ANNUAL REPORT 2007

# MUHIBBAH ENGINEERING (M) BHD

Company No.: 12737-K

# Corporate Information

## Board Of Directors

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

Datuk Zakaria bin Abdul Hamid
(Vice Chairman, Independent Non-Executive Director)

Mac Ngan Boon @ Mac Yin Boon (Managing Director)

Ooi Sen Eng (Executive Director)

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

Low Ping Lin (Executive Director)

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar
(Independent Non-Executive Director)

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

Abd Hamid bin Ibrahim (Independent Non-Executive Director)

**Audit Committee**
Tuan Haji Mohamed Taib bin Ibrahim (Chairman)
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Datuk Zakaria bin Abdul Hamid
Ooi Sen Eng
Lim Teik Hin

**Company Secretaries**
Lee Poh Kwee (MIA 8033)
Woo Ying Pun (MAICSA 7001280)
See Siew Cheng (MAICSA 7011225)

**Registered Office**
Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan, Malaysia
Tel: 03- 3342 4323 Fax: 03- 3342 4327

**Auditors**
KPMG (Firm No. AF0758)
Chartered Accountants
Level 10 KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya, Malaysia

**Principal Bankers**
Affin Bank Berhad
Ambank (Malaysia) Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
Bank of Tokyo –Mitsubishi UFJ
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
Standard Chartered Bank Malaysia Berhad

**Share Registrar**
Tenaga Koperat Sdn Bhd
G-01, Ground Floor, Plaza Permata
Jalan Kampar Off Jalan Tun Razak
50400 Kuala Lumpur
Tel: 03-4047 3883 Fax: 03-4042 6352

**Stock Exchange Listing**
**Investor Relations**
Tel: 03-3349 5444 / 5435 Fax: 03-3344 6302
E-mail: ir@muhibbah.com.my

**Stock Exchange Listing**
**Muhibbah Engineering (M) Bhd**
Main Board of Bursa Malaysia Securities Berhad
Stock Name: Muhibah
BursaStock Code: 5703
Bloomberg stock code: MUHI MK
Listung date : 25 February 1994

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

**Website**
www.muhibbah.com
www.favellefavco.com

Muhibbah Engineering (M) Bhd head office

Muhibbah's Global Presence

# CONTENTS

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Thirty-Fifth Annual General Meeting of Muhibbah Engineering (M) Bhd will be held at Rebana 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 19 June 2008 at 11.00 a.m. for the following purposes:

## Agenda

### As Ordinary Business

To receive the Audited Financial Statements for the financial year ended 31 December 2007 and the Reports of the Directors and Auditors thereon. — Resolution 1

To approve a First and Final Dividend of 9% less 26% income tax in respect of the financial year ended 31 December 2007. — Resolution 2

To re-elect the following Directors who retire pursuant to Article 79 of the Company's Articles of Association:

a. Datuk Zakaria bin Abdul Hamid — Resolution 3
b. Mr Low Ping Lin — Resolution 4
c. En Abd Hamid bin Ibrahim — Resolution 5

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

"THAT Tuan Haji Mohamed Taib bin Ibrahim, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company in accordance with Section 129(6) of the Companies Act, 1965 and to hold office until the conclusion of the next Annual General Meeting." — Resolution 6

To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. — Resolution 7

### As Special Business

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

## ORDINARY RESOLUTION 1

### Proposed Renewal of Share Buy-Back Authority

"THAT subject to the Company's compliance with all applicable rules, regulations, orders and guidelines made pursuant to the Companies Act, 1965, the provisions of the Company's Memorandum and Articles of Association and the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the approvals of all relevant government and/or regulatory authorities, the Company be and is hereby authorised, to the fullest extent permitted by law, to buy-back and/or hold from time to time and at any time such amount of ordinary shares of RM0.50 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interests of the Company the ("Proposed Share Buy-Back") provided that: — Resolution 8

# Notice of Annual General Meeting (continued)

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

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 Profits and the Share Premium Account of the Company based on its latest audited financial statements available up to the date of a transaction pursuant to the Proposed Share Buy-Back. As at 31 December 2007, the audited Retained Profits and Share Premium Account of the Company were RM95,974,000 and RM10,000 respectively; and

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

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

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

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

# Notice of Annual General Meeting (continued)

## ORDINARY RESOLUTION 2

**PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR ADDITIONAL RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("Proposed Shareholders' Mandates")**

"THAT approval be and is hereby given pursuant to Paragraph 10.09 of the Listing Requirements of Bursa Malaysia Securities Berhad for MEB and/or its subsidiaries to renew the shareholders' mandate to enter into recurrent related party transactions and new shareholders' mandate for additional recurrent related party transactions of a revenue or trading nature with those related parties as specified in Section 2.1.1 of the Circular. to Shareholders dated 26 May 2008, subject further to the following: Resolution 9

i. the transactions are necessary for the day-to-day operations of the MEB Group and carried out in the ordinary course of business, on normal commercial terms, on arm's length basis and are on terms not more favourable than those generally available to the public and are not detrimental to the minority shareholders of the Company; and

ii. the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year.

AND THAT, such approval given in the paragraph above shall only continue to be in force until:

a. the conclusion of the next Annual General Meeting ("AGM") of the Company following the AGM at which the Proposed Shareholders' Mandates were passed, at which time the Proposed Shareholders' Mandates will lapse, unless by a resolution passed at the meeting, the authority is renewed;

b. the expiration of the period within which the next AGM after the date it 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); or

c. revoked or varied by resolution passed by the shareholders in general meeting,

whichever is earlier.

FURTHER THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient and necessary to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution.

AND THAT the estimates given on the recurrent related party transactions specified in Section 2.1.1 of the Circular being provisional in nature, the Directors or any of them be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Section 2.1.2 of the Circular."

# Notice of Annual General Meeting (continued)

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

"THAT the following definition be inserted under Article 2 of the existing Articles of Association of the Company: Resolution 10

"Listing Requirements" means the Listing Requirements of Bursa Malaysia Securities Berhad including any amendments to the Listing Requirements that may be made from time to time."

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

**BY ORDER OF THE BOARD**

**LEE POH KWEE** *(MIA 8033)*
**WOO YING PUN** *(MAICSA 7001280)*
**SEE SIEW CHENG** *(MAICSA 7011225)*
*Company Secretaries*

Selangor Darul Ehsan
26 May 2008

NOTES:

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

2. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.

4. The instrument appointing a proxy must be deposited at the Share Registrar at G-01 Ground Floor, Plaza Permata, Jalan Kampar, Off Jalan Tun Razak, 50400 Kuala Lumpur at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

**Explanatory notes in Special Business**

5. **Resolution pertaining to the Renewal of Share Buy-Back Authority**
   For Resolution 8, further information on the Renewal of Share Buy-Back Authority is set out in the Statement/Circular to Shareholders dated 26 May 2008 which is dispatch together with the Company's Annual Report 2007.

6. **Resolution pertaining to the Proposed Shareholders' Mandate**
   For Resolution 9, further information on the Proposed Shareholders' Mandate is set out in Statement/Circular to Shareholders dated 26 May 2008 which is dispatch together with the Company's Annual Report 2007.

7. **Proposed Amendments to Articles of Association of the Company**
   The proposed Resolution 10 is to streamline the Articles of Association of the Company to be in line with the recent enhancement to the Listing Requirements of Bursa Malaysia Securities Berhad.

# Notice of Dividend Entitlement & Payment Date

**NOTICE IS HEREBY GIVEN THAT** a First and Final Dividend of 9% less 26% income tax in respect of the financial year ended 31 December 2007, if approved at the forthcoming Thirty-Fifth Annual General Meeting, will be payable on Thursday, 18 September 2008 to shareholders whose names appear in the Record of Depositors at the close of business on Monday, 8 September 2008.

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

a. shares transferred into the Depositor's securities account before 4.00 p.m. on Monday, 8 September 2008 in respect of transfers; and

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

**BY ORDER OF THE BOARD**

**LEE POH KWEE** *(MIA 8033)*
**WOO YING PUN** *(MAICSA 7001280)*
**SEE SIEW CHENG** *(MAICSA 7011225)*
*Company Secretaries*

Selangor Darul Ehsan
26 May 2008

# Statement Accompanying Notice of Annual General Meeting

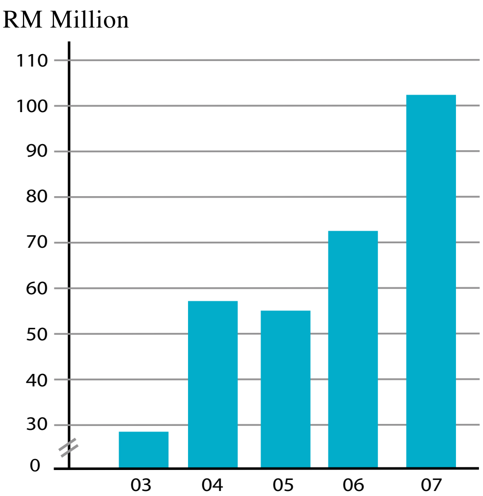
Datuk Zakaria bin Abdul Hamid, Mr Low Ping Lin, En Abd Hamid bin Ibrahim and Tuan Haji Mohamed Taib bin Ibrahim are the Directors standing for re-election at the forthcoming Thirty-Fifth Annaul General Meeting of the Company and their respective further details are shown in the Annual Report, as follows:

| Further Details | Page No. |
|---|---|
| Age, nationality, qualification, and whether the position is that of an executive or non-excutive and whether of an independent director | 22 - 24 |
| The working experience and occupation | 22 - 24 |
| Any other directorships of public companies | 22 - 24 |
| The details of any interest in the Company and its subsidiaries | 46 - 48 |
| The family relationship with any director and/or major shareholder of the Company | 25 |
| Any conflict of interest that they have with the Company | 25 |
| The list of convictions for offences within the past 10 years other than traffic offences, if any | 25 |

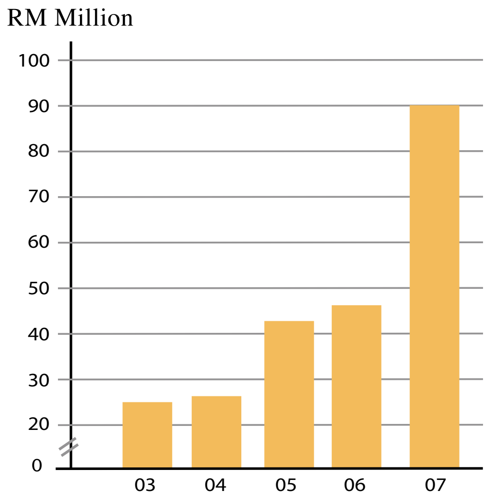
# Group Financial Highlights

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Turnover (RM'000) | 726,006 | 996,862 | 970,740 | 1,086,414 | 1,411,533 |
| Profit Before Tax and Exceptional Items (RM'000) | 29,392 | 58,422 | 55,297 | 73,857 | 103,005 |
| Profit After Tax Before Minority Interest (RM'000) | 25,367 | 26,707 | 43,046 | 47,831 | 90,405 |
| Profit After Tax and Minority Interest (RM'000) | 19,078 | 7,831 | 26,061 | 33,800 | 70,180 |
| Total Equity Attributable to Shareholders of the Company (RM'000) | 262,652 | 269,960 | 287,239 | 321,437 | 386,463 |
| Share Capital (RM'000) | 143,087 | 144,568 | 144,568 | 149,618 | 191,783 |
| Basic Earnings Per Ordinary Share Attributable to Shareholders of the Company (Sen)* | 5.33 | 2.17 | 7.21 | 9.17 | 18.62 |
| Net Assets Per Ordinary Share Attributable to Shareholders of the Company (RM)* | 0.73 | 0.75 | 0.79 | 0.86 | 1.01 |

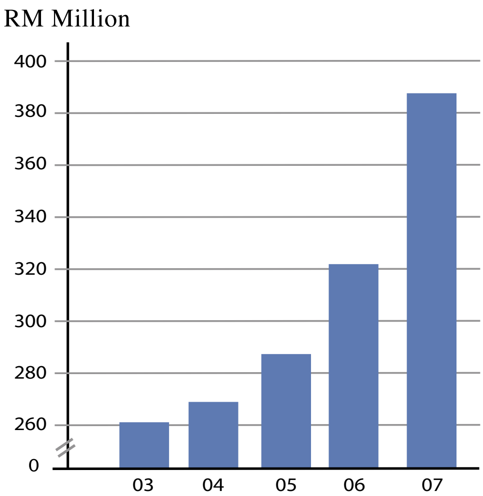
* The comparative figures for the financial years ended 31 December 2003 to 31 December 2006 have been restated to account for the effect of bonus issue and sub - division of shares in 2007, for reflective comparison purposes.



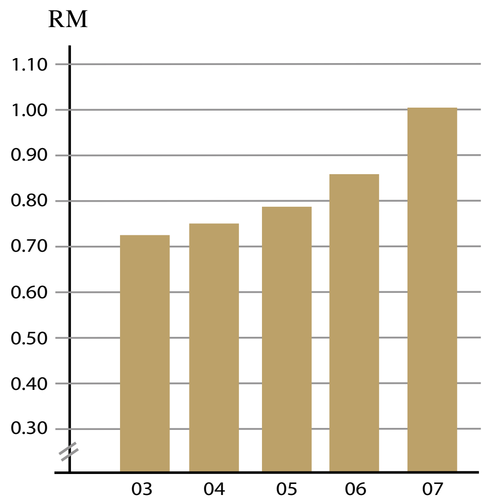
Profit Before Tax and Exceptional Items



Profit After Tax Before Minority Interest

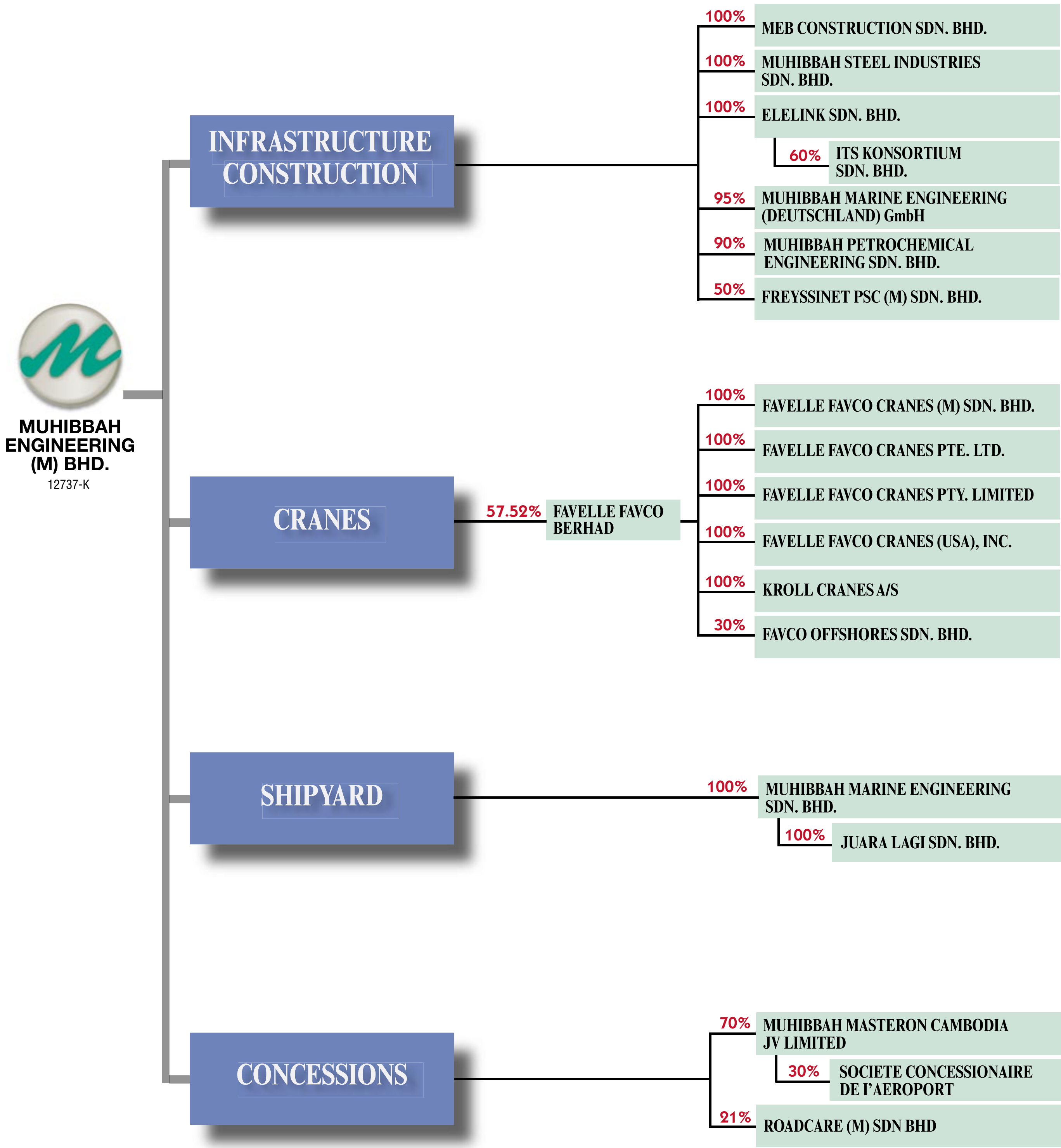


Total Equity Attributable to Shareholders of the Company



Net Assets Per Ordinary Share Attributable to Shareholders of the Company

# Core Divisions as at 30 April 2008




**Only major active companies are included here**

# Chairman's Statement

On behalf of the Board of Directors of Muhibbah Engineering (M) Bhd ("the Board"), I am pleased to present the Annual Report and the audited financial statements of Muhibbah Engineering (M) Bhd ("the Company" or "Muhibbah") and its subsidiary companies (the "Muhibbah Group" or "Group") for the financial year ended 31 December 2007.

## Overview

2007 marked a successful year for Muhibbah financially. This is underpinned by the Group's business model with the oil and gas sector strengthening the Group's marketability.

Muhibbah's business model has enabled the Group to record a profit before tax for the year of RM103.01 million (2006: RM65.09 million) on back of sales revenue of RM1.41 billion (2006: RM1.09 billion), both representing records for the Group. Return on equity (ROE) was 19.60%, compared to 12.62% achieved last year. This was a new benchmark reached, reflecting our efforts to pursue higher returns for our shareholders.

We have made good progress in our drive for growth in our businesses both domestically and internationally. The Group's earnings are more broad-based and sustainable over the coming years.

We have further strengthened the Group's structure and will see growth in our various key businesses. Improvements in all our key divisions worldwide and their financial performances reflect the capital discipline that is necessary to create sustained value and growth. Against the backdrop of the Group's performance, with the continuing prospects in the oil and gas industry for the next five (5) to ten (10) years, we will continue to see our strategic initiatives to spur the Group's earnings growth.

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

***With a sustained increase in global demand for oil and gas exploration and a dynamic geopolitical situation, we shall continue with our strategic initiatives to spur the Group's earnings growth. Our relatively strong order book and integrated activities will enable us to further broaden our earnings base going forward.***

# Chairman's Statement (continued)

## Key Highlights

The Group's growth in the financial year ended 31 December 2007 was delivered by all its operating divisions. Some of the key achievements for the year include:

- The Group's turnover increased by 30% to RM1.41 billion (2006: RM1.09 billion),
- The Group's earnings before interest, amortisation & depreciation and tax increased to RM150.10 million (2006 – RM85.14 million);
- The Group's net profit after tax and minority interests attributable to shareholders of the Company increased by 108% from RM33.8 million in 2006 to RM70.18 million in 2007;
- The Group's earnings per share increased from 9.17 sen in 2006 to 18.62 sen in 2007;
- The Group's net assets per share grew from RM0.86 in 2006 to RM1.01 in 2007; and
- Return on equity (ROE) was 19.60% in 2007, as compared to 12.62% achieved in 2006.

As at 30 April 2008, the total outstanding secured order book of the Muhibbah Group stands at approximately RM4.73 billion.

The improvement in the financial results for the financial year ended 31 December 2007 is mainly attributed to:

- Construction of the LNG loading jetty in Yemen (hereinafter known as "the Yemen LNG Jetty Project"), construction of the Petroleum Hub and Bunkering Facility at Tanjung Bin Johor, Malaysia and completion of warranty period of the Integrated Traffic Information System project in the Klang Valley, Peninsular Malaysia;
- Contribution from the shipyard division pursuant to demands for anchor-handling tugboats and supply vessels for the offshore oil and gas exploration and production activities; and
- Contribution from the cranes division due to the increased demand internationally in the oil and gas sector as well as global shipyard and high-rise building construction industries.

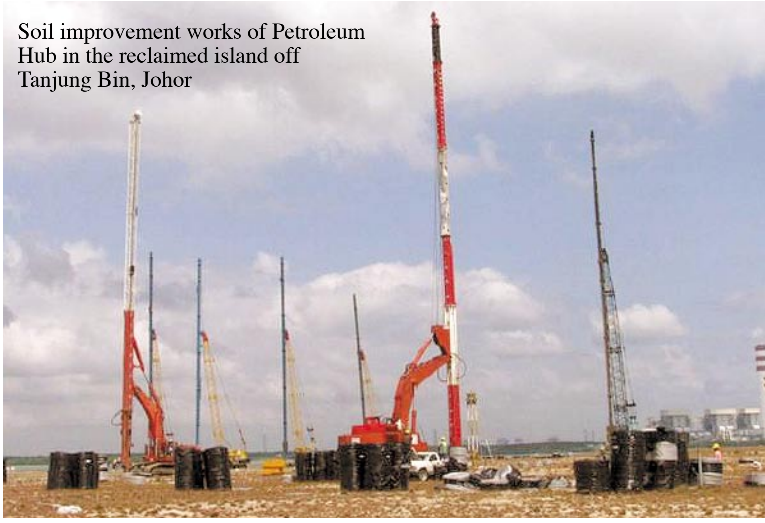
Trestle Trusses for Yemen LNG jetty project

On going construction work for Yemen LNG jetty project

# Chairman's Statement (continued)

## Dividends

The Board is pleased to recommend a first and final dividend of 9% less 26% taxation per ordinary share of RM0.50 each (2006: 7.5% less 27% taxation per ordinary share of RM1.00 each ) in respect of the financial year under review, subject to approval of the shareholders at the forthcoming Annual General Meeting. The total final dividend payable amounts to RM12.73 million (2006: RM8.36 million).


Soil improvement works of Petroleum Hub in the reclaimed island off Tanjung Bin, Johor

## Financial Performance

Details of the performance of each division of the Group for the financial year ended 31 December 2007 and future prospects of the Group are as follows:

**Infrastructure Construction and Engineering Division**

Our infrastructure construction and engineering division is on a strong footing for growth. It continues to be one of the Group's revenue and earnings driver. This year also saw a significant increase in activity, largely arising from the high oil price as a result of the increase in capital spending worldwide in the oil and gas sector. This has worked out well for the Group as in some continents, the spin-off in infrastructure spending has increased.

The Group is riding on this wave for continuous infrastructure construction projects in international market.

The Yemen LNG Jetty Works progressed positively in 2007. We have marked another success with the award of construction works for the catering facility for the New Doha International Airport (NDIA), Qatar by the Government of Qatar represented by the New Doha International Airport steering committee for a contract sum of Qatar Riyals 1.34 billion (equivalent to approximately RM1.23 billion). This is the single largest project ever secured by the Company thus far.

In January 2008, the Group successfully secured a contract for the sum of EURO 40.65 million (equivalent to approximately RM196 million) for the rehabilitation and upgrading of existing passenger terminal building, road, car parks and parking apron at Damascus International Airport, Syrian Arab Republic.


Petronas Sudan Headquarters

On the domestic front, we have also secured contracts for the construction works of a Petroleum Hub at Tanjung Bin, Johor worth approximately RM450 million and the construction of the South Klang Valley Expressway ("SKVE") for the sum of RM1.1 billion. SKVE is a forty-three (43) kilometre expressway linking the Damansara Puchong Highway interchange to Pulau Indah on the West Coast of Peninsular Malaysia.

These projects are expected to contribute meaningful earnings growth to the Group over the next few years. We believe the existing infrastructure construction projects in hand, together with Muhibbah's many years of experience and established track record within the oil and gas sector particularly in Middle East and Asia Pacific region will continue to provide the platform to spearhead further international ventures.

As at 30 April 2008, the outstanding secured order book for the infrastructure construction division stands at approximately RM3.36 billion.

New Doha International Airport (NDIA)

Structural works at Presidential Pavilion, Damascus International Airport, Syria

# Chairman's Statement (continued)

## Cranes Division

The cranes division achieved another major milestone with the transfer of the listing status of Favelle Favco Berhad from the Second Board to the Main Board of Bursa Malaysia Securities Berhad on 16 August 2007.

The restructuring of our international operations into our Malaysian plant is now in its second year of operation and the success of this restructuring has been reflected in the Group's improved operating margin. The cranes division is now operating at an efficient level with the continuous demand for its offshore oil and gas and construction cranes.

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

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

Favelle Favco Tower Crane

Favelle Favco Offshore Crane

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

The cranes division's turnover increases to RM453.9 million (2006: RM357.9 million) with more than 90% of cranes division's revenues being generated from the overseas market. As crude oil price has surged above USD40 per barrel, it stimulates more oil and gas exploration and development activities which is the key thrusts to support the cranes division sustained growth; notably an average of three (3) cranes being required for each offshore drilling and production platform. The specialised construction market also spurs demand for our construction cranes.

As at 30 April 2008, the outstanding secured order book for the cranes division stands at approximately RM698 million. Approximately 62% is from the global oil and gas sector with the remaining 38% from the international shipyard and construction sectors.

Favelle Favco Wharf Crane

Favelle Favco Offshore Crane

# Chairman's Statement (continued)

## Shipyard Division

In 2007, our shipyard division achieved its highest amount of orders since commencing operations in 1996. Anchor handling tugboats and offshore supply vessels have been the mainstay of our order book. Reliability of delivery and quality with good working relationship with our customers have resulted in many repeat orders.

Operationally, we delivered four (4) offshore vessels in 2007, all ahead of schedule and within budget. Our performance and budget were the mainstay of our client's appreciation of our contractual obligations.

Shipbuilding activities continue to form the bulk of the revenue for our shipyard division whilst the remainder is contributed from the repair, maintenance services and engineering works. Capital expenditure for the expansion of our shipyard capacity include construction of additional covered workshops and warehouses, is projected between RM15 million to RM20 million in year 2008.

We have continued to scale up the yard facilities which include ongoing capacity expansion works on another 50 acres land adjacent to our existing shipyard. 30 acres of this land is designated for our venture into oil and gas fabrication works with a focus on offshore structures.

Anchor Handling Tug Supply Vessels


Shiyard of Muhibbah Marine Engneering (M) Sdn. Bhd.

Shipment of LNG Jackets fabricated by Muhibbah Steel Industries Sdn Bhd to Yemen

In 2007, our wholly-owned subsidiary, Muhibbah Steel Industries Sdn Bhd successfully fabricated more than 10,000 tonnes of steel jackets for our Yemen LNG Jetty. Following this, we intend to expand our yards to undertake more offshore structural fabrication jobs.

Looking ahead, the outlook for the oil and gas exploration activities will continue to spur investment for vessels among marine support service providers and fabrication works. Both our expanded yard and fabrication facility are well placed to capitalise on this trend.

As at 30 April 2008, the outstanding secured order book for the shipyard division stands at approximately RM668 million.

Fabrication Yard of Muhibbah Steel Industries Sdn Bhd

# Chairman's Statement (continued)

## Concession Division

The airports and road maintenance concessions business continued to generate steady growth and recurring earnings to the Group with contribution of 25% to the Group's net profit after tax in 2007. Earnings are generated from the Group's associated companies, namely Societe Concessionaire de l' Aeroport ("SCA") and Roadcare (M) Sdn Bhd ("Roadcare").

SCA owns the exclusive rights for privatisation of international airports in Cambodia. The Royal Government of Cambodia has awarded SCA three (3) international airport operator concessions, namely the Phnom Penh International Airport, the Siem Reap International Airport and the Sihanoukville International Airport with concession periods of up to 2040.

SCA's operating revenue is derived from passenger airport tax and service charges, handling fees, royalty, rental and other airport operator related revenues. During the year 2007, our Airport Concession in Cambodia has continuously seen a double digit growth in passenger airport traffic for both the Phnom Penh International Airport and the Siem Reap International Airport. This is mainly attributed to the increased marketing efforts by the Royal Government of Cambodia to promote the country's historical and heritage sites. The first phase of the Sihanoukville International Airport is completed and this airport will commence operations for regional commercial flights sometime in mid 2008. Though a slow rise in tourists' arrival through the Sihanoukville International Airport at this initial stage due to shortage of hotel accommodation, we continue to experience increases in passenger growth in both Siam Reap and Phnom Penh from tourists and buoyant business growth in Cambodia.

Roadcare is principally involved in the maintenance and upgrading of roads, under a fifteen-year (15) concession period up to 2016 for road maintenance works for federal roads in the central region and the east coast of Peninsular Malaysia.

The Road Maintenance Concession in Malaysia has a lower net profit than the previous corresponding year as there were more ad-hoc road construction works in the previous year in addition to the routine and recurring income of road maintenance work for the Federal Government of Malaysia.

## Corporate And Business Development

On 16 August 2007, another milestone took place in the Group's corporate history with the transfer of the listing status of its subsidiary, Favelle Favco Berhad from the Second Board to Main Board of Bursa Malaysia Securities Berhad.

