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

ANNUAL REPORT 2008

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

Lim Teik Hin
(Non-Independent Non-Executive Director)

Audit Committee

Tuan Haji Mohamed Taib bin Ibrahim (Chairman)

Tan Sri A. Razak bin Ramli

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

Lim Teik Hin

Company Secretaries
Chin Ngeok Mui (MAICSA 7003178)
See Siew Cheng (MAICSA 7011225)
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
EON Bank Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

Share Registrar
Level 17, The Garden North Tower
Mid Valley City, Lingkaran Syed Putra
50400 Kuala Lumpur
Malaysia
Telephone no. : (603) 2264 3883
Facsimile no. : (603) 2282 1886

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

Contents

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Seventeenth Annual General Meeting of Favelle Favco Berhad will be held at Rebana 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 22 June 2009 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 2008 and the Reports of the Directors and Auditors thereon.	Resolution 1
To approve a First and Final Tax-Exempt Dividend of 5% in respect of the financial year ended 31 December 2008.	Resolution 2
To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association:	
a. Mr. Mac Ngan Boon @ Mac Yin Boon	Resolution 3
b. Ms. Lee Poh Kwee	Resolution 4
To re-elect Mr. Lim Teik Hin, a Director who retires pursuant to Article 86 of the Company's Articles of Association.	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 with or without modifications, 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 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 relevant regulatory authorities, the Company be and is hereby authorised, to the fullest extent permitted by law, to buy-back 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)

Resolution 9

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 19 June 2008, 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;

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 2008, the audited Retained Earnings and Share Premium Account of the Company were RM 10,384,000 and RM 1,142,000 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 all relevant regulatory authorities from time to time and with full powers 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 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 29 May 2009 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 which are 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

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.

Notice of Annual General Meeting (continued)

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; Resolution 10

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."

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

By Order of the Board

CHIN NGEOK MUI (MAICSA 7003178)
SEE SIEW CHENG (MAICSA 7011225)
TEW SIEW CHONG (MIA 20729)
CHAN WAI FUN (MIA 23537)
Company Secretaries

Selangor Darul Ehsan
29 May 2009

Notice of Annual General Meeting (continued)

Notes:

1. A member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint a proxy or more than 1 proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149 (1) (b) of the Companies Act, 1965 shall not apply to the Company.

2. The instrument appointing a proxy shall be in writing under the hands 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 its officer or its duly authorised attorney.

3. Where 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.

4. The instrument appointing a proxy must be deposited at the Company's registered office at Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time set for holding the Meeting or at any adjournment thereof.

Explanatory notes on Special Business

5. **Resolution 8 on Authority to Allot Shares 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 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 9 on Proposed Renewal of Share Buy-Back Authority**
   For Resolution 9, further information on the Share Buy-Back, shareholders are advised to refer to the Statement to Shareholders dated 29 May 2009 which is circulated together with the Company's Annual Report 2008.

7. **Resolution 10 on Proposed Shareholders' Mandate**
   For further information on the Proposed Shareholders' Mandate, shareholders are advised to refer to the Circular to Shareholders dated 29 May 2009 which is circulated together with the Company's Annual Report 2008.

Notice of Dividend Entitlement and Payment Date

NOTICE IS HEREBY GIVEN THAT a First and Final Tax-Exempt Dividend of 5% in respect of the financial year ended 31 December 2008, if approved by the shareholders at the forthcoming Seventeenth Annual General Meeting, will be paid on 17 September 2009 to Depositors whose names appear in the Record of Depositors at the close of business on 4 September 2009.

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

a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 4 September 2009 in respect of ordinary transfers; and

b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

CHIN NGEOK MUI (MAICSA 7003178)
SEE SIEW CHENG (MAICSA 7011225)
TEW SIEW CHONG (MIA 20729)
CHAN WAI FUN (MIA 23537)
Company Secretaries

Selangor Darul Ehsan
29 May 2009

Statement Accompanying Notice of Annual General Meeting

Mr Mac Ngan Boon @ Mac Yin Boon, Ms Lee Poh Kwee, Mr Lim Teik Hin and Tuan Haji Mohamed Taib bin Ibrahim are the Directors standing for re-election at the forthcoming Seventeenth 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 its subsidiaries	41 - 43
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

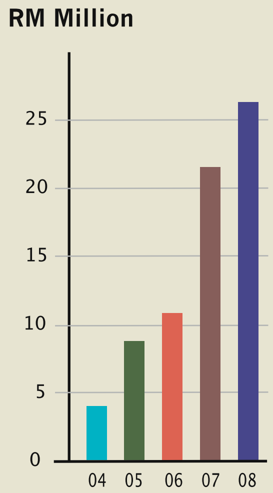
	2004	2005	2006	2007	2008
Turnover (RM'000)	266,965	335,646	357,956	453,896	581,125
Profit Before Tax (RM'000)	4,107	8,878	10,946	21,562	27,382
Profit After Tax Attributable to Shareholders of the Company (RM'000)	13,316	7,180	9,868	18,935	21,824
Shareholders' Funds (RM'000)	67,768	70,351	115,123	130,921	161,127
Share Capital (RM'000)	50,000*	50,000*	84,000**	85,178**	85,514**
Basic Earnings Per Ordinary Share (Sen)	13.32	7.18	7.31	11.22	12.79
Net Assets Per Ordinary Share (RM)	0.68#	0.70#	0.69#	0.77	0.94

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

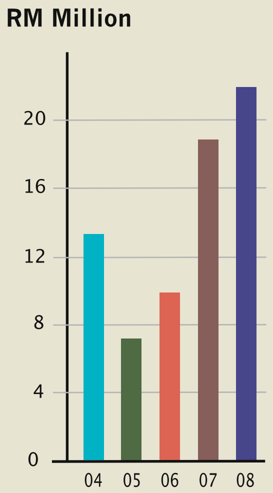
** Represents ordinary shares of RM0.50 each upon completion of Initial Public Offer of Favelle Favco Berhad on 15 August 2006

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

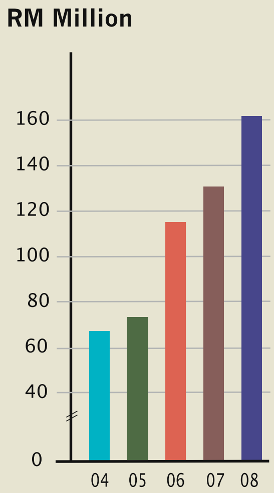
Profit Before Tax



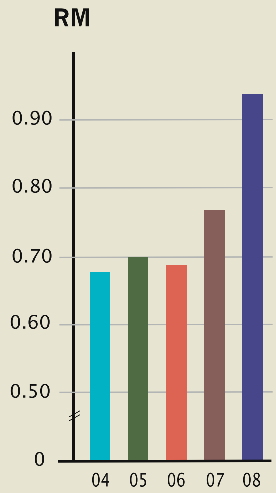
Profit After Tax Attributable to Shareholders of the Company



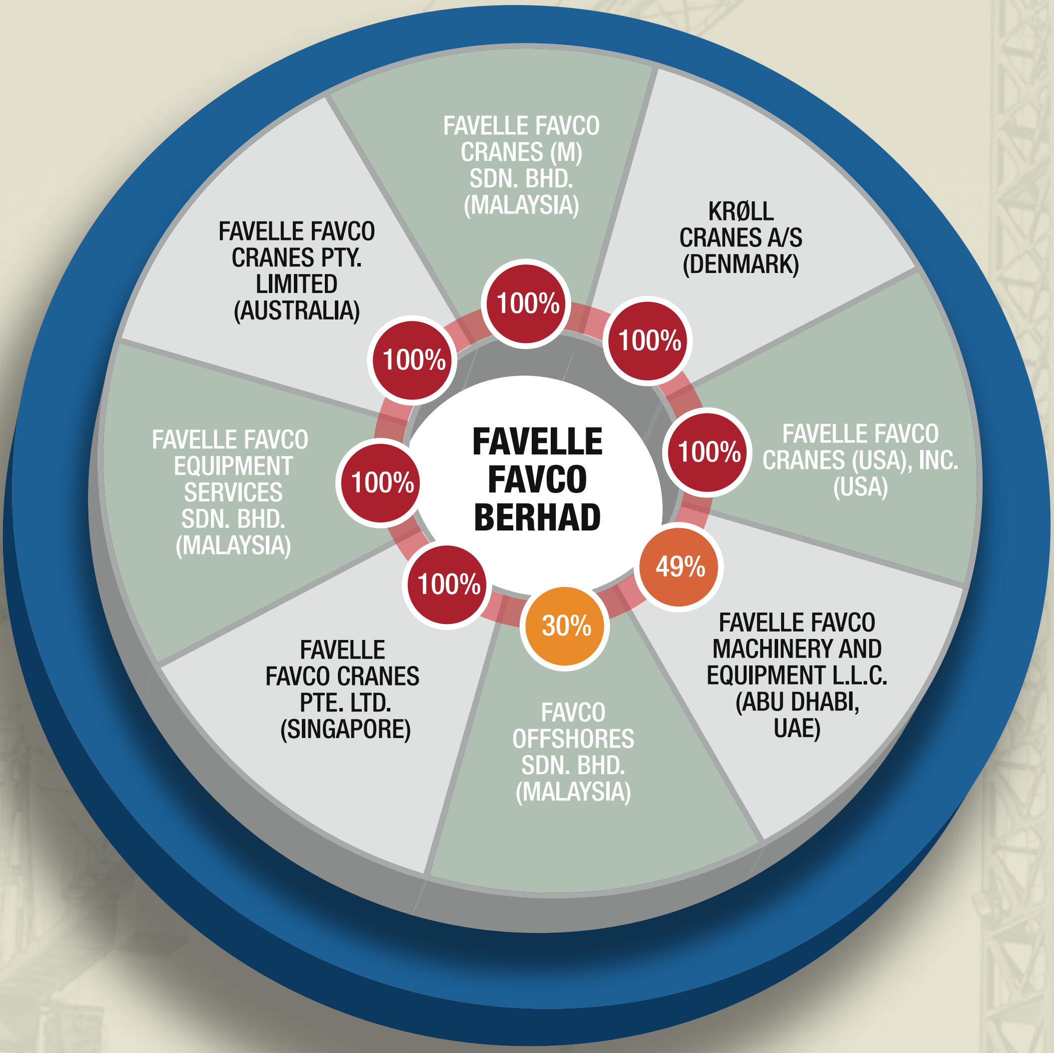
Shareholders' Funds



Net Assets Per Ordinary Share



Group Structure as at 30 April 2009



* Dormant companies are excluded from the above Group Structure

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 2008.

