ANNUAL REPORT 2008

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

Mac Chung Jin *(Alternate Director to Ooi Sen Eng)*

Audit Committee

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

Company Secretaries

Lee Poh Kwee *(MIA 8033)*
Chin Ngeok Mui *(MAICSA 7003178)*
See Siew Cheng *(MAICSA 7011225)*

Registered Office

Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan, Malaysia
Tel: 603-3342 4323 Fax: 603-3342 4327

Auditors

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

Principal Bankers

Affin Bank Berhad
Alliance Bank Malaysia Berhad
Ambank (Malaysia) Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
Bank of Tokyo – Mitsubishi UFJ
HSBC Bank Malaysia Berhad
Kuwait Finance House (Malaysia) Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
Standard Chartered Bank Malaysia Berhad

Share Registrar

Tenaga Koperat Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia
Tel : 603-2264 3883 Fax: 603-2282 1886

Stock Exchange Listing

Muhibbah Engineering (M) Bhd
Main Board of Bursa Malaysia Securities Berhad
Stock Name: Muhibah
Bursa Stock Code: 5703
Bloomberg Stock Code: MUHI MK
Listing 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

Investor Relations

Tel: 603- 3349 5444 Fax: 603- 3344 6302
Email: ir@muhibbah.com.my

Website

www.muhibbah.com
www.favellefavco.com

Yemen LNG Jetty

CONTENTS

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty-Sixth Annual General Meeting of Muhibbah Engineering (M) Bhd will be held at Grand BlueWave Hotel Shah Alam, Kompang Room, Level 1, Convention Center, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 22 June 2009 at 11.00 a.m. for the following purposes:

Agenda

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2008 and the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To approve a First and Final Dividend of 5% less 25% income tax in respect of the financial year ended 31 December 2008. **Resolution 2**

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

   (i) Mac Ngan Boon @ Mac Yin Boon **Resolution 3**
   (ii) Dato' Seri Raja Ahmad Zainuddin Bin Raja Haji Omar **Resolution 4**
   (iii) Vice Admiral Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (Rtd) **Resolution 5**

4. To consider and, if thought fit, to pass the following resolution: **Resolution 6**

   "**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 Director of the Company in accordance with Section 129(6) of the Companies Act, 1965 and to hold office until the conclusion of the next Annual General Meeting."

5. To 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 with or without modifications, the following resolutions:-

6. ## Ordinary Resolution

   Proposed Renewal of Share Buy-Back Authority **Resolution 8**

   "**THAT** subject to the requirements of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), Companies Act, 1965 ("the Act"), and the Articles of Association of the Company, the Company be and is hereby authorised to purchase such number of ordinary shares of RM0.50 each in the Company through Bursa Securities, as may be determined by the Directors of the Company from time to time upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

(i) the aggregate number of ordinary shares purchased and/or held by the Company as treasury shares shall not exceed ten percent (10%) of the issued and paid-up ordinary share capital of the Company at any point in time;

(ii) the funds allocated by the Company for the Proposed Share Buy-Back shall not exceed the aggregate retained profits and share premium accounts of the Company; and

(iii) the authority conferred by this resolution shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which this resolution was passed, at which time it shall lapse, unless by ordinary resolution passed at that meeting, the authority is renewed, whether unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of 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 an ordinary resolution passed by the shareholders of the Company in a general meeting,

whichever occurs first.

THAT the Directors of the Company be and are hereby authorised to deal with the shares purchased in the following manner:

(a) cancel all the shares so purchased; and/or

(b) retain the shares so purchased as treasury shares, for distribution as share dividends to the shareholders and/or resell on the market of Bursa Securities; and/or

(c) retain part thereof as treasury shares and cancel the remainder.

AND THAT the Directors of the Company be and are hereby authorised to give effect to the Proposed Share Buy-Back with full power to assent to any modifications and/or amendments as may be required by the relevant authorities."

7. Ordinary Resolution

Resolution 9

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")

Notice of Annual General Meeting (continued)

"**THAT** subject always to the Listing Requirements of Bursa Securities, approval be and is hereby given to the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in 2.1.1 of the Circular to Shareholders ("Circular") dated 29 May 2009 provided that such transactions are undertaken in the ordinary course of business, at arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the interests of the minority shareholders of the Company.

THAT approval be and is hereby given to the Company and/or its subsidiaries to enter into additional recurrent related party transactions of a revenue or trading nature with the related parties as specified in 2.1.1 of the Circular dated 29 May 2009.

THAT the Mandates conferred by this resolution shall continue to be in force until :

(a) the conclusion of the next AGM of the Company at which time it will lapse, unless by a resolution passed at the next AGM, the Mandates is renewed; or

(b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of 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 a resolution passed by the Company's shareholders in a general meeting

whichever is the earliest.

AND THAT the Directors of the Company be and are hereby authorised to take all steps and to do all such acts and deeds as they may consider expedient or necessary to give effect to the Mandates."

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

BY ORDER OF THE BOARD

LEE POH KWEE *(MIA 8033)*
CHIN NGEOK MUI *(MAICSA 7003178)*
SEE SIEW CHENG *(MAICSA 7011225)*

Company Secretaries
Selangor Darul Ehsan
29 May 2009

Notice of Annual General Meeting (continued)

Notes:

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

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

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 Company's Registered Office at Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time set for holding the Meeting or at any adjournment thereof.

Explanatory notes on Special Business

5. **Resolution pertaining to the Proposed Renewal of Share Buy-Back Authority**
   For Resolution 8, further information on the Proposed Renewal of Share Buy-Back Authority is set out in the Statement/Circular to Shareholders dated 29 May 2009 which is dispatch together with the Company's Annual Report 2008.

6. **Resolution pertaining to the Proposed Shareholders' Mandates**
   For Resolution 9, further information on the Proposed Shareholders' Mandates is set out in Statement/Circular to Shareholders dated 29 May 2009 which is dispatch together with the Company's Annual Report 2008.

Notice Of Dividend Entitlement And Payment Date

NOTICE IS HEREBY GIVEN THAT a First and Final Dividend of 5% less 25% income tax in respect of the financial year ended 31 December 2008, if approved by the shareholders at the forthcoming Thirty-Sixth Annual General Meeting, will be paid on 17 September 2009 to Depositors whose names appear in the Record of Depositors at the close of business on 4 September 2009.

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

(a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 4 September 2009 in respect of ordinary transfers; and
(b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

LEE POH KWEE (MIA 8033)
CHIN NGEOK MUI (MAICSA 7003178)
SEE SIEW CHENG (MAICSA 7011225)

Company Secretaries
Selangor Darul Ehsan
29 May 2009

Statement Accompanying Notice Of Annual General Meeting

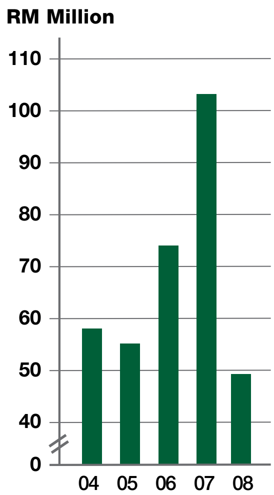
Mac Ngan Boon @ Mac Yin Boon, Dato' Seri Raja Ahmad Zainuddin Bin Raja Haji Omar, Vice Admiral Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (Rtd) and Tuan Haji Mohamed Taib bin Ibrahim are the Directors standing for re-election at the forthcoming Thirty-Sixth Annual General Meeting of the Company and their respective further details are shown in the Annual Report, as follows:

Further Details		Page No.
1.	Age, nationality, qualification, and whether the position is that of an executive or non-executive and whether of an independent director	22 - 24
2.	The working experience and occupation	22 - 24
3.	Any other directorships of public companies	22 - 24
4.	The details of any interest in the Company and its subsidiaries	45 - 46
5.	The family relationship with any director and/or major shareholder of the Company	25
6.	Any conflict of interest that they have with the Company	25
7.	The list of convictions for offences within the past 10 years other than traffic offences, if any	25

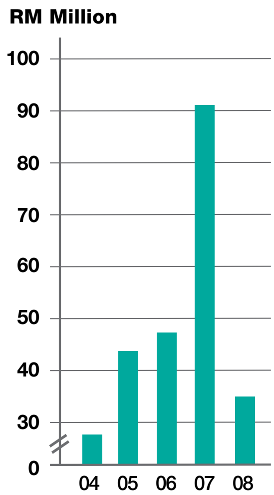
Group Financial Highlights

	2004	2005	2006	2007	**2008**
Turnover (RM'000)	996,862	970,740	1,086,414	1,411,533	2,033,535
Profit Before Tax and Exceptional Items (RM'000)	58,422	55,297	73,857	103,005	44,930
Profit After Tax Before Minority Interest (RM'000)	26,707	43,046	47,831	90,285	34,871
Profit After Tax and Minority Interest (RM'000)	7,831	26,061	33,800	70,060	21,800
Total Equity Attributable to Shareholders of the Company (RM'000)	269,960	287,239	321,437	393,623	441,418
Share Capital (RM'000)	144,568	144,568	149,618	191,783	196,469
Basic Earnings Per Ordinary Share Attributable to Shareholders of the Company (Sen)*	2.17	7.21	9.17	18.60	5.64
Net Assets Per Ordinary Share Attributable to Shareholders of the Company (RM)*	0.75	0.79	0.86	1.04	1.14