On 2 November 2007, Muhibbah also completed a bonus issue of up to 38,605,650 new ordinary shares of RM1.00 each ("Bonus Issue") and the share split involving the subdivision of every one existing share of RM1.00 each into two (2) new ordinary shares of RM0.50 each. The Bonus Issue has increased the issued and paid-up share capital of the Company to a level which would be more reflective of the current and future scale of operations and assets employed by Muhibbah. The Bonus Issue is a form of reward to the Company's shareholders for their continuous support to the Company.

Sihanoukville Airport, Cambodia

On 31 March 2008, Muhibbah announced that the Securities Commission had on 28 March 2008 approved Muhibbah's proposal to issue up to RM400 million nominal value Islamic Commercial Papers/Medium Term Notes ("Islamic CP/MTN") in the form of Sukuk Mudharabah ("Islamic CP/MTN"). RAM Rating Services Berhad ("RAM") had on 31 March 2008 announced ratings of P1/A1 for the Islamic CP/MTN to be issued by Muhibbah.

On 22 April 2008, the Company announced that it proposed to issue up to RM130 million nominal value of Islamic Bonds together with up to 38,000,000 detachable warrants. This proposal is conditional upon approvals being obtained from the relevant authorities and shareholders' approval at the forthcoming extraordinary general meeting.

The proceeds of the Islamic CP/MTN, Islamic Bonds and warrants shall enable Muhibbah to fund the Group's expansion, refinance existing bank borrowings with lower finance costs and better plan for its cashflow requirements.

## Future Prospects

The Malaysian economy, meanwhile, is expected to strengthen further in 2008, with GDP growth projected at 6.0%, and growth in the construction sector projected to hit 6.3%.

The Group is better positioned to weather the uncertainties facing both local and overseas economies. The Group has a well-balanced order book of RM4.73 billion as at 30 April 2008. Our current order book has a relatively balanced mix in terms of geographical spread. Of the entire outstanding order book, the overseas order book amounts to 52.50% for the total outstanding order book. Out of the 52.50% overseas order book, Middle East countries make up 66.09% and other Asia Pacific countries contributed about 26.48% whilst 7.43% is derived from Europe, North Africa and USA.

Muhibbah has strategically stepped up its overseas presence and the fact that we have secured three projects in the Middle East consecutively bears testimony to our ability to compete globally. Muhibbah has emerged as an international infrastructure contractor with more than half of our construction order book being foreign based. Meanwhile, the Group's capability in executing foreign contracts and constructing a varied range of jobs requiring a certain level of technical expertise underscores the stronger business profile for further growth.

MALA Satellite Oil Gathering Manifold (OGM)
for White Nile Petroleum Company

# Chairman's Statement (continued)

37% of the total outstanding group order book is oil and gas related, which moderates its exposure to the cyclical construction industry. The continuous demand for oil from developed countries and the demand by China and India's booming economies have increased crude oil prices. Oil majors are aggressively expanding exploration and development activities. The development of offshore oilfield production facilities will be the path and the future engine of growth for the Group. As an integrated oil and gas products and services provider, Muhibbah stands as front-tier beneficiary to earn this petrodollar investment.

Moving forward, the Group continues to identify, develop and build growth platforms for its businesses, sharpen its strategic focus while streamlining its businesses, strengthening its customer relationships and penetrating new markets. We are optimistic that we can leverage our core competencies to further enhance our growth prospects in each of our key businesses. At the operational level, we will continue to focus on execution to crystallise our order book into solid earnings growth ahead.

Therefore, the Group's prospects in the year 2008 are expected to remain positive.

## Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Board is committed to the Company's shareholders for good corporate governance to be adopted and practised by the Muhibbah Group.

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

Widening of the Existing Penang Bridge

## Corporate Social Responsibility

Our commitment to Corporate Social Responsibility ("CSR") is demonstrated and continuously improved by emphasising the importance of the community, our employees and the environment.

- **Community**
  As a responsible corporate citizen, we believe in contributing to the community in which we work. We continue to contribute to charitable, social and welfare programs and sporting events. Muhibbah has made donations to various charitable organisations. We have arranged visits and offered voluntary assistance to orphanages and old folks homes.

- **Employees Safety & Health and Welfare**
  The Group is committed to pursuing, implementing and continuously improving the safety and health system in accordance with the requirements of OHSAS 18001:1999 for each and every project undertaken and also to ensuring conformance and compliance with local and international standards. This includes the adoption of appropriate policies and procedures, ongoing training programs and the usage of full personnel protective equipment. We have also set up the Muhibbah Club to encourage recreational activities for the staff and to promote relationship and teamwork spirit among the staff. Various activities such as badminton and bowling tournaments, a treasure hunt and a family day organised.

- **Employees Training and Development**
  Our employees are fundamental to the success of our business. Accordingly, continuous and ongoing training and development programs are planned for employees. In addition, site visits and study tour are arranged with a view to enable staff to have a better understanding of the Groups' operations.

- **Environment**
  We recognise the importance of maintaining the environment whilst proceeding with the development of our projects. Therefore, our concept of Environmental Management involves optimisation of the usage of natural resources, preserving the environment by focusing on mitigating pollution risks and reducing emissions harmful to the environment. Maintaining biodiversity is another core priority.

  We have implemented and continuously improved the Environmental Management System in accordance with the requirement of ISO 14001: 2004 for each and every project undertaken.

  The Group shall endeavour and is commited to fulfilling its CSR obligations with the aim of making a positive difference to the well being of the community, its employees and the environment.

## Acknowledgement And Appreciation

On behalf of the Board, I would like to thank the Senior Management for its counsel and guidance and the staff and personnel of Muhibbah for their keen commitment and relentless drive towards achieving excellence in whatever they do. I am confident that once again we shall succeed in our collective efforts to create more value for all our stakeholders as we embark on this next phase of our growth and development.

Last but not least, I would also like to thank our customers, business partners, suppliers, bankers and shareholders for your confidence in us. With your continued support, we shall be inspired to do even better in the years ahead.

**Tuan Haji Mohamed Taib bin Ibrahim**
Chairman

# Profile of Directors

## Tuan Haji Mohamed Taib bin Ibrahim

Aged 83, Malaysian
(Chairman, Independent)
Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Tuan Haji Mohamed Taib bin Ibrahim is the co-founder of Muhibbah Engineering (M) Bhd and has been an Independent Non-Executive Director of the Company since its inception on 4 September 1972. He was later appointed as Chairman of the Company on 22 May 1973, member of the Audit Committee on 31 December 1993 and on 21 February 2002 as Chairman of both the Nomination and Remuneration Committees.

He had an illustrious and colourful career when he was attached to the Education Department as organiser of schools. In 1967, he ventured into the private sector and helped set up Federal Flour Mills. His former positions in Federal Flour Mills were Administrative Manager and Alternate Director. He was also the Chairman of Kuantan Flour Mills Bhd in 1984. His foray into the marine industry started in 1969 when he was appointed the first Company Secretary of Malaysian International Shipping Corporation. In 1977, he was nominated to lead Johor-based Malaysian Shipyard and Engineering Bhd as the Company's President and Chief Executive Officer, positions which he relinquished in 1988.

He is also a Director of Favelle Favco Berhad.

## Datuk Zakaria Bin Abdul Hamid

Aged 64, Malaysian
(Vice Chairman, Independent
Non-Executive Director)

Member of the Audit Committee

Datuk Zakaria bin Abdul Hamid was appointed Vice Chairman of the Company on 20 February 2002 and member of the Audit Committee on 28 March 2003. He obtained a Bachelor of Arts with Honours Degree from the University of Malaya in 1969 and later furthered his studies in 1993 at the Royal College of Defence Studies in London. He started work in 1969 in the Government Service and later in the Prime Minister's Department. His last held position was Director General when he retired in early 2002.

He is also a Director of Saujana Consolidated Berhad and Landmarks Berhad.

## Mac Ngan Boon @ Mac Yin Boon

Aged 64, Malaysian
(Managing Director)

Member of the Remuneration Committee

Mac Ngan Boon is the co-founder and Managing Director of the Company since its inception on 4 September 1972. He has been a member of the Remuneration Committee since 21 February 2002.

He obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967. He has been a member of the Institute of Engineers Malaysia since 1978 and the Professional Engineer (Malaysia) since 1967. He started work as an engineer for a local construction company.

He has also been the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998.

He is also a Director of Favelle Favco Berhad.

# Profile of Directors (continued)

## Ooi Sen Eng

Aged 66, Malaysian
(Executive Director)

Member of the Audit Committee and Remuneration Committee

Ooi Sen Eng obtained his Bachelor of Engineering (Civil) Degree from the University of Malaya in 1966. He was admitted as a member of the Professional Engineer (Malaysia) in 1967 and later became a member of the Institute of Engineers Malaysia in 1978. He gained his early marine engineering construction experience from Zublin AG, a German construction company, where he worked for 6 years until he co-founded Muhibbah Engineering (M) Bhd in 1972. He was appointed Director on 26 May 1973, and a member of the Audit Committee and Remuneration Committee on 31 December 1993 and 21 February 2002 respectively.

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

Aged 64, Malaysian
(Senior Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor was appointed to the Board as an Independent Non-Executive Director on 19 April 2001. He was a pointed a member of the Audit Committee as well as Senior Independent Non-Executive Director on 27 December 2001 in accordance with the Malaysian Code of Corporate Governance, and to whom concerns of the Group may be conveyed. Dato' Seri Ahmad Ramli was further appointed member of the Nomination and Remuneration Committees on 21 February 2002.

He had a distinguished and colourful career with the Royal Malaysian Navy and received numerous decorations both internationally and locally. He is a graduate of the Indonesia Naval Staff College, the United States Naval War College and United States Naval Post-Graduate School in Monterey. Apart from his Naval Professional Qualification, he also obtained a Masters Degree in Public Administration from Harvard University in 1982. He retired as the Chief of the Royal Malaysian Navy in 1999.

He is presently also a Director of Favelle Favco Berhad, Affin Bank Berhad, Boustead Heavy Industries Corporation Berhad (formerly known as PSC Industries Berhad) and Comintel Corporation Bhd.

## Low Ping Lin

Aged 54, Malaysian
(Executive Director)

Low Ping Lin has held the position of Executive Director since 28 December 1993. He obtained a Bachelor's Degree in Civil Engineering from the University of Melbourne, Australia in 1976 and is also a member of the Institute of Engineers, Malaysia. Upon graduation, he joined Jabatan Kerja Raya in the Roads Department. He joined Muhibbah Engineering (M) Bhd in 1980 as Project Engineer.

# Profile of Directors (continued)

## Dato' Seri Raja Ahmad Zainuddin Bin Raja Haji Omar

Aged 52, Malaysian
(Independent Non-Executive Director)

Member of the Remuneration Committee and Nomination Committee

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar was appointed to the Board of Muhibbah Engineering (M) Bhd on 15 January 2001 and as a member of the Nomination and Remuneration Committees on 21 February 2002.

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar has been actively involved in the political scene in Malaysia since 1982. From a Press Secretary to the Menteri Besar of Perak in 1982 till 1988 to a Political Secretary of the Menteri Besar of Perak from 1986 till 1999, he then moved on to become a Member of Parliament for the constituency of Larut from 1999. Before this, from 1990 to 1999, he was also Perak State Assemblyman for Batu Kurau.

## Lim Teik Hin

Aged 67, Malaysian
(Non-Independent and Non-Executive Director)

Member of the Audit Committee

Lim Teik Hin was appointed to the Board of Muhibbah Engineering (M) Bhd on 28 March 2003 as a Non-Independent Non-Executive Director. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants and CPA Australia. 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 subsquently worked with KPMG (Penang) in Malaysia. He then joined Federal Aluminium (M) Bhd. as an Operations Manager. His last held position was Senior Manager in Muhibbah Engineering (M) Bhd.

## Abd Hamid Bin Ibrahim

Aged 60, Malaysian
(Independent Non-Executive Director)

Abd Hamid Bin Ibrahim, a Malaysian aged 60, was appointed to the Board of Muhibbah Engineering (M) Bhd on 18 January 2006 as an Independent Non-Executive Director.

He holds a Masters degree in Petroleum Engineering from Heriot-Watt University, Scotland and a degree in Mining from the Camborne School of Mines, UK. He also attended the Advanced Management Programme at the Wharton School of Management, University of Pennsylvania, USA. He joined PETRONAS in June 1976 as a Production Engineer in the Production Department and since then had held several managerial positions in the Upstream Sector (including as General Manager, Development Division, PETRONAS Carigali Sdn Bhd) until April 1991.

He was the Managing Director/Chief Executive Officer of Ethylene Malaysia Sdn Bhd and Polyethylene Malaysia Sdn Bhd from May 1991-1996, Managing Director/ Chief Executive Officer of Malaysia LNG Sdn Bhd and MLNG Dua Sdn Bhd, and Project Director of MLNG Tiga Sdn Bhd from June 1996 prior to his appointment as Managing Director/Chief Executive Officer of PETRONAS Gas Bhd in September 1999. He was a member of the PETRONAS Management Committee from July 1996 until June 2003.

He is the Editor-in-chief of RESOURCE, the in-house magazine of the Malaysian Petroleum Club since its inception in 1992. Apart from that he is,since 2006, a Board Member of the Antarabudaya Malaysia, an associate member of the American Field Service, a voluntary organisation that deals in international student exchange programme. In July 2004, he was appointed as the PETRONAS representative to the Board of Trustees of CARIF (Cancer Research Initiatives Foundation). In May 2006 he was elected to the Executive Committee of the Malaysian Oil & Gas Services Council (MOSGC).

# Other Information

## Other Information on Directors

1. **Family Relationship with Any Directors and/or Major Shareholders of Muhibbah Engineering (M) Bhd**

   None of the Directors have any relationship with each other and/or major shareholders of Muhibbah Engineering (M) Bhd except Lim Teik Hin, who is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd.

2. **Conflict of Interest**

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

3. **List of Conviction 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**

   There were no proceeds raised from any corporate proposals during the financial year.

2. **Share Buy-Backs**

   Details of shares repurchased during the financial year ended 31 December 2007 are as follows:

| Month | No. of Shares Repurchased | Total Consideration Paid RM | Lowest Price RM | Highest Price RM | Average Price RM |
|---|---|---|---|---|---|
| June | 215,000 | 1,445,730 | 6.650 | 6.750 | 6.724 |
| July | 470,500 | 3,197,700 | 6.750 | 6.800 | 6.796 |
| Total | 685,500 | 4,643,430 | | | |

The Company repurchased 685,500 ordinary shares of RM1.00 each (equivalent to 1,371,000 ordinary shares of RM0.50 each consequent to the subdivision of ordinary shares of the Company on 2 November 2007) of its own shares from the open market of Bursa Malaysia Securities Berhad for a total consideration of RM4,668,659 comprising consideration paid amounting to RM4,643,430 and transaction costs of RM25,229 during the financial year.

The shares repurchased are held as treasury shares. None of the treasury shares held are resold or cancelled during the financial year.

Details of the shares repurchased are disclosed on page 120 of this Annual Report.

# Other Information (continued)

## Additional Compliance Information (continued)

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

Details of the exercise of employees' share options of the Company are disclosed on pages 50 to 53 of this Annual Report.

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

**4. American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme**

The Company did not sponsor any ADR or GDR programme during the financial year.

**5. Imposition of Sanctions and/or Penalties**

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by any regulatory bodies during the financial year.

**6. Non-Audit Fee**

The amount of non-audit fee incurred for services rendered to the Company or its subsidiaries by the Company's auditors for the financial year amounted to RM20,000.

**7. Variation in Results**

There were no variation between the unaudited results and the audited results of the Group for the financial year ended 31 December 2007.

**8. Profit Estimate, Forecast or Projection**

There were no profit estimate, forecast or projection announced by the Company during the financial year.

**9. Profit Guarantee**

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

**10. Material Contracts**

There were no material contracts entered into by the Company and its subsidiaries involving the interests of Directors and major shareholders, either still subsisting as at 31 December 2007 or entered into since the end of the previous financial year ended 31 December 2006.

**11. Revaluation Policy on Landed Properties**

The Company has not adopted a policy of regular revaluation of its landed properties.

**12. Recurrent Related Party Transactions of a Revenue or Trading Nature**

At the Extraordinary General Meeting held on 25 June 2007, the Company 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 8 June 2007.

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

# Other Information (continued)

## Additional Compliance Information (continued)

### 12. Recurrent Related Party Transactions of a Revenue or Trading Nature (continued)

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

*Abbreviations*

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

# Statement on Corporate Governance

## Introduction

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

## Board of Directors

**Composition and Balance**

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

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of nine (9) members, comprising five (5) Independent Non-Executive Directors, three (3) Executive Directors, one (1) Non-Independent and Non-Executive Director. Profiles of the Directors are presented on pages 22 to 24 of this Annual Report.

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

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

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

The Board has identified Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.

# Statement on Corporate Governance (continued)

**Board Meetings**

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

| Names of Directors | Attendance at Meetings in 2007 |
|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | 3/4 |
| Datuk Zakaria bin Abdul Hamid | 4/4 |
| Mac Ngan Boon @ Mac Yin Boon | 4/4 |
| Ooi Sen Eng | 3/4 |
| Low Ping Lin | 3/4 |
| Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar | 4/4 |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 4/4 |
| Lim Teik Hin | 4/4 |
| Abd Hamid bin Ibrahim | 2/4 |

**Supply of Information**

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

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

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

**Board Committees**

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

# Statement on Corporate Governance (continued)

*(i) Audit Committee*

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

The Audit Committee comprises five (5) members out of which three (3) are Independent Non-Executive Directors. Tuan Haji Mohamed Taib bin Ibrahim, an Independent Non-Executive Director, is the Chairman of this 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 35 to 39 of this Annual Report.

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

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

*(ii) Nomination Committee*

The present members of the Nomination Committee are as follows:

| Names of Committee Members | Designation |
|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | Chairman<br>*(Independent Non-Executive Director)* |
| Vice Admiral (Rtd)<br>Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member<br>*(Senior Independent Non-Executive Director)* |
| Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar | Member<br>*(Independent Non-Executive Director)* |

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

# Statement on Corporate Governance (continued)

*(iii) Remuneration Committee*

The present members of the Remuneration Committee are as follows:

| Names of Committee Members | Designation |
|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | Chairman *(Independent Non-Executive Director)* |
| Mac Ngan Boon @ Mac Yin Boon | Member *(Managing Director)* |
| Ooi Sen Eng | Member *(Executive Director)* |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member *(Senior Independent Non-Executive Director)* |
| Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar | Member *(Independent Non-Executive Director)* |

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

**Appointments and Re-election**

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

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

# Statement on Corporate Governance (continued)

**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 timeframe 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 includes topics relating to business planning, control and monitoring processes, control, compliance and governance, and corporate social responsibility.

It is the practice of the Group, whereby, following the appointment of new Directors to the Board, an induction program is arranged to facilitate their understanding of the nature of the business, current issues within the Company, the corporate strategy, the expectations of the Company concerning input from Directors, the general responsibilities of Directors, operations of the Group as well as the products and services offered by the Group. New Directors are also introduced to senior management personnel and taken on visits to the Group's businesses.

## Directors' Remuneration

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

| | Executive Directors | Non-Executive Directors | Total |
|---|---|---|---|
| | RM | RM | RM |
| Fees | 144,000 | 288,000 | 432,000 |
| Remuneration | 1,517,240 | 46,000 | 1,563,240 |
| | 1,661,240 | 334,000 | 1,995,240 |

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

| Range of Remuneration | Executive Directors | Non-Executive Directors | Total |
|---|---|---|---|
| Below RM50,000 | - | - | - |
| RM50,001 to RM100,000 | - | 6 | 6 |
| RM100,001 to RM150,000 | - | - | - |
| RM150,001 to RM200,000 | - | - | - |
| RM200,001 to RM250,000 | - | - | - |
| RM250,001 to RM300,000 | - | - | - |
| RM300,001 to RM350,000 | - | - | - |
| RM350,001 to RM400,000 | - | - | - |
| RM400,001 to RM450,000 | - | - | - |
| RM450,001 to RM500,000 | - | - | - |
| RM500,001 to RM550,000 | 1 | - | 1 |
| RM550,001 to RM600,000 | 2 | - | 2 |
| | 3 | 6 | 9 |

# Statement on Corporate Governance (continued)

## Shareholders

**Investors and Shareholders Relationship**
The Board recognises the importance of maintaining effective communication with its investors and shareholders. An Investor Relations and Shareholder Communication Policy have been adopted by the Board to enable the Group and the Company to communicate effectively with its shareholders, existing and potential investors, other stakeholders and public generally.

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

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

| Investor Relations Activities | No. of Meetings |
|---|---|
| Meetings with investors/fund managers/analysts | 90 |
| Company Briefings | 3 |
| Site Tour:<br>- Klang Shipyard (1)<br>- Cambodia (1) | 2 |
| Participation at roadshows/conferences:<br>- Langkawi (1)<br>- Hong Kong (3)<br>- Singapore (3) | 7 |

Apart from the mandatory announcements of the Group's financial results and corporate developments to Bursa Malaysia Securities Berhad, the Group maintains a website (www.muhibbah.com) that allows all shareholders to gain access to information and 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 provision of the Companies Act, 1965 and applicable approved Financial Reporting Standards in Malaysia.

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

# Statement on Corporate Governance (continued)

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 provision of the Companies Act, 1965 and applicable approved Financial Reporting Standards in Malaysia.

**Relationship with the Auditors**

Through the Audit Committee of the Board, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views in 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 Internal Audit Department which provides support to the Audit Committee in discharging its duties with respect to the adequacy and integrity of the system of internal controls within the Group.

A Statement on Internal Control outlining the internal controls within the Group is presented on pages 40 and 41 of this Annual Report.

**Compliance Statement**

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

# Audit Committee Report

## Membership And Meetings

Details of the membership of the Audit Committee and attendance of meetings are as follows:

| Names of Committee Members | Designation | Attendance at Meetings in 2007 |
|---|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | Chairman *(Independent Non-Executive Director)* | 3/4 |
| Datuk Zakaria bin Abdul Hamid | Member *(Independent Non-Executive Director)* | 4/4 |
| Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member *(Senior Independent Non-Executive Director)* | 4/4 |
| Ooi Sen Eng | Member *(Executive Director)* | 3/4 |
| Lim Teik Hin | Member *(Non-Independent and Non-Executive Director)* | 3/4 |

The Audit Committee held four (4) meetings during the financial year ended 31 December 2007. The Group's Chief Financial Officer and the Group's Internal Audit Manager attended all meetings. Other members of senior management attended some of these meetings upon invitation by the Chairman of the Committee. The Group's external auditors attended two (2) meetings during the year.

## Summary Of Activities

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

(i) Reviewing the quarterly 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 result of the annual audit and the audit report including the Management response to the findings of the external auditors.

(iii) Reviewing the adequacy and relevance of the scope of work and functions of the external auditors and making recommendations to the Board on the appointment of the external auditor and the determination of the audit fees.

(iv) Reviewing with the Internal Audit Department the adequacy and relevance of the scope, function and risk based on audit plan and results of the internal audit processes.

(v) Reviewing and discussing the internal audit status report and considering whether or not appropriate action had been taken on the recommendations of the internal audit function.

(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.

# Audit Committee Report (continued)

## Internal Audit Function

The Group has a well-established Internal Audit Department, which reports to the Audit Committee and assists the Board in monitoring and managing risks and internal control. The department carries out its duties impartially and independently of the activities reviewed. It has the principal responsibility of carrying out audits on the operations within the Group and provides general assurances to the management and Audit Committee. The internal audit reports highlighting any deficiencies or findings are discussed with management and the relevant action plans are agreed upon and implemented. Significant findings are presented in the Audit Committee Meetings for consideration and reporting to the Board. A follow-up audit review is also conducted to determine whether all audit recommendations are effectively implemented.

In addition, the Internal Audit Department also provides the necessary assistance and manpower for any special assignments or investigations requested by the management from time to time, with the approval of the Audit Committee.

The Group has implemented a structured risk assessment and management framework on the 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 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.

Other main activities performed by the Internal Audit Department are as follows:
- Site visits, inspections and reviews;
- Assess and advise on the Group's Corporate Governance practices and compliances.

## Terms Of Reference

**Objectives**
The principal objective of the Committee is to assist the Board of Directors in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of Muhibbah Engineering (M) Bhd and its subsidiaries.

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

# Audit Committee Report (continued)

**Membership**
The Board shall appoint the Audit Committee comprising at least three (3) directors, the majority of whom shall be Independent Directors. The Chairman of the Committee, who is an Independent Director, shall be appointed by the Board. No alternate Director can be a member of the 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 First Schedule of the Accountants Act 1967 or fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

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

If a member of the Audit Committee ceases to be a member with the result that the number of members is reduced to two (2), the Board of Directors shall within three (3) months of the event appoint such number of new members as may be required to fill the vacancy.

**Attendance at meetings**
The Committee shall hold at least two (2) regular meetings per year and such additional meeting as the Chairman shall decide in order to fulfil its duties.

The Company Secretary shall act as Secretary of the Committee.

The 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:

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

# Audit Committee Report (continued)

**Duties**

The duties and scope of work of the Committee shall be:

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

# Audit Committee Report (continued)

**Proceedings of the Audit Committee**

*Calling of meetings*
The members may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, provided that they shall have a minimum of two (2) meetings in a financial year. The Secretary shall on the requisition of a member summon a meeting of the Audit Committee.

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

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

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

*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 and appropriate as to their implementation and for continuing suitability;

- Policies, objectives, quality procedures and environmental procedures for key business processes are formalised and documented in quality and environmental manuals. The Corporate Environment & Quality Assurance Department conducts half-yearly Internal Quality Audits and Internal Environmental Audits and on-going monitoring to ensure operational processes are in accordance with the ISO 9001 : 2000 Quality Management System and ISO 14001 : 2004 Environmental Management System respectively;

- The 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 Internal Audit Department carries out audits based on audit plans approved by the Audit Committee;

- Subsequent follow-up reviews on recommendations and outstanding issues are conducted continuously by the 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 issuance of a Risk Management Policies and Procedures Manual which outlines the risk management framework for the Group offers practical guidance to all employees on risk management guidelines and processes;

- Submission of quarterly risk management reports to the Risk Management Units for reporting to the Group Risk Management Committee; and

- A consolidated risk profile of the Group together with a summary of key risks and actions to mitigate these risks is discussed in the Risk Management Committee meetings before being submitted to the Board for consideration.

# Statement on Internal Control (continued)

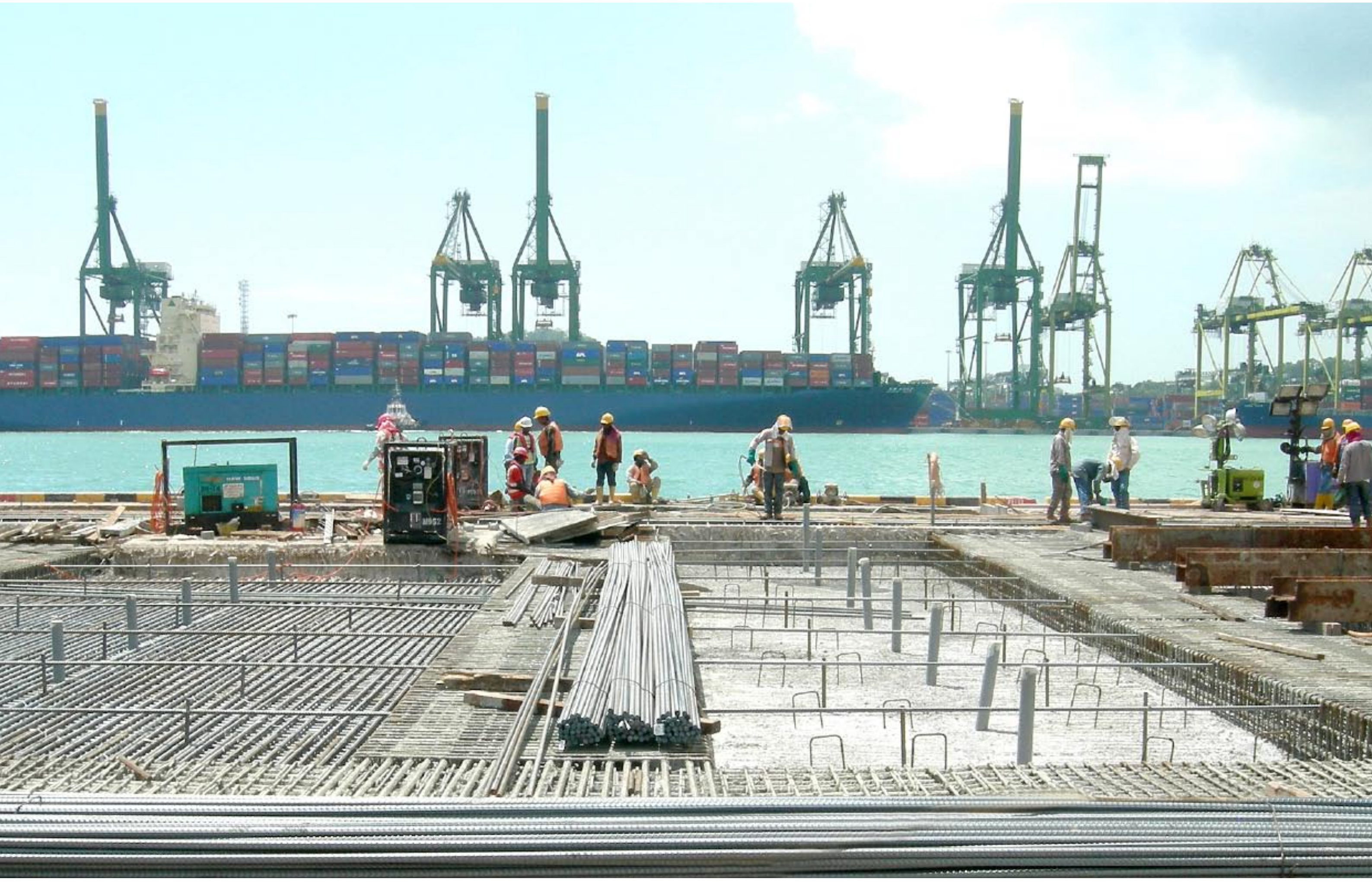
The Board is continuing its on-going process of identifying, assessing and managing key business, operational and financial risks faced by its business units. The Group is progressively developing risk management practice in significant subsidiaries.

