Favelle Favco Berhad and its subsidiaries

Company No. 249243-W (Incorporated in Malaysia)

# ANNUAL REPORT 2007

A MEMBER OF MUHIBBAH ENGINEERING (M) BHD

# Corporate Information

## 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

Tuan Haji Mohamed
Taib bin Ibrahim (Chairman)

Tan Sri A. Razak bin Ramli

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

Lee Poh Kwee

Mazlan bin Abdul Hamid

**Company Secretaries**
See Siew Cheng (MAICSA 7011225)
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
Malaysia
Telephone no.: (603) 3349 5465
Facsimile no. : (603) 3342 9807

**Auditors**
KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Malaysia

**Principal Bankers**
Ambank (Malaysia) Berhad
Citibank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
United Overseas Bank
(Malaysia) Berhad

**Share Registrar**
Tenaga Koperat Sdn Bhd
G-01 Ground Floor, Plaza Permata
Jalan Kampar Off Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Telephone no. : (603) 4047 3883
Facsimile no. : (603) 4042 6352

**Investor Relations**
Tel : (603) 3349 5444 / 5435
Fax : (603) 3344 6302
E-mail: ir@favellefavco.com.my

**Stock Exchange Listing**
Main Board of Bursa Malaysia
Securities Berhad
Stock Name: Favco
Bursa 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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# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Sixteenth Annual General Meeting of Favelle Favco Berhad will be held at Rebana 1, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 19 June 2008 at 10.00 a.m. for the following purposes:

**Agenda**

**As Ordinary Business**

| | |
|---|---|
| To receive the Audited Financial Statements for the financial year ended 31 December 2007 and the Reports of the Directors and Auditors thereon. | Resolution 1 |
| To approve a First and Final Dividend of 6.5% less 26% income tax per share in respect of the financial year ended 31 December 2007. | Resolution 2 |
| To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association: | |
| a. En Mazlan bin Abdul Hamid | Resolution 3 |
| b. Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Resolution 4 |
| c. Tan Sri A. Razak bin Ramli | Resolution 5 |
| To consider and, if thought fit, to 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-appointed 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 6 |
| To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | Resolution 7 |

# NOTICE OF ANNUAL GENERAL MEETING (continued)

**As Special Business**

To consider and, if thought fit, to pass the following resolutions:-

**ORDINARY RESOLUTION 1**

**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 Directors be and are hereby empowered to allot and issue shares in 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 ten per centum (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 the 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 8

**ORDINARY RESOLUTION 2**

**Proposed Renewal of Share Buy-Back Authority**

"THAT subject to the Company's compliance with all applicable rules, regulations, orders and guidelines made pursuant to the Companies Act, 1965, the provisions of the Company's Memorandum and Articles of Association and the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the approvals of all other relevant governmental and/or regulatory authorities, the Company be and is hereby authorised, to the fullest extent permitted by law, to buyback and/or hold from time to time and at any time such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interests of the Company ("Proposed Share Buy-Back") provided that: Resolution 9

# NOTICE OF ANNUAL GENERAL MEETING (continued)

i. The maximum number of shares which may be purchased and/or held by the Company at any point of time pursuant to the Proposed Share Buy-Back shall not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company for the time being quoted on Bursa Securities provided always that in the event that the Company ceases to hold all or any part of such shares as a result of, amongst others, cancellation of shares, sale of shares on the market of Bursa Securities or distribution of treasury shares to shareholders as dividend in respect of shares bought back under the previous shareholders' mandate for share buy-back which was obtained at the Annual General Meeting held on 25 June 2007, the Company shall be entitled to further purchase and/or hold such additional number of shares as shall (in aggregate with the shares then still held by the Company) not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company for the time being quoted on Bursa Securities; Resolution 9

ii. The maximum amount of funds to be allocated by the Company pursuant to the Proposed Share Buy-Back shall not exceed the sum of Retained Earnings and the Share Premium Account of the Company based on its latest audited financial statements available up to the date of a transaction pursuant to the Proposed Share Buy-Back. As at 31 December 2007, the audited Retained Earnings and Share Premium Account of the Company were RM7,079,000 and RM974,000 respectively; and

iii. The shares purchased by the Company pursuant to the Proposed Share Buy-Back may be dealt with by the Directors in all or any of the following manner:

a. the shares so purchased may be cancelled; and/or
b. the shares so purchased may be retained in treasury for distribution as dividend to the shareholders and/or resold on the market of Bursa Securities and/or subsequently cancelled; and/or
c. part of the shares so purchased may be retained as treasury shares with the remainder being cancelled.

AND THAT such authority shall commence upon the passing of this resolution, until the conclusion of the next Annual General Meeting of the Company or the expiry of the period within which the next Annual General Meeting is required by law to be held unless revoked or varied by Ordinary Resolution of the shareholders of the Company in general meeting but so as not to prejudice the completion of a purchase made before such expiry date;

AND THAT the Directors of the Company be and are hereby authorised to take all steps as are necessary or expedient to implement or to give effect to the Proposed Share Buy-Back with full powers to amend and/or assent to any conditions, modifications, variations or amendments (if any) as may be imposed by the relevant governmental and/or regulatory authorities from time to time and with full power to do all such acts and things thereafter in accordance with the Companies Act, 1965, the provisions of the Company's Memorandum and Articles of Association and the Listing Requirements of Bursa Securities and all other relevant governmental and/or regulatory authorities." Resolution 9

**ORDINARY RESOLUTION 3**
**Proposed Renewal of Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature (''Proposed Shareholders' Mandate'')**

"THAT the Company and/or its subsidiaries be and is/are hereby authorised to enter into recurrent related party transactions from time to time with Related Parties who may be a Director, a major shareholder of the Company and/or its subsidiaries or a person connected with such a Director or a major shareholder, as specified in section 2.1.2 of the Circular to Shareholders dated 26 May 2008 subject to the following: Resolution 10

i. the transactions are of a revenue or trading in nature which are necessary for the day-to-day operations of the Company and/or its subsidiaries and are transacted on terms consistent or comparable with market or normal trade practices and/or based on normal commercial terms and on terms not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders; and

# NOTICE OF ANNUAL GENERAL MEETING (continued)

ii. disclosure is made in the annual report of the aggregate value of transactions conducted during the financial year pursuant to the shareholders' mandate in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad. Resolution 10

THAT the mandate given by the shareholders of the Company shall only continue to be in force until the conclusion of the next Annual General Meeting of the Company or the expiry of the period within which the next Annual General Meeting is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (the "Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); unless revoked or varied by Ordinary Resolution of the shareholders of the Company in general meeting, whichever is the earlier;

AND THAT the Directors of the Company be authorised to complete and do such acts and things as they may consider expedient or necessary to give full effect to the Proposed Shareholders' Mandate."

**SPECIAL RESOLUTION 1**
**Proposed Amendments to the Articles of Association of the Company**

"THAT the existing Article 142(4) of the Articles of Association of the Company be replaced by the new Article 142(4) and to read as follows: Resolution 11

At least fourteen (14) days' notice or twenty-one (21) days' notice in the case where any special resolution is proposed or where it is the annual general meeting, of every such meeting shall be given by advertisement in at least one (1) nationally circulated Bahasa Malaysia or English daily newspaper."

To transact any other business of which due notice shall have been given.

By Order of the Board

**SEE SIEW CHENG** (MAICSA 7011225)
**WOO YING PUN** (MAICSA 7001280)
**TEW SIEW CHONG** (MIA 20729)
**CHAN WAI FUN** (MIA 23537)
Company Secretaries

Selangor Darul Ehsan
26 May 2008

# NOTICE OF ANNUAL GENERAL MEETING (continued)

**Notes:**

1. A member entitled to attend and vote at this Meeting is entitled to appoint a 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) of the Companies Act, 1965 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 Share Registrar at G-01 Ground Floor, Plaza Permata, Jalan Kampar Off Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

**Explanatory notes on Special Business**

5. **Resolution pursuant to Section 132D of the Companies Act, 1965**
   The proposed Resolution 8, if passed, will authorise the Directors to allot and issue up to ten per centum (10%) of the paid-up capital of the Company. This is to avoid any delay and cost involved in calling 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.

6. **Resolution pertaining to the renewal of Authority To Buyback Shares of the Company**
   For Resolution 9, further information on the Share Buy-Back is set out in the Statement to Shareholders dated 26 May 2008 which is despatched together with the Company's Annual Report 2007.

7. **Resolution pertaining to the Recurrent Related Party Transactions**
   For Resolution 10, further information on the Recurrent Related Party Transactions is set out in the Circular to Shareholders dated 26 May 2008 which is despatched together with the Company's Annual Report 2007.

8. **Proposed Amendments to the Articles of Association of the Company**
   The proposed Resolution 11 is to streamline the Articles of Association of the Company to be in line with the recent enhancement to the Listing Requirements of Bursa Malaysia Securities Berhad.

# NOTICE OF DIVIDEND ENTITLEMENT & PAYMENT DATE

**NOTICE IS HEREBY GIVEN THAT** a First and Final Dividend of 6.5% less 26% income tax per share in respect of the financial year ended 31 December 2007, if approved at the forthcoming Sixteenth Annual General Meeting, will be payable on Thursday, 18 September 2008 to shareholders whose names appear in the Record of Depositors at the close of business on Monday, 8 September 2008.

A Depositor shall qualify for entitlement to the dividends only in respect of:

a. Shares transferred into the Depositor's securities account before 4.00 p.m. on Monday, 8 September 2008 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

**SEE SIEW CHENG** (MAICSA 7011225)
**WOO YING PUN** (MAICSA 7001280)
**TEW SIEW CHONG** (MIA 20729)
**CHAN WAI FUN** (MIA 23537)
Company Secretaries

Selangor Darul Ehsan
26 May 2008

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

En Mazlan bin Abdul Hamid, Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor, Tan Sri A. Razak bin Ramli and Tuan Haji Mohamed Taib bin Ibrahim are the Directors standing for re-election at the forthcoming Sixteenth 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 that of an executive or non-executive and whether of an independent director | 16 - 18 |
| The working experience and occupation | 16 - 18 |
| Any other directorships of public companies | 16 - 18 |
| The details of any interest in the Company and/or its subsidiaries | 39 - 41 |
| The family relationship with any director and/or major shareholder of the Company | 19 |
| Any conflict of interest that they have with the Company | 19 |
| The list of convictions for offences within the past 10 years other than traffic offences, if any | 19 |

# GROUP FINANCIAL HIGHLIGHTS

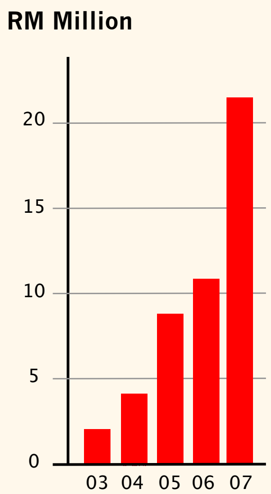
| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Turnover (RM'000) | 193,510 | 266,965 | 335,646 | 357,956 | 453,896 |
| Profit Before Tax and Exceptional Items (RM'000) | 1,961 | 4,107 | 8,878 | 10,946 | 21,562 |
| Profit After Tax Attributable to Shareholders of the Company (RM'000) | 1,589 | 13,316 | 7,180 | 9,868 | 18,935 |
| Shareholders' Funds (RM'000) | 51,403 | 67,768 | 70,351 | 115,123 | 130,921 |
| Share Capital (RM'000) | 50,000 * | 50,000 * | 50,000 * | 84,000 ** | 85,178 ** |
| Basic Earnings Per Ordinary Share (Sen) | 1.59# | 13.32# | 7.18# | 7.31 | 11.22 |
| Net Assets Per Ordinary Share (RM) | 0.51# | 0.68# | 0.70# | 0.69 | 0.77 |

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

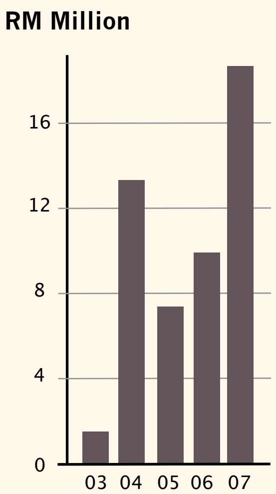
** Represents ordinary shares of RM0.50 each upon completion of Initial Public Offer of Favelle Favco Berhad on 15 August 2006

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

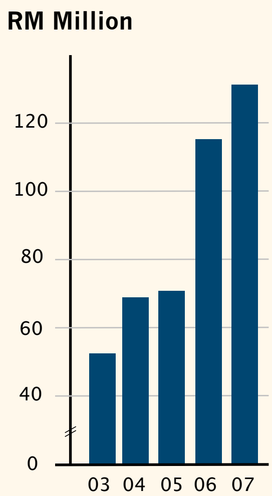
**Profit Before Tax and Exceptional Items**