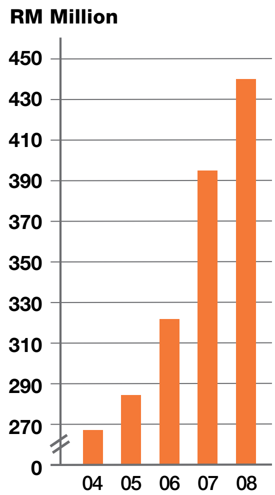
* *The comparative figures for the financial year ended 31 December 2007 have been restated to account for the effect of changes in accounting policies in year 2008, for reflective comparison purposes.*



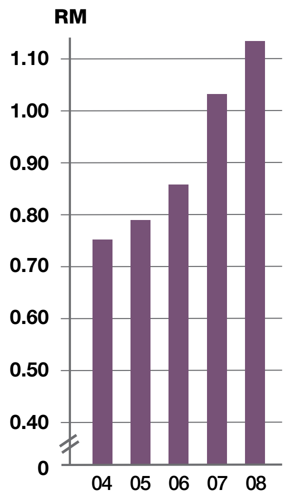
Profit Before Tax and Exceptional Items



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 2009

MUHIBBAH ENGINEERING (M) BHD. (12737-K)

- **INFRASTRUCTURE CONSTRUCTION**
  - 100% MEB CONSTRUCTION SDN. BHD.
  - 100% MUHIBBAH STEEL INDUSTRIES SDN. BHD.
  - 100% ELELINK SDN. BHD.
    - 60% ITS KONSORTIUM SDN. BHD.
  - 95% MUHIBBAH MARINE ENGINEERING (DEUTSCHLAND) GmbH
  - 95% MUHIBBAH PETROCHEMICAL ENGINEERING SDN. BHD.
  - 60% MUHIBBAH ENGINEERING (CAMBODIA) CO. LTD.
  - 50% FREYSSINET PSC (M) SDN. BHD.
- **CRANES**
  - 57.52% FAVELLE FAVCO BERHAD
    - 100% FAVELLE FAVCO CRANES (M) SDN. BHD.
    - 100% FAVELLE FAVCO CRANES PTE. LTD.
    - 100% FAVELLE FAVCO CRANES PTY. LIMITED
    - 100% FAVELLE FAVCO CRANES (USA), INC.
    - 100% KRØLL CRANES A/S
    - 100% FAVELLE FAVCO EQUIPMENT SERVICES SDN. BHD.
- **SHIPYARD**
  - 100% MUHIBBAH MARINE ENGINEERING SDN. BHD.
- **CONCESSIONS**
  - 70% MUHIBBAH MASTERON CAMBODIA JV LIMITED
    - 30% SOCIETE CONCESSIONAIRE DE I' AEROPORT
  - 21% ROADCARE (M) SDN. BHD.

Only major active companies are included here

Chairman's Statement

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

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 2008.

Prudent management and concerted approach for long term growth are reflected in our diversified activities and order book. Amidst an uncertain and competitive environment, the Group will continue to grow our business, stay focus on its core businesses and strengthen its market presence amongst reputable customers globally.

Overview

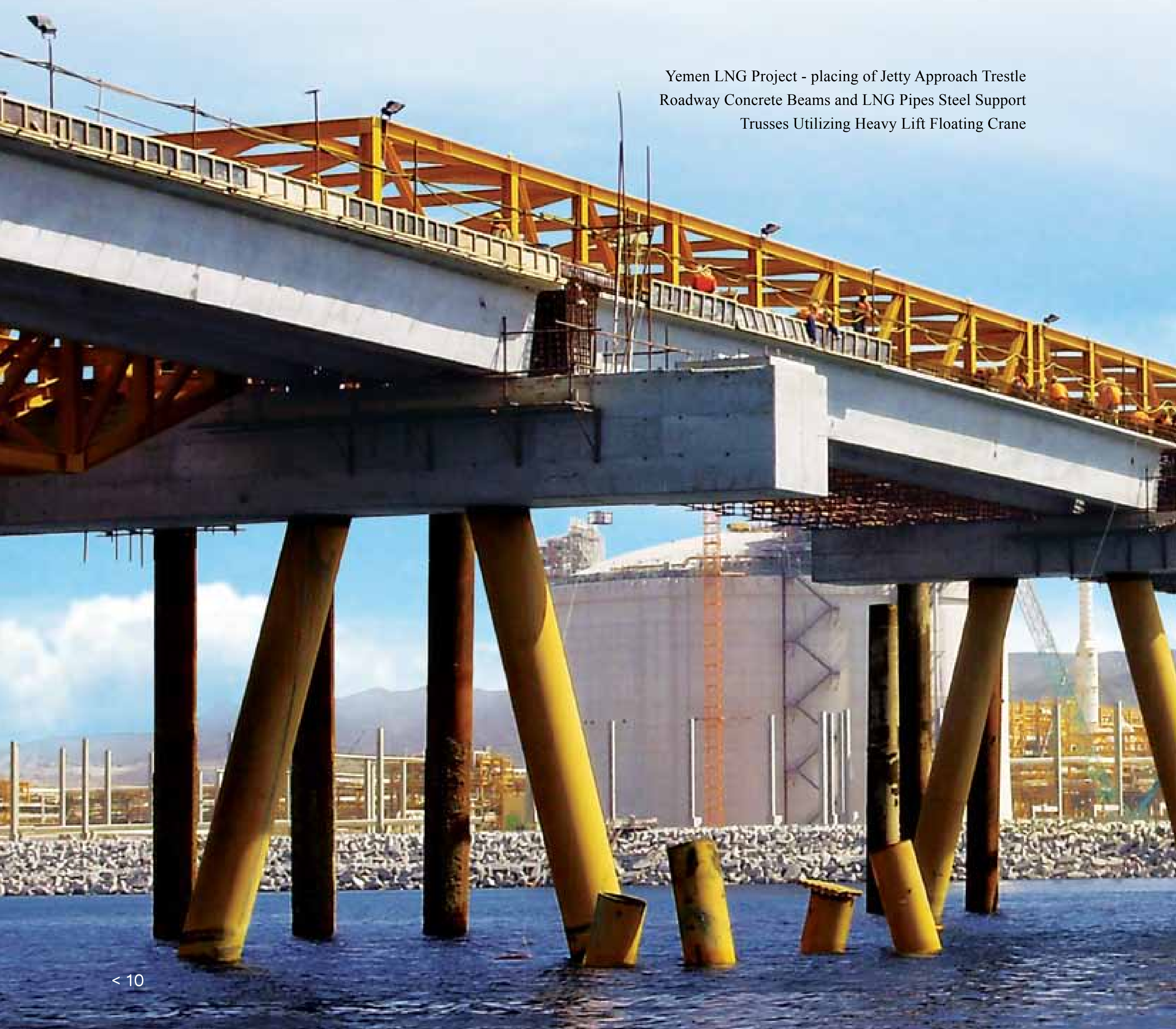
Once again, I am pleased to report that Muhibbah Group has recorded a sales revenue of RM2.03 billion (2007: RM1.41 billion), with an increase of 44%.

The higher sales is reflective of the increased sales from all our divisions. The crane and shipyard subsidiaries posted improved performance with higher revenue and profitability and are expected to continue to enhance the Group's performance.

Chairman's Statement (continued)

The Airport Operations and Road Maintenance Concessions continue to contribute recurring income for the Group in the years ahead.

The year under review was a challenging one. Inflation led by the escalating fuel and energy prices, coupled with an unprecedented increase in commodity and construction raw material prices, had impacted our costs and affected the Group's infrastructure construction and engineering business. The results are a lower profit before tax for the year of RM44.93 million (2007: RM103.01 million).



Yemen LNG Project - placing of Jetty Approach Trestle Roadway Concrete Beams and LNG Pipes Steel Support Trusses Utilizing Heavy Lift Floating Crane

Key Highlights

Some key achievements for financial year ended 31 December 2008 include:

- Group's turnover increased by 44% to RM2.03 billion (2007: RM1.41 billion);
- Group's profit before exceptional items, interest, depreciation, amortisation and taxes was RM129.92 million (2007 : RM 185.54 million);
- Group's net profit after tax and minority interests was RM21.80 million (2007: RM70.06 million);
- Group's earnings per share was 5.64 sen (2007: 18.60 sen);
- Group's net assets per share grew from RM1.04 in 2007 to RM1.14 in 2008; and
- Return on equity (ROE) was 6.59% as compared to 19.28% (restated) achieved in 2007.