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

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

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

The Board through the Audit Committee has reviewed the effectiveness of the Group's system of internal control. The Board is of the view that there were no significant breakdown or weakness in the system of internal control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2007. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.



Upgrading of Berth 13 at Keppel Terminal & Dredging works, Singapore

# FINANCIAL STATEMENT

# Directors' report for the year ended 31 December 2007

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2007.

## Principal activities

The Company is principally engaged in investment holding, infrastructure, civil and structural engineering contract works which include the construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals and facility support buildings, heavy concrete foundations and other similar construction works.

The Group has the following main business segments:

**i) Infrastructure construction**

Construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals and facility support buildings, heavy concrete foundations and other similar construction works.

**ii) Cranes**

Design, manufacture, supply, trading, renting and service provider of offshore oil and gas pedestal cranes, tower cranes, shipyard cranes and other heavy lifting equipment cranes.

**iii) Marine ship building and ship repair**

Design, engineering, building and service provider of anchor handling tug boats, supply vessels mainly for the offshore oil and gas exploration and production works.

**iv) Concession**

Privatisation of international airports in Cambodia and maintenance work for the federal roads in the central region of Peninsular Malaysia.

The principal activities of the subsidiaries are as stated in Note 41 to the financial statements.

## Results

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Net profit after tax before minority interest | 90,405 | 39,856 |
| Minority interest | (20,225) | - |
| Net profit after tax and minority interest attributable to the shareholders of the Company | 70,180 | 39,856 |

# Directors' report for the year ended 31 December 2007 (continued)

## Reserves and provisions

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

## Dividends

Since the end of the previous financial year, the Company paid a final dividend of 7.50% (7.50 sen) less 27% tax per ordinary share of RM1.00 each totalling RM8,357,264 in respect of the year ended 31 December 2006 on 24 September 2007, based on the issued and paid-up share capital of 152,644,100 ordinary shares of RM1.00.

The Directors recommended a first and final dividend of 9.00% (4.50 sen) less 26% tax per ordinary share of RM0.50 each totalling RM12,727,085 subject to approval of the shareholders at the forthcoming Annual General Meeting in respect of the year ended 31 December 2007, based on the issued and paid-up share capital (excluding treasury shares) of 382,194,750 ordinary shares of RM0.50 each as at 31 December 2007.

## 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
Ooi Sen Eng
Low Ping Lin
Vice Admiral (Rtd) Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Datuk Zakaria bin Abdul Hamid
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar
Lim Teik Hin
Abd Hamid bin Ibrahim

# Directors' report for the year ended 31 December 2007 (continued)

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

| | Tuan Haji Mohamed Taib bin Ibrahim | Mac Ngan Boon @ Mac Yin Boon | Ooi Sen Eng | Low Ping Lin | Lim Teik Hin |
|---|---|---|---|---|---|
| **Shareholdings in which Directors have direct interest** | | | | | |
| The Company Muhibbah Engineering (M) Bhd. | | | | | |
| **Number of ordinary shares of RM1 each** | | | | | |
| Balance at 1.1.2007 | 3,077,357 | 26,964,567 | 5,128,027 | 863,000 | - |
| Bought | - | 367,000 | 70,000 | - | - |
| Sold | (60,000) | - | (500,000) | (340,000) | - |
| Bonus issue | 754,339 | 6,832,891 | 1,174,506 | 130,750 | - |
| Balance at 2.11.2007 | 3,771,696 | 34,164,458 | 5,872,533 | 653,750 | - |
| Effect of share split to ordinary shares of RM0.50 each | 3,771,696 | 34,164,458 | 5,872,533 | 653,750 | - |
| **Number of ordinary shares of RM0.50 each** | | | | | |
| Balance at 2.11.2007 | 7,543,392 | 68,328,916 | 11,745,066 | 1,307,500 | - |
| Bought | - | - | - | - | 1,000 |
| Sold | - | - | (200,000) | - | - |
| Balance at 31.12.2007 | 7,543,392 | 68,328,916 | 11,545,066 | 1,307,500 | 1,000 |

# Directors' report for the year ended 31 December 2007 (continued)

By virtue of their interest in shares of the Company, Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Ooi Sen Eng, Low Ping Lin and Lim Teik Hin are also deemed to have interests in the shares of all subsidiaries during the financial year to the extent that Muhibbah Engineering (M) Bhd. has an interest. Details of their deemed shareholdings in non-wholly owned subsidiaries are as follows:

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | **At 1.1.2007** | **Bought** | **Sold** | **At 31.12.2007** |
| Favelle Favco Berhad | 98,000,000 | - | - | 98,000,000 |

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | **At 1.1.2007** | **Bought** | **Sold** | **At 31.12.2007** |
| Muhibbah Petrochemical Engineering Sdn. Bhd. | 900,000 | - | - | 900,000 |
| Konsortium Muhibbah Eng-LTAT Sdn. Bhd. | 51,000 | - | - | 51,000 |
| Muhibbah-LTAT JV Sdn. Bhd. | 51,000 | - | - | 51,000 |
| ITS Konsortium Sdn. Bhd. | 1,200,000 | - | - | 1,200,000 |
| Sun Vibrant Sdn. Bhd. | 980,000 | 82,000 | - | 1,062,000 |

| | Number of ordinary shares of USD100 each | | | |
|---|---|---|---|---|
| | **At 1.1.2007** | **Bought** | **Sold** | **At 31.12.2007** |
| Muhibbah Masteron Cambodia JV Limited | 7,000 | - | - | 7,000 |

| | Number of ordinary shares of USD1 each | | | |
|---|---|---|---|---|
| | **At 1.1.2007** | **Bought** | **Sold** | **At 31.12.2007** |
| Muhibbah Airport Services (Labuan) Ltd | 210,000 | - | - | 210,000 |
| Muhibbah Offshore Services Ltd | - | 950 | - | 950 |

| | Number of ordinary shares of EURO1 each | | | |
|---|---|---|---|---|
| | **At 1.1.2007** | **Bought** | **Sold** | **At 31.12.2007** |
| Muhibbah Marine Engineering (Deutschland) GmbH | 728,591 | - | - | 728,591 |

# Directors' report for the year ended 31 December 2007 (continued)

| | Number of ordinary shares of PESO100 each | | | |
|---|---|---|---|---|
| | At 1.1.2007 | Bought | Sold | At 31.12.2007 |
| Muhibbah Engineering (Philippines) Corporation | 101,995 | - | - | 101,995 |

The options granted to eligible Directors over unissued ordinary shares of the Company pursuant to the Employees' Share Option Scheme are set out below:

| | Mac Ngan Boon @ Mac Yin Boon | Ooi Sen Eng | Low Ping Lin |
|---|---|---|---|
| **Number of options over ordinary shares of RM1.00 each:** | | | |
| Balance at 1.1.2007 | 1,100,000 | 1,000,000 | 1,000,000 |
| Granted | - | - | - |
| Exercised | (367,000) | - | - |
| Bonus issue | 183,250 | 250,000 | 250,000 |
| Balance at 2.11.2007 | 916,250 | 1,250,000 | 1,250,000 |
| Effect of share split to ordinary shares of RM0.50 each | 916,250 | 1,250,000 | 1,250,000 |
| **Number of options over ordinary shares of RM0.50 each:** | | | |
| Granted | - | - | - |
| Exercised | - | - | - |
| Balance at 31.12.2007 | 1,832,500 | 2,500,000 | 2,500,000 |

None of the other Directors holding office at 31 December 2007 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

## Directors' benefits

Since the end of the previous financial year, no Director 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 the Directors as shown in the financial statements of the Company 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.

# Directors' report for the year ended 31 December 2007 (continued)

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 other than certain Directors' entitlements to subscribe for new ordinary shares of the Company under the Employees' Share Option Scheme.

## Issue of shares and debentures

(a) Alteration of authorised share capital, bonus issue and subdivision of shares

(i) On 2 November 2007, the authorised share capital of the Company was altered from RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each to RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

(ii) On 2 November 2007, the Company increased its issued and paid-up share capital through a bonus issue of 38,216,275 new ordinary shares of RM1.00 each in the Company on the basis of 1 bonus share for every 4 existing ordinary shares of RM1.00 each in the Company by way of capitalisation of the share premium account amounting to RM33,211,968 and retained earnings of RM5,004,307. The paid-up share capital (including treasury shares) of the Company was increased from RM153,550,600 to RM191,766,875 by the above bonus issue.

(iii) On 2 November 2007, following the completion of the bonus issue, the Company subdivided every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company. The enlarged issued and paid-up share capital (including treasury shares) of the Company comprising of 191,766,875 ordinary shares of RM1.00 each after the completion of the bonus issue was subdivided into 383,533,750 ordinary shares of RM0.50 each.

(b) Exercise of employees' share options

During the financial year, a total of 3,932,000 new ordinary shares of RM1.00 each was issued at RM1.28 and a total of 32,000 new ordinary shares of RM0.50 each was issued at RM0.51 for cash pursuant to the exercise of employees' share options scheme of the Company.

The details of options granted to subscribe for ordinary shares of RM1.00 each under the Company's ESOS, which remain outstanding at 31 December 2007, are disclosed in Note 24.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year. The Company has not issued any debentures during the financial year.

## Treasury shares

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

# Directors' report for the year ended 31 December 2007 (continued)

During the financial year, the Company repurchased 685,500 ordinary shares of RM1.00 each of its issued shares from the open market at an average price of RM6.81 per ordinary share. The total consideration paid for the repurchase including transaction costs was RM4,668,659 comprising of consideration paid amounting to RM4,643,430 and transaction costs of RM25,229. The repurchase transactions were fully financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965. On 2 November 2007, the Company subdivided its every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company.

Of the total 383,565,750 issued and fully paid ordinary shares of RM0.50 each as at 31 December 2007, 1,371,000 are held as treasury shares by the Company. The treasury shares are held at a carrying amount of RM4,668,659.

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

## Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the Employees' Share Option Scheme.

## Employees' share option scheme

In 2006, a new employees' share option scheme ("New ESOS Scheme") was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 26 June 2006. The former employees' share option scheme ("Former ESOS Scheme") which was previously established and approved by the shareholders of the Company at an EGM held on 21 June 2001, had expired on 2 August 2006. The expired Former ESOS Scheme was replaced by the approved New ESOS Scheme.

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

| ESOS Scheme | New ESOS Scheme (Granted in 2007) | New ESOS Scheme (Granted in 2006) | Former ESOS Scheme (Granted in 2001) |
|---|---|---|---|
| Date of offer | 3.8.2007 | 3.8.2006 | 3.8.2001 |
| Expiry date | 2.8.2011 | 2.8.2011 | 2.8.2006 |
| Number of options over ordinary shares: | | | |
| - before bonus issue and subdivision of ordinary shares (ordinary shares of RM1.00 each - unit) | 277,000 | 14,908,000 | 9,870,000 |
| - after bonus issue and subdivision of ordinary shares (ordinary shares of RM0.50 each - unit) * | 692,500 | 37,270,000 | N/A |

# Directors' report for the year ended 31 December 2007 (continued)

| ESOS Scheme (continued) | New ESOS Scheme (Granted in 2007) | New ESOS Scheme (Granted in 2006) | Former ESOS Scheme (Granted in 2001) |
|---|---|---|---|
| Exercise price: | | | |
| - before bonus issue and subdivision of ordinary shares (RM) | 9.00 | 1.28 | 1.00 |
| - after bonus issue and subdivision of ordinary shares (RM) * | 3.60 | 0.51 | N/A |

* The abovementioned bonus issue and subdivision of ordinary shares of the Company were completed on 2 November 2007.

The outstanding options at 31 December 2007 are as follows:

| | New ESOS Scheme 2007 |
|---|---|
| **Number of options over ordinary shares of RM1.00 each:** | |
| Outstanding at 1 January | 14,410,000 |
| Expired during the year | - |
| Granted during the year | - |
| Retracted/Forfeited during the year * | (290,000) |
| Exercised during the year | (3,932,000) |
| | 10,188,000 |
| Bonus issue | 2,547,000 |
| Outstanding at 2 November | 12,735,000 |
| Effect of share split to ordinary shares of RM0.50 each | 12,735,000 |
| **Number of options over ordinary shares of RM0.50 each:** | |
| Granted during the year | 692,500 |
| Retracted/Forfeited during the year * | (97,500) |
| Exercised during the year | (32,000) |
| Outstanding at 31 December | 26,033,000 |

* Due to non-acceptance and resignation

# Directors' report for the year ended 31 December 2007 (continued)

The main features of the New ESOS Scheme are as follows:

i) The maximum number of approved unissued new ordinary shares of RM1.00 each available for allotment under the New ESOS Scheme shall not exceed in aggregate fifteen per cent (15%) of the issued and paid-up share capital of Company at any point in time during the duration of the New ESOS Scheme;

ii) Save for Directors, the eligible employees are those confirmed full time employees of the Group and who have served for a continuous period of at least one (1) year and the employment must have been confirmed on the offer date;

iii) The ESOS Committee may at its sole and absolute discretion at any time and from time to time within the duration of the New ESOS Scheme as it shall deem fit make an offer to any eligible employee to subscribe for new ordinary shares in accordance with the terms of the New ESOS Scheme;

iv) The ESOS Committee may, at its absolute discretion, vary the exercise condition where the ESOS Committee considers it no longer appropriate. The ESOS Committee may impose an exercise condition that the options granted shall only be exercised in such proportions as shall be determined by the ESOS Committee and notified in writing to the grantee;

v) The option is personal to the grantee and cannot be assigned, transferred or otherwise disposed of in any manner whatsoever;

vi) A grantee shall be allowed to exercise the options granted to him/her subject to the following percentage limits based on his/her respective entitlement granted at the discretion of the ESOS Committee:

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

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

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

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this report the name of persons to whom options have been granted during the duration of the New ESOS Scheme and details of their holdings as required by Section 169(11) of the Companies Act, 1965 except for information on employees who were granted options representing 1,000,000 ordinary shares of RM0.50 each and above under the New ESOS Scheme.

# Directors' report for the year ended 31 December 2007 (continued)

The names of the option holders, other than the Directors of the Company, who were granted to subscribe for 1,000,000 ordinary shares of RM0.50 each and above, during the duration of the New ESOS Scheme are set out below:

| | Lee Poh Kwee | Chong Lai Keong | Tan Bin Tat | Tan Chin Guan | Mac Chung Jin |
|---|---|---|---|---|---|
| **Number of options over ordinary shares of RM1.00 each:** | | | | | |
| Balance at 1.1.2007 | 800,000 | 600,000 | 600,000 | 600,000 | 400,000 |
| Exercised | - | (200,000) | (200,000) | (200,000) | (134,000) |
| Bonus issue | 200,000 | 100,000 | 100,000 | 100,000 | 66,500 |
| Balance at 2.11.2007 | 1,000,000 | 500,000 | 500,000 | 500,000 | 332,500 |
| Effect of share split to ordinary shares of RM0.50 each | 1,000,000 | 500,000 | 500,000 | 500,000 | 332,500 |
| **Number of options over ordinary shares of RM0.50 each:** | | | | | |
| Balance at 31.12.2007 | 2,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 665,000 |

## Other statutory information

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) all current assets have been stated at the lower of cost and net realisable value.

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

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or

# Directors' report for the year ended 31 December 2007 (continued)

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 corporation in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## Significant events

(a) Alteration of authorised share capital, bonus issue and subdivision of shares

(i) On 2 November 2007, the authorised share capital of the Company was altered from RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each to RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

(ii) On 2 November 2007, the Company increased its issued and paid-up share capital through a bonus issue of 38,216,275 new ordinary shares of RM1.00 each in the Company on the basis of 1 bonus share for every 4 existing ordinary shares of RM1.00 each in the Company by way of capitalisation of the share premium account amounting to RM33,211,968 and retained earnings of RM5,004,307. The paid-up share capital (including treasury shares) was increased from RM153,550,600 to RM191,766,875 by the above bonus issue.

(iii) On 2 November 2007, following the completion of the bonus issue, the Company subdivided every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company. The enlarged issued and paid-up share capital (including treasury shares) of the Company comprising of 191,766,875 ordinary shares of RM1.00 each after the completion of the bonus issue was subdivided into 383,533,750 ordinary shares of RM0.50 each.

The approval for the listing and quotation of the bonus issue and subdivision of shares had been granted by the Securities Commission and Bursa Malaysia Securities Berhad vide the approval letters dated 3 August 2007 and 23 August 2007 respectively. The above proposals were approved by the shareholders at an Extraordinary General Meeting held on 19 September 2007.

# Directors' report for the year ended 31 December 2007 (continued)

These bonus issue and subdivision of shares were completed and quoted on the Bursa Malaysia Securities Berhad on 2 November 2007.

(b) Transfer of listing status of subsidiary company - Favelle Favco Berhad

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

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

## 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**

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

**Ooi Sen Eng**

Klang,

Date: 25 April 2008

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

In the opinion of the Directors, the financial statements set out on pages 61 to 167 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2007 and of the results of their operations and cash flows for the year ended on that date.

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

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

....................................................................
**Ooi Sen Eng**

Klang,

Date: 25 April 2008

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

I, **Lee Poh Kwee**, the officer primarily responsible for the financial management of Muhibbah Engineering (M) Bhd., do solemnly and sincerely declare that the financial statements set out on pages 61 to 167 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Klang on 25 April 2008.

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

Before me:

John Kalanjiam Chelliah @
Chelliah A/L Kalanjiam
Pesuruhjaya Sumpah Malaysia
(No. B218)

# Report of the auditors to the members of Muhibbah Engineering (M) Bhd.

We have audited the financial statements set out on pages 61 to 167. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion:

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:

   i) the state of affairs of the Group and of the Company at 31 December 2007 and of the results of their operations and cash flows for the year ended on that date; and

   ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

The subsidiaries in respect of which we have not acted as auditors are identified in Note 41 to the financial statements and we have considered their financial statements and, where audited, the auditors' reports thereon.

# Report of the auditors to the members of Muhibbah Engineering (M) Bhd. (continued)

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

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

**KPMG**
Firm Number: AF 0758
Chartered Accountants

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

Kuala Lumpur,

Date: 25 April 2008

# Balance sheets at 31 December 2007

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 3 | 330,391 | 275,840 | 115,350 | 92,438 |
| Prepaid lease payments | 4 | 32,105 | 33,706 | 19,690 | 21,318 |
| Investment properties | 5 | 586 | 635 | 33,688 | 34,088 |
| Investments in subsidiaries | 6 | - | - | 141,723 | 135,038 |
| Investments in associates | 7 | 107,631 | 120,966 | 8,424 | 18,106 |
| Other investments | 8 | 114 | 67 | 4 | 4 |
| Development costs | 9 | 3,127 | 5,561 | - | - |
| Other intangible assets | 10 | 852 | 1,103 | - | - |
| Deferred tax assets | 27 | 148 | 204 | - | - |
| Long term advances due from subsidiaries | 11 | - | - | - | 6,410 |
| Long term advance due from an associate | 12 | 10,000 | 10,000 | 10,000 | 10,000 |
| Land held for development | 13 | 6,028 | 6,775 | - | - |
| **Total non-current assets** | | 490,982 | 454,857 | 328,879 | 317,402 |
| Prepaid lease payments | 4 | 317 | 446 | 228 | 242 |
| Investments in joint ventures | 14 | 1,257 | 234 | - | - |
| Receivables, deposits and prepayments | 15 | 380,624 | 380,875 | 339,675 | 288,915 |
| Contract work-in-progress | 16 | 540,731 | 354,795 | 250,324 | 115,046 |
| Inventories | 17 | 159,895 | 124,938 | - | - |
| Current tax assets | | 3,239 | 5,069 | 5,342 | 10,428 |
| Cash and cash equivalents | 18 | 180,075 | 99,530 | 2,776 | 4,119 |
| **Total current assets** | | 1,266,138 | 965,887 | 598,345 | 418,750 |
| **Total assets** | | 1,757,120 | 1,420,744 | 927,224 | 736,152 |

# Balance sheets at 31 December 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Share capital | 19 | 191,783 | 149,618 | 191,783 | 149,618 |
| Reserves | 21 | 15,650 | 44,939 | 4,671 | 31,880 |
| Retained earnings | 22 | 183,699 | 126,880 | 95,973 | 69,479 |
| Treasury shares | 20 | (4,669) | - | (4,669) | - |
| **Total equity attributable to shareholders of the Company** | | 386,463 | 321,437 | 287,758 | 250,977 |
| **Minority interest** | 23 | 74,692 | 57,575 | - | - |
| **Total equity** | | 461,155 | 379,012 | 287,758 | 250,977 |
| **Liabilities** | | | | | |
| Advances from minority shareholders | 25 | 16,795 | 17,700 | - | - |
| Loans and borrowings | 26 | 92,508 | 86,581 | 38,893 | 11,387 |
| Deferred tax liabilities | 27 | 15,753 | 11,664 | - | 6,274 |
| **Total non-current liabilities** | | 125,056 | 115,945 | 38,893 | 17,661 |
| Payables and accruals | 28 | 434,567 | 364,260 | 235,862 | 193,645 |
| Amount due to contract customers | 16 | 157,464 | 114,322 | 10,065 | 7,575 |
| Bills payable | 29 | 431,914 | 252,763 | 296,521 | 157,129 |
| Loans and borrowings | 26 | 127,232 | 180,829 | 54,770 | 103,681 |
| Tax liabilities | | 10,811 | 6,702 | 1,079 | 4,159 |
| Provisions | 30 | 8,921 | 6,911 | 2,276 | 1,325 |
| **Total current liabilities** | | 1,170,909 | 925,787 | 600,573 | 467,514 |
| **Total liabilities** | | 1,295,965 | 1,041,732 | 639,466 | 485,175 |
| **Total equity and liabilities** | | 1,757,120 | 1,420,744 | 927,224 | 736,152 |

The notes on pages 31 to 129 are an integral part of these financial statements.

# Income statements for the year ended 31 December 2007

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Revenue** | | | | | |
| - contract revenue | | 1,284,761 | 968,619 | 523,862 | 382,126 |
| - sale of goods | | 88,012 | 71,889 | - | - |
| - services rendered | | 38,760 | 45,906 | - | - |
| - dividend income | | - | - | 39,231 | 35,569 |
| | | 1,411,533 | 1,086,414 | 563,093 | 417,695 |
| **Cost of sales** | | | | | |
| - contract costs | | (1,132,104) | (899,932) | (516,978) | (411,385) |
| - sale of goods | | (97,312) | (51,057) | - | - |
| - services rendered | | (22,873) | (24,982) | - | - |
| | | (1,252,289) | (975,971) | (516,978) | (411,385) |
| **Gross profit** | | 159,244 | 110,443 | 46,115 | 6,310 |
| Other income | | | | | |
| - exceptional items | 31 | - | - | - | 1,100 |
| - others | | 14,164 | 14,067 | 13,391 | 18,845 |
| | | 14,164 | 14,067 | 13,391 | 19,945 |
| Distribution costs | | (11,314) | (9,059) | (689) | (866) |
| Administrative expenses | | (58,589) | (55,361) | (8,896) | (8,458) |
| Other expenses | | | | | |
| - exceptional items | 31 | - | (8,766) | - | - |
| - others | | (18,217) | (9,929) | (16,842) | (3,464) |
| | | (18,217) | (18,695) | (16,842) | (3,464) |
| **Results from operating activities** | | 85,288 | 41,395 | 33,079 | 13,467 |

# Income statements for the year ended 31 December 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| Interest income | | 3,622 | 2,764 | 3,463 | 2,068 |
| Finance costs | | (13,611) | (11,488) | - | (26) |
| **Operating profit** | 31 | 75,299 | 32,671 | 36,542 | 15,509 |
| Share of profit after tax and minority interest of equity accounted associates | | 26,683 | 28,325 | - | - |
| Share of profit after tax of joint ventures | | 1,023 | 4,095 | - | - |
| **Profit before tax** | | 103,005 | 65,091 | 36,542 | 15,509 |
| Tax expense | 33 | (12,600) | (17,260) | 3,314 | (6,349) |
| **Profit for the year** | | 90,405 | 47,831 | 39,856 | 9,160 |
| **Attributable to:** | | | | | |
| Shareholders of the Company | | 70,180 | 33,800 | 39,856 | 9,160 |
| Minority interest | | 20,225 | 14,031 | - | - |
| **Profit for the year** | | 90,405 | 47,831 | 39,856 | 9,160 |
| **Dividends per ordinary share** | | | | | |
| - Gross (sen) | 34 | 4.50 | 7.50 | 4.50 | 7.50 |
| - Net (sen) | 34 | 3.33 | 5.48 | 3.33 | 5.48 |
| **Earnings per ordinary share (sen)*** | | | | | |
| - Basic | 35 | 18.62 | 9.17 | | |
| - Diluted | 35 | 17.65 | 8.98 | | |

* The comparative figures for earnings per ordinary share have been restated to account for the effect of bonus issue and subdivision of shares

The notes on pages 31 to 129 are an integral part of these financial statements.

