among others, the review of systems of internal controls for effectiveness and efficiency, compliance with established policies, procedures and guidelines, and assessing of the Group's Corporate Governance practices and compliances rules.

In addition, the Group has implemented a structured risk assessment and management framework on its operations. The implementation of this framework and monitoring process also forms the basis for continually improving the risk management process in the context of the Group's overall objectives. The Group Internal Audit Department is continuously facilitating the exercise for all the business units within the Group and advising the Risk Management Committee on the internal controls to better manage the risks identified.

Audit Committee Report (continued)

Terms Of Reference

Objectives

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

In addition, the Audit Committee shall:

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

Membership

The Board shall appoint the Audit Committee comprising at least three (3) directors, the majority of whom shall be Independent Directors. The Chairman of the Committee, who is an Independent Director, shall be appointed by members of the Audit Committee. No alternate Director can be a member of the Audit Committee.

At least one (1) member of the Audit Committee must be a member of the Malaysian Institute of Accountants or have similar qualifications as prescribed in Part I or Part II of the 1st Schedule of the Accountants Act, 1967.

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

Attendance at meetings

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

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

The Company Secretary shall act as Secretary of the Audit Committee.

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



Audit Committee Report (continued)

Terms Of Reference (continued)

Authority

The Audit Committee is authorised by the Board, in accordance with the procedures determined by the Board and at the cost to the Company, to:

- investigate any matter within its terms of reference;
- have adequate resources required to perform its duties;
- have full and unrestricted access to any information pertaining to the Company;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- obtain independent professional or other advice;
- convene meetings with the external auditors, excluding the attendance of the executive member(s) of the Committee, wherever deemed necessary.

Duties and responsibilities

The Audit Committee shall undertake the following duties and responsibilities:

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

Audit Committee Report (continued)

Terms Of Reference (continued)

Duties and responsibilities (continued)

2. To recommend the nomination of a person or persons as External Auditor(s).
3. To ensure that the Audit Committee Report is prepared at the end of each financial year for inclusion in the Annual Report of the Company. The Audit Committee Report shall comprise:
 - the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise).
 - the terms of reference of the Audit Committee.
 - the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member.
 - a summary of the activities of the Audit Committee in the discharge of functions and duties for that financial year of the Company.
 - the existence of an internal audit function or activity and where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the Audit Committee to discharge its functions effectively.
4. To promptly report to Bursa Malaysia Securities Berhad any matters reported by the Audit Committee to the Board of Directors which have not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad.

Proceedings of the Audit Committee

Calling of meetings

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

Notice of meeting

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

Voting and proceeding of meeting

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

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

Audit Committee Report (continued)



Terms Of Reference (continued)

Proceedings of the Audit Committee (continued)

Keeping of minutes

The members shall cause minutes to be made of all meetings of the Audit Committee. Such minutes shall be approved by the members of the Audit Committee at which the proceedings were held or at the next succeeding meeting.

Custody, production and inspection of minutes

The minutes of meetings of the Audit Committee shall be kept by the Secretary at the registered office of the Company, and shall be open to the inspection of any member of the Committee or any member of the Board of Directors.

Review of Audit Committee

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

Statement on Internal Control

The Board acknowledges its responsibility for maintaining a system of internal control and for reviewing its adequacy and integrity to safeguard shareholders' investment and the Group's assets. The system of internal control covers not only financial controls but operational and compliance controls and risk management.

The key processes of the Group's internal control system include the following:

- Documented delegation of authority limits have been established for all aspects of the businesses. These delegations of responsibilities and authority limits are subject to review when deemed necessary and appropriate as to their implementation and for continuing suitability;
- Policies, objectives and quality procedures for key business processes are formalised and documented for each significant operating unit;
- The Group Internal Audit Department provides the Audit Committee with reviews of processes, risk exposures (through Enterprise Risk Management) and system of internal controls of the Group. The Group Internal Audit Department carries out audits based on audit plans approved by the Audit Committee;
- Subsequent follow-up reviews on recommendations and outstanding issues are conducted by the Group Internal Audit Department and reported to the Audit Committee to ensure that recommendations have been implemented and issues resolved accordingly;
- The preparation and submission of monthly management accounts and other information (i.e., financial performance) to management for review, monitoring and reporting purposes;
- The adoption of a Risk Management Framework which provides guidance to the Group to facilitate a structured framework approach to risk management and comprehensive reporting to the Board in a timely manner;
- Submission of quarterly risk management reports to the Risk Management Units for reporting to the Group Risk Management Committee; and
- A consolidated risk profile of the Group together with a summary of key risks and actions to mitigate these risks is discussed in the Risk Management Committee meetings before being submitted to the Board for consideration.

The Board is continuing its on-going process of identifying, assessing and managing key business, operational and financial risks faced by its business units. The Group is progressively developing risk management practice in significant subsidiaries.



Statement on Internal Control (continued)

The Board has overall responsibility for the Group's system of internal control, which aims to:

- safeguard shareholders' investments and the Group's assets;
- ensure that proper accounting records are maintained; and
- ensure that the financial information used within the business and for publication is reliable.

The internal control system is also designed to provide reasonable assurance of the effective operations of the Group. The internal control system also takes into consideration compliance with applicable laws and regulations. It is recognised, however, that any system of internal control can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board through the Audit Committee has reviewed the effectiveness of the Group's system of internal control. The Board is of the view that there were no significant breakdown or weakness in the system of internal control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2006. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.



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Directors' report for the year ended 31 December 2006

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2006.

Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit for the year	9,868 =====	3,273 =====

Reserves and provisions

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

Dividend

The first and final tax exempt ordinary dividend recommended by the Directors in respect of the year ended 31 December 2006 is 1.75 sen per ordinary share totalling RM2,940,000.

Directors of the Company

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

Tuan Haji Mohamed Taib bin Ibrahim
Mac Ngan Boon @ Mac Yin Boon
Mac Chung Hui
Lee Poh Kwee
Mazlan bin Abdul Hamid
Tan Sri A. Razak bin Ramli
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor

Directors' report for the year ended 31 December 2006 (continued)

Directors' interests

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			At 31 December 2006
	At 1 January 2006	Bought	Sold	
<i>Shareholdings in which the Directors have direct interests</i>				
The Company				
Tuan Haji Mohamed Taib bin Ibrahim	-	2,945,671	-	2,945,671
Mac Ngan Boon @ Mac Yin Boon	-	6,992,913	-	6,992,913
Mac Chung Hui	-	1,112,000	-	1,112,000
Lee Poh Kwee	-	834,400	-	834,400
Mazlan bin Abdul Hamid	-	1,420,000	205,000	1,215,000
Tan Sri A. Razak bin Ramli	-	500,000	-	500,000
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	-	300,000	-	300,000

	#At 1 January 2006	#Bought	#Balance before share split	^Share split	^Sold	^At 31 December 2006
	'000	'000	'000	'000	'000	'000
<i>Shareholdings in which the Director has indirect interests</i>						
The Company						
Mac Ngan Boon @ Mac Yin Boon	* 50,000	10,000	60,000	120,000	22,000	98,000

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

Ordinary share of RM1 each

^ Ordinary share split of RM1 each to RM0.50 each

Directors' report for the year ended 31 December 2006 (continued)

Directors' interests (continued)

	Number of ordinary shares of RM1 each			
	At 1 January 2006	Bought	Sold	At 31 December 2006
Ultimate holding company				
- Muhibbah Engineering (M) Bhd.				
Tuan Haji Mohamed Taib bin Ibrahim	3,077,357	-	-	3,077,357
Mac Ngan Boon @ Mac Yin Boon	26,514,567	450,000	-	26,964,567
Mac Chung Hui	2,060,000	30,000	60,000	2,030,000
Lee Poh Kwee	198,900	1,061,100	-	1,260,000
Mazlan bin Abdul Hamid	70,000	30,000	100,000	-

The options granted to eligible Directors over unissued ordinary shares in the Company and Muhibbah Engineering (M) Bhd. ("MEB") pursuant to the Employees' Share Option Scheme ("ESOS") are set out below:

	Number of options over ordinary shares of RM0.50 each			
	At 1 January 2006	Granted	Exercised	At 31 December 2006
The Company				
Mac Ngan Boon @ Mac Yin Boon	-	1,200,000	-	1,200,000
Mac Chung Hui	-	900,000	-	900,000
Lee Poh Kwee	-	900,000	-	900,000
Mazlan bin Abdul Hamid	-	900,000	-	900,000

	Number of options over ordinary shares of RM1 each			
	At 1 January 2006	Granted	Exercised	At 31 December 2006
Ultimate holding company				
- Muhibbah Engineering (M) Bhd.				
Mac Ngan Boon @ Mac Yin Boon	450,000	1,100,000	450,000	1,100,000
Mac Chung Hui	30,000	150,000	30,000	150,000
Lee Poh Kwee	350,000	800,000	350,000	800,000
Mazlan bin Abdul Hamid	30,000	150,000	30,000	150,000

By virtue of their interest in the shares of the Company, the Directors are also deemed interested in the shares of the subsidiaries during the financial year to the extent that Favelle Favco Berhad has an interest.

Directors' report for the year ended 31 December 2006 (continued)

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related company or a related company 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.

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

Issue of shares

At an Extraordinary General Meeting of the Company held on 19 May 2006, the ultimate holding company, Muhibbah Engineering (M) Bhd. approved, inter alia, the following:

- a) the issuance of 10,000,000 new ordinary shares of RM1 each at an issue price of RM1 per ordinary share via the capitalisation of amount due to MEB;
- b) share split from one (1) existing ordinary share held after the capitalisation of amount due to MEB of RM1 each into two (2) new ordinary shares of RM0.50 each thereby increasing the existing ordinary shares from 60,000,000 ordinary shares of RM1 each to 120,000,000 ordinary shares of RM0.50 each;
- c) an ESOS involving the granting of options to eligible Directors and employees of the Group to subscribe for shares up to 10% of the issued and paid up capital; and
- d) the issuance of 48,000,020 ordinary shares of RM0.50 each through public issue at an issue price of RM0.55 per ordinary share for cash, for the purposes as stated in the prospectus dated 30 June 2006.

The entire authorised and paid up share capital of the Company comprising 168,000,020 ordinary shares of RM0.50 each was listed and quoted on the Second Board of Bursa Malaysia Securities Berhad on 15 August 2006.

