





# 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)

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor  
(Independent Non-Executive Director)

Mac Ngan Boon @ Mac Yin Boon  
(Managing Director)

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

Lee Poh Kwee  
(Executive Director)

Mazlan bin Abdul Hamid  
(Executive Director)

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

## Audit Committee

Tuan Haji Mohamed Taib bin Ibrahim (Chairman)

Tan Sri A. Razak bin Ramli

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor

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  
Tel : (603) 3349 5465  
Fax : (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

Tricor Investor Services Sdn Bhd  
(formerly known as Tenaga Koperat Sdn Bhd)  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 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](mailto:ir@favellefavco.com.my)

## Stock Exchange Listing

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

## Websites

[www.favellefavco.com](http://www.favellefavco.com)  
E-mail : [ffb@favellefavco.com.my](mailto:ffb@favellefavco.com.my)



Offshore crane, Gulf of Mexico, Maersk Developer

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## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Eighteenth Annual General Meeting of Favelle Favco Berhad will be held at Concorde III, Concorde Hotel Shah Alam, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Monday, 28 June 2010 at 2.00 p.m. for the following purposes :-

### Agenda

#### As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2009 and the Reports of the Directors and Auditors thereon. Resolution 1
  
2. To approve a First and Final Tax-Exempt Dividend of 4.00 sen per ordinary share in respect of the financial year ended 31 December 2009. Resolution 2
  
3. To re-elect the following Directors who retire pursuant to Article 80 of the Company's Articles of Association :-
  - a) Tan Sri A. Razak bin Ramli Resolution 3
  - b) Mac Chung Hui Resolution 4
  
4. To consider and, if thought fit, to pass the following resolution :- Resolution 5

**"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."
  
5. To appoint Auditors and to authorise the Directors to fix their remuneration. Resolution 6

Notice of Nomination pursuant to Section 172(11) of the Companies Act, 1965, a copy of which is annexed hereto, has been received by the Company for the nomination of Messrs Crowe Horwath (AF:1018), who have given their consent to act, for appointment as Auditors and of the intention to propose the following ordinary resolution:-

**"THAT** Messrs Crowe Horwath (AF:1018) be and is hereby appointed as Auditors of the Company in place of the retiring Auditors, Messrs KPMG and to hold office until the conclusion of the next Annual General Meeting and that the Directors be authorised to determine their remuneration."

## Notice of Annual General Meeting (cont'd)

### As Special Business

To consider and, if thought fit, to pass with or without modifications, the following resolutions :-

6. **ORDINARY RESOLUTION**  
**Proposed Renewal of Share Buy-Back Authority**

Resolution 7

**“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 Main Market 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 (“Proposed Share Buy-Back”) upon such terms and conditions as the Directors may deem fit and expedient in the interests of the Company provided that :-

- 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 22 June 2009, the Company shall be entitled to further purchase and/or hold such additional number of shares and 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 2009, the audited Retained Earnings and Share Premium Account of the Company were RM14,123,000 and RM1,459,000 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.

**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;

## Notice of Annual General Meeting (cont'd)

**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 Main Market Listing Requirements of Bursa Securities and all other relevant regulatory authorities .”

Resolution 7

### 7. ORDINARY RESOLUTION

#### **Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature (“Proposed Renewal of Shareholders' Mandate”)**

Resolution 8

“**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 4 June 2010 subject to the following :-

- 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 Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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

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

### 8. SPECIAL RESOLUTION

#### **Proposed Amendments to the Articles of Association of the Company**

Resolution 9

##### **“Article 74 – Rights to appoint proxy and right to vote**

**THAT** the existing Article 74(a) be deleted in its entirety and replaced with the new Article 74(a) of the Articles of Association, which shall read as follows:-

## Notice of Annual General Meeting (cont'd)

Resolution 9

74. (a) *A Member shall be entitled to be present and to vote on any question either personally or by proxy, or as proxy for another Member at any General Meeting, or upon a poll and to be reckoned in a quorum in respect of any fully paid-up shares and of any shares upon which calls due and payable to the Company shall have been paid. **In accordance with Section 149 of the Act, a Member shall not be entitled to appoint a person who is not a Member of the Company as his proxy unless that person is an advocate, an approved company auditor or a person approved by the Registrar of Companies in a particular case. A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a member appoints two (2) proxies, such appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.***

**THAT** the existing Article 74 be amended by inserting the following new Article numbered as Article 74(d) immediately after Article 74(c) of the Articles of Association of the Company:-

74. (d) ***If a Member having appointed a proxy/proxies to attend a general meeting attends such meeting in person, the appointment of such proxy/proxies shall be null and void in respect of such meeting and his proxy/proxies shall not be entitled to attend such meeting.***

### **Article 75 – How instrument to be executed**

**THAT** the existing Article 75 be deleted in its entirety and replaced with the new Article 75 of the Articles of Association, which shall read as follows:-

*The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or, if such appointor is a corporation, either under its common seal, or the hand of its attorney. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand a poll on behalf of the appointor.*

### **Article 76 – Instrument to be left at Company's office**

**THAT** the existing Article 76 be deleted in its entirety and replaced with the new Article 76 of the Articles of Association, which shall read as follows:-

*The instrument appointing a proxy shall be left at the Office **or such other place in Malaysia as is specified for that purpose in the notice convening the meeting**, at least forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise the instrument shall be deemed to be invalid and the person so named shall not be entitled to vote in respect thereof.*

### **Article 77 – Form of proxy**

**THAT** the footnote to the Form of Proxy of the existing Article 77 be amended and shall read as follows :-

***In accordance with Section 149 of the Act, a Member shall not be entitled to appoint a person who is not a Member of the Company as his proxy unless that person is an advocate, an approved company auditor or a person approved by the Registrar of Companies in a particular case.***

## Notice of Annual General Meeting (cont'd)

### **Article 126 – Dividends Payable by Cheque**

Resolution 9

**THAT** the existing Article 126 be deleted in its entirety and replaced with the new Article 126 of the Articles of Association, which shall read as follows:-

126. (a) *Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post to the last registered address of the Member or person entitled thereto, or, if two or more persons are registered as joint holders of the shares or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such person and such address as such person or persons may by writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holders or person or persons entitled to the Share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.*
- (b) *Subject to the provisions of the Act, the Central Depositories Act and the Rules, the Listing Requirements and/or regulatory authorities, payment of dividends may be made by direct transfer or such other mode of electronic means to the bank account of the holder whose name appear in the register of members or Record of Depositors or, if more than one person is entitled thereto in consequence of the death or bankruptcy of the holder, payment in such manner to the bank account of any one of such persons or to the bank account of such person as such persons may by writing direct. The payment of any dividends by such electronic means shall constitute a good and full discharge to the Company of the dividends to which it relates regardless of any discrepancy given by the Member in the details of bank account(s).*

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

#### **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 one proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provision 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. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
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 7 on Proposed Renewal of Share Buy-Back Authority**  
For the detailed information on the Proposed Share Buy-Back, shareholders are advised to refer to the Statement to Shareholders dated 4 June 2010 which is circulated together with the Company's Annual Report 2009.
6. **Resolution 8 on Proposed Renewal of Shareholders' Mandate**  
For further information on the Proposed Renewal of Shareholders' Mandate, shareholders are advised to refer to the Circular to Shareholders dated 4 June 2010 which is circulated together with the Company's Annual Report 2009.
7. **Resolution 9 on Proposed Amendments to the Articles of Association**  
The proposed amendments to the Articles of Association of the Company are to be in line with the recent directive by Bursa Malaysia Securities Berhad on the implementation of Electronic Dividend Payment (eDividend) and to further enhance on the administration of the internal affairs of the Company.

## Notice of Nomination of Auditors

Date: 17 May 2010

The Board of Directors  
Muhibbah Engineering (M) Bhd.  
Lot 586 & 579, 2nd Mile, Jalan Batu Tiga Lama,  
41300 Klang,  
Selangor Darul Ehsan.

Dear Sirs,

### NOTICE OF NOMINATION OF AUDITORS

Pursuant to Section 172(11) of the Companies Act, 1965, I, being a shareholder of the Company hereby give notice of my intention to nominate Messrs. Crowe Horwath for appointment as new auditors of the Company and to propose the following as an ordinary resolution to be tabled at the forthcoming Annual General Meeting:

**“THAT** Messrs Crowe Horwath (AF: 1018) be and is hereby appointed as Auditors of the Company in place of the retiring Auditors, Messrs KPMG and to hold office until the conclusion of the next Annual General Meeting and that the Directors be authorised to determine their remuneration.”

Yours faithfully,



Ooi Sen Eng

## **Notice of Dividend Entitlement and Payment Date**

**NOTICE IS HEREBY GIVEN THAT** a First and Final Tax-Exempt Dividend of 4.00 sen per ordinary share in respect of the financial year ended 31 December 2009, if approved by the shareholders at the forthcoming Eighteenth Annual General Meeting, will be paid on 28 July 2010 to Depositors whose names appear in the Record of Depositors at the close of business on 12 July 2010.

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 12 July 2010 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

4 June 2010

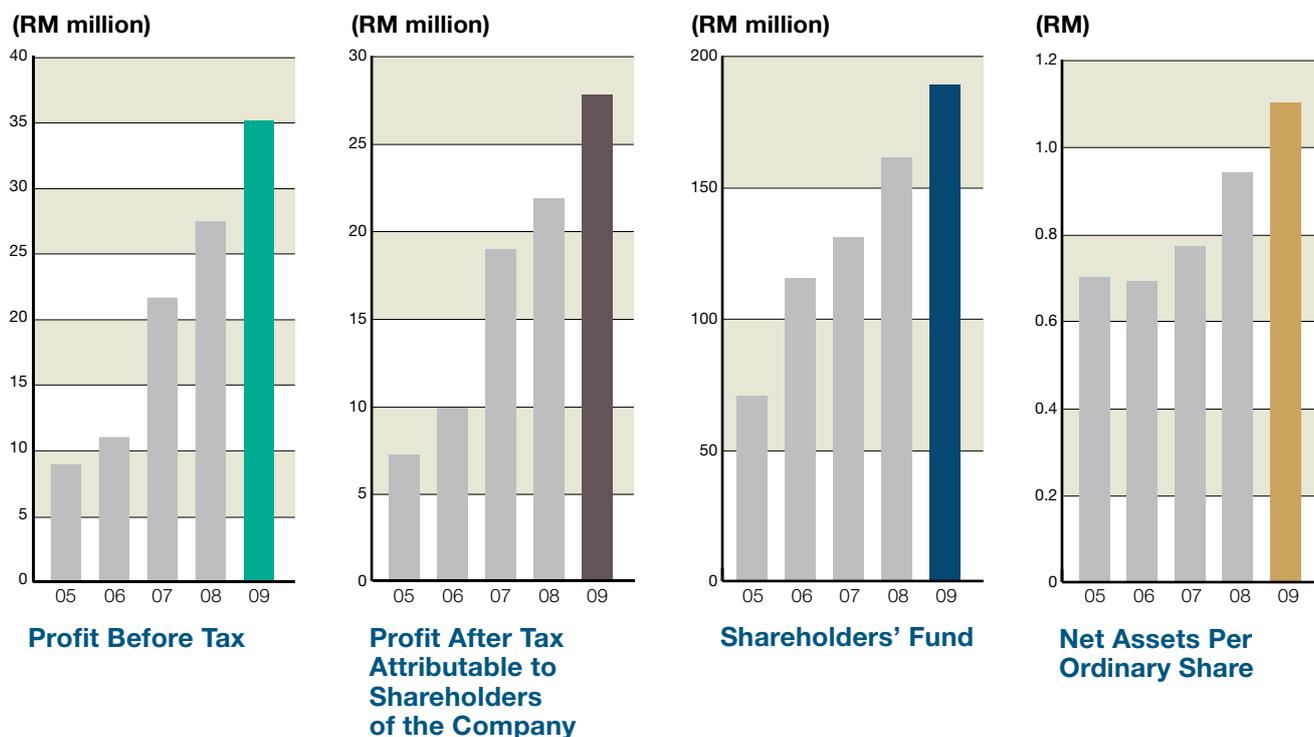
## Group Financial Highlights

|   | 2005              | 2006              | 2007     | 2008     | 2009            |
|---|-------------------|-------------------|----------|----------|-----------------|
| Turnover (RM'000)   | 335,646           | 357,956           | 453,896  | 581,125  | <b>534,747</b>  |
| Profit Before Tax (RM'000)  | 8,878             | 10,946            | 21,562   | 27,382   | <b>35,102</b>   |
| Profit After Tax Attributable to Shareholders of the Company (RM'000) | 7,180             | 9,868             | 18,935   | 21,824   | <b>27,783</b>   |
| Shareholders' Fund (RM'000)   | 70,351            | 115,123           | 130,921  | 161,127  | <b>189,879</b>  |
| Share Capital (RM'000)  | 50,000*           | 84,000**          | 85,178** | 85,514** | <b>86,175**</b> |
| Basic Earnings Per Ordinary Share (Sen)                               | 7.18              | 7.31              | 11.22    | 12.79    | <b>16.20</b>    |
| Net Assets Per Ordinary Share (RM)                                    | 0.70 <sup>#</sup> | 0.69 <sup>#</sup> | 0.77     | 0.94     | <b>1.10</b>     |

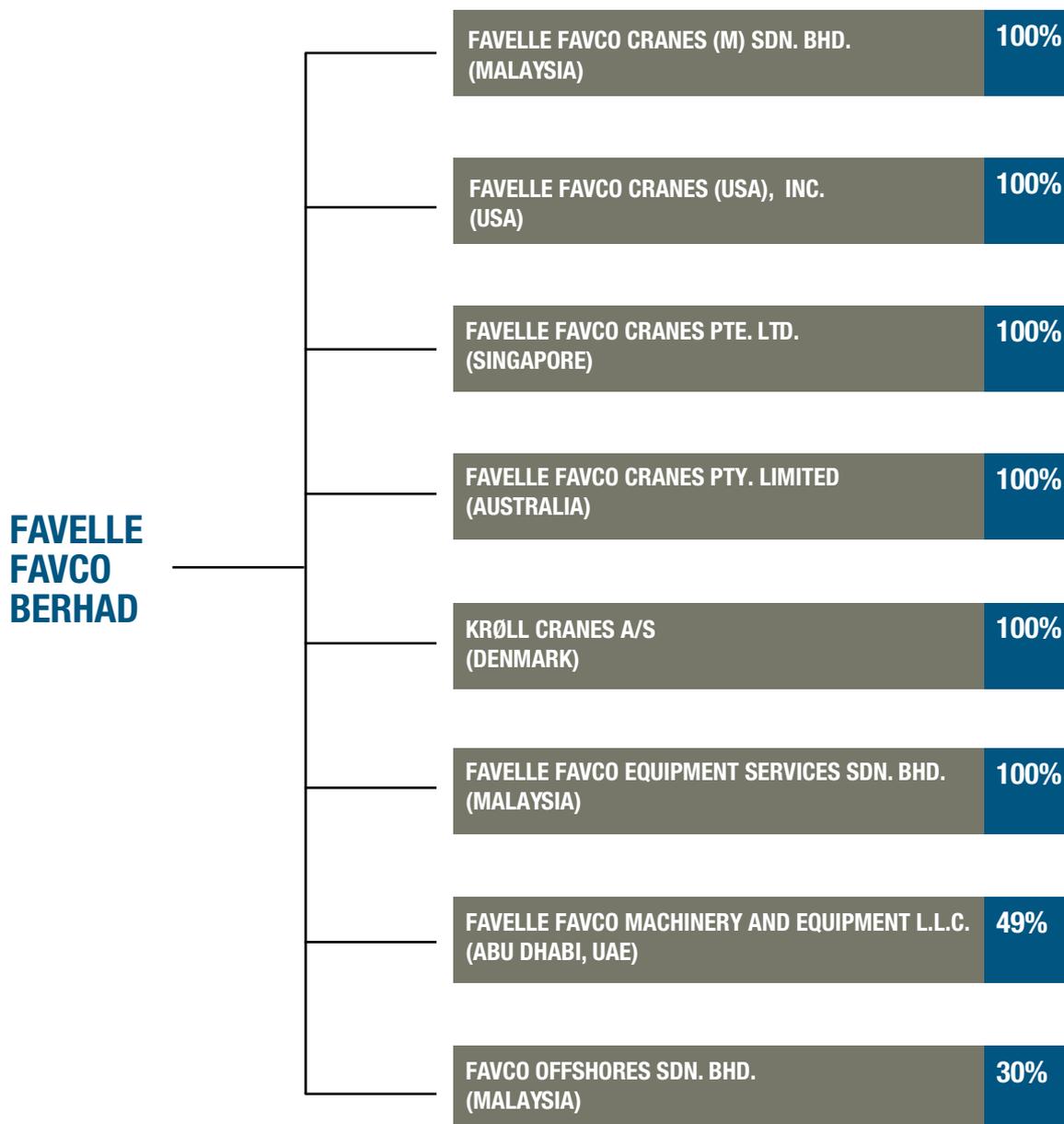
\* Represents ordinary shares of RM1 each prior to the Initial Public Offer of Favelle Favco Berhad

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

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



## Group Structure



\*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 2009.”