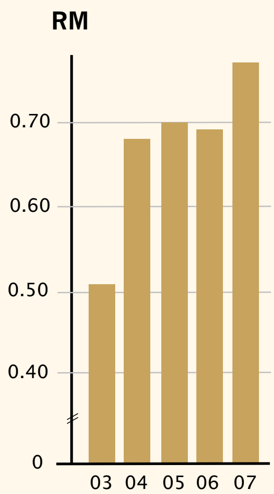

**Profit After Tax Attributable to Shareholders of the Company**



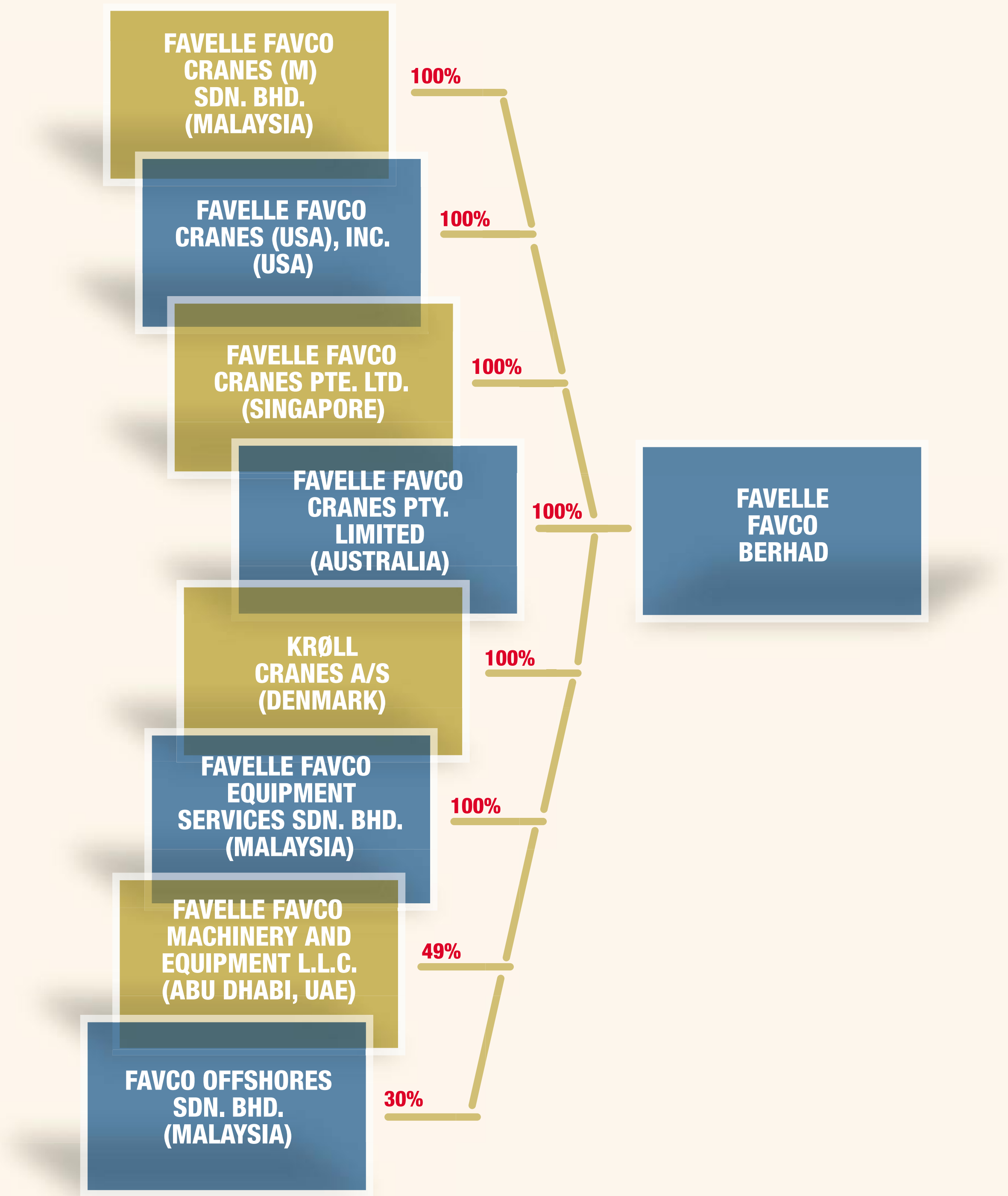

**Shareholders' Funds**




**Net Assets Per Ordinary Share**



# GROUP STRUCTURE




* Dormant companies are excluded from the above Group Structure

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

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Favelle Favco Berhad ("FFB"), I am pleased to present the Annual Report and the audited financial statements of FFB and its subsidiary companies ("Favelle Favco Group" or "Group") for the financial year ended 31 December 2007.

## Financial Performance

For the financial year under review, the Group posted a total revenue of RM454 million with a profit after taxation of RM18.9 million. This represents a 27% increase in revenue and a 91% increase in profit after taxation as compared to the previous financial year. The improvement in profit after taxation is contributed by the increase in our sales book and improved operational efficiencies in the Group's operations.

## Corporate Exercise

On 16 August 2007, FFB successfully transferred its listing quotation of the entire issued and paid up share capital of RM84,589,510 comprising 169,179,020 ordinary shares of RM0.50 each from the Second Board to the Main Board of Bursa Malaysia Securities Berhad.

## Dividend

The Board of Directors is recommending a first and final dividend of 6.5% less 26% tax per share subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend will amount to RM4.097 million.

## Industry and Market review

Year 2007 saw the continuing demand for our cranes globally. As at 30 April 2008, the total outstanding secured order book of the Group stands at RM655 million.

The current oil prices continue to fuel capital investments in the oil and gas industry with a significant spin-off from large investments in shipyards, refineries and oil terminals globally.


# CHAIRMAN'S STATEMENT (continued)

Our Denmark subsidiary, Kroll Cranes A/S ("Kroll") has been very active and has successfully delivered several large cranes to a Korean shipyard. This consistent track record has now attracted interest from other shipyards and we remain optimistic of Kroll's performance.

This year also saw Favelle Favco Group secure an order to build our largest luffing tower crane to date, the M2480. The crane will have a lifting capacity of 330 tons at 12.5 meters and is expected to be used for a Waste Management Centre in the Middle East.

Despite the current economic slowdown, Favelle Favco Group continue to be optimistic. The demand for energy has resulted in more investment in the power plant sector globally and this in turn will require our heavier cranes.

## Operations Review

The high demand workload in the industry for equipment has given rise to new challenges.

Most challenging is our supply chain. Constant communication with our suppliers has helped improve transparency and we are seeing benefits flow through instead of earlier challenges in supply of components. The Company has to look ahead in this respect to ensure new supplies are in place for the forthcoming years.

Our four factories around the world have been coping reasonably well with the current workload and are expected to maintain this level of output.

In the pursuit of long-term competitiveness, we have been sourcing new vendors, including those from China. This move has been positive.

# CHAIRMAN'S STATEMENT (continued)

## Outlook

Year 2008 is set to be another good year. We see continued investments in the oil and gas sector, both upstream and downstream, for more years to come.

Major infrastructure spending on selective markets in the global scenario will continue and we remain optimistic that our big cranes for the construction markets will remain active despite the current uncertainties in global financial markets.

We expect our outstanding order book to increase this year due to demands for larger sized cranes.

We have continued to undertake R & D development of new products. Our new targets are a larger lifting capacity offshore crane and the development of new subsea features for our offshore cranes.

## Corporate Social Responsibility ("CSR")

The equipment industry serving the Oil and Gas and Construction market is facing human resource shortages. This is caused by the current demand for human resources as well as the retirement of experienced personnel in the next 5-10 years.

Favelle Favco Group's CSR initiatives are to attract new people to the industry and develop skills and knowledge within our industry. Towards this end, we will:

1) Support apprenticeship programs.
2) Support seminars to promote safety awareness in the industry.
3) Support technical institutions to develop workshop skills and help underprivileged youth.
4) Support tertiary educational institutions in the awareness of industrial needs.
5) Support knowledge development efforts amongst youth.

# CHAIRMAN'S STATEMENT (continued)

## Corporate Governance

In compliance with the principles and best practices as set out in the Code of Corporate Governance, a Statement on Internal Control has been included in this Annual Report in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.

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 Favelle Favco Group would like to thank the valued management team and employees of the Group for their continuous work commitment, perseverance and ongoing dedication and efforts, 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 Favelle Favco Group for their invaluable support and guidance.

**Tuan Haji Mohamed Taib bin Ibrahim**
Chairman

# PROFILE OF DIRECTORS

**Tuan Haji Mohamed Taib bin Ibrahim**
Aged 83, 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 ultimate 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 Berhad as the Company's President and Chief Executive Officer, a position which he had relinquished in 1988. He was also the Chairman of Kuantan Flour Mills Berhad in 1984.

**Tan Sri A. Razak bin Ramli**
Aged 59, 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 such as 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 64, 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 when MEB was incorporated 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 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 64, 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 assumed since 19 April 2001. On 27 December 2001, he was appointed a member of the Audit Committee of MEB, and the 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 Master in Public Administration degree from Harvard University, USA. He is a director of several private limited companies and is also a director of Affin Bank Berhad, Boustead Heavy Industries Corporation Berhad (formerly known as PSC Industries Berhad) and Comintel Corporation Berhad.

# PROFILE OF DIRECTORS (continued)

**Mac Chung Hui**
Aged 30, 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 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 was also overseeing the production and operation of Favelle Favco Cranes Pty Limited ("FFA") and Favelle Favco Cranes (M) Sdn Bhd ("FFM") over the past seven (7) years.

**Lee Poh Kwee**
Aged 43, 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 thirteen (13) years.

**Mazlan bin Abdul Hamid**
Aged 45, 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 & 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 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.

## Additional Compliance Information

1. **Utilisation of Proceeds Raised from Corporate Proposals**
   There were no proceeds raised from corporate proposals during the financial year.

   As at 31 December 2007, the status of the utilisation of the proceeds of RM26,400,000.00 raised by the Company from its Initial Public Offering is as follows:

| | Proposed utilisation of proceeds RM'000 | Utilised as at 31.12.2007 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 | 3,000 | - |
| Listing expenses | 2,000 | 2,000 | - |
| Working capital | 2,900 | 2,900 | - |
| | 26,400 | 26,400 | - |

# OTHER INFORMATION (continued)

## Additional Compliance Information (continued)

**2. Share Buy-back**

During the financial year, the Company re-purchased 10,000 ordinary shares of RM0.50 each of its issued shares from the open market. The share buy-back and retained as treasury shares during the financial year are set out as below:-

| Month | No. of Shares Purchased and retained as Treasury Shares | Lowest Price Paid RM | Highest Price Paid RM | Average Price Paid RM | Total Consideration Paid* RM |
|---|---|---|---|---|---|
| June 2007 | 10,000 | 2.04 | 2.06 | 2.06 | 20,749 |

*Inclusive transaction cost of RM173.

The shares re-purchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965. None of the treasury shares held was resold or cancelled during the financial year.

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

During the financial year, the Company did not sponsor any American Depository Receipt or Global Depository Receipt programmes.

**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, there were no non-audit fees paid to the external auditors.

**6. Variation in Results**

There was no material variances between the audited results of the financial year and the unaudited results previously announced. The Company did not make any release on the profit estimate, forecast or projection for the financial year.

**7. Profit Guarantees**

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

**8. Material Contracts involving Directors and Major Shareholders**

During the financial year, there were no material contracts entered by the Company or its subsidiaries involving Directors and major Shareholders.

**9. Contracts Relating To Loans**

There were no material contracts relating to loans by the Company involving Directors and major shareholders.

**10. Options, Warrants or Convertible Securities**

The particulars of employees' share options of the Company are disclosed on pages 43 to 45 of this Annual Report.

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

**11. Revaluation Policy on Landed Properties**

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

# OTHER INFORMATION (continued)

## Additional Compliance Information (continued)

**12. Recurrent related party transactions**

At the Extraordinary General Meeting held on 25 June 2007, the Company had obtained Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 1 June 2007.

In accordance with Section 4.1.5 of Practice Note No. 12/2001 of the Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2007 pursuant to the Shareholders' Mandate are disclosed as follows:

| Transacting Party | Related Party | Nature of Transactions | Actual Transaction Value for the Financial Year Ended 31 December 2007 RM'000 |
|---|---|---|---|
| FFB Group and MEB Group | MEB, Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui and Lee Poh Kwee | Sales and rental of cranes and parts and the provision of crane maintenance and services by FFB Group to MEB Group | 3,125 |
| | | Purchases of cranes and parts by FFB Group from MEB Group | 1,376 |
| | | Rental of premises by MEB Group to FFB Group | 645 |
| | | Subcontracting work by FFB Group to MEB Group | 4,133 |
| FO and FFS | Mazlan bin Abdul Hamid | Provision of crane maintenance and services by FO to FFS | 8 |
| FO and FFM | Mazlan bin Abdul Hamid | Rental of waterbags for crane's load testing by FO from FFM, sale of crane parts by FFM to FO and provision of crane maintenance and services by FFM to FO | 112 |

**Abbreviations**

| | |
|---|---|
| "FFB" | : Favelle Favco Berhad |
| "MEB" | : Muhibbah Engineering (M) Bhd |
| "FFB Group" | : FFB, its subsidiaries and associated companies |
| "MEB Group" | : MEB, its subsidiaries and associated companies |
| "FFM" | : Favelle Favco Cranes (M) Sdn Bhd, a wholly-owned subsidiary of FFB |
| "FFS" | : Favelle Favco Cranes Pte Ltd, a wholly-owned subsidiary of FFB |
| "FO" | : Favco Offshores Sdn Bhd, an associated company of FFB |

# 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, four (4) Executive Directors. Profiles of the Directors are presented on pages 16 to 18 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.

**Board Meetings**
Board meetings are held at regular intervals with additional meetings taking place when necessary. During the year, the Board met five (5) times to review the Group's operations, review and approve the quarterly financial results and year-end financial statements and other matters requiring the Board's approval. Details of the attendance of the Directors are as follows:

# STATEMENT ON CORPORATE GOVERNANCE (continued)

| Names of Directors | Attendance at Meetings in 2007 |
|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | 5/5 |
| Tan Sri A. Razak bin Ramli | 5/5 |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 5/5 |
| Mac Ngan Boon @ Mac Yin Boon | 5/5 |
| Mac Chung Hui | 5/5 |
| Mazlan bin Abdul Hamid | 5/5 |
| Lee Poh Kwee | 5/5 |

**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 permit the removal of 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.

*(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 and year-end financial statements 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 the Audit Committee.

# STATEMENT ON CORPORATE GOVERNANCE (continued)

The Audit Committee met four (4) times during the year.

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on pages 29 to 33 of this Annual Report.

The Group is in the process of restructuring its Audit Committee in line with Part 2 of the Best Practices of the Malaysian Code on Corporate Governance which was revised on 1 October 2007 wherein all members of the Audit Committee should consist of Non-Executive Directors, with a majority being Independent Directors.

The abovementioned changes to the composition of Audit Committee members will be in alignment with the recent amendments to the Listing Requirement of Bursa Malaysia Securities Berhad that will come to effect by 31 January 2009.

(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<br>*(Independent Non-Executive Director)* |
| Tan Sri A. Razak bin Ramli | Member<br>*(Independent Non-Executive Director)* |
| Mac Ngan Boon @ Mac Yin Boon | Member<br>*(Managing Director)* |

The Nomination Committee met once during the financial year. The Nomination Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Directors 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.

*(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<br>*(Independent Non-Executive Director)* |
| Tan Sri A. Razak bin Ramli | Member<br>*(Independent Non-Executive Director)* |
| Mac Ngan Boon @ Mac Yin Boon | Member<br>*(Managing Director)* |

The Remuneration Committee met once during the financial year. 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 every three (3) years but shall be eligible for re-election. Directors appointed during the year will be subject to retirement and re-election by shareholders 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.

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.

During the financial year, all Directors have participated in numerous seminars and training programmes on topics relevant to the enhancement of their roles and responsibilities as Directors of the Company. The seminars and training programmes attended include topics relating to business planning, control and monitoring processes, financial, taxation, control and governance, and corporate social responsibility.

It is the practice of the Group, whereby, following the appointment of new Directors to the Board, an induction programme 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.