Directors' report for the year ended 31 December 2006 (continued)

Options granted over unissued shares

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

At an Extraordinary General Meeting held on 19 May 2006, the ultimate holding company, Muhibbah Engineering (M) Bhd. approved the establishment of an ESOS of not more than 10% of the issued share capital of the Company, to eligible Directors and employees of the Group.

The main features of the ESOS Scheme are as follows:

- i) The maximum number of approved unissued new ordinary shares of RM0.50 each available for allotment under the ESOS Scheme shall not exceed in aggregate ten per cent (10%) of the issued and paid-up share capital of Company at any point in time during the duration of the ESOS Scheme;
- ii) Save for Directors, the eligible employees are those confirmed full time employees of the Group and who have served for a continuous period of at least one (1) year and the employment must have been confirmed on the offer date;
- iii) The ESOS Committee may at its sole and absolute discretion at any time and from time to time within the duration of the ESOS Scheme as it shall deem fit make an offer to any eligible employee to subscribe for new ordinary shares in accordance with the terms of the ESOS Scheme;
- iv) The ESOS Committee may, at their absolute discretion, vary the exercise condition where the ESOS Committee considers it no longer appropriate. The ESOS Committee may impose an exercise condition that the options granted shall only be exercised in such proportions as shall be determined by the ESOS Committee and notified in writing to the grantee;
- v) The option is personal to the grantee and cannot be assigned, transferred or otherwise disposed off in any manner whatsoever;
- vi) A grantee shall be allowed to exercise the options granted to him/her subject to the following percentage limits based on his/her respective entitlement granted at the discretion of the ESOS Committee:

		<----- Year option is granted ----->				
		Year 1	Year 2	Year 3	Year 4	Year 5
Cumulative % of options exercisable during the option period in:	Year 1	-	-	-	-	-
	Year 2	33.33%	-	-	-	-
	Year 3	66.67%	33.33%	-	-	-
	Year 4	100.00%	66.67%	66.67%	-	-
	Year 5	100.00%	100.00%	100.00%	100.00%	100.00%

Directors' report for the year ended 31 December 2006 (continued)

Options granted over unissued shares (continued)

- vii) 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; and
- viii) The new ordinary shares to be allotted and issued upon the exercise of the options will upon such allotment and issuance, rank pari passu in all respects with the then issued and fully paid-up shares except that the shares so allotted will not be entitled to any dividends, rights, allotments or other distributions of which is prior to the date of allotment of the new shares.

The options offered to take up the unissued ordinary shares of RM0.50 each and the exercise prices are as follows:

Date of offer	Exercise price	Number of options over ordinary shares of RM0.50 each				
		At 1 January 2006	Granted	Exercised	Retracted/ Forfeited*	At 31 December 2006
30 June 2006	RM0.55	-	11,803,000	-	321,000	11,482,000

* Due to non-acceptance and resignation

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report of the names of persons to whom options have been granted during the financial year, of less than 400,000 options and details of their holdings as required by Section 169 (11) of the Companies Act, 1965. This information has been separately filed with the Companies Commission of Malaysia. Eligible employees who were granted options under the ESOS for and in excess of 400,000 ordinary shares each are as follows:

	Number of options over ordinary shares of RM0.50 each			
	At 1 January 2006	Granted	Exercised	At 31 December 2006
Ooi San Kooi	-	400,000	-	400,000
Tew Siew Chong	-	400,000	-	400,000
Khoo Kok Eng	-	400,000	-	400,000
Shenandoah Chong Shin Kwek	-	400,000	-	400,000
Yap Eng Jin	-	400,000	-	400,000

The Directors of the Company who have been granted more than 400,000 options under the scheme during the financial year are disclosed in the section "Directors' interests".

Directors' report for the year ended 31 December 2006 (continued)

Other statutory information

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

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

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

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

Directors' report for the year ended 31 December 2006 (continued)

Other statutory information (continued)

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 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.

Significant event

With the approval from the Securities Commission on 24 March 2006 and the approval from shareholders of Muhibbah Engineering (M) Bhd. on 19 May 2006, the Company was officially listed on the Second Board of Bursa Malaysia Securities Berhad on 15 August 2006.

On 28 February 2007, the Board of Directors of the Company via the fourth quarter interim financial report for the financial year ended 31 December 2006, made a public release to the Bursa Malaysia Securities Berhad of their intention to make an application to the Securities Commission for the transfer of existing listing status of the Company from the Second Board to Main Board of Bursa Malaysia Securities Berhad.

Directors' report for the year ended 31 December 2006 (continued)

Auditors

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

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

.....
Mac Ngan Boon @ Mac Yin Boon

.....
Mac Chung Hui

Klang,

Date: 12 April 2007

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

In the opinion of the Directors, the financial statements set out on pages 49 to 113 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

.....
Mac Ngan Boon @ Mac Yin Boon

.....
Mac Chung Hui

Klang,

Date: 12 April 2007

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

I, **Lee Poh Kwee**, the Director primarily responsible for the financial management of Favelle Favco Berhad, do solemnly and sincerely declare that the financial statements set out on pages 49 to 113 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 12 April 2007.

.....
Lee Poh Kwee

Before me: John Kalanjiam Chelliah @
Chelliah a/l Kalanjiam
Pesuruhjaya Sumpah Malaysia
(No. B 218)

Report of the Auditors to the members of Favelle Favco Berhad

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

We have audited the financial statements set out on pages 49 to 113. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

Report of the Auditors to the members of Favelle Favco Berhad (continued)

The subsidiaries in respect of which we have not acted as auditors are identified in Note 6 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

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

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/08(J)

Kuala Lumpur,

Date: 12 April 2007

Balance sheets at 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Assets					
Property, plant and equipment	3	64,797	61,855	793	2,357
Intangible assets	4	6,665	7,718	219	329
Investment property	5	-	-	1,435	-
Investments in subsidiaries	6	-	-	60,727	29,027
Investments in associates	7	116	312	256	256
Deferred expenditure		-	350	-	350
Receivables, deposits and prepayments	8	-	-	15,428	24,244
Total non-current assets		<u>71,578</u>	<u>70,235</u>	<u>78,858</u>	<u>56,563</u>
Receivables, deposits and prepayments	8	106,710	81,185	42,714	38,753
Contract work-in-progress	9	136,326	147,258	-	-
Inventories	10	90,543	72,850	-	-
Current tax assets		1,904	1,799	30	27
Cash and cash equivalents	11	27,208	17,564	143	13
Total current assets		<u>362,691</u>	<u>320,656</u>	<u>42,887</u>	<u>38,793</u>
Total assets		<u>434,269</u>	<u>390,891</u>	<u>121,745</u>	<u>95,356</u>
Equity					
Share capital		84,000	50,000	84,000	50,000
Reserves		11,332	10,428	795	-
Retained earnings		19,791	9,923	4,014	741
Total equity	12	<u>115,123</u>	<u>70,351</u>	<u>88,809</u>	<u>50,741</u>

Balance sheets at 31 December 2006 (continued)

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Liabilities					
Loans and borrowings	13	27,278	18,983	8,700	-
Deferred tax liabilities	14	2,324	1,451	-	-
Long term advances due to ultimate holding company	15	-	25,521	-	25,521
Total non-current liabilities		<u>29,602</u>	<u>45,955</u>	<u>8,700</u>	<u>25,521</u>
Provisions	16	4,598	10,406	-	-
Payables and accruals	17	125,312	125,932	7,639	7,678
Amount due to contract customers	9	33,866	20,385	-	-
Loans and borrowings	13	125,651	117,862	16,597	11,416
Current tax expense		117	-	-	-
Total current liabilities		<u>289,544</u>	<u>274,585</u>	<u>24,236</u>	<u>19,094</u>
Total liabilities		<u>319,146</u>	<u>320,540</u>	<u>32,936</u>	<u>44,615</u>
Total equity and liabilities		<u>434,269</u>	<u>390,891</u>	<u>121,745</u>	<u>95,356</u>

The notes on pages 57 to 113 are an integral part of these financial statements.

Income statements for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Revenue	19	357,956	335,646	6,610	8,901
Cost of sales	20	(299,688)	(285,193)	-	-
Gross profit		58,268	50,453	6,610	8,901
Distribution expenses		(5,401)	(7,035)	-	-
Administrative expenses		(33,480)	(29,961)	(775)	(2,045)
Other operating expenses		(1,127)	(571)	(11)	(6,000)
Other operating income		-	1,265	-	460
Results from operating activities		18,260	14,151	5,824	1,316
Finance costs		(7,535)	(5,377)	(2,615)	(955)
Interest income		417	182	64	4
Operating profit	21	11,142	8,956	3,273	365
Share of loss after tax of equity accounted associates		(196)	(78)	-	-
Profit before tax		10,946	8,878	3,273	365
Tax expense	22	(1,078)	(1,698)	-	-
Profit for the year		9,868	7,180	3,273	365
Attributable to:					
Shareholders of the Company		9,868	7,180	3,273	365
Basic earnings per ordinary share (sen)	23	7.31	7.18		
Diluted earnings per ordinary share (sen)	23	7.11	7.18		

The notes set on pages 57 to 113 are an integral part of these financial statements.

Statements of changes in equity for the year ended 31 December 2006

Note	← Attributable to shareholders of the Company →					Total equity RM'000
	← Non-distributable		→ Distributable			
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Share option reserve RM'000	Retained earnings RM'000	
<i>Group</i>						
At 1 January 2005	50,000	-	15,025	-	2,743	67,768
Foreign exchange translation differences	-	-	(4,597)	-	-	(4,597)
Profit for the year	-	-	-	-	7,180	7,180
At 31 December 2005 / At 1 January 2006	50,000	-	10,428	-	9,923	70,351
Foreign exchange translation differences	-	-	109	-	-	109
Profit for the year	-	-	-	-	9,868	9,868
Share-based payments 18	-	-	-	457	-	457
Shares issued 12	24,000	2,400	-	-	-	26,400
Listing expenses	-	(2,062)	-	-	-	(2,062)
Capitalisation of amount due to ultimate holding company 12	10,000	-	-	-	-	10,000
At 31 December 2006	84,000	338	10,537	457	19,791	115,123

Note 12

Statements of changes in equity for the year ended 31 December 2006 (continued)

	Note	← Non-distributable →			Distributable	Total equity RM'000
		Share capital RM'000	Share premium RM'000	Share option reserve RM'000	Retained earnings RM'000	
<i>Company</i>						
At 1 January 2005		50,000	-	-	376	50,376
Profit for the year		-	-	-	365	365
<hr/>						
At 31 December 2005/ 1 January 2006		50,000	-	-	741	50,741
Profit for the year		-	-	-	3,273	3,273
Share-based payments	18	-	-	457	-	457
Shares issued	12	24,000	2,400	-	-	26,400
Listing expenses		-	(2,062)	-	-	(2,062)
Capitalisation of amount due to ultimate holding company	12	10,000	-	-	-	10,000
<hr/>						
At 31 December 2006		84,000	338	457	4,014	88,809
<hr/> <hr/>						
		Note 12				

The notes set on pages 57 to 113 are an integral part of these financial statements.