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

Financial Performance

For the financial year under review, the Group posted a total revenue of RM581 million with a profit after tax of RM21.8 million. This represents a 28% increase in revenue and a 15% increase in profit after tax as compared to the previous financial year. The improvement in profit after tax is contributed by the increase in our sales and improved operational efficiencies in the Group's operations.

Dividend

The Board of Directors is recommending a first and final tax exempt dividend of 5% per share subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend will amount to RM4.275 million.

Industry and Market Review

Favelle Favco Group saw a very strong start to 2008 with our outstanding order book reaching a record of RM857 million. This was also reflected in the increased revenue this year. However, due to the credit crisis, market activity slowed down towards the end of the year, with most customers taking a wait-and-see approach.

During these challenging times, we managed to secure an order to deliver several cranes to London. We are encouraged by this as it is in line with the expansion of our geographic footprint.

Large amounts of oil and gas reserves have been discovered in Brazil and some studies estimate that Brazil will have the 3rd largest offshore oil reserves globally. We hope to participate in this activity as the Company has been pre-qualified to bid.

Chairman's Statement (continued)

The power plant sector globally is busy. This is beneficial to us as demand for heavy lift cranes continues. We expect that this sector will continue to have moderate levels of activity despite the ongoing slowdown in construction.

Krøll remains a beneficiary as shipbuilders continue their yard expansion in North East Asia.

Operations Review

Operationally, the year was a challenging one. Increases in raw material and component prices resulted in a slight margin erosion for the Company as there was a time lag between our own price increases and those of our suppliers. Raw material prices have eased towards the end of the year and we expect that cost control will be much better moving forward.

All facilities were operating at almost peak levels as we delivered a record number of cranes. The team is commended for a great effort.

Outlook

We remain cautiously optimistic of 2009 as we have a reasonably large outstanding order book to take us through most of the year.

Whilst market activity has slowed down, we see many projects on the sidelines waiting for financing or taking a wait-and-see approach. We remain confident that once credit flow eases, most of these projects will restart.

Meanwhile, we will be taking the opportunity to prepare ourselves for the next wave. The product development pipeline is full. We will also be focusing on improving work processes and implementing job rotations. Overall, we expect to ride this cycle fairly and expect to be stronger on the other side.

Chairman's Statement (continued)




Corporate Social Responsibility

This year we continued our drive towards attracting and developing human skills. We had several apprentices work through our factories in Australia and Denmark. We continued to recruit and provide a career for students from technical schools in Malaysia.

We will work with our local universities to have more education-industry research programmes.

Overall, we believe our contribution will add up over time and, most importantly, provide personal development opportunities for those at the receiving end.

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.

Chairman's Statement (continued)

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 effort, all of which have enabled the Group to achieve a successful year. We will require greater teamwork in the near future and I am confident the team will rally to this cause.

A special word of appreciation should be mentioned to all our esteemed clients, business associates, suppliers, sub-contractors and the regulatory authorities whose support has been important to the Group.

We would also like to express our appreciation to the bankers and shareholders for their unwavering support extended to the Group.

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

Profile of Directors

Tuan Haji Mohamed Taib bin Ibrahim
Aged 84, 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 as 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 relinquished in 1988. He was also the Chairman of Kuantan Flour Mills Berhad in 1984.

Tan Sri A. Razak bin Ramli
Aged 60, 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)

Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)
Aged 65, Malaysian
(Independent Non-Executive Director)

Member of the Audit Committee

Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd) 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 as 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 as a member to the Nomination and Remuneration Committees 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 and Comintel Corporation Berhad.

Mac Ngan Boon @ Mac Yin Boon
Aged 65, Malaysian
(Managing Director)

Member of the Remuneration Committee and Nomination Committee

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

Mac Chung Hui
Aged 31, 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 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 eight (8) years.

Profile of Directors (continued)

Lee Poh Kwee
Aged 44, Malaysian
(Executive Director)

Lee Poh Kwee was appointed to the Board of FFB on 24 January 2003 as Executive Director. 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 the MEB Group. She was involved in the acquisition of the business and assets of the FFB Group in 1995, and subsequently, financial planning and management of the FFB Group over the past fourteen (14) years.

Mazlan bin Abdul Hamid
Aged 46, Malaysian
(Executive Director)

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.

Lim Teik Hin
Aged 68, Malaysian
(Non-Independent Non-Executive Director)

Member of the Audit Committee

Lim Teik Hin was appointed as a Non-Independent Non-Executive Director and member of the Audit Committee of FFB on 24 November 2008. He is a member of the Malaysian Institute of Certified Public Accountants, a member of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A. Walker & Sons) and subsequently worked with KPMG in Malaysia. He then joined Federal Aluminium (M) Bhd as Operations Manager. His last held position was Senior Manager in MEB before he was appointed as a Non-Independent Non-Executive Director and member of the Audit Committee of MEB.

Other Information

Other Information on Directors

1. **Family Relationship with any Director and/or major shareholder 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, Mac Chung Hui and Lim Teik Hin. 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. Lim Teik Hin, is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon.

2. **Conflict of interest**
   None of the Directors have any conflict of interest with the Company.

3. **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 from Corporate Proposals**
   There were no proceeds raised from corporate proposals during the financial year.

2. **Share Buy-Backs**
   The Company did not purchase any ordinary shares of RM0.50 each of its own shares from the open market of Bursa Malaysia Securities Berhad during the financial year ended 31 December 2008.

3. **Options, Warrants or Convertible Securities**
   Details of the exercise of employees' share options of the Company are disclosed on pages 43 to 44 of this Annual Report.

   Other than the exercise of employees' share options as mentioned above, the Company did not issue any warrants or convertible securities during the financial year.

4. **American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programmes**
   The Company did not sponsor any ADR or GDR programmes during the financial year.

Other Information (continued)

Additional Compliance Information (continued)

5. Imposition of Sanctions and/or Penalties

During the financial year under review, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

6. Non-Audit Fees

During the financial year, there were no non-audit fees paid to the external auditors.

7. Variation in Results

There were no significant variations between the audited results for the financial year ended 31 December 2008 and the unaudited results previously announced.

8. Profit Estimate, Forecast or Projection

There was no profit estimate, forecast or projection announced by the Company and its subsidiary companies during the financial year ended 31 December 2008.

9. Profit Guarantee

There were no profit guarantee given/ received by the Company during the financial year.

10. Material Contracts

There were no material contracts entered into by the Company and its subsidiaries involving the interests of Directors and major shareholders, either still subsisting as at 31 December 2008 or entered into since the end of the previous financial year ended 31 December 2007.

11. Revaluation Policy on Landed Properties

The Group revalues its freehold lands every 5 years or at shorter intervals whenever the fair value of the freehold lands is expected to differ materially from their carrying value.

12. Recurrent Related Party Transactions

At the Annual General Meeting held on 19 June 2008, the Company had obtained the shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 26 May 2008.

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 2008 pursuant to the shareholders' mandate are disclosed as follows:

Other Information (continued)

Additional Compliance Information (continued)

Transacting Party	Related Party	Nature of Transactions	Actual Transaction Value for the Financial Year Ended 31 December 2008 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	16,102
		Purchases of cranes and parts and rental of cranes, plant and equipment by FFB Group from MEB Group; and subcontracting work awarded by FFB Group to MEB Group	4,184
		# Rental of factory and office premises located at Lot 9895, Geran #26559, Kg. Jawa, Mukim of Klang, District of Klang, Selangor by MEB Group to FFB Group, measuring 5.0 acres	240
		# Rental of office building and factory located at 28, Yarrunga Street, Prestons, NSW 2170, Australia by MEB Group to FFB Group, measuring 11.6 acres	613
		# Rental of open yard located at PN 11185, Lot 114505, Telok Gong, District of Klang, Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft.	98

Other Information (continued)

Additional Compliance Information (continued)

Transacting Party	Related Party	Nature of Transactions	Actual Transaction Value for the Financial Year Ended 31 December 2008 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	# Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft.	88
FO and FFM	Mazlan bin Abdul Hamid	Rental of waterbags for load testing of cranes by FO from FFM, Sale of crane parts by FFM to FO and provision of crane maintenance and services by FFM to FO	74

\# *Tenancies are for terms not exceeding 3 years with rentals payable on monthly basis.*

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
"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 a 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 eight (8) members, comprising three (3) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and four (4) Executive Directors. The Company has thus complied with Paragraph 15.02 of the Listing Requirements of Bursa Malaysia Securities Berhad which requires that at least two (2) Directors or one third (1/3) of the Board of Directors, whichever is higher to be independent. 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 four (4) 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. The Company Secretary records all the deliberations including pertinent issues, the substance of inquiries and responses, Board members' suggestions and the decisions made in the minutes of the Board meetings. Details of the attendance of the Directors are as follows:

Statement on Corporate Governance (continued)

Names of Directors	Attendance at Meetings in 2008
Tuan Haji Mohamed Taib bin Ibrahim	4/4
Tan Sri A. Razak bin Ramli	4/4
Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	3/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Mac Chung Hui	4/4
Lee Poh Kwee	4/4
Mazlan bin Abdul Hamid	4/4
Lim Teik Hin *(Appointed on 24 November 2008)*	N/A

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 the Company Secretary by the Board of Directors as a whole.

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

Board Committees

The following committees have been established to assist the Board to discharge its duties and responsibilities. The Board has delegated certain powers and duties to these committees, which operate within the defined terms of reference. The final decision on all matters, however, lies with the entire Board.

(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.

Statement on Corporate Governance (continued)

The Audit Committee members consist of all Non-Executive Directors, with a majority being Independent Directors. Tuan Haji Mohamed Taib bin Ibrahim, an Independent Non-Executive Director, is the Chairman of the Audit Committee.

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 30 to 34 of this Annual Report.

(ii) Nomination Committee

The present members of the Nomination Committee are as follows:

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

The Nomination Committee met once 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. All assessments or evaluations carried out by the Nomination Committee are properly documented. 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 *(Independent Non-Executive Director)*
Tan Sri A. Razak bin Ramli	Member *(Independent Non-Executive Director)*
Mac Ngan Boon @ Mac Yin Boon	Member *(Managing Director)*

Statement on Corporate Governance (continued)

(iii) Remuneration Committee (Continued)

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 included topics relating to corporate planning, financial, taxation, leadership management, corporate governance and investor relations.