### Financial Performance

For the financial year under review, the Group posted a total revenue of RM535 million with a profit after taxation of RM27.8 million. This represents an 8% decrease in revenue and a 27.3% increase in profit after taxation as compared to the previous financial year. The improvement in profit after taxation is contributed by an improvement in margin and improved operational efficiencies in the Group's operations.

### Dividend

The Board of Directors is recommending a first and final tax exempt dividend of 4.00 sen per ordinary share subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend will amount to RM6.894 million.

### Industry and Market Review

The year of 2009 started very slowly. The knock-on effect of the credit crisis in late 2008 resulted in our order intake during the first half of 2009 slowing. The entire equipment industry was hit hard but surprisingly we held up well.

Generally, construction globally slowed down. Most contractors were completing their existing projects and very few new projects were kicked off. The only significant pocket of demand for tower cranes came from China which did not see any particular sharp drop in activity. Industrial construction globally also slowed down during the year.

The oil and gas industry had a similar story. Most shipyards and vendors remained busy completing existing projects whilst order intake dropped.



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

Whilst the year started slow, the second half of the year started to show some promise. Generally, the number of enquiries started to increase and subsequently, order intake also started to increase in the fourth quarter of 2009. Most of the projects came from the oil and gas industry as well as the wind turbine industry.

The wind turbine industry is an especially interesting one. Despite the recession of 2009, the number of installed capacity of offshore wind turbines actually increased. The activity centres around some very heavy lifting offshore cranes. Favelle Favco Group recently won an order to deliver a large offshore crane, model PC1000, to one of our repeat customers. The PC1000 will be capable of lifting 1000 metric tonnes at a 20 metre radius. We expect to continue to win our fair share of this heavy lift market.

### Operations Review

Favelle Favco Group was fortunate enough to have existing, a very strong order book which carried us through the year. Our sales turnover recognised only reduced by 8% whilst the average industry sales turnover dropped between 30% and 60%. Our order book currently stands at RM555 million and this should be enough to take us through 2010.

## Chairman's Statement (cont'd)

I am glad to report that despite the slowdown, Favelle Favco Group managed to report a higher annual net profit. This was mainly attributed to an easing of input prices and better cost management.

The slowdown eased the pricing pressures that had built up over the previous years and the supply chain eased up significantly. There is no longer a shortage of components which is making planning significantly easier. We had to watch our inventory quite closely this year and given the circumstances we have done reasonably well to adjust to the slowdown.

### Outlook

We approach 2010 cautiously. The oil and gas industry is slowly but surely starting to revive. The construction industry will remain slow for another year or two. Whilst our order book will take us through the year, with the market generally recovering, the global economic environment remains fragile.

We have embarked on a drive to improve our after-sales services. We believe that we will be able to increase revenue from here and we also believe that a better support structure will significantly benefit our customers throughout their ownership of our equipment. We are confident that the team will be able to deliver good news in the future.

Overall, Favelle Favco Group has a strong balance sheet. Therefore, we are keeping an eye out for any potential acquisitions in the lifting and marine industry.

### Corporate Social Responsibility

Our main thrust of Corporate Social Responsibility remains the development of skills for the industry. We continue to leave our doors open to apprenticeship programs and work placement programs for university students.

During the period under review, we also provided facilities and training to officers from the Department of Safety and Health in Malaysia on crane familiarisation, including basic crane design knowledge and inspection procedures. It is our intention to help increase safety awareness and to contribute to the safety in the crane industry.

Other events undertaken include a blood donation campaign among our staff for the local General Hospital, a clothes donation drive for the Beautiful Gate Foundation for the Disabled ("the Foundation") and 'volunteer support program' by our staff to assist the Foundation during its Hope & Joy Merdeka Charity Concert.



Tower crane, United Kingdom, Brookfield Construction



Offshore crane undergoing factory testing



Tower crane, China, CCTV building

## Chairman's Statement (cont'd)

### Corporate Governance

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

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

### Acknowledgement and Appreciation

The Board of Directors of Favelle Favco Group would like to thank the valued management team and employees of the Group for their continuous work commitment, perseverance and on-going 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'm 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.

**Mohamed Taib bin Ibrahim**

Chairman



Offshore crane, Brunel, Belait Barakah

## Profile of Directors

### **Tuan Haji Mohamed Taib bin Ibrahim**

Aged 85, 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 61, 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, Chairman, Transmile Group Berhad, Director of Lafarge Malayan Cement Berhad and Director of Ann Joo Resources Berhad.

### **Tan Sri Dato’ Seri Ahmad Ramli Bin Haji Mohd Nor**

Aged 66, Malaysian  
(Independent Non-Executive Director)

Member of the Audit Committee

Tan Sri Dato’ Seri Ahmad Ramli Bin Haji Mohd Nor was appointed as an Independent Non-Executive Director on 5 May 2004 and member of the Audit Committee of FFB on 10 May 2004. He is also the Independent Non-Executive Director of MEB, a position he has assumed since 19 April 2001. On 27 December 2001, he was appointed 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 of 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, Affin Islamic Bank Bhd, Boustead Heavy Industries Corporation Berhad.

## Profile of Directors (cont'd)

### Mac Ngan Boon @ Mac Yin Boon

Aged 66, 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 32, Malaysian  
(Deputy Managing Director/Chief Executive Officer)

Mac Chung Hui was appointed as the Deputy Managing Director of FFB Group on 5 May 2004. He was also appointed as the Chief Executive Officer of FFB in 2004. He holds a Bachelor of Civil Engineering degree from the University of Nottingham, United Kingdom. He joined FFB as Supervisory Board Member in 1999 and was responsible in assisting the Managing Director in the execution of operational decisions of the FFB Group. He has also been overseeing the production and operation of Favelle Favco Cranes Pty Limited ("FFA") and Favelle Favco Cranes (M) Sdn Bhd ("FFM") over the past nine (9) years.

### Lee Poh Kwee

Aged 45, 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 fifteen (15) years.

### Mazlan bin Abdul Hamid

Aged 47, Malaysian  
(Executive Director)

Mazlan bin Abdul Hamid was appointed as Executive Director of FFB on 17 May 2004 and heads the Marketing & Business Development of the FFB Group. He is also a 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 contract basis, and thereafter, Bureau Veritas (M) Sdn Bhd as 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.

## Profile of Directors (cont'd)

### Lim Teik Hin

Aged 69, 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

### Additional 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 for 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 buy back 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 2009.
- 3. Options, Warrants or Convertible Securities**  
Details of the exercise of employees' share options of the Company are disclosed on pages 37 to 38 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 programme during the financial year.
- 5. Imposition of Sanctions and/or Penalties**  
During the financial year under review, there were no material 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 2009 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 2009.
- 9. Profit Guarantee**  
There were no profit guarantee given/ received by the Company during the financial year.

## Other Information (cont'd)

### Additional Compliance Information

10. **Material Contracts**

Save for the recurrent related party transactions disclosed below, 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 2009 or entered into since the end of the previous financial year ended 31 December 2008.

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 22 June 2009, the Company had obtained shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 29 May 2009.

In accordance with Section 3.1.5 of Practice Note No. 12/2001 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2009 pursuant to the shareholders' mandate are disclosed as follows:-

| Transacting Parties     | Related Party   | Nature of Transactions   | Actual Transactions Value for the Financial Year Ended 31 December 2009 RM'000 |
|-------------------------|---|--|--|
| FFB Group and MEB Group | MEB, Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui, Lee Poh Kwee and Mazlan bin Abdul Hamid | 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 | 19,626   |
|                         |   | Sales and rental of cranes and parts, and the provision of crane maintenance and services by FFB Group to MEB Group  | 1,537  |
|                         |   | Rental of barges by FO from MEB and its related maintenance cost and sale of spare parts from MEB to FO  | -  |
|                         |   | # 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          | 605  |

## Other Information (cont'd)

### Additional Compliance Information (cont'd)

#### 12. Recurrent Related Party Transactions (cont'd)

| Transacting Parties     | Related Party   | Nature of Transactions  | Actual Transactions Value for the Financial Year Ended 31 December 2009 RM'000 |
|-------------------------|---|---|--|
| FFB Group and MEB Group | MEB, Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui, Lee Poh Kwee and Mazlan bin Abdul Hamid | # 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 open yard located at PN 11185, Lot 104505, Telok Gong, District of Klang, Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft.   | -  |
|                         |   | # Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft.   | 96   |
| FFB Group and FO        | Mac Ngan Boon @ Mac Yin Boon and Mazlan bin Abdul Hamid   | Rental of waterbags for load testing of cranes by FFB Group to FO   | 1,095  |
|                         |   | Sale of crane parts and provision of crane maintenance and services by FFB Group to FO  |  |
|                         |   | Rental of barges and its related maintenance cost and sale of spare parts by FFB Group to FO  |  |
|                         |   | Provision of crane maintenance and services and sale of crane parts by FO to FFB Group  | -  |
| FFB Group and MEB Group | MEB and Lee Poh Kwee  | # Rental of land held under HS(D) 99546 Lot No. 104625 Mukim & District of Klang, State of Selangor measuring in area approximately 140,000 square metres by Muhibbah Steel Industries Sdn Bhd to FFM | 600  |

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

## Other Information (cont'd)

### Additional Compliance Information (cont'd)

#### 12. Recurrent Related Party Transactions (cont'd)

##### 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              |

#### 13. Authority to Allot Shares pursuant to Section 132D of the Companies Act, 1965

The Company did not issue any new shares pursuant to the mandate granted to the Directors at the Seventeenth Annual General Meeting held on 22 June 2009 during the financial year. Such mandate will lapse at the conclusion of the Eighteenth Annual General Meeting of the Company.

The Directors of the Company had sought a mandate from the shareholders at the last Annual General Meeting, empowering the Directors, pursuant to Section 132D of the Companies Act, 1965, to allot and issue up to 10% of the paid-up capital of the Company as it will provide flexibility to the Company for allotment of shares for any possible fund-raising activities and to avoid any delay and cost involved in calling a general meeting to approve such an issue of shares.



Offshore crane, Indonesia, BP Tangguh

# 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 had 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.

The Board believes that the current composition is appropriate given the nature of business and scale of operations of the Group. Profiles of the Directors are presented on pages 14 to 16 of this Annual Report.

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

The roles of the Chairman and Managing Director are separated with a clear division of responsibilities between them to ensure balance of power and authority. The Chairman leads the strategic planning at the Board level, while the Managing Director is responsible for the implementation of the policies laid down and executive decision making. The current Chairman has never held the post of Managing Director of the Company.

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

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

## Statement on Corporate Governance (cont'd)

### 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:

#### Names of Directors

#### Attendance at Meetings in 2009

|  |     |
|--|-----|
| Tuan Haji Mohamed Taib bin Ibrahim               | 4/4 |
| Tan Sri A. Razak bin Ramli                       | 4/4 |
| Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 4/4 |
| 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                                     | 4/4 |

### Supply of Information

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

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

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

### Board Committees

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

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 27 to 31 of this Annual Report.

## Statement on Corporate Governance (cont'd)

### Board Committees (cont'd)

#### (ii) *Nomination Committee*

The present members of the Nomination Committee are as follows:

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

The Nomination Committee met once during the financial year. In accordance with its terms of reference, 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:

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

The Remuneration Committee met once during the financial year. In accordance with its terms of reference, 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.

## Statement on Corporate Governance (cont'd)

### Appointments and Re-election

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

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

### Directors' Training

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

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

During the financial year, all Directors have participated in numerous seminars and training programmes on topics relevant to the enhancement of their roles and responsibilities as Directors of the Company. The seminars and training programmes attended include topics relating to corporate planning, financial, taxation, leadership management, risk management and corporate governance.

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.

## DIRECTORS' REMUNERATION

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

|              | Executive Directors<br>RM | Non-Executive Directors<br>RM | Total<br>RM |
|--------------|---------------------------|-------------------------------|-------------|
| Fees         | 192,000                   | 204,000                       | 396,000     |
| Remuneration | 896,526                   | 45,080                        | 941,606     |
|              | 1,088,526                 | 249,080                       | 1,337,606   |

The number of Directors in each remuneration band for the financial year 2009 is as follows:

| Range of Remuneration  | Executive Directors | Non-Executive Directors | Total |
|------------------------|---------------------|-------------------------|-------|
| RM50,001 to RM100,000  | -                   | 4                       | 4     |
| RM100,001 to RM150,000 | 1                   | -                       | 1     |
| RM150,001 to RM200,000 | 1                   | -                       | 1     |
| RM350,001 to RM400,000 | 2                   | -                       | 2     |
|                        | 4                   | 4                       | 8     |

## Statement on Corporate Governance (cont'd)

### SHAREHOLDERS

#### Investors and Shareholders Relationship

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

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

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

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](http://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.

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.

## **Statement on Corporate Governance (cont'd)**

### **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 page 32 of this Annual Report.

### **Recurring Related Party Transactions**

The Board, through the Audit Committee, reviews all recurring related party transactions.

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

### **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.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 12 May 2010.

# 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:

| <b>Names of Committee Members</b>                   | <b>Designation</b>                                 | <b>Attendance at Meetings in 2009</b> |
|---|--|---------------------------------------|
| Tuan Haji Mohamed Taib bin Ibrahim                  | Chairman<br>(Independent Non-Executive Director)   | 4/4                                   |
| Tan Sri A. Razak bin Ramli                          | Member<br>(Independent Non-Executive Director)     | 3/4                                   |
| Tan Sri Dato' Seri<br>Ahmad Ramli bin Haji Mohd Nor | Member<br>(Independent Non-Executive Director)     | 4/4                                   |
| Lim Teik Hin  | Member<br>(Non-Independent Non-Executive Director) | 4/4                                   |

The Audit Committee comprises all Non-Executive Directors, with a majority being Independent Directors. Mr. Lim Teik Hin is a member of the Malaysian Institute of Accountants and CPA Australia.

The Audit Committee held four (4) meetings during the financial year ended 31 December 2009. The Group's Financial Controller and the Group's Internal Audit Manager attended all meetings. Other Board members attended some of the meetings upon invitation by the Chairman of the Committee. 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.

## **Audit Committee Report (cont'd)**

### **SUMMARY OF ACTIVITIES (cont'd)**

- (v) reviewing and discussing 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, which reports directly to the Audit Committee, 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 cost incurred for the internal audit function in respect of the financial year amounted to approximately RM125,000.

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.

#### **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.

## Audit Committee Report (cont'd)

### 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 and employees of the Company, wherever deemed necessary.

### Duties and responsibilities

The Audit Committee shall undertake the following duties and responsibilities:

1. To review the following and report the same to the Board of Directors:
  - with the external auditors, the audit plan, their evaluation of the system of internal controls and the audit reports on the financial statements.
  - the assistance given by the employees to the external auditors.
  - the adequacy of the scope, functions, 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).

## Audit Committee Report (cont'd)

### Duties and responsibilities

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 by-laws of the relevant option scheme.
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.



Offshore crane, Indonesia, JB115

## Audit Committee Report (cont'd)

### Proceedings of the Audit Committee

#### *Calling of meetings*

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

#### *Notice of meeting*

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

#### *Voting at and proceeding of meetings*

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

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

#### *Keeping of minutes*

The members shall cause minutes to be made of all meetings of the Audit Committee. Such minutes shall be 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 carried out audits based on audit plans approved by the Audit Committee;
- Subsequent follow-up reviews on recommendations and outstanding issues are conducted by the Group Internal Audit Department and reported to the Audit Committee to ensure that recommendations have been implemented and issues resolved accordingly;
- The preparation and submission of monthly management accounts and other information (i.e., financial performance) to management for review, monitoring and reporting purposes;
- The adoption of a Risk Management Framework which provides guidance to the Group to facilitate a structured framework approach to risk management and comprehensive reporting to the Board in a timely manner;
- Submission of quarterly risk management reports to the Risk Management Units for reporting to the Group Risk Management Committee; and
- A consolidated risk profile of the Group together with a summary of key risks and actions to mitigate these risks is discussed in the Risk Management Committee meetings before being submitted to the Board for consideration.