# STATEMENT ON CORPORATE GOVERNANCE (continued)

**DIRECTORS' REMUNERATION**

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

| | Executive Directors RM | Non-Executive Directors RM | Total RM |
|---|---|---|---|
| Fees | 242,000 | 181,000 | 423,000 |
| Remuneration | 715,172 | 35,000 | 750,172 |
| | 957,172 | 216,000 | 1,173,172 |

The number of Directors in each remuneration band for the financial year 2007 is as follows:

| Range of Remuneration | Executive Directors | Non-Executive Directors | Total |
|---|---|---|---|
| Below RM50,000 | - | - | - |
| RM50,001 to RM100,000 | - | 3 | 3 |
| RM100,001 to RM150,000 | 1 | - | 1 |
| RM150,001 to RM200,000 | - | - | - |
| RM200,001 to RM250,000 | 1 | - | 1 |
| RM250,001 to RM300,000 | 1 | - | 1 |
| RM300,001 to RM350,000 | - | - | - |
| RM350,001 to RM400,000 | 1 | - | 1 |
| | 4 | 3 | 7 |

**SHAREHOLDERS**

**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 provide an overview of the Group's performance and operations.

The Group is involved in investor relations through periodic roadshows and investor briefings, both locally and abroad, with fund managers, institutional investors and research analysts. Information such as the Group's performance, strategy and major development are presented and explained during these roadshows and investor briefings.

# STATEMENT ON CORPORATE GOVERNANCE (continued)

A summary of the investor relations activities during the financial year is appended as follows:

| Investor Relations Activities | No. of Meetings |
|---|---|
| Meetings with investors/fund managers/analysts | 90 |
| Company Briefings | 3 |
| Participation at roadshows/conferences:<br>· Langkawi (1)<br>· Hong Kong (3)<br>· Singapore (3) | 7 |

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, business activities and recent developments of the Group and for feedback.

**Annual General Meeting**

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 provisions of the Companies Act, 1965 and applicable approved Financial Reporting 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 have been adopted and applied consistently;

ii) judgements and statements made are reasonable and prudent; and

iii) financial statements have been prepared on a going-concern basis.

# STATEMENT ON CORPORATE GOVERNANCE (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 Financial Reporting 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 on issues requiring attention. The external auditors are also invited to attend meetings on special matters when necessary. In addition, the Audit Committee also meets the external auditors, without the presence of executive board members and management, at least twice a year.

**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 ultimate 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 34 and 35 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 2007 |
|---|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | Chairman<br>*(Independent Non-Executive Director)* | 4/4 |
| Tan Sri A. Razak bin Ramli | Member<br>*(Independent Non-Executive Director)* | 4/4 |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member<br>*(Independent Non-Executive Director)* | 4/4 |
| Mazlan bin Abdul Hamid | Member<br>*(Executive Director)* | 4/4 |
| Lee Poh Kwee | Member<br>*(Executive Director)* | 4/4 |

The Audit Committee held four (4) meetings during the financial year ended 31 December 2007. The Group's Financial Controller and the Group's Internal Audit Manager attended all meetings. The Group's external auditors attended two (2) meetings 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 and year-end financial statements 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 auditors and the determination of the audit fees.

(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.

# AUDIT COMMITTEE REPORT (continued)

(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 ultimate 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 of 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.

**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.

# AUDIT COMMITTEE REPORT (continued)

**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 or fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

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.

**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; and
- convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors or employees of the Company, wherever deemed necessary.

# AUDIT COMMITTEE REPORT (continued)

**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, competency 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 investigation 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.

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 names, designations (indicating the Chairman) and directorships 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.
   - a summary of the activities of the internal audit function or activity.

# AUDIT COMMITTEE REPORT (continued)

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 at and proceeding of meetings*

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.

*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.

# STATEMENT ON INTERNAL CONTROL (continued)

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

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 2007. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

# FINANCIAL STATEMENTS



# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007.

## 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 | 18,935 | 6,025 |

## 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

Since the end of the previous financial year, the Company paid a first and final ordinary tax exempt dividend of 1.75 sen per ordinary share totalling RM2,960,458 in respect of the year ended 31 December 2006 on 24 September 2007.

The first and final ordinary dividend recommended by the Directors in respect of the year ended 31 December 2007 is 3.25 sen per ordinary share less tax at 26% totaling RM4,096,798 (2.40 sen net per ordinary share).

## 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 2007 (continued)

**DIRECTORS' INTERESTS**

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

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1 January 2007 | Bought | Sold | At 31 December 2007 |
| **Shareholdings in which the Directors have direct interests** | | | | |
| The Company | | | | |
| Tuan Haji Mohamed Taib bin Ibrahim | 2,945,671 | - | 100,000 | 2,845,671 |
| Mac Ngan Boon @ Mac Yin Boon | 6,992,913 | 400,000 | - | 7,392,913 |
| Mac Chung Hui | 1,112,000 | 300,000 | - | 1,412,000 |
| Lee Poh Kwee | 834,400 | 115,000 | 764,400 | 185,000 |
| Mazlan bin Abdul Hamid | 1,215,000 | 200,000 | - | 1,415,000 |
| Tan Sri A. Razak bin Ramli | 500,000 | - | 200,000 | 300,000 |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 300,000 | - | - | 300,000 |

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1 January 2007 | Bought | Sold | At 31 December 2007 |
| **Shareholdings in which a Director has indirect interest** | | | | |
| The Company | | | | |
| Mac Ngan Boon @ Mac Yin Boon* | 98,000,000 | - | - | 98,000,000 |

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

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

## DIRECTORS' INTERESTS (continued)

| | Tuan Haji Mohamed Taib bin Ibrahim | Mac Ngan Boon @ Mac Yin Boon | Mac Chung Hui | Lee Poh Kwee | Mazlan bin Abdul Hamid |
|---|---|---|---|---|---|
| **Shareholdings in which Directors have direct interests** | | | | | |
| Ultimate holding company | | | | | |
| Muhibbah Engineering (M) Bhd. | | | | | |
| **Number of ordinary shares of RM1 each** | | | | | |
| Balance at 1.1.2007 | 3,077,357 | 26,964,567 | 2,030,000 | 1,260,000 | - |
| Bought | - | 367,000 | 50,000 | 36,000 | 50,000 |
| Sold | (60,000) | - | - | (142,500) | - |
| Bonus issue | 754,339 | 6,832,891 | 520,000 | 288,375 | 12,500 |
| Balance at 2.11.2007 | 3,771,696 | 34,164,458 | 2,600,000 | 1,441,875 | 62,500 |
| Effect of share split to ordinary shares of RM0.50 each | 3,771,696 | 34,164,458 | 2,600,000 | 1,441,875 | 62,500 |
| **Number of ordinary shares of RM0.50 each** | | | | | |
| Balance at 2.11.2007 | 7,543,392 | 68,328,916 | 5,200,000 | 2,883,750 | 125,000 |
| Bought | - | - | - | 677,500 | - |
| Sold | - | - | - | (364,978) | (25,000) |
| Balance at 31.12.2007 | 7,543,392 | 68,328,916 | 5,200,000 | 3,196,272 | 100,000 |

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

**DIRECTORS' INTERESTS (continued)**

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

| | Number of options over ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1 January 2007 | Granted | Exercised | At 31 December 2007 |
| The Company | | | | |
| Mac Ngan Boon @ Mac Yin Boon | 1,200,000 | - | (400,000) | 800,000 |
| Mac Chung Hui | 900,000 | - | (300,000) | 600,000 |
| Lee Poh Kwee | 900,000 | - | - | 900,000 |
| Mazlan bin Abdul Hamid | 900,000 | - | (200,000) | 700,000 |

| | Mac Ngan Boon @ Mac Yin Boon | Mac Chung Hui | Lee Poh Kwee | Mazlan bin Abdul Hamid |
|---|---|---|---|---|
| Ultimate holding company | | | | |
| - Muhibbah Engineering (M) Bhd | | | | |
| Number of options over ordinary shares of RM1 each: | | | | |
| Balance at 1.1.2007 | 1,100,000 | 150,000 | 800,000 | 150,000 |
| Exercised | (367,000) | (50,000) | - | (50,000) |
| Bonus issue | 183,250 | 25,000 | 200,000 | 25,000 |
| Balance at 2.11.2007 | 916,250 | 125,000 | 1,000,000 | 125,000 |
| Effect of share split to ordinary shares of RM0.50 each | 916,250 | 125,000 | 1,000,000 | 125,000 |
| Balance at 31.12.2007 | 1,832,500 | 250,000 | 2,000,000 | 250,000 |

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 2007 (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 or the fixed salary of a full time employee of the Company or of related companies) 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 options pursuant to the ESOS.

## ISSUE OF SHARES

During the financial year, the Company issued 2,355,000 new ordinary shares of RM0.50 each at par for cash arising from the exercise of employees' share options at the exercise price of RM0.55 per ordinary share.

The details of options granted to subscribe for ordinary shares of RM0.50 each under the Company's ESOS, which remain outstanding at 31 December 2007, are disclosed in Note 17.

There were no other changes in the issued and paid up capital of the Company during the financial year.

## TREASURY SHARES

The Company, by a resolution passed in an Extraordinary General Meeting held on 25 June 2007, obtained the approval from the shareholders of the Company to repurchase its own ordinary shares. The Directors of the Company are committed to enhancing the value of the Company for its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

During the financial year, the Company repurchased 10,000 ordinary shares of RM0.50 each of its issued shares from the open market at an average price of RM2.06 per ordinary share. The total consideration paid for the repurchase including transaction costs was RM20,749 comprising of consideration paid amounting to RM20,576 and transaction costs of RM173. The repurchase transactions were fully financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 170,355,020 issued and fully paid ordinary shares of RM0.50 each as at 31 December 2007, 10,000 are held as treasury shares by the Company. The treasury shares are held at a carrying amount of RM20,749.

**TREASURY SHARES (continued)**

None of the treasury shares held are resold or cancelled during the year ended 31 December 2007.

**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 makes 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 its absolute discretion, varies 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 of 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 | Year 1 | - | - | - | - | - |
| options exercisable | Year 2 | 33.33% | - | - | - | - |
| during the | Year 3 | 66.67% | 33.33% | - | - | - |
| option period | Year 4 | 100% | 66.67% | 66.67% | - | - |
| in: | Year 5 | 100% | 100% | 100% | 100% | 100% |

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (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 followings options were granted under the ESOS scheme to take up the unissued ordinary shares of RM0.50 each:

| | ESOS Granted in 2007 | ESOS Granted in 2006 |
|---|---|---|
| Date of offer | 30.6.2007 | 30.6.2006 |
| Expiry date | 29.6.2011 | 29.6.2011 |
| Exercise price | RM1.90 | RM0.55 |

The outstanding options at 31 December 2007 are as follows:

| | Number of options | |
|---|---|---|
| | 2007 '000 | 2006 '000 |
| Outstanding at 1 January | 11,482 | - |
| Granted during the year | 391 | 11,803 |
| Retracted/Forfeited during the year* | (419) | (321) |
| Exercised during the year | (2,355) | - |
| Outstanding at 31 December | 9,099 | 11,482 |

* Due to non-acceptance and resignation

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

**OPTIONS GRANTED OVER UNISSUED SHARES (continued)**

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this report the name of persons to whom options have been granted during the duration of the ESOS scheme and details of their holdings as required by Section 169(11) of the Companies Act, 1965 except for information on employees who were granted options representing 400,000 ordinary shares of RM0.50 each and above under the ESOS scheme.

The names of the option holders, other than the Directors of the Company, who were granted to subscribe for 400,000 ordinary shares of RM0.50 each and above, during the duration of the ESOS scheme are set out below:

| | Number of options over ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | At 1 January 2007 | Granted | Exercised | At 31 December 2007 |
| Ooi San Kooi | 400,000 | - | 134,000 | 266,000 |
| 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 | - | 134,000 | 266,000 |

**OTHER STATUTORY INFORMATION**

Before the balance sheets and income statements 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.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

**OTHER STATUTORY INFORMATION (continued)**

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

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

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

No contingent liability or other liability of 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 2007 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**

On 28 February 2007, the Board of Directors of the Company made a public release to the Bursa Malaysia Securities Berhad of the intention to make an application to the Securities Commission for the transfer of existing listing of and quotation for the entire enlarged issued and paid-up share capital of the Company from the Second Board to the Main Board of Bursa Malaysia Securities Berhad. The approvals were received from the Securities Commission and Bursa Malaysia Securities Berhad vide the approval letters dated 9 July 2007 and 27 July 2007 respectively.

Accordingly, on 16 August 2007, the entire issued and paid-up share capital of the Company was successfully transferred from the Second Board to the Main Board of Bursa Malaysia Securities Berhad.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (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**

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

**Lee Poh Kwee**

Klang,

Date: 15 April 2008

# 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 52 to 119 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards 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 2007 and of the results of their operations and cash flows for the year ended on that date.

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

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

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

Klang,

Date: 15 April 2008

# 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 52 to 119 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Klang on 15 April 2008.

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

**Lee Poh Kwee**

Before me:

John Kalanjiam Chelliah @
Chelliah a/l Kalanjiam
Persuruhjaya 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 52 to 119. 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 Financial Reporting Standards 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 2007 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: 15 April 2008

# BALANCE SHEETS AT 31 DECEMBER 2007

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 3 | 68,798 | 64,797 | 695 | 793 |
| Intangible assets | 4 | 3,980 | 6,665 | 110 | 219 |
| Investment property | 5 | - | - | 1,404 | 1,435 |
| Investments in subsidiaries | 6 | - | - | 61,230 | 60,727 |
| Investments in associates | 7 | 22 | 116 | 22 | 256 |
| Receivables | 8 | - | - | 14,829 | 15,428 |
| **Total non-current assets** | | 72,800 | 71,578 | 78,290 | 78,858 |
| Receivables, deposits and prepayments | 8 | 118,591 | 106,710 | 34,553 | 42,714 |
| Contract work-in-progress | 9 | 138,024 | 136,326 | - | - |
| Inventories | 10 | 126,903 | 90,543 | - | - |
| Current tax assets | | 58 | 1,904 | 172 | 30 |
| Cash and cash equivalents | 11 | 73,531 | 27,208 | 2,768 | 143 |
| **Total current assets** | | 457,107 | 362,691 | 37,493 | 42,887 |
| **Total assets** | | 529,907 | 434,269 | 115,783 | 121,745 |
| **Equity** | | | | | |
| Share capital | | 85,178 | 84,000 | 85,178 | 84,000 |
| Reserves | | 9,977 | 11,332 | 2,201 | 795 |
| Retained earnings | | 35,766 | 19,791 | 7,079 | 4,014 |
| **Total equity** | 12 | 130,921 | 115,123 | 94,458 | 88,809 |

# BALANCE SHEETS AT 31 DECEMBER 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Loans and borrowings | 13 | 15,285 | 27,278 | - | 8,700 |
| Deferred tax liabilities | 14 | 2,185 | 2,324 | - | - |
| **Total non-current liabilities** | | 17,470 | 29,602 | - | 8,700 |
| Provisions | 15 | 5,296 | 4,598 | - | - |
| Payables and accruals | 16 | 164,479 | 125,312 | 2,606 | 7,639 |
| Amount due to contract customers | 9 | 77,289 | 33,866 | - | - |
| Loans and borrowings | 13 | 132,767 | 125,651 | 18,719 | 16,597 |
| Current tax liabilities | | 1,685 | 117 | - | - |
| **Total current liabilities** | | 381,516 | 289,544 | 21,325 | 24,236 |
| **Total liabilities** | | 398,986 | 319,146 | 21,325 | 32,936 |
| **Total equity and liabilities** | | 529,907 | 434,269 | 115,783 | 121,745 |

The notes set on pages 60 to 119 are an integral part of these financial statements.

# INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Revenue | 18 | 453,896 | 357,956 | 12,915 | 6,610 |
| Cost of sales | 19 | (383,476) | (299,688) | - | - |
| **Gross profit** | | 70,420 | 58,268 | 12,915 | 6,610 |
| Other income | | 3,012 | - | 83 | - |
| Distribution expenses | | (7,718) | (5,401) | - | - |
| Administrative expenses | | (36,969) | (33,480) | (2,509) | (775) |
| Other expenses | | (536) | (1,127) | (234) | (11) |
| **Results from operating activities** | | 28,209 | 18,260 | 10,255 | 5,824 |
| Interest income | | 1,369 | 417 | 44 | 64 |
| Finance costs | | (7,921) | (7,535) | (2,255) | (2,615) |
| **Operating profit** | 20 | 21,657 | 11,142 | 8,044 | 3,273 |
| Share of loss after tax of equity accounted associates | | (95) | (196) | - | - |
| **Profit before tax** | | 21,562 | 10,946 | 8,044 | 3,273 |
| Tax expense | 22 | (2,627) | (1,078) | (2,019) | - |
| **Profit for the year** | | 18,935 | 9,868 | 6,025 | 3,273 |
| **Attributable to:** | | | | | |
| Shareholders of the Company | | 18,935 | 9,868 | 6,025 | 3,273 |
| **Dividends per ordinary share** | | | | | |
| - Gross (sen) | | 3.25 | N/A | 3.25 | N/A |
| - Net (sen) | 24 | 2.40 | 1.75 | 2.40 | 1.75 |
| **Earnings per ordinary share (sen)** | | | | | |
| - Basic | 23 | 11.22 | 7.31 | | |
| - Diluted | 23 | 10.83 | 7.11 | | |

The notes set on pages 60 to 119 are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

| | Note | Share capital RM'000 | Share premium RM'000 | Translation reserve RM'000 | Share option reserve RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | |
| | | ← *Non-distributable* | | | | → | *Distributable* | |
| ***Group*** | | | | | | | | |
| **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 | 17 | - | - | - | 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 2006/1 January 2007** | | 84,000 | 338 | 10,537 | 457 | - | 19,791 | 115,123 |
| Foreign exchange translation differences | | - | - | (2,761) | - | - | - | (2,761) |
| Profit for the year | | - | - | - | - | - | 18,935 | 18,935 |
| Share options exercised | | 1,178 | 117 | - | - | - | - | 1,295 |
| Transfer to share premium for share options exercised | | - | 519 | - | (519) | - | - | - |
| Share-based payments | 17 | - | - | - | 1,310 | - | - | 1,310 |
| Shares repurchased | | - | - | - | - | (21) | - | (21) |
| Dividends to shareholders | 24 | - | - | - | - | - | (2,960) | (2,960) |
| **At 31 December 2007** | | 85,178 | 974 | 7,776 | 1,248 | (21) | 35,766 | 130,921 |
| | | Note 12 | | | | | | |

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

| | | ← *Non-distributable* | | | → | *Distributable* | |
|---|---|---|---|---|---|---|---|
| | **Note** | **Share capital RM'000** | **Share premium RM'000** | **Share option reserve RM'000** | **Treasury shares RM'000** | **Retained earnings RM'000** | **Total equity RM'000** |
| ***Company*** | | | | | | | |
| **At 1 January 2006** | | 50,000 | - | - | - | 741 | 50,741 |
| Profit for the year | | - | - | - | - | 3,273 | 3,273 |
| Share-based payments | 17 | - | - | 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 2006/1 January 2007** | | 84,000 | 338 | 457 | - | 4,014 | 88,809 |
| Profit for the year | | - | - | - | - | 6,025 | 6,025 |
| Share options exercised | | 1,178 | 117 | - | - | - | 1,295 |
| Transfer to share premium for share options exercised | | - | 519 | (519) | - | - | - |
| Share-based payments | 17 | - | - | 1,310 | - | - | 1,310 |
| Shares repurchased | | - | - | - | (21) | - | (21) |
| Dividends to shareholders | 24 | - | - | - | - | (2,960) | (2,960) |
| **At 31 December 2007** | | 85,178 | 974 | 1,248 | (21) | 7,079 | 94,458 |
| | | Note 12 | | | | | |

The notes set on pages 60 to 119 are an integral part of these financial statements.

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before tax | | 21,562 | 10,946 | 8,044 | 3,273 |
| Adjustments for: | | | | | |
| Allowance for diminution in value of investments in associates | | - | - | 234 | - |
| Allowance for doubtful debts | | 1,423 | 543 | - | 11 |
| Allowance for doubtful debts written back | | (374) | - | - | - |
| Allowance for slow moving inventories | | 4,383 | 3,524 | - | - |
| Amortisation of intangible assets | | 2,758 | 2,676 | 109 | 110 |
| Depreciation of property, plant and equipment | | 7,613 | 7,763 | 98 | 99 |
| Depreciation of investment property | | - | - | 31 | 30 |
| Dividend income from subsidiaries (unquoted) | | - | - | (12,915) | (6,610) |
| Gain on disposal of property, plant and equipment | | (26) | (760) | - | - |
| Goodwill written off | | 3 | - | - | - |
| Inventories written off | | 870 | 210 | - | - |
| Finance costs | | 7,921 | 7,535 | 2,255 | 2,615 |
| Increase in provisions | | 3,107 | 2,631 | - | - |
| Interest income | | (1,369) | (417) | (44) | (64) |
| Property, plant and equipment written off | | 42 | 647 | - | - |
| Unrealised (gain)/loss on foreign exchange | | (4,482) | (436) | (161) | 2,428 |
| Share-based payments | | 1,310 | 457 | 1,310 | 457 |
| Share of loss of equity accounted associates | | 95 | 196 | - | - |
| Release of unused provisions | | (1,757) | (4,554) | - | - |
| Reversal of allowance for slow moving inventories | | - | (924) | - | - |
| Write back of inventories written off | | - | (1,272) | - | - |
| Operating profit/(loss) before changes in working capital changes | | 43,079 | 28,765 | (1,039) | 2,349 |
| Changes in working capital: | | | | | |
| Development costs | | - | (1,638) | - | - |
| Inventories | | (40,815) | (19,247) | - | - |
| Payables and accruals | | 91,788 | 24,603 | (5,766) | (1,002) |
| Receivables, deposits and prepayments | | (10,140) | (14,698) | 8,342 | (22,966) |
| Cash generated from/(used in) operations | | 83,912 | 17,785 | 1,537 | (21,619) |

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| Cash generated from/(used in) operations (continued) | | 83,912 | 17,785 | 1,537 | (21,619) |
| Dividends received | | - | - | 10,755 | 6,610 |
| Interest received | | 1,369 | 417 | 44 | 64 |
| Interest paid | | (4,724) | (4,008) | - | - |
| Provisions paid | | (744) | (3,913) | - | - |
| Taxes refunded/(paid) | | 606 | (105) | - | (3) |
| **Net cash generated from/(used in) operating activities** | | 80,419 | 10,176 | 12,336 | (14,948) |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | (ii) | (10,237) | (11,553) | - | - |
| Acquisition of subsidiary, net of cash acquired | | (3) | - | (503) | - |
| Acquisition of treasury shares | | (21) | - | (21) | - |
| Proceeds from disposal of property, plant and equipment | | 94 | 2,810 | - | - |
| **Net cash used in investing activities** | | (10,167) | (8,743) | (524) | - |
| **Cash flows from financing activities** | | | | | |
| Advance from ultimate holding company | | - | 166 | - | 166 |
| Dividend paid to shareholders of the Company | | (2,960) | - | (2,960) | - |
| Interest paid | | (3,197) | (3,527) | (1,522) | (596) |
| Proceeds from issue of shares under ESOS scheme | | 1,295 | 24,688 | 1,295 | 24,688 |
| Payment of finance lease liabilities | | (579) | (413) | - | - |
| Drawdown of term loans | | - | 16,200 | - | 16,200 |
| Drawdown of revolving credits | | - | 2,182 | - | - |
| Repayment from a subsidiary | | - | - | - | 1,078 |
| Repayment of term loans | | (9,412) | (6,621) | (6,000) | (1,500) |
| Repayment of revolving credit | | (7,579) | - | - | - |
| Repayment to ultimate holding company | | - | (24,887) | - | (24,958) |
| **Net cash (used in)/from financing activities** | | (22,432) | 7,788 | (9,187) | 15,078 |

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Exchange difference on translation of the financial statements of foreign operations** | | (5,790) | (79) | - | - |
| Net increase in cash and cash equivalents | | 42,030 | 9,142 | 2,625 | 130 |
| Effect of exchange rate fluctuations on cash held | | 1,410 | (656) | - | - |
| Cash and cash equivalents at 1 January | (i) | 13,555 | 5,069 | 143 | 13 |
| **Cash and cash equivalents at 31 December** | (i) | 56,995 | 13,555 | 2,768 | 143 |

***i) Cash and cash equivalents***

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

| | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| Cash and bank balances | 62,513 | 17,507 | 198 | 143 |
| Deposits with licensed banks | 11,018 | 9,701 | 2,570 | - |
| Bank overdrafts repayable on demand - unsecured | (16,536) | (13,653) | - | - |
| | 56,995 | 13,555 | 2,768 | 143 |

***ii) Acquisition of property, plant and equipment***

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM10,961,000 (2006 - RM12,593,000), of which RM724,000 (2006 - RM1,040,000) were acquired by means of hire purchases plans.

The notes set on pages 60 to 119 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 Main Board of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in associates. The financial statements of the Company as at and for the year ended 31 December 2007 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.

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

The financial statements were approved by the Board of Directors on 15 April 2008.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in compliance with applicable approved Financial Reporting Standards ("FRS") 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) and Interpretations that are effective for annual periods beginning after 1 January 2007, and that have not been applied in preparing these financial statements.

| FRSs/Interpretations | Effective date |
|---|---|
| FRS 107, Cash Flow Statements | 1 July 2007 |
| FRS 111, Construction Contracts | 1 July 2007 |
| FRS 112, Income Taxes | 1 July 2007 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. BASIS OF PREPARATION (continued)

### (a) Statement of compliance (continued)

| FRSs/Interpretations | Effective date |
|---|---|
| FRS 118, Revenue | 1 July 2007 |
| FRS 119, Employee Benefits | 1 July 2007 |
| FRS 120, Accounting for Government Grants and Disclosure of Government Assistance | 1 July 2007 |
| Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation | 1 July 2007 |
| FRS 126, Accounting and Reporting by Retirement Benefit Plans | 1 July 2007 |
| FRS 129, Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| FRS 134, Interim Financial Reporting | 1 July 2007 |
| FRS 137, Provisions, Contingent Liabilities and Contingent Assets | 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, Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| IC Interpretation 8, Scope of FRS 2 | 1 July 2007 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. BASIS OF PREPARATION (continued)

### (a) Statement of compliance (continued)

The Group and the Company plan to apply the abovementioned FRSs and Interpretations for the annual period beginning 1 January 2008, except for FRS 120, FRS 126, FRS 129, Interpretation 1, Interpretation 2, Interpretation 5, Interpretation 6, Interpretation 7 as explained below and FRS 139, which the effective date has yet to be announced.

FRS 120, FRS 126, FRS 129, Interpretation 1, Interpretation 2, Interpretation 5, Interpretation 6, Interpretation 7 are not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

The initial application of the other FRSs and Interpretations for the financial year ending 31 December 2008 is not expected to have any material impact on the financial statements of the Group and the Company.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**1. BASIS OF PREPARATION (continued)**

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

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

- Note 2 (r) - recognition of revenue from construction contracts
- Note 4 - impairment test of intangible assets
- Note 15 - provisions
- Note 17 - share-based payments

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of consolidation**

***(i) Subsidiaries***

Subsidiaries are entities, including 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. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, 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 balance sheet at cost less any 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)

#### *(ii) Associates*

Associates are entities, including unincorporated 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 profit or loss of the equity accounted associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an 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 any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### *(iii) Affiliated company*

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

#### *(iv) Transactions eliminated on consolidation*

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

Unrealised gains arising from transaction with equity accounted 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Foreign currency**

***(i) Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of the 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 statements.

***(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. The income and expenses of foreign operations, are translated to RM at exchange rates at the dates of the transactions.

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

**(c) Derivative financial instruments**

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

Forward foreign exchange contracts 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Property, plant and equipment

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

Items of property, plant and equipment are stated at cost less any accumulated depreciation and any 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 property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” or “other expenses” respectively in the income statements.

#### *(ii) Reclassification to investment property*

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete and reclassified as investment property.

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property.

#### *(iii) 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 the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### *(iv) 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. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

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

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

### (e) Leased assets

#### *(i) Finance lease*

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.

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)

### (e) Leased assets (continued)

#### *(ii) Operating lease*

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

Payments made under operating leases are recognised in the income statements 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.

### (f) Intangible assets

#### *(i) Goodwill*

Goodwill arises on business combinations and is measured at cost less any accumulated impairment losses.

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 beginning 1 January 2006, 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.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statements.

#### *(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 development.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Intangible assets (continued)

#### *(ii) Research and development (continued)*

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 any accumulated amortisation and any accumulated impairment losses.

#### *(iii) Intellectual property*

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

Intangible assets 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. Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Investment property

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

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

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

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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Contract work-in-progress / Amount due to contract customers**

Contract work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date.

Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Contract work-in-progress is presented as part of total current assets in the balance sheet. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown 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.

**(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.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Impairment of assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at 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

***(i) Shares issue expenses***

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

***(ii) Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity and is not re-valued for subsequent changes in the fair value or market price of shares. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Employee benefits

#### *(i) Short term employee benefits*

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

A 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 statutory pension funds 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 grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that 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 share 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 recognition

#### *(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 statements 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 that contract costs incurred for work performed to date that reflect work performed bear to the estimated total 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Revenue recognition (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 from cranes 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) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

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

### (t) 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Tax expense (continued)

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.

### (u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. 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.

### (v) 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. PROPERTY, PLANT AND EQUIPMENT

| 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 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 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/ 1 January 2007 | 9,214 | 38,871 | 46,499 | 40,874 | 477 | 135,935 |
| Additions | - | - | 313 | 7,265 | 3,383 | 10,961 |
| Reclassification | - | 477 | - | - | (477) | - |
| Disposals | - | - | - | (249) | - | (249) |
| Written off | - | - | - | (220) | - | (220) |
| Effect of movements in exchange rates | 7 | 584 | 1,561 | 544 | - | 2,696 |
| At 31 December 2007 | 9,221 | 39,932 | 48,373 | 48,214 | 3,383 | 149,123 |

# 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 loss** | | | | | | |
| At 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 |
| Accumulated depreciation | - | 13,615 | 28,872 | 25,628 | - | 68,115 |
| Accumulated impairment losses | - | 1,494 | 536 | 993 | - | 3,023 |
| At 31 December 2006/ 1 January 2007: | - | 15,109 | 29,408 | 26,621 | - | 71,138 |
| Depreciation for the year | - | 917 | 2,971 | 3,725 | - | 7,613 |
| Disposals | - | - | - | (181) | - | (181) |
| Written off | - | - | - | (178) | - | (178) |
| Effect of movements in exchange rates | - | 450 | 1,049 | 434 | - | 1,933 |
| At 31 December 2007: | | | | | | |
| Accumulated depreciation | - | 14,982 | 32,892 | 29,428 | - | 77,302 |
| Accumulated impairment losses | - | 1,494 | 536 | 993 | - | 3,023 |
| | - | 16,476 | 33,428 | 30,421 | - | 80,325 |
| **Carrying amounts** | | | | | | |
| At 1 January 2006 | 9,207 | 23,835 | 18,076 | 10,260 | 477 | 61,855 |
| At 31 December 2006/ 1 January 2007 | 9,214 | 23,762 | 17,091 | 14,253 | 477 | 64,797 |
| 31 December 2007 | 9,221 | 23,456 | 14,945 | 17,793 | 3,383 | 68,798 |

## 3. PROPERTY, PLANT AND EQUIPMENT (continued)

| *Company* | Building RM'000 | Plant, equipment and motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 2,989 | 1,984 | 4,973 |
| Transfer to investment property | (2,989) | - | (2,989) |
| At 31 December 2006/31 December 2007 | - | 1,984 | 1,984 |
| **Depreciation and impairment loss** | | | |
| At 1 January 2006: | | | |
| Accumulated depreciation | 30 | 99 | 129 |
| Accumulated impairment loss | 1,494 | 993 | 2,487 |
| | 1,524 | 1,092 | 2,616 |
| Depreciation for the year | - | 99 | 99 |
| Transfer to investment property | (1,524) | - | (1,524) |
| At 31 December 2006/1 January 2007 | | | |
| Accumulated depreciation | - | 198 | 198 |
| Accumulated impairment loss | - | 993 | 993 |
| | - | 1,191 | 1,191 |
| Depreciation for the year | - | 98 | 98 |
| At 31 December 2007 | | | |
| Accumulated depreciation | - | 296 | 296 |
| Accumulated impairment loss | - | 993 | 993 |
| | - | 1,289 | 1,289 |
| **Carrying amounts** | | | |
| At 1 January 2006 | 1,465 | 892 | 2,357 |
| At 31 December 2006/1 January 2007 | - | 793 | 793 |
| At 31 December 2007 | - | 695 | 695 |

### *3.1 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 RM2,945,000 (2006 - RM2,413,000).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. PROPERTY, PLANT AND EQUIPMENT (continued)

### *3.2 Security*

The freehold land, buildings, plant and equipment of subsidiaries with total net book value of RM31,751,000 (2006 - RM32,039,000) have been pledged to certain licensed banks as security for bank loan facilities granted to the respective subsidiaries (See Note 13).

## 4. INTANGIBLE ASSETS

| *Group* | Development costs RM'000 | Intellectual property RM'000 | Goodwill RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2006 | 13,944 | 2,519 | 572 | 17,035 |
| Acquisitions - internally developed | 1,638 | - | - | 1,638 |
| Effect of movements in exchange rates | 48 | - | - | 48 |
| At 31 December 2006/1 January 2007 | 15,630 | 2,519 | 572 | 18,721 |
| Acquisition through business combination | - | - | 3 | 3 |
| Written off | (7,942) | - | (3) | (7,945) |
| Effect of movements in exchange rates | 360 | - | - | 360 |
| At 31 December 2007 | 8,048 | 2,519 | 572 | 11,139 |
| **Amortisation** | | | | |
| At 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 2006/1 January 2007 | 10,069 | 1,987 | - | 12,056 |
| Amortisation for the year | 2,507 | 251 | - | 2,758 |
| Written off | (7,942) | - | - | (7,942) |
| Effect of movements in exchange rates | 287 | - | - | 287 |
| At 31 December 2007 | 4,921 | 2,238 | - | 7,159 |
| **Carrying amounts** | | | | |
| At 1 January 2006 | 6,362 | 784 | 572 | 7,718 |
| At 31 December 2006/1 January 2007 | 5,561 | 532 | 572 | 6,665 |
| At 31 December 2007 | 3,127 | 281 | 572 | 3,980 |

**4. INTANGIBLE ASSETS (continued)**

| *Company* | Intellectual property RM'000 |
|---|---|
| **Cost** | |
| At 1 January 2006/31 December 2007 | 1,098 |
| **Amortisation** | |
| At 1 January 2006 | 769 |
| Amortisation for the year | 110 |
| At 31 December 2006/1 January 2007 | 879 |
| Amortisation for the year | 109 |
| At 31 December 2007 | 988 |
| **Carrying amounts** | |
| At 1 January 2006 | 329 |
| At 31 December 2006/1 January 2007 | 219 |
| At 31 December 2007 | 110 |

**4.1 Material intangible assets**

***(i) 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 cost will be recovered through future commercial activity. The remaining amortisation period ranges from 1 year to 3 years (2006 - 1 year to 5 years).

***(ii) Intellectual property***

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 is 1 year (2006 - 2 years).

***(iii) Goodwill on consolidation***

The carrying amount of the goodwill of a subsidiary in cranes segment, arising from consolidation, was assessed for impairment during the year.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 4. INTANGIBLE ASSETS (continued)

### *4.2 Amortisation*

The amortisation is recognised as administrative expenses.

### *4.3 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

| | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 2,989 | - |
| Transfer from property, plant and equipment | - | 2,989 |
| At 31 December | 2,989 | 2,989 |
| **Depreciation and impairment loss** | | |
| At 1 January | | |
| Accumulated depreciation | 60 | 30 |
| Accumulated impairment loss | 1,494 | 1,494 |
| | 1,554 | 1,524 |
| Depreciation for the year | 31 | 30 |
| At 31 December: | | |
| Accumulated depreciation | 91 | 60 |
| Accumulated impairment loss | 1,494 | 1,494 |
| | 1,585 | 1,554 |

## 5. INVESTMENT PROPERTY (continued)

| | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|
| **Carrying amount** | | |
| At 31 December | 1,404 | 1,435 |
| The carrying amount comprises: | | |
| Building | 1,404 | 1,435 |

The Directors' estimated the fair value of the investment property without involvement of independent valuers.

## 6. INVESTMENTS IN SUBSIDIARIES

| | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|
| Unquoted shares - at cost | 113,673 | 113,170 |
| Less: Allowance for diminution in value | (52,443) | (52,443) |
| | 61,230 | 60,727 |

Acquisition of subsidiary - Favelle Favco Equipment Services Sdn. Bhd.

On 6 September 2007, the Company acquired the entire equity interest in Favelle Favco Equipment Services Sdn. Bhd. (formerly known as Favelle Favco Rentals Sdn. Bhd.) from its ultimate holding company, Muhibbah Engineering (M) Bhd. for a total consideration of RM2,800. The consideration was satisfied in full by cash. The carrying amount of Favelle Favco Equipment Services Sdn. Bhd.'s net assets on the date of the acquisition was RM10. The Company recognised a goodwill on acquisition of subsidiary of RM2,790 which was written off during the year.

Subsequently, the subsidiary increased its paid up share capital from RM10 to RM500,000 and is acquired entirely by the Company for a cash consideration of RM499,990.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 6. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiaries are as follows:-

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2007 % | 2006 % |
|---|---|---|---|---|
| Favelle Favco Cranes (M) Sdn. Bhd. | Designing, manufacturing, supply, servicing, trading and renting of cranes | Malaysia | 100 | 100 |
| Favelle Favco Cranes Pte. Ltd. * | Supplying, servicing, trading and renting of cranes and sales of spare parts and services | Singapore | 100 | 100 |
| Favelle Favco Cranes (USA), Inc. # | Designing, manufacturing, supplying, servicing, trading and renting of cranes | United States of America | 100 | 100 |
| Favelle Favco Cranes Pty. Limited # and its subsidiaries: | Design, manufacture, supply, renting and servicing of industrial cranes | Australia | 100 | 100 |
| FF Management Pty. Limited # | Management services | Australia | 100 | 100 |
| Milperra Blasting and Coating Pty. Limited # | Dormant | Australia | 100 | 100 |
| Kroll Cranes A/S # | Designing, manufacturing, servicing, trading and letting of cranes | Denmark | 100 | 100 |
| Favelle Favco Cranes International Ltd. | Dormant | Malaysia | 100 | 100 |
| Favelle Favco Equipment Services Sdn. Bhd. (formerly known as Favelle Favco Rentals Sdn. Bhd.) # | Supply of spare parts for cranes, provision of crane maintenance services and rental of cranes | Malaysia | 100 | - |

* Audited by other member firm of KPMG International
\# Not audited by KPMG

## 7. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Unquoted shares, at cost | 256 | 256 | 256 | 256 |
| Share of post-acquisition reserves | (234) | (140) | - | - |
| Less: Allowance for diminution in value | - | - | (234) | - |
| | 22 | 116 | 22 | 256 |

**Summary financial information on associates:**

| | Country of incorporation | Effective ownership interest | Revenues (100%) RM'000 | Loss (100%) RM'000 | Total assets (100%) RM'000 | Total liabilities (100%) RM'000 |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| FO* | Malaysia | 30% | 380 | (316) | 805 | 733 |
| FFME** | Abu Dhabi, United Arab Emirates | 49% | 5,438 | (379) | 2,298 | 3,558 |
| | | | 5,818 | (695) | 3,103 | 4,291 |
| **2006** | | | | | | |
| 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 |

* Favco Offshores Sdn. Bhd.
** Favelle Favco Machinery and Equipment LLC

The Group has not recognised losses relating to FFME totalling RM186,000 (2006: RM192,000), since the Group has no obligation in respect of these losses.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 8. RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| **Non-trade** | | | | | |
| Advances to a subsidiary | 8.2 | - | - | 14,829 | 15,428 |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | | 106,876 | 90,712 | - | - |
| Less: Allowance for doubtful debts | | (2,860) | (1,858) | - | - |
| | | 104,016 | 88,854 | - | - |
| Progress billings receivable | | 1,430 | 3,840 | - | - |
| Amount due from ultimate holding company | 8.3 | 87 | 5,870 | - | - |
| Amount due from subsidiaries | 8.4 | - | - | 646 | 620 |
| Amount due from related companies | 8.5 | - | 954 | - | - |
| Amount due from associates | 8.6 | 2,673 | 953 | - | - |
| | | 4,190 | 11,617 | 646 | 620 |
| **Non-trade** | | | | | |
| Amount due from ultimate holding company | 8.3 | 452 | 1,233 | - | - |
| Amount due from subsidiaries | 8.4 | - | - | 33,817 | 42,015 |
| Amount due from related companies | 8.5 | 46 | 18 | - | - |
| Other receivables | | 6,177 | 2,883 | 90 | 79 |
| Deposits | | 1,995 | 349 | - | - |
| Prepayments | | 1,715 | 1,756 | - | - |
| | | 10,385 | 6,239 | 33,907 | 42,094 |
| | | 118,591 | 106,710 | 34,553 | 42,714 |

## 8. RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

**Group**

### *8.1 Analysis of foreign currency exposure for significant receivables*

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

| Functional currency | Foreign currency | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|---|
| RM | USD | 16,514 | 51,721 |
| RM | SGD | 32 | 125 |
| RM | AUD | 7,581 | 13,418 |
| RM | DKK | - | 8,342 |
| RM | HKD | 834 | 862 |
| RM | EURO | 2,837 | 14 |
| RM | RMB | 4,027 | - |
| AUD | USD | 1,390 | - |
| USD | SGD | 11,678 | - |

### *8.2 Advances to a subsidiary*

The advances to a subsidiary was unsecured, interest free and it is not expected to be repaid within the next twelve months.

### *8.3 Amount due from ultimate holding company*

The trade receivables due from ultimate holding company are subject to normal trade terms.

The non-trade receivables are unsecured, interest free with no fixed terms of repayment.

### *8.4 Amount due from subsidiaries*

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

Included in the amount due from subsidiaries as at 31 December 2007 was an amount of RM35,000 which is 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)

### *8.5 Amount due from related companies*

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

The non-trade receivables are unsecured, interest free with no fixed terms of repayment.

### *8.6 Amount due from associates*

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

## 9. CONTRACT WORK-IN-PROGRESS/AMOUNT DUE TO CONTRACT CUSTOMERS

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Aggregate costs incurred to date | 617,133 | 461,025 |
| Add: Attributable profits less foreseeable losses | 87,242 | 76,391 |
| | 704,375 | 537,416 |
| Less: Progress billings | (643,640) | (434,956) |
| | 60,735 | 102,460 |
| Amount due to contract customers | 77,289 | 33,866 |
| | 138,024 | 136,326 |
| Contract work-in-progress | 138,024 | 136,326 |
| Amount due to contract customers | 77,289 | 33,866 |

## 10. INVENTORIES

| | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|
| At cost: | | |
| Cranes | 456 | 8,839 |
| Crane components | 70,964 | 46,409 |
| Work-in-progress | 24,999 | 23,630 |
| | 96,419 | 78,878 |
| At net realisable value: | | |
| Cranes | 18,831 | 4,376 |
| Crane components | 11,653 | 7,289 |
| | 126,903 | 90,543 |

The cranes for rental of a foreign subsidiary and a local subsidiary with aggregated carrying value of RM2,350,000 (2006 - RM2,296,000) have been pledged to a financial institution as security for credit facility granted to the foreign subsidiary.