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	192,000	160,934	352,934
Remuneration	802,330	28,097	830,427
	994,330	189,031	1,183,361

The number of Directors in each remuneration band for the financial year 2008 is as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
Below RM50,000	-	1	1
RM50,001 to RM100,000	-	3	3
RM100,001 to RM150,000	1	-	1
RM150,001 to RM200,000	1	-	1
RM200,001 to RM250,000	-	-	-
RM250,001 to RM300,000	-	-	-
RM300,001 to RM350,000	1	-	1
RM350,001 to RM400,000	1	-	1
	4	4	8

SHAREHOLDERS

Investor and Shareholder Relationships

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

The Group communicates with its investors and shareholders regularly through the 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, strategies and major developments 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 under review is as follows:

Investor Relations Activities	No. of Meetings
Meetings with investors/fund managers/analysts	57
Company Briefings	2
Participation at roadshows/conferences: - Malaysia (2) - Singapore (2) - Hong Kong (1)	5

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 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 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 35 and 36 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 2008
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Independent Non-Executive Director)*	4/4
Tan Sri A. Razak bin Ramli	Member *(Independent Non-Executive Director)*	4/4
Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	Member *(Independent Non-Executive Director)*	3/4
Lim Teik Hin *(Appointed on 24 November 2008)*	Member *(Non-Independent Non-Executive Director)*	N/A
Mazlan bin Abdul Hamid *(Resigned on 24 November 2008)*	Member *(Executive Director)*	4/4
Lee Poh Kwee *(Resigned on 24 November 2008)*	Member *(Executive Director)*	4/4

En Mazlan bin Abdul Hamid and Ms Lee Poh Kwee, both Executive Directors of the Company, relinquished their membership in the Audit Committee, in favour of Mr Lim Teik Hin effective from 24 November 2008. The change is to comply with the amendments to Paragraph 15.10 of the Listing Requirements of Bursa Malaysia Securities Berhad, which requires that all members of the Audit Committee shall consist of Non-Executive Directors, with a majority being Independent Directors.

The Audit Committee held four (4) meetings during the financial year ended 31 December 2008. 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.

The Chairman of the Audit Committee undertakes a continuing process of engagement with the senior executives of the Company as well as the external auditors so that the Audit Committee is kept up-to-date with all important issues affecting the Company.

During the year, the Audit Committee members have attended conferences, seminars and training programmes which are relevant to their roles and responsibilities.

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.

(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. The total costs incurred for the internal audit function in respect of the financial year amounted to RM15,000.

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, all of whom shall be Non-Executive Directors, with a majority of them being 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, whenever 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.

4. To verify, on a yearly basis, the allocation of options under a share option scheme for employees to ensure compliance with the allocation criteria determined by the Company's share option committee and in accordance with the bye-laws of the relevant option scheme.

Audit Committee Report (continued)

5. To promptly report to Bursa Malaysia Securities Berhad any matters reported by the Audit Committee to the Board of Directors which have not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad.

Proceedings of the Audit Committee

Calling of meetings

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

Notice of meeting

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

Voting and proceeding of 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 signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of 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;

- 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 2008. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.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Financial Statements

Directors' Report For The Year Ended 31 December 2008

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 2008.

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	21,824	7,417

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 dividend of 3.25 sen per ordinary share less tax at 26% totaling RM4,112,453 in respect of the year ended 31 December 2007 on 18 September 2008.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the year ended 31 December 2008 is 2.50 sen per ordinary share totaling RM4,275,451.

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 Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)
Lim Teik Hin (appointed on 24.11.2008)

Directors' Report For The Year Ended 31 December 2008 (continued)

Directors' interests

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

	Number of ordinary shares of RM0.50 each			
	At 1.1.2008	Bought	Sold	At 31.12.2008
Interests in the Company				
Tuan Haji Mohamed Taib bin Ibrahim				
- Own	2,845,671	-	-	2,845,671
- Spouse and Child	106,500	-	-	106,500
Mac Ngan Boon @ Mac Yin Boon				
- Own	7,392,913	-	-	7,392,913
- Spouse and Child	1,677,800	-	-	1,677,800
Mac Chung Hui	1,412,000	-	-	1,412,000
Lee Poh Kwee	185,000	-	-	185,000
Mazlan bin Abdul Hamid	1,415,000	-	-	1,415,000
Tan Sri A. Razak bin Ramli				
- Own	300,000	-	-	300,000
- Child	800	-	-	800
Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	300,000	-	-	300,000
Lim Teik Hin				
- Own	100,000	-	-	100,000
- Spouse	5,000	-	(5,000)	-

	Number of ordinary shares of RM0.50 each			
	At 1.1.2008	Bought	Sold	At 31.12.2008
Indirect interest in 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 2008 (continued)

Directors' interests (continued)

	Number of ordinary shares of RM0.50 each			
	At 1.1.2008	Bought	Sold	At 31.12.2008
Interests in the ultimate holding company -Muhibbah Engineering (M) Bhd.				
Tuan Haji Mohamed Taib bin Ibrahim				
- Own	7,543,392	-	-	7,543,392
- Spouse and Children	96,250	-	-	96,250
Mac Ngan Boon @ Mac Yin Boon				
- Own	68,328,916	400,000	-	68,728,916
- Spouse and Children	18,982,500	20,000	(180,000)	18,822,500
Mac Chung Hui	5,200,000	80,000	(50,000)	5,230,000
Lee Poh Kwee	3,196,272	-	-	3,196,272
Mazlan bin Abdul Hamid	100,000	10,000	-	110,000
Lim Teik Hin	1,000	-	(1,000)	-

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 1.1.2008	Granted	Exercised	At 31.12.2008
Company				
Mac Ngan Boon @ Mac Yin Boon	800,000	-	-	800,000
Mac Chung Hui	600,000	-	-	600,000
Lee Poh Kwee	900,000	-	-	900,000
Mazlan bin Abdul Hamid	700,000	-	-	700,000

Directors' Report For The Year Ended 31 December 2008 (continued)

Directors' interests (continued)

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2008	Granted	Exercised	At 31.12.2008
Ultimate holding company - Muhibbah Engineering (M) Bhd.				
Mac Ngan Boon @ Mac Yin Boon	1,832,500	-	-	1,832,500
Mac Chung Hui	250,000	-	-	250,000
Lee Poh Kwee	2,000,000	-	-	2,000,000
Mazlan bin Abdul Hamid	250,000	-	-	250,000

By virtue of their interests 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' 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 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 673,000 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.

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

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.

Directors' Report For The Year Ended 31 December 2008 (continued)

Options granted over unissued shares (continued)

The main features of the ESOS, details of share options offered and exercised during the financial year are disclosed in Note 17.

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. This information has been separately filed with the Companies Commission of Malaysia.

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 1.1.2008	Granted	Exercised	Lapsed	At 31.12.2008
Ooi San Kooi	266,000	-	(133,000)	-	133,000
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	266,000	-	(133,000)	-	133,000

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

Directors' Report For The Year Ended 31 December 2008 (continued)

Other statutory information (continued)

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

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 financial performance of the Group and of the Company for the financial year ended 31 December 2008 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.

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: 24 April 2009

Balance Sheets At 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Assets					
Property, plant and equipment	3	81,023	68,798	596	695
Intangible assets	4	14,142	3,980	-	110
Investment property	5	-	-	1,374	1,404
Investments in subsidiaries	6	-	-	61,230	61,230
Investments in associates	7	36	22	22	22
Receivables	8	-	-	15,196	14,829
Total non-current assets		95,201	72,800	78,418	78,290
Receivables, deposits and prepayments	8	183,835	118,591	32,776	34,553
Contract work-in-progress	9	141,819	138,024	-	-
Inventories	10	136,029	126,903	-	-
Current tax assets		232	58	175	172
Cash and cash equivalents	11	53,163	73,531	122	2,768
Total current assets		515,078	457,107	33,073	37,493
Total assets		610,279	529,907	111,491	115,783
Equity					
Share capital		85,514	85,178	85,514	85,178
Reserves		24,348	9,977	2,807	2,201
Retained earnings		51,265	35,766	10,384	7,079
Total equity	12	161,127	130,921	98,705	94,458

Balance Sheets At 31 December 2008 (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Liabilities					
Loans and borrowings	13	13,680	15,285	-	-
Deferred tax liabilities	14	2,188	2,185	-	-
Total non-current liabilities		15,868	17,470	-	-
Provisions	15	7,256	5,296	-	-
Payables and accruals	16	167,283	164,479	2,347	2,606
Amount due to contract customers	9	112,930	77,289	-	-
Loans and borrowings	13	141,591	132,767	10,439	18,719
Current tax liabilities		4,224	1,685	-	-
Total current liabilities		433,284	381,516	12,786	21,325
Total liabilities		449,152	398,986	12,786	21,325
Total equity and liabilities		610,279	529,907	111,491	115,783

The notes set on pages 55 to 107 are an integral part of these financial statements.

Income Statements For The Year Ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Revenue	18	581,125	453,896	10,988	12,915
Cost of sales	19	(498,412)	(383,476)	-	-
Gross profit		82,713	70,420	10,988	12,915
Other income		6,068	3,012	101	83
Distribution expenses		(9,800)	(7,718)	-	-
Administrative expenses		(40,474)	(36,969)	(1,486)	(2,509)
Other expenses		(6,319)	(536)	(1,485)	(234)
Results from operating activities		32,188	28,209	8,118	10,255
Interest income		1,377	1,369	78	44
Finance costs		(6,197)	(7,921)	(779)	(2,255)
Operating profit	20	27,368	21,657	7,417	8,044
Share of profit/(loss) after tax of equity accounted associates		14	(95)	-	-
Profit before tax		27,382	21,562	7,417	8,044
Tax expense	22	(5,558)	(2,627)	-	(2,019)
Profit for the year		21,824	18,935	7,417	6,025
Attributable to:					
Shareholders of the Company		21,824	18,935	7,417	6,025
Dividends per ordinary share (sen)					
- Gross		2.50	3.25	2.50	3.25
- Net	24	2.50	2.40	2.50	2.40
Earnings per ordinary share (sen)					
- Basic	23	12.79	11.22		
- Diluted	23	12.64	10.83		

The notes set on pages 55 to 107 are an integral part of these financial statements.