Cash flow statements for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash flows from operating activities					
Profit before tax		10,946	8,878	3,273	365
<i>Adjustments for:</i>					
Allowance for doubtful debts		543	329	11	6,000
Allowance for doubtful debts written back		-	(189)	-	-
Allowance for slow moving inventories		3,524	955	-	-
Amortisation of development costs		2,424	2,011	-	-
Amortisation of intellectual property		252	252	110	110
Depreciation of property, plant and equipment		7,763	7,832	99	129
Depreciation of investment property		-	-	30	-
Dividend income		-	-	(6,610)	(8,901)
(Gain)/Loss on disposal of property, plant and equipment		(760)	27	-	-
Goodwill written off		-	571	-	-
Inventories written off		210	-	-	-
Interest expense		7,535	5,377	2,615	955
Interest income		(417)	(182)	(64)	(4)
Property, plant and equipment written off		647	-	-	-
Unrealised (gain)/loss on foreign exchange		(436)	2,792	2,428	1,169
Share-based payments		457	-	457	-
Share of loss of equity accounted associates		196	78	-	-
Addition of provisions		2,631	4,498	-	-
Reversal of provisions		(4,554)	(2,194)	-	(460)
Reversal of allowance for slow moving inventories		(924)	(440)	-	-
Write back of inventories written off		(1,272)	-	-	-
Operating profit/(loss) before working capital changes		28,765	30,595	2,349	(637)
Development costs incurred		(1,638)	(3,496)	-	-
Change in inventories		(19,247)	(15,469)	-	-
Change in receivables, deposits and prepayments		(14,698)	(63,137)	(22,966)	(8,312)
Change in payables and accruals		24,603	91,747	(1,002)	891
Cash generated from/(used in) operations		17,785	40,240	(21,619)	(8,058)

Cash flow statements for the year ended 31 December 2006 (continued)

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash flows from operating activities (continued)					
Cash generated from/(used in) operations		17,785	40,240	(21,619)	(8,058)
Interest paid		(4,008)	(3,666)	-	(955)
Interest received		417	182	64	4
Income taxes paid		(105)	(443)	(3)	(4)
Provisions paid		(3,913)	(3,463)	-	-
Dividends received		-	-	6,610	8,901
Net cash generated from/(used in) operating activities		10,176	32,850	(14,948)	(112)
Cash flows from investing activities					
Acquisition of associate		-	(76)	-	(76)
Proceeds from disposal of property, plant and equipment		2,810	77	-	-
Purchase of property, plant and equipment	(i)	(11,553)	(34,710)	-	-
Net cash used in investing activities		(8,743)	(34,709)	-	(76)
Cash flows from financing activities					
Advance from ultimate holding company		166	844	166	-
Interest paid		(3,527)	(1,711)	(596)	-
Proceeds from issue of shares		24,688	-	24,688	-
Repayment of hire purchase liabilities		(413)	(213)	-	-
Repayment of onshore foreign currency loan		-	(4,560)	-	-
Drawdown of term loans		16,200	21,120	16,200	-
Drawdown of revolving credits		2,182	-	-	-
Repayment from a subsidiary		-	-	1,078	3,212
Repayment of term loans		(6,621)	(4,951)	(1,500)	(3,024)
Repayment of revolving credit		-	(60)	-	-
Repayment to ultimate holding company		(24,887)	-	(24,958)	-
Net cash generated from financing activities		7,788	10,469	15,078	188
Exchange difference on translation of the financial statements of foreign operations		(79)	124	-	-
Net increase in cash and cash equivalents		9,142	8,734	130	-

Cash flow statements for the year ended 31 December 2006 (continued)

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and cash equivalents at 1 January	(ii)	5,069	(2,853)	13	13
Foreign exchange difference on opening balance		(656)	(812)	-	-
Cash and cash equivalents at 31 December	(ii)	13,555	5,069	143	13

(i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM12,593,000 (2005 - RM35,239,000), of which RM1,040,000 (2005 - RM529,000) were acquired by means of hire purchases.

(ii) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and bank balances (Note 11)	17,507	16,023	143	13
Deposits (Note 11)	9,701	1,541	-	-
Bank overdrafts (Note 13)	(13,653)	(12,495)	-	-
	13,555	5,069	143	13

The notes set on pages 57 to 113 are an integral part of these financial statements.

Notes to the financial statements

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

Registered office and principal place of business

Lot 586, 2nd Mile
Jalan Batu Tiga Lama
41300 Klang
Selangor Darul Ehsan

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The financial statements of the Company as at and for the year ended 31 December 2006 do not include other entities.

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

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

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

The MASB has issued the following Financial Reporting Standards (FRSs) or Interpretations that are effective for annual periods beginning after 1 January 2006, and that have not been applied in preparing these financial statements:

FRSs / Interpretations	Effective date
FRS 124, Related Party Disclosures	1 October 2006
FRS 6, Exploration for and Evaluation of Mineral Resources	1 January 2007

Notes to the financial statements (continued)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

FRSs / Interpretations	Effective date
Amendment to FRS 119 ²⁰⁰⁴ , Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
Amendments to FRS 121, The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operation	1 July 2007
FRS 139, Financial Instruments: Recognition and Measurement	To be announced
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129 ²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007

In this set of financial statements, the Group and the Company have chosen to early adopt FRS 117, Leases which is effective for annual period beginning on or after 1 October 2006. The adoption of FRS 117 does not have any significant impact on the financial statements of the Group and the Company.

The Group and the Company plan to apply FRS 124, and the Amendments to FRS 119²⁰⁰⁴ initially for the annual period beginning 1 January 2007 and to apply the rest of the above-mentioned FRSs (except for FRS 6 as explained below and FRS 139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 1 January 2008.

Notes to the financial statements (continued)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The impact of applying FRS 124 and Amendments to FRS 119₂₀₀₄ on the financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective standards.

FRS 6 is not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

The financial statements were approved by the Board of Directors on 12 April 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements 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 estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2 (r) – recognition of construction contracts revenue
- Note 4 – impairment test of intangible assets
- Note 16 – provisions
- Note 18 – share-based payments

Notes to the financial statements (continued)

2. Significant accounting policies

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

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 30).

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) *Associates*

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

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil 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 investee.

Investments in associates are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) *Related party*

A related party is a company in which the ultimate holding company holds a long term investment of between 20% to 50% of the equity.

(iv) *Transactions eliminated on consolidation*

Intra-group balances, 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 investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) *Foreign currency transactions*

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies 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 the income statement.

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

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the balance sheet date, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions. The income and expenses of foreign operations, are translated to RM at exchange rates at the dates of the transactions.

On disposal, accumulated translation differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(c) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

Forward foreign exchange contracts used are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or net positions.

(d) Property, plant and equipment

(i) *Recognition and measurement*

Freehold land and capital work-in-progress are stated at cost. Other items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) *Subsequent costs*

The cost of replacing part 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 part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

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

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

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Leased assets

Leases in terms of which the Group 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.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Goodwill/(negative goodwill) arises on acquisition of subsidiaries.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

(ii) Research and development

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Intellectual property

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

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill with indefinite useful lives 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.

The estimated useful lives are as follows:

- | | |
|---------------------------------|----------|
| • capitalised development costs | 5 years |
| • intellectual property | 10 years |

(g) Investment property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. Investment property are stated at cost less accumulated depreciation and impairment losses consistent with the accounting policy for property, plant and equipment as stated in the accounting policy Note 2(d).

In previous years, investment property is included in property, plant and equipment. Following the adoption of FRS 140, Investment Property, investment property is now classified separately. Transfers between investment property and property, plant and equipment do not change the carrying amount and the cost of the property transferred.

Depreciation is charged to the income statement on a straight-line basis over the estimated life of the building.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(h) Inventories

Inventories comprise crane components, work-in-progress and assembled cranes and are stated at the lower of cost and net realisable value. 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.

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 overhead.

(i) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts. Receivables are not held for the purpose of trading.

(j) Contract work-in-progress

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

Contract work-in-progress is presented as part of total current assets in the balance sheet. If payments received from customers exceed the income recognised, then the difference is recognised as amount due to contract customers, as part of the total current liabilities in the balance sheet.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(l) Impairment of assets

The carrying amounts of assets except for financial assets, inventories and assets arising from construction contracts are reviewed at each reporting date 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, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date 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. 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 the income statement in the year in which the reversals are recognised.

(m) Share capital

Shares issue expenses

Incremental costs directly attributable to issue of shares and share options classified as equity are recognised as a deduction from equity.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(n) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement 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 provision 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 contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. Following the adoption of FRS 2, Share-based Payment, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using the Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(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.

(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) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(q) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(r) Revenue

(i) Contracts

As soon as the outcome of a contract from the manufacture of cranes can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

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

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(r) Revenue (continued)

(ii) Goods sold

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(iii) Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the value of works performed.

(iv) Rental income

Rental income is recognised in the income statement as it accrues.

(v) Dividend income

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

(s) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(t) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method. When the recoverability of the interest income is uncertain, interest is suspended until it is realised on cash basis.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred.