# Consolidated statement of changes in equity for the year ended 31 December 2007

| | | *Attributable* | | | |
|---|---|---|---|---|---|
| | | *Non-distributable* | | | |
| **Group** | **Note** | **Share capital RM'000** | **Share premium RM'000** | **Investment revaluation reserve RM'000** | **Capitalisation of retained earnings RM'000** |
| **At 1 January 2006** | | 144,568 | 29,636 | 1,007 | 1,278 |
| Share options exercised | 24 | 5,050 | - | - | - |
| Share-based payments | | | | | |
| - Options vested | 24 | - | - | - | - |
| Dilution of interest and loss on offer for sale of ordinary shares arising from Initial Public Offer of subsidiary | 42 | - | - | - | - |
| Minority interest of subsidiary pursuant to Initial Public Offer | | - | - | - | - |
| Acquisition of minority interest | | - | - | - | - |
| Exchange differences on translation of the financial statements of foreign entities | | - | - | - | - |
| Profit for the year | | - | - | - | - |
| Dividends to shareholders | 34 | - | - | - | - |
| Dividends to minority interest | | - | - | - | - |
| At 31 December 2006 | | 149,618 | 29,636 | 1,007 | 1,278 |

| *to shareholders of the Company* | | | | | | |
|---|---|---|---|---|---|---|
| | | | *Distributable* | | | |
| **Capital reserve RM'000** | **Share option reserve RM'000** | **Translation reserve RM'000** | **Retained earnings RM'000** | **Total RM'000** | **Minority interest RM'000** | **Total equity RM'000** |
| 334 | - | 11,351 | 99,065 | 287,239 | 12,078 | 299,317 |
| - | - | - | - | 5,050 | - | 5,050 |
| - | 1,842 | - | - | 1,842 | - | 1,842 |
| - | - | - | - | - | 9,866 | 9,866 |
| - | - | - | - | - | 35,338 | 35,338 |
| - | - | - | - | - | (688) | (688) |
| - | - | (509) | - | (509) | 972 | 463 |
| - | - | - | 33,800 | 33,800 | 14,031 | 47,831 |
| - | - | - | (5,985) | (5,985) | - | (5,985) |
| - | - | - | - | - | (14,022) | (14,022) |
| 334 | 1,842 | 10,842 | 126,880 | 321,437 | 57,575 | 379,012 |

# Consolidated statement of changes in equity for the year ended 31 December 2007 (continued)

| | | Attributable | | | |
|---|---|---|---|---|---|
| | | Non-distributable | | | |
| Group | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Investment revaluation reserve RM'000 |
| **At 1 January 2007** | | 149,618 | - | 29,636 | 1,007 |
| Share options exercised | 24 | 3,949 | - | 1,101 | - |
| Share-based payments | 24 | | | | |
| - Options vested | | - | - | - | - |
| - Exercise of options | | - | - | 2,783 | - |
| Bonus issue | | 38,216 | - | (33,212) | - |
| Shares repurchased | 20 | - | (4,669) | - | - |
| Dilution of interest in subsidiary arising from issuance of shares pursuant to ESOS of the subsidiary | 42 | - | - | - | - |
| Acquisition of a subsidiary | 43 | - | - | - | - |
| Exchange differences on translation of the financial statements of foreign entities | | - | - | - | - |
| Profit for the year | | - | - | - | - |
| Dividends to shareholders | 34 | - | - | - | - |
| Dividends to minority interest | | - | - | - | - |
| At 31 December 2007 | | 191,783 | (4,669) | 308 | 1,007 |

le to shareholders of the Company

*Distributable*

| Capitalisation of retained earnings RM'000 | Capital reserve RM'000 | Share option reserve RM'000 | Translation reserve RM'000 | Retained earnings RM'000 | Total RM'000 | Minority interest RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|
| 1,278 | 334 | 1,842 | 10,842 | 126,880 | 321,437 | 57,575 | 379,012 |
| - | - | - | - | - | 5,050 | 1,296 | 6,346 |
| - | - | 5,688 | - | - | 5,688 | 556 | 6,244 |
| - | - | (2,783) | - | - | - | - | - |
| - | - | - | - | (5,004) | - | - | - |
| - | - | - | - | - | (4,669) | (13) | (4,682) |
| - | - | - | - | - | - | 276 | 276 |
| - | - | - | - | - | - | 6,516 | 6,516 |
| - | - | - | (2,866) | - | (2,866) | (494) | (3,360) |
| - | - | - | - | 70,180 | 70,180 | 20,225 | 90,405 |
| - | - | - | - | (8,357) | (8,357) | - | (8,357) |
| - | - | - | - | - | - | (11,245) | (11,245) |
| 1,278 | 334 | 4,747 | 7,976 | 183,699 | 386,463 | 74,692 | 461,155 |

# Consolidated statement of changes in equity for the year ended 31 December 2007 (continued)

| Company | Note | Share capital RM'000 | Non-distributable Treasury shares RM'000 | Share premium RM'000 |
|---|---|---|---|---|
| **At 1 January 2006** | | 144,568 | - | 29,636 |
| Share options exercised | 24 | 5,050 | - | - |
| Share-based payments - options vested | 24 | - | - | - |
| Exchange differences on translation of financial statements of foreign branches | | - | - | - |
| Profit for the year | | - | - | - |
| Dividends to shareholders | 34 | - | - | - |
| **At 31 December 2006** | | 149,618 | - | 29,636 |
| Share options exercised | 24 | 3,949 | - | 1,101 |
| Share-based payments | 24 | | | |
| - Options vested | | - | - | - |
| - Exercise of options | | - | - | 2,485 |
| Bonus issue | | 38,216 | - | (33,212) |
| Shares repurchased | 20 | - | (4,669) | - |
| Exchange differences on translation of financial statements of foreign branches | | - | - | - |
| Profit for the year | | - | - | - |
| Dividends to shareholders | 34 | - | - | - |
| **At 31 December 2007** | | 191,783 | (4,669) | 10 |

The notes on pages 31 to 129 are an integral part of these financial statements.

| | | | *Distributable* | |
|---|---|---|---|---|
| **Investment revaluation reserve RM'000** | **Share option reserve RM'000** | **Traslation reserve RM'000** | **Retained earnings RM'000** | **Total equity RM'000** |
| 764 | - | - | 66,304 | 241,272 |
| - | - | - | - | 5,050 |
| - | 1,385 | - | - | 1,385 |
| - | - | 95 | - | 95 |
| - | - | - | 9,160 | 9,160 |
| - | - | - | (5,985) | (5,985) |
| 764 | 1,385 | 95 | 69,479 | 250,977 |
| - | - | - | - | 5,050 |
| - | 4,935 | - | - | 4,935 |
| - | (2,485) | - | - | - |
| - | - | - | (5,004) | - |
| - | - | - | - | (4,669) |
| - | - | (34) | - | (34) |
| - | - | - | 39,856 | 39,856 |
| - | - | - | (8,357) | (8,357) |
| 764 | 3,835 | 61 | 95,974 | 287,758 |

# Cash flow statements for the year ended 31 December 2007

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Cash flows from operating activities** | | | | |
| Profit before tax | 103,005 | 65,091 | 36,542 | 15,509 |
| Adjustments for: | | | | |
| Allowance for doubtful debts | 2,070 | 6,122 | 14,896 | 3,665 |
| Allowance for slow moving inventories | 1,046 | 3,524 | - | - |
| Amortisation of development costs | 2,507 | 2,424 | - | - |
| Allowance for diminution in value of other investments | - | 156 | - | 120 |
| Allowance for doubtful debts written back | (660) | (5,070) | (642) | (4,075) |
| Amortisation of intellectual property | 251 | 251 | - | - |
| Amortisation of prepaid lease payments | 317 | 446 | 228 | 242 |
| Impairment of goodwill of associates | 605 | - | - | - |
| Bad debts written back | (250) | (41) | - | (41) |
| Bad debts written off | 14 | 81 | 14 | 54 |
| Depreciation of investment properties | 19 | 19 | 370 | 371 |
| Depreciation of property, plant and equipment | 20,832 | 16,148 | 1,240 | 2,597 |
| Development costs written off | - | 350 | - | - |
| Loss on dilution arising from exercise of ESOS of subsidiary | 276 | - | - | - |
| Dilution of interest in a subsidiary | - | 4,940 | - | - |
| Dividend income | - | - | (39,231) | (35,569) |
| Gain on disposal of property, plant and equipment | (2,725) | (7,014) | (2,004) | (9,755) |
| Gain on disposal of investment properties | (1) | - | (1) | - |
| Gain on disposal of prepaid lease payments | (1,012) | - | (1,012) | - |
| Goodwill arising from share buy back of subsidiary written off | 8 | - | - | - |
| Impairment loss on investments in associates | - | 472 | - | 77 |
| Finance costs | 13,611 | 11,488 | - | 26 |
| Interest income | (3,622) | (2,764) | (3,463) | (2,068) |
| Inventories written off | - | 210 | - | - |
| Investment in associate written off | - | 8 | - | 8 |
| Investment in subsidiary written off | - | - | 2,588 | - |
| Loss on disposal of associate | 122 | - | - | - |
| Loss on winding-up of subsidiary | 238 | - | - | - |
| Loss/(Gain) on offer for sale of ordinary shares of a subsidiary | - | 3,826 | - | (1,100) |
| Property, plant and equipment written off | - | 1,823 | - | - |
| Provision for warranty costs | 6,488 | 4,238 | 2,276 | 897 |
| Reversal of provision for warranty costs | (3,634) | (7,232) | (1,197) | (2,183) |
| Reversal of allowance for slow moving inventories | - | (978) | - | - |

# Cash flow statements for the year ended 31 December 2007 (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Reversal of impairment loss for investment in subsidiary | - | - | (1,500) | - |
| Reversal of allowance for diminution in value of other investments | (47) | - | - | - |
| Reversal of provision for restructuring costs | - | (748) | - | - |
| Reversal of impairment loss of property, plant and equipment | (214) | - | - | - |
| Share based payments | 3,423 | 1,170 | 2,670 | 713 |
| Share of profit of associates | (26,683) | (28,325) | - | - |
| Share of profit of joint ventures | (1,023) | (4,095) | - | - |
| Unrealised (gain)/loss on foreign exchange | (715) | 19 | (30) | - |
| Waiver of debt owing to a subsidiary | - | - | (2,824) | - |
| **Operating profit/(loss) before changes in working capital** | 114,246 | 66,539 | 8,920 | (30,512) |
| Receivables, deposits and prepayments | (143) | (102,452) | (57,268) | (9,578) |
| Contract work-in-progress | (142,788) | (26,890) | (92,245) | 19,823 |
| Inventories | (36,003) | (32,596) | - | - |
| Payables and accruals | 68,425 | 116,552 | 45,041 | 80,538 |
| Amount due to contract customers | 43,142 | 25,322 | 2,490 | 5,527 |
| Provisions | (936) | (4,841) | (127) | (928) |
| **Cash generated from/(used in) operations** | 45,943 | 41,634 | (93,189) | 64,870 |
| Income taxes paid | (5,561) | (6,097) | (4,773) | (4,911) |
| Tax refund | 10,360 | 1,932 | 10,012 | - |
| **Net cash generated from/(used in) operating activities** | 50,742 | 37,469 | (87,950) | 59,959 |

# Cash flow statements for the year ended 31 December 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Acquisition of an associate | | - | (244) | - | - |
| Acquisition of shares from minority interest | | (21) | (688) | - | (688) |
| Additions to prepaid lease payments | | - | (7,179) | - | - |
| Acquisition of a subsidiary, net cash inflow | | 125 | - | - | - |
| Acquisition of subsidiaries | | - | - | (543) | - |
| Development costs incurred | | - | (1,638) | - | - |
| Dividends received from: | | | | | |
| - subsidiaries | | - | - | 19,088 | 23,819 |
| - associates | | 23,290 | 14,202 | 14,100 | 7,350 |
| Interest received | | 3,622 | 2,764 | 3,463 | 2,068 |
| Increase in equity interest in subsidiaries | | - | - | - | (16,653) |
| Proceeds from disposal of shares | | - | 24,338 | - | 12,100 |
| Proceeds from disposal of associate | | 981 | - | 981 | - |
| Proceeds from disposal of property, plant and equipment | | 17,875 | 17,314 | 15,190 | 22,814 |
| Proceeds from disposal of prepaid lease payments | | 2,426 | - | 2,426 | - |
| Proceeds from disposal of investment properties | | 31 | - | 31 | - |
| Proceeds from disposal of land held for development | | 375 | - | - | - |
| Capital reduction of investments in joint ventures | | - | 3,029 | - | 3,029 |
| Purchase of property, plant and equipment | (i) | (89,428) | (51,801) | (50,834) | (36,132) |
| Proceeds from the offer for sale in the initial public offering of a subsidiary | | - | 12,100 | - | - |
| Purchase of investment properties | | - | - | - | (52) |
| Liquidation of a subsidiary, net cash outflow | | (234) | - | - | - |
| **Net cash (used in)/generated from investing activities** | | (40,958) | 12,197 | 3,902 | 17,655 |

# Cash flow statements for the year ended 31 December 2007 (continued)

| | Note | Group 2007 RM'000 | Group 2006 RM'000 | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from financing activities** | | | | | |
| Dividends paid to shareholders of the Company | | (8,357) | (5,985) | (8,357) | (5,985) |
| Dividends paid to minority interests | | (11,245) | (14,022) | - | - |
| Interest paid | | (40,884) | (24,566) | (27,272) | (13,014) |
| Payment of finance lease/hire purchase liabilities | | (666) | (4,133) | - | (3,654) |
| Proceeds from issuance of shares options | | 5,050 | 5,050 | 5,050 | 5,050 |
| Proceeds from issuance of shares to minority interest of a subsidiary | | 1,296 | - | - | - |
| Proceeds from term loans | | 40,074 | 66,200 | 40,074 | (4,650) |
| Repayment of term loans | | (29,307) | (26,879) | (10,193) | - |
| Net repayment of revolving credits | | (43,179) | (18,191) | (36,000) | (18,750) |
| Net proceeds/(repayment) of bankers' acceptances | | 179,151 | (61,420) | 139,392 | (63,089) |
| Purchase of treasury shares | | (4,669) | - | (4,669) | - |
| Repayment of loan from minority interests | | - | (506) | - | - |
| **Net cash generated from/(used in) financing activities** | | 87,264 | (84,452) | 98,025 | (104,092) |
| **Exchange differences on translation of the financial statements of foreign operations** | | (1,054) | 3,008 | (34) | (43) |
| **Net increase/(decrease) in cash and cash equivalents** | | 95,994 | (31,778) | 13,943 | (26,521) |
| **Cash and cash equivalents at beginning of year** | | 53,245 | 85,023 | (19,666) | 6,855 |
| **Cash and cash equivalents at end of year** | (ii) | 149,239 | 53,245 | (5,723) | (19,666) |

# Cash flow statements for the year ended 31 December 2007 (continued)

***(i) Purchase of property, plant and equipment***

During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM90,285,000 (2006 - RM54,117,000) and RM50,834,000 (2006 - RM37,252,000) respectively, of which RM857,000 (2006 - RM2,316,000) of the Group and Nil (2006 - RM1,120,000) of the Company was acquired by means of hire purchases/finance leases.

***(ii) Cash and cash equivalents***

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Cash and bank balances | 18 | 87,870 | 55,866 | 2,019 | 3,362 |
| Deposits placed with licensed banks | 18 | 92,205 | 43,664 | 757 | 757 |
| Bank overdrafts | 26 | (30,836) | (46,285) | (8,499) | (23,785) |
| | | 149,239 | 53,245 | (5,723) | (19,666) |

# Notes to the financial statements

Muhibbah Engineering (M) Bhd. 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 follows:

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

The consolidated financial statements as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint venture. The financial statements of the Company as at and for the year ended 31 December 2007 do not include other entities.

The Company is principally engaged in investment holding, infrastructure, civil and structural engineering contract works which include the construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals and facility support buildings, heavy concrete foundations and other similar construction works. The principal activities of its subsidiaries are as stated in Note 41.

The financial statements were approved by the Board of Directors on 25 April 2008.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in compliance with applicable approved Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board ("MASB"), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965.

The MASB has issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2007, and that have not been applied in preparing these financial statements.

| FRSs/Interpretations | Effective date |
|---|---|
| FRS 107, *Cash Flow Statements* | 1 July 2007 |
| FRS 111, *Construction Contracts* | 1 July 2007 |
| FRS 112, *Income Taxes* | 1 July 2007 |
| FRS 118, *Revenue* | 1 July 2007 |
| FRS 119, *Employee Benefits* | 1 July 2007 |
| FRS 120, *Accounting for Government Grants and Disclosure of Government Assistance* | 1 July 2007 |
| Amendment to FRS 121, *The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation* | 1 July 2007 |
| FRS 126, *Accounting and Reporting by Retirement Benefit Plans* | 1 July 2007 |

# Notes to the financial statements (continued)

## 1. Basis of preparation (continued)

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

| **FRSs/Interpretations** | **Effective date** |
|---|---|
| FRS 129, *Financial Reporting in Hyperinflationary Economies* | 1 July 2007 |
| FRS 134, *Interim Financial Reporting* | 1 July 2007 |
| FRS 137, *Provisions, Contingent Liabilities and Contingent Assets* | 1 July 2007 |
| FRS 139, *Financial Instruments: Recognition and Measurement* | To be announced |
| IC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities* | 1 July 2007 |
| IC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments* | 1 July 2007 |
| IC Interpretation 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* | 1 July 2007 |
| IC Interpretation 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | 1 July 2007 |
| IC Interpretation 7, *Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies* | 1 July 2007 |
| IC Interpretation 8, *Scope of FRS 2* | 1 July 2007 |

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

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

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

The Group has not recognised the potential deferred tax benefits arising from unutilised reinvestment allowances. The impact of the adoption of FRS 112 with regards to the reinvestment allowances to be claimed in respect of the financial year ending 31 December 2008 is also presently not quantifiable. The evaluation to ascertain the impact of adopting the amended FRS 112 on the financial statements shall be performed in the forthcoming financial year in which the standard shall take effect.

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

# Notes to the financial statements (continued)

## 1. Basis of preparation (continued)

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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 those disclosed in the following notes:

- Note 10 - impairment test of intangible assets
- Note 24 - recognition of share-based payments
- Note 30 - recognition of provisions

## 2. Significant accounting policies

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

**(a) Basis of consolidation**

***(i) Subsidiaries***

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the 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.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *(i) Subsidiaries (continued)*

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

#### *(ii) Minority interests*

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

#### *(iii) 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 income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

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

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *(iv) Joint ventures - Jointly-controlled entities*

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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

When the Group's share of losses exceeds its interest in an equity accounted joint venture, 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 joint venture.

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

#### *(v) Changes in Group composition*

Where a subsidiary issues new equity shares to minority interests for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority interests for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition accounting method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

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

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

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (a) Basis of consolidation (continued)

#### *(vi) Transactions eliminated on consolidation (continued)*

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

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

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

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

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

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

#### *(iii) Derivative financial instruments*

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

Derivative financial instruments such as foreign exchange contracts are used as hedges to manage operational exposures to foreign exchange risks. The Group does not hold derivative instruments for trading purposes.

The difference between the forward exchange contracts and the prevailing exchange rates would be recognised in the income statements upon realisation of receipts or payments, or upon maturity, whichever is earlier.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (c) Property, plant and equipment

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

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

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

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When 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 operating expenses" respectively in the income statements.

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

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

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

#### *(iii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

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

#### *(iv) Depreciation*

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

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

| | |
|---|---|
| Drydock and slipway | 45 years |
| Cranes | 10 - 15 years |
| Plant and equipment | 3 - 20 years |
| Motor vehicles | 5 years |

Buildings are depreciated on a straight-line basis over the shorter of 50 years or the lease period.

The depreciable amount is determined after deducting the residual value.

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

### (d) 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, except for property interest held under operating lease, the leased assets are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (d) Leased assets (continued)

*(ii) Operating lease (continued)*

Payments made under operating leases are recognised in the income statements on a straight-line basis over the term of the lease.

### (e) Investment properties

***Investment properties carried at cost***

Investment properties are properties which are owned or held 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 accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy note 2(c).

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

Depreciation for buildings is charged to the income statement on a straight-line basis over the shorter of 50 years or the lease period. Freehold land is not depreciated.

### (f) Investments in equity securities

Investments in equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition, the investments in non-current equity securities other than investments in subsidiaries, associates and jointly-controlled entities, are stated at cost less allowance for diminution in value.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities other than investment in subsidiaries, associates and jointly-controlled entities, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

### (g) Intangible assets

***(i) Goodwill***

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (g) Intangible assets (continued)

#### *(i) Goodwill (continued)*

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

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

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

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

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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

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

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

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

Capitalised development expenditure is amortised from the date that they are available for use and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (g) Intangible assets (continued)

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

Capitalised development expenditure is amortised and recognised as an expense over five to eight years.

#### *(iii) Intellectual property*

Intellectual property consists of rights to trade name, know how and industrial property rights and is stated at cost less accumulated amortisation and impairment losses. Intellectual property is amortised from the date that they are available for use and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised.

Intellectual property is amortised and recognised as an expense over ten years.

#### *(iv) Other intangible assets*

Expenditure on internally generated goodwill is recognised in the income statement as an expense as incurred.

#### *(v) 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.

### (h) Land held for development

Land held for development consists of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within non-current assets and is stated at cost less any accumulated impairment losses.

Cost associated with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Land held for development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

### (i) Inventories

Inventories comprise cranes, raw materials, crane components, work-in-progress, manufactured and trading inventories and are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis, other than the cost of assembled cranes which is determined on specific identification basis, includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (i) Inventories (continued)

Cost of assembled cranes, work-in-progress and manufactured inventories consists of raw materials or component parts, direct labour and an appropriate proportion of fixed and variable production overheads.

Cost of raw materials, crane components and trading inventories comprises the original purchase price plus incidentals in bringing these inventories to their present location and condition.

Included in inventories are cranes for rental which are written down to net realisable value determined by age of the inventories. All expenditure on maintenance of these cranes are expensed to the income statement as incurred.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (j) Receivables

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

Trade receivables, other receivables and amount due from subsidiaries, associates, joint ventures are stated at cost less allowance for doubtful debts.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts. Bad debts are written off in the year in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at year end.

Receivables are not held for the purpose of trading.

### (k) Contract work-in-progress/Amount due to contract customers

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

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

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

### (l) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (m) Impairment of assets

The carrying amounts of assets except for inventories, assets arising from construction contracts, deferred tax assets and financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). 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 if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statements. 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 statements in the year in which the reversals are recognised.

### (n) Share capital

#### *(i) Share issue expenses*

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

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

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

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (o) 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.

### (p) 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 Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

#### *(ii) Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

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

### (q) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (q) Provisions (continued)

#### *(i) Warranties*

Provision for warranties for construction contracts and manufacture of cranes is made based on a historical warranty data and a weighting of all possible outcomes against the associated probability of further costs being incurred on the completed projects where defect liability periods have commenced.

#### *(ii) Restructuring*

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

#### *(iii) Contingent liabilities*

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

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

#### *(iv) Claims and legal expenses*

Provision for claims and legal expenses is made based on an estimate of total claims and legal expenses likely to be incurred.

### (r) 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.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (s) Revenue

#### *(i) Contracts*

Revenue from long term fixed price construction contracts, manufacture of cranes, ship building, steel fabrication and other engineering works is recognised on the percentage of completion method and in proportion to the stage of completion of the contracts.

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.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on a contract is recognised immediately in the income statement.

#### *(ii) Goods sold and services rendered*

Revenue from sale of goods, trading of crane inventories and crane components and marine supplies is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from ship repair and other services rendered, which are of short term nature, is recognised in the income statement upon the completion of the repairs or services. Where the outcome of the transactions cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *(iii) Rental income*

Rental income from investment property is recognised in the income statement as it accrues over the term of the lease.

Revenue from rental of cranes and vessels is recognised in the income statement as it accrues.

#### *(iv) Dividend income*

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

### (t) Lease payments

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

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (t) Lease payments (continued)

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.

### (u) 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 except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

### (v) Tax expense

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised 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.

# Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

### (v) Tax expense (continued)

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

### (w) 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 includes share options granted to employees.

### (x) Segment reporting

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

# Notes to the financial statements (continued)

## 3. Property, plant and equipment

| *Group* | Freehold land RM'000 | Buildings RM'000 | Drydock and slipway RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| At 1 January 2006 | 20,649 | 113,764 | 45,368 | 83,683 | 246,139 | 477 | 510,080 |
| Transfer to investment properties | (158) | (940) | - | - | - | - | (1,098) |
| Additions | - | 784 | - | 18,218 | 25,145 | 9,970 | 54,117 |
| Disposals | - | - | - | (9,462) | (19,224) | - | (28,686) |
| Written off | (1,160) | - | - | (59) | (704) | - | (1,923) |
| Exchange differences | 7 | 594 | - | 1,594 | 1,907 | - | 4,102 |
| At 31 December 2006/ 1 January 2007 | 19,338 | 114,202 | 45,368 | 93,974 | 253,263 | 10,447 | 536,592 |
| Additions | - | 1,122 | - | 29,233 | 59,892 | 38 | 90,285 |
| Acquisition of subsidiary | - | - | - | - | 31,752 | - | 31,752 |
| Disposals | - | (2,663) | - | (8,143) | (16,751) | (2,825) | (30,382) |
| Exchange differences | 8 | 584 | - | 1,561 | 1,022 | - | 3,175 |
| Reclassification | - | 477 | - | - | 38 | (515) | - |
| At 31 December 2007 | 19,346 | 113,722 | 45,368 | 116,625 | 329,216 | 7,145 | 631,422 |

# Notes to the financial statements (continued)

## 3. Property, plant and equipment (continued)

| *Group* | Freehold land RM'000 | Buildings RM'000 | Drydock and slipway RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| ***Accumulated depreciation and impairment losses*** | | | | | | | |
| At 1 January 2006 | | | | | | | |
| Accumulated depreciation | - | 26,704 | 6,962 | 41,177 | 170,567 | - | 245,410 |
| Accumulated impairment losses | - | 1,494 | - | 536 | 1,654 | - | 3,684 |
| | - | 28,198 | 6,962 | 41,713 | 172,221 | - | 249,094 |
| Transfer to investment properties | - | (444) | - | - | - | - | (444) |
| Depreciation for the year | - | 3,040 | 1,018 | 6,452 | 17,106 | - | 27,616 |
| Disposals | - | - | - | (2,751) | (15,635) | - | (18,386) |
| Written off | - | - | - | (57) | (43) | - | (100) |
| Exchange differences | - | 434 | - | 1,087 | 1,451 | - | 2,972 |
| Accumulated depreciation | - | 29,734 | 7,980 | 45,908 | 173,446 | - | 257,068 |
| Accumulated impairment losses | - | 1,494 | - | 536 | 1,654 | - | 3,684 |
| At 31 December 2006 | - | 31,228 | 7,980 | 46,444 | 175,100 | - | 260,752 |
| Depreciation for the year | - | 2,444 | 1,019 | 7,272 | 23,708 | - | 34,443 |
| Acquisition of subsidiary | - | - | - | - | 19,088 | - | 19,088 |
| Disposals | - | (746) | - | (3,105) | (11,381) | - | (15,232) |
| Exchange differences | - | 450 | - | 1,049 | 695 | - | 2,194 |
| Reversal of impairment losses | - | - | - | - | (214) | - | (214) |
| Accumulated depreciation | - | 31,882 | 8,999 | 51,124 | 205,556 | - | 297,561 |
| Accumulated impairment losses | - | 1,494 | - | 536 | 1,440 | - | 3,470 |
| At 31 December 2007 | - | 33,376 | 8,999 | 51,660 | 206,996 | - | 301,031 |

# Notes to the financial statements (continued)

## 3. Property, plant and equipment (continued)

| *Group* | Freehold land RM'000 | Buildings RM'000 | Drydock and slipway RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| ***Carrying amounts*** | | | | | | | |
| At 1 January 2006 | 20,649 | 85,566 | 38,406 | 41,970 | 73,918 | 477 | 260,986 |
| At 31 December 2006 | 19,338 | 82,974 | 37,388 | 47,530 | 78,163 | 10,447 | 275,840 |
| At 31 December 2007 | 19,346 | 80,346 | 36,369 | 64,965 | 122,220 | 7,145 | 330,391 |

# Notes to the financial statements (continued)

## 3. Property, plant and equipment (continued)

| *Company* | Freehold land RM'000 | Buildings RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| At 1 January 2006 | 21,441 | 30,962 | 41,855 | 153,519 | - | 247,777 |
| Transfer to investment properties | (18,805) | (18,475) | - | - | - | (37,280) |
| Additions | - | - | 14,312 | 12,970 | 9,970 | 37,252 |
| Disposals | - | - | (3,154) | (23,301) | - | (26,455) |
| Exchange differences | - | - | - | 147 | - | 147 |
| At 31 December 2006/ 1 January 2007 | 2,636 | 12,487 | 53,013 | 143,335 | 9,970 | 221,441 |
| Additions | - | - | 25,479 | 25,355 | - | 50,834 |
| Disposals | - | (2,663) | (8,143) | (11,190) | (2,825) | (24,821) |
| At 31 December 2007 | 2,636 | 9,824 | 70,349 | 157,500 | 7,145 | 247,454 |

# Notes to the financial statements (continued)

## 3. Property, plant and equipment (continued)

| *Company* | Freehold land RM'000 | Buildings RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| ***Accumulated depreciation*** | | | | | | |
| At 1 January 2006 | - | 5,195 | 18,260 | 108,055 | - | 131,510 |
| Transfer to investment properties | - | (2,873) | - | - | - | (2,873) |
| Depreciation for the year | - | 250 | 3,217 | 10,286 | - | 13,753 |
| Disposals | - | - | (714) | (12,682) | - | (13,396) |
| Exchange differences | - | - | - | 9 | - | 9 |
| At 31 December 2006/ 1 January 2007 | - | 2,572 | 20,763 | 105,668 | - | 129,003 |
| Depreciation for the year | - | 196 | 4,393 | 10,147 | - | 14,736 |
| Disposals | - | (746) | (3,105) | (7,784) | - | (11,635) |
| At 31 December 2007 | - | 2,022 | 22,051 | 108,031 | - | 132,104 |
| ***Carrying amounts*** | | | | | | |
| At 1 January 2006 | 21,441 | 25,767 | 23,595 | 45,464 | - | 116,267 |
| At 31 December 2006 | 2,636 | 9,915 | 32,250 | 37,667 | 9,970 | 92,438 |
| At 31 December 2007 | 2,636 | 7,802 | 48,298 | 49,469 | 7,145 | 115,350 |

# Notes to the financial statements (continued)

## 3. Property, plant and equipment (continued)

Depreciation charge for the year is allocated as follows:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Income statement | 31 | 20,832 | 16,148 | 1,240 | 2,597 |
| Contract costs | 16 | 13,611 | 11,468 | 13,496 | 11,156 |
| | | 34,443 | 27,616 | 14,736 | 13,753 |

***Security***

*a) Company*

At 31 December 2007, certain plant and machinery of the Company with a carrying amount of RM6,259,000 (2006 - RM9,085,000) have been pledged to a licensed bank as security for term loan facility granted to the Company (Note 26).

*b) Group*

At 31 December 2007, the freehold land, buildings, certain plant and equipment of the Group with a total carrying amount of RM38,010,000 (2006 - RM41,123,000) have been pledged to certain licensed banks as security for term loan and bank overdraft facilities granted to the Group (Note 26).

***Assets under hire purchase***

Included in property, plant and equipment of the Group are plant, equipment and motor vehicles acquired under hire purchase arrangements with a carrying amount of RM3,327,000 (2006 - RM2,766,000).

# Notes to the financial statements (continued)

## 4. Prepaid lease payments

| Group | Note | Leasehold land<br>Unexpired period less than 50 years<br>RM'000 | Leasehold land<br>Unexpired period more than 50 years<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| At 1 January 2006 | | 8,630 | 29,228 | 37,858 |
| Extension of leasehold period to more than 50 years | | (5,423) | 5,423 | - |
| Additions | | 401 | 6,778 | 7,179 |
| Transfer to land held for development | 13 | - | (8,188) | (8,188) |
| Exchange differences | | - | (574) | (574) |
| At 31 December 2006/1 January 2007 | | 3,608 | 32,667 | 36,275 |
| Disposals | | (2,095) | - | (2,095) |
| At 31 December 2007 | | 1,513 | 32,667 | 34,180 |
| **Accumulated amortisation** | | | | |
| At 1 January 2006 | | 982 | 2,074 | 3,056 |
| Extension of leasehold period to more than 50 years | | (183) | 183 | - |
| Amortisation for the year | 31 | 83 | 363 | 446 |
| Transfer to land held for development | 13 | - | (1,413) | (1,413) |
| Exchange differences | | - | 34 | 34 |
| At 31 December 2006/1 January 2007 | | 882 | 1,241 | 2,123 |
| Amortisation for the year | 31 | 40 | 277 | 317 |
| Disposal | | (682) | - | (682) |
| At 31 December 2007 | | 240 | 1,518 | 1,758 |
| **Carrying amounts** | | | | |
| **Current** | | 83 | 363 | 446 |
| **Non-current** | | 2,643 | 31,063 | 33,706 |
| At 31 December 2006/1 January 2007 | | 2,726 | 31,426 | 34,152 |
| **Current** | | 40 | 277 | 317 |
| **Non-current** | | 1,233 | 30,872 | 32,105 |
| At 31 December 2007 | | 1,273 | 31,149 | 32,422 |

# Notes to the financial statements (continued)

## 4. Prepaid lease payments (continued)

| Company | Note | Leasehold land<br>Unexpired period less than 50 years<br>RM'000 | Leasehold land<br>Unexpired period more than 50 years<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| *Cost* | | | | |
| At 1 January 2006/31 December 2006/ 1 January 2007 | | 3,195 | 20,098 | 23,293 |
| Disposal | | (2,095) | - | (2,095) |
| At 31 December 2007 | | 1,100 | 20,098 | 21,198 |
| **Accumulated amortisation** | | | | |
| At 1 January 2006 | | 690 | 801 | 1,491 |
| Amortisation for the year | 31 | 76 | 166 | 242 |
| At 31 December 2006/1 January 2007 | | 766 | 967 | 1,733 |
| Amortisation for the year | 31 | 28 | 200 | 228 |
| Disposal | | (681) | - | (681) |
| At 31 December 2007 | | 113 | 1,167 | 1,280 |
| **Carrying amounts** | | | | |
| **Current** | | 76 | 166 | 242 |
| **Non-current** | | 2,353 | 18,965 | 21,318 |
| At 31 December 2006 | | 2,429 | 19,131 | 21,560 |
| **Current** | | 28 | 200 | 228 |
| **Non-current** | | 959 | 18,731 | 19,690 |
| At 31 December 2007 | | 987 | 18,931 | 19,918 |

***Extension of leasehold period***

During the year ended 31 December 2006, the leasehold period of a piece of leasehold land registered under the name of a subsidiary was extended from the remaining 32 years to 99 years.