Statements Of Changes In Equity For The Year Ended 31 December 2008

Group	Note	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Share option reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to equity holders of the Company							
		Non-distributable						*Distributable*	
At 1 January 2007		84,000	338	10,537	-	457	-	19,791	115,123
Foreign exchange translation differences		-	-	(2,761)	-	-	-	-	(2,761)
Net gains recognised directly in equity		-	-	(2,761)	-	-	-	-	(2,761)
Profit for the year		-	-	-	-	-	-	18,935	18,935
Total recognised income and expense for the year		-	-	(2,761)	-	-	-	18,935	16,174
Share options exercised	17	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 2008 (continued)

Group	Note	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Share option reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to equity holders of the Company							
		Non-distributable						*Distributable*	
At 1 January 2008		85,178	974	7,776	-	1,248	(21)	35,766	130,921
Foreign exchange translation differences		-	-	(3,553)	-	-	-	-	(3,553)
Revaluation of property, plant and equipment, net of tax		-	-	-	15,105	-	-	-	15,105
Realisation of translation reserve		-	-	2,213	-	-	-	(2,213)	-
Net gains recognised directly in equity		-	-	(1,340)	15,105	-	-	(2,213)	11,552
Profit for the year		-	-	-	-	-	-	21,824	21,824
Total recognised income and expense for the year		-	-	(1,340)	15,105	-	-	19,611	33,376
Share options exercised	17	336	33	-	-	-	-	-	369
Transfer to share premium for share options exercised		-	135	-	-	(135)	-	-	-
Share-based payments	17	-	-	-	-	573	-	-	573
Dividends to shareholders	24	-	-	-	-	-	-	(4,112)	(4,112)
At 31 December 2008		85,514	1,142	6,436	15,105	1,686	(21)	51,265	161,127
		Note 12							

Statements Of Changes In Equity For The Year Ended 31 December 2008 (continued)

Company	Note	Non-distributable Share capital RM'000	Share premium RM'000	Share option reserve RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 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/ 1 January 2008		85,178	974	1,248	(21)	7,079	94,458
Profit for the year		-	-	-	-	7,417	7,417
Share options exercised		336	33	-	-	-	369
Transfer to share premium for share options exercised		-	135	(135)	-	-	-
Share-based payments	17	-	-	573	-	-	573
Dividends to shareholders	24	-	-	-	-	(4,112)	(4,112)
At 31 December 2008		85,514	1,142	1,686	(21)	10,384	98,705
		Note 12					

The notes set on pages 55 to 107 are an integral part of these financial statements.

Cash Flow Statements For The Year Ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Cash flows from operating activities					
Profit before tax		27,382	21,562	7,417	8,044
Adjustments for:					
Allowance for diminution in value of investments in associates		-	-	-	234
Allowance for doubtful debts		341	1,423	-	-
Allowance for doubtful debts written back		-	(374)	(11)	-
Allowance for slow moving inventories		2,069	4,383	-	-
Amortisation of intangible assets		2,331	2,758	110	109
Depreciation of property, plant and equipment		8,012	7,613	99	98
Depreciation of investment property		-	-	30	31
Dividend income from subsidiaries (unquoted)		-	-	(10,988)	(12,915)
Gain on disposal of property, plant and equipment		(55)	(26)	-	-
Goodwill written off		-	3	-	-
Impairment loss on intangible assets		29	-	-	-
Inventories written off		-	870	-	-
Finance costs		6,197	7,921	779	2,255
Provision for warranties		5,153	3,107	-	-
Interest income		(1,377)	(1,369)	(78)	(44)
Property, plant and equipment written off		2,600	42	-	-
Unrealised (gain)/loss on foreign exchange		(11,770)	(4,482)	1,484	(161)
Share-based payments		573	1,310	573	1,310
Share of (gain)/loss of equity accounted associates		(14)	95	-	-
Reversal of provision for warranties		(2,984)	(1,757)	-	-
Operating profit/(loss) before changes in working capital changes		38,487	43,079	(585)	(1,039)
Changes in working capital:					
Development costs		(12,520)	-	-	-
Inventories		(10,937)	(40,815)	-	-
Payables and accruals		71,989	91,788	2,299	(5,766)
Receivables, deposits and prepayments		(57,614)	(10,140)	8,676	8,342
Cash generated from operations		29,405	83,912	10,390	1,537

Cash Flow Statements For The Year Ended 31 December 2008 (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Cash flows from operating activities (continued)		29,405	83,912	10,390	1,537
Dividends received		-	-	-	10,755
Interest received		1,377	1,369	78	44
Interest paid		(4,339)	(4,724)	-	-
Provisions paid		(84)	(744)	-	-
Taxes (paid)/refunded		(2,875)	606	(3)	-
Net cash generated from operating activities		23,484	80,419	10,465	12,336
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	(6,301)	(10,237)	-	-
Acquisition of subsidiary, net of cash acquired		-	(3)	-	(503)
Acquisition of treasury shares		-	(21)	-	(21)
Proceeds from disposal of property, plant and equipment		335	94	-	-
Net cash used in investing activities		(5,966)	(10,167)	-	(524)
Cash flows from financing activities					
Dividend paid to shareholders of the Company		(4,112)	(2,960)	(4,112)	(2,960)
Interest paid		(1,858)	(3,197)	(668)	(1,522)
Proceeds from issue of shares under ESOS scheme		369	1,295	369	1,295
Payment of finance lease liabilities		(1,181)	(579)	-	-
Repayment of term loans		(11,969)	(9,412)	(8,700)	(6,000)
Repayment of revolving credit		(2,580)	(7,579)	-	-
Net cash used in financing activities		(21,331)	(22,432)	(13,111)	(9,187)

Cash Flow Statements For The Year Ended 31 December 2008 (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Exchange difference on translation of the financial statements of foreign operations		(3,671)	(5,790)	-	-
Net (decrease)/increase in cash and cash equivalents		(7,484)	42,030	(2,646)	2,625
Effect of exchange rate fluctuations on cash held		(620)	1,410	-	-
Cash and cash equivalents at 1 January	(i)	56,995	13,555	2,768	143
Cash and cash equivalents at 31 December	(i)	48,891	56,995	122	2,768

i) Cash and cash equivalents

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

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Cash and bank balances	53,163	62,513	122	198
Deposits with licensed banks	-	11,018	-	2,570
Bank overdrafts repayable on demand	(4,272)	(16,536)	-	-
	48,891	56,995	122	2,768

ii) Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM7,973,000 (2007 - RM10,961,000), of which RM1,672,000 (2007 - RM724,000) were acquired by means of hire purchases plans.

The notes set on pages 55 to 107 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 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 2008 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 2008 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 24 April 2009.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRS), accounting principles generally accepted and the Companies Act, 1965 in Malaysia.

The Group and the Company have not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs / Interpretations	Effective date
FRS 4, Insurance Contracts	1 January 2010
FRS 7, Financial Instruments: Disclosures	1 January 2010
FRS 8, Operating Segments	1 July 2009
FRS 139, Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10, Interim Financial Reporting and Impairment	1 January 2010

The Group and the Company plan to apply the abovementioned FRSs / Interpretations from the annual period beginning 1 January 2010 except FRS 4 which is not applicable to the Group and Company.

Notes To The Financial Statements (continued)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The impact of applying FRS 7 and 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 exemptions given in the respective FRSs. Other than the implications as discussed below, the initial application of the above standards (and its consequential amendments) and interpretations 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 for property, plant and equipment as explained in Note 2(d).

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements 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.

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

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

(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. 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.

(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.

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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.

(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 transactions. 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 are translated at exchange rates at the dates of transactions except for those that are measured at fair value, which 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, are translated to RM at exchange rates at the balance sheet date. The income and expenses of operations in functional currencies other than RM, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in translation reserve. On disposal of operations, 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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

In prior years, the freehold land of the Group and the Company was stated at cost. During the year, the Group and the Company adopted the policy to revalue their freehold land every 5 years or at shorter intervals whenever the fair value of the freehold land is expected to differ materially from their carrying value (See Note 29).

Surplus arising from revaluation is dealt within the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

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.

(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.

(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.

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iv) Depreciation (continued)

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.

(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.

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.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(i) Goodwill (continued)

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.

Other development expenditure which does not meet the criteria is recognised in the income statement as an expense as incurred. Capitalised development expenditure which meets the criteria 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 of 5 to 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 properties 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 are measured at the lower of cost and net realisable value. 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 Crane components are determined on a first-in, first-out basis. Cost of work-in-progress and assembled cranes is determined on a specific identification basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at year end.

(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. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's 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.

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(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, impairment is measured by comparing the carrying amount of the assets with their recoverable amounts. Recoverable amounts are the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. 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.

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 as an expense in the income statement immediately, unless the assets are carried at a revalued amount. 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.

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, unless it is credited directly to revaluation surplus.

(m) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

(i) Issue expenses

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

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(m) Equity instruments (continued)

(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.

(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 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.

(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.

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(p) Provisions (continued)

(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.

(iii) Contingent liabilities

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

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

(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.

Notes To The Financial Statements (continued)

2. Significant accounting policies (continued)

(r) Revenue recognition (continued)

(i) Contracts (continued)

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.

(ii) Goods sold and services rendered

Revenue from the sale of goods is measured at net fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the goods.

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.

(iii) Rental income

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

(iv) 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 on the profit or loss comprises current and deferred tax. Current tax expense is the expected tax payable in respect of the taxable profit for the year and is measured using the enacted tax rates relevant to the financial year.