As at 30 April 2009, the total outstanding order book stands at approximately RM4.31 billion.

The financial results for the financial year ended 31 December 2008 is mainly attributed to:

- Contribution from the shipyard division with continuing demands for anchor-handling tugboats and supply vessels for offshore oil and gas exploration and production activities;
- Contribution from the cranes division in the oil and gas sector and construction activities; and
- Contribution of recurring income from our airport operations and road maintenance concessions.

Chairman's Statement (continued)

Dividends

The Board is pleased to recommend a first and final dividend of 5% (2.5 sen) less 25% taxation per ordinary share of RM0.50 each (2007: 9% (4.5sen) less 26% taxation per ordinary share of RM0.50 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 RM7.33 million (2007: RM13.01 million).

Financial Performance

Details of the performance of each division of the Group for the financial year ended 31 December 2008 and future prospects of the Group are as follows:

Construction and Engineering Division

This year saw an erosion of our results for the construction and engineering business due to a significant increase in raw material prices resulting from escalating oil prices. Inflationary prices substantially increased our costs.

Works on the Yemen LNG Jetty project progressed significantly in the financial year under review. The construction margin of the Yemen LNG Jetty project is revised downwards on the increased marine plant rental costs due to the early arrival of the monsoon season in Yemen, higher fuel prices and inflation during the year. This project is at its final stage of construction and will be completed in 2009.

1

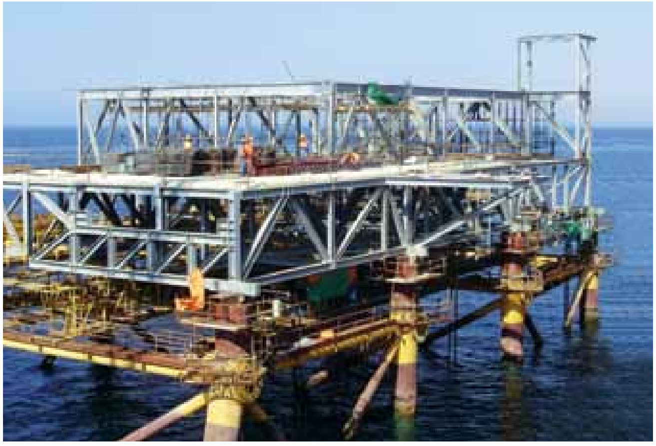
2

3

4

1. Construction and Completion of storage tanks for the MG3 Project for Petronas Penapisan (Melaka) Sdn Bhd
2. Rehabilitation and upgrading of Damascus International Airport, Syrian Arab Republic
3. Glass Walled Passenger Boarding Bridge for A380 Large Aircraft for Kuala Lumpur International Airport
4. Upgraded Crane Beam for Keppel Wharf, Singapore

Government Apartment Package, Putrajaya



Loading Platform Jackets fabricated by Muhibbah Steel Industries Sdn Bhd for the Yemen LNG Jetty 1 Project in Balhaf, Yemen

Construction works for the catering facility at the New Doha International Airport (NDIA), Qatar, upgrading of works at Damascus International Airport, Syrian Arab Republic, construction works of a Petroleum Hub at Tanjung Bin, Johor and the South Klang Valley Expressway Project have made good progress.

In the first quarter of 2009, we secured a contract for the construction and commissioning of the Central Oil Distribution Terminal at Tanjung Manis, Mukah, Sarawak for a contract sum of approximately RM109 million.

Deep Water Berth for MMHE (Gumusut Kakap Project)

Chairman's Statement (continued)

1

Existing unbilled order book from infrastructure construction projects, will continue to contribute to our future earnings and cashflow for the next few years.

As at 30 April 2009, the outstanding secured order book for the construction and engineering division stands at approximately RM2.8 billion.

Cranes Division

The cranes division's turnover increased to RM571.78 million (2007: RM452.37 million) with 67% of the division's revenues being generated from overseas markets.

Favelle Favco Berhad ("Favco") recorded an improved profits ability attributed to the increased in sales.

In the year under review, Favco secured an order to deliver cranes to the United Kingdom. This milestone is a platform for our cranes division expansion into the European markets and in extending our geographic

footprint. We have also been pre-qualified with Petrobras in Brazil, where large oil and gas reserves have been discovered. Studies estimate Brazil will have the world third largest offshore oil reserves.

Power plant construction is extremely busy and we see an increase in demand for our heavy lift cranes. This sector is expected to have moderate levels of activity despite the ongoing slowdown in the construction industry.

As at 30 April 2009, the outstanding secured order book for the cranes division stands at approximately RM672 million. Approximately 63% is from the oil and gas sector with the remaining 37% from the shipyard and construction sectors.

1. Favell Favco Offshore Crane

2. Krøll Construction Tower Crane

Chairman's Statement (continued)

1


2


1. 49 meter Utility Vessel
2. 60 meter Anchor Handling Tug Supply Vessel

Shipyard Division

Our shipyard division continues to perform and recorded a profit after tax of RM24.1 million in the year under review, which is a growth of 54% compared to the previous year of RM15.7 million.

In 2008, our shipyard delivered six (6) vessels compared to four (4) vessels in 2007. Customer satisfaction with the performance of our shipyard resulted in repeat orders. Shipbuilding continues to form the bulk of our revenue. Anchor handling tugboats and offshore supply vessels continue to be the mainstay of our order book.

59 meter Anchor Handling Tug Supply Vessel

The domestic oil and gas industry still offers opportunities, with Petronas driving the growth in oil and gas exploration and production activities. Our customers continue to see charters for offshore support marine vessels remaining steady.

In 2008, the Muhibbah Group completed the construction of an offshore fabrication yard on our 37-acre land adjacent to our shipyard. The fabrication yard is operated by our wholly-owned subsidiary, Muhibbah Steel Industries Sdn Bhd ("MSI").

MSI will undertake offshore fabrication works and is capable of an annual capacity of 18,000 tonnes. MSI has successfully fabricated more than 10,000 tonnes of steel jackets for the Yemen LNG Jetty project and has complied with international accreditation standards.

The outstanding secured order book for the shipyard division stands at approximately RM837 million and the work will last us for the next few years.

75 meter Accommodation Workboat

Chairman's Statement (continued)

Concessions Division

The airports and road maintenance concessions business continued to be resilient. 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 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.

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 above concession business continues to provide resilient and steady earnings.

Foundation work for the Catering Facilities Building , New Doha International Airport , Qatar

Future Prospects

The unprecedented turmoil and upheaval in global financial markets have resulted in global investors to be remain cautious. The sudden reversals in capital flows have dampened investment sentiments and weakened the growth momentum for 2009. The global economic and financial environment is expected to be challenging going forward.

Despite the current adverse economic outlook, the Group is positioned to weather these uncertainties in view of its order book.

Apart from the existing jobs, the Group is working to replenish its existing order book.

The Group remains committed to its growth strategy which focuses on a prudent and cohesive expansion in activities closely correlated with the Group's core competencies.

Moving forward, the Group's prospects for the year 2009 are expected to remain positive.

Chairman's Statement (continued)

Jetty Works of Asia Petroleum Hub Project in Johor

Tank Foundation work at Asia Petroleum Hub Project in Johor

Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Board is committed to the Company's shareholders to ensure that good corporate governance is 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 of Internal Control, have been included in this Annual Report in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.

Corporate Social Responsibility

The Group remains steadfast in our commitment to corporate social responsibility ("CSR") within our society, and to add value to the community at large. The Group is guided by its CSR initiatives in every aspect of its business operations in the contribution to and participation in activities for the benefit and betterment of the welfare of community.

The Group continually implements safety and health systems within the Group in accordance with the requirements of OHSAS 18001:2007 for each and every project undertaken and to ensure compliance with local and international standards. The Group's operations comply with the environmental laws and regulations governing the industries in which it operates. Other CSR activities of the Group in 2008 include its continual commitment to the preservation of the environment, charitable contributions to the welfare of the needy and the less fortunate, as well as undertaking support causes related to personal training and development and recreational activities of employees.

Bridge work in progress for SKVE Project

Road base work in progress for SKVE Project

Acknowledgement And Appreciation

On behalf of the Board, I would like to thank the management and staff of the Group for their continued dedication and commitment as the Group embarks on yet another year and strives to deliver stronger earnings growth and returns to the shareholders.

As always, we would also like to thank our customers, business partners, suppliers, bankers and shareholders for their continued support.

Mohamed Taib bin Ibrahim
Chairman

Widening of the Existing Penang Bridge

Profile of Directors

Tuan Haji Mohamed Taib bin Ibrahim
Aged 84, Malaysian
(Chairman, Independent Non-Executive Director)

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Tuan Haji Mohamed Taib bin Ibrahim 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 65, 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 Landmarks Berhad.