# Notes to the financial statements (continued)

## 4. Prepaid lease payments (continued)

***Security***

*a) Company*

At 31 December 2007, two pieces of long term leasehold land of the Company with a carrying amount of RM15,610,000 (2006 - RM15,775,000) have been pledged to a licensed bank as security for term loan facility granted to the Company (Note 26).

At 31 December 2007, a piece of short term leasehold land of the Company with a carrying amount of RM987,000 (2006 - RM1,015,000) has been pledged to a licensed bank as security for term loan facility granted to a subsidiary (Note 26).

*b) Group*

At 31 December 2007, the short term and long term leasehold land of the Group with a total carrying amount of RM23,665,000 (2006 - RM23,931,000) have been pledged to certain licensed banks as security for term loan facilities granted to the Group (Note 26).

## 5. Investment properties

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Cost** | | | | | |
| At 1 January | | 1,098 | - | 37,332 | - |
| Transfer from property, plant and equipment | | - | 1,098 | - | 37,280 |
| Additions | | - | - | - | 52 |
| Disposal | | (41) | - | (41) | - |
| At 31 December | | 1,057 | 1,098 | 37,291 | 37,332 |
| **Accumulated depreciation** | | | | | |
| At 1 January | | 463 | - | 3,244 | - |
| Transfer from property, plant and equipment | | - | 444 | - | 2,873 |
| Depreciation for the year | 31 | 19 | 19 | 370 | 371 |
| Disposal | | (11) | - | (11) | - |
| At 31 December | | 471 | 463 | 3,603 | 3,244 |
| **Carrying amounts** | | | | | |
| At 31 December | | 586 | 635 | 33,688 | 34,088 |
| Included in the above are: | | | | | |
| Freehold land | | 158 | 158 | 18,805 | 18,805 |
| Buildings | | 428 | 477 | 14,883 | 15,283 |
| | | 586 | 635 | 33,688 | 34,088 |

# Notes to the financial statements (continued)

## 5. Investment properties (continued)

Investment properties comprise a number of commercial properties that are leased to third parties. Certain investment properties of the Company were leased to companies within the Group for their respective own use and accordingly classified as property, plant and equipment in the consolidated balance sheet.

Investment properties of the Company comprise a number of staff apartments, office premises and factory buildings that are leased to subsidiaries. Also, included in the investment properties of the Company are a number of commercial properties that are leased to third parties.

***Market value***

The market value of the investment properties presented on aggregated basis, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Market value of investment properties - aggregate basis | 1,425 | 1,531 | 49,568 | 49,674 |
| | ===== | ===== | ===== | ===== |

The market value of the investment properties of the Group and of the Company was derived at by reference to market indication of transaction prices for similar properties within the same/ adjacent location.

The Directors estimated the fair values of the Group's investment properties without involvement of independent valuers.

## 6. Investments in subsidiaries

| | | Company | |
|---|---|---|---|
| | | 2007 RM'000 | 2006 RM'000 |
| Ordinary shares | | | |
| Quoted shares - in Malaysia | | 49,000 | 49,000 |
| Unquoted shares | | | |
| - at Directors' valuation in 1982 | (a) | 4,604 | 4,604 |
| - at cost | | 106,470 | 107,535 |
| Cumulative redeemable convertible preference shares, at cost | (b) | 1,800 | 1,800 |
| Non-Cumulative non-convertible redeemable preference shares, at cost | (c) | 6,250 | - |
| | | 168,124 | 162,939 |

# Notes to the financial statements (continued)

## 6. Investments in subsidiaries (continued)

| | Company | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Less: Impairment losses | (26,401) | (27,901) |
| | 141,723 | 135,038 |
| Market value | | |
| Quoted investment of a subsidiary in Malaysia | 156,800 | 78,400 |

(a) The Directors revalued the investment in a subsidiary up to the par value of the bonus shares received from the subsidiary in 1982.

(b) The cumulative redeemable convertible preference shares are held in a subsidiary and shall be redeemable at any time after 30 June 2008, at the discretion of the directors of the subsidiary. The cumulative redeemable convertible preference shares do not carry a right to vote and the subsidiary is obligated to pay cumulative preferential dividends of not less than 5% per annum of the issue price.

(c) On 12 December 2007, the Company subscribed for ordinary shares in an associate, resulting in the change of status from an investment in associate to an investment in subsidiary. Accordingly, the existing non-cumulative non-convertible redeemable preference shares of the subject associate have been reclassified to investment in subsidiary. As approved by the members of the associate via an Extraordinary General Meeting held on 12 December 2007, the redemption period of the non-cumulative non-convertible redeemable preference shares have been extended and shall be entitled from time to time and at any time not later than 31 December 2012 at the discretion of the directors of the subsidiary to redeem the whole or any part of the subject preference shares. These non-cumulative non-convertible redeemable preference shares do not carry a right to vote and do not entitle to any preferential dividends.

Details of the subsidiaries are shown in Note 41.

# Notes to the financial statements (continued)

## 7. Investments in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ordinary shares | | | | |
| Unquoted shares | | | | |
| - At cost | 58,289 | 62,312 | 9,136 | 12,568 |
| - Share of post-acquisition reserves | 50,449 | 53,511 | - | - |
| Non-cumulative non-convertible redeemable preference shares, at cost | - | 6,250 | - | 6,250 |
| | 108,738 | 122,073 | 9,136 | 18,818 |
| Less: Impairment losses | (1,107) | (1,107) | (712) | (712) |
| | 107,631 | 120,966 | 8,424 | 18,106 |
| | ====== | ====== | ===== | ===== |

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Represented by: | | |
| Group's share of net assets | 94,860 | 106,708 |
| Goodwill on acquisition of associates | 12,771 | 14,258 |
| | 107,631 | 120,966 |
| | ====== | ====== |

In 2006, the non-cumulative non-convertible redeemable preference shares represented interest held in an associate. The non-cumulative non-convertible redeemable preference shares do not carry a right to vote and do not entitle to any preferential dividends. These non-cumulative non-convertible redeemable preference shares are redeemable after 31 December 2007 at the discretion of the directors of the associate. These non-cumulative non-convertible preference shares have been reclassified to investment in subsidiary as mentioned in Note 6.

# Notes to the financial statements (continued)

## 7. Investments in associates (continued)

***Summary financial information of associates - aggregate***

The summarised financial information of the associates, in aggregate, is as follows:

| | Associates | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| ***Assets and liabilities*** | | |
| Non current assets | 402,634 | 388,382 |
| Current assets | 278,655 | 259,334 |
| Total assets | 681,289 | 647,716 |
| Non current liabilities | 77,570 | 93,403 |
| Current liabilities | 285,053 | 225,665 |
| Total liabilities | 362,623 | 319,068 |
| ***Results*** | | |
| Revenue | 509,860 | 519,865 |
| Net profit for the year | 114,941 | 134,416 |

Details of the associates are as follows:

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | Effective ownership interest 2006 % |
|---|---|---|---|---|
| ***Concession segment*** | | | | |
| Roadcare (M) Sdn. Bhd.* | Operation and maintenance of roadways and bridges | Malaysia | 21 | 21 |
| Societe Concessionaire de l' Aeroport # | Operator and concessionaire of airports in Cambodia | Cambodia | 21 | 21 |
| Cambodia Airport Management Services Limited## | Provision of airport management services | Cambodia | 21 | 21 |

# Notes to the financial statements (continued)

## 7. Investments in associates (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | Effective ownership interest 2006 % |
|---|---|---|---|---|
| ***Infrastructure construction segment*** | | | | |
| Freyssinet PSC (M) Sdn. Bhd.* | Specialised engineering works for the construction of pre-stressed concrete structures under contracts and sale of related materials | Malaysia | 50 | 50 |
| Muhibbah Engineering (Cambodia) Co. Ltd.* | Undertaking construction and road projects, quarry business and trading of non-carbon required papers and aluminium foil | Cambodia | 49 | 49 |
| Sun Vibrant Sdn. Bhd.* (a) | Provision of machinery and equipment hiring services | Malaysia | - | 49 |
| Bsmart Technology Sdn. Bhd. * and its subsidiary (b) | Sale of car theft prevention system | Malaysia | - | 40.6 |
| Bsmart Solutions (M) Sdn. Bhd. * (b) | Design and installation of computer network and related services | Malaysia | - | 40.6 |
| Muhibbah Emirates Contracting LLC### | Dormant | Dubai, United Arab Emirates | 49 | 49 |
| Muhibbah Engineering and Contracting Gulf WLL ### | Dormant | Bahrain | 49 | 49 |
| MEB (Thailand) Co, Ltd* | Dormant | Thailand | 40 | 40 |

# Notes to the financial statements (continued)

## 7. Investments in associates (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | 2006 % |
|---|---|---|---|---|
| ***Cranes segment*** | | | | |
| Favco Offshores Sdn. Bhd #### (c) | Designing, manufacturing, supply, servicing, trading and renting of cranes and marine plant and undertaking other engineering works | Malaysia | 17.3 | 17.5 |
| Favelle Favco Machinery and Equipment LLC##### (c) | Import and trade of building and construction machinery, equipment and spare parts, trade of handling, loading and unloading equipment and rental of construction and building equipment | Abu Dhabi, United Arab Emirates | 28.2 | 28.6 |

(a) On 12 December 2007, the Company subscribed for an additional new issue of 82,000 ordinary shares of RM1.00 in Sun Vibrant Sdn. Bhd. resulting in the change of status from an investment in associate to an investment in subsidiary.

(b) On 4 June 2007, the Company disposed its entire equity interest in Bsmart Technology Sdn. Bhd. and its subsidiary, Bsmart Solutions (M) Sdn. Bhd.

(c) As at 31 December 2007, the equity interest of the Company in Favco Offshores Sdn. Bhd. and Favelle Favco Machinery and Equipment LLC was diluted pursuant to the exercise of share options of Favelle Favco Berhad by eligible employees.

The financial year end of all the associates is 31 December.

The investment in Freyssinet PSC (M) Sdn. Bhd., Muhibbah Emirates Contracting LLC and Muhibbah Engineering and Contracting Gulf WLL has been equity accounted for based on the unaudited management financial statements of the associates for the year ended 31 December 2007.

* Associates not audited by KPMG.

\# Societe Concessionaire de l' Aeroport (audited by another firm of auditors) is an associate of Muhibbah Masteron Cambodia JV Limited, which is a subsidiary of Muhibbah Engineering (M) Bhd.

# Notes to the financial statements (continued)

## 7. Investments in associates (continued)

## Cambodia Airport Management Services Limited (audited by a member firm of KPMG International) is an associate of Muhibbah Airport Services (Labuan) Ltd., which is a subsidiary of Muhibbah Engineering (M) Bhd.

### Muhibbah Emirates Contracting LLC and Muhibbah Engineering and Contracting Gulf WLL (both audited by another firm of auditors) are associates of MEB Construction Sdn. Bhd., a wholly owned subsidiary of Muhibbah Engineering (M) Bhd.

#### Favco Offshores Sdn. Bhd. (audited by KPMG) is an associate of Favelle Favco Berhad., a subsidiary of Muhibbah Engineering (M) Bhd.

##### Favelle Favco Machinery and Equipement LLC (audited by another firm of auditors) is an associate of Favelle Favco Berhad., a subsidiary of Muhibbah Engineering (M) Bhd.

## 8. Other investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Non-current | | | | |
| Shares quoted in Malaysia, at cost | 509 | 509 | 34 | 34 |
| Less: Allowance for diminution in value | (395) | (442) | (30) | (30) |
| | 114 | 67 | 4 | 4 |
| Unquoted shares in Malaysia | 120 | 120 | 120 | 120 |
| Less: Allowance for diminution in value | (120) | (120) | (120) | (120) |
| | - | - | - | - |
| | 114 | 67 | 4 | 4 |
| Market value of shares quoted in Malaysia | 114 | 67 | 4 | 4 |

# Notes to the financial statements (continued)

## 9. Development costs

| | Group | |
|---|---|---|
| | 2007<br>RM'000 | 2006<br>RM'000 |
| ***Cost*** | | |
| At 1 January | 15,630 | 14,502 |
| Additions | - | 1,638 |
| Written off | (7,942) | (558) |
| Exchange difference | 360 | 48 |
| At 31 December | 8,048 | 15,630 |
| ***Accumulated amortisation*** | | |
| At 1 January | 10,069 | 7,790 |
| Amortisation charge for the year | 2,507 | 2,424 |
| Written off | (7,942) | (208) |
| Exchange difference | 287 | 63 |
| At 31 December | 4,921 | 10,069 |
| ***Carrying amounts*** | | |
| At 1 January | 5,561 | 6,712 |
| At 31 December | 3,127 | 5,561 |

Development costs represent internally generated development expenditure by subsidiaries on new or substantially improved major crane projects. It is reasonably anticipated that the development expenditure will be recovered through future commercial activity. The remaining amortisation period of development expenditure at the end of financial year ranged from 1 year to 5 years (2006 - 1 year to 5 years).

# Notes to the financial statements (continued)

## 10. Other intangible assets

| | Group | | |
|---|---|---|---|
| | **Intellectual property RM'000** | **Goodwill on consolidation RM'000** | **Total RM'000** |
| ***Cost*** | | | |
| At 1 January 2006/31 December 2006 | | | |
| 1 January 2007/31 December 2007 | 2,519 | 571 | 3,090 |
| ***Accumulated amortisation*** | | | |
| At 1 January 2006 | 1,736 | - | 1,736 |
| Amortisation for the year | 251 | - | 251 |
| At 31 December 2006/1 January 2007 | 1,987 | - | 1,987 |
| Amortisation for the year | 251 | - | 251 |
| At 31 December 2007 | 2,238 | - | 2,238 |
| ***Carrying amounts*** | | | |
| At 1 January 2006 | 783 | 571 | 1,354 |
| At 31 December 2006 | 532 | 571 | 1,103 |
| At 31 December 2007 | 281 | 571 | 852 |

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

***Intellectual property***

The intellectual property represents the acquisition of know how, rights to industrial property and trade name by subsidiaries on new or substantially improved major crane projects in the previous years. It is reasonably anticipated that the intellectual property will be recovered through future commercial activity. The remaining amortisation period of intellectual property at the end of financial year is 1 year (2006 - 2 years).

***Goodwill on consolidation***

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

The recoverable amount of the goodwill arising on consolidation is determined based on the value in use of the investment in the subsidiary. No impairment loss is recognised during the year as the recoverable amount is higher than the carrying amount of the investment in the subsidiary.

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

# Notes to the financial statements (continued)

## 10. Other intangible assets (continued)

***Goodwill on consolidation (continued)***

a) cash flows were projected based on actual operating results
b) the subsidiary will continue its operations indefinitely

The key assumptions represent management's assessment of future trends in the cranes industry and are based on both external and internal sources of historical data.

## 11. Long term advances due from subsidiaries - Company

The long term advances due from subsidiaries in 2006 were non-trade in nature, unsecured and interest free.

## 12. Long term advance due from an associate - Group and Company

The long term advance due from an associate is non-trade in nature, interest free, unsecured and is not expected to be repayable within the next twelve months.

## 13. Land held for development

| | Group | |
|---|---|---|
| ***Long term prepaid lease payment - non-current*** | **2007 RM'000** | **2006 RM'000** |
| ***Cost*** | | |
| At 1 January | 8,188 | - |
| Transfer from prepaid lease payments | - | 8,188 |
| Disposals | (375) | - |
| Exchange difference | (449) | - |
| At 31 December | 7,364 | 8,188 |
| ***Accumulated impairment losses*** | | |
| At 1 January | 1,413 | - |
| Transfer from prepaid lease payments | - | 1,413 |
| Exchange difference | (77) | - |
| At 31 December | 1,336 | 1,413 |
| ***Carrying amounts*** | | |
| At 1 January | 6,775 | - |
| At 31 December | 6,028 | 6,775 |

# Notes to the financial statements (continued)

## 13. Land held for development (continued)

***Title***

The long term leasehold land of a foreign subsidiary is registered in the name of its director cum minority shareholder who holds the property in trust for the foreign subsidiary.

## 14. Investments in joint ventures

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Costs of investments | - | - | - | - |
| Share of post acquisition reserves | 1,257 | 234 | - | - |
| | 1,257 | 234 | - | - |

***Summary financial information of joint ventures - aggregate***

The summarised financial information of the joint ventures, in aggregate, is as follows:

| | Joint ventures Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| ***Assets and liabilities*** | | |
| Non current assets | 2,069 | 2,069 |
| Current assets | 13,564 | 8,894 |
| Total assets | 15,633 | 10,963 |
| Non current liabilities | - | - |
| Current liabilities | 12,444 | 10,332 |
| Total liabilities | 12,444 | 10,332 |
| ***Results*** | | |
| Revenue | 7,603 | 71,597 |
| Net profit for the year | 2,558 | 5,917 |

# Notes to the financial statements (continued)

## 14. Investments in joint ventures (continued)

The cash repayment of share of net profit in a joint venture during the year is Nil (2006 - RM3,029,000).

The joint ventures were formed to undertake specific construction projects and are not intended to be in operations for long term purpose.

Details of the joint ventures are as follows:

| | | Proportion of ownership interest | |
|---|---|---|---|
| **Joint venture** | **Principal activities** | **2007 %** | **2006 %** |
| ***Infrastructure construction segment*** | | | |
| Shimizu-Muhibbah Joint Venture* | Construction and completion of dam, roadworks, bridges and related works in Kedah, Malaysia | 40 | 40 |
| MPE-LULU Joint Venture* | Implementation and construction of the oil and gas pipeline in Sudan | 50 | 50 |

* Joint ventures not audited by KPMG

The investment in MPE-LULU Joint Venture has been equity accounted for based on the unaudited management financial statements for the year ended 31 December 2007.

## 15. Receivables, deposits and prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| **Trade** | | | | |
| Trade receivables | 123,499 | 139,883 | - | - |
| Less: Allowance for doubtful debts | (3,442) | (2,514) | - | - |
| | 120,057 | 137,369 | - | - |
| Progress billings receivable | 143,525 | 157,703 | 73,285 | 93,166 |
| Less: Allowance for doubtful debts | (962) | (1,430) | - | - |
| | 142,563 | 156,273 | 73,285 | 93,166 |
| Amounts due from subsidiaries | - | - | 95,466 | 52,645 |

# Notes to the financial statements (continued)

## 15. Receivables, deposits and prepayments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Trade** | | | | |
| Amounts due from associates | 45,876 | 38,895 | 355 | 343 |
| Less: Allowance for doubtful debts | - | (778) | - | - |
| | 45,876 | 38,117 | 355 | 343 |
| Amounts due from joint ventures | 7,998 | 11,719 | 6,708 | 4,400 |
| Less: Allowance for doubtful debts | (4,400) | (4,400) | (4,400) | (4,400) |
| | 3,598 | 7,319 | 2,308 | - |
| Sub total | 312,094 | 339,078 | 171,414 | 146,154 |
| **Non-trade** | | | | |
| Amounts due from subsidiaries | - | - | 131,101 | 112,457 |
| Less: Allowance for doubtful debts | - | - | (15,744) | (1,943) |
| | - | - | 115,357 | 110,514 |
| Amounts due from associates | 33,297 | 29,983 | 31,693 | 28,684 |
| Less: Allowance for doubtful debts | (5,069) | (3,794) | (3,601) | (3,148) |
| | 28,228 | 26,189 | 28,092 | 25,536 |
| Other receivables | 35,163 | 13,821 | 27,015 | 8,921 |
| Less: Allowance for doubtful debts | (2,568) | (2,734) | (2,568) | (2,568) |
| | 32,595 | 11,087 | 24,447 | 6,353 |
| Deposits | 3,167 | 1,818 | 365 | 358 |
| Prepayments | 4,540 | 2,703 | - | - |
| Sub total | 68,530 | 41,797 | 168,261 | 142,761 |
| Total | 380,624 | 380,875 | 339,675 | 288,915 |

# Notes to the financial statements (continued)

## 15. Receivables, deposits and prepayments (continued)

***Trade receivables***

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2007<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2006<br>RM'000 |
| Australian Dollars | 19,529 | 13,418 | - | - |
| Danish Krone | 20,241 | 8,342 | - | - |
| Qatar Riyal | 16,603 | 54,655 | 16,603 | 54,655 |
| Singapore Dollars | 5,494 | 5,595 | - | - |
| US Dollars | 72,587 | 79,216 | 29,005 | 26,436 |
| | ===== | ===== | ===== | ===== |

***Trade receivables***

Included in trade receivables of the Group are retention sums of RM1,146,000 (2006 - Nil).

***Progress billings receivable***

Included in progress billings receivable of the Group and of the Company are retention sums of RM19,386,000 (2006 - RM11,921,000) and RM18,958,000 (2006 - RM11,239,000) respectively.

The retention sums are unsecured, interest free and are expected to be collected in accordance to the terms of the respective contract agreements.

***Amounts due from subsidiaries***

The amounts due from subsidiaries of the Company are unsecured with no fixed terms of repayment and are interest free, other than an amount due from a subsidiary of RM2,388,000 (2006 - RM1,621,000) which is subject to interest of 5.0% (2006 - 5.0% to 9.0%) per annum.

***Amounts due from associates***

The amounts due from associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment.

Included in amounts due from associates of the Group and of the Company are retention sums of RM355,000 (2006 - RM343,000).

# Notes to the financial statements (continued)

## 15. Receivables, deposits and prepayments (continued)

***Amounts due from joint ventures***

The amounts due from joint ventures are interest free, unsecured and have no fixed terms of repayment.

Included in the amounts due from joint ventures of the Group and of the Company for 2006 were retention sums of RM1,442,000.

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Aggregate costs incurred to date | | 3,867,078 | 3,340,444 | 1,396,359 | 1,467,181 |
| Add: Attributable profits less foreseeable losses | | 275,354 | 258,327 | (16,974) | 5,300 |
| | | 4,142,432 | 3,598,771 | 1,379,385 | 1,472,481 |
| Less: Progress billings | | (3,759,165) | (3,358,298) | (1,139,126) | (1,365,010) |
| | | 383,267 | 240,473 | 240,259 | 107,471 |
| Contract work-in-progress | | 540,731 | 354,795 | 250,324 | 115,046 |
| Amount due to contract customers | | (157,464) | (114,322) | (10,065) | (7,575) |
| | | 383,267 | 240,473 | 240,259 | 107,471 |
| Additions to aggregate costs incurred during the year include: | | | | | |
| Depreciation | 3 | 13,611 | 11,468 | 13,496 | 11,156 |
| Finance costs | | 27,272 | 12,988 | 27,272 | 12,988 |
| Rental expense | | | | | |
| - premises | | 2,579 | 21 | 2,579 | 21 |
| - plant and equipment | | 49,038 | 12,945 | 25,594 | 1,446 |
| Share-based payments | | 2,265 | 672 | 2,265 | 672 |

Included in aggregate costs incurred during the year of the Group and of the Company is interest capitalised using the Group's and the Company's borrowing rates ranging from 3.9% to 8.3% (2006 - 3.7% to 8.3%) per annum.

# Notes to the financial statements (continued)

## 17. Inventories

| | Group | |
|---|---|---|
| | 2007<br>RM'000 | 2006<br>RM'000 |
| At cost: | | |
| Cranes | 456 | 8,838 |
| Raw materials | 27,138 | 25,263 |
| Crane components | 70,964 | 40,473 |
| Work-in-progress | 27,788 | 33,259 |
| Manufactured and trading inventories | 3,030 | 5,403 |
| | 129,376 | 113,236 |
| At net realisable value: | | |
| Cranes for rental | 18,831 | 4,376 |
| Crane components | 11,653 | - |
| Raw materials | 35 | 4,057 |
| Manufactured and trading inventories | - | 3,269 |
| | 159,895 | 124,938 |

The cranes for rental of a foreign subsidiary and a local subsidiary with aggregated carrying value of RM2,386,000 (2006 - RM2,296,000) have been pledged to a financial institution as security for credit facility granted to the foreign subsidiary (Note 26).

## 18. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2007<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2006<br>RM'000 |
| Cash and bank balances | 87,870 | 55,866 | 2,019 | 3,362 |
| Deposits placed with licensed banks | 92,205 | 43,664 | 757 | 757 |
| | 180,075 | 99,530 | 2,776 | 4,119 |

The fixed deposits placed with licensed banks earn interest ranging from 3.0% to 3.10% (2006 - 2.0% to 3.5%) per annum and the maturity period is less than one year.

# Notes to the financial statements (continued)

## 19. Share capital

| | Group and Company | | |
|---|---|---|---|
| | Number of Shares Unit'000 | Par Value RM | RM'000 |
| **Ordinary shares** | | | |
| **Authorised:** | | | |
| Balance at 1 January 2006 / 31 December 2006 / 1 January 2007 | 500,000 | 1.00 | 500,000 |
| Share split | 500,000 | - | - |
| Balance at 31 December 2007 | 1,000,000 | 0.50 | 500,000 |
| | ======= | ==== | ====== |
| **Issued and fully paid:** | | | |
| **Number of ordinary shares of RM1 each** | | | |
| Balance at 1 January 2006 | 144,568 | 1.00 | 144,568 |
| Issue of shares under the employees' share option scheme | 5,050 | 1.00 | 5,050 |
| Balance at 1 January 2007 | 149,618 | 1.00 | 149,618 |
| Issue of shares under the employees' share option scheme | 3,932 | 1.00 | 3,932 |
| Bonus issue | 38,217 | 1.00 | 38,217 |
| Balance at 2 November 2007 | 191,767 | 1.00 | 191,767 |
| Effect of share split to ordinary shares of RM0.50 each | 191,767 | - | - |
| **Number of ordinary shares of RM0.50 each** | | | |
| Balance at 2 November 2007 | 383,534 | 0.50 | 191,767 |
| Issue of shares under the employees' share option scheme | 32 | 0.50 | 16 |
| Balance at 31 December 2007 | 383,566 | 0.50 | 191,783 |
| | ======= | ==== | ====== |

# Notes to the financial statements (continued)

## 19. Share capital (continued)

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

(a) Alteration of authorised share capital, bonus issue and subdivision of shares

(i) On 2 November 2007, the authorised share capital of the Company was altered from RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each to RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

(ii) On 2 November 2007, the Company increased its issued and paid-up share capital through a bonus issue of 38,216,275 new ordinary shares of RM1.00 each in the Company on the basis of 1 bonus share for every 4 existing ordinary shares of RM1.00 each in the Company by way of capitalisation of the share premium account amounting to RM33,211,968 and retained earnings of RM5,004,307. The paid-up share capital (including treasury shares) was increased from RM153,550,600 to RM191,766,875 by the above bonus issue.

(iii) On 2 November 2007, following the completion of the bonus issue, the Company subdivided every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company. The enlarged issued and paid-up share capital (including treasury shares) of the Company comprising of 191,766,875 ordinary shares of RM1.00 each after the completion of the bonus issue was subdivided into 383,533,750 ordinary shares of RM0.50 each.

The approval for the listing and quotation of the bonus issue and subdivision of shares were granted by the Securities Commission and Bursa Malaysia Securities Berhad vide the approval letters dated 3 August 2007 and 23 August 2007 respectively. The above proposals were passed by the shareholders at an Extraordinary General Meeting held on 19 September 2007.

These bonus issue and subdivision of shares were completed and quoted on the Bursa Malaysia Securities Berhad on 2 November 2007.

The new ordinary shares rank parri passu in all aspects with the existing ordinary shares of the Company.

(b) Exercise of employees' share options

During the financial year, a total of 3,932,000 new ordinary shares of RM1.00 each were issued at RM1.28 and a total of 32,000 new ordinary shares of RM0.50 each were issued at RM0.51 for cash pursuant to the employees' share options scheme of the Company.

The premium arising from the exercise of ESOS of RM1,101,280 has been credited to the share premium account.

The details of options granted to subscribe for ordinary shares of RM1.00 each under the Company's ESOS, which remain outstanding at 31 December 2007, are disclosed in Note 24.

# Notes to the financial statements (continued)

## 19. Share capital (continued)

(b) Exercise of employees' share options (continued)

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

## 20. Treasury shares

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

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

During the financial year, the Company repurchased 685,500 ordinary shares of RM1.00 each (2006 - Nil) of its issued shares from the open market at an average price of RM6.81 (2006 - N/A) per ordinary share. The total consideration paid for the repurchase including transaction costs was RM4,668,659 (2006 - N/A) comprising of consideration paid amounting to RM4,643,430 (2006 - N/A) and transaction costs of RM25,229 (2006 - N/A). The repurchase transactions were fully financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965. On 2 November 2007, the Company subdivided its every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company.