The Board is continuing its 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 2009. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.



Offshore crane, Germany, Alpha Ventus wind farm

## Financial Statements

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## Directors' report for the year ended 31 December 2009

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 2009.

### Principal activities

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries and associates are as stated in Note 6 and 7 respectively to the financial statements. There has been no significant change in the nature of these activities during the financial year.

### Results

|                     | Group<br>RM'000 | Company<br>RM'000 |
|---------------------|-----------------|-------------------|
| Profit for the year | 27,783<br>===== | 8,042<br>=====    |

### Reserves and provisions

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

### Dividend

Since the end of the previous financial year, the Company paid a first and final ordinary tax exempt dividend of 2.50 sen per ordinary share totalling RM4,302,950 in respect of the year ended 31 December 2008 on 17 September 2009.

The first and final ordinary tax exempt dividend recommended by the Directors in respect of the year ended 31 December 2009 is 4.00 sen per ordinary share totalling RM6,893,561.

### 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  
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor  
Lim Teik Hin

## Directors' report for the year ended 31 December 2009 (cont'd)

### Directors' interests

The interests and deemed interest 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<br>31.12.2009 |
|---|--|--------|------|------------------|
|   | At<br>1.1.2009                           | Bought | Sold |                  |
| <b>Interests in the Company</b>                     |  |        |      |                  |
| 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              |
| Tan Sri Dato' Seri Ahmad<br>Ramli bin Haji Mohd Nor | 300,000                                  | -      | -    | 300,000          |
| Lim Teik Hin  |  |        |      |                  |
| - Own   | 100,000                                  | -      | -    | 100,000          |

|  | Number of ordinary shares of RM0.50 each |        |      | At<br>31.12.2009 |
|--|--|--------|------|------------------|
|  | At<br>1.1.2009                           | Bought | Sold |                  |

### 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 2009 (cont'd)

### Directors' interests (cont'd)

|  | Number of ordinary shares of RM0.50 each |        |          | At<br>31.12.2009 |
|--|--|--------|----------|------------------|
|  | At<br>1.1.2009                           | Bought | Sold     |                  |
| <b>Interests in the ultimate holding company</b> |  |        |          |                  |
| <b>-Muhibbah Engineering (M) Bhd.</b>            |  |        |          |                  |
| 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  | 68,728,916                               | 80,000 | -        | 68,808,916       |
| - Spouse and Children                            | 18,822,500                               | -      | (40,000) | 18,782,500       |
| Mac Chung Hui                                    | 5,230,000                                | -      | (75,000) | 5,155,000        |
| Lee Poh Kwee                                     | 3,196,272                                | -      | -        | 3,196,272        |
| Mazlan bin Abdul Hamid                           | 110,000                                  | -      | -        | 110,000          |
| Lim Teik Hin                                     |  |        |          |                  |
| - Spouse   | 80,000                                   | -      | (30,000) | 50,000           |

The options granted to eligible Directors over unissued ordinary shares in the Company and the 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<br>31.12.2009 |
|------------------------------|---|---------|-----------|------------------|
|                              | At<br>1.1.2009  | Granted | Exercised |                  |
| <b>Company</b>               |   |         |           |                  |
| 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          |

|  | Number of options over ordinary shares of RM0.50 each |         |           | At<br>31.12.2009 |
|--|---|---------|-----------|------------------|
|  | At<br>1.1.2009  | Granted | Exercised |                  |
| <b>Ultimate holding company</b>        |   |         |           |                  |
| <b>- Muhibbah Engineering (M) Bhd.</b> |   |         |           |                  |
| 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          |

## **Directors' report for the year ended 31 December 2009 (cont'd)**

### **Directors' interests (cont'd)**

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 nor 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 corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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 of the Company and the ultimate holding company pursuant to their respective ESOS.

### **Issue of shares**

During the financial year, the Company issued 1,321,000 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 authorised, 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 financial year apart from the issue of options pursuant to the ESOS.

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

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

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who were granted options to subscribe for not less than 50,000 shares during the financial year under the ESOS scheme. This information has been separately filed with the Companies Commission of Malaysia. No option holders were granted options to subscribe for more than 50,000 shares during the year.

## Directors' report for the year ended 31 December 2009 (cont'd)

### Options granted over unissued shares (cont'd)

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

|                            | Number of options over ordinary shares of RM0.50 each |         |           |        | At<br>31.12.2009 |
|----------------------------|---|---------|-----------|--------|------------------|
|                            | At<br>1.1.2009  | Granted | Exercised | Lapsed |                  |
| Ooi San Kooi               | 133,000   | -       | (133,000) | -      | -                |
| Tew Siew Chong             | 400,000   | -       | (15,000)  | -      | 385,000          |
| Khoo Kok Eng               | 400,000   | -       | (100,000) | -      | 300,000          |
| Shenandoah Chong Shin Kwek | 400,000   | -       | -         | -      | 400,000          |
| Yap Eng Jin                | 133,000   | -       | (133,000) | -      | -                |

The Company has not disclosed the names of option holders who were granted options to subscribe for more than 50,000 shares, but not more than 400,000 shares.

### Other statutory information

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

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

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

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

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.

## **Directors' report for the year ended 31 December 2009 (cont'd)**

### **Other statutory information (cont'd)**

In the opinion of the Directors, except for the impairment loss in investment in subsidiary as disclosed in the Company financial statements the financial performance of the Group and of the Company for the financial year ended 31 December 2009 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: 27 April 2010

## Balance sheets at 31 December 2009

|                                       | Note | Group          |                | Company        |                |
|---------------------------------------|------|----------------|----------------|----------------|----------------|
|                                       |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Assets</b>                         |      |                |                |                |                |
| Property, plant and equipment         | 3    | 99,845         | 81,023         | 497            | 596            |
| Intangible assets                     | 4    | 11,185         | 14,142         | -              | -              |
| Investment property                   | 5    | -              | -              | 1,344          | 1,374          |
| Investments in subsidiaries           | 6    | -              | -              | 43,230         | 61,230         |
| Investments in associates             | 7    | 84             | 36             | 22             | 22             |
| Deferred tax assets                   | 8    | 1,560          | -              | -              | -              |
| Receivables                           | 9    | -              | -              | 15,084         | 15,196         |
| <b>Total non-current assets</b>       |      | <u>112,674</u> | <u>95,201</u>  | <u>60,177</u>  | <u>78,418</u>  |
| Receivables, deposits and prepayments | 9    | 191,616        | 183,835        | 50,226         | 32,776         |
| Contract work-in-progress             | 10   | 101,321        | 141,819        | -              | -              |
| Inventories                           | 11   | 153,228        | 136,029        | -              | -              |
| Current tax assets                    |      | 574            | 232            | 175            | 175            |
| Cash and cash equivalents             | 12   | 126,509        | 53,163         | 5,661          | 122            |
| <b>Total current assets</b>           |      | <u>573,248</u> | <u>515,078</u> | <u>56,062</u>  | <u>33,073</u>  |
| <b>Total assets</b>                   |      | <u>685,922</u> | <u>610,279</u> | <u>116,239</u> | <u>111,491</u> |
| <b>Equity</b>                         |      |                |                |                |                |
| Share capital                         |      | 86,175         | 85,514         | 86,175         | 85,514         |
| Reserves                              |      | 28,959         | 24,348         | 3,194          | 2,807          |
| Retained earnings                     |      | 74,745         | 51,265         | 14,123         | 10,384         |
| <b>Total equity</b>                   | 13   | <u>189,879</u> | <u>161,127</u> | <u>103,492</u> | <u>98,705</u>  |
| <b>Liabilities</b>                    |      |                |                |                |                |
| Loans and borrowings                  | 14   | 11,189         | 13,680         | -              | -              |
| Deferred tax liabilities              | 8    | 4,080          | 2,188          | -              | -              |
| <b>Total non-current liabilities</b>  |      | <u>15,269</u>  | <u>15,868</u>  | <u>-</u>       | <u>-</u>       |
| Provision for warranties              | 15   | 8,454          | 7,256          | -              | -              |
| Payables and accruals                 | 16   | 202,688        | 167,283        | 2,437          | 2,347          |
| Amount due to contract customers      | 10   | 125,202        | 112,930        | -              | -              |
| Loans and borrowings                  | 14   | 133,769        | 141,591        | 10,310         | 10,439         |
| Current tax liabilities               |      | 10,661         | 4,224          | -              | -              |
| <b>Total current liabilities</b>      |      | <u>480,774</u> | <u>433,284</u> | <u>12,747</u>  | <u>12,786</u>  |
| <b>Total liabilities</b>              |      | <u>496,043</u> | <u>449,152</u> | <u>12,747</u>  | <u>12,786</u>  |
| <b>Total equity and liabilities</b>   |      | <u>685,922</u> | <u>610,279</u> | <u>116,239</u> | <u>111,491</u> |

The notes set on pages 47 to 95 are an integral part of these financial statements.

## Income statements for the year ended 31 December 2009

|   | Note | Group          |                | Company        |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Revenue   | 18   | 534,747        | 581,125        | 25,712         | 10,988         |
| Cost of sales   |      | (442,231)      | (498,412)      | -              | -              |
| <b>Gross profit</b>   |      | 92,516         | 82,713         | 25,712         | 10,988         |
| Other income  |      | 1,919          | 6,068          | 2,165          | 101            |
| Distribution expenses                                       |      | (11,388)       | (9,800)        | -              | -              |
| Administrative expenses                                     |      | (42,407)       | (40,474)       | (1,249)        | (1,486)        |
| Other expenses  |      | (1,005)        | (6,319)        | (18,000)       | (1,485)        |
| <b>Results from operating activities</b>                    |      | 39,635         | 32,188         | 8,628          | 8,118          |
| Interest income   |      | 447            | 1,377          | 55             | 78             |
| Finance costs   |      | (5,028)        | (6,197)        | (391)          | (779)          |
| <b>Operating profit</b>                                     | 19   | 35,054         | 27,368         | 8,292          | 7,417          |
| Share of profit after tax of equity<br>accounted associates |      | 48             | 14             | -              | -              |
| <b>Profit before tax</b>                                    |      | 35,102         | 27,382         | 8,292          | 7,417          |
| Tax expense   | 21   | (7,319)        | (5,558)        | (250)          | -              |
| <b>Profit for the year</b>                                  |      | 27,783         | 21,824         | 8,042          | 7,417          |
| <b>Attributable to:</b>                                     |      |                |                |                |                |
| Shareholders of the Company                                 |      | 27,783         | 21,824         | 8,042          | 7,417          |
| <b>Dividends per ordinary share (sen)</b>                   |      |                |                |                |                |
| - Gross   |      | 4.00           | 2.50           | 4.00           | 2.50           |
| - Net   | 22   | 4.00           | 2.50           | 4.00           | 2.50           |
| <b>Earnings per ordinary share (sen)</b>                    |      |                |                |                |                |
| - Basic   | 23   | 16.20          | 12.79          |                |                |
| - Diluted   | 23   | 16.02          | 12.64          |                |                |

The notes set on pages 47 to 95 are an integral part of these financial statements.

## Statements of changes in equity for the year ended 31 December 2009

| Group  | Note | Attributable to equity holders of the Company |                         |                               |                               |                                |                           |                             | Total equity<br>RM'000 |
|--|------|---|-------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------|-----------------------------|------------------------|
|  |      | Share capital<br>RM'000                       | Share premium<br>RM'000 | Translation reserve<br>RM'000 | Revaluation reserve<br>RM'000 | Share option reserve<br>RM'000 | Treasury shares<br>RM'000 | Retained earnings<br>RM'000 |                        |
| <b>At 1 January 2008</b>                                 |      | 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                                | 22   | -   | -                       | -                             | -                             | -                              | -                         | (4,112)                     | (4,112)                |
| <b>At 31 December 2008/<br/>1 January 2009</b>           |      | 85,514  | 1,142                   | 6,436                         | 15,105                        | 1,686                          | (21)                      | 51,265                      | 161,127                |
| Foreign exchange translation differences                 |      | -   | -                       | 8,004                         | -                             | -                              | -                         | -                           | 8,004                  |
| Reclassification to deferred tax liabilities             |      | -   | -                       | -                             | (3,118)                       | -                              | -                         | -                           | (3,118)                |
| Adjustment to revaluation reserve                        |      | -   | -                       | -                             | (662)                         | -                              | -                         | -                           | (662)                  |
| Net gains/(losses) recognised directly in equity         |      | -   | -                       | 8,004                         | (3,780)                       | -                              | -                         | -                           | 4,224                  |
| Profit for the year                                      |      | -   | -                       | -                             | -                             | -                              | -                         | 27,783                      | 27,783                 |
| Total recognised income and expense for the year         |      | -   | -                       | 8,004                         | (3,780)                       | -                              | -                         | 27,783                      | 32,007                 |
| Share options exercised                                  | 17   | 661   | 66                      | -                             | -                             | -                              | -                         | -                           | 727                    |
| Transfer to share premium for share options exercised    |      | -   | 251                     | -                             | -                             | (251)                          | -                         | -                           | -                      |
| Share-based payments                                     | 17   | -   | -                       | -                             | -                             | 321                            | -                         | -                           | 321                    |
| Dividends to shareholders                                | 22   | -   | -                       | -                             | -                             | -                              | -                         | (4,303)                     | (4,303)                |
| <b>At 31 December 2009</b>                               |      | 86,175  | 1,459                   | 14,440                        | 11,325                        | 1,756                          | (21)                      | 74,745                      | 189,879                |
|  |      | Note 13.1                                     | Note 13.2               | Note 13.3                     | Note 13.4                     | Note 13.5                      | Note 13.6                 | Note 13.7                   |                        |

## Statements of changes in equity for the year ended 31 December 2009 (cont'd)

| Company   | Note | ← Non-distributable Share → |                         |                          | Distributable             |                             | Total equity<br>RM'000 |
|---|------|-----------------------------|-------------------------|--------------------------|---------------------------|-----------------------------|------------------------|
|   |      | Share capital<br>RM'000     | Share premium<br>RM'000 | option reserve<br>RM'000 | Treasury shares<br>RM'000 | Retained earnings<br>RM'000 |                        |
| <b>At 1 January 2008</b>                              |      | 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                             | 22   | -                           | -                       | -                        | -                         | (4,112)                     | (4,112)                |
| <b>At 31 December 2008/1 January 2009</b>             |      | 85,514                      | 1,142                   | 1,686                    | (21)                      | 10,384                      | 98,705                 |
| Profit for the year                                   |      | -                           | -                       | -                        | -                         | 8,042                       | 8,042                  |
| Share options exercised                               |      | 661                         | 66                      | -                        | -                         | -                           | 727                    |
| Transfer to share premium for share options exercised |      | -                           | 251                     | (251)                    | -                         | -                           | -                      |
| Share-based payments                                  | 17   | -                           | -                       | 321                      | -                         | -                           | 321                    |
| Dividends to shareholders                             | 22   | -                           | -                       | -                        | -                         | (4,303)                     | (4,303)                |
| <b>At 31 December 2009</b>                            |      | 86,175                      | 1,459                   | 1,756                    | (21)                      | 14,123                      | 103,492                |
|   |      | Note 13.1                   | Note 13.2               | Note 13.5                | Note 13.6                 | Note 13.7                   |                        |

The notes set on pages 47 to 95 are an integral part of these financial statements.