## 11. CASH AND CASH EQUIVALENTS

| | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| Cash and bank balances | 62,513 | 17,507 | 198 | 143 |
| Deposit placed with licensed banks | 11,018 | 9,701 | 2,570 | - |
| | 73,531 | 27,208 | 2,768 | 143 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. SHARE CAPITAL AND RESERVES

### *12.1 Share capital*

| | Group and Company | | |
|---|---|---|---|
| | Number of shares '000 | Par Value RM | Amount RM'000 |
| **Ordinary shares** | | | |
| **Authorised:** | | | |
| Balance at 1 January 2006 | 500,000 | 1.00 | 500,000 |
| Share split of RM1 each to RM0.50 each | 500,000 | - | - |
| Balance at 31 December 2006 / 1 January 2007 / 31 December 2007 | 1,000,000 | 0.50 | 500,000 |
| **Issued and fully paid:** | | | |
| Balance at 1 January 2006 | 50,000 | 1.00 | 50,000 |
| Capitalisation of amount due to ultimate holding company | 10,000 | 1.00 | 10,000 |
| | 60,000 | 1.00 | 60,000 |
| Share split of RM1 each to RM0.50 each | 60,000 | - | - |
| | 120,000 | 0.50 | 60,000 |
| Public issue | 48,000 | 0.50 | 24,000 |
| Balance at 31 December 2006/ 1 January 2007 | 168,000 | 0.50 | 84,000 |
| Issued under ESOS scheme | 2,355 | 0.50 | 1,178 |
| Balance at 31 December 2007 | 170,355 | 0.50 | 85,178 |

## 12. CAPITAL AND RESERVES (continued)

### *12.1 Share capital (continued)*

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.

(a) Transfer to Main Board of Bursa Malaysia Securities Berhad

The entire authorised and paid up share capital of the Company comprising 169,170,020 ordinary shares of RM0.50 each was successfully transferred from the Second Board to the Main Board of Bursa Malaysia Securities Berhad on 16 August 2007.

(b) Exercise of employees' share options

During the financial year, a total of 2,355,000 new ordinary shares of RM0.50 each were issued at RM0.55 for cash pursuant to the Employees' Share Options Scheme ("ESOS") of the Company.

The details of options granted to subscribe for ordinary shares of RM0.50 each under the Company's ESOS, which remain outstanding at 31 December 2007 are disclosed in Note 17.

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 movement in each category of reserves are disclosed in the statements of changes in equity.

### *12.2 Share premium*

The share premium of the Group and of the Company represents premium arising from the issuance of ordinary shares of the Company at issue price above par value and the transfer of option reserve to share premium when the share options are exercised.

The share premium may be applied only for the purposes as specified in the Companies Act, 1965. The share premium is not available for distribution of dividends.

### *12.3 Translation reserve*

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. CAPITAL AND RESERVES (continued)

### *12.4 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.

### *12.5 Treasury shares*

This amount represents the acquisition cost for the repurchase of its ordinary shares by the Company, net of the proceeds received on their subsequent sale or issuance of the shares repurchased.

The Company, by a resolution passed in an Extraordinary General Meeting held on 25 June 2007, obtained the approval from the shareholders of the Company to repurchase its own ordinary shares. The Directors of the Company are committed to enhancing the value of the Company for its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

During the financial year, the Company repurchased 10,000 ordinary shares of RM0.50 each (2006 - Nil) of its issued shares from the open market at an average price of RM2.06 (2006 - N/A) per ordinary share. The total consideration paid for the repurchase including transaction costs was RM20,749 (2006 - N/A) comprising of consideration paid amounting to RM20,576 (2006 - N/A) and transaction costs of RM173 (2006 - N/A). The repurchase transactions were fully financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 170,355,020 issued and fully paid-up ordinary shares of RM0.50 each as at 31 December 2007, 10,000 (2006 - N/A) are held as treasury shares by the Company. The treasury shares are held at a carrying amount of RM20,749.

None of the treasury shares held are resold or cancelled during the year ended 31 December 2007.

### *12.6 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 retained earnings at 31 December 2007 if paid out as dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

## 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 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| **Non-current** | | | | |
| Secured term loans | 14,243 | 17,709 | - | - |
| Unsecured term loan | - | 8,700 | - | 8,700 |
| Finance lease liabilities | 1,042 | 869 | - | - |
| | 15,285 | 27,278 | - | 8,700 |
| **Current** | | | | |
| Secured term loans | 3,252 | 3,383 | - | - |
| Unsecured term loan | 8,700 | 6,078 | 8,700 | 6,000 |
| Bank overdraft - secured | 15,922 | 3,803 | - | - |
| Bank overdrafts - unsecured | 614 | 9,850 | - | - |
| Unsecured revolving credits | 18,019 | 25,598 | 10,019 | 10,597 |
| Unsecured insurance premium finance | 870 | 606 | - | - |
| Bills payable | 84,928 | 75,841 | - | - |
| Finance lease liabilities | 462 | 492 | - | - |
| | 132,767 | 125,651 | 18,719 | 16,597 |
| | 148,052 | 152,929 | 18,719 | 25,297 |

### *13.1 Security*

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 holding company.

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 bank overdraft of a subsidiary is charged against its freehold land, buildings, plant and equipment (Note 3).

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

The revolving credit of the Company is backed by the ultimate holding company.

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. LOANS AND BORROWINGS (continued)

### 13.2 Terms and debt repayment schedule

| | Year of maturity | 2007 Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Secured term loans | | | | |
| - DKK | 2008 | 1,140 | 1,140 | - |
| - RM | 2015 | 16,355 | 2,112 | 2,112 |
| Unsecured term loans | | | | |
| - RM | 2008 | 8,700 | 8,700 | - |
| - USD | 2007 | - | - | - |
| Secured bank overdraft | | | | |
| - DKK | 2008 | 15,922 | 15,922 | - |
| Unsecured bank overdrafts | | | | |
| - SGD | 2008 | 614 | 614 | - |
| - RM | 2008 | - | - | - |
| Unsecured revolving credits | | | | |
| - USD | 2008 | 18,019 | 18,019 | - |
| Unsecured insurance premium finance | | | | |
| - AUD | 2008 | 870 | 870 | - |
| Bills payable | 2008 | 84,928 | 84,928 | - |
| Finance lease liabilities | | | | |
| - AUD | 2009 | 113 | 90 | 23 |
| - RM | 2008 -2014 | 1,294 | 352 | 304 |
| - SGD | 2013 | 97 | 20 | 20 |
| | | 148,052 | 132,767 | 2,459 |
| **Company** | | | | |
| Unsecured term loans | | | | |
| - RM | 2008 | 8,700 | 8,700 | - |
| Unsecured revolving credits | | | | |
| - USD | 2008 | 10,019 | 10,019 | - |
| | | 18,719 | 18,719 | - |

| | | 2006 | | | | |
|---|---|---|---|---|---|---|
| 2 - 5 years RM'000 | 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 |
| - | - | 2,612 | 1,271 | 217 | 748 | 376 |
| 6,336 | 5,795 | 18,480 | 2,112 | 2,112 | 6,336 | 7,920 |
| - | - | 14,700 | 6,000 | 6,000 | 2,700 | - |
| - | - | 78 | 78 | - | - | - |
| - | - | 3,803 | 3,803 | - | - | - |
| - | - | 5,207 | 5,207 | - | - | - |
| - | - | 4,643 | 4,643 | - | - | - |
| - | - | 25,598 | 25,598 | - | - | - |
| - | - | 606 | 606 | - | - | - |
| - | - | 75,841 | 75,841 | - | - | - |
| - | - | 342 | 235 | 86 | 21 | - |
| 546 | 92 | 894 | 236 | 240 | 376 | 42 |
| 57 | - | 125 | 21 | 22 | 64 | 18 |
| 6,939 | 5,887 | 152,929 | 125,651 | 8,677 | 10,245 | 8,356 |
| - | - | 14,700 | 6,000 | 6,000 | 2,700 | - |
| - | - | 10,597 | 10,597 | - | - | - |
| - | - | 25,297 | 16,597 | 6,000 | 2,700 | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. LOANS AND BORROWINGS (continued)

### *13.3 Finance lease liabilities*

Finance lease liabilities are payable as follows:

| Group | Minimum lease payments 2007 RM'000 | Interest 2007 RM'000 | Principal 2007 RM'000 | Minimum lease payments 2006 RM'000 | Interest 2006 RM'000 | Principal 2006 RM'000 |
|---|---|---|---|---|---|---|
| Less than one year | 522 | (60) | 462 | 546 | (54) | 492 |
| Between one and five years | 1,133 | (183) | 950 | 899 | (90) | 809 |
| More than five years | 116 | (24) | 92 | 66 | (6) | 60 |
| | 1,771 | (267) | 1,504 | 1,511 | (150) | 1,361 |

## 14. DEFERRED TAX LIABILITIES

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| Group | Assets 2007 RM'000 | Assets 2006 RM'000 | Liabilities 2007 RM'000 | Liabilities 2006 RM'000 | Net 2007 RM'000 | Net 2006 RM'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (533) | - | 774 | 2,615 | 241 | 2,615 |
| Other items | - | (1,958) | 2,745 | 1,667 | 2,745 | (291) |
| Tax losses carry-forwards | (801) | - | - | - | (801) | - |
| Net tax (assets)/ liabilities | (1,334) | (1,958) | 3,519 | 4,282 | 2,185 | 2,324 |

## 14. DEFERRED TAX LIABILITIES (continued)

### Unrecognised deferred tax assets

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

| | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| Deductible temporary differences | 7,797 | 10,161 | - | - |
| Tax losses carry-forwards | 14,153 | 16,550 | - | - |
| | 21,950 | 26,711 | - | - |

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 1.1.2006 RM'000 | Recognised in income statement (Note 22) RM'000 | At 31.12.2006 RM'000 | Recognised in income statement (Note 22) RM'000 | At 31.12.2007 RM'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 1,135 | 1,480 | 2,615 | (2,374) | 241 |
| Other items | 665 | (956) | (291) | 3,035 | 2,744 |
| Tax losses carry-forwards | (349) | 349 | - | (800) | (800) |
| | 1,451 | 873 | 2,324 | (139) | 2,185 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15. PROVISIONS

| Group | 2007 Warranties RM'000 | 2007 Restructuring costs RM'000 | 2007 Total RM'000 | 2006 Total RM'000 |
|---|---|---|---|---|
| Balance at 1 January | 4,445 | 153 | 4,598 | 10,406 |
| Provision made during the year | 3,107 | - | 3,107 | 2,631 |
| Provision used during the year | (591) | (153) | (744) | (3,913) |
| Provision reversed during the year | (1,757) | - | (1,757) | (4,554) |
| Effect of movements in exchange rates | 92 | - | 92 | 28 |
| Balance at 31 December | 5,296 | - | 5,296 | 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.

***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 and restructuring was completed in 2007.

## 16. PAYABLES AND ACCRUALS

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Trade** | | | | | |
| Trade payables | | 114,716 | 80,485 | - | - |
| Amount due to ultimate holding company | 16.2 | 788 | 6 | - | - |
| Amount due to related companies | 16.3 | 841 | 1,468 | - | - |
| Amount due to associate | 16.4 | - | 505 | - | - |
| | | 116,345 | 82,464 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16. PAYABLES AND ACCRUALS (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Non-trade** | | | | | |
| Amount due to ultimate holding company | 16.2 | 885 | - | - | - |
| Amount due to subsidiary | 16.5 | - | - | 2,496 | 7,530 |
| Amount due to related companies | 16.3 | 211 | 146 | - | - |
| Other payables | | 24,066 | 4,507 | 5 | 2 |
| Accrued expenses | | 22,972 | 38,195 | 105 | 107 |
| | | 48,134 | 42,848 | 2,606 | 7,639 |
| | | 164,479 | 125,312 | 2,606 | 7,639 |

### *16.1 Analysis of foreign currency exposure for significant payables*

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

| Functional currency | Foreign currency | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|---|
| RM | AUD | 14,019 | 13,095 |
| RM | SGD | 115 | 2,549 |
| RM | DKK | - | 6,998 |
| RM | EUR | 1,029 | 2,491 |
| RM | USD | 7,419 | 32,490 |
| RM | YEN | - | 95 |
| RM | GBP | - | 498 |
| RM | RMB | 3,956 | 3,925 |
| USD | AUD | 1,135 | - |
| USD | SGD | 1,145 | - |
| USD | MYR | 287 | - |
| AUD | GBP | 221 | - |
| AUD | USD | 503 | - |

### *16.2 Amount due to ultimate holding company*

The trade payables due to ultimate holding company are subject to the normal trade terms.

The non-trade payables due to ultimate holding company are unsecured, interest free with no fixed term of repayment.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16. PAYABLES AND ACCRUALS (continued)

### *16.3 Amount due to related companies*

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

The non-trade payables due to related companies are unsecured, interest free with no fixed term of repayment.

### *16.4 Amount due to associate*

The trade payable due to an associate was subject to the normal trade terms. The amount was interest free with no fixed term of repayment.

### *16.5 Amount due to subsidiary*

The amount due to a subsidiary is unsecured with no fixed terms of repayment and bears interest at 9.0% (2006 - 9.0%) per annum.

## 17. EMPLOYEE BENEFITS

### *17.1 Share-based payments*

An employees' share option scheme ("ESOS scheme") of the Company was established and approved by the shareholders of the ultimate holding 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 '000 | Exercise price RM | Expiry date |
|---|---|---|---|---|
| ESOS scheme (granted in 2007) | 30.6.2007 | 391 | 1.90 | 29.6.2011 |
| ESOS scheme (granted in 2006) | 30.6.2006 | 11,804 | 0.55 | 29.6.2011 |

## 17. EMPLOYEE BENEFITS (continued)

### *17.1 Share-based payments (continued)*

| | Number of options 2007 '000 | 2006 '000 |
|---|---|---|
| Outstanding at 1 January | 11,482 | - |
| Granted during the year | 391 | 11,803 |
| Retracted/Forfeited during the year * | (419) | (321) |
| Exercised during the year | (2,355) | - |
| Outstanding at 31 December | 9,099 | 11,482 |

* Due to non-acceptance and resignation

The options granted in 2007 and 2006 under the ESOS scheme of the Company, which remain outstanding as at 31 December 2007 have an exercise price at RM1.90 and RM0.55 per ordinary share of RM0.50 each and a remaining contractual life of 4 years (2006 - 5 years).