(u) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

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

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital progress RM'000	Total RM'000
<i>Cost</i>						
At 1 January 2005	239	18,162	47,429	32,963	1,620	100,413
Additions	9,000	15,052	3,564	3,811	3,812	35,239
Disposals	-	-	(27)	(369)	-	(396)
Reclassification	-	3,086	-	1,869	(4,955)	-
Effect of movements in exchange rates	(32)	1,346	(6,127)	(1,574)	-	(6,387)
At 31 December 2005/ 1 January 2006	9,207	37,646	44,839	36,700	477	128,869
Additions	-	630	4,006	7,957	-	12,593
Disposals	-	-	(3,881)	(2,922)	-	(6,803)
Written off	-	-	(59)	(1,097)	-	(1,156)
Effect of movements in exchange rates	7	595	1,594	236	-	2,432
At 31 December 2006	9,214	38,871	46,499	40,874	477	135,935

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

Group	Freehold land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
Depreciation and impairment losses						
At 1 January 2005:						
Accumulated depreciation	-	9,558	25,571	24,193	-	59,322
Accumulated impairment losses	-	1,494	536	993	-	3,023
	-	11,052	26,107	25,186	-	62,345
Depreciation for the year	-	667	4,291	2,874	-	7,832
Disposals	-	-	-	(261)	-	(261)
Effect of movements in exchange rates	-	2,092	(3,635)	(1,359)	-	(2,902)
At 31 December 2005 / 1 January 2006:						
Accumulated depreciation	-	12,317	26,227	25,447	-	63,991
Accumulated impairment losses	-	1,494	536	993	-	3,023
	-	13,811	26,763	26,440	-	67,014
Depreciation for the year	-	864	3,767	3,132	-	7,763
Disposals	-	-	(2,037)	(2,716)	-	(4,753)
Written off	-	-	(57)	(452)	-	(509)
Effect of movements in exchange rates	-	434	972	217	-	1,623
At 31 December 2006:						
Accumulated depreciation	-	13,615	28,872	25,628	-	68,115
Accumulated impairment losses	-	1,494	536	993	-	3,023
	-	15,109	29,408	26,621	-	71,138
Carrying amounts						
At 1 January 2005						
	239	7,110	21,322	7,777	1,620	38,068
At 31 December 2005 / 1 January 2006						
	9,207	23,835	18,076	10,260	477	61,855
31 December 2006						
	9,214	23,762	17,091	14,253	477	64,797

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

Company	Building RM'000	Plant, equipment and motor vehicles RM'000	Total RM'000
Cost			
At 1 January 2005/At 31 December 2005	2,989	1,984	4,973
Transfer to investment property	(2,989)	-	(2,989)
At 31 December 2006	-	1,984	1,984
Depreciation and impairment losses			
At 1 January 2005:			
Accumulated depreciation	-	-	-
Accumulated impairment losses	1,494	993	2,487
Depreciation charge for the year	1,494 30	993 99	2,487 129
At 31 December 2005/1 January 2006			
Accumulated depreciation	30	99	129
Accumulated impairment losses	1,494	993	2,487
Depreciation charge for the year	-	99	99
Transfer to investment property	(1,524)	-	(1,524)
At 31 December 2006	-	198	198
Accumulated depreciation	-	993	993
Accumulated impairment losses	-	993	993
At 31 December 2006	-	1,191	1,191
Carrying amounts			
At 1 January 2005	1,495	991	2,486
At 31 December 2005/1 January 2006	1,465	892	2,357
At 31 December 2006	-	793	793

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

Security

The freehold land, buildings, plant and equipment of subsidiaries with total net book value of RM32,039,000 (2005 - RM32,127,000) have been pledged to certain licensed banks as security for bank loan facilities granted to the respective subsidiaries (Note 13).

Assets under hire purchase arrangements

Included in property, plant and equipment of the Group are motor vehicles acquired under hire purchase arrangements with net book value of RM2,413,000 (2005 - RM1,693,000)

4. Intangible assets

Group	Development costs RM'000	Intellectual property RM'000	Goodwill RM'000	Total RM'000
Cost				
At 1 January 2005	11,173	2,519	1,143	14,835
Acquisitions – internally developed	3,496	-	-	3,496
Written off	-	-	(571)	(571)
Effect of movements in exchange rate	(725)	-	-	(725)
At 31 December 2005/1 January 2006	13,944	2,519	572	17,035
Acquisitions – internally developed	1,638	-	-	1,638
Effect of movements in exchange rate	48	-	-	48
At 31 December 2006	15,630	2,519	572	18,721
Amortisation				
At 1 January 2005	6,019	1,483	-	7,502
Amortisation for the year	2,011	252	-	2,263
Effect of movements in exchange rates	(448)	-	-	(448)
At 31 December 2005/1 January 2006	7,582	1,735	-	9,317
Amortisation for the year	2,424	252	-	2,676
Effect of movements in exchange rates	63	-	-	63
At 31 December 2006	10,069	1,987	-	12,056
Carrying amounts				
At 1 January 2005	5,154	1,036	1,143	7,333
At 31 December 2005/1 January 2006	6,362	784	572	7,718
At 31 December 2006	5,561	532	572	6,665

Notes to the financial statements (continued)

4. Intangible assets (continued)

Company	Intellectual property RM'000
<i>Cost</i>	
Opening balance/Closing balance	1,098 =====
<i>Amortisation</i>	
At 1 January 2005	659
Amortisation for the year	110
At 31 December 2005/1 January 2006	----- 769
Amortisation for the year	110
At 31 December 2006	----- 879 =====
<i>Carrying amounts</i>	
At 1 January 2005	439 =====
At 31 December 2005/1 January 2006	329 =====
At 31 December 2006	219 =====

Development costs

Development costs represent internally generated development expenditure by subsidiaries on new or substantially improved major crane projects. It is reasonably anticipated that the development expenditure will be recovered through future commercial activity. The remaining amortisation period of development expenditure at the end of financial year ranged from 1 year to 5 years (2005 - 1 year to 5 years).

Other intangible assets of the Group represent intellectual property and goodwill arising from consolidation.

Intellectual property

The intellectual property represents the acquisition of know how, rights to industrial property and trade name by subsidiaries on new or substantially improved major crane projects in the previous years. It is reasonably anticipated that the intellectual property will be recovered through future commercial activity. The remaining amortisation period of intellectual property at the end of financial year is 2 years (2005 - 3 years).

Notes to the financial statements (continued)

4. Intangible assets (continued)

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The goodwill impairment test was based on value in use and was determined by the management. Value in use was determined by assessing the operating divisions' budgets and was based on certain key assumptions. The values assigned to the key assumptions represent management's assessment of future trends in the divisions' principal activities and are based on internal sources.

5. Investment property

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<i>Cost</i>				
At 1 January	-	-	-	-
Transfer from property, plant and equipment	-	-	2,989	-
At 31 December	-	-	2,989	-
	=====	=====	=====	=====
Depreciation and impairment losses				
At 1 January				
Accumulated depreciation	-	-	30	-
Accumulated impairment losses	-	-	1,494	-
Transfer from property, plant and equipment	-	-	1,524	-
Depreciation for the year	-	-	30	-
At 31 December	-	-	1,554	-
	=====	=====	=====	=====
Carrying amount				
At 31 December	-	-	1,435	-
	=====	=====	=====	=====
The carrying amount comprises:				
Building	-	-	1,435	-
	=====	=====	=====	=====

The Directors' estimate the fair value of the investment property to approximate its carrying amount at year end.

Notes to the financial statements (continued)

6. Investments in subsidiaries

	Company	
	2006 RM'000	2005 RM'000
Unquoted shares - at cost	113,170	56,470
Less: Allowance for diminution in value	(52,443)	(27,443)
	<u>60,727</u>	<u>29,027</u>

During the year, the Company increased its investment in Favelle Favco Cranes (USA), Inc, a wholly-owned subsidiary of the Company via the acquisition of 40,000 ordinary shares by way of capitalisation of RM56,700,000 of advances due from the subsidiary.

Details of the subsidiaries are as follows :-

Name of subsidiaries	Principal activities	Country of incorporation	Effective ownership interest	
			2006 %	2005 %
Favelle Favco Cranes (M) Sdn. Bhd.	Designing, manufacturing, supply, servicing, trading and renting of cranes	Malaysia	100	100
Favelle Favco Cranes Pte. Ltd. *	Supplying, servicing, trading and renting of cranes	Singapore	100	100
Favelle Favco Cranes (USA), Inc. **	Designing, manufacturing, supply, servicing, trading and renting of cranes	United States of America	100	100

Notes to the financial statements (continued)

6. Investments in subsidiaries (continued)

Name of subsidiaries	Principal activities	Country of incorporation	Effective ownership interest	
			2006 %	2005 %
Favelle Favco Cranes Pty. Limited ** and its subsidiaries:	Designing, manufacturing, supply, servicing and renting of cranes	Australia	100	100
FF Management Pty. Limited **	Management services	Australia	100	100
Milperra Blasting and Coating Pty. Limited **	Dormant	Australia	100	100
Krøll Cranes A/S ** and its subsidiary:	Designing, manufacturing, supply, servicing, trading and renting of cranes	Denmark	100	100
Krøll Kraner AB**	Ceased operation	Sweden	100	100
Favelle Favco Cranes International Ltd.	Dormant	Malaysia	100	-

* Audited by a member of KPMG International.

** Not audited by KPMG or other members of KPMG International.

7. Investments in associates

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Unquoted shares, at cost	256	256	256	256
Share of post-acquisition reserves	(140)	56	-	-
	<u>116</u>	<u>312</u>	<u>256</u>	<u>256</u>
	=====	=====	=====	=====

The Group has not recognised losses relating to FFME totalling RM192,000 in 2006, since the Group has no obligation in respect of these losses.

Notes to the financial statements (continued)

7. Investments in associates (continued)

Summary financial information on associates:

2006	Country of incorporation	Effective ownership interest	Revenue (100%) RM'000	Loss (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
FO*	Malaysia	30%	1,944	(653)	2,073	1,686
FFME**	Abu Dhabi, United Arab Emirates	49%	594	(392)	881	1,821
			2,538	(1,045)	2,954	3,507
2005						
FO*	Malaysia	30%	2,799	(6)	2,928	1,887
FFME**	Abu Dhabi, United Arab Emirates	49%	89	(527)	209	798
			2,888	(533)	3,137	2,685

* Favco Offshores Sdn. Bhd.