## Cash flow statements for the year ended 31 December 2009

| Note  | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Cash flows from operating activities</b>               |                |                |                |                |
| Profit before tax   | 35,102         | 27,382         | 8,292          | 7,417          |
| Adjustments for:  |                |                |                |                |
| Allowance for doubtful debts                              | 6,941          | 341            | -              | -              |
| Allowance for doubtful debts written back                 | (765)          | -              | -              | (11)           |
| Allowance for slow moving inventories                     | 2,882          | 2,069          | -              | -              |
| Amortisation of intangible assets                         | 2,757          | 2,331          | -              | 110            |
| Depreciation of property, plant and equipment             | 8,598          | 8,012          | 99             | 99             |
| Depreciation of investment property                       | -              | -              | 30             | 30             |
| Dividend income from subsidiaries (unquoted)              | -              | -              | (25,712)       | (10,988)       |
| Gain on disposal of property, plant and equipment         | (70)           | (55)           | -              | -              |
| Goodwill written off                                      | 572            | -              | -              | -              |
| Impairment loss on intangible assets                      | 327            | 29             | -              | -              |
| Impairment loss of investment in subsidiary               | -              | -              | 18,000         | -              |
| Intangible assets written off                             | 210            | -              | -              | -              |
| Finance costs   | 5,028          | 6,197          | 391            | 779            |
| Provision for warranties                                  | 3,174          | 5,153          | -              | -              |
| Interest income   | (447)          | (1,377)        | (55)           | (78)           |
| Property, plant and equipment written off                 | 89             | 2,600          | -              | -              |
| Unrealised loss/(gain) on foreign exchange                | 3,105          | (11,770)       | (1,748)        | 1,484          |
| Share-based payments                                      | 321            | 573            | 321            | 573            |
| Share of profit of equity accounted associates            | (48)           | (14)           | -              | -              |
| Reversal of provision for warranties                      | (2,129)        | (2,984)        | -              | -              |
|   | <hr/>          | <hr/>          | <hr/>          | <hr/>          |
| Operating profit/(loss) before changes in working capital | 65,647         | 38,487         | (382)          | (585)          |
| Changes in working capital:                               |                |                |                |                |
| Development costs   | -              | (12,520)       | -              | -              |
| Inventories   | (20,591)       | (10,937)       | -              | -              |
| Payables and accruals                                     | 35,113         | 71,989         | 2,791          | 2,299          |
| Receivables, deposits and prepayments                     | 23,437         | (57,614)       | 6,170          | 8,676          |
|   | <hr/>          | <hr/>          | <hr/>          | <hr/>          |
| Cash generated from operations                            | 103,606        | 29,405         | 8,579          | 10,390         |
|   | <hr/>          | <hr/>          | <hr/>          | <hr/>          |

## Cash flow statements for the year ended 31 December 2009 (cont'd)

|   | Note | Group           |                 | Company        |                 |
|---|------|-----------------|-----------------|----------------|-----------------|
|   |      | 2009<br>RM'000  | 2008<br>RM'000  | 2009<br>RM'000 | 2008<br>RM'000  |
| Cash generated from operations (cont'd)   |      | 103,606         | 29,405          | 8,579          | 10,390          |
| Dividends received  |      | -               | -               | 750            | -               |
| Interest received   |      | 447             | 1,377           | 55             | 78              |
| Interest paid   |      | (3,961)         | (4,339)         | -              | -               |
| Provisions paid   |      | (133)           | (84)            | -              | -               |
| Taxes paid  |      | (5,138)         | (2,875)         | -              | (3)             |
| <b>Net cash generated from operating activities</b>   |      | <u>94,821</u>   | <u>23,484</u>   | <u>9,384</u>   | <u>10,465</u>   |
| <b>Cash flows from investing activities</b>   |      |                 |                 |                |                 |
| Acquisition of property, plant and equipment  | (ii) | (27,408)        | (6,301)         | -              | -               |
| Proceeds from disposal of property, plant and equipment                                     |      | 382             | 335             | -              | -               |
| <b>Net cash used in investing activities</b>  |      | <u>(27,026)</u> | <u>(5,966)</u>  | <u>-</u>       | <u>-</u>        |
| <b>Cash flows from financing activities</b>   |      |                 |                 |                |                 |
| Dividend paid to shareholders of the Company  |      | (4,303)         | (4,112)         | (4,303)        | (4,112)         |
| Interest paid   |      | (1,067)         | (1,858)         | (269)          | (668)           |
| Proceeds from issue of shares under ESOS scheme   |      | 727             | 369             | 727            | 369             |
| Net proceeds from/(repayment of) revolving credit   |      | 8,871           | (2,580)         | -              | -               |
| Payment of finance lease liabilities  |      | (474)           | (1,181)         | -              | -               |
| Repayment of term loans   |      | (1,332)         | (11,969)        | -              | (8,700)         |
| <b>Net cash from/(used in) financing activities</b>   |      | <u>2,422</u>    | <u>(21,331)</u> | <u>(3,845)</u> | <u>(13,111)</u> |
| <b>Exchange difference on translation of the financial statements of foreign operations</b> |      | <u>6,701</u>    | <u>(3,671)</u>  | <u>-</u>       | <u>-</u>        |
| Net increase/(decrease) in cash and cash equivalents  |      | <u>76,918</u>   | <u>(7,484)</u>  | <u>5,539</u>   | <u>(2,646)</u>  |
| <b>Effect of exchange rate fluctuations on cash held</b>                                    |      | <u>595</u>      | <u>(620)</u>    | <u>-</u>       | <u>-</u>        |
| Cash and cash equivalents at 1 January  | (i)  | 48,891          | 56,995          | 122            | 2,768           |
| <b>Cash and cash equivalents at 31 December</b>   | (i)  | <u>126,404</u>  | <u>48,891</u>   | <u>5,661</u>   | <u>122</u>      |

## Cash flow statements for the year ended 31 December 2009 (cont'd)

### (i) Cash and cash equivalents

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

|                                     | Note | Group          |                | Company        |                |
|-------------------------------------|------|----------------|----------------|----------------|----------------|
|                                     |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Cash and bank balances              | 12   | 122,665        | 53,163         | 2,585          | 122            |
| Deposits with licensed banks        | 12   | 3,844          | -              | 3,076          | -              |
| Bank overdrafts repayable on demand | 14   | (105)          | (4,272)        | -              | -              |
|                                     |      | <u>126,404</u> | <u>48,891</u>  | <u>5,661</u>   | <u>122</u>     |
|                                     |      | -----          | -----          | -----          | -----          |

### (ii) Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM27,541,000 (2008 - RM7,973,000), of which RM133,000 (2008 - RM1,672,000) were acquired by means of hire purchases plans.

The notes set on pages 47 to 95 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 its registered office and principal place of business is as follow:

### Registered office/Principal place of business

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 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The financial statements of the Company as at and for the year ended 31 December 2009 do not include other entities.

The Company is principally engaged in investment holding whilst the principal activities of the subsidiaries and associates are stated in Note 6 and 7 respectively to the financial statements.

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 27 April 2010.

### 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 (FRSs), accounting principles generally accepted and the Companies Act, 1965 in Malaysia.

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

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2009**

- FRS 8, *Operating Segments*

#### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010**

- FRS 4, *Insurance Contracts*
- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statements* (revised)
- FRS 123, *Borrowing Costs* (revised)
- FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
- Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 7, *Financial Instruments: Disclosures*
- Amendments to FRS 101, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to FRS 127, *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 132, *Financial Instruments: Presentation*
  - *Puttable Financial Instruments and Obligations Arising on Liquidation*
  - *Separation of Compound Instruments*

## Notes to the financial statements (cont'd)

### 1. Basis of preparation (cont'd)

#### (a) Statement of compliance (cont'd)

##### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010 (cont'd)**

- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
  - *Reclassification of Financial Assets*
  - *Collective Assessment of Impairment for Banking Institutions*
- Improvements to FRSs (2009)
- IC Interpretation 9, *Reassessment of Embedded Derivatives*
- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- IC Interpretation 11, *FRS 2 – Group and Treasury Share Transactions*
- IC Interpretation 13, *Customer Loyalty Programmes*
- IC Interpretation 14, *FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

##### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010**

- Amendments to FRS 132, *Financial Instruments: Presentation – Classification of Rights Issues*

##### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010**

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 15, *Agreements for the Construction of Real Estate*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distribution of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

##### **FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011**

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2010 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, except for FRS 4, FRS 8, IC Interpretation 10, IC Interpretation 13 and IC Interpretation 14 which are not applicable to the Group and the Company; and
- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2010, except for IC Interpretation 12, IC Interpretation 15, IC Interpretation 16 and IC Interpretation 17 which are not applicable to the Group and the Company.

## Notes to the financial statements (cont'd)

### 1. Basis of preparation (cont'd)

#### (a) Statement of compliance (cont'd)

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

The impacts and disclosures as required by FRS 108.30(b), *Accounting Policies, Changes in Accounting Estimates and Errors*, in respect of applying FRS 7 and FRS 139 are not disclosed by virtue of the exemptions given in these respective FRSs.

Material impacts of initial application of a standard, an amendment or an interpretation, which will be applied retrospectively, are disclosed below:

#### **FRS 138, Intangible Assets**

FRS 138 (revised) incorporates the following change that is likely to be relevant to the Group and the Company:

- The amendments clarify that other amortisation methods may be used for intangible assets with finite useful lives apart from the straight-line method.

#### (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.

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

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 - provision for warranties
- Note 17 - share-based payments

## Notes to the financial statements (cont'd)

### 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.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

##### (ii) Associates

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

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

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

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

##### (iii) Affiliated company

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

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (a) Basis of consolidation (cont'd)

##### (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 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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (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.

The Group revalues its freehold land every 5 years and at shorter intervals whenever the fair value of the freehold land is expected to differ materially from their 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 for the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

Cost includes expenditures that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipments.

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. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

##### (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 the Company 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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (d) Property, plant and equipment (cont'd)

##### (iv) Depreciation

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

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

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

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

#### (e) Leased assets

##### (i) Finance lease

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

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

##### (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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (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.

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.

Goodwill is not amortised but is tested for impairment at each balance sheet date and whenever there is an indication that goodwill may be impaired.

##### (ii) Research and development

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

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

### 2. Significant accounting policies (cont'd)

#### (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.

#### (k) Cash and cash equivalents

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

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (l) Impairment of assets

The carrying amounts of assets except for inventories and assets arising from construction contracts, deferred tax assets and financial assets (other than investments in subsidiaries and associates) 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 balance sheet date and whenever there is an indication that goodwill maybe impaired.

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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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.

##### (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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (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 contributions 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.

##### (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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (p) Provisions (cont'd)

##### (ii) *Contingent liabilities*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is 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.

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.

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (r) Revenue recognition (cont'd)

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

#### (u) Earnings per share

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

## Notes to the financial statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (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.

### 3. Property, plant and equipment

| Group                                    | Freehold land<br>RM'000 | Buildings<br>RM'000 | Cranes<br>RM'000 | Plant,<br>equipment<br>and motor<br>vehicles<br>RM'000 | Capital<br>work-in-<br>progress<br>RM'000 | Total<br>RM'000 |
|--|-------------------------|---------------------|------------------|--|---|-----------------|
| <b>Cost/Valuation</b>                    |                         |                     |                  |  |   |                 |
| At 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<br>exchange rates | 6                       | 368                 | 987              | (1,606)  | 72  | (173)           |
| At 31 December 2008/<br>1 January 2009   | 24,332                  | 40,762              | 48,085           | 50,874   | 891                                       | 164,944         |
| Additions                                | -                       | 994                 | 22,386           | 3,538  | 623                                       | 27,541          |
| Change in fair value                     | (662)                   | -                   | -                | -  | -   | (662)           |
| Reclassification                         | -                       | -                   | -                | 891  | (891)                                     | -               |
| Disposals                                | -                       | -                   | (2,939)          | (1,020)  | -   | (3,959)         |
| Written off                              | -                       | -                   | -                | (89)   | -   | (89)            |
| Effect of movements in<br>exchange rates | 90                      | 118                 | 309              | 2,524  | -   | 3,041           |
| At 31 December 2009                      | 23,760                  | 41,874              | 67,841           | 56,718   | 623                                       | 190,816         |
| <b>Representing items at:</b>            |                         |                     |                  |  |   |                 |
| Cost                                     | -                       | 41,874              | 67,841           | 56,718   | 623                                       | 167,056         |
| Valuation - 2008                         | 23,760                  | -                   | -                | -  | -   | 23,760          |
|  | 23,760                  | 41,874              | 67,841           | 56,718   | 623                                       | 190,816         |

## Notes to the financial statements (cont'd)

### 3. Property, plant and equipment (cont'd)

| Group                                   | Freehold land<br>RM'000 | Buildings<br>RM'000 | Cranes<br>RM'000 | Plant,<br>equipment<br>and motor<br>vehicles<br>RM'000 | Capital<br>work-in-<br>progress<br>RM'000 | Total<br>RM'000 |
|---|-------------------------|---------------------|------------------|--|---|-----------------|
| <b>Depreciation and impairment loss</b> |                         |                     |                  |  |   |                 |
| At 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                     | -                       | 16,226              | 34,086           | 30,586   | -   | 80,898          |
| Accumulated depreciation                | -                       | 1,494               | 536              | 993  | -   | 3,023           |
| At 31 December 2008/<br>1 January 2009  | -                       | 17,720              | 34,622           | 31,579   | -   | 83,921          |
| Depreciation for the year               | -                       | 485                 | 3,426            | 4,687  | -   | 8,598           |
| Disposals                               | -                       | -                   | (2,548)          | (1,099)  | -   | (3,647)         |
| Effect of movements in exchange rates   | -                       | 96                  | 235              | 1,768  | -   | 2,099           |
| At 31 December 2009                     | -                       | 18,301              | 35,735           | 36,935   | -   | 90,971          |
| <b>Carrying amounts</b>                 |                         |                     |                  |  |   |                 |
| At 1 January 2008                       | 9,221                   | 23,456              | 14,945           | 17,793   | 3,383                                     | 68,798          |
| At 31 December 2008/<br>1 January 2009  | 24,332                  | 23,042              | 13,463           | 19,295   | 891                                       | 81,023          |
| At 31 December 2009                     | 23,760                  | 23,573              | 32,106           | 19,783   | 623                                       | 99,845          |

## Notes to the financial statements (cont'd)

### 3. Property, plant and equipment (cont'd)

| Company  | Plant,<br>equipment<br>and motor<br>vehicles<br>RM'000 | Total<br>RM'000 |
|--|--|-----------------|
| <b>Cost</b>  |  |                 |
| At 1 January 2008/ 31 December 2008/<br>1 January 2009/ 31 December 2009 | 1,984  | 1,984           |
|  | =====  | =====           |
| <b>Depreciation and impairment loss</b>                                  |  |                 |
| At 1 January 2008  | 296  | 296             |
| Accumulated depreciation   | 993  | 993             |
| Accumulated impairment loss  |  |                 |
|  | 1,289  | 1,289           |
| Depreciation for the year  | 99   | 99              |
|  | -----  | -----           |
| At 31 December 2008/1 January 2009                                       | 395  | 395             |
| Accumulated depreciation   | 993  | 993             |
| Accumulated impairment loss  |  |                 |
|  | 1,388  | 1,388           |
| Depreciation for the year  | 99   | 99              |
|  | -----  | -----           |
| At 31 December 2009  | 494  | 494             |
| Accumulated depreciation   | 993  | 993             |
| Accumulated impairment loss  |  |                 |
|  | 1,487  | 1,487           |
|  | =====  | =====           |
| <b>Carrying amounts</b>  |  |                 |
| At 1 January 2008  | 695  | 695             |
|  | =====  | =====           |
| At 31 December 2008/1 January 2009                                       | 596  | 596             |
|  | =====  | =====           |
| At 31 December 2009  | 497  | 497             |
|  | =====  | =====           |

#### 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 RM1,451,000 (2008 - RM2,253,000).

#### 3.2 Security

The freehold land and buildings of a subsidiary with total net book value of RM47,951,000 (2008 - RM47,320,000) have been pledged to certain licensed bank as security for bank loan facilities granted to the subsidiary (See Note 14).

## Notes to the financial statements (cont'd)

### 3. Property, plant and equipment (cont'd)

#### 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 in 2008. The cost of a piece of the Group's freehold land was written down by RM662,000 during the year ended 31 December 2009 as management was of the view that the fair value had differed materially from its carrying value. Had the freehold land been carried under the cost model, their carrying amounts would have been RM9,221,000 (2008 - RM9,221,000).