During the year, 2,355,000 share options of RM0.50 each granted in 2006 under the ESOS scheme of the Company were exercised. During the year, no share options granted in 2007 under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the year was RM1.60.

In 2006, no share options under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the year was RM0.80.

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

| | Group and Company 2007 RM'000 | 2006 RM'000 |
|---|---|---|
| Ordinary share capital at par | 1,178 | - |
| Share premium | 117 | - |
| Proceeds received on exercise of share options | 1,295 | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 17. EMPLOYEE BENEFITS (continued)

### *17.1 Share-based payments (continued)*

**Details relating to options exercised during the year (continued)**

| | Group and Company 2007 RM | 2006 RM |
|---|---|---|
| Fair value of shares issued (based on average exercise price) | 1.60 | 0.80 |

**Value of employee services received for issue of share options**

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

| | Group and Company 2007 RM'000 | 2006 RM'000 |
|---|---|---|
| Share options granted in 2006 | 1,202 | 457 |
| Share options granted in 2007 | 108 | - |
| Total expense recognised as share-based payments | 1,310 | 457 |

**Fair value of share options and assumptions**

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

| | Group and Company 2007 | 2006 |
|---|---|---|
| Fair value at grant date | RM0.17 - RM1.03 | RM0.17 - RM0.22 |
| Weighted average share price | RM0.55 - RM2.04 | RM0.55 |
| Exercise price | RM0.55 / RM1.90 | RM0.55 |
| Expected volatility (weighted average volatility) | 38.00% - 59.24% | 38.00% |
| Option life | 4 years | 5 years |
| Risk-free interest rate (based on Malaysian Government bonds) | 3.30% - 4.57% | 4.48% - 4.57% |
| Expected staff turnover | 5% | 20% |

## 17. EMPLOYEE BENEFITS (continued)

### *17.1 Share-based payments (continued)*

The expected volatility reflects the assumption that the historical volatility is indicative of future trends and not necessarily be the actual outcome. The expected option life is based on historical data, which may also not necessarily be indicative of exercise patterns that may occur. No other features of the option grant were incorporated into the measurement of fair value.

## 18. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Contract revenue | 375,551 | 289,134 | - | - |
| Sales of goods | 49,858 | 36,654 | - | - |
| Services rendered | 28,487 | 32,168 | - | - |
| Dividends | - | - | 12,915 | 6,610 |
| | 453,896 | 357,956 | 12,915 | 6,610 |

## 19. COST OF SALES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Contract costs | 339,100 | 263,188 | - | - |
| Sales of goods | 26,845 | 19,028 | - | - |
| Services rendered | 17,531 | 17,472 | - | - |
| | 383,476 | 299,688 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 20. OPERATING PROFIT

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Operating profit is arrived at after crediting:** | | | | | |
| Allowance for doubtful debts written back | | 374 | - | - | - |
| Dividend income from subsidiaries (unquoted) | | - | - | 12,915 | 6,610 |
| Net foreign exchange gain | | 11,917 | - | 83 | 195 |
| Gain on disposal of property, plant and equipment | | 26 | 760 | - | - |
| Rental income on premises | | 783 | 738 | - | - |
| Rental income on cranes | | 13,992 | 17,035 | - | - |
| Release of unused provisions | 15 | 1,757 | 4,554 | - | - |
| Reversal of allowance for slow moving inventories | | - | 924 | - | - |
| Write back of inventories written off | | - | 1,272 | - | - |
| **and after charging:** | | | | | |
| Allowance for doubtful debts | | 1,423 | 543 | - | 11 |
| Allowance for slow moving inventories | | 4,383 | 3,524 | - | - |
| Allowance for diminution in value of investments in associates | | - | - | 234 | - |
| Auditors' remuneration: | | | | | |
| - holding company's auditors | | 85 | 85 | 35 | 34 |
| - other auditors | | 344 | 224 | - | - |
| Amortisation of intangible assets | 4 | 2,758 | 2,676 | 109 | 110 |
| Depreciation of property, plant and equipment | 3 | 7,613 | 7,763 | 98 | 99 |
| Depreciation of investment property | 5 | - | - | 31 | 30 |
| Inventories written off | | 870 | 210 | - | - |
| Net foreign exchange loss | | - | 755 | - | - |
| Property, plant and equipment written off | 3 | 42 | 647 | - | - |
| Increase in provisions | 15 | 3,107 | 2,631 | - | - |
| Rental expense on: | | | | | |
| - cranes | | 6,310 | 5,652 | - | - |
| - premises | | 803 | 482 | - | - |
| - equipments | | 604 | 926 | - | - |
| Personnel expenses (including key management personnel): | | | | | |
| - contributions to Employees Provident Fund | | 3,060 | 2,273 | 75 | 83 |
| - share-based payments | 17 | 1,310 | 457 | 1,310 | 457 |
| - wages, salaries and others | | 46,611 | 38,125 | 608 | 690 |

## 21. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

| | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| Directors | | | | |
| - Fees | 453 | 166 | 423 | 130 |
| - Remuneration | 750 | 773 | 750 | 625 |
| | 1,203 | 939 | 1,173 | 755 |

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

## 22. TAX EXPENSE

***Recognised in the income statement***

Major components of tax expense include:

| | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|
| **Current tax expense:** | | | | |
| Malaysia - current | 605 | 432 | 2,014 | - |
| - prior year | 743 | (464) | 5 | - |
| | 1,348 | (32) | 2,019 | - |
| Overseas - current | 1,285 | 237 | - | - |
| - prior year | 72 | - | - | - |
| | 1,357 | 237 | - | - |
| Total current tax | 2,705 | 205 | 2,019 | - |
| **Deferred tax expense:** | | | | |
| Origination of temporary differences | 87 | 820 | - | - |
| (Over)/Under provided in prior years | (165) | 53 | - | - |
| Total deferred tax | (78) | 873 | - | - |
| Total tax expense | 2,627 | 1,078 | 2,019 | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22. TAX EXPENSE (continued)

***Recognised in the income statement (continued)***

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Profit for the year | 18,935 | 9,868 | 6,025 | 3,273 |
| Total tax expense | 2,627 | 1,078 | 2,019 | - |
| Profit excluding tax | 21,562 | 10,946 | 8,044 | 3,273 |
| Tax at Malaysian tax rate of 27% (2006 - 28%) | 5,822 | 3,065 | 2,172 | 917 |
| Effect of different tax rates in foreign jurisdictions | 478 | 64 | - | - |
| Effect of change in tax rates | (185) | (26) | - | - |
| Non-deductible expenses | 1,426 | 3,245 | 476 | 8,665 |
| Non-taxable income | (115) | (1,525) | (634) | (7,731) |
| Tax exempt income | (547) | (512) | - | (1,851) |
| Tax incentives | (138) | (72) | - | - |
| Effect of utilisation of deferred tax assets previously not recognised | (4,761) | (2,750) | - | - |
| Under/(Over) provided in prior years | 647 | (411) | 5 | - |
| Tax expense | 2,627 | 1,078 | 2,019 | - |

* With effect from year of assessment 2004, companies with paid-up capital of RM2.5 million and below at the beginning of the basis period for a year of assessment are subject to corporate tax at 20% on chargeable income up to RM500,000.

The corporate tax rates are 27% for the year of assessment 2007, 26% for year of assessment 2008 and 25% for the subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

A subsidiary which is principally engaged in designing, manufacturing, supply, servicing, trading and renting of cranes was granted tax exemption of 100% on cranes sales under Section 127, Income Tax Act, 1967 for a period of 10 years with effect from 1 June 2002.

## 23. EARNINGS PER ORDINARY SHARE

**Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share for the year ended 31 December 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Profit for the year attributable to ordinary shareholders | 18,935 | 9,868 |

**Weighted average number of ordinary shares**

| | Group | |
|---|---|---|
| | 2007 '000 | 2006 '000 |
| Weighted average number of ordinary shares in issue * | 168,000 | 135,074 |
| Effect of shares repurchased | (5) | - |
| Effect of ordinary shares issued under ESOS | 839 | - |
| Total weighted average number of ordinary shares in issue (unit) | 168,834 | 135,074 |

* The weighted average number of ordinary shares in issue is arrived at after accounting for the effects of the treasury shares and the effects of subdivision of existing ordinary shares, which was completed on 19 May 2006.

| | Group | |
|---|---|---|
| | 2007 Sen | 2006 Sen |
| Basic earnings per ordinary share | 11.22 | 7.31 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23. EARNINGS PER ORDINARY SHARE (continued)

### Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2007 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 | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Profit for the year attributable to ordinary shareholders | 18,935 | 9,868 |

**Weighted average number of ordinary shares (diluted)**

| | Group | |
|---|---|---|
| | 2007 '000 | 2006 '000 |
| Weighted average number of ordinary shares at 31 December | 168,834 | 135,074 |
| Effect of share options on issue | 5,995 | 3,608 |
| Weighted average number of ordinary share (diluted) at 31 December | 174,829 | 138,682 |

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

| | Group | |
|---|---|---|
| | 2007 Sen | 2006 Sen |
| Diluted earnings per ordinary share | 10.83 | 7.11 |

## 24. DIVIDENDS

Dividends recognised in the current year by the Company are:

| 2007 | Sen per share (tax exempt) | Total amount RM'000 | Date of payment |
|---|---|---|---|
| First and final 2006 ordinary | 1.75 | 2,960 | 24 September 2007 |

## 24. DIVIDENDS (continued)

After the balance sheet date the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial reports upon approval by the shareholders.

| | Sen per share (non tax exempt) | Total amount RM'000 |
|---|---|---|
| First and final ordinary | 2.40 | 4,097 |

***Dividends per ordinary share***

The calculation of dividends per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2007 of RM5,536,213 (2006 - RM2,960,458) on the issued and paid-up share capital (excluding treasury shares) of 170,345,020 ordinary shares of RM0.50 each (2006 - 169,169,020 ordinary shares of RM0.50 each ) as at 31 December 2007.

## 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 | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Geographical segments** | | | | | | | | |
| Revenue from external customers | 176,758 | 151,376 | 277,138 | 206,580 | - | - | 453,896 | 357,956 |
| Inter-segment revenue | 147,999 | 108,227 | 111,295 | 116,431 | (259,294) | (224,658) | - | - |
| **Total revenue** | 324,757 | 259,603 | 388,433 | 323,011 | (259,294) | (224,658) | 453,896 | 357,956 |
| Operating profit/(loss) | 20,460 | 14,345 | 23,184 | 9,464 | (15,435) | (5,549) | 28,209 | 18,260 |
| Interest expense | (7,716) | (7,534) | (948) | (1,570) | 743 | 1,569 | (7,921) | (7,535) |
| Interest income | 514 | (35) | 1,593 | 2,019 | (738) | (1,567) | 1,369 | 417 |
| Share of loss of associates | (95) | (196) | - | - | - | - | (95) | (196) |
| Profit/(Loss) before tax | 13,163 | 6,580 | 23,829 | 9,913 | (15,430) | (5,547) | 21,562 | 10,946 |
| Segment assets | 477,213 | 409,325 | 335,305 | 254,835 | (282,633) | (230,007) | 529,885 | 434,153 |
| Investments in associates | 22 | 116 | - | - | - | - | 22 | 116 |
| Total assets | 477,235 | 409,441 | 335,305 | 254,835 | (282,633) | (230,007) | 529,907 | 434,269 |
| Segment liabilities | 342,554 | 278,819 | 272,713 | 207,114 | (216,281) | (166,787) | 398,986 | 319,146 |

## 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.

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 Krones, HK dollars, Japanese Yen, Pound Sterling and RMB.

The Group and the Company hold derivative financial instruments to hedge their foreign currency risk exposures although the Group and the Company do not have a fixed policy to hedge their sales and purchases in forward contracts. The exposure to foreign currency risk of the Group and of the Company is monitored by the management from time to time. The Group and the Company do not hold derivative instruments for trading purposes.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 26. FINANCIAL INSTRUMENTS (continued)

### Foreign currency (continued)

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

### 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.

## 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 2007 | 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** | | | | | | | | |
| Finance lease liabilities | | | | | | | | |
| - AUD | 4.25 | 113 | 90 | 23 | - | - | - | - |
| - RM | 3.29 | 1,294 | 352 | 304 | 239 | 167 | 140 | 92 |
| - SGD | 3.00 | 97 | 20 | 20 | 19 | 19 | 19 | - |
| **Floating rate instruments** | | | | | | | | |
| Secured term loans | | | | | | | | |
| - DKK | 5.08 | 1,140 | 1,140 | - | - | - | - | - |
| - RM | 5.20 | 16,355 | 2,112 | 2,112 | 2,112 | 2,112 | 2,112 | 5,795 |
| Unsecured term loan | | | | | | | | |
| - RM | 6.50 | 8,700 | 8,700 | - | - | - | - | - |
| Unsecured insurance premium finance | | | | | | | | |
| - AUD | 3.69 | 870 | 870 | - | - | - | - | - |
| Unsecured revolving credits | | | | | | | | |
| - USD | 6.46 | 18,019 | 18,019 | - | - | - | - | - |
| Secured bank overdraft | | | | | | | | |
| - DKK | 7.00 | 15,922 | 15,922 | - | - | - | - | - |
| Unsecured bank overdrafts | | | | | | | | |
| - SGD | 9.20 | 614 | 614 | - | - | - | - | - |
| Bills payable | 4.64 | 84,928 | 84,928 | - | - | - | - | - |
| | | 148,052 | 132,767 | 2,459 | 2,370 | 2,298 | 2,271 | 5,887 |
| **Fixed rate instruments** | | | | | | | | |
| Deposits | 4.07 | 11,018 | 11,018 | - | - | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 26. FINANCIAL INSTRUMENTS (continued)

| 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 loans | | | | | | | | |
| - 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 | - | - | - | - | - |
| | | 152,929 | 125,651 | 8,677 | 5,251 | 2,468 | 2,526 | 8,356 |
| **Fixed rate instruments** | | | | | | | | |
| Deposits | 5.20 | 9,701 | 9,701 | - | - | - | - | - |

## 26. FINANCIAL INSTRUMENTS (continued)

| Company | 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 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Fixed rate instruments** | | | | | | | | |
| Deposit | 3.20 | 2,570 | 2,570 | - | - | - | - | - |
| **Floating rate instruments** | | | | | | | | |
| Unsecured term loan | | | | | | | | |
| - RM | 6.50 | 8,700 | 8,700 | - | - | - | - | - |
| Unsecured revolving credit | 7.15 | 10,019 | 10,019 | - | - | - | - | - |
| | | 18,719 | 18,719 | - | - | - | - | - |
| **2006** | | | | | | | | |
| **Floating rate instruments** | | | | | | | | |
| Unsecured term loan | | | | | | | | |
| - RM | 6.50 | 14,700 | 8,700 | 6,000 | - | - | - | - |
| Unsecured revolving credit | 7.45 | 10,597 | 10,597 | - | - | - | - | - |
| | | 25,297 | 19,297 | 6,000 | - | - | - | - |

# 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 Company's investments in subsidiaries and associates 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 | 2007 Carrying amount RM'000 | 2007 Fair value RM'000 | 2006 Carrying amount RM'000 | 2006 Fair value RM'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Secured term loan | 17,495 | 17,495 | 21,092 | 21,092 |
| Unsecured term loans | 8,700 | 8,700 | 14,778 | 14,778 |
| Finance lease liabilities | 1,694 | 1,771 | 1,406 | 1,511 |

The Company provides financial guarantees to financial institutions for credit facilities extended to certain subsidiaries. The fair value of such financial guarantees is not expected to be material as the subsidiaries are managed by the management team without an expectation of default on the credit lines.