Of the total 383,565,750 issued and fully paid-up ordinary shares of RM0.50 each as at 31 December 2007, 1,371,000 (2006 - N/A) are held as treasury shares by the Company. The treasury shares are held at a carrying amount of RM4,668,659.

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

## 21. Reserves

The movements of the reserves are shown in the Statement of Changes in Equity.

The descriptions of reserves are as follows:

**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.

# Notes to the financial statements (continued)

## 21. Reserves (continued)

**Share premium (continued)**

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

**Investment revaluation reserve**

The investment revaluation reserve of the Group and of the Company relates to the revaluation of a piece of freehold land and buildings of a subsidiary in 1982 and revaluation of investment in a subsidiary by the Company in 1982.

**Capitalisation of retained earnings**

The capitalisation of retained earnings of the Group represents capitalisation of distributable reserve for issuance of bonus shares by subsidiaries in previous years.

**Capital reserve**

The capital reserve of the Group represents reserve arising from the redemption of preference shares issued by a subsidiary.

**Share option reserve**

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

**Translation reserve**

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

## 22. Retained earnings

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2007 if paid out as dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from the 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.

## 23. Minority interest

This consists of the minority shareholders' proportion of share capital, reserves and retained earnings or accumulated losses of the subsidiaries. The minority shareholders proportion of the accumulated losses is limited to the carrying amount of their investments in those subsidiaries.

# Notes to the financial statements (continued)

## 24. Employee benefits

**Share-based payments**

***a) The Company***

In 2006, a new employees' share option scheme ("New ESOS Scheme") was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 26 June 2006. The former employees' share option scheme ("Former ESOS Scheme") which was previously established and approved by the shareholders of the Company at an EGM held on 21 June 2001, had expired on 2 August 2006. The expired Former ESOS Scheme was replaced by the approved New ESOS Scheme.

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

| ESOS Scheme | New ESOS Scheme (Granted in 2007) | New ESOS Scheme (Granted in 2007) | Former ESOS Scheme (Granted in 2001) |
|---|---|---|---|
| Date of offer | 3.8.2007 | 3.8.2006 | 3.8.2001 |
| Expiry date | 2.8.2011 | 2.8.2011 | 2.8.2006 |
| Number of options over ordinary shares: | | | |
| - before bonus issue and subdivision of ordinary shares (ordinary shares of RM1.00 each - unit) | 277,000 | 14,908,000 | 9,870,000 |
| - after bonus issue and subdivision of ordinary shares (ordinary shares of RM0.50 each - unit) * | 692,500 | 37,270,000 | N/A |
| Exercise price: | | | |
| - before bonus issue and subdivision of ordinary shares (RM) | 9.00 | 1.28 | 1.00 |
| - after bonus issue and subdivision of ordinary shares (RM) * | 3.60 | 0.51 | N/A |

* The abovementioned bonus issue and subdivision of ordinary shares of the Company were completed on 2 November 2007.

## 24. Employee benefits (continued)

**Share-based payments (continued)**

***a) The Company (continued)***

The outstanding options at 31 December 2007 are as follows:

| | New ESOS 2007 |
|---|---|
| **Number of options over ordinary shares of RM1.00 each:** | |
| Outstanding at 1 January | 14,410,000 |
| Expired during the year | - |
| Granted during the year | - |
| Retracted/Forfeited during the year * | (290,000) |
| Exercised during the year | (3,932,000) |
| | 10,188,000 |
| Bonus issue | 2,547,000 |
| Outstanding at 2 November | 12,735,000 |
| Effect of share split to ordinary shares of RM0.50 each | 12,735,000 |
| **Number of options over ordinary shares of RM0.50 each:** | |
| Granted during the year | 692,500 |
| Retracted/Forfeited during the year * | (97,500) |
| Exercised during the year | (32,000) |
| Outstanding at 31 December | 26,033,000 |

* Due to non-acceptance and resignation

The options granted in 2007 and 2006 under the New ESOS Scheme of the Company outstanding as at 31 December 2007 have an exercise price at RM0.51 per ordinary share of RM0.50 each and RM3.60 per ordinary share of RM0.50 each respectively and a remaining contractual life of 4 years (2006 - 5 years).

# Notes to the financial statements (continued)

## 24. Employee benefits (continued)

**Share-based payments (continued)**

***a) The Company (continued)***

During the year, 3,932,000 share options of RM1.00 each and 32,000 share options of RM0.50 each granted in 2006 under the New ESOS Scheme of the Company were exercised. During the year, no share options granted in 2007 under the New ESOS Scheme were exercised. The average share price of the Company for the year was RM2.94.

In 2006, 5,050,000 share options of RM1.00 each under the Former ESOS Scheme of the Company were exercised. The average share price of the Company for the year was RM1.63.

***b) Subsidiary***

An employees' share option scheme ("ESOS Scheme") of Favelle Favco Berhad, a subsidiary of the Company was established and approved by the shareholders of the subsidiary at an Extraordinary General Meeting ("EGM") held on 19 May 2006.

The following options were granted under the ESOS Scheme of the subsidiary to the subsidiary group's eligible employees including directors:

| ESOS Scheme | Date of Offer | Number options over ordinary shares of RM0.50 Each | Exercise Price RM | Expiry Date |
|---|---|---|---|---|
| ESOS Scheme (granted in 2007) | 30.6.2007 | 391,000 | 1.90 | 29.6.2011 |
| ESOS Scheme (granted in 2006) | 30.6.2006 | 11,804,000 | 0.55 | 29.6.2011 |

# Notes to the financial statements (continued)

## 24. Employee benefits (continued)

**Share-based payments (continued)**

***b) Subsidiary (continued)***

The outstanding options of the subsidiary at 31 December 2007 are as follows:

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

* Due to non-acceptance and resignation

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

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

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ordinary share capital at par | 5,127 | 5,050 | 3,949 | 5,050 |
| Share premium | 1,219 | - | 1,101 | - |
| Proceeds received on exercise of share options | 6,346 | 5,050 | 5,050 | 5,050 |

# Notes to the financial statements (continued)

## 24. Employee benefits (continued)

**Share-based payments (continued)**

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

| | Company | | Subsidiary | |
|---|---|---|---|---|
| | 2007<br>RM | 2006<br>RM | 2007<br>RM | 2006<br>RM |
| Average share price for the year | 2.94<br>===== | 1.63<br>===== | 1.60<br>===== | 0.80<br>===== |

**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 | | Company | |
|---|---|---|---|---|
| | 2007<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2006<br>RM'000 |
| Total expense recognised as share-based payments | 5,688<br>===== | 1,842<br>===== | 4,935<br>===== | 1,385<br>===== |

# Notes to the financial statements (continued)

## 24. Employee benefits (continued)

**Share-based payments (continued)**

**Fair value of share options and assumptions**

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

| | Company | | Subsidiary | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Fair value at grant date (RM) | | | | |
| - Granted in 2006 | 0.20 - 0.25 | 0.20 - 0.25 | 0.17 - 0.22 | 0.17-0.22 |
| - Granted in 2007 | 0.98 - 1.39 | - | 0.76 - 1.03 | - |
| Weighted average share price (RM) | | | | |
| - Granted in 2006 | 0.57 | 0.57 | 0.55 | 0.55 |
| - Granted in 2007 | 3.70 | - | 2.04 | - |
| Exercise price (RM) | | | | |
| - Granted in 2006 | 0.51 | 0.51 | 0.55 | 0.55 |
| - Granted in 2007 | 3.60 | - | 1.90 | - |
| Expected volatility (%) | | | | |
| - Granted in 2006 | 38.40 | 38.40 | 38.00 | 38.00 |
| - Granted in 2007 | 40.98 | - | 59.24 | - |
| Expected option life (years) | 4 | 5 | 4 | 5 |
| Risk-free interest rate (%) (based on Malaysian government bonds) | | | | |
| - Granted in 2006 | 4.14-4.31 | 4.14-4.31 | 4.48-4.57 | 4.48-4.57 |
| - Granted in 2007 | 3.45-3.48 | - | 3.30-3.35 | - |
| Expected staff turnover (%) | 5.00 | 20.00 | 5.00 | 20.00 |

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

# Notes to the financial statements (continued)

## 25. Advances from minority shareholders

The advances from minority shareholders of a subsidiary of RM16,795,000 (2006 - RM17,700,000) are interest free, unsecured and are not expected to be repayable within the next twelve months.

The advances from minority shareholders of a subsidiary includes an amount of RM1,200,000 (2006 - RM1,200,000) comprising cumulative preference shares issued by the subsidiary, where the subsidiary is obligated to pay preferential dividends of not less than 5% (2006 - 5%) per annum of the issue price.

## 26. 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 Company's exposure to interest rate and foreign currency risk, see note 37.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Non-current** | | | | | |
| Term loans | - secured | 50,596 | 70,138 | 2,994 | 11,387 |
| | - unsecured | 40,606 | 15,338 | 35,899 | - |
| Hire purchase and finance lease liabilities | | 1,306 | 1,105 | - | - |
| | | 92,508 | 86,581 | 38,893 | 11,387 |
| **Current** | | | | | |
| Term loans | - secured | 13,028 | 15,035 | 2,096 | 3,896 |
| | - unsecured | 14,444 | 7,660 | 4,175 | - |
| Bank overdrafts | - secured | 15,922 | 3,802 | 8,499 | - |
| | - unsecured | 14,914 | 42,483 | - | 23,785 |
| Revolving credits | - unsecured | 67,519 | 110,698 | 40,000 | 76,000 |
| Insurance premium finance | - unsecured | 870 | 606 | - | - |
| Hire purchase and finance lease liabilities | | 535 | 545 | - | - |
| | | 127,232 | 180,829 | 54,770 | 103,681 |
| | | 219,740 | 267,410 | 93,663 | 115,068 |

# Notes to the financial statements (continued)

## 26. Loans and borrowings (continued)

***Terms and debt repayment schedule***

| *Group* | Year of maturity | Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 2 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Term loans | | | | | | |
| - secured | 2011-2015 | 63,624 | 13,028 | 11,888 | 30,274 | 8,434 |
| - unsecured | 2009-2012 | 55,050 | 14,444 | 11,588 | 29,018 | - |
| Bank overdrafts | | | | | | |
| - secured | 2008 | 15,922 | 15,922 | - | - | - |
| - unsecured | 2008 | 14,914 | 14,914 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | 2008 | 67,519 | 67,519 | - | - | - |
| Insurance premium finance | | | | | | |
| - unsecured | 2008 | 870 | 870 | - | - | - |
| Hire purchase and finance lease liabilities | 2012-2013 | 1,841 | 535 | 424 | 788 | 94 |
| | | 219,740 | 127,232 | 23,900 | 60,080 | 8,528 |
| | | ====== | ====== | ===== | ===== | ===== |
| **2006** | | | | | | |
| Term loans | | | | | | |
| - secured | 2011-2015 | 85,173 | 15,035 | 13,905 | 37,616 | 18,617 |
| - unsecured | 2011 | 22,998 | 7,660 | 7,660 | 7,678 | - |
| Bank overdrafts | | | | | | |
| - secured | 2007 | 3,802 | 3,802 | - | - | - |
| - unsecured | 2007 | 42,483 | 42,483 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | 2007 | 110,698 | 110,698 | - | - | - |
| Insurance premium finance | | | | | | |
| - unsecured | 2007 | 606 | 606 | - | - | - |
| Hire purchase and finance lease liabilities | 2007-2012 | 1,650 | 545 | 387 | 604 | 114 |
| | | 267,410 | 180,829 | 21,952 | 45,898 | 18,731 |
| | | ====== | ====== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 26. Loans and borrowings (continued)

***Terms and debt repayment schedule (continued)***

| *Group* | Year of maturity | Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 2 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Term loans | | | | | | |
| - secured | 2011 | 5,090 | 2,096 | 2,096 | 898 | - |
| - unsecured | 2012 | 40,074 | 4,175 | 10,018 | 25,881 | - |
| Bank overdrafts | | | | | | |
| - unsecured | 2008 | 8,499 | 8,499 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | 2008 | 40,000 | 40,000 | - | - | - |
| | | 93,663 | 54,770 | 12,114 | 26,779 | - |
| **2006** | | | | | | |
| Term loans | | | | | | |
| - secured | 2011 | 15,283 | 3,896 | 3,896 | 7,491 | - |
| Bank overdrafts | | | | | | |
| - unsecured | 2007 | 23,785 | 23,785 | - | - | - |
| Revolving credits | | | | | | |
| - unsecured | 2007 | 76,000 | 76,000 | - | - | - |
| | | 115,068 | 103,681 | 3,896 | 7,491 | - |

# Notes to the financial statements (continued)

## 26. Loans and borrowings (continued)

Hire purchase and finance lease liabilities are payable as follows:

| *Group* | Minimum lease payments 2007 RM'000 | Interest 2007 RM'000 | Principal 2007 RM'000 | Minimum lease payments 2006 RM'000 | Interest 2006 RM'000 | Principal 2006 RM'000 |
|---|---|---|---|---|---|---|
| Less than one year | 613 | (78) | 535 | 598 | (53) | 545 |
| Between one and five year | 1,420 | (208) | 1,212 | 1,127 | (136) | 991 |
| More than five years | 119 | (25) | 94 | 129 | (15) | 114 |
| | 2,152 | (311) | 1,841 | 1,854 | (204) | 1,650 |

***Term loans***

a) *Company*

At 31 December 2007 and 31 December 2006, the secured term loans of the Company are charged against two pieces of long term leasehold land (Note 4) and certain plant and machinery (Note 3) of the Company. These term loans are subject to interest at rate of 6.4% (2006 - 5.3% to 7.8%) per annum and are repayable in various installments at various dates over a period of 4 years (2006 – 5 years).

At 31 December 2007, the unsecured term loan of the company is subject to interest rate of 6.1% per annum and is repayable in various installments at various dates over a period of 4 years.

b) Subsidiaries

At 31 December 2007 and 31 December 2006, the secured term loans of the subsidiaries are charged against a piece of long term leasehold land of a subsidiary and a piece of short term leasehold land of the Company (Note 4), freehold land, buildings and certain plant and equipment (Note 3), inventories (Note 17), negative pledge executed by a subsidiary and are guaranteed by the Company. These term loans are subject to interest at rates ranging from 5.5% to 6.4% (2006 - 5.0% to 7.9%) per annum and are repayable in various installments at various dates over a period of up to 8 (2006 - 9) years.

At 31 December 2007 and 31 December 2006, the unsecured term loans of the subsidiaries are guaranteed by the Company. These term loans are subject to interest at rates ranging from 6.1% to 7.8% (2006 - 5.0% to 12.2%) per annum and are repayable in various instalments at various dates over a period of up to 5 (2006 - 5) years.

# Notes to the financial statements (continued)

## 26. Loans and borrowings (continued)

***Bank overdrafts and revolving credits***

The bank overdrafts and revolving credits of the Company are supported by negative pledge executed by the Company and are subject to interest at rates ranging from 4.5% to 8.3% (2006 - 4.7% to 8.2%) per annum.

The bank overdrafts and revolving credits of the subsidiaries are guaranteed by the Company and are charged against certain plant and machinery of a subsidiary and are subject to interest at rates ranging from 4.5% to 9.2% (2006 - 4.7% to 9.2%) per annum.

***Insurance premium finance***

Insurance premium finance of the Group is subject to interest rate at a rate of 2.6% (2006 - 1.5% to 2.6%) per annum.

***Hire purchase and finance lease liabilities***

Hire purchase and finance lease liabilities of the Group are subject to interest at rates ranging from 4.3% to 7.3% (2006 - 3.0% to 7.3%).

## 27. Deferred tax assets and liabilities

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group** | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Property, plant and equipment | 1 | 2 | 19,229 | 26,719 | 19,230 | 26,721 |
| Provisions | - | - | (314) | (1,648) | (314) | (1,648) |
| Unabsorbed capital allowances | - | - | (409) | (10,156) | (409) | (10,156) |
| Tax loss carry-forwards | (149) | (206) | (2,753) | (3,251) | (2,902) | (3,457) |
| Net tax (assets)/ liabilities | (148) | (204) | 15,753 | 11,664 | 15,605 | 11,460 |

# Notes to the financial statements (continued)

## 27. Deferred tax assets and liabilities (continued)

**Recognised deferred tax assets and liabilities (continued)**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| **Company** | | | | | | |
| Property, plant and equipment | - | - | - | 12,634 | - | 12,634 |
| Provisions | - | - | - | (1,249) | - | (1,249) |
| Unabsorbed capital allowances | - | - | - | (3,832) | - | (3,832) |
| Tax loss carry-forwards | - | - | - | (1,279) | - | (1,279) |
| Net tax liabilities | - | - | - | 6,274 | - | 6,274 |

**Unrecognised deferred tax assets**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Property, plant and equipment | (42,899) | 33,679 | (66,543) | 382 |
| Provisions | 4,132 | 1,185 | 4,088 | 992 |
| Unabsorbed capital allowances | 67,652 | 15,773 | 51,797 | 697 |
| Tax loss carry-forwards | 168,004 | 157,064 | 27,559 | 15,997 |
| Other items | (30) | 61 | (30) | 61 |
| | 196,859 | 207,762 | 16,871 | 18,129 |

# Notes to the financial statements (continued)

## 27. Deferred tax assets and liabilities (continued)

**Unrecognised deferred tax assets (continued)**

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group and the Company can utilise the benefits there from.

***Re-investment allowances***

Certain subsidiaries qualify for re-investment allowances of 60% on qualifying expenditure incurred, to be set off against 70% of statutory income for each year of assessment.

Subject to agreement by the Inland Revenue Board, the Group has unutilised reinvestment allowances not accounted for in the financial statements of the subsidiaries, amounting to RM63,781,000 (2006 : RM62,428,000) available to set-off future profits. Any unutilised reinvestment allowance can be carried forward to subsequent years until fully utilised. The amount of income exempted from tax is credited to a tax-exempt account from which tax-exempt dividends can be declared.

The Group has not recognised the potential deferred tax benefits arising from the unutilised reinvestment allowance.

**Movement in temporary differences during the year**

| Group | At 1.1.2006 RM'000 | Recognised in income statement (note 33) RM'000 | Effect of control transfer RM'000 | At 31.12.2006 RM'000 | Recognised in income statement (note 33) RM'000 | Acquisition of a subsidiary (note 43) RM'000 | At 31.12.2007 RM'000 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 24,119 | 2,602 | - | 26,721 | (11,883) | 4,392 | 19,230 |
| Provisions | (1,455) | (193) | - | (1,648) | 1,334 | - | (314) |
| Unabsorbed capital allowances | (13,337) | 3,181 | - | (10,156) | 9,747 | - | (409) |
| Tax loss carry-forwards | (3,457) | - | - | (3,457) | 3,974 | (3,419) | (2,902) |
| | 5,870 | 5,590 | - | 11,460 | 3,172 | 973 | 15,605 |
| **Company** | | | | | | | |
| Property, plant and equipment | 12,993 | 912 | (1,271) | 12,634 | (12,634) | - | - |
| Provisions | (1,249) | - | - | (1,249) | 1,249 | - | - |
| Unabsorbed capital allowances | (3,832) | - | - | (3,832) | 3,832 | - | - |
| Tax loss carry-forwards | (1,279) | - | - | (1,279) | 1,279 | - | - |
| | 6,633 | 912 | (1,271) | 6,274 | (6,274) | - | - |

# Notes to the financial statements (continued)

## 27. Deferred tax assets and liabilities (continued)

**Movement in temporary differences during the year (continued)**

In 2006, the Company disposed certain property, plant and equipment to its subsidiary for RM7,500,000. The disposal of the property, plant and equipment to the subsidiary is deemed a control transfer in accordance to the Malaysian Income Tax Act, 1967. Accordingly, deferred tax liabilities of RM1,271,000 relating to the said property, plant and equipment has been transferred to the subsidiary

## 28. Payables and accruals

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Trade** | | | | |
| Trade payables | 341,606 | 299,201 | 148,470 | 165,468 |
| Amounts due to subsidiaries | - | - | 59,940 | 10,431 |
| Amounts due to associates | - | 505 | - | - |
| | 341,606 | 299,706 | 208,410 | 175,899 |
| **Non-trade** | | | | |
| Amounts due to subsidiaries | - | - | 5,198 | 8,809 |
| Amounts due to associates | 825 | 817 | - | 710 |
| Other payables | 44,009 | 14,046 | 12,251 | 5,925 |
| Dividend payable | 10,000 | - | - | - |
| Accrued expenses | 38,127 | 49,691 | 10,003 | 2,302 |
| | 92,961 | 64,554 | 27,452 | 17,746 |
| Total | 434,567 | 364,260 | 235,862 | 193,645 |

***Trade payables***

Included in the trade payables as at 31 December 2007 are retention sums of RM4,368,000 (2006 - Nil) relating to construction work-in-progress.

Included in trade payables of the Group and of the Company are advances received from contract customers amounting to RM85,703,000 (2006 - RM49,863,000 ).

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

# Notes to the financial statements (continued)

## 28. Payables and accruals (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Australian Dollars | 34,568 | 13,095 | - | - |
| Danish Krone | 5,908 | 6,998 | - | - |
| Qatar Riyal | 68,759 | 66,700 | 68,759 | 66,700 |
| Singapore Dollars | 18,341 | 3,558 | - | - |
| US Dollars | 43,668 | 47,448 | 931 | 9,805 |
| | ===== | ===== | ===== | ===== |

**Amounts due to subsidiaries**

The amounts due to subsidiaries of the Company are interest free, unsecured and have no fixed terms of repayment.

**Amounts due to associates**

The amounts due to associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment.

## 29. Bills payable

Bills payable of the Group and of the Company represent bankers' acceptances and are subject to floating interest at rates ranging from 3.9% to 7.8% (2006 - 2.9% to 6.6%) and 3.9% to 6.4% (2006 - 3.7% to 6.6%) per annum respectively.

Bills payable of the Company are supported by a negative pledge executed by the Company and the bills payable of the subsidiaries are guaranteed by the Company.

All bills payable of the Group and of the Company are unsecured and payable within a period of one year and not subject to repricing before maturity.

# Notes to the financial statements (continued)

## 30. Provisions

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

| | Group | | | |
|---|---|---|---|---|
| | 2007 | | | 2006 |
| | Warranties | Restructuring costs | Total | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance at 1 January | 6,758 | 153 | 6,911 | 15,463 |
| Provision made during the year | 6,488 | - | 6,488 | 4,238 |
| Provision reversed during the year | (3,634) | - | (3,634) | (7,980) |
| | 2,854 | - | 2,854 | (3,742) |
| Provision used during the year | (783) | (153) | (936) | (4,841) |
| Exchange differences | 92 | - | 92 | 31 |
| Balance at 31 December | 8,921 | - | 8,921 | 6,911 |
| Current | 8,921 | - | 8,921 | 6,911 |

| | Company | |
|---|---|---|
| | 2007 | 2006 |
| | Warranties | |
| | RM'000 | RM'000 |
| Balance at 1 January | 1,325 | 3,539 |
| Provision made during the year | 2,276 | 897 |
| Provision reversed during the year | (1,197) | (2,183) |
| | 1,079 | (1,286) |
| Provision used during the year | (127) | (928) |
| Exchange differences | (1) | - |
| Balance at 31 December | 2,276 | 1,325 |
| Current | 2,276 | 1,325 |

# Notes to the financial statements (continued)

## 30. Provisions (continued)

***Warranties***

Provision for warranty costs is made based on historical warranty data and a weighting of all possible outcomes against the associated probability of further costs being incurred on the completed projects where defect liability periods have commenced.

***Restructuring costs***

A provision for restructuring cost is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

## 31. Operating profit

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| **Operating profit is arrived at after charging:** | | | | |
| Allowance for doubtful debts | 2,070 | 6,122 | 14,896 | 3,665 |
| Allowance for diminution in value of other investments | - | 156 | - | 120 |
| Allowance for slow moving inventories | 1,046 | 3,524 | - | - |
| Amortisation of development costs | 2,507 | 2,424 | - | - |
| Amortisation of intellectual property | 251 | 251 | - | - |
| Amortisation of prepaid lease payments | 317 | 446 | 228 | 242 |
| Impairment of goodwill of associates | 605 | - | - | - |
| Audit fees - statutory: | | | | |
| Holding company's auditors | 260 | 218 | 90 | 90 |
| Other auditors | 403 | 336 | - | - |
| Bad debts written off | 14 | 81 | 14 | 54 |
| Depreciation of investment properties | 19 | 19 | 370 | 371 |
| Depreciation of property, plant and equipment | 20,832 | 16,148 | 1,240 | 2,597 |
| Loss on dilution arising from exercise of ESOS of subsidiary | 276 | - | - | - |
| Investment in associate written off | - | 8 | - | 8 |
| Investment in subsidiary written off | - | - | 2,588 | - |
| Development costs written off | - | 350 | - | - |
| Goodwill arising from share buy back of subsidiary written off | 8 | - | - | - |
| Impairment loss on investments in associates | - | 472 | - | 77 |
| Inventories written off | - | 210 | - | - |
| Loss on disposal of associate | 122 | - | - | - |
| Loss on winding-up of subsidiary | 238 | - | - | - |

# Notes to the financial statements (continued)

## 31. Operating profit (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Operating profit is arrived at after charging (continued):** | | | | |
| Personnel expenses (including key management personnel) | | | | |
| - contribution to Employees Provident Fund | 7,142 | 4,410 | 1,534 | 900 |
| - wages, salaries and others | 79,223 | 72,065 | 12,291 | 14,479 |
| Property, plant and equipment written off | - | 1,823 | - | - |
| Provision for warranty costs | 6,488 | 4,238 | 2,276 | 897 |
| Rental expense on: | | | | |
| - premises | 510 | 583 | 3 | 3 |
| - equipment | 4,558 | 4,732 | - | - |
| Share-based payments | 3,423 | 1,170 | 2,670 | 713 |
| Unrealised loss on foreign exchange | - | 19 | - | - |
| | ===== | ===== | ===== | ===== |
| **and after crediting:** | | | | |
| Allowance for doubtful debts written back | 660 | 5,070 | 642 | 4,075 |
| Bad debts written back | 250 | 41 | - | 41 |
| Gain on disposal of property, plant and equipment | 2,725 | 7,014 | 2,004 | 9,755 |
| Gain on disposal of investment properties | 1 | - | 1 | - |
| Gain on disposal of prepaid lease payments | 1,012 | - | 1,012 | - |
| Gain on foreign exchange | | | | |
| - realised | 11,557 | 2,491 | 415 | 618 |
| - unrealised | 715 | - | 30 | - |
| Gross dividend income from: | | | | |
| quoted subsidiary | | | | |
| - tax exempt | - | - | 1,715 | - |
| unquoted subsidiaries | | | | |
| - tax exempt | - | - | 15,000 | 19,801 |
| - taxable | - | - | 3,250 | 5,560 |
| unquoted associates | | | | |
| - taxable | - | - | 19,266 | 10,208 |
| Rental income on: | | | | |
| - premises | 2,333 | 1,174 | 784 | 511 |
| - plant and machinery | 12,592 | 19,743 | 1,101 | 935 |

# Notes to the financial statements (continued)

## 31. Operating profit (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| **and after crediting (continued):** | | | | |
| Reversal of allowance for slow moving inventories | - | 978 | - | - |
| Reversal of impairment loss of property, plant and equipment | 214 | - | - | - |
| Reversal of impairment loss for investment in subsidiary | - | - | 1,500 | - |
| Reversal of allowance for diminution in value of other investments | 47 | - | - | - |
| Reversal of provision for warranty costs | 3,634 | 7,232 | 1,197 | 2,183 |
| Reversal of provision for restructuring costs | - | 748 | - | - |
| Waiver of debt owing to a subsidiary | - | - | 2,824 | - |
| | ===== | ===== | ===== | ===== |
| **and after charging/(crediting) the following exceptional items:** | | | | |
| Dilution of interest in a subsidiary | - | 4,940 | - | - |
| (Gain)/Loss on offer for sale of ordinary shares of a subsidiary | - | 3,826 | - | (1,100) |
| | - | 8,766 | - | (1,100) |
| | ===== | ===== | ===== | ===== |

## 32. Key management personnel compensation

The key management personnel compensations are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Directors of the Company | | | | |
| - Fees | 784 | 516 | 432 | 324 |
| - Remuneration | 1,737 | 1,550 | 1,563 | 1,412 |
| | 2,521 | 2,066 | 1,995 | 1,736 |
| | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 32. Key management personnel compensation (continued)

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.

## 33. Tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Income tax expense** | | | | |
| Malaysia - current | 7,876 | 3,175 | 5,243 | - |
| - prior years | (3,614) | 1,584 | (3,985) | 2,334 |
| | 4,262 | 4,759 | 1,258 | 2,334 |
| Foreign - current | 3,702 | 6,384 | 894 | 3,242 |
| - prior year | 842 | (139) | 808 | (139) |
| | 4,544 | 6,245 | 1,702 | 3,103 |
| **Deferred tax expense** | | | | |
| Originating/(Reversal) of temporary differences | 3,090 | 5,037 | (6,274) | 912 |
| Underprovision in prior years | 82 | 553 | - | - |
| | 3,172 | 5,590 | (6,274) | 912 |
| **Others** | | | | |
| Witholding tax | 622 | 666 | - | - |
| Total tax expense | 12,600 | 17,260 | (3,314) | 6,349 |

# Notes to the financial statements (continued)

## 33. Tax expense (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Reconciliation of tax expense** | | | | |
| Profit before tax | 103,005 | 65,091 | 36,542 | 15,509 |
| | ====== | ===== | ===== | ===== |
| Income tax using Malaysian tax rate at 27% (2006 - 28%) | 27,811 | 18,225 | 9,866 | 4,343 |
| Effect of different tax rates in foreign jurisdictions | (1,652) | (4,163) | (875) | (2,170) |
| Utilisation of unrecognised deferred tax benefits | (2,944) | - | (327) | - |
| Effect of deferred tax benefits not recognised | - | 8,244 | - | 5,076 |
| Non-deductible expenses | 22,558 | 25,334 | 12,546 | 11,042 |
| Non-taxable income | (7,975) | (16,571) | (1,848) | - |
| Tax incentives | (3,107) | (3,574) | - | (2,257) |
| Tax exempt income | (20,103) | (12,554) | (19,499) | (12,042) |
| Witholding tax | 622 | 666 | - | - |
| Others | 80 | (345) | - | 162 |
| | 15,290 | 15,262 | (137) | 4,154 |
| (Over)/underprovision in prior years | | | | |
| - income tax expense | (2,772) | 1,445 | (3,177) | 2,195 |
| - deferred tax expense | 82 | 553 | - | - |
| Tax expense | 12,600 | 17,260 | (3,314) | 6,349 |
| | ====== | ===== | ===== | ===== |

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

A subsidiary which is principally engaged in the business of commissioning of intelligent transport system solution was granted pioneer status commencing 4 July 2003 under the Promotion of Investments (Amended) Act, 1986 for which this subsidiary will enjoy full exemption from income tax for a period of five years.