### 4. Intangible assets

| Group                                   | Development costs<br>RM'000 | Intellectual property<br>RM'000 | Goodwill on consolidation<br>RM'000 | Total<br>RM'000 |
|---|-----------------------------|---------------------------------|-------------------------------------|-----------------|
| <b>Cost</b>                             |                             |                                 |                                     |                 |
| At 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 2008/1 January 2009      | 19,921                      | 2,519                           | 572                                 | 23,012          |
| Written off                             | (210)                       | -                               | (572)                               | (782)           |
| Effect of movements in exchange rates   | 1,900                       | -                               | -                                   | 1,900           |
| At 31 December 2009                     | 21,611                      | 2,519                           | -                                   | 24,130          |
| <b>Amortisation and impairment loss</b> |                             |                                 |                                     |                 |
| At 1 January 2008                       | 4,921                       | 2,238                           | -                                   | 7,159           |
| Amortisation for the year               | 2,079                       | 252                             | -                                   | 2,331           |
| Impairment loss                         | -                           | 29                              | -                                   | 29              |
| Effect of movements in exchange rates   | (649)                       | -                               | -                                   | (649)           |
| At 31 December 2008/1 January 2009      | 6,351                       | 2,490                           | -                                   | 8,841           |
| Accumulated amortisation                | -                           | 29                              | -                                   | 29              |
| At 31 December 2009                     | 6,351                       | 2,519                           | -                                   | 8,870           |
| Amortisation for the year               | 2,757                       | -                               | -                                   | 2,757           |
| Impairment loss                         | 327                         | -                               | -                                   | 327             |
| Effect of movements in exchange rates   | 991                         | -                               | -                                   | 991             |
| At 31 December 2009                     | 10,099                      | 2,490                           | -                                   | 12,589          |
| Accumulated amortisation                | 327                         | 29                              | -                                   | 356             |
| At 31 December 2009                     | 10,426                      | 2,519                           | -                                   | 12,945          |

## Notes to the financial statements (cont'd)

### 4. Intangible assets (cont'd)

| Group                              | Development costs<br>RM'000 | Intellectual property<br>RM'000 | Goodwill on consolidation<br>RM'000 | Total<br>RM'000 |
|------------------------------------|-----------------------------|---------------------------------|-------------------------------------|-----------------|
| <b>Carrying amounts</b>            |                             |                                 |                                     |                 |
| At 1 January 2008                  | 3,127                       | 281                             | 572                                 | 3,980           |
|                                    | =====                       | =====                           | =====                               | =====           |
| At 31 December 2008/1 January 2009 | 13,570                      | -                               | 572                                 | 14,142          |
|                                    | =====                       | =====                           | =====                               | =====           |
| At 31 December 2009                | 11,185                      | -                               | -                                   | 11,185          |
|                                    | =====                       | =====                           | =====                               | =====           |

| Company                   | Intellectual property<br>2009<br>RM'000 | 2008<br>RM'000 |
|---------------------------|---|----------------|
| <b>Cost</b>               |   |                |
| At 1 January/31 December  | 1,098                                   | 1,098          |
|                           | =====                                   | =====          |
| <b>Amortisation</b>       |   |                |
| At 1 January              | 1,098                                   | 988            |
| Amortisation for the year | -                                       | 110            |
|                           | =====                                   | =====          |
| At 31 December            | 1,098                                   | 1,098          |
|                           | =====                                   | =====          |
| <b>Carrying amounts</b>   |   |                |
| At 1 January              | -                                       | 110            |
|                           | =====                                   | =====          |
| At 31 December            | -                                       | -              |
|                           | =====                                   | =====          |

#### 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 4 years (2008 - 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 was fully amortised during the year (2008 - 1 year).

#### 4.3 Goodwill on consolidation

The goodwill arising from the acquisition of a subsidiary in cranes segment was fully written off during the year.

## Notes to the financial statements (cont'd)

### 4. Intangible assets (cont'd)

#### 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 was allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill was 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 were 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 least not lower than the current results
- d) revenue is projected to reduce by 10% in 2010, and subsequently to increase by 13% from 2010 onwards. The revenue for 2010 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 (cont'd)

### 5. Investment property

|   | Company        |                |
|---|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Building</b>                         |                |                |
| <b>Cost</b>                             |                |                |
| At 1 January/31 December                | 2,989          | 2,989          |
|   | =====          | =====          |
| <b>Depreciation and impairment loss</b> |                |                |
| At 1 January                            |                |                |
| Accumulated depreciation                | 121            | 91             |
| Accumulated impairment loss             | 1,494          | 1,494          |
|   | 1,615          | 1,585          |
| Depreciation for the year               | 30             | 30             |
|   | -----          | -----          |
| At 31 December                          |                |                |
| Accumulated depreciation                | 151            | 121            |
| Accumulated impairment loss             | 1,494          | 1,494          |
|   | 1,645          | 1,615          |
|   | =====          | =====          |
| <b>Carrying amounts</b>                 |                |                |
| At 31 December                          | 1,344          | 1,374          |
|   | =====          | =====          |
| The carrying amount comprises:          |                |                |
| Building                                | 1,344          | 1,374          |
|   | =====          | =====          |
| <b>Fair value</b>                       |                |                |
| At 1 January                            | 1,374          | 1,404          |
|   | =====          | =====          |
| At 31 December                          | 1,344          | 1,374          |
|   | =====          | =====          |

The investment property is located on a piece of land leased from the Port of Harlingen Authority at the Port of Harlingen, Texas, USA, and is occupied by a subsidiary at no charge. The land rental expenses are borne by the subsidiary. The Directors estimated the fair value of the investment property without involvement of independent valuers.

### 6. Investments in subsidiaries

|                           | Company        |                |
|---------------------------|----------------|----------------|
|                           | 2009<br>RM'000 | 2008<br>RM'000 |
| Unquoted shares - at cost | 113,673        | 113,673        |
| Less: Impairment loss     | (70,443)       | (52,443)       |
|                           | -----          | -----          |
|                           | 43,230         | 61,230         |
|                           | =====          | =====          |

## Notes to the financial statements (cont'd)

### 6. Investments in subsidiaries (cont'd)

Details of the subsidiaries are as follows:

| Name of subsidiaries                                     | Principal activities  | Country of incorporation | Effective ownership interest |        |
|--|---|--------------------------|------------------------------|--------|
|  |   |                          | 2009 %                       | 2008 % |
| 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 (cont'd)

### 7. Investments in associates

|                                    | Group          |                | Company        |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Unquoted shares, at cost           | 256            | 256            | 256            | 256            |
| Share of post-acquisition reserves | (172)          | (220)          | -              | -              |
| Less: Impairment loss              | -              | -              | (234)          | (234)          |
|                                    | <u>84</u>      | <u>36</u>      | <u>22</u>      | <u>22</u>      |
|                                    | =====          | =====          | =====          | =====          |

#### Summarised financial information on associates:

|             | Country of incorporation              | Effective ownership interest | Revenues (100%)<br>RM'000 | Profit/(Loss) (100%)<br>RM'000 | Total assets (100%)<br>RM'000 | Total liabilities (100%)<br>RM'000 |
|-------------|---------------------------------------|------------------------------|---------------------------|--------------------------------|-------------------------------|------------------------------------|
| <b>2009</b> |                                       |                              |                           |                                |                               |                                    |
| FO*         | Malaysia                              | 30%                          | 1,408                     | 159                            | 561                           | 283                                |
| FFME**      | Abu Dhabi,<br>United Arab<br>Emirates | 49%                          | 4,667                     | (55)                           | 2,471                         | 3,727                              |
|             |                                       |                              | <u>6,075</u>              | <u>104</u>                     | <u>3,032</u>                  | <u>4,010</u>                       |
|             |                                       |                              | =====                     | =====                          | =====                         | =====                              |
| <b>2008</b> |                                       |                              |                           |                                |                               |                                    |
| FO*         | Malaysia                              | 30%                          | 1,357                     | 46                             | 1,287                         | 1,169                              |
| FFME**      | Abu Dhabi,<br>United Arab<br>Emirates | 49%                          | 2,874                     | 85                             | 2,233                         | 3,451                              |
|             |                                       |                              | <u>4,231</u>              | <u>131</u>                     | <u>3,520</u>                  | <u>4,620</u>                       |
|             |                                       |                              | =====                     | =====                          | =====                         | =====                              |

\* Favco Offshores Sdn. Bhd.

\*\* Favelle Favco Machinery and Equipment LLC

The Group has not recognised losses relating to FFME totalling RM615,000 (2008 - RM588,000) as the Group's share of losses had exceeded its interest in the associate and the Group has no obligation in respect of these losses.

## Notes to the financial statements (cont'd)

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

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

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

| Group   | Assets         |                  | Liabilities    |                | Net            |                |
|---|----------------|------------------|----------------|----------------|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Property, plant and equipment   | -              | -                | 6,843          | 3,230          | 6,843          | 3,230          |
| Tax losses carry- forwards<br>(Deductible)/taxable temporary<br>differences | -<br>(6,300)   | (733)<br>(3,005) | -<br>1,977     | -<br>2,696     | -<br>(4,323)   | (733)<br>(309) |
| Tax (assets)/liabilities  | (6,300)        | (3,738)          | 8,820          | 5,926          | 2,520          | 2,188          |
| Set off   | 4,740          | 3,738            | (4,740)        | (3,738)        | -              | -              |
| Net tax (assets)/liabilities  | (1,560)        | -                | 4,080          | 2,188          | 2,520          | 2,188          |

#### Unrecognised deferred tax assets

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

|                                  | Group          |                | Company        |                |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Plant and equipment              | (3,962)        | 1,930          | -              | -              |
| Deductible temporary differences | 17,974         | 800            | -              | -              |
| Tax losses carry-forwards        | 67,203         | 59,208         | -              | -              |
|                                  | 81,215         | 61,938         | -              | -              |

The deductible temporary differences do not expire under current tax legislation except for unutilised tax losses carry forwards amounting to RM67,200,000 (2008 - RM59,200,000) 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 profits will be available against which the Group can utilise the benefits there from.

## Notes to the financial statements (cont'd)

### 8. Deferred tax (assets) and liabilities (cont'd)

#### Movement in temporary differences during the year

| Group                            | At<br>1.1.2008<br>RM'000 | Recognised<br>in income<br>statement<br>(Note 21)<br>RM'000 | At<br>31.12.2008<br>RM'000 | Recognised<br>in income<br>statement<br>(Note 21)<br>RM'000 | Recognised<br>in equity<br>(Note 13)<br>RM'000 | At<br>31.12.2009<br>RM'000 |
|----------------------------------|--------------------------|---|----------------------------|---|--|----------------------------|
| Property, plant<br>and equipment | 241                      | 2,989   | 3,230                      | 495   | 3,118  | 6,843                      |
| Tax losses carry-<br>forwards    | (801)                    | 68  | (733)                      | 733   | -  | -                          |
| Other items                      | 2,685                    | (2,994)   | (309)                      | (4,014)   | -  | (4,323)                    |
|                                  | 2,125                    | 63  | 2,188                      | (2,786)   | 3,118  | 2,520                      |

### 9. Receivables, deposits and prepayments

| Note  | Group          |                | Company        |                |        |
|---|----------------|----------------|----------------|----------------|--------|
|   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |        |
| <b>Non-current</b>                          |                |                |                |                |        |
| <b>Non-trade</b>                            |                |                |                |                |        |
| Advances to a subsidiary                    | 9.2            | -              | -              | 15,084         | 15,196 |
| <b>Current</b>                              |                |                |                |                |        |
| <b>Trade</b>                                |                |                |                |                |        |
| Trade receivables                           |                | 189,397        | 166,815        | -              | -      |
| Less: Allowance for doubtful debts          |                | (7,889)        | (3,452)        | -              | -      |
|   |                | 181,508        | 163,363        | -              | -      |
| Amount due from ultimate<br>holding company | 9.3            | -              | 1,143          | -              | -      |
| Amounts due from subsidiaries               | 9.4            | -              | -              | 682            | 532    |
| Amounts due from related<br>companies       | 9.5            | 207            | 7,451          | -              | -      |
| Amounts due from associates                 | 9.6            | 1,887          | 2,657          | -              | -      |
|   |                | 2,094          | 11,251         | 682            | 532    |

## Notes to the financial statements (cont'd)

### 9. Receivables, deposits and prepayments (cont'd)

|  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Non-trade</b>                         |      |                |                |                |                |
| Amount due from ultimate holding company | 9.3  | 3,177          | 1,078          | 2              | -              |
| Amounts due from subsidiaries            | 9.4  | -              | -              | 49,456         | 32,160         |
| Amounts due from related companies       | 9.5  | 36             | 35             | -              | -              |
| Other receivables                        | 9.7  | 1,306          | 4,122          | 86             | 84             |
| Deposits                                 |      | 406            | 1,535          | -              | -              |
| Prepayments                              |      | 3,089          | 2,451          | -              | -              |
|  |      | 8,014          | 9,221          | 49,544         | 32,244         |
|  |      | 191,616        | 183,835        | 50,226         | 32,776         |

#### Group

#### 9.1 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          |                |
|---------------------|------------------|----------------|----------------|
|                     |                  | 2009<br>RM'000 | 2008<br>RM'000 |
| RM                  | USD              | 42,261         | 22,863         |
| RM                  | SGD              | 138            | -              |
| RM                  | AUD              | 4,602          | 1,948          |
| RM                  | HKD              | 864            | 875            |
| RM                  | EURO             | 3,821          | 13,455         |
| RM                  | RMB              | 6,315          | 5,592          |
| AUD                 | USD              | 798            | 707            |
| USD                 | SGD              | 13,976         | 6,350          |

#### 9.2 Advances to a subsidiary

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

#### 9.3 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 and repayable on demand.

## Notes to the financial statements (cont'd)

### 9. Receivables, deposits and prepayments (cont'd)

#### 9.4 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 and repayable on demand.

#### 9.5 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 and repayable on demand.

#### 9.6 Amounts due from associates

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

Included in the amount due from associates is an allowance for doubtful debts amounting to RM767,688 (2008 – RM767,688).

#### 9.7 Other receivables

Included in other receivables is an allowance for doubtful debts amounting to RM387,628 (2008 – Nil).

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

|   | Group          |                |
|---|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000 |
| Aggregate costs incurred to date                  | 429,060        | 709,181        |
| Add: Attributable profits less foreseeable losses | 65,934         | 125,602        |
|   | <u>494,994</u> | <u>834,783</u> |
| Less: Progress billings                           | (518,875)      | (805,894)      |
|   | (23,881)       | 28,889         |
| Amount due to contract customers                  | <u>125,202</u> | <u>112,930</u> |
|   | 101,321        | 141,819        |
|   | =====          | =====          |
| Contract work-in-progress                         | 101,321        | 141,819        |
|   | =====          | =====          |
| Amount due to contract customers                  | <u>125,202</u> | <u>112,930</u> |
|   | =====          | =====          |

## Notes to the financial statements (cont'd)

### 11. Inventories

|                          | Group          |                |
|--------------------------|----------------|----------------|
|                          | 2009<br>RM'000 | 2008<br>RM'000 |
| At cost:                 |                |                |
| Cranes                   | 4,512          | 4,237          |
| Crane components         | 80,458         | 79,376         |
| Work-in-progress         | 36,923         | 28,698         |
|                          | <u>121,893</u> | <u>112,311</u> |
| At net realisable value: |                |                |
| Cranes                   | 19,338         | 13,563         |
| Crane components         | 11,997         | 10,155         |
|                          | <u>153,228</u> | <u>136,029</u> |
|                          | =====          | =====          |

### 12. Cash and cash equivalents

|                                     | Group          |                | Company        |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Cash and bank balances              | 122,665        | 53,163         | 2,585          | 122            |
| Deposits placed with licensed banks | 3,844          | -              | 3,076          | -              |
|                                     | <u>126,509</u> | <u>53,163</u>  | <u>5,661</u>   | <u>122</u>     |
|                                     | =====          | =====          | =====          | =====          |

### 13. Share capital and reserves

#### 13.1 Share capital

|                                       | Group and Company |                        |                |                        |
|---------------------------------------|-------------------|------------------------|----------------|------------------------|
|                                       | Amount            | Number of              | Amount         | Number of              |
|                                       | 2009<br>RM'000    | Shares<br>2009<br>'000 | 2008<br>RM'000 | Shares<br>2008<br>'000 |
| <b>Ordinary shares of RM0.50 each</b> |                   |                        |                |                        |
| Authorised                            | 500,000           | 1,000,000              | 500,000        | 1,000,000              |
|                                       | =====             | =====                  | =====          | =====                  |
| Issued and fully paid                 |                   |                        |                |                        |
| At 1 January                          | 85,514            | 171,028                | 85,178         | 170,355                |
| Issued under ESOS scheme              | 661               | 1,321                  | 336            | 673                    |
|                                       | <u>86,175</u>     | <u>172,349</u>         | <u>85,514</u>  | <u>171,028</u>         |
|                                       | =====             | =====                  | =====          | =====                  |

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.