2. Significant accounting policies (continued)

(t) Tax expense (continued)

Deferred tax is provided for, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transactions 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. In principle, deferred tax liabilities are recognised for all deductible temporary differences and deferred tax assets are recognised for all deductible temporary differences and unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences; unused tax losses and unused tax credits 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/Valuation						
At 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/ 1 January 2008	9,221	39,932	48,373	48,214	3,383	149,123
Additions	-	508	241	6,951	273	7,973
Change in fair value	15,105	-	-	-	-	15,105
Reclassification	-	(46)	3,457	(574)	(2,837)	-
Disposals	-	-	-	(1,376)	-	(1,376)
Written off	-	-	(4,973)	(735)	-	(5,708)
Effect of movements in exchange rates	6	368	987	(1,606)	72	(173)
At 31 December 2008	24,332	40,762	48,085	50,874	891	164,944
Representing items at:						
Cost	9,227	40,762	48,085	50,874	891	149,839
Revaluation - 2008	15,105	-	-	-	-	15,105
	24,332	40,762	48,085	50,874	891	164,944
Depreciation and impairment loss						
At 1 January 2007						
Accumulated depreciation	-	13,615	28,872	25,628	-	68,115
Accumulated impairment losses	-	1,494	536	993	-	3,023
	-	15,109	29,408	26,621	-	71,138

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 (continued)						
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
Accumulated depreciation	-	14,982	32,892	29,428	-	77,302
Accumulated impairment losses	-	1,494	536	993	-	3,023
At 31 December 2007/ 1 January 2008	-	16,476	33,428	30,421	-	80,325
Depreciation for the year	-	957	2,893	4,162	-	8,012
Disposals	-	-	-	(1,096)	-	(1,096)
Written off	-	-	(2,380)	(728)	-	(3,108)
Effect of movements in exchange rates	-	287	681	(1,180)	-	(212)
At 31 December 2008						
Accumulated depreciation	-	16,226	34,086	30,586	-	80,898
Accumulated impairment losses	-	1,494	536	993	-	3,023
	-	17,720	34,622	31,579	-	83,921
Carrying amounts						
At 1 January 2007	9,214	23,762	17,091	14,253	477	64,797
At 31 December 2007/ 1 January 2008	9,221	23,456	14,945	17,793	3,383	68,798
31 December 2008	24,332	23,042	13,463	19,295	891	81,023

Notes To The Financial Statements (continued)

3. Property, plant and equipment (continued)

Company	Plant, equipment and motor vehicles RM'000	Total RM'000
Cost		
At 1 January 2007/ 31 December 2007/ 1 January 2008/31 December 2008	1,984	1,984
Depreciation and impairment loss		
At 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 2007/1 January 2008		
Accumulated depreciation	296	296
Accumulated impairment loss	993	993
	1,289	1,289
Depreciation for the year	99	99
At 31 December 2008		
Accumulated depreciation	395	395
Accumulated impairment loss	993	993
	1,388	1,388
Carrying amounts		
At 1 January 2007	793	793
At 31 December 2007/1 January 2008	695	695
At 31 December 2008	596	596

3. Property, plant and equipment (continued)

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 RM2,253,000 (2007 - RM2,945,000).

3.2 Security

The freehold land, buildings, plant and equipment of subsidiaries with total net book value of RM47,320,000 (2007 - RM31,751,000) have been pledged to certain licensed banks as security for bank loan facilities granted to the respective subsidiaries (See Note 13).

3.3 Property, plant and equipment under the revaluation model

The Group's freehold land were revalued by independent professional qualified valuers using an open market value method during the year. Had the freehold land been carried under the cost model, their carrying amounts would have been RM9,221,000 (2007 - RM 9,221,000).

4. Intangible assets

Group	Development costs RM'000	Intellectual property RM'000	Goodwill RM'000	Total RM'000
Cost				
At 1 January 2007	15,630	2,519	572	18,721
Additions	-	-	3	3
Written off	(7,942)	-	(3)	(7,945)
Effect of movements in exchange rates	360	-	-	360
At 31 December 2007/1 January 2008	8,048	2,519	572	11,139
Additions	12,520	-	-	12,520
Effect of movements in exchange rates	(647)	-	-	(647)
At 31 December 2008	19,921	2,519	572	23,012
Amortisation and impairment loss				
At 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 2007/1 January 2008 Accumulated amortisation	4,921	2,238	-	7,159

Notes To The Financial Statements (continued)

4. Intangible assets (continued)

Group	Development costs RM'000	Intellectual property RM'000	Goodwill RM'000	Total RM'000
Amortisation and impairment loss (continued)				
Amortisation for the year	2,079	252	-	2,331
Impairment loss	-	29	-	29
Effect of movements in exchange rates	(649)	-	-	(649)
At 31 December 2008				
Accumulated amortisation	6,351	2,490	-	8,841
Accumulated impairment loss	-	29	-	29
	6,351	2,519	-	8,870
Carrying amounts				
At 1 January 2007	5,561	532	572	6,665
At 31 December 2007/1 January 2008	3,127	281	572	3,980
At 31 December 2008	13,570	-	572	14,142

Company	Intellectual property 2008 RM'000	Intellectual property 2007 RM'000
Cost		
At 1 January/31 December	1,098	1,098
Amortisation		
At 1 January	988	879
Amortisation for the year	110	109
At 31 December 2007/1 January 2008	1,098	988
Carrying amounts		
At 1 January	110	219
At 31 December	-	110

4. Intangible assets (continued)

4.1 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 5 years (2007 - 1 year to 5 years).

4.2 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 intellectual property has been fully amortised during the year (2007 – 1 year).

4.3 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.

4.4 Amortisation and impairment charge

The amortisation and impairment charge are recognised as administrative expenses.

4.5 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.

The value in use was determined by discounting the future cash flows of the subsidiary and was based on the following key assumptions:

a) cash flows were projected based on actual operating results
b) the subsidiary will continue its operations indefinitely
c) the size of operation will remain with at lease not lower than the current results
d) revenue is projected to reduce by 26% in 2009, 16% in 2010 and subsequently to increase by 9% from 2010 onwards. The revenue for 2009 is projected based on existing order book
e) a post tax discount rate of 5.5 % is used to discount the projected cash flows
f) gross margin is assumed to be consistent with the historical margin

Notes To The Financial Statements (continued)

5. Investment Property

	Company 2008 RM'000	Company 2007 RM'000
Cost		
At 1 January/31 December	2,989	2,989
Depreciation and impairment loss		
At 1 January		
Accumulated depreciation	91	60
Accumulated impairment loss	1,494	1,494
	1,585	1,554
Depreciation for the year	30	31
At 31 December		
Accumulated depreciation	121	91
Accumulated impairment loss	1,494	1,494
	1,615	1,585
Carrying amounts		
At 31 December	1,374	1,404
The carrying amount comprises:		
Building	1,374	1,404
Fair value		
At 1 January	1,404	1,435
At 31 December	1,374	1,404

The investment property is occupied by a subsidiary at no charge. The depreciation for the investment property is RM30,000 (2007- RM31,000). The Directors estimated the fair value of the investment property without involvement of independent valuers.

Notes To The Financial Statements (continued)

6. Investments in subsidiaries

	Company 2008 RM'000	Company 2007 RM'000
Unquoted shares - at cost	113,673	113,673
Less: Allowance for diminution in value	(52,443)	(52,443)
	61,230	61,230

Details of the subsidiaries are as follows:-

Name of subsidiaries	Principal activities	Country of incorporation	Effective ownership interest 2008 %	Effective ownership interest 2007 %
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 renting of cranes	Denmark	100	100
Favelle Favco Cranes International Ltd.	Dormant	Malaysia	100	100
Favelle Favco Equipment Services Sdn. Bhd. #	Supply of spare parts for cranes, provision of crane maintenance services and renting of cranes	Malaysia	100	100

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

Notes To The Financial Statements (continued)

7. Investments in associates

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Unquoted shares, at cost	256	256	256	256
Share of post-acquisition reserves	(220)	(234)	-	-
Less: Allowance for diminution in value	-	-	(234)	(234)
	36	22	22	22

Summary financial information on associates:

	Country of incorporation	Effective ownership interest	Revenues (100%) RM'000	Profit/ (Loss) (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
2008						
FO*	Malaysia	30%	1,357	46	1,287	1,169
FFME**	Abu Dhabi, United Arab Emirates	49%	2,874	85	2,233	3,451
			4,231	131	3,520	4,620
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

* Favco Offshores Sdn. Bhd.
** Favelle Favco Machinery and Equipment L.L.C.

The Group has not recognised losses relating to FFME totaling RM520,000 (2007 –RM542,000), since the Group has no obligation in respect of these losses.

8. Receivables, deposits and prepayments

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Non-current					
Non-trade					
Advances to a subsidiary	8.2	-	-	15,196	14,829
Current					
Trade					
Trade receivables		166,815	106,876	-	-
Less: Allowance for doubtful debts		(3,452)	(2,860)	-	-
		163,363	104,016	-	-
Progress billings receivable		-	1,430	-	-
Amount due from ultimate holding company	8.3	1,143	87	-	-
Amounts due from subsidiaries	8.4	-	-	532	646
Amounts due from related companies	8.5	7,451	-	-	-
Amounts due from associates	8.6	2,657	2,673	-	-
		11,251	4,190	532	646
Non-trade					
Amount due from ultimate holding company	8.3	1,078	452	-	-
Amounts due from subsidiaries	8.4	-	-	32,160	33,817
Amounts due from related companies	8.5	35	46	-	-
Other receivables		4,122	6,177	84	90
Deposits		1,535	1,995	-	-
Prepayments		2,451	1,715	-	-
		9,221	10,385	32,244	33,907
		183,835	118,591	32,776	34,553

Notes To The Financial Statements (continued)

8. Receivables, deposits and prepayments (continued)

Group

8.1 Analysis of foreign currency exposure for significant receivables

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

Functional currency	Foreign currency	Group 2008 RM'000	Group 2007 RM'000
RM	USD	22,863	16,514
RM	SGD	-	32
RM	AUD	1,948	7,581
RM	HKD	875	834
RM	EURO	13,455	2,837
RM	RMB	5,592	4,027
AUD	USD	707	1,390
USD	SGD	6,350	11,678

8.2 Advances to a subsidiary

The advances to a subsidiary is unsecured, interest free and 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 due from the ultimate holding company are unsecured, interest free with no fixed terms of repayment.

8.4 Amounts due from subsidiaries

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

The non-trade receivables due from subsidiaries are unsecured, interest free with no fixed term of repayment. In year 2007, an amount of RM35,000 was subject to interest of 5% per annum.

Notes To The Financial Statements (continued)

8. Receivables, deposits and prepayments (continued)

8.5 Amounts due from related companies

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

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

8.6 Amounts 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	
	2008 RM'000	**2007 RM'000**
Aggregate costs incurred to date	709,181	617,133
Add: Attributable profits less foreseeable losses	125,602	87,242
	834,783	704,375
Less: Progress billings	(805,894)	(643,640)
	28,889	60,735
Amount due to contract customers	112,930	77,289
	141,819	138,024
Contract work-in-progress	141,819	138,024
Amount due to contract customers	112,930	77,289

Notes To The Financial Statements (continued)

10. Inventories

	Group 2008 RM'000	Group 2007 RM'000
At cost:		
Cranes	4,237	456
Crane components	79,376	70,964
Work-in-progress	28,698	24,999
	112,311	96,419
At net realisable value:		
Cranes	13,563	18,831
Crane components	10,155	11,653
	136,029	126,903

The cranes for rental of a foreign subsidiary and a local subsidiary with aggregated carrying value of RMNil (2007 - RM2,350,000) have been pledged to a financial institution as security for credit facility granted to the foreign subsidiary.