Mac Ngan Boon @ Mac Yin Boon
Aged 65, 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 67, Malaysian
(Executive Director)

Member of the 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 Remuneration Committee on 21 February 2002.

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

Member of the Audit Committee, Remuneration Committee and Nomination Committee

Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd) was appointed to the Board as an Independent Non-Executive Director on 19 April 2001. He was appointed as 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 career with the Royal Malaysian Navy and received numerous decorations both internationally and locally. He is a graduate of the Indonesian Naval Staff College, the United States Naval War College and United States Naval Post-Graduate School in Monterey. Apart from his Naval Professional Qualifications, he also obtained a Masters Degree in Public Administration from the 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 and Comintel Corporation Bhd.

Low Ping Lin
Aged 55, 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.

Dato' Seri Raja Ahmad Zainuddin Bin Raja Haji Omar
Aged 53, 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 Oman 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.

Profile of Directors (continued)

Lim Teik Hin
Aged 68, 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 and Non-Executive Director. He is a member of Malaysian Institute of Certified Public Accountants, a member of CPA Australia and a Chartered Accountant of the Malaysian Institute of Accountants. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A. Walker & Sons) and subsequently worked with KPMG in Malaysia. He then joined Federal Aluminium (M) Bhd. as an Operations Manager. His last held position was Senior Manager in Muhibbah Engineering (M) Bhd.

He is presently also a Non-Independent and Non-Executive Director of Favelle Favco Berhad.

Abd Hamid Bin Ibrahim
Aged 61, Malaysian
(Independent Non-Executive Director)

Abd Hamid Bin Ibrahim, a Malaysian aged 61, 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).

Mac Chung Jin
Aged 35, Malaysia
(Alternate Director to Ooi Sen Eng)

Mac Chung Jin was appointed as an Alternate Director to Mr. Ooi Sen Eng of Muhibbah Engineering (M) Bhd on 2 May 2008. He holds a Bachelor of Civil Engineering Degree from Oxford Brookes University, United Kingdom. He joined Muhibbah Engineering (M) Bhd in 1995 as a Project Engineer and from 1999 till to date he is Head of Business Development, overseeing local and international projects.

Other Information

Additional Information on Directors

1. **Family Relationship with any Director and/or major shareholder 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 Mac Chung Jin and Lim Teik Hin. Mac Chung Jin is the eldest son of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd whereas Lim Teik Him is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon.

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

3. **Convictions for Offences within the past 10 years, other than traffic offences**
   None of the Directors have been convicted for offences.

Additional Compliance Information

1. **Utilisation of Proceeds from Corporate Proposals**

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

2. **Share Buy-Backs**

   Details of shares repurchased by the Company during the financial year ended 31 December 2008 are as follows :-

Period Purchase	No. of Shares Purchased and Retained as Treasury Shares	Total Consideration Paid (RM)	— Purchase Price Per Share — Highest (RM)	Lowest (RM)	Average (RM)
March	412,000	892,869	2.08	2.28	2.17

   The Company repurchased 412,000 ordinary shares of RM0.50 each of its own shares from the open market of Bursa Malaysia Securities Berhad for a total consideration of RM892,869 comprising consideration paid amounting to RM890,332 and transaction cost of RM2,537 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 94 of this Annual Report.

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

   Details of the exercise of employees' share options of the Company are disclosed on pages 45 to 46 of this Annual Report.

Other Information (continued)

Additional Compliance Information (continued)

3. Options, Warrants or Convertible Securities (continued)

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

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

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

5. Imposition of Sanctions and/or Penalties

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

6. Non-Audit Fees

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

7. Variation in Results

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

8. Profit Estimate, Forecast or Projection

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

9. Profit Guarantee

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

10. Material Contracts

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

11. Revaluation Policy on Landed Properties

In prior year, the freehold land of the Group was stated at cost. During the year, the Group adopted the policy to revalue their freehold land every 5 years or shorter interval, whichever the fair value of the freehold land is expected to differ materially from the carrying value.

12. Recurrent Related Party Transactions

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

In accordance with Section 4.1.5 of Practice Note No. 12/2001 of the Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2008 pursuant to the shareholders' mandate are disclosed as follows:

Other Information (continued)

Additional Compliance Information (continued)

Transacting Parties	Related Party	Nature of Transactions			Actual Transactions Value for the Financial Year Ended 31 December 2008 RM'000
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			16,102
		Rental income of cranes, plant and equipment by MEB Group to FFB Group and subcontracting work awarded by FFB Group to MEB Group			4,184
		Rental of the following premises by MEB Group to FFB Group:			
		Type, usage of premises and location	**Size**	**Basis of rental**	
		Factory and office premises located at Lot 9895, Geran #26559, Kg. Jawa, Mukim of Klang, District of Klang, Selangor Darul Ehsan	5.0 acres	Monthly	240
		Office building and factory located at 28, Yarrunga Street, Prestons, NSW 2170, Australia	11.6 acres	Monthly	613
		Open yard located at PN 11185, Lot 104505, Telok Gong, District of Klang, Selangor Darul Ehsan	32,753.44 sq. ft.	Monthly	98
FO and FFM	Mac Ngan Boon @ 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			74

Other Information (continued)

Additional Compliance Information (continued)

Transacting Parties	Related Party	Nature of Transactions	Actual Transactions Value for the Financial Year Ended 31 December 2008 RM'000
CB and FFB Group	Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon and Mac Chung Hui	# Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama, measuring approximately 4,500 sq. ft. by CB to FFB Group	88
CB and MPE	Gan Kim Sin	# Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama, measuring approximately 3,300 sq. ft. by CB to MPE	66
MEB Group and MPE	Gan Kim Sin	Rental of storage yard by MEB Group to MPE	51
		Sale of raw materials by MEB Group to MPE *	38
		Interest receivable by MEB Group from MPE **	2,831

\# *Tenancies are for terms not exceeding 3 years with rentals payable on monthly basis.*
* *MEB Group acts as sub-contractor for procurement of raw materials on behalf of MPE.*
** *This represents interest receivable on trade debtors balances based on sales to MPE.*

Abbreviations

"CB"	:	CB International Engineering Sdn Bhd, a wholly-owned subsidiary of MEB
"FFB"	:	Favelle Favco Berhad
"FFB Group"	:	FFB, its subsidiaries and associated companies
"FFM"	:	Favelle Favco Cranes (M) Sdn Bhd, a wholly-owned subsidiary of FFB
"FO"	:	Favco Offshores Sdn Bhd, an associated company of FFB
"MEB"	:	Muhibbah Engineering (M) Bhd
"MEB Group"	:	MEB, its subsidiaries and associated companies
"MPE"	:	Muhibbah Petrochemical Engineering Sdn Bhd, a 90%-owned subsidiary of MEB

Statement on Corporate Governance

Introduction

The Board of Directors ("the Board") is committed towards ensuring that good 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 and one (1) Non-Independent and Non-Executive Director. As such, more than one third ($^1/_3$) of the Board comprises of Independent Non-Executive Directors. 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 Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd) as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.

Board Meetings

Board meetings are held at regular intervals with additional meetings taking place when necessary. During the year, the Board met four (4) times to review the Group's operations, review and approve the quarterly and annual financial statements and other matters requiring the Board's approval. The Company Secretary records all the deliberations, particularly the issues discussed in reaching that decision in the minutes of Board meetings. Details of the attendance of the Directors are as follows:

Statement on Corporate Governance (continued)

Names of Directors	Attendance at Meetings in 2008
Tuan Haji Mohamed Taib bin Ibrahim	4/4
Datuk Zakaria bin Abdul Hamid	3/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Ooi Sen Eng	4/4
Low Ping Lin	3/4
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar	2/4
Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	4/4
Lim Teik Hin	4/4
Abd Hamid bin Ibrahim	3/4
Mac Chung Jin *(Alternate Director to Ooi Sen Eng)* *(Appointed on 7 May 2008)*	3/4

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 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.

Statement on Corporate Governance (continued)

Board Committees

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

(i) Audit Committee

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

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

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

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on pages 36 to 40 of this Annual Report.

(ii) Nomination Committee

The present members of the Nomination Committee are as follows:

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

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

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 Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	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 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's approval. The individual Non-Executive Directors concerned had abstained from discussion of their own remuneration packages.

Appointments and Re-election

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

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

Directors' Training

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

Statement on Corporate Governance (continued)

Directors' Training (continued)

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 strategic corporate planning, risk management, leadership, corporate governance and investors relations.

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	1,824,240	27,160	1,851,400
	1,968,240	315,160	2,283,400

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

Range of Remuneration	Executive Directors	Non Executive Directors	Total
Below RM50,000	-	1	1
RM50,001 to RM100,000	-	5	5
RM600,001 to RM650,000	1	-	1
RM650,001 to RM700,000	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	60
Company Briefings	2
Site Tour - Klang Shipyard & Offshore Structure Fabrication Yard	1
Participation at roadshows/conferences: - Malaysia (2) - Singapore (2) - Hong Kong (1)	5

Apart from the mandatory announcements of the Group's financial results and corporate developments to Bursa Malaysia Securities Berhad, the Group maintains a website (www.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.