** Favelle Favco Machinery and Equipment L.L.C.

8. Receivables, deposits and prepayments

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-current				
Non-trade				
Advances to a subsidiary	-	-	15,428	49,244
Less: Allowance for doubtful debts	-	-	-	(25,000)
	-	-	15,428	24,244

Notes to the financial statements (continued)

8. Receivables, deposits and prepayments (continued)

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Current				
Trade				
Trade receivables	90,712	66,905	-	-
Less: Allowance for doubtful debts	(1,858)	(2,258)	-	-
	88,854	64,647	-	-
Progress billings receivable	3,840	2,414	-	-
Amount due from ultimate holding company	5,870	2,780	-	-
Amount due from subsidiaries	-	-	620	615
Amount due from related companies	954	-	-	-
Amount due from associates	953	352	-	-
Amount due from related party	-	116	-	-
	11,617	5,662	620	615
Non-trade				
Amount due from ultimate holding company	1,233	1,482	-	-
Amount due from subsidiaries	-	-	42,015	35,643
Amount due from related companies	18	1,105	-	-
Other receivables	2,883	5,351	79	2,495
Deposits	349	294	-	-
Prepayments	1,756	2,644	-	-
	6,239	10,876	42,094	38,138
	<u>106,710</u>	<u>81,185</u>	<u>42,714</u>	<u>38,753</u>
	=====	=====	=====	=====

Company**Advances to a subsidiary**

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

Subsidiaries

The trade receivables due from subsidiaries are subject to the normal trade terms.

Included in the amount due from subsidiary in 2005 was an amount of RM94,000 which was subject to interest of 5% per annum with no fixed terms of repayment.

Notes to the financial statements (continued)

8. Receivables, deposits and prepayments (continued)

Group

Trade receivables denominated in currencies other than the functional currency comprised of:

	Group	
	2006 RM'000	2005 RM'000
Trade receivables denominated in USD	51,721	34,607
Trade receivables denominated in SGD	125	596
Trade receivables denominated in AUD	13,418	4,689
Trade receivables denominated in DKK	8,342	7,469
Trade receivables denominated in HKD	862	924
Trade receivables denominated in EURO	14	-
	=====	=====

Ultimate holding company

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

The trade receivables due from ultimate holding company are subject to normal trade terms. The non trade balance is unsecured, interest free with no fixed terms of repayment.

Notes to the financial statements (continued)

8. Receivables, deposits and prepayments (continued)

Related companies

The trade receivables due from related companies are subject to the normal trade terms.

The amount due from related companies is unsecured, interest free with no fixed terms of repayment.

Associates

The trade receivables due from associates are subject to the normal trade terms.

The amount due from associates is unsecured, interest free with no fixed terms of repayment.

Related party

The trade receivables due from related party are subject to the normal trade terms.

The amount due from a related party was interest free with no fixed terms of repayment.

Notes to the financial statements (continued)

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

	2006 RM'000	Group 2005 RM'000
Aggregate costs incurred to date	461,025	259,605
Add: Attributable profits less foreseeable losses	76,391	63,231
	<u>537,416</u>	<u>322,836</u>
Less: Progress billings	(434,956)	(195,963)
	<u>102,460</u>	<u>126,873</u>
Amount due to contract customers	33,866	20,385
	<u>136,326</u>	<u>147,258</u>
Contract work-in-progress	<u>136,326</u>	<u>147,258</u>
Amount due to contract customers	<u>33,866</u>	<u>20,385</u>

10. Inventories

	2006 RM'000	Group 2005 RM'000
At cost:		
Cranes	8,839	8,263
Crane components	46,409	32,781
Work-in-progress	23,630	16,354
	<u>78,878</u>	<u>57,398</u>
At net realisable value:		
Cranes	4,376	5,737
Crane components	7,289	9,715
	<u>90,543</u>	<u>72,850</u>
Carrying amount of inventories pledged as security for unutilised secured revolving credit	<u>2,296</u>	<u>3,780</u>

Notes to the financial statements (continued)

11. Cash and cash equivalents

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and bank balances	17,507	16,023	143	13
Deposit placed with licensed banks	9,701	1,541	-	-
	<u>27,208</u>	<u>17,564</u>	<u>143</u>	<u>13</u>
	=====	=====	=====	=====

12. Capital and reserves

Share capital

	Group		Company	
	Amount 2006 RM'000	Number of shares 2006 '000	Amount 2005 RM'000	Number of shares 2005 '000
Authorised:				
Ordinary shares*	500,000	500,000	500,000	500,000
Share split of RM1 each to RM0.50 each	-	500,000	-	-
	<u>500,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>500,000</u>
	=====	=====	=====	=====
Issued and fully paid:				
Ordinary shares				
On issue at 1 January*	50,000	50,000	50,000	50,000
Capitalisation of amount due to ultimate holding company*	10,000	10,000	-	-
	<u>60,000</u>	<u>60,000</u>	<u>50,000</u>	<u>50,000</u>
Share split of RM1 each to RM0.50 each	-	60,000	-	-
	<u>60,000</u>	<u>120,000</u>	<u>50,000</u>	<u>50,000</u>
Public issue	24,000	48,000	-	-
	<u>84,000</u>	<u>168,000</u>	<u>50,000</u>	<u>50,000</u>
	=====	=====	=====	=====

* Ordinary share of RM1 each.

Notes to the financial statements (continued)

12. Capital and reserves (continued)

During the year, the Company undertook the following:

- a) the issuance of 10,000,000 new ordinary shares of RM1 each at an issue price of RM1 per ordinary share via the capitalisation of amount due to MEB;
- b) share split from one (1) existing ordinary share held after the capitalisation of amount due to MEB of RM1 each into two (2) new ordinary shares of RM0.50 each thereby increasing the existing ordinary shares from 60,000,000 ordinary shares of RM1 each to 120,000,000 ordinary shares of RM0.50 each;
- c) an ESOS involving the granting of options to eligible Directors and employees of the Group to subscribe for shares up to 10% of the issued and paid up capital; and
- d) the issuance of 48,000,020 ordinary shares of RM0.50 each through public issue at an issue price of RM0.55 per ordinary share for cash, for the purposes as stated in the prospectus dated 30 June 2006.

The entire authorised and paid up share capital of the Company comprising 168,000,020 ordinary shares of RM0.50 each was listed and quoted on the Second Board of Bursa Malaysia Securities Berhad on 15 August 2006.

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

Translation reserve

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

Share option reserve

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

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its distributable reserves at 31 December 2006 if paid out as dividends.

Notes to the financial statements (continued)

13. Loans and borrowings

This 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 the Company's exposure to interest rate and foreign currency risk, see Note 26.

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-current				
Secured term loans	17,709	18,474	-	-
Unsecured term loans	8,700	-	8,700	-
Finance lease liabilities	869	509	-	-
	<u>27,278</u>	<u>18,983</u>	<u>8,700</u>	<u>-</u>
	-----	-----	-----	-----
Current				
Secured term loans	3,383	6,329	-	-
Unsecured term loans	6,078	-	6,000	-
Bank overdraft - secured	3,803	2,296	-	-
Bank overdrafts - unsecured	9,850	10,199	-	-
Secured revolving credit	-	1,323	-	-
Unsecured revolving credits	25,598	23,416	10,597	11,416
Unsecured insurance premium finance	606	772	-	-
Bills payable	75,841	73,302	-	-
Finance lease liabilities	492	225	-	-
	<u>125,651</u>	<u>117,862</u>	<u>16,597</u>	<u>11,416</u>
	-----	-----	-----	-----
	<u>152,929</u>	<u>136,845</u>	<u>25,297</u>	<u>11,416</u>
	=====	=====	=====	=====

Notes to the financial statements (continued)

13.Loans and borrowings (continued)

Group	Year of maturity	/-----2006-----			
		Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
Secured term loans					
- DKK	2013	2,612	1,271	217	748
- RM	2015	18,480	2,112	2,112	6,336
Unsecured term loans					
- RM	2009	14,700	6,000	6,000	2,700
- USD	2007	78	78	-	-
Secured bank overdraft					
- DKK	2007	3,803	3,803	-	-
Unsecured bank overdrafts					
- SGD	2007	5,207	5,207	-	-
- RM	2007	4,643	4,643	-	-
Secured revolving credit					
- USD	2006	-	-	-	-
Unsecured revolving credits					
- RM	2007	25,598	25,598	-	-
Unsecured insurance premium finance					
- AUD	2007	606	606	-	-
Bills payable	2007	75,841	75,841	-	-
Finance lease liabilities					
- AUD	2009	342	235	86	21
- RM	2012	894	236	240	376
- SGD	2013	125	21	22	64
		152,929	125,651	8,677	10,245
		152,929	125,651	8,677	10,245
Company					
Unsecured term loans					
- RM	2009	14,700	6,000	6,000	2,700
Unsecured revolving credit					
- RM	2007	10,597	10,597	-	-
		25,297	16,597	6,000	2,700
		25,297	16,597	6,000	2,700

-----//-----2005-----//-----					
Over 5 years RM'000	Carrying amount RM'000	Under 1 years RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
376	4,217	4,217	-	-	-
7,920	20,586	2,112	2,112	6,336	10,026
-	-	-	-	-	-
-	-	-	-	-	-
-	2,296	2,296	-	-	-
-	5,503	5,503	-	-	-
-	4,696	4,696	-	-	-
-	1,323	1,323	-	-	-
-	23,416	23,416	-	-	-
-	772	772	-	-	-
-	73,302	73,302	-	-	-
-	434	163	227	44	-
42	143	62	35	46	-
18	157	-	23	134	-
<u>8,356</u>	<u>136,845</u>	<u>117,862</u>	<u>2,397</u>	<u>6,560</u>	<u>10,026</u>
=====	=====	=====	=====	=====	=====
-	-	-	-	-	-
-	11,416	11,416	-	-	-
<u>-</u>	<u>11,416</u>	<u>11,416</u>	<u>-</u>	<u>-</u>	<u>-</u>
=====	=====	=====	=====	=====	=====

Notes to the financial statements (continued)

13. Loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2006			Minimum lease payments 2005		
	RM'000	Interest 2006 RM'000	Principal 2006 RM'000	RM'000	Interest 2005 RM'000	Principal 2005 RM'000
Less than one year	546	(54)	492	251	(26)	225
Between one and five years	899	(90)	809	581	(72)	509
More than five years	66	(6)	60	-	-	-
	1,511	(150)	1,361	832	(98)	734

Term loans

The unsecured term loan of the Company is backed by the corporate guarantee from the ultimate holding company and negative pledge over the current assets and future assets of the Company.

The secured term loans of certain subsidiaries are charged against their freehold land, buildings, plant and equipment (Note 3) and are backed by the corporate guarantee from the ultimate holding company.