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

# Notes to the financial statements (continued)

## 34. Dividends

Dividends recognised in the current year by the Company are:

| Ordinary dividends | Per share Sen | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2007** | | | |
| Final per ordinary share of RM1.00 each less 27% tax - for the year ended 31 December 2006 | 7.50 | 8,357<br>==== | 24 September 2007 |
| **2006** | | | |
| Final (tax exempt) per ordinary share of RM1.00 each - for the year ended 31 December 2005 | 4.00 | 5,985<br>==== | 15 September 2006 |

***Proposed final dividend for the year ended 31 December 2007***

The Directors have recommended a first and final dividend of 9.00% (4.50 sen) less 26% tax per ordinary share of RM0.50 each totaling RM12,727,085 in respect of the year ended 31 December 2007, which will be paid after the financial year end subject to approval by the shareholders at the forthcoming Annual General Meeting, based on the issued and paid-up share capital (excluding treasury shares) of 382,194,750 ordinary shares of RM0.50 each as at 31 December 2007. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2007.

Since the end of the previous financial year, the Company paid a final dividend of 7.50% (7.50 sen) less 27% tax per ordinary share of RM1.00 each totalling RM8,357,264 in respect of the year ended 31 December 2006 on 24 September 2007, based on the issued and paid-up share capital (excluding treasury shares) of 152,644,100 ordinary shares of RM1.00 each.

***Dividends per ordinary share***

The calculation of dividends per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2007 of RM17,198,764 (2006 - RM11,448,308) on the issued and paid-up share capital (excluding treasury shares) of 382,194,750 ordinary shares of RM0.50 each (2006 - 152,644,100 ordinary shares of RM1.00 each ) as at 31 December 2007.

# Notes to the financial statements (continued)

## 35. Earnings per share

***Basic earnings per share***

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

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Profit attributable to ordinary shareholders | 70,180 | 33,800 |

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| *In thousands of shares* | | |
| Weighted average number of ordinary shares in issue * | 374,045 | 361,423 |
| Effect of shares issued under ESOS | 3,637 | 7,353 |
| Effect of shares repurchased | (855) | - |
| Total weighted average number of ordinary shares in issue (unit'000) | 376,827 | 368,776 |

* The weighted average number of ordinary shares in issue is arrived at after accounting for the effect of the bonus issue and subdivision of existing ordinary shares, which was completed on 2 November 2007.

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| Basic earnings per share (sen) | 18.62 | 9.17 |

# Notes to the financial statements (continued)

## 35. Earnings per share (continued)

***Diluted earnings per share***

The Group has diluted potential ordinary shares from the options granted to eligible employees of the Group.

The calculation of diluted earnings per share at 31 December 2007 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Profit attributable to ordinary shareholders | 70,180 | 33,800 |
| | ====== | ====== |

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| *In thousands of shares* | | |
| Weighted average number of ordinary shares | 376,827 | 368,776 |
| Effect of dilution arising from conversion of all dilutive potential ordinary shares | 20,862 | 7,692 |
| Adjusted weighted average number of ordinary shares at 31 December | 397,689 | 376,468 |
| | ====== | ====== |

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

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| Diluted earnings per share (sen) | 17.65 | 8.98 |
| | ====== | ====== |

The comparative figures for basic earnings per share and diluted earnings per share have been restated to account for the effect of bonus issue and the subdivision of shares, which were completed on 2 November 2007.

# Notes to the financial statements (continued)

## 36. Segmental information

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items attributable to a segment as well as those that can be allocated on a reasonable basis.

Inter-segment pricing is determined based on negotiated terms.

***Business segments***

The Group comprises the following main business segments:

| | |
|---|---|
| Infrastructure construction | Construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals and facility support buildings, heavy concrete foundations and other similar construction works |
| Cranes | Design, manufacture, supply, trading, renting and service provider of offshore oil and gas pedestal cranes, tower cranes, shipyard cranes and other heavy lifting equipment cranes |
| Marine ship building and ship repair | Design, engineering, building and service provider of anchor handling tug boats, supply vessels, accommodation ships and marine vessels for the offshore oil and gas exploration and production works |
| Concession | Privatisation of international airports in Cambodia and road maintenance works in the central region of Peninsular Malaysia |

***Geographical segments***

The infrastrucutre construction segment is operating mainly in Malaysia, Qatar, Yemen, Syria, Singapore, Cambodia, and Sudan. The cranes segment is managed on a worldwide basis with its head office in Malaysia. The cranes segment has manufacturing plants in Malaysia, Australia, United States of America and Denmark. The marine ship building and ship repair segment operates in Malaysia. The airport concession segment is managed in Cambodia and the road maintenance concession works are carried out in the central region of Peninsular Malaysia.

In presenting information on the basis of geographical segments, segment revenue and assets are based on geographical location of the respective principal operations.

# Notes to the financial statements (continued)

## 36. Segmental information (continued)

Business segments

| | Infrastructure construction 2007 RM'000 | Infrastructure construction 2006 RM'000 | Cranes 2007 RM'000 | Cranes 2006 RM'000 | Marine ship building and ship repair 2007 RM'000 | Marine ship building and ship repair 2006 RM'000 | Concession 2007 RM'000 | Concession 2006 RM'000 | Consolidated 2007 RM'000 | Consolidated 2006 RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 737,037 | 628,196 | 452,369 | 336,269 | 222,127 | 121,949 | - | - | 1,411,533 | 1,086,414 |
| **Operating profit/(loss)** | 31,534 | 19,202 | 28,948 | 17,630 | 25,209 | 13,338 | (403) | (9) | 85,288 | 50,161 |
| Interest income | 1,640 | 2,146 | 1,334 | 417 | 648 | 201 | - | - | 3,622 | 2,764 |
| Finance costs | (2,192) | (1,387) | (7,921) | (7,535) | (2,903) | (1,868) | (595) | (698) | (13,611) | (11,488) |
| Share of profit/(loss) after tax and minority interest of equity accounted associates | 3,688 | 1,331 | (54) | (196) | - | - | 23,049 | 27,190 | 26,683 | 28,325 |
| Share of profit/(loss) after tax of joint ventures | 1,023 | 4,095 | - | - | - | - | - | - | 1,023 | 4,095 |
| **Profit before tax and exceptional items** | 35,693 | 25,387 | 22,307 | 10,316 | 22,954 | 11,671 | 22,051 | 26,483 | 103,005 | 73,857 |
| Exceptional items | - | (8,766) | - | - | - | - | - | - | - | (8,766) |
| **Profit before tax** | 35,693 | 16,621 | 22,307 | 10,316 | 22,954 | 11,671 | 22,051 | 26,483 | 103,005 | 65,091 |
| Tax expense | (2,701) | (12,127) | (2,740) | (1,078) | (7,159) | (4,055) | - | - | (12,600) | (17,260) |
| **Profit after tax** | 32,992 | 4,494 | 19,567 | 9,238 | 15,795 | 7,616 | 22,051 | 26,483 | 90,405 | 47,831 |
| Segment assets | 827,120 | 697,645 | 530,233 | 427,182 | 279,837 | 174,660 | 11,042 | 57 | 1,648,232 | 1,299,544 |
| Investments in associates | 14,893 | 25,885 | 62 | 116 | - | - | 92,676 | 94,965 | 107,631 | 120,966 |
| Investments in joint ventures | 1,257 | 234 | - | - | - | - | - | - | 1,257 | 234 |
| Total assets | 843,270 | 723,764 | 530,295 | 427,298 | 279,837 | 174,660 | 103,718 | 95,022 | 1,757,120 | 1,420,744 |
| Total liabilities | 684,769 | 596,403 | 396,261 | 317,526 | 208,593 | 119,433 | 6,342 | 8,370 | 1,295,965 | 1,041,732 |
| **Total equity** | 158,501 | 127,361 | 134,034 | 109,772 | 71,244 | 55,227 | 97,376 | 86,652 | 461,155 | 379,012 |

# Notes to the financial statements (continued)

## 36. Segmental information (continued)

Geographical segments

| | Inside Malaysia 2007 RM'000 | Inside Malaysia 2006 RM'000 | Outside Malaysia 2007 RM'000 | Outside Malaysia 2006 RM'000 | Consolidated 2007 RM'000 | Consolidated 2006 RM'000 |
|---|---|---|---|---|---|---|
| Revenue from external customers | 698,454 | 394,055 | 713,079 | 692,359 | 1,411,533 | 1,086,414 |
| **Operating profit** | 58,307 | 22,942 | 26,981 | 27,219 | 85,288 | 50,161 |
| Interest income | 2,609 | 2,277 | 1,013 | 487 | 3,622 | 2,764 |
| Finance costs | (13,084) | (11,279) | (527) | (209) | (13,611) | (11,488) |
| Share of profit after tax and minority interest of equity accounted associates | 11,349 | 12,299 | 15,334 | 16,026 | 26,683 | 28,325 |
| Share of profit/(loss) after tax of joint ventures | 1,023 | 4,186 | - | (91) | 1,023 | 4,095 |
| **Profit before tax and exceptional items** | 60,204 | 30,425 | 42,801 | 43,432 | 103,005 | 73,857 |
| Exceptional items | - | (8,766) | - | - | - | (8,766) |
| **Profit before tax** | 60,204 | 21,659 | 42,801 | 43,432 | 103,005 | 65,091 |
| Tax expense | (8,796) | (9,086) | (3,804) | (8,174) | (12,600) | (17,260) |
| **Profit after tax** | 51,408 | 12,573 | 38,997 | 35,258 | 90,405 | 47,831 |
| Segment assets | 1,079,236 | 826,511 | 568,996 | 473,033 | 1,648,232 | 1,299,544 |
| Investments in associates | 24,268 | 40,198 | 83,363 | 80,768 | 107,631 | 120,966 |
| Investments in joint ventures | 1,348 | 325 | (91) | (91) | 1,257 | 234 |
| Total assets | 1,104,852 | 867,034 | 652,268 | 553,710 | 1,757,120 | 1,420,744 |
| Total liabilities | 902,179 | 752,838 | 393,786 | 288,894 | 1,295,965 | 1,041,732 |
| Total equity | 202,673 | 114,196 | 258,482 | 264,816 | 461,155 | 379,012 |

# Notes to the financial statements (continued)

## 37. Financial instruments

**Financial risk management objectives and policies**

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group and the Company's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**Credit risk**

The exposure to credit risk is monitored by the management on an ongoing basis.

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

**Liquidity risk**

The Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the operations and to mitigate the effects of fluctuations in cash flows.

**Interest rate risk**

The Group and the Company borrow for construction projects and for working capital purposes from banks and financial institutions, and have fixed deposits placed with licensed banks. Interest rate exposure is managed through the use of fixed and floating rate debts.

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

***Effective interest rates and repricing analysis***

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

| Group 2007 | Average effective interest rate % | Total RM'000 | Less than 1 year RM'000 | 1 - 2 years RM'000 | 2 - 3 years RM'000 | 3 - 4 years RM'000 | 4 - 5 years RM'000 | More than 5 years RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Deposits placed with licensed banks | 3.0-3.1 | 92,205 | 92,205 | - | - | - | - | - |
| | | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| **Financial liabilities** | | | | | | | | |
| Secured term loans: | 5.5 - 6.4 | | | | | | | |
| - RM floating rate loans | | 62,484 | 62,484 | - | - | - | - | - |
| - DKK fixed rate loan | | 1,140 | 1,140 | - | - | - | - | - |
| Unsecured term loans: | 6.1-7.8 | | | | | | | |
| - RM floating rate loans | | 8,700 | 8,700 | - | - | - | - | - |
| - USD floating rate loans | | 46,350 | 46,350 | - | - | - | - | - |
| Unsecured revolving credits in: | 4.5 - 8.3 | | | | | | | |
| - RM | | 67,519 | 67,519 | - | - | - | - | - |
| Secured overdrafts | 7.0 | | | | | | | |
| - in DKK | | 15,922 | 15,922 | - | - | - | - | - |
| Unsecured overdrafts | 4.5 - 9.2 | | | | | | | |
| - in RM | | 11,588 | 11,588 | - | - | - | - | - |
| - in SGD | | 614 | 614 | - | - | - | - | - |
| - in USD | | 2,712 | 2,712 | - | - | - | - | - |
| Insurance premium finance - unsecured | 2.6 | | | | | | | |
| - in AUD | | 870 | 870 | - | - | - | - | - |
| Finance lease liabilities | | | | | | | | |
| - in AUD | | 113 | 90 | 23 | - | - | - | - |
| - in RM | | 1,631 | 425 | 432 | 290 | 210 | 180 | 94 |
| - in SGD | | 97 | 20 | 20 | 19 | 19 | 19 | - |
| | | 219,740 | 218,434 | 475 | 309 | 229 | 199 | 94 |
| | | ====== | ====== | ===== | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

***Effective interest rates and repricing analysis (continued)***

| Group 2006 | Average effective interest rate % | Total RM'000 | Less than 1 year RM'000 | 1 - 2 years RM'000 | 2 - 3 years RM'000 | 3 - 4 years RM'000 | 4 - 5 years RM'000 | More than 5 years RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Deposits placed with licensed banks | 2.0 - 3.5 | 43,664 | 43,664 | - | - | - | - | - |
| | | ===== | ===== | ====== | ===== | ===== | ===== | ===== |
| **Financial liabilities** | | | | | | | | |
| Secured term loans: | 5.0 - 7.9 | | | | | | | |
| - RM floating rate loans | | 82,481 | 82,481 | - | - | - | - | - |
| - DKK fixed rate loan | | 2,614 | 1,270 | 218 | 218 | 218 | 313 | 377 |
| - USD fixed rate loans | | 78 | 78 | - | - | - | - | - |
| Unsecured term loans: | 5.0 - 12.2 | | | | | | | |
| - RM floating rate loans | | 14,700 | 14,700 | - | - | - | - | - |
| - USD floating rate loans | | 8,298 | 8,298 | - | - | - | - | - |
| Unsecured revolving credits in: | 4.1 - 9.2 | | | | | | | |
| - RM | | 110,698 | 110,698 | - | - | - | - | - |
| Secured overdrafts | 6.0 - 7.0 | | | | | | | |
| - in DKK | | 3,802 | 3,802 | - | - | - | - | - |
| Unsecured overdrafts | 4.7 - 9.2 | | | | | | | |
| - in RM | | 31,324 | 31,324 | - | - | - | - | - |
| - in SGD | | 5,207 | 5,207 | - | - | - | - | - |
| - in USD | | 5,952 | 5,952 | - | - | - | - | - |
| Insurance premium finance - unsecured | 1.5 - 2.6 | | | | | | | |
| - in AUD | | 606 | 606 | - | - | - | - | - |
| Finance lease liabilities | | | | | | | | |
| - in AUD | | 342 | 235 | 86 | 21 | - | - | - |
| - in RM | | 1,183 | 289 | 293 | 257 | 154 | 94 | 96 |
| - in SGD | | 125 | 21 | 22 | 21 | 21 | 22 | 18 |
| | | 267,410 | 264,961 | 619 | 517 | 393 | 429 | 491 |
| | | ====== | ====== | ===== | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

***Effective interest rates and repricing analysis (continued)***

| Company | Average effective interest rate % | Total RM'000 | Less than 1 year RM'000 | 1 - 2 years RM'000 | 2 - 3 years RM'000 | 3 - 4 years RM'000 | 4 - 5 years RM'000 | More than 5 years RM'000 |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Deposits placed with licensed banks | 3.0 - 3.1 | 757 | 757 | - | - | - | - | - |
| **Financial liabilities** | | | | | | | | |
| Secured term loans: | 6.4 | | | | | | | |
| RM floating rate loans | | 5,090 | 5,090 | - | - | - | - | - |
| Unsecured term loans: | 6.1 | | | | | | | |
| - USD floating rate loans | | 40,074 | 40,074 | - | - | - | - | - |
| Unsecured RM revolving credits | 4.5 - 8.3 | 40,000 | 40,000 | - | - | - | - | - |
| Bank overdrafts - secured | 4.5 - 8.3 | 8,499 | 8,499 | - | - | - | - | - |
| | | 93,663 | 93,663 | - | - | - | - | - |
| **2006** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Deposits placed with licensed banks | 2.0 - 3.5 | 757 | 757 | - | - | - | - | - |
| Financial liabilities | | | | | | | | |
| Secured term loans: | 5.3 - 7.8 | | | | | | | |
| - RM floating rate loans | | 15,283 | 15,283 | - | - | - | - | - |
| Unsecured RM revolving credits | 4.7 - 8.2 | 76,000 | 76,000 | - | - | - | - | - |
| Bank overdrafts - unsecured | 4.7 - 8.2 | 23,785 | 23,785 | - | - | - | - | - |
| | | 115,068 | 115,068 | - | - | - | - | - |

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

**Foreign currency risk**

The Group and the Company incur foreign currency risk on revenue and purchases that are denominated in a currency other than Ringgit Malaysia.

The currencies giving rise to this risk are primarily US Dollars, AUD Dollars, Qatar Riyal, SGD Dollars, EURO, DKK Krones and Sudanese Dinar.

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

The foreign exchange contracts are used as hedges to manage the operational exposures to foreign currency risks. The exposure to foreign currency risk of the Group and of the Company is also mitigated by natural hedging via borrowings and payment of operational costs and expenses in the same currency of the major receivables.

**Fair values**

***Recognised financial instruments***

The aggregate fair values of certain financial assets and liabilities carried on the balance sheets as at 31 December are represented in the following table.

| *Group* | 2007 Carrying amount RM'000 | 2007 Fair value RM'000 | 2006 Carrying amount RM'000 | 2006 Fair value RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Quoted shares - long term | 114 | 114 | 67 | 67 |
| | ===== | ===== | ===== | ===== |
| **Financial liabilities** | | | | |
| Secured term loans: | | | | |
| RM floating rate loans | 62,484 | 62,484 | 82,481 | 82,481 |
| DKK fixed rate loan | 1,140 | 1,140 | 2,614 | 2,614 |
| USD fixed rate loans | - | - | 78 | 78 |
| Unsecured term loans: | | | | |
| RM floating rate loans | 8,700 | 8,700 | 14,700 | 14,700 |
| USD floating rate loans | 46,350 | 46,350 | 8,298 | 8,298 |
| | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

**Fair values (continued)**

***Recognised financial instruments (continued)***

| *Company* | 2007 Carrying amount RM'000 | 2007 Fair value RM'000 | 2006 Carrying amount RM'000 | 2006 Fair value RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Quoted shares - long-term | 49,004 | 156,804 | 49,004 | 78,404 |
| | ===== | ====== | ===== | ===== |
| **Financial liabilities** | | | | |
| Secured term loans: | | | | |
| RM floating rate loans | 5,090 | 5,090 | 15,283 | 15,283 |
| | ===== | ===== | ===== | ===== |
| Unsecured term loans: | | | | |
| USD floating rate loans | 40,074 | 40,074 | - | - |
| | ===== | ====== | ===== | ===== |

The fair value of quoted shares is their quoted market price at the balance sheet date.

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

It is not possible to establish the fair value of non-trade balances of amounts due from/(to) subsidiaries and associates.

Most of the non-trade balances of subsidiaries and associates are interest free. Where interest is charged, it is based on inter-company relationship. The balances are unsecured and have no fixed terms of repayments

In respect of the long-term borrowings with variable interest rates, the carrying amounts approximate fair values as they are floating rates and reprice to market interest rates for liabilities with similar risk profiles. As for other long term borrowings with fixed interest rates, the Directors are of the opinion that the fair values approximate the carrying amounts.

It is not possible to establish the fair value of the cumulative redeemable convertible preference shares ("CRCPS") and non-cumulative non-convertible redeemable preference shares ("NCNCRPS") of the subsidiaries (Note 6) held by the Company due to the terms of issue of these shares. The CRCPS and NCNCRPS are redeemable any time after 30 June 2008 and 31 December 2012 respectively.

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

**Fair values (continued)**

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

***Unrecognised financial instruments***

Forward foreign exchange contracts

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

| | 2007 Contracted amount ’000 | 2007 Fair value RM’000 | 2006 Contracted amount ’000 | 2006 Fair value RM’000 |
|---|---|---|---|---|
| **Group** | | | | |
| Forward foreign exchange contracts (Purchase) | | | | |
| - US Dollars | 57,535 | 3,009 | 16,588 | 395 |
| - EURO | - | - | 442 | 4 |
| - Japanese Yen | - | - | 18,009 | - |
| | 57,535 | 3,009 | 35,039 | 399 |
| | ====== | ===== | ===== | ===== |
| Forward foreign exchange contracts (Selling) | | | | |
| - US Dollars | 243,656 | 7,694 | 25,245 | - |
| - Singapore Dollars | 10,000 | 176 | 4,476 | 141 |
| - EURO | 20,000 | 497 | - | - |
| | 273,656 | 8,367 | 29,721 | 141 |
| | ====== | ===== | ===== | ===== |
| **Company** | | | | |
| Forward foreign exchange contracts (Purchase) | | | | |
| - US Dollars | 57,535 | 3,009 | 16,588 | 395 |
| | ===== | ==== | ===== | ===== |
| Forward foreign exchange contracts (Selling) | | | | |
| - US Dollars | 148,039 | 5,823 | 8,000 | 186 |
| - EURO | 20,000 | 497 | - | - |
| | 168,039 | 6,320 | 8,000 | 186 |
| | ====== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 37. Financial instruments (continued)

***Unrecognised financial instruments (continued)***

Forward foreign exchange contracts (continued)

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

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

## 38. Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Contracted but not provided for: | | | | |
| Plant and equipment | 47,983 | 39,065 | 42,983 | 32,849 |
| Factory building | 25,000 | 6,814 | - | 6,814 |
| Information technology system | 902 | - | - | - |
| Total (within one year) | 73,885 | 45,879 | 42,983 | 39,663 |
| | ===== | ===== | ===== | ===== |

## 39. Contingent liabilities - unsecured

| | Company | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| ***Corporate guarantees*** | | |
| Corporate guarantees to licensed banks for credit facilities granted to subsidiaries | 339,184 | 210,286 |
| | ====== | ====== |

***Continuing financial support***

The Company has undertaken to provide continuing financial support to certain subsidiaries to enable them to meet their financial obligations as and when they fall due.

# Notes to the financial statements (continued)

## 40. 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 subsidiaries (see Note 6), associates (see Note 7) and joint ventures (see Note 14).

The significant related party transactions of the Group and of the Company, other than key management personnel compensation (see Note 32), are as follows:

*Significant transactions with subsidiaries*

| | **Company** | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Transaction value for the year ended 31 December | | |
| Gross dividend income receivable | (19,965) | (25,361) |
| Interest income receivable | (2,964) | (1,621) |
| Progress billings receivable | (20,145) | (203,381) |
| Purchase of materials and services | 216,636 | 72,290 |
| Purchase of property, plant and equipment | 468 | 13,739 |
| Rental expense | 3,940 | 3,940 |
| Rental income receivable | (1,854) | (1,490) |
| Sale of property, plant and equipment | (1,671) | (10,363) |
| | ===== | ===== |

The outstanding net amounts due from/(to) subsidiaries as at 31 December are disclosed in Note 11,15 and 28 respectively.

# Notes to the financial statements (continued)

## 40. Related parties (continued)

*Significant transactions with related parties*

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Transaction value for the year ended 31 December | | | | |
| *Associates* | | | | |
| Roadcare (M) Sdn. Bhd. | | | | |
| Gross dividend income receivable | (17,183) | (10,208) | (17,183) | (10,208) |
| Societe Concessionaire De L' Aeroport | | | | |
| Gross dividend income receivable | (8,015) | (5,426) | - | - |
| Interest income receivable | (206) | (363) | (206) | (363) |
| Progress billing receivable | (4,368) | (3,879) | - | - |
| Technical assistance fee receivable | (3,762) | (1,616) | (3,762) | (1,616) |
| Cambodia Airport Management Services Limited | | | | |
| Gross dividend income receivable | (1,715) | (1,426) | - | - |
| Freyssinet PSC (M) Sdn. Bhd. | | | | |
| Gross dividend income receivable | (2,083) | - | (2,083) | - |
| Progress billings receivable | (4,000) | (1,296) | (4,000) | (1,296) |
| Subcontract cost payable | - | 23 | - | 23 |
| Muhibbah Engineering (Cambodia) Co. Ltd. | | | | |
| Administrative charges receivable | - | (4) | - | - |
| Progress billings receivable | - | (271) | - | - |
| Sale of goods | (703) | (783) | - | - |
| Sales of property, plant and equipment | (320) | - | (320) | - |
| Sun Vibrant Sdn. Bhd. | | | | |
| Management fees receivable | (36) | (36) | (36) | (36) |
| Plant maintenance receivable | (1,549) | (1,331) | (1,549) | (1,331) |
| Purchase of plant, property and equipment | 800 | 480 | - | 450 |
| Rental expense payable | - | 880 | - | 880 |
| Favco Offshores Sdn. Bhd. | | | | |
| Purchase of materials | - | 64 | - | - |
| Rental expense payable | - | 968 | - | - |
| Rental income receivable | - | (39) | - | - |
| Sale of services | (120) | (617) | - | - |
| Favelle Favco Machinery and Equipment LLC | | | | |
| Purchase of materials | - | 189 | - | - |
| Sales of goods | (5,192) | (240) | - | - |
| | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 40. Related parties (continued)

*Significant transactions with related parties (continued)*

The significant transactions with Sun Vibrant Sdn. Bhd. represent transactions occurred during the year prior to the date in which Sun Vibrant Sdn. Bhd. became a subsidiary of the Company on 12 December 2007.

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Transaction value for the year ended 31 December | | | | |
| *Joint ventures* | | | | |
| Shimizu-Muhibbah Joint Venture | | | | |
| Progress billings receivable | (3,898) | (605) | (3,898) | (605) |
| MPE-LULU Joint Venture | | | | |
| Progress billings receivable | (10,525) | (81,004) | - | - |
| | ===== | ===== | ===== | ===== |

*Net balance outstanding with related parties*

The outstanding net amounts due from/(to) related parties as at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| *Associates* | | | | |
| Societe Concessionaire De L' Aeroport | 12,833 | 11,124 | 1,983 | 693 |
| Freyssinet PSC (M) Sdn. Bhd. | 355 | 343 | 355 | 343 |
| Muhibbah Engineering (Cambodia) Co. Ltd. | 57,003 | 50,458 | 26,109 | 24,424 |
| Sun Vibrant Sdn. Bhd. | - | (710) | - | (710) |
| MEB (Thailand) Co, Ltd | (669) | (612) | - | - |
| Favco Offshores Sdn. Bhd. | 507 | 1,012 | - | 178 |
| Favelle Favco Machinery and Equipment LLC | 2,474 | 481 | - | - |
| Muhibbah Emirates Contracting LLC | 776 | 643 | - | 227 |
| Muhibbah Engineering and Contracting Gulf WLL | - | 245 | - | 14 |
| | ===== | ===== | ===== | ===== |

# Notes to the financial statements (continued)

## 40. Related parties (continued)

*Net balance outstanding with related parties (continued)*

The outstanding net amounts due from/(to) related parties as at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| *Joint ventures* | | | | |
| Shimizu-Muhibbah Joint Venture | 2,308 | - | 2,308 | - |
| MPE-LULU Joint Venture | 1,290 | - | - | - |
| | ===== | ===== | ===== | ===== |

The terms and conditions for the above transactions are unsecured and have no fixed terms of repayment.

There are no allowance for doubtful receivables as at 31 December 2007 in respect of the above related party balances except for receivables from MEB (Thailand) Co, Ltd of RM2,048,763 (2006 – RM2,043,260), Muhibbah Emirates Contracting LLC of RM1,304,745 (2006 – RM468,982), and Muhibbah Engineering and Contracting Gulf WLL of RM37,490 (2006 – RM22,981).