Statement on Corporate Governance (continued)

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 Companies Act, 1965 and Financial Reporting Standards in Malaysia.

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

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

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

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

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

Relationship with the Auditors

Through the Audit Committee of the Board, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views 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 41 and 42 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 2008**
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Independent Non-Executive Director)*	4/4
Datuk Zakaria bin Abdul Hamid	Member *(Independent Non-Executive Director)*	3/4
Vice Admiral Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)	Member *(Senior Independent Non-Executive Director)*	2/4
Lim Teik Hin	Member *(Non-Independent and Non-Executive Director)*	3/4
Ooi Sen Eng *(resigned on 26 November 2008)*	Member *(Executive Director)*	2/4

Mr Ooi Sen Eng, who is an Executive Director of the Company, relinquished his membership in the Audit Committee. The change is to comply with the amendments to Paragraph 15.10 of the Listing Requirements of Bursa Malaysia Securities Berhad, which requires that all members of the Audit Committee shall consist of Non-Executive Directors, with a majority being Independent Directors.

The Audit Committee held four (4) meetings during the financial year ended 31 December 2008. The Group's 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 Audit Committee. The Group's external auditors attended two (2) meetings during the year.

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

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

Summary Of Activities

During the year, the Audit Committee carried out its duties as set out in its 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.

Audit Committee Report (continued)

Summary Of Activities (continued)

(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.

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. The total costs incurred for the internal audit function in respect of the financial year amounted to RM310,000.

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.

Audit Committee Report (continued)

Terms Of Reference

Objectives

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

In addition, the Audit Committee shall:

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

Membership

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

At least one (1) member of the Audit Committee must be a member of the Malaysian Institute of Accountants or have similar qualifications as prescribed in Part I or Part II of the First Schedule of the Accountants Act 1967 or fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

If a member of the Audit Committee ceases to be a member with the result that the number of members is reduced to 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 Audit 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 quorum for each meeting shall be two (2) members where a majority of the members present must be Independent Directors.

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

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

Authority

The Audit Committee is authorised by the Board:

- 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 and employees of the Company, whenever deemed necessary.

Audit Committee Report (continued)

Duties

The duties and scope of work of the Audit 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.

Audit Committee Report (continued)

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

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

Proceedings of the Audit Committee

Calling of meetings
The members may meet together for the despatch of business, adjourn and otherwise regulate their meetings 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;

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

Foundation and Pile Caps for Catering Facilities Building, New Doha International Airport, Qatar

FINANCIAL STATEMENT

Directors' report for the year ended 31 December 2008

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2008.

Principal activities

The Company is principally engaged in investment holding, infrastructure, civil and structural engineering contract works. The main business segments of the Group are stated in Note 28 to the financial statements. The principal activities of the subsidiaries are as stated in Note 6 to the financial statements. There have been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit attributable to:		
Shareholders of the Company	21,800	52,596
Minority interests	13,071	-
Profit for the year	34,871	52,596

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the Company paid a first and final ordinary dividend of 4.50 sen per ordinary share of RM0.50 each less tax at 26% totaling RM13,005,000 in respect of the year ended 31 December 2007.

The first and final dividend recommended by the Directors in respect of the year ended 31 December 2008 is 2.50 sen per ordinary share of RM 0.50 each less tax at 25% totaling RM7,334,000 subject to approval of the shareholders at the forthcoming Annual General Meeting.

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 Dato' Seri Ahmad Ramli bin Haji Mohd Nor (Rtd)
Datuk Zakaria bin Abdul Hamid
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar
Lim Teik Hin
Abd Hamid bin Ibrahim
Mac Chung Jin *(appointed on 7.5.2008, alternate to Ooi Sen Eng)*

Directors' report for the year ended 31 December 2008 (continued)

Directors' interest

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

	Number of ordinary shares of RM0.50 each			
	At 1.1.2008/ Date of appointment	**Bought**	**Sold**	**At 31.12.2008**
Interest in the Company:				
Tuan Haji Mohamed Taib Bin Ibrahim	7,543,392	-	-	7,543,392
Mac Ngan Boon @ Mac Yin Boon	68,328,916	400,000	-	68,728,916
Ooi Sen Eng	11,545,066	1,600,000	(100,000)	13,045,066
Low Ping Lin	1,307,500	1,667,500	(20,000)	2,955,000
Mac Chung Jin	4,635,000	20,000	(20,000)	4,635,000
Lim Teik Hin	1,000	-	(1,000)	-
Datuk Zakaria bin Abdul Hamid	-	50,000	-	50,000

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

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2008/ Date of appointment	**Granted**	**Exercised**	**At 31.12.2008**
Mac Ngan Boon @ Mac Yin Boon	1,832,500	-	-	1,832,500
Ooi Sen Eng	2,500,000	-	(1,600,000)	900,000
Low Ping Lin	2,500,000	-	(1,667,500)	832,500
Mac Chung Jin	665,000	-	-	665,000

By virtue of their interest in shares of the Company, the abovementioned Directors 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.

Other than the abovementioned Directors, none of the other Directors holding office at 31 December 2008 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 2008 (continued)

Directors' benefits (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 or debentures of the Company or any other body corporate apart from certain Directors' entitlement to subscribe for new ordinary shares of the Company under the Employees' Share Option Scheme.

Issue of shares and debentures

The movement of share capital is disclosed in Note 15 to the financial statements.

The Company has not issued any debentures during the financial year.

Treasury shares

The movement of treasury shares is disclosed in Note 16 to the financial statements.

Options granted over unissued shares

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

At an extraordinary general meeting held on 26 June 2006, the Company's shareholders approved the establishment of an employees' share option scheme (ESOS). The main features of the ESOS, details of share options offered and exercised during the financial year are disclosed in Note 25.

The Company has been granted exemption pursuant to Section 169(11) of the Companies Act, 1965 by the Companies Commission of Malaysia from having to disclose the names of options holders, other than Directors, who have been granted options representing 1,000,000 ordinary shares of RM0.50 each and above under the ESOS Scheme as disclosed below:

	Number of options over ordinary shares of RM0.50 each			
	Balance at 1.1.2008	**Granted**	**Exercised**	**Balance at 31.12.2008**
Lee Poh Kwee	2,000,000	-	-	2,000,000
Chong Lai Keong	1,000,000	-	(500,000)	500,000
Tan Bin Tat	1,000,000	- `	(500,000)	500,000
Tan Chin Guan	1,000,000	-	(500,000)	500,000

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.

Directors' report for the year ended 31 December 2008 (continued)

Other statutory information (continued)

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

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

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

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2008 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

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

....

Mac Ngan Boon @ Mac Yin Boon **Ooi Sen Eng**

Klang,
Date: 27 April 2009

Balance sheets at 31 December 2008

		Group		Company	
	Note	**2008 RM'000**	2007 RM'000 Restated	**2008 RM'000**	2007 RM'000
Assets					
Property, plant and equipment	3	**495,995**	330,391	**123,579**	115,350
Prepaid lease payments	4	**32,189**	32,422	**8,772**	19,918
Investment properties	5	**568**	586	**28,947**	33,688
Investments in subsidiaries	6	**-**	-	**177,693**	141,723
Investments in associates	7	**124,209**	107,631	**8,424**	8,424
Goodwill on consolidation	9	**22,171**	571	**-**	-
Receivables, deposits and prepayments	8	**-**	10,000	**10,000**	10,000
Deferred tax assets	10	**33**	148	**-**	-
Other non-current assets	11	**27,468**	9,550	**9**	4
Total non-current assets		**702,633**	491,299	**357,424**	329,107
Investments in joint ventures		-	1,257	**-**	-
Receivables, deposits and prepayments	8	**721,013**	380,624	**680,742**	339,675
Amount due from contract customers	12	**738,207**	540,731	**481,088**	250,324
Inventories	13	**215,617**	159,895	**-**	-
Current tax assets		**15,738**	3,239	**5,041**	5,342
Cash and cash equivalents	14	**216,730**	180,075	**103,876**	2,776
Total current assets		**1,907,305**	1,265,821	**1,270,747**	598,117
Total assets		**2,609,938**	1,757,120	**1,628,171**	927,224

Balance sheets at 31 December 2008 (continued)

	Note	Group 2008 RM'000	Group 2007 RM'000 Restated	Company 2008 RM'000	Company 2007 RM'000
Equity					
Share capital	15	**196,469**	191,783	**196,469**	191,783
Reserves	16	**244,949**	201,840	**138,012**	95,975
Total equity attributable to shareholders of the Company		**441,418**	393,623	**334,481**	287,758
Minority interests		**87,629**	74,692	**-**	-
Total equity		**529,047**	468,315	**334,481**	287,758
Liabilities					
Payables and accruals	18	**17,449**	16,795	**-**	-
Loans and borrowings	17	**116,625**	92,508	**73,838**	38,893
Deferred tax liabilities	10	**7,658**	8,593	**-**	-
Total non-current liabilities		**141,732**	117,896	**73,838**	38,893
Provisions, payables and accruals	18	**735,738**	443,488	**520,576**	238,138
Amount due to contract customers	12	**372,912**	157,464	**98,922**	10,065
Bills payable	19	**679,212**	431,914	**499,975**	296,521
Loans and borrowings	17	**135,882**	127,232	**90,435**	54,770
Tax liabilities		**15,415**	10,811	**9,944**	1,079
Total current liabilities		**1,939,159**	1,170,909	**1,219,852**	600,573
Total liabilities		**2,080,891**	1,288,805	**1,293,690**	639,466
Total equity and liabilities		**2,609,938**	1,757,120	**1,628,171**	927,224

The notes on pages 58 to 122 are an integral part of these financial statements.