Bank overdrafts

The secured bank overdraft of a subsidiary is charged against its freehold land, buildings, plant and equipment (Note 3) and is backed by the corporate guarantee from the ultimate holding company.

The unsecured bank overdrafts of certain subsidiaries are backed by the ultimate holding company.

Revolving credits

The revolving credit of the Company is backed by the ultimate holding company and are utilised by a subsidiary.

The revolving credits of certain subsidiaries are backed by the ultimate holding company.

Notes to the financial statements (continued)

14. Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Property, plant and equipment	-	(572)	2,615	1,707	2,615	1,135
Other items	(1,958)	(954)	1,667	1,619	(291)	665
Tax loss carry-forwards	-	(349)	-	-	-	(349)
Net tax (assets) / liabilities	(1,958)	(1,875)	4,282	3,326	2,324	1,451

Unrecognised deferred tax assets

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

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deductible temporary differences	10,161	9,095	-	-
Tax loss carry-forwards	16,550	20,366	-	-
	26,711	29,461	-	-

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 there from.

Movement in temporary differences during the year

Group	At 1.1.2005 RM'000	Recognised in income statement (Note 22) RM'000	At 31.12.2005 RM'000	Recognised in income statement (Note 22) RM'000	At 31.12.2006 RM'000
	Property, plant and equipment	647	488	1,135	1,480
Other items	-	665	665	(956)	(291)
Tax loss carry-forwards	(634)	285	(349)	349	-
	13	1,438	1,451	873	2,324

Notes to the financial statements (continued)

15. Long term advances due to ultimate holding company

The advances from the ultimate holding company were non-trade in nature, unsecured, interest free and had no fixed terms of repayment.

16. Provisions

Group	Warranties RM'000	Restructuring RM'000	Total RM'000
At 1 January 2006	6,467	3,939	10,406
Provision made during the year	2,631	-	2,631
Provision used during the year	(875)	(3,038)	(3,913)
Provision reversed during the year	(3,806)	(748)	(4,554)
Exchange of movements in exchange rates	28	-	28
At 31 December 2006	4,445	153	4,598
	=====	=====	=====

Warranties

The provision for warranties relates to defect rectifications for manufactured cranes sold. This provision is made based on historical track records at a fixed rate. The defect liability period varies from 12 months to 36 months.

Restructuring

In 2004, a provision of RM5,832,000 was made for the Group's restructuring plan. The estimated costs were based on a detailed and formal plan. The related plans were announced in 2004.

17. Payables and accruals

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade				
Trade payables	80,485	88,927	-	-
Amount due to ultimate holding company	6	-	-	-
Amount due to related companies	1,468	1,209	-	-
Amount due to associate	505	-	-	-
	82,464	90,136	-	-
	=====	=====	=====	=====

Notes to the financial statements (continued)

17. Payables and accruals (continued)

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-trade				
Amount due to ultimate holding company	-	7,427	-	-
Amount due to subsidiary	-	-	7,530	7,590
Amount due to related companies	146	3,052	-	-
Amount due to associate	-	50	-	50
Other payables	4,507	7,705	2	2
Accrued expenses	38,195	17,562	107	36
	42,848	35,796	7,639	7,678
	<u>125,312</u>	<u>125,932</u>	<u>7,639</u>	<u>7,678</u>
	=====	=====	=====	=====

Trade payables denominated in currencies other than the functional currency are as follows:-

	Group	
	2006 RM'000	2005 RM'000
Trade payables denominated in AUD	13,095	16,302
Trade payables denominated in SGD	2,549	18,103
Trade payables denominated in DKK	6,998	6,050
Trade payables denominated in EUR	2,491	3,313
Trade payables denominated in USD	32,490	1,602
Trade payables denominated in YEN	95	97
Trade payables denominated in GBP	498	942
Trade payables denominated in RMB	3,925	-
	=====	=====

Company***Subsidiary***

The amount due to a subsidiary is unsecured with no fixed terms of repayment and bears interest at 9% (2005 - 9.0%) per annum.

Notes to the financial statements (continued)

17. Payables and accruals (continued)

Associate

The amount due to an associate was unsecured, interest free with no fixed terms of repayment.

Group

Ultimate holding company

The amount due to ultimate holding company is unsecured, interest free with no fixed terms of repayment.

Related companies

The amount due to related companies is interest free, unsecured with no fixed terms of repayment.

Associate

The amount due to an associate is unsecured, interest free with no fixed terms of repayment.

18. Employee benefits

Share-based payments

An employees' share option scheme was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 19 May 2006.

The following options were granted under the ESOS scheme of the Company to the eligible employees including directors of the Company and its subsidiaries:

ESOS Scheme	Date of offer	Number of options over ordinary shares of RM0.50 each	Exercise price RM	Expiry date
ESOS Scheme	30.6.2006	11,804,000	0.55	29.6.2011

Notes to the financial statements (continued)

18. Employee benefits (continued)

The number and exercise prices of share options are as follows:

	Group	
	Exercise price RM	Number of options '000
Outstanding at 1 January		-
Granted during the year	0.55	11,804
Retracted/Forfeited during the year*	0.55	(322)
Outstanding at 31 December		11,482
		=====

* Due to non-acceptance and resignation.

The options outstanding at 31 December 2006 have an exercise price of RM0.55 and a contractual life of 5 years.

During the year, no share option was exercised.

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:

Fair value of share options and assumptions

Fair value at grant date	RM0.17 – RM0.22
Exercise price	RM0.55
Expected volatility (weighted average volatility)	38%
Option life	5 years
Risk-free interest rate (based on Malaysian Government bonds)	4.48% - 4.57%
Expected staff turnover	20%
	=====

Value of employee services received for issue of share options

	2006 RM'000
Share options granted in 2006	457
Total expense recognised as share-based payments	457
	=====

Notes to the financial statements (continued)

19. Revenue

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Contract revenue	289,134	280,854	-	-
Sales of goods	36,654	30,353	-	-
Services rendered	32,168	24,439	-	-
Dividends	-	-	6,610	8,901
	<u>357,956</u>	<u>335,646</u>	<u>6,610</u>	<u>8,901</u>
	=====	=====	=====	=====

20. Cost of sales

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Contract costs	263,188	260,592	-	-
Sales of goods	19,028	15,196	-	-
Services rendered	17,472	9,405	-	-
	<u>299,688</u>	<u>285,193</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====

21. Operating profit

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Operating profit is arrived at after crediting:					
Allowance for doubtful debts written back		-	189	-	-
Dividend income from unquoted shares of subsidiaries		-	-	6,610	8,901
Net realised foreign exchange gain		-	2,040	2,623	-
Net unrealised foreign exchange gain		436	-	-	-
Gain on disposal of property, plant and equipment		760	-	-	-
Rental income on premises		738	568	-	-
Rental income on cranes		17,035	16,819	-	-
Reversal of provision for warranties	16	3,806	1,349	-	-
Reversal of provision for restructuring	16	748	845	-	460
Reversal of allowance for slow moving inventories		924	440	-	-
Write back of inventories written off		1,272	-	-	-
		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Notes to the financial statements (continued)

21. Operating profit (continued)

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
and after charging:					
Allowance for doubtful debts		543	329	11	6,000
Allowance for slow moving inventories		3,524	955	-	-
Auditors' remuneration:					
- holding company's auditors		125	104	34	34
- other auditors		224	201	-	-
Amortisation of development costs	4	2,424	2,011	-	-
Amortisation of intellectual property	4	252	252	110	110
Depreciation of property, plant and equipment	3	7,763	7,832	99	129
Depreciation of investment property	5	-	-	30	-
Goodwill written off		-	571	-	-
Directors'					
- fees		166	225	130	91
- remuneration		773	469	625	433
Inventories written off		210	-	-	-
Net realised foreign exchange loss		1,191	-	-	-
Net unrealised foreign exchange loss		-	2,792	2,428	1,169
Loss on disposal of property, plant and equipment		-	27	-	-
Property, plant and equipment written off		647	-	-	-
Provision for warranties	16	2,631	4,498	-	-
Rental expense on:					
- cranes		5,652	4,115	-	-
- premises		482	412	-	-
- equipments		926	997	-	-
		=====	=====	=====	=====

Notes to the financial statements (continued)

22. Tax expense

Major components of tax expense include:

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Current tax expense:				
Malaysia - current	432	930	-	-
- prior years	(464)	(670)	-	-
	(32)	260	-	-
Overseas - current	237	-	-	-
	—	—	—	—
Total current tax recognised in the income statement	205	260	-	-
Deferred tax expense:				
Originating and reversal of temporary differences	820	1,138	-	-
Underprovision in prior years	53	300	-	-
Total deferred tax recognised in the income statement	873	1,438	-	-
	—	—	—	—
Total tax expense	1,078	1,698	-	-
	=====	=====	=====	=====
Profit for the year	9,868	7,180	3,273	365
Total tax expense	1,078	1,698	-	-
	—	—	—	—
Profit excluding tax	10,946	8,878	3,273	365
	=====	=====	=====	=====

Notes to the financial statements (continued)

22. Tax expense (continued)

	Group		Company	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Tax at Malaysian tax rate of 28%	3,065	2,487	917	102
Effect of different tax rates in foreign jurisdictions	64	(212)	-	-
Effect of change in tax rates	(26)	-	-	-
Non-deductible expenses	3,245	1,449	8,665	2,520
Non-taxable income	(1,525)	(129)	(7,731)	(129)
Tax exempt income	(512)	(5,699)	(1,851)	(2,493)
Tax incentives	(72)	-	-	-
Effect of utilisation of deferred tax assets previously not recognised	(2,750)	(289)	-	-
Effect of deferred tax assets not recognised	-	4,461	-	-
Overprovided in prior years	(411)	(370)	-	-
Tax expense	1,078	1,698	-	-

Notes to the financial statements (continued)

22. Tax expense (continued)

With effect from year of assessment 2007, the corporate tax rate is at 27%. The Malaysian budget 2007 also announced the reduction of corporate tax rate to 26% in 2008. Consequently deferred tax assets and liabilities are measured using these tax rates.

23. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share was based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2006 RM'000	2005 RM'000
Profit for the year attributable to ordinary shareholders	9,868	7,180

Weighted average number of ordinary shares

	Group	
	2006 '000	2005 '000
Issued ordinary shares at 1 January	50,000	50,000
Effect of ordinary shares issued in May 2006	6,137	-
Effect of share split in May 2006	60,000	50,000
Effect of ordinary shares issued in August 2006	18,937	-
	<u>135,074</u>	<u>100,000</u>

Notes to the financial statements (continued)

23. Earnings per ordinary share (continued)

	Group	
	2006	2005
Basic earnings per ordinary share (in Sen)	7.31 =====	7.18 =====

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:-

	Group	
	2006 RM'000	2005 RM'000
Profit for the year attributable to ordinary shareholders	9,868 =====	7,180 =====

Weighted average number of ordinary shares (diluted)

	Group	
	2006 '000	2005 '000
Weighted average number of ordinary shares at 31 December	135,074	100,000
Effect of share option on issue	3,608	-
	----- 138,682 =====	----- 100,000 =====

Notes to the financial statements (continued)

23. Earnings per ordinary share (continued)

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

	Group	
	2006	2005
Diluted earnings per ordinary share (in Sen)	7.11 =====	7.18 =====

24. Dividends

After the balance sheet date, the Directors proposed a first and final dividend and the dividend will be recognised in the subsequent financial reports upon approval by the shareholders.

	Sen per share (tax exempt)	Total amount RM'000
First and final ordinary	1.75 =====	2,940 =====

Notes to the financial statements (continued)

25. Segmental reporting

Segment information is presented in respect of the Group's geographical segments. The primary format, geographical segments is based on the Group's management and internal reporting structure. Inter-segments pricing is determined based on negotiated terms.

The Group operates only in one business segment. Accordingly, information by business segments is not presented.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses.

Geographical segments

The Group's business is managed on a worldwide basis with its head office in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

Notes to the financial statements (continued)

25. Segmental reporting (continued)

	Inside Malaysia		Outside Malaysia		Elimination		Consolidated	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Geographical segments								
Revenue from								
external customers	151,376	127,577	206,580	208,069	-	-	357,956	335,646
Inter-segment revenue	108,227	72,698	116,431	48,559	(224,658)	(121,257)	-	-
Total revenue	<u>259,603</u>	<u>200,275</u>	<u>323,011</u>	<u>256,628</u>	<u>(224,658)</u>	<u>(121,257)</u>	<u>357,956</u>	<u>335,646</u>
Operating profit/(loss)	14,345	19,040	9,464	(1,423)	(5,549)	(3,466)	18,260	14,151
Interest expense	(7,534)	(4,574)	(1,570)	(3,148)	1,569	2,345	(7,535)	(5,377)
Interest income	(35)	4	2,019	2,376	(1,567)	(2,198)	417	182
Share of loss of associates	(196)	(2)	-	(76)	-	-	(196)	(78)
Profit/(loss) before taxation	<u>6,580</u>	<u>14,468</u>	<u>9,913</u>	<u>(2,271)</u>	<u>(5,547)</u>	<u>(3,319)</u>	<u>10,946</u>	<u>8,878</u>
Segment assets	409,325	341,297	254,835	259,057	(230,007)	(209,775)	434,153	390,579
Investments in associates	116	312	-	-	-	-	116	312
Total assets	<u>409,441</u>	<u>341,609</u>	<u>254,835</u>	<u>259,057</u>	<u>(230,007)</u>	<u>(209,775)</u>	<u>434,269</u>	<u>390,891</u>
Segment liabilities	<u>278,819</u>	<u>250,150</u>	<u>207,114</u>	<u>272,582</u>	<u>(166,787)</u>	<u>(202,192)</u>	<u>319,146</u>	<u>320,540</u>

Notes to the financial statements (continued)

26. Financial instruments

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Group and the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored by strictly limiting the Group's association only to business partners with high creditworthiness.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and for the Company is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The Group's and the Company's income and operating cash flows are exposed to a risk of change in their fair value due to changes in interest rates. Interest rate exposure arises from the Group's and the Company's borrowings and deposits, and is managed through the use of fixed and floating rate debts.

Foreign currency

The Group and the Company are exposed to currency risk as a result of transactions entered into by subsidiaries in currencies other than Ringgit Malaysia.

Notes to the financial statements (continued)

26. Financial instruments (continued)

The Group uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The currencies giving rise to this risk are mainly US dollars, the EURO, AUD dollars, SGD dollars, DKK Kroner, HK dollars, Japanese Yen, Pound Sterling and RMB.

The subsidiaries do not have a fixed policy to hedge their sales and purchases in forward contracts. However, the exposure to foreign currency risk is mitigated via borrowing and purchases in the same currency of the revenue receivable.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group and the Company aim at maintaining flexibility in funding by keeping committed credit lines available. In addition, the Group and the Company ensure that the amount of debt maturing in any one year is not beyond the Group's and the Company's means to repay and/or refinance.

Notes to the financial statements (continued)

26. Financial instruments (continued)

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest bearing financial liabilities, the following table indicates their average effective interest rate at the balance sheet date and the period in which they mature, or if earlier, reprice.

Group 2006	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	Over 5 years RM'000
Fixed rate instruments								
Unsecured term loan								
- USD	12.25	78	78	-	-	-	-	-
Finance lease liabilities								
- AUD	4.25	342	235	86	21	-	-	-
- RM	2.53	894	236	240	180	117	79	42
- SGD	3.00	125	21	22	21	21	22	18
Floating rate instruments								
Secured term loan								
- DKK	5.68	2,612	1,271	217	217	218	313	376
- RM	5.45	18,480	2,112	2,112	2,112	2,112	2,112	7,920
Unsecured term loan								
- RM	6.50	14,700	6,000	6,000	2,700	-	-	-
Unsecured insurance premium finance								
- AUD	2.55	606	606	-	-	-	-	-
Unsecured revolving credits								
- RM	6.20	25,598	25,598	-	-	-	-	-
Secured bank overdraft								
- DKK	7.00	3,803	3,803	-	-	-	-	-
Unsecured bank overdrafts								
- SGD	9.20	5,207	5,207	-	-	-	-	-
- RM	7.64	4,643	4,643	-	-	-	-	-
Bills payable	5.30	75,841	75,841	-	-	-	-	-
		<u>152,929</u>	<u>125,651</u>	<u>8,677</u>	<u>5,251</u>	<u>2,468</u>	<u>2,526</u>	<u>8,356</u>
Fixed rate instruments								
Deposit	5.20	9,701	9,701	-	-	-	-	-

Notes to the financial statements (continued)

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

Group 2005	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	Over 5 years RM'000
Fixed rate instruments								
Secured revolving credit								
- USD	9.25	1,323	1,323	-	-	-	-	-
Finance lease liabilities								
- AUD	4.25	434	163	227	44	-	-	-
- RM	4.68	143	62	35	28	10	8	-
- SGD	3.00	157	-	23	23	23	88	-
Floating rate instruments								
Secured term loan								
- DKK	5.84	4,217	4,217	-	-	-	-	-
- RM	4.76	20,586	2,112	2,112	2,112	2,112	2,112	10,026
Unsecured insurance premium finance								
- AUD	3.13	772	772	-	-	-	-	-
Unsecured revolving credits								
- RM	5.70	23,416	23,416	-	-	-	-	-
Secured bank overdraft								
- DKK	7.50	2,296	2,296	-	-	-	-	-
Unsecured bank overdrafts								
- SGD (unsecured)	9.20	5,503	5,503	-	-	-	-	-
- RM (unsecured)	7.64	4,696	4,696	-	-	-	-	-
Bills payables	3.26	73,302	73,302	-	-	-	-	-
		<u>136,845</u>	<u>117,862</u>	<u>2,397</u>	<u>2,207</u>	<u>2,145</u>	<u>2,208</u>	<u>10,026</u>
Fixed rate instruments								
Deposit								
	4.10	<u>1,541</u>	<u>1,541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

26. Financial instruments (continued)

Fair values

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

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

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

Group	2006 Carrying amount RM'000	2006 Fair value RM'000	2005 Carrying amount RM'000	2005 Fair value RM'000
Financial liabilities				
Secured term loan	21,092	21,092	24,803	24,803
Unsecured term loans	14,778	14,778	-	-
Long term advances due to holding company	-	-	25,521	25,521
	=====	=====	=====	=====

Notes to the financial statements (continued)

26. Financial instruments (continued)

Unrecognised financial instruments

Forward foreign exchange contracts

The outstanding foreign exchange forward contracts not recognised in the balance sheet at 31 December 2006 with maturity date within 1 year are as follows:

<i>Group</i>	2006 Contracted amount USD'000	2006 Fair value RM'000	2005 Contracted amount USD'000	2005 Fair value RM'000
Forward foreign exchange contracts (Selling)	17,244	57	-	-

Any difference arising from the movement in the currencies of the above forward foreign exchange contracts would be deferred until the related receipts or payments. However, if such receipts or payments do not occur, the difference at the maturity of these forward foreign exchange contracts would be recognised in the income statement. All gain and losses are dealt with through the income statement upon realisation. There is minimal credit and market risk because the contracts are hedged with reputable banks.

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

Notes to the financial statements (continued)

27. Contingent liabilities – unsecured

	Company	
	2006 RM'000	2005 RM'000
Corporate guarantee for credit facilities granted to subsidiaries	24,533	-
Performance guarantee granted to subsidiaries	95,164	-
	<u>119,697</u>	<u>-</u>
	=====	=====

28. Related parties

Identity of related parties

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

The Group has a related party relationship with its ultimate holding company, subsidiaries (see Note 5), related companies, associates and Directors.

Notes to the financial statements (continued)

28. Related parties (continued)

Significant transactions with related parties:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ultimate holding company				
Purchase of property, plant and equipment	1,227	161	-	-
Purchase of goods	1,415	769	-	-
Rental expense payable	1,181	1,277	-	-
Rental income receivable	(187)	-	-	-
Sale of goods	(19,708)	(4,505)	-	-
Subcontract cost payable	500	200	-	-
	=====	=====	=====	=====
Subsidiaries				
Dividend income receivable	-	-	6,610	8,901
Interest expense payable	-	-	928	955
	=====	=====	=====	=====
Related companies				
Sale of goods	(1,161)	-	-	-
Rental expense payable	252	-	-	-
Purchase of goods	2,867	296	-	-
Subcontract cost payable	-	317	-	-
	=====	=====	=====	=====
Associates				
Rental income	(39)	(95)	-	-
Rental expense payable	968	-	-	-
Sale of goods and services	(857)	(828)	-	-
Purchase of goods and services	253	-	-	-
	=====	=====	=====	=====

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

Notes to the financial statements (continued)

29. Significant events

With the approval from the Securities Commission on 24 March 2006 and the approval from shareholders of Muhibbah Engineering (M) Bhd. on 19 May 2006, the Company was officially listed on the Second Board of Bursa Malaysia Securities Berhad on 15 August 2006.