11. Cash and cash equivalents

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and bank balances	53,163	62,513	122	198
Deposits placed with licensed banks	-	11,018	-	2,570
	53,163	73,531	122	2,768

Notes To The Financial Statements (continued)

12. Share Capital And Reserves

12.1 Share capital

	Group and Company			
	Amount 2008 RM'000	Number of shares 2008 '000	Amount 2007 RM'000	Number of shares 2007 '000
Ordinary shares of RM0.50 each				
Authorised	500,000	1,000,000	500,000	1,000,000
Issued and fully paid				
At 1 January	85,178	170,355	84,000	168,000
Issued under ESOS scheme	336	673	1,178	2,355
At 31 December	85,514	171,028	85,178	170,355

The Company has also issued share options in accordance with its ESOS Scheme (see Note 17).

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.

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. Share Capital And Reserves (continued)

12.4 Revaluation reserve

The revaluation reserve relates to the revaluation of freehold land.

12.5 Share option reserve

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

12.6 Treasury shares

This amount represents the acquisition cost for the repurchase of the Company's 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 Company repurchased 10,000 of its issued share capital from the open market in 2007. The total consideration paid was RM20,749 including transaction costs. The repurchase transactions were financed by internally generated funds. The shares repurchased are retained as treasury shares.

12.7 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 2008 if paid out as dividends.

The Finance Act 2007 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.

13. Loans and borrowings (continued)

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-current				
Secured term loans	12,131	14,243	-	-
Finance lease liabilities	1,549	1,042	-	-
	13,680	15,285	-	-
Current				
Secured term loans	2,112	3,252	-	-
Unsecured term loan	-	8,700	-	8,700
Bank overdraft - secured	5	15,922	-	-
Bank overdrafts - unsecured	4,267	614	-	-
Unsecured revolving credits	15,439	18,019	10,439	10,019
Unsecured insurance premium finance	853	870	-	-
Bills payable	118,469	84,928	-	-
Finance lease liabilities	446	462	-	-
	141,591	132,767	10,439	18,719
	155,271	148,052	10,439	18,719

13.1 Security

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

The unsecured term loan of the Company is supported by the corporate guarantee from the ultimate holding company and a 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 supported by the corporate guarantee from the Company.

The revolving credit of the Company is supported by the corporate guarantee from the ultimate holding company.

The revolving credits of certain subsidiaries are supported by the corporate guarantee from the Company.

Notes To The Financial Statements (continued)

13. Loans and borrowings (continued)

13.2 Terms and debt repayment schedule

		2008		
	Year of maturity RM'000	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000
Group				
Secured term loans				
- DKK	2008	-	-	-
- RM	2015	14,243	2,112	2,112
Unsecured term loans- RM	2008	-	-	-
Secured bank overdraft- DKK		5	5	-
Unsecured bank overdrafts				
- SGD		-	-	-
- RM		4,267	4,267	-
Unsecured revolving credits- USD	2009	15,439	15,439	-
Unsecured insurance premium finance - AUD	2009	853	853	-
Bills payable	2009	118,469	118,469	-
Finance lease liabilities				
- AUD	2009	22	22	-
- RM	2009 -2014	529	167	181
- SGD	2008	-	-	-
- DKK	2009 -2010	1,444	257	1,187
		155,271	141,591	3,480
Company				
Unsecured term loans- RM	2008	-	-	-
Unsecured revolving credits- USD	2009	10,439	10,439	-
		10,439	10,439	-

		2007				
2 - 5 years RM'000	Over 5 years RM'000	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 – 5 years RM'000	Over 5 years RM'000
-	-	1,140	1,140	-	-	-
6,336	3,683	16,355	2,112	2,112	6,336	5,795
-	-	8,700	8,700	-	-	-
-	-	15,922	15,922	-	-	-
-	-	614	614	-	-	-
-	-	-	-	-	-	-
-	-	18,019	18,019	-	-	-
-	-	870	870	-	-	-
-	-	84,928	84,928	-	-	-
-	-	113	90	23	-	-
181	-	1,294	352	304	546	92
-	-	97	20	20	57	-
-	-	-	-	-	-	-
6,517	3,683	148,052	132,767	2,459	6,939	5,887
-	-	8,700	8,700	-	-	-
-	-	10,019	10,019	-	-	-
-	-	18,719	18,719	-	-	-

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 2008 RM'000	Interest 2008 RM'000	Principal 2008 RM'000	Minimum lease payments 2007 RM'000	Interest 2007 RM'000	Principal 2007 RM'000
Less than one year	472	(26)	446	522	(60)	462
Between one and five years	1,573	(24)	1,549	1,133	(183)	950
More than five years	-	-	-	116	(24)	92
	2,045	(50)	1,995	1,771	(267)	1,504

14. Deferred tax liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2008 RM'000**	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**	**2008 RM'000**	**2007 RM'000**
Property, plant and equipment	-	(533)	3,230	774	3,230	241
Tax losses carry-forwards	(733)	(801)	-	-	(733)	(801)
Other items	(3,005)	-	2,696	2,745	(309)	2,745
Net tax (assets)/ liabilities	(3,738)	(1,334)	5,926	3,519	2,188	2,185
Set off of tax	3,738	1,334	(3,738)	(1,334)	-	-
	-	-	2,188	2,185	2,188	2,185

Notes To The Financial Statements (continued)

14. Deferred tax liabilities (continued)

Unrecognised deferred tax assets

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

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deductible temporary differences	14,707	23,697	-	-
Tax losses carry-forwards	57,760	41,839	-	-
	72,467	65,536	-	-

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carry forwards amounting to RM57,760,000 (2007 – RM39,970,000) shown above which can only be carried forward for 20 years from the year the losses were incurred. These tax losses will begin to expire from 2018. 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 1.1.2007 RM'000	Recognised in income statement (Note 22) RM'000	At 31.12.2007 RM'000	Recognised in income statement (Note 22) RM'000	At 31.12.2008 RM'000
Property, plant and equipment	2,615	(2,374)	241	2,988	3,229
Tax losses carry-forwards	-	(801)	(801)	68	(733)
Other items	(291)	3,036	2,745	(3,053)	(308)
	2,324	(139)	2,185	3	2,188

Notes To The Financial Statements (continued)

15. Provisions

Group	2008 Warranties RM'000	2007 Warranties RM'000	2007 Restructuring costs RM'000	2007 Total RM'000
At 1 January	5,296	4,445	153	4,598
Provision made during the year	5,153	3,107	-	3,107
Provision used during the year	(84)	(591)	(153)	(744)
Provision reversed during the year	(2,984)	(1,757)	-	(1,757)
Effect of movements in exchange rates	(125)	92	-	92
At 31 December	7,256	5,296	-	5,296

Warranties

The provision for warranties relates to provision for defect rectification costs for manufactured cranes sold. This provision is made based on historical data at a fixed rate.

16. Payables and accruals

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Trade					
Trade payables		105,953	114,716	-	-
Amount due to ultimate holding company	16.2	125	788	-	-
Amounts due to related companies	16.3	3,170	841	-	-
Amount due to associate	16.4	125	-	-	-
		109,373	116,345	-	-
Non-trade					
Amount due to ultimate holding company	16.2	2,031	885	-	-
Amount due to subsidiary	16.5	-	-	2,296	2,496
Amounts due to related companies	16.3	878	211	8	-
Other payables		21,563	24,066	3	5
Accrued expenses		33,438	22,972	40	105
		57,910	48,134	2,347	2,606
		167,283	164,479	2,347	2,606

16. Payables and accruals (continued)

16.1 Analysis of foreign currency exposure for significant payables

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

		Group	
Functional currency	**Foreign currency**	**2008 RM'000**	**2007 RM'000**
RM	AUD	2,660	14,019
RM	SGD	455	115
RM	EUR	7,657	1,029
RM	USD	15,438	7,419
RM	RMB	3,558	3,956
USD	AUD	-	1,135
USD	SGD	358	1,145
USD	MYR	-	287
AUD	GBP	240	221
AUD	USD	664	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.

16.3 Amounts 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 is subject to the normal trade terms.

16.5 Amount due to subsidiary

The non-trade payable due to a subsidiary is unsecured with no fixed terms of repayment and bears interest at Nil (2007 - 9.0%) per annum.

Notes To The Financial Statements (continued)

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 main features of the ESOS scheme, details of share option offered and exercised during the financial year are as follow:

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;

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

		Year option is granted				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Cumulative %	Year 1	-	-	-	-	-
of options	Year 2	33.33%	-	-	-	-
exercisable	Year 3	66.67%	33.33%	-	-	-
during the	Year 4	100%	66.67%	66.67%	-	-
option period in:	Year 5	100%	100%	100%	100%	100%

iv) The exercise price shall be based on the weighted average market price of the shares of the Company for the five (5) market days immediately preceding the offer date subject to a discount of not more than ten per cent (10%) or at the par value of the shares of the Company, whichever is higher.

The following options were granted under the ESOS scheme to take up the unissued ordinary shares of RM0.50 each:

Grant date	Exercise price	At 1.1.2008 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2008 '000	Expiry date
30.6.2006	RM 0.55	8,732	-	(673)	(209)	7,850	29.6.2011
30.6.2007	RM 1.90	367	-	-	(57)	310	29.6.2011
30.6.2008	RM 1.09	-	527	-	(51)	476	29.6.2011
		9,099	527	(673)	(317)	8,636	

17. Employee benefits (continued)

17.1 Share-based payments (continued)

Grant date	Exercise price	At 1.1.2007 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2007 '000	Expiry date
30.6.2006	RM 0.55	11,482	-	(2,355)	(395)	8,732	29.6.2011
30.6.2007	RM 1.90	-	391	-	(24)	367	29.6.2011
		11,482	391	(2,355)	(419)	9,099	

The options outstanding at 31 December 2008 have an exercise price in the range of RM0.55 to RM1.90 and remaining contractual life of 3 years.

During the year, 673,000 (2007- 2,355,000) share options of RM0.55 each granted in 2006 under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the year was RM1.20 (2007- RM1.60).