Income statements for the year ended 31 December 2008

		Group		Company	
	Note	2008 RM'000	2007 RM'000 Restated	2008 RM'000	2007 RM'000
Revenue	20	**2,033,535**	1,411,533	**1,154,532**	563,093
Cost of sales		**(1,899,429)**	(1,252,289)	**(1,101,509)**	(516,978)
Gross profit		**134,106**	159,244	**53,023**	46,115
Other income		**5,537**	14,164	**68,841**	13,391
Distribution costs		**(21,403)**	(11,314)	**(1,050)**	(689)
Administrative expenses		**(76,390)**	(58,589)	**(22,590)**	(8,896)
Other expenses		**(16,842)**	(18,217)	**(35,695)**	(16,842)
Results from operating activities		**25,008**	85,288	**62,529**	33,079
Interest income		**3,129**	3,622	**4,419**	3,463
Finance costs		**(9,898)**	(13,611)	**-**	-
Operating profit	21	**18,239**	75,299	**66,948**	36,542
Share of profit after tax and minority interests of equity accounted associates		**26,691**	26,683	**-**	-
Share of profit after tax of joint ventures		**-**	1,023	**-**	-
Profit before tax		**44,930**	103,005	**66,948**	36,542
Tax expense	23	**(10,059)**	(12,720)	**(14,352)**	3,314
Profit for the year		**34,871**	90,285	**52,596**	39,856
Attributable to:					
Shareholders of the Company		**21,800**	70,060	**52,596**	39,856
Minority interests		**13,071**	20,225	**-**	-
Profit for the year		**34,871**	90,285	**52,596**	39,856
Earnings per ordinary share (sen)					
- Basic	24	**5.64**	18.60		
- Diluted	24	**5.44**	17.62		

The notes on pages 58 to 122 are an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2008

		Attributable to shareholders of the Company										
		Non-Distributable							Distributable			
Group	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Capital reserve RM'000	Share option reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
At 1 January 2007												
- as previously reported		149,618	-	29,636	1,007	1,612	1,842	10,842	126,880	321,437	57,575	379,012
- effect of adopting revised FRS 112		-	-	-	-	-	-	-	7,280	7,280	-	7,280
At 1 January 2007, restated		149,618	-	29,636	1,007	1,612	1,842	10,842	134,160	328,717	57,575	386,292
Foreign exchange translation differences recognised directly in equity		-	-	-	-	-	-	(2,866)	-	(2,866)	(494)	(3,360)
Profit for the year, as previously reported		-	-	-	-	-	-	-	70,180	70,180	20,225	90,405
- effect of adopting revised FRS 112		-	-	-	-	-	-	-	(120)	(120)	-	(120)
Profit for the year, restated		-	-	-	-	-	-	-	70,060	70,060	20,225	90,285
Total recognised income and expense for the year		-	-	-	-	-	-	(2,866)	70,060	67,194	19,731	86,925
Share options exercised	15	3,949	-	1,101	-	-	-	-	-	5,050	1,296	6,346
Share-based payments	25	-	-	2,783	-	-	2,905	-	-	5,688	556	6,244
Bonus issue		38,216	-	(33,212)	-	-	-	-	(5,004)	-	-	-
Shares repurchased	16	-	(4,669)	-	-	-	-	-	-	(4,669)	(13)	(4,682)
Dilution of interest in subsidiary	6	-	-	-	-	-	-	-	-	-	276	276
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	-	6,516	6,516
Dividends to shareholders	26	-	-	-	-	-	-	-	(8,357)	(8,357)	-	(8,357)
Dividends to minority interests		-	-	-	-	-	-	-	-	-	(11,245)	(11,245)
At 31 December 2007 / 1 January 2008		191,783	(4,669)	308	1,007	1,612	4,747	7,976	190,859	393,623	74,692	468,315

Consolidated statement of changes in equity for the year ended 31 December 2008 (continued)

		Attributable to shareholders of the Company										
		Non-Distributable						Distributable				
Group (continued)	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Capital reserve RM'000	Share option reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
At 31 December 2007 / At 1 January 2008		191,783	(4,669)	308	1,007	1,612	4,747	7,976	190,859	393,623	74,692	468,315
Foreign exchange translation differences recognised directly in equity		-	-	-	-	-	-	3,759	-	3,759	(1,773)	1,986
Profit for the year		-	-	-	-	-	-	-	21,800	21,800	13,071	34,871
Total recognised income and expense for the year		-	-	-	-	-	-	3,759	21,800	25,559	11,298	36,857
Share options exercised	15	4,686	-	92	-	-	-	-	-	4,778	371	5,149
Share-based payments	25	-	-	1,740	-	-	493	-	-	2,233	242	2,475
Shares repurchased	16	-	(892)	-	-	-	-	-	-	(892)	-	(892)
Dilution of interest in subsidiary	6	-	-	-	-	-	-	-	-	-	111	111
Revaluation of property, plant and equipment		-	-	-	29,365	-	-	-	-	29,365	6,449	35,814
Realisation of revaluation reserve on disposal of property, plant and equipment		-	-	-	(243)	-	-	-	-	(243)	-	(243)
Dividends to shareholders	26	-	-	-	-	-	-	-	(13,005)	(13,005)	-	(13,005)
Dividends to minority interests		-	-	-	-	-	-	-	-	-	(5,534)	(5,534)
At 31 December 2008		196,469	(5,561)	2,140	30,129	1,612	5,240	11,735	199,654	441,418	87,629	529,047

The notes on pages 58 to 122 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2008 (Continued)

		Non-Distributable						Distributable	
Company	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Share option reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2007		149,618	-	29,636	764	1,385	95	69,479	250,977
Foreign exchange translation differences recognised directly in equity		-	-	-	-	-	(34)	-	(34)
Profit for the year		-	-	-	-	-	-	39,856	39,856
Total recognised income and expense for the year		-	-	-	-	-	(34)	39,856	39,822
Share options exercised	15	3,949	-	1,101	-	-	-	-	5,050
Share-based payments	25	-	-	2,485	-	2,450	-	-	4,935
Bonus issue		38,216	-	(33,212)	-	-	-	(5,004)	-
Shares repurchased	16	-	(4,669)	-	-	-	-	-	(4,669)
Dividends to shareholders	26	-	-	-	-	-	-	(8,357)	(8,357)
At 31 December 2007		191,783	(4,669)	10	764	3,835	61	95,974	287,758

The notes on pages 58 to 122 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2008 (continued)

		Non-Distributable					*Distributable*	
Company	**Note**	**Share capital RM'000**	**Treasury shares RM'000**	**Share premium RM'000**	**Revaluation reserve RM'000**	**Share option reserve RM'000**	**Translation reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2008		191,783	(4,669)	10	764	3,835	61	95,974	287,758
Foreign exchange translation differences recognised directly in equity		-	-	-	-	-	1,343	-	1,343
Profit for the year		-	-	-	-	-	-	52,596	52,596
Total recognised income and expense for the year		-	-	-	-	-	1,343	52,596	53,939
Share options exercised	15	4,686	-	92	-	-	-	-	4,778
Share-based payments	25	-	-	2,038	-	(135)	-	-	1,903
Shares repurchased	16	-	(892)	-	-	-	-	-	(892)
Dividends to shareholders	26	-	-	-	-	-	-	(13,005)	(13,005)
At 31 December 2008		196,469	(5,561)	2,140	764	3,700	1,404	135,565	334,481

The notes on pages 58 to 122 are an integral part of these financial statements.