On 28 February 2007, the Board of Directors of the Company via the fourth quarter interim financial report for the financial year ended 31 December 2006, made a public release to the Bursa Malaysia Securities Berhad of their intention to make an application to the Securities Commission for the transfer of existing listing status of the Company from the Second Board to Main Board of Bursa Malaysia Securities Berhad.

30. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation requirements of FRS 101 and FRS 127.

	Group	
	As restated RM'000	As previously stated RM'000
Consolidated income statement		
Share of loss of associates	(78)	(73)
Profit before tax	8,878	8,883
Tax expenses	(1,698)	(1,703)
	=====	=====

Group Properties As At 31 December 2006

No.	Location	Description /Existing Use	Year of Acquisition
1.	4 Mile East, FM 106, Port of Harlingen Harlingen, Texas, 78551-3049, USA.	Office building cum manufacturing plant	1997
2.	Lot Nos. 31792 & 31814, Town of Senawang, District of Seremban, Negeri Sembilan.	Factory building with office block	2005
3.	7AL, Nordkranvej, 2 3540, Lyngø DK Denmark	Factory building with office block	1986

Tenure/ Expiry Date	Owner	Land Area	Age of Building	Carrying Value RM'000
Leasehold expiring 2031	Favelle Favco Berhad	17.826 acres	9 years	1,435
Freehold	Favelle Favco Cranes (M) Sdn. Bhd.	68,846 sq. m.	2 years	27,236
Freehold	Krøll Cranes A/S	59,525 sq. m.	37 years	4,305
Total properties				<u>32,976</u> =====

Analysis of Shareholdings As At 2 May 2007

Share Capital

Authorised share capital	: RM500 million
Issued and fully paid-up capital	: RM84,000,010
Class of shares	: Ordinary shares of RM0.50 each
Voting rights	: One vote per ordinary share

Distribution of shareholdings of ordinary shares

Size of Holdings	No of holders	% of holders	No. of shares held	% of issued capital
Less than 100	8	0.31	247	0.00
100 to 1,000	897	34.47	733,020	0.44
1,001 to 10,000	1,276	49.04	5,476,667	3.26
10,001 to 100,000	352	13.53	11,026,763	6.56
100,001 to 8,400,000	68	2.61	52,763,323	31.41
8,400,001 and above	1	0.04	98,000,000	58.33
TOTAL	2,602	100.00	168,000,020	100.00

DIRECTORS' SHAREHOLDINGS AS PER REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 2 MAY 2007

Shares in the Company

Name of Directors	Direct interests (No. of shares)	% of issued capital	Deemed interests (No. of shares)	% of issued capital
1. Tuan Haji Mohamed Taib bin Ibrahim	2,945,671	1.75	-	-
2. Mac Ngan Boon @ Mac Yin Boon	6,992,913 ⁽¹⁾	4.16	98,000,000 ⁽²⁾	58.33
3. Mac Chung Hui	1,112,000 ⁽³⁾	0.66	-	-
4. Lee Poh Kwee	70,000 ⁽⁴⁾	0.04	-	-
5. Mazlan bin Abdul Hamid	1,215,000 ⁽⁵⁾	0.72	-	-

Analysis of Shareholdings As At 2 May 2007 (continued)

Share Capital (continued)

Shares in the Company (continued)

Name of Directors	Direct interests (No. of shares)	% of issued capital	Deemed interests (No. of shares)	% of issued capital
6. Tan Sri A. Razak bin Ramli	500,000 ⁽⁶⁾	0.30	-	-
7. Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor	300,000 ⁽⁷⁾	0.18	-	-

Note:

- (1) 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd
- (2) Deemed interested pursuant to Section 6A of the Act by virtue of his substantial interests in MEB.
- (3) 400,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd
- (4) 70,000 shares held through RHB Capital Nominees (Tempatan) Sdn Bhd
- (5) 1,195,000 shares held through EB Nominees (Tempatan) Sdn Bhd
- (6) 500,000 shares held through EB Nominees (Tempatan) Sdn Bhd
- (7) 300,000 shares held through EB Nominees (Tempatan) Sdn Bhd

Shares in the related corporation

There is no change in the deemed interest of directors in related corporation as disclosed in the Directors' Report for the year ended 31 December 2006 on page 37 and 38 of this annual report.

Options in the Company

There is no change in the employee share options held by the directors in the Company as disclosed in the Directors' Report for the year ended 31 December 2006 on page 38 of this annual report.

Substantial Shareholdings As At 2 May 2007

Name	Direct interests (No. of shares)	% of issued capital	Deemed interests (No. of shares)	% of issued capital
1. Muhibbah Engineering (M) Bhd	98,000,000	58.33	-	-
2. Mac Ngan Boon @ Mac Yin Boon	6,992,913 ⁽¹⁾	4.16	98,000,000 ⁽²⁾	58.33

Note:

- (1) 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd
- (2) Deemed interested pursuant to Section 6A of the Act by virtue of his substantial interests in MEB.

Analysis of Shareholdings As At 2 May 2007 (continued)

List of thirty (30) largest shareholders of ordinary shares

No.	Name of Shareholders	No. of Shares	%
1	Muhibbah Engineering (M) Bhd	98,000,000	58.3333
2	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Jersey)	5,721,000	3.4054
3	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	5,264,000	3.1333
4	Koperasi Permodalan FELDA Berhad	4,200,000	2.5000
5	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati Binti Hassan	3,470,123	2.0656
6	Nik Ibrahim Kamil Bin Nik Ahmad Kamil	3,388,922	2.0172
7	Baharuddin Bin Ali	3,113,294	1.8532
8	Mohamed Taib Bin Ibrahim	2,430,200	1.4465
9	Cartaban Nominees (Asing) Sdn Bhd State Street Luxembourg Fund AA30 For Allianz Global Investors Selections RCM Malaysia Fund	2,219,600	1.3212
10	Mac Ngan Boon @ Mac Yin Boon	1,728,913	1.0291
11	Cartaban Nominees (Asing) Sdn Bhd State Street London Fund U8T8 For AIG Southeast Asia Small Companies Fund	1,479,400	0.8806
12	Ooi Sen Eng	1,326,000	0.7893
13	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Al-Faid	1,300,000	0.7738
14	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mazlan Bin Abdul Hamid	1,195,000	0.7113
15	Orec Engineering Holdings Pty Ltd	900,000	0.5357
16	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chew Keng Siew	800,000	0.4762

Analysis of Shareholdings As At 2 May 2007 (continued)

List of thirty (30) largest shareholders of ordinary shares (continued)

No.	Name of Shareholders	No. of Shares	%
17	Azhar Ahmad Construction Sdn. Bhd.	750,150	0.4465
18	Mac Chung Hui	712,000	0.4238
19	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Progress Fund	680,000	0.4048
20	PM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lim Chai Beng (H)	609,000	0.3625
21	Mohamed Taib Bin Ibrahim	515,471	0.3068
22	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For A.Razak Bin Ramli	500,000	0.2976
23	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Hui	400,000	0.2381
24	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Lynn	400,000	0.2381
25	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Jin	400,000	0.2381
26	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Raja Ahmad Zainuddin Bin Raja Haji Omar	400,000	0.2381
27	Mayban Nominees (Tempatan) Sdn Bhd Mayban Trustees Berhad For MAAKL Value Fund	387,500	0.2307
28	Lim Kim Bian	376,900	0.2243
29	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Growth Fund	350,000	0.2083
30	Rosley Bin Abdul Rahman	329,700	0.1963
		143,347,173	85.3257

Proxy Form

I/We _____ NRIC No: [New] _____ [Old] _____
(Full Name in Capital Letters)

of _____ (Address)

being a member/members of Favelle Favco Berhad, hereby appoint _____ (Full Name)

_____ NRIC No: [New] _____ [Old] _____

of _____ (Address)

or failing whom _____ NRIC No: [New] _____ [Old] _____
(Address)

of _____ (Address)

as *my/*our proxy to vote for *me/*us on *my/*our behalf at the Fifteenth Annual General Meeting of Favelle Favco Berhad ("FFB") which is to be held at Rebana 3, Level 1, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Section 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 25 June 2007 at 10.00 a.m. and at any adjournment thereof.

*My/*Our proxy(ies) is/are to vote as indicated below:-

Agenda	Resolution	For	Against
To receive the Audited Financial Statements for the financial year ended 31 December 2006 and the Reports of the Directors and Auditors thereon.	1		
To approve a First and Final Tax Exempt dividend of 1.75 sen per share in respect of the financial year ended 31 December 2006.	2		
To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2006.	3		
To fix the annual fees for the Directors at an amount of not exceeding RM700,000 in aggregate.	4		
To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association:- (i) Mr. Mac Chung Hui (ii) Ms. Lee Poh Kwee	5 6		
To consider, and if thought fit, pass the following resolution:- "THAT Tuan Haji Mohamed Taib bin Ibrahim, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-elected as a Director of the Company in accordance with Section 129(6) of the Companies Act, 1965 and to hold office until the conclusion of the next Annual General Meeting."	7		
To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.	8		
Special Business : Ordinary Resolution - Authority to allot shares pursuant to Section 132D of the Companies Act, 1965.	9		

Please indicate with an "X" how you wish your vote to be cast in respect of each resolution. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

Signed this _____ day of _____ 2007

No. of shares held _____
[* Delete if not applicable]

Signature/ Common seal of the shareholder(s)

NOTES:-

- A member entitled to attend and vote at this Meeting is entitled to appoint proxy/proxies to attend and vote in his/her stead. Proxy/proxies may but need not be a member/members of the Company and the provisions of Section 149(1)(b) shall not apply to the Company.
- When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy must be deposited at the Registered Office at Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

Affix
Stamp
Here

REGISTERED OFFICE

Favelle Favco Berhad (249243-W)

Lot 586, 2nd Mile, Jalan Batu Tiga Lama,
41300 Klang, Selangor Darul Ehsan,
Malaysia