## Notes to the financial statements (cont'd)

### 13. Share capital and reserves (cont'd)

#### 13.2 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.

#### 13.3 Translation reserve

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

#### 13.4 Revaluation reserve

The revaluation reserve relates to the revaluation of freehold land. Deferred tax liabilities arising upon revaluation of freehold land are recognised directly in equity.

#### 13.5 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.

#### 13.6 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 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.

#### 13.7 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 2009 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.

## Notes to the financial statements (cont'd)

### 14. 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 25.

|                                     | Group          |                | Company        |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Non-current</b>                  |                |                |                |                |
| Secured term loan                   | 10,019         | 12,131         | -              | -              |
| Finance lease liabilities           | 1,170          | 1,549          | -              | -              |
|                                     | <u>11,189</u>  | <u>13,680</u>  | <u>-</u>       | <u>-</u>       |
|                                     | -----          | -----          | -----          | -----          |
| <b>Current</b>                      |                |                |                |                |
| Secured term loan                   | 2,112          | 2,112          | -              | -              |
| Bank overdraft - secured            | -              | 5              | -              | -              |
| Bank overdrafts - unsecured         | 105            | 4,267          | -              | -              |
| Unsecured revolving credits         | 24,310         | 15,439         | 10,310         | 10,439         |
| Unsecured insurance premium finance | 1,633          | 853            | -              | -              |
| Bills payable                       | 105,125        | 118,469        | -              | -              |
| Finance lease liabilities           | 484            | 446            | -              | -              |
|                                     | <u>133,769</u> | <u>141,591</u> | <u>10,310</u>  | <u>10,439</u>  |
|                                     | -----          | -----          | -----          | -----          |
|                                     | <u>144,958</u> | <u>155,271</u> | <u>10,310</u>  | <u>10,439</u>  |
|                                     | -----          | -----          | -----          | -----          |

#### 14.1 Security

The secured term loan of a subsidiary is charged against its freehold land, building, plant and equipment (Note 3) and is supported by the corporate guarantee from the Company.

The secured bank overdraft of a subsidiary was 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 (cont'd)

### 14. Loans and borrowings (cont'd)

#### 14.2 Terms and debt repayment schedule

| Group                                     | Year of maturity<br>RM'000 | 2009                      |                        |                       | 2008                  |                        |                           |                        |                       |                       |                        |   |
|---|----------------------------|---------------------------|------------------------|-----------------------|-----------------------|------------------------|---------------------------|------------------------|-----------------------|-----------------------|------------------------|---|
|   |                            | Carrying amount<br>RM'000 | Under 1 year<br>RM'000 | 1 - 2 years<br>RM'000 | 2 - 5 years<br>RM'000 | Over 5 years<br>RM'000 | Carrying amount<br>RM'000 | Under 1 year<br>RM'000 | 1 - 2 years<br>RM'000 | 2 - 5 years<br>RM'000 | Over 5 years<br>RM'000 |   |
| Secured term loan                         |                            |                           |                        |                       |                       |                        |                           |                        |                       |                       |                        |   |
| - RM                                      | 2015                       | 12,131                    | 2,112                  | 2,112                 | 6,336                 | 1,571                  | 14,243                    | 2,112                  | 2,112                 | 6,336                 | 3,683                  |   |
| Secured bank overdraft                    |                            |                           |                        |                       |                       |                        |                           |                        |                       |                       |                        |   |
| - DKK                                     | -                          | -                         | -                      | -                     | -                     | -                      | 5                         | 5                      | -                     | -                     | -                      | - |
| Unsecured bank overdrafts - RM            | 2010                       | 105                       | 105                    | -                     | -                     | -                      | 4,267                     | 4,267                  | -                     | -                     | -                      | - |
| Unsecured revolving credits - USD         | 2010                       | 24,310                    | 24,310                 | -                     | -                     | -                      | 15,439                    | 15,439                 | -                     | -                     | -                      | - |
| Unsecured insurance premium finance - AUD | 2010                       | 1,633                     | 1,633                  | -                     | -                     | -                      | 853                       | 853                    | -                     | -                     | -                      | - |
| Bills payable                             | 2010                       | 105,125                   | 105,125                | -                     | -                     | -                      | 118,469                   | 118,469                | -                     | -                     | -                      | - |
| Finance lease liabilities                 |                            |                           |                        |                       |                       |                        |                           |                        |                       |                       |                        |   |
| - AUD                                     | -                          | -                         | -                      | -                     | -                     | -                      | 22                        | 22                     | -                     | -                     | -                      | - |
| - RM                                      | 2010 -2014                 | 458                       | 211                    | 146                   | 101                   | -                      | 529                       | 167                    | 181                   | 181                   | -                      | - |
| - DKK                                     | 2010 -2011                 | 1,196                     | 273                    | 923                   | -                     | -                      | 1,444                     | 257                    | 1,187                 | -                     | -                      | - |
|   |                            | 144,958                   | 133,769                | 3,181                 | 6,437                 | 1,571                  | 155,271                   | 141,591                | 3,480                 | 6,517                 | 3,683                  |   |
| <b>Company</b>                            |                            |                           |                        |                       |                       |                        |                           |                        |                       |                       |                        |   |
| Unsecured revolving credits- USD          | 2010                       | 10,310                    | 10,310                 | -                     | -                     | -                      | 10,439                    | 10,439                 | -                     | -                     | -                      | - |
|   |                            | 10,310                    | 10,310                 | -                     | -                     | -                      | 10,439                    | 10,439                 | -                     | -                     | -                      | - |

## Notes to the financial statements (cont'd)

### 14. Loans and borrowings (cont'd)

#### 14.3 Finance lease liabilities

Finance lease liabilities are payable as follows:

| Group                      | Minimum lease payments | Interest       | Principal      | Minimum lease payments | Interest       | Principal      |
|----------------------------|------------------------|----------------|----------------|------------------------|----------------|----------------|
|                            | 2009<br>RM'000         | 2009<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000         | 2008<br>RM'000 | 2008<br>RM'000 |
| Less than one year         | 514                    | (30)           | 484            | 472                    | (26)           | 446            |
| Between one and five years | 1,210                  | (40)           | 1,170          | 1,573                  | (24)           | 1,549          |
|                            | <u>1,724</u>           | <u>(70)</u>    | <u>1,654</u>   | <u>2,045</u>           | <u>(50)</u>    | <u>1,995</u>   |
|                            | =====                  | =====          | =====          | =====                  | =====          | =====          |

### 15. Provision for warranties

| Group                                 | 2009<br>RM'000 | 2008<br>RM'000 |
|---------------------------------------|----------------|----------------|
| At 1 January                          | 7,256          | 5,296          |
| Provision made during the year        | 3,174          | 5,153          |
| Provision used during the year        | (133)          | (84)           |
| Provision reversed during the year    | (2,129)        | (2,984)        |
| Effect of movements in exchange rates | 286            | (125)          |
| At 31 December                        | <u>8,454</u>   | <u>7,256</u>   |
|                                       | =====          | =====          |

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.

## Notes to the financial statements (cont'd)

### 16. Payables and accruals

|  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Trade</b>                           |      |                |                |                |                |
| Trade payables                         | 16.1 | 149,879        | 105,953        | -              | -              |
| Amount due to ultimate holding company | 16.2 | 2,761          | 125            | -              | -              |
| Amounts due to related companies       | 16.3 | 5,891          | 3,170          | -              | -              |
| Amount due to associate                | 16.4 | 341            | 125            | -              | -              |
|  |      | 158,872        | 109,373        | -              | -              |
| <b>Non-trade</b>                       |      |                |                |                |                |
| Amount due to ultimate holding company | 16.2 | 1,287          | 2,031          | -              | -              |
| Amount due to subsidiary               | 16.5 | -              | -              | 2,397          | 2,296          |
| Amounts due to related companies       | 16.3 | 1,076          | 878            | -              | 8              |
| Other payables                         |      | 17,267         | 21,563         | -              | 3              |
| Accrued expenses                       |      | 24,186         | 33,438         | 40             | 40             |
|  |      | 43,816         | 57,910         | 2,437          | 2,347          |
|  |      | 202,688        | 167,283        | 2,437          | 2,347          |
|  |      | =====          | =====          | =====          | =====          |

#### 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:

| Functional currency | Foreign currency | Group          |                |
|---------------------|------------------|----------------|----------------|
|                     |                  | 2009<br>RM'000 | 2008<br>RM'000 |
| RM                  | AUD              | 17,429         | 2,660          |
| RM                  | SGD              | 579            | 455            |
| RM                  | EURO             | 4,835          | 7,657          |
| RM                  | USD              | 5,022          | 15,438         |
| RM                  | RMB              | 8,637          | 3,558          |
| USD                 | SGD              | 151            | 358            |
| AUD                 | GBP              | 68             | 240            |
| AUD                 | USD              | 703            | 664            |
| AUD                 | EURO             | 632            | -              |
|                     |                  | =====          | =====          |

## Notes to the financial statements (cont'd)

### 16. Payables and accruals (cont'd)

#### 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 and repayable on demand.

#### 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 and repayable on demand.

#### 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, interest free and repayable on demand.

### 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 follows:

- i) The maximum number of approved unissued new ordinary shares of RM0.50 each available for allotment under the ESOS scheme shall not exceed in aggregate ten per cent (10%) of the issued and paid-up share capital of the 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;

## Notes to the financial statements (cont'd)

### 17. Employee benefits (cont'd)

#### 17.1 Share-based payments (cont'd)

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

|                   |        | ← Year option is granted → |        |        |        |        |
|-------------------|--------|----------------------------|--------|--------|--------|--------|
|                   |        | 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       |         |           |           | At         |           | Expiry date |
|------------|----------------|----------|---------|-----------|-----------|------------|-----------|-------------|
|            |                | 1.1.2009 | Granted | Exercised | Forfeited | 31.12.2009 |           |             |
|            |                | '000     | '000    | '000      | '000      | '000       |           |             |
| 30.6.2006  | RM0.55         | 7,850    | -       | (1,321)   | (8)       | 6,521      | 29.6.2011 |             |
| 30.6.2007  | RM1.90         | 310      | -       | -         | (36)      | 274        | 29.6.2011 |             |
| 30.6.2008  | RM1.09         | 476      | -       | -         | (102)     | 374        | 29.6.2011 |             |
| 30.6.2009  | RM0.86         | -        | 667     | -         | (99)      | 568        | 29.6.2011 |             |
|            |                | 8,636    | 667     | (1,321)   | (245)     | 7,737      |           |             |
|            |                | =====    | =====   | =====     | =====     | =====      |           |             |

| Grant date | Exercise price | At       |         |           |           | At         |           | Expiry date |
|------------|----------------|----------|---------|-----------|-----------|------------|-----------|-------------|
|            |                | 1.1.2008 | Granted | Exercised | Forfeited | 31.12.2008 |           |             |
|            |                | '000     | '000    | '000      | '000      | '000       |           |             |
| 30.6.2006  | RM0.55         | 8,732    | -       | (673)     | (209)     | 7,850      | 29.6.2011 |             |
| 30.6.2007  | RM1.90         | 367      | -       | -         | (57)      | 310        | 29.6.2011 |             |
| 30.6.2008  | RM1.09         | -        | 527     | -         | (51)      | 476        | 29.6.2011 |             |
|            |                | 9,099    | 527     | (673)     | (317)     | 8,636      |           |             |
|            |                | =====    | =====   | =====     | =====     | =====      |           |             |

## Notes to the financial statements (cont'd)

### 17. Employee benefits (cont'd)

#### 17.1 Share-based payments (cont'd)

The options outstanding at 31 December 2009 have an exercise price in the range of RM0.55 to RM1.90 and remaining contractual life of 1.5 years.

During the year, 1,321,000 (2008- 673,000) share options of RM0.55 each under the ESOS scheme of the Company were exercised. The weighted average share price of the Company for the year was RM0.83 (2008 - RM1.20).

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

|  | Group and Company |            |
|--|-------------------|------------|
|  | 2009              | 2008       |
|  | RM'000            | RM'000     |
| Ordinary share capital at par                  | 661               | 336        |
| Share premium                                  | 66                | 33         |
|  | <u>727</u>        | <u>369</u> |
| Proceeds received on exercise of share options | =====             | =====      |

|  | Group and Company |       |
|--|-------------------|-------|
|  | 2009              | 2008  |
|  | RM                | RM    |
| Fair value of shares issued<br>(based on average exercise price) | 0.83              | 1.20  |
|  | =====             | ===== |

#### 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 |            |
|--|-------------------|------------|
|  | 2009              | 2008       |
|  | RM'000            | RM'000     |
| Share options granted in 2006                    | 102               | 386        |
| Share options granted in 2007                    | 60                | 125        |
| Share options granted in 2008                    | 82                | 62         |
| Share options granted in 2009                    | 77                | -          |
|  | <u>321</u>        | <u>573</u> |
| Total expense recognised as share-based payments | =====             | =====      |

## Notes to the financial statements (cont'd)

### 17. Employee benefits (cont'd)

#### 17.1 Share-based payments (cont'd)

##### 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 |                 |
|--|-------------------|-----------------|
|  | 2009              | 2008            |
| Fair value at grant date (RM)                                    |                   |                 |
| - Granted in Year 2006   | RM0.17 - RM0.22   | RM0.17 - RM0.22 |
| - Granted in Year 2007   | RM0.76 - RM1.03   | RM0.76 - RM1.03 |
| - Granted in Year 2008   | RM0.30 - RM0.37   | RM0.30 - RM0.37 |
| - Granted in Year 2009   | RM0.32            | -               |
| Weighted average share price                                     |                   |                 |
| - Granted in Year 2006   | 0.55              | 0.55            |
| - Granted in Year 2007   | 2.04              | 2.04            |
| - Granted in Year 2008   | 1.18              | 1.18            |
| - Granted in Year 2009   | 0.98              | -               |
| Exercise price   |                   |                 |
| - Granted in Year 2006   | RM0.55            | RM0.55          |
| - Granted in Year 2007   | RM1.90            | RM1.90          |
| - Granted in Year 2008   | RM1.09            | RM1.09          |
| - Granted in Year 2009   | RM0.86            | -               |
| Expected volatility<br>(weighted average volatility)             | 33.67% - 59.24%   | 33.67% - 59.24% |
| Option life  | 2 years           | 3 years         |
| Risk-free interest rate (based on<br>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%     | 4.04% - 4.12%   |
| - Granted in Year 2009   | 2.56%             | -               |
| Expected staff turnover  | 5%-15%            | 5%-15%          |

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 (cont'd)

### 18. Revenue

|                   | Group          |                | Company        |                |
|-------------------|----------------|----------------|----------------|----------------|
|                   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Contract revenue  | 456,566        | 489,566        | -              | -              |
| Sales of goods    | 57,993         | 68,629         | -              | -              |
| Services rendered | 20,188         | 22,930         | -              | -              |
| Dividends         | -              | -              | 25,712         | 10,988         |
|                   | <u>534,747</u> | <u>581,125</u> | <u>25,712</u>  | <u>10,988</u>  |
|                   | =====          | =====          | =====          | =====          |

### 19. Operating profit

|  | Note | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Operating profit is arrived at after crediting:</b> |      |                |                |                |                |
| Allowance for doubtful debts written back              |      | 765            | -              | -              | 11             |
| Dividend income from subsidiaries (unquoted)           |      | -              | -              | 25,712         | 10,988         |
| Net foreign exchange gain                              |      | -              | 11,794         | 2,165          | 974            |
| Gain on disposal of property, plant and equipment      |      | 70             | 55             | -              | -              |
| Rental income on:                                      |      |                |                |                |                |
| - premises   |      | 726            | 710            | -              | -              |
| - cranes   |      | 9,067          | 9,939          | -              | -              |
| Reversal of provision for warranties                   | 15   | 2,129          | 2,984          | -              | -              |
|  |      | <u>=====</u>   | <u>=====</u>   | <u>=====</u>   | <u>=====</u>   |
| <b>and after charging:</b>                             |      |                |                |                |                |
| Allowance for doubtful debts                           |      | 6,941          | 341            | -              | -              |
| Allowance for slow moving inventories                  |      | 2,882          | 2,069          | -              | -              |
| Auditors' remuneration:                                |      |                |                |                |                |
| - holding company's auditors                           |      | 180            | 170            | 35             | 35             |
| - other auditors                                       |      | 453            | 456            | -              | -              |
| Other services   |      |                |                |                |                |
| - holding company's auditors                           |      | 10             | 10             | 10             | 10             |
| Amortisation of intangible assets                      | 4    | 2,757          | 2,331          | -              | 110            |
| Contract costs expensed                                |      | 394,878        | 429,930        | -              | -              |
| Depreciation of property, plant and equipment          | 3    | 8,598          | 8,012          | 99             | 99             |
| Depreciation of investment property                    | 5    | -              | -              | 30             | 30             |
| Goodwill written off                                   | 4    | 572            | -              | -              | -              |