Details relating to options exercised during the year

	Group and Company 2008 RM'000	2007 RM'000
Ordinary share capital at par	336	1,178
Share premium	33	117
Proceeds received on exercise of share options	369	1,295

	Group and Company 2008 RM	2007 RM
Fair value of shares issued (based on average exercise price)	1.20	1.60

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 2008 RM'000	2007 RM'000
Share options granted in 2006	386	1,202
Share options granted in 2007	125	108
Share options granted in 2008	62	-
Total expense recognised as share-based payments	573	1,310

Notes To The Financial Statements (continued)

17. Employee benefits (continued)

17.1 Share-based payments (continued)

Fair value of share options and assumptions

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

	Group and Company	
	2008	**2007**
Fair value at grant date (RM)		
- Granted in Year 2006	RM 0.17 - RM0.22	RM 0.17 - RM0.22
- Granted in Year 2007	RM 0.76 - RM1.03	RM 0.76 - RM1.03
- Granted in Year 2008	RM 0.30 - RM0.37	-
Weighted average share price		
- Granted in Year 2006	RM 0.55	RM 0.55
- Granted in Year 2007	RM 2.04	RM 2.04
- Granted in Year 2008	RM 1.18	-
Exercise price		
- Granted in Year 2006	RM 0.55	RM 0.55
- Granted in Year 2007	RM 1.90	RM 1.90
- Granted in Year 2008	RM 1.09	-
Expected volatility (weighted average volatility)	33.67% - 59.24%	38.00% - 59.24%
Option life	3 years	4 years
Risk-free interest rate (based on Malaysian Government bonds)		
- Granted in Year 2006	4.48% - 4.57%	4.48% - 4.57%
- Granted in Year 2007	3.30% - 3.35%	3.30% - 3.35%
- Granted in Year 2008	4.04% - 4.12%	-
Expected staff turnover	5% - 15%	5%

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.

Notes To The Financial Statements (continued)

18. Revenue

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Contract revenue	489,566	375,551	-	-
Sales of goods	68,629	49,858	-	-
Services rendered	22,930	28,487	-	-
Dividends	-	-	10,988	12,915
	581,125	453,896	10,988	12,915

19. Cost of sales

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Contract costs	429,930	339,100	-	-
Sales of goods	53,809	26,845	-	-
Services rendered	14,673	17,531	-	-
	498,412	383,476	-	-

20. Operating Profit

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Operating profit is arrived at after crediting:					
Allowance for doubtful debts written back		-	374	(11)	-
Dividend income from subsidiaries (unquoted)		-	-	10,988	12,915
Net foreign exchange gain		11,794	11,917	974	83
Gain on disposal of property, plant and equipment		55	26	-	-
Rental income on premises		710	783	-	-
Rental income on cranes		9,939	13,992	-	-
Release of provision for warranties	15	2,984	1,757	-	-

Notes To The Financial Statements (continued)

20. Operating Profit (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
and after charging:					
Allowance for doubtful debts		341	1,423	-	-
Allowance for slow moving inventories		2,069	4,383	-	-
Allowance for diminution in value of investments in associates		-	-	-	234
Auditors' remuneration:					
- holding company's auditors		170	85	35	35
- other auditors		456	344	-	-
Amortisation of intangible assets	4	2,331	2,758	110	109
Depreciation of property, plant and equipment	3	8,012	7,613	99	98
Depreciation of investment property	5	-	-	30	31
Inventories written off		-	870	-	-
Impairment loss on intangible assets	4	29	-	-	-
Property, plant and equipment written off	3	2,600	42	-	-
Provision for warranties	15	5,153	3,107	-	-
Rental expense on:					
- cranes		5,497	6,310	-	-
- premises		1,122	803	-	-
- equipment		1,337	604	-	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		3,922	3,060	90	75
- Share-based payments	17	573	1,310	573	1,310
- Wages, salaries and others		51,995	46,611	688	608

21. Key management personnel compensation

The key management personnel compensations are as follows:

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Directors				
- Fees	383	453	353	423
- Remuneration	831	750	830	750
	1,214	1,203	1,183	1,173

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 statements

Major components of tax expense include:

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Current tax expense				
Malaysia - current	785	605	-	2,014
- prior year	225	743	-	5
	1,010	1,348	-	2,019
Overseas - current	4,658	1,285	-	-
- prior year	(47)	72	-	-
	4,611	1,357	-	-
Total tax expense	5,621	2,705	-	2,019
Deferred tax expense				
Origination of temporary differences	943	87	-	-
Over provision in prior years	(1,006)	(165)	-	-
Total deferred tax	(63)	(78)	-	-
Total tax expense	5,558	2,627	-	2,019

Notes To The Financial Statements (continued)

22. Tax expense (continued)

Recognised in the income statements (continued)

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Profit for the year	21,824	18,935	7,417	6,025
Total tax expense	5,558	2,627	-	2,019
Profit excluding tax	27,382	21,562	7,417	8,044

Reconciliation of tax expense

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Tax at Malaysian tax rate of 26% (2007 - 27%)	7,119	5,822	1,929	2,172
Effect of different tax rates in foreign jurisdictions	3	478	-	-
Effect of change in tax rates	(43)	(185)	-	-
Non-deductible expenses	648	1,426	670	476
Non-taxable income	(2,472)	(115)	(2,599)	(634)
Tax exempt income	(60)	(547)	-	-
Tax incentives	(542)	(138)	-	-
Effect of utilisation of deferred tax assets previously not recognised	(2,247)	(4,761)	-	-
Effect of non-recognition of deferred tax benefits	3,980	-	-	-
(Over)/ Underprovided in prior years	(828)	647	-	5
Tax expense	5,558	2,627	-	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. Chargeable income exceeding RM500,000 will be taxed at applicable statutory corporate tax rate.

Notes To The Financial Statements (continued)

22. Tax expense (continued)

The corporate tax rates are 26% for the 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

	Group	
	2008 RM'000	**2007 RM'000**
Profit for the year attributable to ordinary shareholders	21,824	18,935

Weighted average number of ordinary shares

	Group	
	2008 '000	**2007 '000**
Number of ordinary shares in issue at 1 January	170,355	168,000
Effect of shares repurchased	(10)	(5)
Effect of ordinary shares issued under ESOS	286	839
Total weighted average number of ordinary shares in issue (unit)	170,631	168,834

	Group	
	2008 Sen	**2007 Sen**
Basic earnings per ordinary share	12.79	11.22

	Group	
	2008 RM'000	**2007 RM'000**
Profit for the year attributable to ordinary shareholders	21,824	18,935

Notes To The Financial Statements (continued)

23. Earnings per ordinary share (continued)

Weighted average number of ordinary shares (diluted)

	Group 2008 '000	2007 '000
Weighted average number of ordinary shares at 31 December	170,631	168,834
Effect of share options in issue	2,016	5,995
Weighted average number of ordinary shares (diluted) at 31 December	172,647	174,829

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 2008 Sen	2007 Sen
Diluted earnings per ordinary share	12.64	10.83

24. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2008			
First and final 2007 ordinary	2.40	4,112	18 September 2008
2007			
First and final 2006 ordinary	1.75	2,960	24 September 2007

Notes To The Financial Statements (continued)

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 (tax exempt)	Total amount RM'000
First and final ordinary	2.50	4,275

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 2008 of RM4,275,251 (2007 - RM5,536,213) on the issued and paid-up share capital (excluding treasury shares) of 171,018,020 ordinary shares of RM0.50 each (2007 - 170,345,020 ordinary shares of RM0.50 each) as at 31 December 2008.

25. Segment 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-segment 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 of loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses.

Geographical segments

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

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

Notes To The Financial Statements (continued)

25. Segment reporting (continued)

Geographical segments (continued)

	Inside Malaysia		Outside Malaysia		Eliminations		Consolidated	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Geographical segments								
Revenue from external customers	191,317	176,758	389,808	277,138	-	-	581,125	453,896
Inter-segment revenue	180,365	147,999	72,768	111,295	(253,133)	(259,294)	-	-
Total revenue	371,682	324,757	462,576	388,433	(253,133)	(259,294)	581,125	453,896
Operating profit							32,247	28,209
Interest income							1,377	1,369
Interest expense							(6,256)	(7,921)
Share of profit/(loss) of associates							14	(95)
Profit before tax							27,382	21,562
Segment assets	505,169	477,213	381,985	335,305	(276,911)	(282,633)	610,243	529,885
Investments in associates	22	22	-	-	14	-	36	22
Total assets	505,191	477,235	381,985	335,305	(276,897)	(282,633)	610,279	529,907
Segment liabilities	358,540	342,554	309,172	272,713	(218,560)	(216,281)	449,152	398,986

Notes To The Financial Statements (continued)

26. Financial instruments

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

Credit risk

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

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

Interest rate risk

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

Foreign currency

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

The Group uses forward exchange contracts to hedge its foreign currency risk although the Group does not have a fixed policy to hedge its sales and purchases in forward contracts. The exposure to foreign currency risk of the Group is monitored by the management from time to time. The Group does not hold forward exchange contracts for trading purposes. Most of the forward exchange contracts have maturities of less than one year after the 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 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.

Notes To The Financial Statements (continued)

26. Financial instruments (continued)

Effective interest rates and repricing analysis

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

Group 2008	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	22	22	-	-	-	-	-
- RM	2.81	529	167	181	102	79	-	-
- DKK	5.00	1,444	257	1,187	-	-	-	-
Floating rate instruments								
Secured term loans - RM	5.65	14,243	14,243	-	-	-	-	-
Unsecured insurance premium finance - AUD	3.20	853	853	-	-	-	-	-
Unsecured revolving credits - USD	5.96	10,439	10,439	-	-	-	-	-
Unsecured revolving credits - RM	5.32	5,000	5,000	-	-	-	-	-
Secured bank overdraft - DKK	7.00	5	5	-	-	-	-	-
Unsecured bank overdrafts - RM	7.47	4,267	4,267	-	-	-	-	-
Bills payable	4.37	118,469	118,469	-	-	-	-	-
		155,271	153,722	1,368	102	79	-	-

Notes To The Financial Statements (continued)

26. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

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	16,355	-	-	-	-	-
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	147,010	347	258	186	159	92
Fixed rate instruments								
Deposits	4.07	11,018	11,018	-	-	-	-	-

Notes To The Financial Statements (continued)

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
2008								
Floating rate instruments								
Unsecured revolving credits								
- USD	5.96	10,439	10,439	-	-	-	-	-
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								
- USD	7.15	10,019	10,019	-	-	-	-	-
		18,719	18,719	-	-	-	-	-

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.

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 is 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.

Notes To The Financial Statements (continued)

26. Financial instruments (continued)

Fair values (continued)

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	2008 Carrying amount RM'000	2008 Fair value RM'000	2007 Carrying amount RM'000	2007 Fair value RM'000
Financial liabilities				
Secured term loans	14,243	14,243	17,495	17,495
Unsecured term loans	-	-	8,700	8,700
Finance lease liabilities	1,995	1,841	1,504	1,381

The secured term loans with variable interest rates, the carrying amounts approximate fair values as they are on floating rates and reprice to market interest rates for liabilities with similar risk profile.

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.