Cash flow statements for the year ended 31 December 2008

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Cash flows from operating activities				
Profit before tax	**44,930**	103,005	**66,948**	36,542
Adjustments for:				
Amortisation of development costs	**2,079**	2,507	**-**	-
Amortisation of intellectual property	**281**	251	**-**	-
Amortisation of prepaid lease payments	**648**	317	**112**	228
Impairment of goodwill of associates	**605**	605	**-**	-
Depreciation of investment properties	**173**	19	**372**	370
Depreciation of property, plant and equipment	**30,181**	20,832	**2,186**	1,240
Dividend income	**-**	-	**(108,929)**	(39,231)
Gain on disposal of property, plant and equipment	**(1,070)**	(2,725)	**(27,392)**	(2,004)
Gain on disposal of investment properties	-	(1)	**-**	(1)
Gain on disposal of prepaid lease payments	-	(1,012)	**(33,251)**	(1,012)
Goodwill arising from share buy-back of subsidiary written off	**-**	8	**-**	-
Finance costs	**9,898**	13,611	**-**	-
Interest income	**(3,129)**	(3,622)	**(4,419)**	(3,463)
Provision of diminution in values of subsidiary	**-**	-	**12,467**	-
Investment in subsidiary written off	**-**	-	**-**	2,588
Impairment loss on Investment property	**-**	-	**4,524**	-
Loss on disposal of associate	**-**	122	**-**	-
Loss on winding-up of subsidiary	**-**	238	**-**	-
Reversal of impairment loss for investment in subsidiary	**-**	-	**-**	(1,500)
Reversal of allowance for diminution in value of other investments	**(5)**	(47)	**(5)**	-
Reversal of impairment loss of property, plant and equipment	**-**	(214)	**-**	-
Share based payments	**1,713**	3,423	**1,903**	2,670
Share of profit of associates	**(26,691)**	(26,683)	**-**	-
Share of profit of joint ventures	**-**	(1,023)	**-**	-
Other non cash expenditures	**83**	-	**-**	-
Operating profit/(loss) before changes in working capital	**59,696**	109,611	**(85,484)**	(3,573)

Cash flow statements for the year ended 31 December 2008 (continued)

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Operating profit/(loss) before changes in working capital (continued)	**59,696**	109,611	**(85,484)**	(3,573)
Receivables, deposits and prepayments	**(296,411)**	316	**(342,322)**	(45,854)
Inventories	**(53,108)**	(34,957)	**-**	-
Payables and accruals	**186,793**	70,619	**282,438**	45,993
Amount due to/(from) contract customers	**30,200**	(99,646)	**(130,575)**	(89,755)
Cash (used in)/generated from operations	**(72,830)**	45,943	**(275,943)**	(93,189)
Income taxes paid	**(18,774)**	(5,561)	**(2,032)**	(4,773)
Tax refund	**-**	10,360	**-**	10,012
Net cash (used in)/generated from operating activities	**(91,604)**	50,742	**(277,975)**	(87,950)
Cash flows from investing activities				
Additions to development expenditure	**(12,922)**	-	**-**	-
Acquisition of an associate	**(4,381)**	-	**-**	-
Acquisition of shares from minority interest	**-**	(21)	**-**	-
Additions to prepaid lease payments	**(415)**	-	**(415)**	-
Acquisition of a subsidiary, net cash inflow	**6,500**	125	**-**	-
Acquisition of subsidiaries	**-**	-	**(48,437)**	(543)
Dividends received from:				
- subsidiaries	**-**	-	**99,075**	19,088
- associates	**16,408**	23,290	**6,700**	14,100
Interest received	**3,129**	3,622	**4,419**	3,463
Proceeds from disposal of associate	**-**	981	**-**	981
Proceeds from disposal of property, plant and equipment	**5,620**	17,875	**93,140**	15,190
Proceeds from disposal of prepaid lease payments	**-**	2,426	**44,700**	2,426
Proceeds from disposal of investment properties	**-**	31	**-**	31
Proceeds from disposal of land held for development	**942**	375	**-**	-

Cash flow statements for the year ended 31 December 2008 (continued)

		Group		Company	
		2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Cash flows from investing activities (continued)					
Purchase of property, plant and equipment	(i)	**(137,451)**	(89,428)	**(87,495)**	(50,834)
Purchase of investment properties		**(155)**	-	**(155)**	-
Purchase of other non-current assets		**(18)**	-	**-**	-
Liquidation of a subsidiary, net cash outflow		**-**	(234)	**-**	-
Proceeds received from joint venture		**1,257**	-	**1,257**	-
Net cash (used in)/generated from investing activities		**(121,486)**	(40,958)	**112,789**	3,902
Cash flows from financing activities					
Dividends paid to shareholders of the Company		**(13,005)**	(8,357)	**(13,005)**	(8,357)
Dividends paid to minority interests		**(5,534)**	(11,245)	**-**	-
Interest paid		**(9,898)**	(40,884)	**-**	(27,272)
Proceeds from issuance of shares options		**4,778**	5,050	**4,778**	5,050
Proceeds from issuance of shares to minority interest of a subsidiary		**371**	1,296	**-**	-
Net drawdown of loans and borrowings		**298,236**	146,073	**281,067**	133,273
Purchase of treasury shares		**(892)**	(4,669)	**(892)**	(4,669)
Net cash generated from financing activities		**274,056**	87,264	**271,948**	98,025
Exchange differences on translation of the financial statements of foreign operations		**(1,683)**	(1,054)	**1,341**	(34)
Net increase in cash and cash equivalents		**59,283**	95,994	**108,103**	13,943
Cash and cash equivalents at beginning of year		**149,239**	53,245	**(5,723)**	(19,666)
Cash and cash equivalents at end of year	(ii)	**208,522**	149,239	**102,380**	(5,723)

Cash flow statements for the year ended 31 December 2008 (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 RM139,131,000 (2007 - RM90,285,000) and RM87,495,000 (2007 - RM50,834,000) respectively, of which RM1,680,000 (2007 - RM857,000) of the Group and Nil (2007 - Nil) of the Company was acquired by means of hire-purchases/liabilities.

(ii) Cash and cash equivalents

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

		Group		Company	
	Note	**2008 RM'000**	2007 RM'000	**2008 RM'000**	2007 RM'000
Cash and bank balances	14	**108,363**	87,870	**38,119**	2,019
Deposits placed with licensed banks	14	**108,367**	92,205	**65,757**	757
Bank overdrafts	17	**(8,208)**	(30,836)	**(1,496)**	(8,499)
		208,522	149,239	**102,380**	(5,723)

The notes on pages 58 to 122 are an integral part of these financial statements.

Notes to the financial statements

Muhibbah Engineering (M) Bhd. is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia.

The Company is principally engaged in investment holding, infrastructure, civil and structural engineering contract works. The main business segments of the Group are stated in Note 28 to the financial statements. The principal activities of its subsidiaries are as stated in Note 6.

The financial statements were approved by the Board of Directors on 27 April 2009.

1. Basis of preparation

(a) Statement of compliance

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

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

Notes to the financial statements (continued)

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

The Group and the Company plan to apply the abovementioned FRSs/ Interpretations from the annual period beginning 1 January 2010.

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs.

FRS 4 is not applicable to the Group and the Company. Hence, no further disclosure is warranted. The initial application of the other standards (and their consequential amendments) and interpretations is not expected to have any material impact on the financial statements of the Group and the Company.

(b) Basis of measurement

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

The Group has net current liabilities of RM31,854,000 as at 31 December 2008. The validity of the going concern assumption is dependent upon the ability of the Group to achieve profitable operations and to obtain the continued support from the bankers and creditors.

At the date of this report, there is no reason for the Directors to believe that there is any significant uncertainty over the ability of the Group to achieve profitable operations and that the Group's bankers and creditors will not continue to support the Group's operations. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

(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 is in RM and has been rounded to the nearest thousand, unless otherwise stated.

Notes to the financial statements (continued)

1. Basis of preparation (continued)

(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.

The areas of significant estimation uncertainty and critical judgments in applying accounting policies are disclosed in the relevant notes to the financial statements.

2. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting in which the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(ii) Associates

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

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of the profit or loss of the equity accounted associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(ii) Associates (continued)

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

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

(iii) 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. The consolidated financial statements include the Group's share of the profit or loss 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 Group's and Company's balance sheet at cost less impairment losses.

(iv) Minority interests

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

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 with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from 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 the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statements.

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

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments, are translated to RM at exchange rates at the balance sheet date, 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 operations in functional currencies other than RM are translated to RM at exchange rates at the dates of the transactions.

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

(iii) Net investment in foreign operations

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are recognised in the consolidated income statement upon disposal of the investment.

2. Significant accounting policies (continued)

(c) Derivative financial instruments

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

In prior years, the freehold land of the Group and the Company was stated at cost. During the year, the Group and the Company adopted the policy to revalue their freehold land every 5 years or at shorter intervals whenever the fair value of the freehold land is expected to differ materially from their carrying value (see Note 33).