## 41. Subsidiaries

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

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | Effective ownership interest 2006 % |
|---|---|---|---|---|
| ***Cranes Segment*** | | | | |
| Favelle Favco Berhad | Investment holding | Malaysia | 57.53 | 58.33 |
| Favelle Favco Cranes (M) Sdn. Bhd. | Designing, manufacturing, supply, servicing, trading and renting of cranes | Malaysia | 57.53 | 58.33 |

# Notes to the financial statements (continued)

## 41. Subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | Effective ownership interest 2006 % |
|---|---|---|---|---|
| ***Cranes Segment (continued)*** | | | | |
| Favelle Favco Cranes Pte. Ltd.* * | Trading and renting of cranes and sales of spare parts and services | Singapore | 57.53 | 58.33 |
| Favelle Favco Cranes (USA), Inc.* | Designing, manufacturing, supply, servicing, trading and renting of cranes | United States of America | 57.53 | 58.33 |
| Favelle Favco Cranes Pty Limited* and its subsidiaries: | Designing, manufacturing, supply, servicing and renting of cranes | Australia | 57.53 | 58.33 |
| FF Management Pty. Limited* | Management services | Australia | 57.53 | 58.33 |
| Milpera Blasting and Coating Pty. Limited* | Dormant | Australia | 57.53 | 58.33 |
| Kroll Cranes A/S* | Designing, manufacturing, supply, servicing, trading and renting of cranes | Denmark | 57.53 | 58.33 |
| Favelle Favco Cranes International Ltd. | Dormant | Labuan | 57.53 | 58.33 |
| Favelle Favco Equipment Services Sdn. Bhd. * (formerly known as Favelle Favco Rental Sdn. Bhd.) | Rental, supply of spare parts for cranes and provision of crane maintenance services | Malaysia | 57.53 | 100 |

# Notes to the financial statements (continued)

## 41. Subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | 2006 % |
|---|---|---|---|---|
| ***Marine ship building and ship repair segment*** | | | | |
| Muhibbah Marine Engineering Sdn. Bhd. and its subsidiary: | Ship building, renting of ship, providing ship repair services, trading of marine supplies and provision of other engineering works | Malaysia | 100 | 100 |
| Juara Lagi Sdn. Bhd. | Vessel chartering services | Malaysia | 100 | 100 |
| ***Infrastructure construction segment*** | | | | |
| Elelink Sdn. Bhd.* and its subsidiary: | Investment holding | Malaysia | 100 | 100 |
| ITS Konsortium Sdn. Bhd. | Commissioning of intelligent transport system solution | Malaysia | 60 | 60 |
| Muhibbah Petrochemical Engineering Sdn. Bhd. and its subsidiary: | Oil, gas, petrochemical engineering and related works | Malaysia | 90 | 90 |
| Eaststar Ltd | Leasing of plant and machinery | Labuan | 90 | 90 |
| Muhibbah Engineering (Singapore) Pte. Ltd * | Civil and structural engineering contract works | Singapore | 100 | 100 |
| MEB Construction Sdn. Bhd. | Civil and structural engineering contract works | Malaysia | 100 | 100 |
| Muhibbah Steel Industries Sdn. Bhd.* | Structural steel fabrication and related works | Malaysia | 100 | 100 |
| Muhibbah Airline Support Industries Sdn. Bhd. | Manufacturing, providing consultancy services, designing and dealing in airline support equipment and supply | Malaysia | 100 | 100 |
| Muhibbah Marine Engineering (Deutschland) GmbH* | Constructing and leasing of marine plants | Germany | 95 | 95 |

# Notes to the financial statements (continued)

## 41. Subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | 2006 % |
|---|---|---|---|---|
| ***Infrastructure construction segment (continued)*** | | | | |
| Muhibbah Masteron Cambodia JV Limited* | Investment holding and civil and structural engineering contract works | Cambodia | 70 | 70 |
| Muhibbah-LTAT JV Sdn. Bhd. | Civil, marine and structural engineering contract works | Malaysia | 51 | 51 |
| Konsortium Muhibbah Eng-LTAT Sdn. Bhd. | Civil and structural engineering contract works | Malaysia | 51 | 51 |
| Ann Bee (M) Sdn. Bhd.* | Manufacture of aluminium foils and carbonless papers | Malaysia | 100 | 100 |
| MEB Marketing Sdn. Bhd.* | Distribution and marketing of construction materials | Malaysia | 100 | 100 |
| Muhibbah Reefers Sdn. Bhd.* | Designing, manufacturing, supply and trading of containers and refrigerator containers | Malaysia | 100 | 100 |
| Besimega Sdn. Bhd.* | Dormant | Malaysia | 100 | 100 |
| MEB Equipment Sdn Bhd * | Dormant | Malaysia | 100 | 100 |
| Solid Reserve Sdn. Bhd.* | Dormant | Malaysia | 100 | 100 |
| Karisma Duta Sdn. Bhd*. | Dormant | Malaysia | 100 | 100 |
| MEBIT Sdn. Bhd.* | Dormant | Malaysia | 100 | 100 |
| CB International Engineering Sdn. Bhd. | Dormant | Malaysia | 100 | 100 |
| MEB Fleet Sdn Bhd * | Dormant | Malaysia | 100 | 100 |

# Notes to the financial statements (continued)

## 41. Subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2007 % | 2006 % |
|---|---|---|---|---|
| ***Infrastructure construction segment (continued)*** | | | | |
| Muhibbah Airline Support Industry Pty Ltd * | Dormant | Australia | 100 | 100 |
| Muhibbah Yangon Limited* | Dormant | Union of Myanmar | 100 | 100 |
| Muhibbah Engineering (Philippines) Corporation * | Dormant | Philippines | 99.99 | 99.99 |
| Sun Vibrant Sdn Bhd * | Provision of machinery and equipment hiring services | Malaysia | 51 | 49 |
| Midas Sdn. Bhd.* | Liquidated | Malaysia | - | 100 |
| Muhibbah International Labuan Ltd. | Dormant | Labuan | 100 | 100 |
| Advance Vision Ltd # | Dormant | Labuan | 100 | - |
| Bright Prospect Ltd # | Dormant | Labuan | 100 | - |
| Cambodia Land Ltd # | Dormant | Labuan | 100 | - |
| Delta Field Ltd # | Dormant | Labuan | 100 | - |
| Muhibbah Offshore Services Ltd # | Dormant | Labuan | 95 | - |
| ***Concession segment*** | | | | |
| Muhibbah Airport Services (Labuan) Ltd. | Investment holding | Labuan | 70 | 70 |

* Subsidiaries not audited by KPMG
** Subsidiaries audited by member firms of KPMG international
# Incorporated during the financial year

# Notes to the financial statements (continued)

## 42. Dilution of interest in subsidiary

As at 31 December 2007, the Group's effective interest in Favelle Favco Berhad ("FFB") was diluted from 58.33% to 57.53% pursuant to the exercise of employees' share option scheme of Favelle Favco Berhad during the year by eligible employees.

On 15 August 2006, the Group's effective interest in Favelle Favco Berhad ("FFB") was diluted from 100% to 58.33% as a result of the Initial Public Offer of FFB on the Second Board of Bursa Malaysia Securities Berhad. The impact arising from the dilution in interest was recognised in the income statement as loss on offer for sale of ordinary shares and dilution of equity interest in FFB amounting to RM3,826,000 and RM4,940,000 respectively (Note 31).

## 43. Acquisition of a subsidiary

**Business combination**

On 12 December 2007, the Company acquired additional new shares in Sun Vibrant Sdn. Bhd. for RM525,000 determined based on the fair market value. The purchase consideration was satisfied in full by cash. Sun Vibrant Sdn. Bhd. is principally involved in the provision of machinery and equipment hiring services activities in Malaysia.

The equity interest in Sun Vibrant Sdn. Bhd. increased from 49% to 51% with the acquisition of additional new issue of shares by the Company in Sun Vibrant Sdn. Bhd on 12 December 2007.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

| | **Pre-acquisition carrying amounts RM'000** | **Fair value adjustments RM'000** | **Recognised values on acquisition RM'000** |
|---|---|---|---|
| Total assets | (20,526) | - | (20,526) |
| Total liabilities | 7,226 | - | 7,226 |
| Net assets previously held and treated as investment in associate | 6,259 | - | 6,259 |
| Minority interest | 6,516 | - | 6,516 |
| Net identifiable assets | (525) | - | (525) |
| Goodwill on acquisition | | | - |
| Consideration paid, satisfied in cash | | | (525) |
| Cash acquired | | | 650 |
| Net cash inflow | | | 125 |

The values of assets and liabilities recognised on acquisition are their estimated fair values.

# Notes to the financial statements (continued)

## 44. Liquidation/Disposal of subsidiary

(a) Liquidation of subsidiary - Midas Sdn. Bhd.

On 1 August 2007, the Company via an Extraordinary General Meeting made a public release to the Bursa Malaysia Securities Berhad to wind-up Midas Sdn. Bhd., a wholly owned subsidiary. The Group recognised a loss on winding up of Midas Sdn. Bhd. of RM238,000.

(b) Disposal of subsidiary - Favelle Favco Equipment Services Sdn. Bhd.

On 6 September 2007, the Company disposed the entire equity interest in Favelle Favco Equipment Services Sdn. Bhd. to Favelle Favco Berhad for a total consideration of RM2,800. The consideration was satisfied in full by cash. The carrying amount of Favelle Favco Equipment Services Sdn. Bhd.'s net assets on the date of the disposal was RM10. The Company recognised a gain on disposal of subsidiary of RM2,790.

## 45. Significant event

(a) Alteration of authorised share capital, bonus issue and subdivision of shares

(i) On 2 November 2007, the authorised share capital of the Company was altered from RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each to RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each.

(ii) On 2 November 2007, the Company increased its issued and paid-up share capital through a bonus issue of 38,216,275 new ordinary shares of RM1.00 each in the Company on the basis of 1 bonus share for every 4 existing ordinary shares of RM1.00 each in the Company by way of capitalisation of the share premium account amounting to RM33,211,968 and retained earnings of RM5,004,307. The paid-up share capital (including treasury shares) was increased from RM153,550,600 to RM191,766,875 by the above bonus issue.

(iii) On 2 November 2007, following the completion of the bonus issue, the Company subdivided every 1 existing ordinary share of RM1.00 each in the Company into 2 ordinary shares of RM0.50 each in the Company. The enlarged issued and paid-up share capital (including treasury shares) of the Company comprising of 191,766,875 ordinary shares of RM1.00 each after the completion of the bonus issue was subdivided into 383,533,750 ordinary shares of RM0.50 each.

The approval for the listing and quotation of the bonus issue and subdivision of shares had been granted by the Securities Commission and Bursa Malaysia Securities Berhad vide the approval letters dated 3 August 2007 and 23 August 2007 respectively. The above proposals were approved by the shareholders at an Extraordinary General Meeting held on 19 September 2007.

These bonus issue and subdivision of shares were completed and quoted on the Bursa Malaysia Securities Berhad on 2 November 2007.

# Notes to the financial statements (continued)

## 45. Significant event (continued)

(b) Transfer of listing status of subsidiary company - Favelle Favco Berhad

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

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

## 46. Subsequent event

On 28 March 2008, the Securities Commission approved the Company's proposal for the issuance of, offer for subscription or purchase of, or invitation to subscribe for or purchase, up to RM400 million Nominal Value Islamic Commercial Paper/Medium Term Notes Programme in the form of Sukuk Mudharabah ("Islamic CP/MTN Programme").

RAM Rating Services Berhad has assigned long and short-term ratings of A1 and P1 respectively to the Company's Islamic CP/MTN Programme. The proceeds of the Islamic CP/MMTN Programme shall be utilised for the purpose of part refinancing the existing bank borrowings and/or to part finance the working capital requirements of the Group.

On 22 April 2008, the Company announced a proposed issue of up to RM130 million nominal value of Islamic Bonds together with up to 38,000,000 detachable provisional rights to allotment of warrants. The proposal is conditional upon approvals being obtained from the relevant authorities and shareholders' approval at the forthcoming Extraordinary General Meeting.

# Group properties as at 31 December 2007

| No. | Location | Description of Property | Year of Acquisition | Tenure |
|---|---|---|---|---|
| **A)** | **LIST OF PROPERTIES** | | | |
| 1 | Teluk Gedung, Mukim of Klang, District of Klang, Selangor | | | |
| | - Lot 104625 - HS(D) 99546 | Office building and | 2002 | Leasehold |
| | - Lot 104626 - HS(D) 99547 | factory Vacant Land | 2002 | expiring 2103 |
| 2 | Lot 17579, Mukim of Kapar, Sungai Rasau Kecil, Selangor | Office building and factory | 1996 | Freehold |
| 3 | Lot 9895, Geran # 26559, Kg. Jawa, Mukim of Klang, District of Klang, Selangor | Office building and factory | 1992 | Freehold |
| 4 | 28, Yarrunga Street, Prestons, NSW 2170, Australia | Office building and factory | 1995 | Freehold |
| 5 | Telok Gong, Mukim Klang, Selangor | | | |
| | - Lot 129073 - HS(M) 42560 | Vacant land | 2005 | Leasehold |
| | - Lot 129074 - HS(M) 42561 | Vacant land | 2005 | expiring 2104 |
| 6 | HS(M) 6184, Lot PT 4222, Locality of Selat Klang Utara, Mukim of Kapar, Selangor | Single storey detached factory | 1993 | Leasehold expiring 2086 |
| 7 | Taman Intan, Mukim of Kapar, District of Klang, Selangor | | | |
| | - HS(D) - 13051 Lot 11577 | 1 unit 3 storey terrace shophouses | 1981 | Freehold |
| | - HS(D) - 13052 Lot 11578 | 1 unit 3 storey terrace shophouses | 1981 | Freehold |
| 8 | Mukim 1, District of Seberang Perai Tengah, Pulau Pinang | | | |
| | - Lot 004412 (Plot 56) | 1 unit 2 storey terrace house | 1983 | Freehold |
| | - Lot 004453 (Plot 16) | 1 unit 3 1/2 storey terrace house | 1983 | Freehold |
| 9 | Lot No. R781080, Unit - 04-49, 51, 53, 55, 57, 59, 61 and 63 Taman Mawar, Pasir Gudang, Johor | 8 units medium cost flats | 1991 | Freehold |
| 10 | 3-3, 3-4, Tingkat 3, Block 36, Bandar Sultan Sulaiman, Port Klang, Selangor | 2 units medium cost flats | 1996 | Freehold |

| Owner | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|
| Muhibbah Engineering (M) Bhd | 148,400 sq.m. | 1 year | 11,449 |
| Muhibbah Engineering (M) Bhd | 52,490 sq.m. | Not applicable | 4,161 |
| Muhibbah Engineering (M) Bhd | 1.57 acres | 11 years | 10,199 |
| Muhibbah Engineering (M) Bhd | 5.0 acres | 15 years | 8,411 |
| Muhibbah Engineering (M) Bhd | 11.6 acres | 38 years | 5,036 |
| Muhibbah Engineering (M) Bhd | 30,889 sq. m. | Not applicable | 1,995 |
| | 13,123 sq. m. | Not applicable | 846 |
| Muhibbah Engineering (M) Bhd | 4,053 sq. m. | 15 years | 1,503 |
| Muhibbah Engineering (M) Bhd | 143 sq. m. | 26 years | 170 |
| Muhibbah Engineering (M) Bhd | 143 sq. m. | 26 years | 170 |
| Muhibbah Engineering (M) Bhd | 130 sq. m. | 24 years | 65 |
| Muhibbah Engineering (M) Bhd | 130 sq. m. | 24 years | 181 |
| Muhibbah Engineering (M) Bhd | - | 16 years | 239 |
| Muhibbah Engineering (M) Bhd | - | 11 years | 91 |

# Group properties as at 31 December 2007 (continued)

| No. | Location | Description of Property | Year of Acquisition | Tenure |
|---|---|---|---|---|
| **A)** | **LIST OF PROPERTIES (continued)** | | | |
| 11 | 7B-8, Block 19, Bandar Sultan Sulaiman, Port Klang, Selangor | 1 unit medium cost flat | 1996 | Freehold |
| 12 | PN 11186, Lot 104506, Telok Gong, District of Klang, Selangor | Warehouse | 2004 | Leasehold expiring 2042 |
| 13 | 4 Mile East, FM 106, Port of Harlingen Harlingen, Texas, 78551-3049, USA | Office building cum manufacturing plant | 1997 | Leasehold expiring 2031 |
| 14 | Lot Nos. 31792 & 31814, Town of Senawang, District of Seremban, Negeri Sembilan. | Factory building with office block | 2005 | Freehold |
| 15 | 7AL, Nordkranvej, 2 3540, Lynge DK Denmark | Factory building with office block | 1986 | Freehold |
| 16 | HSD 123837, Lot 104505, District of Klang, Selangor | 4 storey office building, factory and warehouse | 1994 | Extended leasehold expiring 2106 |
| 17 | Telok Gong, Mukim of Klang, District of Klang, Selangor | | | |
| | - Lot 129075 - HS(M) 42558 | Vacant land | 2006 | Leasehold expiring 2035 |
| | - Lot 129076 - HS(M) 42559 | Vacant land | 2006 | |
| 18 | Lot 586, Mukim of Bukit Raja, District of Klang, Selangor | Detached factory with annexed 2 storey office block | 1981 | Freehold |
| 19 | Lot 5, Solok Sultan Hishammuddin Lima, Kawasan Perindustrian, Selat Klang Utara, 42000 Pelabuhan Klang, Selangor | Single storey factory building with an integrated double storey office building | 2003 | Leasehold expiring 2086 |
| 20 | HS(D) KA 41294 & 43432, Lot PT 6020 & 8162, Mukim of Sungai Terap, Perak | Factory building | 1997 | Leasehold expiring 2055 |

| Owner | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|
| Muhibbah Engineering (M) Bhd | - | 11 years | 37 |
| Muhibbah Engineering (M) Bhd | 6,631 sq. m. | 11 years | 987 |
| Favelle Favco Bhd | 17.826 acres | 10 years | 1,405 |
| Favelle Favco (M) Sdn Bhd | 68,846 sq. m. | 3 years | 27,470 |
| Kroll Cranes A/S | 59,525 sq.m. | 38 years | 3,943 |
| Muhibbah Marine Engineering Sdn Bhd | 86,937 sq. m. | 11 years | 47,071 |
| Muhibbah Marine Engineering Sdn Bhd | 4,955 sq.m.<br>18,828 sq.m. | Not applicable<br>Not applicable | 78<br>296 |
| Besimega Sdn Bhd | 2.9 acres | 26 years | 2,702 |
| Ann Bee (M) Sdn Bhd | 0.6883 hectare | 18 years | 2,326 |
| Muhibbah Airline Support Industries Sdn Bhd | 4.3 acres | 13 years | 1,869 |
| | **Total properties** | | **132,700** |

# Group properties as at 31 December 2007 (continued)

| No. | Location | Description of Property | Year of Acquisition | Tenure |
|---|---|---|---|---|
| **B)** | **LIST OF LAND HELD FOR DEVELOPMENT** | | | |
| 1 | Phnom Ou Cheu Teal, Sihannoukville, Cambodia | Vacant Land | 1995 | Leasehold expiring 2065 |
| 2 | Phum Sre Chumrev, Khum Chom Chau, Srok Dangkor, Phnom Penh, Cambodia | Vacant Land | 1995 | Leasehold expiring 2065 |

| Owner | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|
| Muhibbah Masteron Cambodia JV Limited | 7 hectares | Not applicable | 5,374 |
| Muhibbah Masteron Cambodia JV Limited | 6 hectares | Not applicable | 654 |
| | Total land held for development | | 6,028 |
| | Held as:- | | |
| | Land and buildings | | 99,692 |
| | Prepaid lease payments | | 32,422 |
| | Investment property | | 586 |
| | Land held for development | | 6,028 |
| | | | **138,728** |

# Analysis of shareholdings as at 21 April 2008

## Share Capital

| | | |
|---|---|---|
| Authorised share | : | RM500,000,000 |
| Issued and fully paid-up capital | : | 383,618,750 shares |
| Class of shares | : | Ordinary shares of RM0.50 each |
| Voting rights | : | One vote per ordinary share |

| Size of Holdings | No. of Shareholders | % of holders | No. of shares held | % of issued capital* |
|---|---|---|---|---|
| 1 – 99 | 28 | 0.4814 | 1,428 | 0.0004 |
| 100 – 1,000 | 1,166 | 20.0481 | 1,086,434 | 0.2845 |
| 1,001 – 10,000 | 3,640 | 62.5860 | 14,940,650 | 3.9128 |
| 10,001 – 100,000 | 788 | 13.5488 | 21,654,312 | 5.6711 |
| 100,001 – 19,091,786* | 192 | 3.3013 | 277,781,626 | 72.7490 |
| 19,091,787* and above | 2 | 0.0344 | 66,371,300 | 17.3822 |
| Total | 5,816 | 100.0000 | 381,835,750* | 100.0000 |

***Note:***

* *Excluding a total of 1,783,000 MEB Shares bought-back by the Company and retained as treasury shares as at 21 April 2008.*

**Directors' Shareholdings as per Register of Directors' Shareholdings as at 21 April 2008**
**Shares in the Company**

| Name | Direct Interest | % of issued capital* | Deemed Interest | % of issued capital* |
|---|---|---|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | 7,543,392 | 1.98 | 96,250[(a)] | 0.03 |
| Mac Ngan Boon @ Mac Yin Boon | 68,328,916[(b)] | 17.89 | 23,952,500[(a)] | 6.27 |
| Ooi Sen Eng | 11,445,066 | 3.00 | - | - |
| Low Ping Lin | 1,307,500 | 0.34 | - | - |
| Lim Teik Hin | - | - | 80,000[(c)] | 0.02 |

***Notes:***

(a) *Deemed interested by virtue of the Shares held by his wife and children pursuant to Section 134 of the Act.*

(b) *Certain Shares are registered under EB Nominees (Tempatan) Sdn Bhd, RHB Capital Nominees (Tempatan) Sdn Bhd and Mayban Securities Nominees (Tempatan) Sdn Bhd.*

(c) *Deemed interested by virtue of the Shares held by his wife pursuant to Section 134 of the Act.*

* *Excluding a total of 1,783,000 MEB Shares bought-back by the Company and retained as treasury shares as at 21 April 2008.*

# Analysis of shareholdings as at 21 April 2008 (continued)

**Shares in related corporation**

There is no change in the deemed interest of directors in related companies as disclosed in the Directors' Report for the year ended 31 December 2007 on pages from 46 to 48 of this annual report.

**Options in the Company**

There is no change in the employee share options held by the Directors in the Company as disclosed in the Directors' Report for the year ended 31 December 2007 on page 48 of this annual report.

**Substantial Shareholders as at 21 April 2008**

| Name | Direct Interest | % of issued capital* | Deemed Interest | % of issued capital* |
|---|---|---|---|---|
| Mac Ngan Boon @ Mac Yin Boon | 68,328,916[a] | 17.89 | 23,952,500[b] | 6.27 |
| Credit Agricole Asset Management S.A | - | - | 28,030,500[c] | 7.34 |
| HSBC Holdings plc | - | - | 26,388,500[c] | 6.91 |
| JPMorgan Chase & Co | - | - | 23,104,350[c] | 6.05 |
| Genesis Asset Managers, LLP | - | - | 23,670,750[c] | 6.20 |

***Notes:***

(a) *Certain Shares are registered under EB Nominees (Tempatan) Sdn Bhd, RHB Capital Nominees (Tempatan) Sdn Bhd and Mayban Securities Nominees (Tempatan) Sdn Bhd.*

(b) *Deemed interested by virtue of the Shares held by his wife and children pursuant to Section 134 of the Act.*

(c) *Based on the notice of interest of substantial shareholders pursuant to Section 69 of the Act, which had been received by MEB.*

* *Excluding a total of 1,783,000 MEB Shares bought-back by the Company and retained as treasury shares as at 21 April 2008.*

# Analysis of shareholdings as at 21 April 2008 (continued)

List of 30 Largest Shareholders as at 21 April 2008

| No. | Name of Shareholders | No. of shares held | % of issued capital* |
|---|---|---|---|
| 1 | Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon (REM 612) | 43,300,000 | 11.3400 |
| 2 | HSBC Nominees (Asing) Sdn Bhd Exempt An For The Hong Kong and Shanghai Banking Corporation Limited (HBFS-I CLT ACCT) | 23,071,300 | 6.0422 |
| 3 | HSBC Nominees (Asing) Sdn Bhd BBH and Co Boston for Smaller Companies Portfolio (GEMOFL) | 14,994,500 | 3.9270 |
| 4 | Employees Provident Fund Board | 13,415,550 | 3.5134 |
| 5 | EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon (SFC) | 12,500,000 | 3.2737 |
| 6 | Ooi Sen Eng | 11,445,066 | 2.9974 |
| 7 | RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon (551002) | 10,000,000 | 2.6189 |
| 8 | Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chew Keng Siew (REM 612) | 10,000,000 | 2.6189 |
| 9 | Citigroup Nominees (Asing) Sdn Bhd CBHK For Kuwait Investment Authority (Fund 202) | 9,953,500 | 2.6067 |
| 10 | HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (BTPS) | 8,743,400 | 2.2898 |
| 11 | HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Jersey) | 8,676,250 | 2.2722 |
| 12 | HSBC Nominees (Asing) Sdn Bhd BBH (LUX) SCA for Fidelity Funds Pacific | 8,411,300 | 2.2029 |
| 13 | HSBC Nominees (Tempatan) Sdn Bhd Nomura Asset Mgmt Malaysia for Employees Provident Fund | 8,259,750 | 2.1632 |
| 14 | Lembaga Tabung Haji | 7,965,600 | 2.0861 |
| 15 | Noriyati Binti Hassan | 7,102,936 | 1.8602 |
| 16 | Mohamed Taib Bin Ibrahim | 6,349,642 | 1.6629 |
| 17 | Cartaban Nominees (Asing) Sdn Bhd Exempt An For Caceis Bank Luxembourg (CLT ACCT-LUX) | 5,999,750 | 1.5713 |
| 18 | Citigroup Nominees (Asing) Sdn Bhd Goldman Sachs International | 5,633,050 | 1.4753 |

# Analysis of shareholdings as at 21 April 2008 (continued)

List of 30 Largest Shareholders as at 21 April 2008

| No. | Name of Shareholders | No. of shares held | % of issued capital* |
|---|---|---|---|
| 19 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Noriyati Binti Hassan (551008) | 5,000,000 | 1.3095 |
| 20 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An For J.P. Morgan Bank Luxembourg S.A. | 4,845,800 | 1.2691 |
| 21 | HSBC Nominees (Asing) Sdn Bhd<br>BBH and Co Boston for JF Asean Growth Open Mother Fund (JTSBMATB) | 4,800,050 | 1.2571 |
| 22 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An For JPMorgan Chase Bank, National Association (U.S.A) | 4,668,000 | 1.2225 |
| 23 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An For JPMorgan Chase Bank, National Association (RMPP) | 4,269,400 | 1.1181 |
| 24 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Jin (REM 612) | 4,250,000 | 1.1130 |
| 25 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Lynn (REM 612) | 4,000,000 | 1.0476 |
| 26 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Hui (REM 612) | 3,000,000 | 0.7857 |
| 27 | Citigroup Nominees (Asing) Sdn Bhd<br>CB GW Spore for American International Assurance Co. Ltd (AIA REG EQTYFD) | 2,856,100 | 0.7480 |
| 28 | Baharuddin Bin Ali | 2,824,916 | 0.7398 |
| 29 | AMSEC Nominees (Tempatan) Sdn Bhd<br>Amtrustee Berhad For CIMB Islamic Dali Equity Growth Fund(UT-CIMB-DALI) | 2,810,800 | 0.7361 |
| 30 | Citigroup Nominees (Asing) Sdn Bhd<br>CBLDN for Magna Umbrella Fund Plc | 2,726,750 | 0.7141 |
| | | **261,873,410** | **68.5827** |

* *Excluding a total of 1,783,000 MEB Shares bought-back by the Company and retained as treasury shares as at 21 April 2008.*

# Proxy Form

*I/*We ______________________ NRIC No: [New] ______________ [Old] ______________

of ______________________________________________

being a member/members of **Muhibbah Engineering (M) Bhd**, hereby appoint the Chairman of the Meeting or Mr/Ms ______

______________________ NRIC No: [New] ______________ [Old] ______________

of ______________________________________________

or failing whom ______________________ NRIC No: [New] ______________ [Old] ______________

of ______________________________________________

as *my/*our proxy to vote for *me/*us and on *my/*our behalf at the Thirty-Fifth Annual General Meeting of the Company which is to be held at Rebana 3, Level 1, Convention Centre, Grand BlueWave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Thursday, 19 June 2008 at 11.00 a.m. and at any adjournment thereof.

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

| Agenda | Resolution | For | Against |
|---|---|---|---|
| 1. To receive the Audited Financial Statements for the financial year ended 31 December 2007 and the Reports of the Directors and Auditors thereon. | 1 | | |
| 2. To approve a First and Final Dividend of 9% less 26% income tax in respect of the financial year ended 31 December 2007. | 2 | | |
| 3. To re-elect the following Directors who retire pursuant to Article 79 of the Company's Articles of Association: | | | |
| a. Datuk Zakaria bin Abdul Hamid | 3 | | |
| b. Mr Low Ping Lin | 4 | | |
| c. En Abd Hamid bin Ibrahim | 5 | | |
| 4. To consider and, if thought fit, to pass the following resolution: "THAT Tuan Haji Mohamed Taib bin Ibrahim, a Director who retires pursuant to Section 129(2) of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company in accordance with Section 129(6) of the Companies Act, 1965 and to hold office until the conclusion of the next Annual General Meeting." | 6 | | |
| 5. To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | 7 | | |
| **As Special Business :** | | | |
| 6. ORDINARY RESOLUTION 1 Proposed Renewal of Share Buy-Back Authority | 8 | | |
| 7. ORDINARY RESOLUTION 2 Proposed Shareholders' Mandate | 9 | | |
| 8. SPECIAL RESOLUTION 1 Proposed Amendments to Articles of Association of the Company | 10 | | |

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

Dated this...................... day of .................................. 2008

| NUMBER OF SHARES HELD |
|---|
| |

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

[Signature/Common Seal of Shareholder(s)]

[* Delete if not applicable]

NOTES:-

1. A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. Proxy/proxies may but need not be a member/members of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Share Registrar at G-01 Ground Floor, Plaza Permata, Jalan Kampar Off Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

Affix
Stamp
Here

SHARE REGISTRAR

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