27. Contingencies

Contingent liabilities – unsecured

	Company 2008 RM'000	Company 2007 RM'000
Corporate guarantee for credit facilities granted to subsidiaries	179,654	111,871
Performance guarantee granted to subsidiaries	220,345	147,366
	399,999	259,237

Contingent liabilities -litigation

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Notes To The Financial Statements (continued)

27. Contingencies (continued)

Contingent liabilities -litigation (continued)

Della Porta v. East 51st Street
A composition of personal injury actions, wrongful death actions, property damages actions, subrogation actions, and lien actions related to the collapse of a Favelle Favco crane on 15th March 2008 in the City of New York have been filed. Favelle Favco Cranes (USA) Inc. ("FFCUSA") has been named as a third-party defendant and second third-party defendant with regards to Labor Law/personal injury, lost of crane and wrongful death claims.

Additionally, FFCUSA is named as a direct defendant in a subrogation action for the replacement costs of the lost crane by the Insurance Carrier for New York Crane, the owner of the crane, and by the owner of an art gallery who claims both property damages and emotional distress.

The suit relates to an incident involving the collapse of a Favco crane said to be caused by a rigging activity carried out by a third party. The U.S. Occupational Safety & Health Administration ("OSHA") found that slings (independent of the crane per se) used during the rigging activity tore open causing the said incident. The Company's and FFCUSA's inclusion in the suit is purported simply to be by reason that the crane was a Favco crane.

It is anticipated that this litigation will take between three and five years to resolve. The Directors are of the opinion that it is premature to assess the outcome of the actions at this point in time.

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).

Significant transactions with related parties:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Ultimate holding company				
Purchase of property, plant and equipment	-	495	-	-
Rental expense payable	1,338	1,795	-	-
Rental income receivable	(261)	(482)	-	-
Sale of goods	(11,902)	(1,473)	-	-
Subcontract cost payable	45	746	-	-

Notes To The Financial Statements (continued)

28. Related parties (continued)

Significant transactions with related parties (continued):

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Subsidiaries				
Dividend income receivable	-	-	(10,988)	(12,915)
Interest expense payable	-	-	111	733
Related companies				
Purchase of property, plant and equipment	54	-	-	-
Sale of goods	(3,939)	(1,170)	-	-
Rental expense payable	540	226	-	-
Subcontract cost payable	3,639	3,387	-	-
Associates				
Sale of goods and services	(3,994)	(5,312)	-	-
Purchase of goods and services	12	-	-	-
Subcontract cost payable	153	-	-	-

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 2008 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. Change in accounting policy

In prior years, freehold land of the Group and the Company was stated at cost and was not depreciated. Gain and loss on disposal of freehold land was determined by comparing the proceeds from disposal with costs and was recognised net within "other income" or "other expenses" respectively in the income statements.

Following the change in accounting policy of freehold land from cost model to revaluation model, the Group revalues its freehold land every 5 years or at shorter intervals whenever the fair value of the freehold land is expected to differ materially from the carrying value.

Surplus arising from revaluation is dealt within the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase in the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

The change in accounting policy resulted in the increase in the carrying value of property, plant and equipment and a corresponding increase in revaluation reserve amount of RM15,105,000.

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 46 to 107 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2008 and of their financial performance 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: 24 April 2009

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 46 to 107 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 24 April 2009.

....
Lee Poh Kwee

Before me:

John Kalanjiam Chelliah @
Chelliah a/l Kalanjiam
Pesuruhjaya Sumpah Malaysia
(No. B218)

Independent Auditors' Report To The Members of Favelle Favco Berhad

Report on the Financial Statements

We have audited the financial statements of Favelle Favco Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 46 to 107.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

Independent Auditors' Report To The Members of Favelle Favco Berhad (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 6 to the financial statements.

c) We are satisfied that the accounts 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/10(J)
Chartered Accountant

Petaling Jaya,

Date: 24 April 2009

Group Properties As At 31 December 2008

No.	Location	Description/Existing Use	Year of Valuation/ 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	2008#
3.	7AL, Nordkranvej, 2 3540, Lynge DK, Denmark	Factory building with office block	2008#

Note: *# Year of Valuation*

Tenure/Expiry Date	Land Area	Age of Building	Carrying Value RM'000
Leasehold expiry 2031	17.826 acres	11 years	1,374
Freehold	68,846 sq. m	4 years	28,989
Freehold	59,525 sq. m	39 years	17,011
		Total properties	**47,374**

Analysis of Shareholdings As At 30 April 2009

Share Capital

Authorised share capital	: RM500 million
Issued and fully paid-up capital	: RM85,514,010
Class of shares	: Ordinary shares of RM0.50 each
Voting rights	: One vote per ordinary share

Distribution of shareholdings of ordinary shares

Size of Holdings	No of holders*2	% of holders*2	No. of shares held*2	% of issued capital*2
Less than 100	10	0.32	260	-*1
100 to 1,000	986	31.58	851,640	0.50
1,001 to 10,000	1,694	54.26	7,216,659	4.22
10,001 to 100,000	364	11.66	10,256,819	6.00
100,001 to 8,550,900 *2	66	2.11	43,306,442	25.32
8,550,901*2 and above	2	0.07	109,386,200	63.96
TOTAL	3,122	100.00	171,018,020	100.00

Notes:

*1. Less than 0.01%.

*2. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 30 April 2009.

Directors' Shareholdings as per the Register of Directors' Shareholdings

Shares in the Company

Name of Directors	Direct interests (no. of shares)	% of issued capital(8)	Deemed interests (no. of shares)	% of issued capital(8)
1. Tuan Haji Mohamed Taib bin Ibrahim	2,845,671	1.66	106,500(1)	0.06
2. Mac Ngan Boon @ Mac Yin Boon	7,392,913(2)	4.32	101,089,800(3)	59.11
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	0.83	-	-
6. Tan Sri A. Razak bin Ramli	300,000	0.18	800(1)	-(6)
7. Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	300,000(7)	0.18	-	-
8. Lim Teik Hin	100,000	0.06	-	-

Analysis of Shareholdings As At 30 April 2009
(continued)

Notes:

1. Deemed interested pursuant to Section 134 of the Companies 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. Less than 0.01%.
7. 300,000 shares held through AllianceGroup Nominees (Tempatan) Sdn Bhd.
8. Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 30 April 2009.

Shares in 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 2008 on pages 41 and 42 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 2008 on page 42 of this Annual Report.

Substantial Shareholdings as per the Register of Substantial Shareholders

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	57.30	-	-
Mac Ngan Boon @ Mac Yin Boon	7,392,913[1]	4.32	101,089,800[2]	59.11
Lembaga Tabung Haji	11,386,200	6.66	-	-

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 purchased by the Company and retained as treasury shares as at 30 April 2009.

Analysis of Shareholdings As At 30 April 2009 (continued)

List of thirty (30) largest shareholders

No.	Name of Shareholders	No. of shares held	% of issued capital*
1	Muhibbah Engineering (M) Bhd	98,000,000	57.3039
2	Lembaga Tabung Haji	11,386,200	6.6579
3	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Jersey)	5,721,000	3.3453
4	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	5,264,000	3.0780
5	Nik Ibrahim Kamil Bin Nik Ahmad Kamil	2,873,722	1.6804
6	Mohamed Taib Bin Ibrahim	2,330,200	1.3625
7	Mac Ngan Boon @ Mac Yin Boon	2,128,913	1.2448
8	Baharuddin Bin Ali	2,102,700	1.2295
9	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Al-Faid	1,867,500	1.0920
10	AllianceGroup Nominees (Tempatan) Sdn Bhd PHEIM Asset Management Sdn Bhd for Employees Provident Fund	1,866,400	1.0913
11	Mazlan Bin Abdul Hamid	1,401,000	0.8192
12	Ooi Sen Eng	1,326,000	0.7754
13	Mac Chung Hui	1,012,000	0.5918
14	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati Binti Hassan	900,000	0.5263
15	OREC Engineering Holdings Pty Ltd	900,000	0.5263
16	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Progress Fund	880,000	0.5146
17	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chew Keng Siew	800,000	0.4678
18	Mohamed Taib Bin Ibrahim	515,471	0.3014
19	AMSEC Nominees (Tempatan) Sdn Bhd AMTrustee Berhad for APEX Dana Al-Sofi-I (UT-APEX-SOFI)	469,000	0.2742
20	Noriyati Binti Hassan	454,823	0.2660
21	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For MAAKL Growth Fund	421,500	0.2465
22	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Lynn	400,000	0.2339

Analysis of Shareholdings As At 30 April 2009 (continued)

List of thirty (30) largest shareholders (continued)

No.	Name of Shareholders	No. of shares held	% of issued capital*
23	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Jin	400,000	0.2339
24	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Hui	400,000	0.2339
25	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Raja Ahmad Zainuddin Bin Raja Haji Omar	400,000	0.2339
26	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hung Yew Loong	380,000	0.2222
27	Yap Eng Jin	346,000	0.2023
28	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ng Ngah Peng	337,000	0.1971
29	HSBC Nominees (Asing) Sdn Bhd Exempt An for UBS AG	326,800	0.1911
30	Ng Yune Ming	310,000	0.1813
		145,920,229	**85.3247**

Note:

* Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 30 April 2009.

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 Seventeenth Annual General Meeting of the Company to be held at Rebana 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 22 June 2009 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
Ordinary Business :			
To receive the Audited Financial Statements for the financial year ended 31 December 2008 and the Reports of the Directors and Auditors thereon.	1		
To approve a First and Final Tax-Exempt Dividend of 5% in respect of the financial year ended 31 December 2008.	2		
To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association:			
a) Mr. Mac Ngan Boon @ Mac Yin Boon	3		
b) Ms. Lee Poh Kwee	4		
To re-elect Mr. Lim Teik Hin, a Director who retires pursuant to Article 86 of the Company's Articles of Association.	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		
Special Business :			
To authorise the Directors to allot and issue shares pursuant to Section 132D of the Companies Act, 1965	8		
To approve the Proposed Renewal of Share Buy-Back Authority	9		
To approve the Proposed Renewal of Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature	10		

[* Delete if not applicable]

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.

No. of shares held..

Dated this _________ day of _________________ 2009

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

NOTES:-

1. A member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint a proxy or more than 1 proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. The instrument appointing a proxy shall be in writing under the hands 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 its officer or its duly authorised attorney.
3. Where 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.
4. The instrument appointing a proxy must be deposited at the Company's registered office at Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time set for holding the Meeting or at any adjournment thereof.

Affix
Stamp
Here

REGISTERED OFFICE

Favelle Favco Berhad (249243-W)
Lot 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan
Malaysia