### Unrecognised financial instruments

Forward foreign exchange contracts

The outstanding foreign exchange forward contracts not recognised in the balance sheet at 31 December 2007 with maturity date within 1 year are as follows:

| Group | 2007 Contracted amount USD'000 | 2007 Fair value RM'000 | 2006 Contracted amount USD'000 | 2006 Fair value RM'000 |
|---|---|---|---|---|
| Forward foreign exchange contracts (Selling) | 81,594 | 2,533 | 17,244 | 57 |
| Forward foreign exchange contracts (Purchase) | 14,023 | 795 | - | - |

## 26. FINANCIAL INSTRUMENTS (continued)

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.

## 27. Contingent liabilities – unsecured

| | Company | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Corporate guarantee for credit facilities granted to subsidiaries | 111,871 | 24,533 |
| Performance guarantee granted to subsidiaries | 147,366 | 95,164 |
| | 259,237 | 119,697 |

## 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 6), related companies, associates (see Note 7) and Directors (see Note 21).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 28. RELATED PARTIES (continued)

***Significant transactions with related parties:***

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ultimate holding company | | | | |
| Purchase of property, plant and equipment | 495 | 1,227 | - | - |
| Purchase of goods | - | 1,415 | - | - |
| Rental expense payable | 1,795 | 1,181 | - | - |
| Rental income receivable | (482) | (187) | - | - |
| Sale of goods | (1,473) | (19,708) | - | - |
| Subcontract cost payable | 746 | 500 | - | - |
| Subsidiaries | | | | |
| Dividend income receivable | - | - | (12,915) | (6,610) |
| Interest expense payable | - | - | 733 | 928 |
| Related companies | | | | |
| Sale of goods | (1,170) | (1,161) | - | - |
| Rental expense payable | 226 | 252 | - | - |
| Purchase of goods | - | 2,867 | - | - |
| Subcontract cost payable | 3,387 | - | - | - |
| Associates | | | | |
| Rental income | - | (39) | - | - |
| Rental expense payable | - | 968 | - | - |
| Sale of goods and services | (5,312) | (857) | - | - |
| Purchase of goods and services | - | 253 | - | - |

**28. RELATED PARTIES (continued)**

The outstanding net amounts due from/(to) subsidiaries, related companies and associates as at 31 December are disclosed in Note 8 and Note 16 respectively.

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

There are no allowance for doubtful receivables as at 31 December 2007 in respect of the above related party balances except for debts from Favelle Favco Cranes Machinery and Equipment LLC of RM779,000 in 2006.

**29. SIGNIFICANT EVENTS**

On 28 February 2007, the Board of Directors of the Company made a public release to the Bursa Malaysia Securities Berhad of the intention to make an application to the Securities Commission for the transfer of existing listing of and quotation for the entire enlarged issued and paid-up share capital of the Company from the Second Board to the Main Board of Bursa Malaysia Securities Berhad. The approvals were received from the Securities Commission and Bursa Malaysia Securities Berhad vide the approval letters dated 9 July 2007 and 27 July 2007 respectively.

Accordingly, on 16 August 2007, the entire issued and paid-up share capital of the Company was successfully transferred from the Second Board to the Main Board of Bursa Malaysia Securities Berhad.

# GROUP PROPERTIES AS AT 31 DECEMBER 2007

| 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 | Factory building with office block | 2005 |
| 3. | 7AL, Nordkranvej, 2 3540, Lynge DK, Denmark | Factory building with office block | 1986 |

| Tenure/Expiry Date | Owner | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|---|
| Leasehold expiry 2031 | Favelle Favco Berhad | 17.826 acres | 10 years | 1,404 |
| Freehold | Favelle Favco Cranes (M) Sdn. Bhd. | 68,846 sq. m | 3 years | 27,330 |
| Freehold | Kroll Cranes A/S | 59,525 sq. m | 38 years | 3,943 |
| | | | **Total properties** | **32,677** |

# ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2008

## SHARE CAPITAL

| | |
|---|---|
| Authorised share capital | : RM500 million |
| Issued and fully paid-up capital | : RM85,187,510 |
| 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*2 | % of holders*2 | No. of shares held*2 | % of issued capital*2 |
|---|---|---|---|---|
| Less than 100 | 10 | 0.31 | 260 | -*1 |
| 100 to 1,000 | 1,027 | 31.63 | 892,540 | 0.52 |
| 1,001 to 10,000 | 1,760 | 54.21 | 7,429,959 | 4.36 |
| 10,001 to 100,000 | 381 | 11.73 | 10,633,939 | 6.24 |
| 100,001 to 8,518,250 *2 | 67 | 2.06 | 43,177,222 | 25,35 |
| 8,518,751*2 and above | 2 | 0.06 | 108,231,100 | 63.53 |
| TOTAL | 3,247 | 100.00 | 170,365,020 | 100.00 |

*Notes:*

*1. Less than 0.01%.

*2. Excluding a total of 10,000 shares re-purchased and retained as treasury shares as at 23 April 2008.

## DIRECTORS' DIRECT AND DEEMED INTERESTS IN SHARES IN THE COMPANY

The Directors' direct and deemed interests in shares in the Company base on the Register of Directors' Shareholdings are as follows:

### Shares in the Company

| Name of Directors | Direct interests (no. of shares) | % of issued capital(9) | Deemed interests (no. of shares) | % of issued capital(9) |
|---|---|---|---|---|
| 1. Tuan Haji Mohamed Taib bin Ibrahim | 2,845,671 | 1.67 | 106,500(1) | 0.06 |
| 2. Mac Ngan Boon @ Mac Yin Boon | 7,392,913(2) | 4.34 | 101,089,800(3) | 59.34 |
| 3. Mac Chung Hui | 1,412,000(4) | 0.83 | - | - |
| 4. Lee Poh Kwee | 185,000(5) | 0.11 | - | - |
| 5. Mazlan bin Abdul Hamid | 1,415,000(6) | 0.83 | - | - |
| 6. Tan Sri A. Razak bin Ramli | 300,000 | 0.18 | 800(1) | -(7) |
| 7. Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 300,000(8) | 0.18 | - | - |

# ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2008 (continued)

*Notes:*

1) Deemed interested pursuant to Section 134 of the Company Act, 1965 ("Act"), held through his/her spouse and/or child/children.
2) 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.
3) 98,000,000 deemed interested pursuant to Section 6A of the Act by virtue of his substantial interests in MEB.
   3,089,800 deemed interested pursuant to Section 134 of the Act, held through his/her spouse and child/children.
4) 400,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.
5) 70,000 shares held through RHB Capital Nominees (Tempatan) Sdn Bhd.
6) 1,195,000 shares held through EB Nominees (Tempatan) Sdn Bhd.
7) Less than 0.01%.
8) 300,000 shares held through EB Nominees (Tempatan) Sdn Bhd.
9) Excluding a total of 10,000 shares re-purchased and retained as treasury shares as at 23 April 2008.

**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 2007 on pages 39 and 40 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 2007 on page 41 of this annual report.

**Substantial Shareholdings As At 23 April 2008**

| Name | Direct interests (no. of shares) | % of issued capital[3] | Deemed interests (no. of shares) | % of issued capital[3] |
|---|---|---|---|---|
| Muhibbah Engineering (M) Bhd | 98,000,000 | 57.52 | - | - |
| Mac Ngan Boon @ Mac Yin Boon | 7,392,913[1] | 4.34 | 101,089,800[2] | 59.34 |
| Lembaga Tabung Haji | 10,280,200 | 6.03 | - | - |

*Notes:*

1) 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.
2) 98,000,000 deemed interested pursuant to Section 6A of the Act by virtue of his substantial interests in MEB.
   3,089,800 deemed interested pursuant to Section 134 of the Act, held through his/her spouse and child/children.
3) Excluding a total of 10,000 shares re-purchased and retained as treasury shares as at 23 April 2008.

# ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2008 (continued)

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

| No. | Name of Shareholders | No. of shares held | % of issued capital* |
|---|---|---|---|
| 1 | Muhibbah Engineering (M) Bhd | 98,000,000 | 57.5235 |
| 2 | Lembaga Tabung Haji | 10,280,200 | 6.0342 |
| 3 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An For JPMorgan Chase Bank, National Association (Jersey) | 5,721,000 | 3.3581 |
| 4 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 5,264,000 | 3.0898 |
| 5 | Nik Ibrahim Kamil Bin Nik Ahmad Kamil | 2,873,722 | 1.6868 |
| 6 | Mohamed Taib Bin Ibrahim | 2,330,200 | 1.3678 |
| 7 | Mac Ngan Boon @ Mac Yin Boon | 2,128,913 | 1.2496 |
| 8 | Baharuddin Bin Ali | 2,102,700 | 1.2342 |
| 9 | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Al-Faid | 1,867,500 | 1.0962 |
| 10 | Alliance Group Nominees (Tempatan) Sdn Bhd<br>PHEIM Asset Management Sdn Bhd for Employees Provident Fund | 1,866,400 | 1.0955 |
| 11 | Ooi Sen Eng | 1,326,000 | 0.7783 |
| 12 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Mazlan Bin Abdul Hamid | 1,195,000 | 0.7014 |
| 13 | Mac Chung Hui | 1,012,000 | 0.5940 |
| 14 | OREC Engineering Holdings Pty Ltd | 900,000 | 0.5283 |
| 15 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Noriyati Binti Hassan | 900,000 | 0.5283 |
| 16 | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Progress Fund | 880,000 | 0.5165 |
| 17 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Chew Keng Siew | 800,000 | 0.4696 |
| 18 | Mohamed Taib Bin Ibrahim | 515,471 | 0.3026 |
| 19 | AMSEC Nominees (Tempatan) Sdn Bhd<br>AMTrustee Berhad for APEX Dana Al-Sofi-I (UT-APEX-SOFI) | 469,000 | 0.2753 |

# ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2008 (continued)

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

| No. | Name of Shareholders | No. of shares held | % of issued capital* |
|---|---|---|---|
| 20 | Noriyati Binti Hassan | 451,723 | 0.2652 |
| 21 | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Growth Fund | 421,500 | 0.2474 |
| 22 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Hui | 400,000 | 0.2348 |
| 23 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Lynn | 400,000 | 0.2348 |
| 24 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Raja Ahmad<br>Zainuddin Bin Raja Haji Omar | 400,000 | 0.2348 |
| 25 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Jin | 400,000 | 0.2348 |
| 26 | Public Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Hung Yew Loong | 380,000 | 0.2231 |
| 27 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Ng Ngah Peng | 337,000 | 0.1978 |
| 28 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An for UBS AG | 326,800 | 0.1918 |
| 29 | Ng Yune Ming | 310,000 | 0.1820 |
| 30 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Ahmad Ramli Bin Mohd Nor | 300,000 | 0.1761 |
| | | **144,559,129** | **84.8524** |

*Note:*

* Excluding a total of 10,000 shares re-purchased and retained as treasury shares as at 23 April 2008.

# NOTES

# PROXY FORM

*I/*We ______________________________ NRIC No. (New) ______________ (old) ______________
(Full Name)

of ____________________________________________________________
(Address)

being a member/members of FAVELLE FAVCO BERHAD, hereby appoint the Chairman of the Meeting or Mr/Ms ______________

______________________________ NRIC No. (New) ______________ (old) ______________
(Full Name)

of ____________________________________________________________
(Address)

or failing whom, ______________________________ NRIC No. (New) ______________ (old) ______________
(Full Name)

of ____________________________________________________________
(Address)

as *my/*our proxy to vote for *me/*us and on *my/*our behalf at the Sixteenth Annual General Meeting of the Company which is to be held at Rebana 1, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 19 June 2008 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 2007 and the Reports of the Directors and Auditors thereon. | 1 | | |
| To approve a First and Final Dividend of 6.5% less 26% income tax per share in respect of the financial year ended 31 December 2007. | 2 | | |
| To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association: | | | |
| a. En Mazlan bin Abdul Hamid | 3 | | |
| b. Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 4 | | |
| c. Tan Sri A. Razak bin Ramli | 5 | | |
| To consider and, if thought fit, to 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-appointed 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." | 6 | | |
| To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | 7 | | |
| **As Special Business :** | | | |
| ORDINARY RESOLUTION 1 Authority to allot shares pursuant to Section 132D of the Companies Act, 1965. | 8 | | |
| ORDINARY RESOLUTION 2 Proposed Renewal of Share Buy-Back Authority. | 9 | | |
| ORDINARY RESOLUTION 3 Proposed Renewal of Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | 10 | | |
| SPECIAL RESOLUTION 1 Proposed Amendments to the Articles of Association of the Company. | **11** | | |

Please indicate with (X) on how you wish your vote to be casted. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

Signed this _________ day of _________________ 2008

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

.......................................................................
Signature/Common Seal of Shareholder(s)

NOTES:-

1. A member entitled to attend and vote at this Meeting is entitled to appoint a 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) of the Companies Act, 1965 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 Share Registrar at G-01 Ground Floor, Plaza Permata, Jalan Kampar Off Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

Affix
Stamp
Here

SHARE REGISTRAR

**Tenaga Koperat Sdn Bhd** (118401-V)
G-01 Ground Floor, Plaza Permata
Jalan Kampar Off Jalan Tun Razak
50400 Kuala Lumpur, Malaysia