## Notes to the financial statements (cont'd)

### 19. Operating profit (cont'd)

|   | Note | Group          |                | Company        |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>and after charging (cont'd):</b>                         |      |                |                |                |                |
| Impairment loss on intangible assets                        | 4    | 327            | 29             | -              | -              |
| Impairment loss of investment<br>in subsidiary              |      | -              | -              | 18,000         | -              |
| Intangible assets written off                               | 4    | 210            | -              | -              | -              |
| Net foreign exchange loss                                   |      | 6,155          | -              | -              | -              |
| Property, plant and equipment<br>written off                | 3    | 89             | 2,600          | -              | -              |
| Provision for warranties                                    | 15   | 3,174          | 5,153          | -              | -              |
| Rental expense on:  |      |                |                |                |                |
| - cranes  |      | 5,481          | 5,497          | -              | -              |
| - premises  |      | 1,137          | 1,122          | -              | -              |
| - equipment   |      | 973            | 1,337          | -              | -              |
| Personnel expenses (including key<br>management personnel): |      |                |                |                |                |
| - Contributions to Employees<br>Provident Fund              |      | 4,551          | 3,922          | 127            | 90             |
| - Share-based payments                                      | 17   | 321            | 573            | 321            | 573            |
| - Wages, salaries and others                                |      | 57,604         | 51,995         | 761            | 688            |
|   |      | =====          | =====          | =====          | =====          |

### 20. Key management personnel compensation

The key management personnel compensations are as follows:

|                | Group          |                | Company        |                |
|----------------|----------------|----------------|----------------|----------------|
|                | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Directors      |                |                |                |                |
| - Fees         | 426            | 383            | 396            | 353            |
| - Remuneration | 944            | 831            | 942            | 830            |
|                | <u>1,370</u>   | <u>1,214</u>   | <u>1,338</u>   | <u>1,183</u>   |
|                | =====          | =====          | =====          | =====          |

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.

## Notes to the financial statements (cont'd)

### 21. Tax expense

#### Recognised in the income statements

Major components of tax expense include:

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Current tax expense</b>  |                |                |                |                |
| Malaysia - current  | 656            | 785            | 250            | -              |
| - prior year  | (20)           | 225            | -              | -              |
|   | 636            | 1,010          | 250            | -              |
| Overseas - current  | 10,681         | 4,658          | -              | -              |
| - prior year  | (1,212)        | (47)           | -              | -              |
|   | 9,469          | 4,611          | -              | -              |
| Total tax expense   | 10,105         | 5,621          | 250            | -              |
| <b>Deferred tax expense</b>   |                |                |                |                |
| Origination of temporary differences                                      | (2,505)        | 943            | -              | -              |
| Over provision in prior years   | (281)          | (1,006)        | -              | -              |
| Total deferred tax  | (2,786)        | (63)           | -              | -              |
| Total tax expense   | 7,319          | 5,558          | 250            | -              |
|   | =====          | =====          | =====          | =====          |
| <b>Reconciliation of tax expense</b>                                      |                |                |                |                |
| Profit for the year   | 27,783         | 21,824         | 8,042          | 7,417          |
| Total tax expense   | 7,319          | 5,558          | 250            | -              |
| Profit excluding tax  | 35,102         | 27,382         | 8,292          | 7,417          |
|   | =====          | =====          | =====          | =====          |
| Tax at Malaysian tax rate of 25%<br>(2008 - 26%)                          | 8,776          | 7,119          | 2,073          | 1,929          |
| Effect of different tax rates in foreign<br>jurisdictions                 | 649            | 3              | -              | -              |
| Effect of change in tax rates   | (95)           | (43)           | -              | -              |
| Non-deductible expenses   | 2,017          | 648            | 4,355          | 670            |
| Tax exempt income   | (5,786)        | (60)           | (6,178)        | (2,599)        |
| Tax incentives  | (1,549)        | (542)          | -              | -              |
| Effect of utilisation of deferred tax assets<br>previously not recognised | (160)          | (4,719)        | -              | -              |
| Effect of non-recognition of deferred tax<br>benefits                     | 4,980          | 3,980          | -              | -              |
| Overprovision in prior years  | (1,513)        | (828)          | -              | -              |
| Tax expense   | 7,319          | 5,558          | 250            | -              |
|   | =====          | =====          | =====          | =====          |

## Notes to the financial statements (cont'd)

### 21. Tax expense (cont'd)

#### Reconciliation of tax expense (cont'd)

The corporate tax rates are 26% for the year of assessment 2008, 25% for year of assessment 2009 and subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

A subsidiary which is principally engaged in the 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.

### 22. Dividends

Dividends recognised in the current year by the Company are:

|                               | Sen<br>per share<br>(net of tax) | Total<br>amount<br>RM'000 | Date of<br>payment |
|-------------------------------|----------------------------------|---------------------------|--------------------|
| <b>2009</b>                   |                                  |                           |                    |
| First and final 2008 ordinary | 2.50                             | 4,303                     | 17 September 2009  |
|                               |                                  | =====                     |                    |
| <b>2008</b>                   |                                  |                           |                    |
| First and final 2007 ordinary | 2.40                             | 4,112                     | 18 September 2008  |
|                               |                                  | =====                     |                    |

After the balance sheet date, the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial statements upon approval by the shareholders.

|                          | Sen<br>per share<br>(tax exempt) | Total<br>amount<br>RM'000 |
|--------------------------|----------------------------------|---------------------------|
| First and final ordinary | 4.00                             | 6,894                     |
|                          | =====                            | =====                     |

#### **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 2009 of RM6,893,561 (2008 – RM4,302,950) on the issued and paid-up share capital (excluding treasury shares) of 172,339,020 ordinary shares of RM0.50 each (2008 – 171,018,020 ordinary shares of RM0.50 each ) as at 31 December 2009.

## Notes to the financial statements (cont'd)

### 23. Earnings per ordinary share

#### Basic earnings per ordinary share

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2009<br>RM'000  | 2008<br>RM'000  |
| Profit for the year attributable to ordinary shareholders | 27,783<br>===== | 21,824<br>===== |

#### Weighted average number of ordinary shares

|  | Group            |                  |
|--|------------------|------------------|
|  | 2009<br>'000     | 2008<br>'000     |
| Number of ordinary shares in issue at 1 January                  | 171,028          | 170,355          |
| Effect of shares repurchased                                     | (10)             | (10)             |
| Effect of ordinary shares issued under ESOS                      | 497              | 286              |
| Total weighted average number of ordinary shares in issue (unit) | 171,515<br>===== | 170,631<br>===== |

|                                   | Group          |                |
|-----------------------------------|----------------|----------------|
|                                   | 2009<br>Sen    | 2008<br>Sen    |
| Basic earnings per ordinary share | 16.20<br>===== | 12.79<br>===== |

|   | Group           |                 |
|---|-----------------|-----------------|
|   | 2009<br>RM'000  | 2008<br>RM'000  |
| Profit for the year attributable to ordinary shareholders | 27,783<br>===== | 21,824<br>===== |

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

|   | Group            |                  |
|---|------------------|------------------|
|   | 2009<br>'000     | 2008<br>'000     |
| Weighted average number of ordinary shares at 31 December           | 171,515          | 170,631          |
| Effect of share options in issue                                    | 1,923            | 2,016            |
| Weighted average number of ordinary shares (diluted) at 31 December | 173,438<br>===== | 172,647<br>===== |

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

## Notes to the financial statements (cont'd)

### 23. Earnings per ordinary share (cont'd)

#### Weighted average number of ordinary shares (diluted) (cont'd)

|                                     | Group<br>2009<br>Sen | 2008<br>Sen    |
|-------------------------------------|----------------------|----------------|
| Diluted earnings per ordinary share | 16.02<br>=====       | 12.64<br>===== |

### 24. 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 (cont'd)

### 24. Segment reporting (cont'd)

|   | Inside Malaysia |                | Outside Malaysia |                | Eliminations   |                | Consolidated   |                |
|---|-----------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|
|   | 2009<br>RM'000  | 2008<br>RM'000 | 2009<br>RM'000   | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| <b>Geographical segments</b>                        |                 |                |                  |                |                |                |                |                |
| Revenue from external customers                     | 202,530         | 191,317        | 332,217          | 389,808        | -              | -              | 534,747        | 581,125        |
| Inter-segment revenue                               | 164,915         | 180,365        | 96,432           | 72,768         | (261,347)      | (253,133)      | -              | -              |
| <b>Total revenue</b>                                | 367,445         | 371,682        | 428,649          | 462,576        | (261,347)      | (253,133)      | 534,747        | 581,125        |
| Operating profit                                    |                 |                |                  |                |                |                | 39,635         | 32,188         |
| Interest income                                     |                 |                |                  |                |                |                | 447            | 1,377          |
| Interest expense                                    |                 |                |                  |                |                |                | (5,028)        | (6,197)        |
| Share of profit of associates                       |                 |                |                  |                |                |                | 48             | 14             |
| Profit before tax                                   |                 |                |                  |                |                |                | 35,102         | 27,382         |
| Segment assets                                      | 558,733         | 505,169        | 400,532          | 381,985        | (273,427)      | (276,911)      | 685,838        | 610,243        |
| Investments in associates                           | 22              | 22             | -                | -              | 62             | 14             | 84             | 36             |
| Total assets  | 558,755         | 505,191        | 400,532          | 381,985        | (273,365)      | (276,897)      | 685,922        | 610,279        |
| Segment liabilities                                 | 398,797         | 358,540        | 311,889          | 309,172        | (214,643)      | (218,560)      | 496,043        | 449,152        |
| Capital expenditure - Property, plant and equipment | 6,543           | 2,982          | 20,998           | 4,991          | -              | -              | 27,541         | 7,973          |
| Depreciation and amortisation                       | 6,953           | 6,218          | 4,402            | 4,125          | -              | -              | 11,355         | 10,343         |

## Notes to the financial statements (cont'd)

### 25. 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 other than trade receivables owing from two (2008 – one) major customers of RM61,200,000 (2008 – RM46,000,000). 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 Kroner, HKD dollars, Japanese Yen, Pound Sterling and Renminbi.

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 (cont'd)

### 25. Financial instruments (cont'd)

#### 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<br>2009                                | Effective<br>interest<br>rate<br>% | Total<br>RM'000 | Within<br>1 year<br>RM'000 | 1 - 2<br>years<br>RM'000 | 2-3<br>years<br>RM'000 | 3-4<br>years<br>RM'000 | 4-5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 |
|--|------------------------------------|-----------------|----------------------------|--------------------------|------------------------|------------------------|------------------------|---------------------------|
| <b>Fixed rate instruments</b>                |                                    |                 |                            |                          |                        |                        |                        |                           |
| Finance lease liabilities                    |                                    |                 |                            |                          |                        |                        |                        |                           |
| - RM   | 2.93                               | 458             | 211                        | 146                      | 101                    | -                      | -                      | -                         |
| - DKK  | 5.00                               | 1,196           | 273                        | 923                      | -                      | -                      | -                      | -                         |
| <b>Floating rate instruments</b>             |                                    |                 |                            |                          |                        |                        |                        |                           |
| Secured term loan - RM                       | 2.93                               | 12,131          | 12,131                     | -                        | -                      | -                      | -                      | -                         |
| Unsecured insurance premium finance<br>- AUD | 3.06                               | 1,633           | 1,633                      | -                        | -                      | -                      | -                      | -                         |
| Unsecured revolving credits - USD            | 2.55                               | 10,310          | 10,310                     | -                        | -                      | -                      | -                      | -                         |
| - RM   | 4.36                               | 14,000          | 14,000                     | -                        | -                      | -                      | -                      | -                         |
| Unsecured bank overdrafts - RM               | 6.30                               | 105             | 105                        | -                        | -                      | -                      | -                      | -                         |
| Bills payable                                | 2.54                               | 105,125         | 105,125                    | -                        | -                      | -                      | -                      | -                         |
|  |                                    | <u>144,958</u>  | <u>143,788</u>             | <u>1,069</u>             | <u>101</u>             | <u>-</u>               | <u>-</u>               | <u>-</u>                  |
|  |                                    | =====           | =====                      | =====                    | =====                  | =====                  | =====                  | =====                     |

## Notes to the financial statements (cont'd)

### 25. Financial instruments (cont'd)

#### Effective interest rates and repricing analysis (cont'd)

| Group<br>2008                       | Effective<br>interest<br>rate<br>% | Total<br>RM'000 | Within<br>1 year<br>RM'000 | 1 - 2<br>years<br>RM'000 | 2-3<br>years<br>RM'000 | 3-4<br>years<br>RM'000 | 4-5<br>years<br>RM'000 | Over<br>5 years<br>RM'000 |
|-------------------------------------|------------------------------------|-----------------|----------------------------|--------------------------|------------------------|------------------------|------------------------|---------------------------|
| <b>Fixed rate instruments</b>       |                                    |                 |                            |                          |                        |                        |                        |                           |
| Finance lease liabilities           |                                    |                 |                            |                          |                        |                        |                        |                           |
| - AUD                               | 4.25                               | 22              | 22                         | -                        | -                      | -                      | -                      | -                         |
| - RM                                | 2.81                               | 529             | 167                        | 181                      | 102                    | 79                     | -                      | -                         |
| - DKK                               | 5.00                               | 1,444           | 257                        | 1,187                    | -                      | -                      | -                      | -                         |
| <b>Floating rate instruments</b>    |                                    |                 |                            |                          |                        |                        |                        |                           |
| Secured term loans - RM             |                                    |                 |                            |                          |                        |                        |                        |                           |
| Unsecured insurance premium finance |                                    |                 |                            |                          |                        |                        |                        |                           |
| - AUD                               | 3.20                               | 853             | 853                        | -                        | -                      | -                      | -                      | -                         |
| Unsecured revolving credits - USD   |                                    |                 |                            |                          |                        |                        |                        |                           |
| - RM                                | 5.96                               | 10,439          | 10,439                     | -                        | -                      | -                      | -                      | -                         |
| Secured bank overdraft - DKK        |                                    |                 |                            |                          |                        |                        |                        |                           |
| - RM                                | 5.32                               | 5,000           | 5,000                      | -                        | -                      | -                      | -                      | -                         |
| Unsecured bank overdrafts - RM      |                                    |                 |                            |                          |                        |                        |                        |                           |
| Bills payable                       | 7.00                               | 5               | 5                          | -                        | -                      | -                      | -                      | -                         |
|                                     | 7.47                               | 4,267           | 4,267                      | -                        | -                      | -                      | -                      | -                         |
|                                     | 4.37                               | 118,469         | 118,469                    | -                        | -                      | -                      | -                      | -                         |
|                                     |                                    | <u>155,271</u>  | <u>153,722</u>             | <u>1,368</u>             | <u>102</u>             | <u>79</u>              | <u>-</u>               | <u>-</u>                  |
|                                     |                                    | =====           | =====                      | =====                    | =====                  | =====                  | =====                  | =====                     |
| <b>Company</b>                      |                                    |                 |                            |                          |                        |                        |                        |                           |
| <b>2009</b>                         |                                    |                 |                            |                          |                        |                        |                        |                           |
| <b>Floating rate instruments</b>    |                                    |                 |                            |                          |                        |                        |                        |                           |
| Unsecured revolving credits         |                                    |                 |                            |                          |                        |                        |                        |                           |
|                                     | 2.55                               | 10,310          | 10,310                     | -                        | -                      | -                      | -                      | -                         |
|                                     |                                    | <u>10,310</u>   | <u>10,310</u>              | <u>-</u>                 | <u>-</u>               | <u>-</u>               | <u>-</u>               | <u>-</u>                  |
|                                     |                                    | =====           | =====                      | =====                    | =====                  | =====                  | =====                  | =====                     |
| <b>2008</b>                         |                                    |                 |                            |                          |                        |                        |                        |                           |
| <b>Floating rate instruments</b>    |                                    |                 |                            |                          |                        |                        |                        |                           |
| Unsecured revolving credits         |                                    |                 |                            |                          |                        |                        |                        |                           |
|                                     | 5.96                               | 10,439          | 10,439                     | -                        | -                      | -                      | -                      | -                         |
|                                     |                                    | <u>10,439</u>   | <u>10,439</u>              | <u>-</u>                 | <u>-</u>               | <u>-</u>               | <u>-</u>               | <u>-</u>                  |
|                                     |                                    | =====           | =====                      | =====                    | =====                  | =====                  | =====                  | =====                     |

## Notes to the financial statements (cont'd)

### 25. Financial instruments (cont'd)

#### 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.

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

| <i>Group</i>                 | <b>2009<br/>Carrying<br/>amount<br/>RM'000</b> | <b>2009<br/>Fair<br/>value<br/>RM'000</b> | <b>2008<br/>Carrying<br/>amount<br/>RM'000</b> | <b>2008<br/>Fair<br/>value<br/>RM'000</b> |
|------------------------------|--|---|--|---|
| <b>Financial liabilities</b> |  |   |  |   |
| Secured term loans           | 12,131   | 12,131                                    | 14,243   | 14,243                                    |
| Finance lease liabilities    | 1,654  | 1,654                                     | 1,995  | 1,841                                     |
|                              | =====  | =====                                     | =====  | =====                                     |

The fair values of secured term loans with variable interest rates approximate their carrying values as they are based 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.

## Notes to the financial statements (cont'd)

### 26. Contingencies

#### Contingent liabilities – unsecured

|   | Group<br>2009<br>RM'000 | 2008<br>RM'000   |
|---|-------------------------|------------------|
| Corporate guarantee for credit facilities granted to subsidiaries | 162,771<br>=====        | 179,654<br>===== |

In the ordinary course of business, the Group and the Company also issue bank and performance guarantees to customers who awarded contracts to the Group and the Company.

#### Contingent liabilities – litigation

The Directors are of the opinion that provisions are not required in respect of the following 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.

#### ***Litigation against the Company and Favelle Favco Cranes (USA) Inc. in the Supreme Court of the State of New York***

A composition of personal injury actions, wrongful death actions, property damages actions, subrogation actions, and lien actions (“the Suits”) related to the collapse of a Favelle Favco crane on 15th March 2008 in the City of New York have been filed against the Company and Favelle Favco Cranes (USA) Inc. (“FFCUSA”).

The suit relates to an incident involving the collapse of a Favelle Favco crane said to be caused by 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 Favelle 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.

#### ***Kroll Cranes A/S (“Kroll”)***

Toronto Crane Services Inc (“TCS”) purchased a crane from Kroll in September 2003. The crane was subsequently sold by TCS to Abriaco Investments Ltd (“AIL”). In April 2007 an accident happened involving the crane. AIL is pursuing a claim for the alleged loss suffered estimated to be USD500,000 / RM1.7 million against Kroll and has instituted proceedings before the Canadian courts against Kroll. It is the opinion of Kroll’s Danish and Canadian counsels` that Kroll will have a good defence on this matter and management is of the opinion that it is unlikely that the case will result in any losses.

## Notes to the financial statements (cont'd)

### 27. 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 20).

#### Significant transactions with related parties:

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2008<br>RM'000 |
| Ultimate holding company                  |                |                |                |                |
| Purchase of property, plant and equipment | 5,129          | -              | -              | -              |
| Rental expense payable                    | 2,395          | 1,338          | -              | -              |
| Rental income receivable                  | -              | (261)          | -              | -              |
| Sale of goods                             | (609)          | (11,902)       | -              | -              |
| Subcontract cost payable                  | 911            | 45             | -              | -              |
|   | =====          | =====          | =====          | =====          |
| Subsidiaries                              |                |                |                |                |
| Dividend income receivable                | -              | -              | (25,712)       | (10,988)       |
| Interest expense payable                  | -              | -              | 122            | 111            |
|   | =====          | =====          | =====          | =====          |
| Related companies                         |                |                |                |                |
| Purchase of property, plant and equipment | 9,251          | 54             | -              | -              |
| Sale of goods                             | (928)          | (3,939)        | -              | -              |
| Rental expense payable                    | 734            | 540            | -              | -              |
| Subcontract cost payable                  | 2,756          | 3,639          | -              | -              |
|   | =====          | =====          | =====          | =====          |
| Associates                                |                |                |                |                |
| Sale of goods and services                | (5,135)        | (3,994)        | -              | -              |
| Purchase of goods and services            | 296            | 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 9 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 allowances for doubtful receivables as at 31 December 2009 in respect of the above related party balances.

## **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 40 to 95 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 as at 31 December 2009 and of their financial performance and cash flows for the year then ended.

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

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

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

Klang,

Date: 27 April 2010

## 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 40 to 95 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 27 April 2010.

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

Before me:

Sabbir B. Ali Hussin  
Pesuruhjaya Sumpah Malaysia  
(No. B369)

# 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 2009 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 40 to 95.

### *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 at 31 December 2009 and of their financial performance and cash flows for the year then ended.

# Independent auditors' report to the members of Favelle Favco Berhad (cont'd)

## 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: 27 April 2010

## Group Properties As At 31 December 2009

| No.                     | Location  | Description /Existing Use               | Year of Valuation/ Acquisition | Tenure/ Expiry Date   | Land Area     | Age of Building | Carrying Value RM'000 |
|-------------------------|---|---|--------------------------------|-----------------------|---------------|-----------------|-----------------------|
| 1.                      | 4 Mile East, FM 106, Port of Harlingen, Harlingen, Texas, 78551-3049 USA. | Office building cum manufacturing plant | 1997                           | Leasehold expiry 2031 | 17.826 acres  | 12 years        | 1,344                 |
| 2.                      | Lot Nos. 31792 & 31814, Town of Senawang, District of Seremban,           | Factory building with office block      | 2008 <sup>#</sup>              | Freehold              | 68,846 sq. m  | 5 years         | 28,663                |
| 3.                      | 7AL, Nordkranvej, 2 3540, Lynge DK Denmark                                | Factory building with office block      | 2009 <sup>#</sup>              | Freehold              | 59,525 sq. m. | 40 years        | 17,326                |
| <b>Total properties</b> |   |   |                                |                       |               |                 | <b>47,333</b>         |

**Note:** <sup>#</sup>Year of Valuation

## Analysis of Shareholdings As At 23 April 2010

### Share Capital

|                                  |                                  |
|----------------------------------|----------------------------------|
| Authorised share capital         | : RM500 million                  |
| Issued and fully paid-up capital | : RM86,212,510                   |
| Class of shares                  | : Ordinary shares of RM0.50 each |
| Voting rights                    | : One vote per ordinary share    |

### Distribution of shareholdings of ordinary shares

| Size of Holdings                   | No of holders* <sup>2</sup> | % of holders* <sup>2</sup> | No. of Shares held* <sup>2</sup> | % of issued capital* <sup>2</sup> |
|------------------------------------|-----------------------------|----------------------------|----------------------------------|-----------------------------------|
| Less than 100                      | 21                          | 0.597                      | 590                              | * <sup>1</sup>                    |
| 100 to 1,000                       | 938                         | 26.655                     | 805,640                          | 0.467                             |
| 1,001 to 10,000                    | 1,957                       | 55.612                     | 9,235,129                        | 5.356                             |
| 10,001 to 100,000                  | 529                         | 15.033                     | 14,898,196                       | 8.641                             |
| 100,001 to 8,620,750* <sup>2</sup> | 72                          | 2.046                      | 38,089,265                       | 22.092                            |
| 8,620,751* <sup>2</sup> and above  | 2                           | 0.057                      | 109,386,200                      | 63.444                            |
| <b>TOTAL</b>                       | <b>3,519</b>                | <b>100.000</b>             | <b>172,415,020</b>               | <b>100.000</b>                    |

#### Notes:

\*<sup>1</sup> Less than 0.01%.

\*<sup>2</sup> Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 23 April 2010.

### Directors' shareholdings as per the Register of Directors' Shareholdings

| Name of Directors                                   | Direct interests (no. of shares) | % of issued capital <sup>(8)</sup> | Deemed interests (no. of shares) | % of issued capital <sup>(8)</sup> |
|---|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| 1. Tuan Haji Mohamed Taib bin Ibrahim               | 2,845,671                        | 1.650                              | 106,500 <sup>(1)</sup>           | 0.062                              |
| 2. Mac Ngan Boon @ Mac Yin Boon                     | 7,392,913 <sup>(2)</sup>         | 4.288                              | 101,089,800 <sup>(3)</sup>       | 58.632                             |
| 3. Mac Chung Hui                                    | 1,412,000 <sup>(4)</sup>         | 0.819                              | -                                | -                                  |
| 4. Lee Poh Kwee                                     | 185,000 <sup>(5)</sup>           | 0.107                              | -                                | -                                  |
| 5. Mazlan bin Abdul Hamid                           | 1,415,000                        | 0.821                              | -                                | -                                  |
| 6. Tan Sri A. Razak bin Ramli                       | 300,000                          | 0.174                              | 800 <sup>(1)</sup>               | -( <sup>6</sup> )                  |
| 7. Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 300,000 <sup>(7)</sup>           | 0.174                              | -                                | -                                  |
| 8. Lim Teik Hin                                     | 100,000                          | 0.058                              | -                                | -                                  |

#### Notes:

<sup>(1)</sup> Deemed interested pursuant to Section 134 of the Companies Act, 1965 ("Act"), held through his spouse and children.

<sup>(2)</sup> 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.

<sup>(3)</sup> 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 spouse and children.

<sup>(4)</sup> 400,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.

<sup>(5)</sup> 70,000 shares held through RHB Capital Nominees (Tempatan) Sdn Bhd.

<sup>(6)</sup> Less than 0.01%.

<sup>(7)</sup> 300,000 shares held through AllianceGroup Nominees (Tempatan) Sdn Bhd.

<sup>(8)</sup> Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 23 April 2010.

## Analysis of Shareholdings As At 23 April 2010 (cont'd)

### 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 2009 on pages 35 and 36 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 2009 on page 36 of this Annual Report.

### Substantial Shareholdings as per the Register of Substantial Shareholders

| Name                            | Direct interests (no. of shares) | % of issued capital <sup>(3)</sup> | Deemed interests (no. of shares) | % of issued capital <sup>(3)</sup> |
|---------------------------------|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| 1. Muhibbah Engineering (M) Bhd | 98,000,000                       | 56.840                             | -                                | -                                  |
| 2. Mac Ngan Boon @ Mac Yin Boon | 7,392,913 <sup>(1)</sup>         | 4.288                              | 101,089,800 <sup>(2)</sup>       | 58.632                             |
| 3. Lembaga Tabung Haji          | 11,386,200                       | 6.604                              | -                                | -                                  |

*Notes:*

<sup>(1)</sup> 5,264,000 shares held through Mayban Securities Nominees (Tempatan) Sdn Bhd.

<sup>(2)</sup> 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 spouse and children.

<sup>(3)</sup> Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 23 April 2010.

### 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         | 56.840               |
| 2   | Lembaga Tabung Haji  | 11,386,200         | 6.604                |
| 3   | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 5,264,000          | 3.053                |
| 4   | Nik Ibrahim Kamil Bin Nik Ahmad Kamil  | 2,873,722          | 1.667                |
| 5   | Mohamed Taib Bin Ibrahim   | 2,330,200          | 1.352                |
| 6   | Mac Ngan Boon @ Mac Yin Boon   | 2,128,913          | 1.235                |
| 7   | Baharuddin Bin Ali   | 2,102,700          | 1.220                |
| 8   | AllianceGroup Nominees (Tempatan) Sdn Bhd<br>PHEIM Asset Management Sdn Bhd For Employees Provident Fund     | 1,866,400          | 1.083                |
| 9   | Mazlan Bin Abdul Hamid   | 1,401,000          | 0.813                |
| 10  | Ooi Sen Eng  | 1,326,000          | 0.769                |
| 11  | Mac Chung Hui  | 1,012,000          | 0.587                |
| 12  | OREC Engineering Holdings Pty Ltd  | 900,000            | 0.522                |

## Analysis of Shareholdings As At 23 April 2010 (cont'd)

| No. | Name of Shareholders  | No. of Shares held | % of issued capital* |
|-----|---|--------------------|----------------------|
| 13  | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Noriyati Binti Hassan                   | 900,000            | 0.522                |
| 14  | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Progress Fund                                  | 880,000            | 0.510                |
| 15  | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Chew Keng Siew                    | 800,000            | 0.464                |
| 16  | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Al-Faid  | 717,400            | 0.416                |
| 17  | Lim Swee Pheng  | 594,346            | 0.345                |
| 18  | Mohamed Taib Bin Ibrahim  | 515,471            | 0.299                |
| 19  | Yap Eng Jin   | 479,000            | 0.278                |
| 20  | Noriyati Binti Hassan   | 454,823            | 0.264                |
| 21  | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd For MAAKL Growth Fund                                    | 421,500            | 0.244                |
| 22  | Ng Yune Ming  | 410,000            | 0.238                |
| 23  | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Raja Ahmad Zainuddin Bin Raja Haji Omar | 400,000            | 0.232                |
| 24  | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Hui                     | 400,000            | 0.232                |
| 25  | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Lynn                    | 400,000            | 0.232                |
| 26  | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Jin                     | 400,000            | 0.232                |
| 27  | Public Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Hung Yew Loong                               | 400,000            | 0.232                |
| 28  | M & A Nominee (Tempatan) Sdn Bhd<br>Titan Express Sdn Bhd   | 335,300            | 0.194                |
| 29  | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An For UBS AG   | 326,800            | 0.190                |
| 30  | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Ng Ngah Peng                      | 306,500            | 0.178                |
|     |   | 139,732,275        | 81.047               |

Note:

\* Excluding a total of 10,000 shares purchased by the Company and retained as treasury shares as at 23 April 2010.



# PROXY FORM

|                       |  |
|-----------------------|--|
| Number of Shares Held |  |
|-----------------------|--|

\*I/\*We \_\_\_\_\_ (Full Name) NRIC No. (New) \_\_\_\_\_ (old) \_\_\_\_\_  
of \_\_\_\_\_ (Address)  
being a member/members of FAVELLE FAVCO BERHAD, hereby appoint the Chairman of the Meeting or Mr/Ms \_\_\_\_\_  
\_\_\_\_\_ (Full Name) NRIC No. (New) \_\_\_\_\_ (old) \_\_\_\_\_  
of \_\_\_\_\_ (Address)  
or failing whom, \_\_\_\_\_ (Full Name) NRIC No. (New) \_\_\_\_\_ (old) \_\_\_\_\_  
of \_\_\_\_\_ (Address)

as \*my/\*our proxy to vote for \*me/\*us and on \*my/\*our behalf at the Eighteenth Annual General Meeting of the Company to be held at Concorde III, Concorde Hotel Shah Alam, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Monday, 28 June 2010 at 2.00 p.m. and at any adjournment thereof.

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

| Resolution No. | Ordinary Business   | For | Against |
|----------------|---|-----|---------|
| 1.             | To receive the Audited Financial Statements and the Reports of the Directors and Auditors thereon.  |     |         |
| 2.             | To approve the payment of the First and Final Tax-Exempt Dividend of 4.00 sen per ordinary share.   |     |         |
| 3.             | To re-elect Tan Sri A. Razak bin Ramli as Director.   |     |         |
| 4.             | To re-elect Mac Chung Hui as Director.  |     |         |
| 5.             | To re-appoint Tuan Haji Mohamed Taib bin Ibrahim as Director.   |     |         |
| Resolution No. | Special Business  | For | Against |
| 6.             | To appoint Messrs Crowe Horwath as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. |     |         |
| 7.             | To approve the Proposed Renewal of Share Buy-Back Authority.  |     |         |
| 8.             | To approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions.  |     |         |
| 9.             | To approve the Proposed Amendments to the Articles of Association of the Company.   |     |         |

[\* Delete if not applicable]

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

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 2010

.....  
[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 one proxy to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provision 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. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
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.

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**AFFIX STAMP**

REGISTERED OFFICE

**FAVELLE FAVCO BERHAD** (249243-W)  
Lot 586, 2nd Mile, Jalan Batu Tiga Lama,  
41300 Klang, Selangor Darul Ehsan,  
Malaysia

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