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 cost 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 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. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(ii) Reclassification to investment property

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is recognised in the income statements on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

In prior years, all plant and equipment were depreciated on the straight-line basis over the useful lives of 6 to 15 years.

With effect from 1 January 2008, the usage method of depreciation was implemented for certain plant and equipment. This method was adopted to better reflect the consumption pattern of the expected economic benefits of the plant and equipment. Under the usage method, depreciation is determined based on the number of days the plant and equipment are used over the projected useful lives of the assets.

The estimated useful lives 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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(v) Changes in estimates

Estimates in respect of the useful lives of certain items of plant and machinery were revised in 2008 (see Note 3).

(e) Prepaid lease payments

Leases, where the Group does not assume substantially all the risks and rewards of the ownership are classified as 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, except for leasehold land classified as investment property.

(f) Investment properties

Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both from external parties. These include land (other than leasehold land) held for a currently undetermined future use.

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(d).

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

(g) Intangible assets

(i) Goodwill

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

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

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

Goodwill with indefinite useful lives are tested for impairment annually and whenever there is an indication that they may be impaired.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Research and development

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

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

Other development expenditure which does not meet the criteria is recognised in the income statement as an expense as incurred. Capitalised development expenditure which meets the criteria is stated at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Intellectual property

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

(iv) Amortisation

Other than goodwill, other intangible assets are amortised from the date that they are available for use. Amortisation of intangible assets is charged to the income statements on a straight-line basis over the estimated useful lives of intangible assets of 5 to 10 years.

(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.

2. Significant accounting policies (continued)

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress, assembled cranes, manufactured inventories and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Receivables

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

(k) Amount due from/Amount due to contract customers

Amount due from contract customers represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Contract work-in-progress is presented as part of total current assets in the balance sheet. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown as amount due to contract customers as part of the total current liabilities in the balance sheet.

(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.

(m) Impairment of assets

The carrying amounts of assets except for financial assets, deferred tax assets, inventories and assets arising from construction contracts are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying amount of the assets with their recoverable amounts. Recoverable amounts are the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(m) Impairment of assets (continued)

An impairment loss is recognised as an expense in the income statement immediately, unless the assets are carried at a revalued amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a prorata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it is credited directly to revaluation surplus.

(n) Equity instruments

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

(i) Issue expenses

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

(ii) Repurchase of share capital

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

(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 statements 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.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(p) Employee benefits (continued)

(i) Short-term employee benefits (continued)

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.

(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.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) 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.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(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.

(s) Revenue

(i) Construction contracts

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

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

(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) 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 contract work performed to date.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(u) Tax expense

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

Deferred tax is provided for, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transactions that is not a business combination and that affects neither accounting nor taxable profit (tax loss).

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences; unused tax losses and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In the previous year, unutilised reinvestment allowance was recognised as a reduction of tax expense as and when it was utilised. Following the adoption of the revised FRS 112, a tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in the income statement as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised. This change in accounting policy is applied retrospectively and the effects are set out in Note 33.

(v) Earnings per share

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

(w) Segment reporting

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

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/ Revalued							
At 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/ 1 January 2008	19,346	113,722	45,368	116,625	329,216	7,145	631,422
Additions	1,232	43,867	-	8,116	77,952	7,964	139,131
Acquisition of subsidiary	18,298	1,300	-	-	25,993	2,802	48,393
Disposals	-	-	-	(8,428)	(17,738)	-	(26,166)
Exchange differences	5	423	-	1,063	9,244	117	10,852
Revaluation	35,814	-	-	-	-	-	35,814
Reclassification	-	345	-	-	12,127	(12,472)	-
At 31 December 2008	74,695	159,657	45,368	117,376	436,794	5,556	839,446
Accumulated depreciation and impairment losses							
At 1 January 2007							
Accumulated depreciation	-	29,734	7,980	45,908	173,446	-	257,068
Accumulated impairment losses	-	1,494	-	536	1,654	-	3,684
	-	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

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

	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
Group							
At 31 December 2007 / 1 January 2008	-	33,376	8,999	51,660	206,996	-	301,031
Depreciation for the year	-	2,716	1,019	4,789	33,123	-	41,647
Acquisition of subsidiary	-	842	-	-	20,136	-	20,978
Disposals	-	-	-	(5,103)	(16,513)	-	(21,616)
Exchange differences	-	323	-	681	407	-	1,411
Reclassification	-	5	-	-	(5)	-	-
Accumulated depreciation	-	35,768	10,018	51,491	242,704	-	339,981
Accumulated impairment losses	-	1,494	-	536	1,440	-	3,470
At 31 December 2008	-	37,262	10,018	52,027	244,144	-	343,451
Carrying amounts							
At 1 January 2007	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
At 31 December 2008	74,695	122,395	35,350	65,349	192,650	5,556	495,995

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

	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
Company						
Cost / Revalued						
At 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/ 1 January 2008	2,636	9,824	70,349	157,500	7,145	247,454
Additions	-	-	12,214	69,032	6,249	87,495
Disposals	(2,585)	(9,539)	(45,317)	(78,807)	-	(136,248)
Reclassification	-	-	-	9,320	(9,320)	-
At 31 December 2008	51	285	37,246	157,045	4,074	198,701
Accumulated depreciation						
At 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/ 1 January 2008	-	2,022	22,051	108,031	-	132,104
Depreciation for the year	-	6	2,421	11,091	-	13,518
Disposals	-	(1,925)	(16,153)	(52,422)	-	(70,500)
At 31 December 2008	-	103	8,319	66,700	-	75,122
Carrying amounts						
At 1 January 2007	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
At 31 December 2008	51	182	28,927	90,345	4,074	123,579

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

Depreciation charge for the year is allocated as follows:

		Group		Company	
	Note	**2008 RM'000**	2007 RM'000	**2008 RM'000**	2007 RM'000
Income statement	21	**30,181**	20,832	**2,186**	1,240
Contract costs	12	**11,466**	13,611	**11,332**	13,496
		41,647	34,443	**13,518**	14,736

Security

The freehold land, buildings, certain items of plant and equipment of the Group and the Company with total carrying amount of RM89,019,000 (2007 - RM38,010,000) and Nil (2007 - RM6,259,000) respectively have been pledged to certain licensed banks as security for term loan facilities granted to the Group and the Company (Note 17).

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 RM2,993,000 (2007 - RM3,327,000).

Property, plant and equipment under the revaluation model

The Group's freehold land were revalued by independent professional qualified valuers using an open market value method during the year. Had the freehold land been carried under the cost model, their carrying amounts would have been RM19,346,000 (2007 - RM19,346,000). Arising from the revaluation, the Group recognised a revaluation reserve of RM35,814,000 at 31 December 2008.

Change in estimations

During the year ended 31 December 2008, the Group conducted an operational efficiency review of its plant and equipment, which resulted in a change in the depreciation method and useful lives for certain plant and equipment.

The useful lives of certain plant and equipment which management previously estimated to be 6 to 15 years, have now been revised to 11 to 20 years respectively.

The Directors are of the view that the revised estimated useful lives and change in the depreciation method will better reflect the consumption pattern of the expected economic benefits of the plant and equipment. The change in the depreciation method has been applied prospectively, commencing with the current financial year.

Notes to the financial statements (continued)

3. Property, plant and equipment (continued)

Change in estimations (continued)

Had the depreciation method and useful lives for these selected plant and equipment remained unchanged from the previous years, the depreciation for the current financial year would have increased by approximately RM5,181,000. As the method of depreciation depends on the consumption pattern of the expected future economic benefits of the plant and equipment, the effect of the changes on depreciation method and useful lives is only shown for the current financial year.

4. Prepaid lease payments

	Note	Leasehold land Unexpired period less than 50 years RM'000	Leasehold land Unexpired period more than 50 years RM'000	Total RM'000
Group				
Cost				
At 1 January 2007		3,608	32,667	36,275
Disposals		(2,095)	-	(2,095)
At 31 December 2007/1 January 2008		1,513	32,667	34,180
Extension of leasehold period to more than 50 years		(1,100)	1,100	-
Additions		-	415	415
At 31 December 2008		413	34,182	34,595
Accumulated amortisation				
At 1 January 2007		882	1,241	2,123
Amortisation for the year	21	40	277	317
Disposals		(682)	-	(682)
At 31 December 2007/1 January 2008		240	1,518	1,758
Extension of leasehold period to more than 50 years		(113)	113	-
Amortisation for the year	21	11	637	648
At 31 December 2008		138	2,268	2,406

Notes to the financial statements (continued)

4. Prepaid lease payments (continued)

	Note	Leasehold land Unexpired period less than 50 years RM'000	Leasehold land Unexpired period more than 50 years RM'000	Total RM'000
Group (continued)				
Carrying amounts				
At 1 January 2007		2,726	31,426	34,152
At 31 December 2007		1,273	31,149	32,422
At 31 December 2008		275	31,914	32,189
Company				
Cost				
At 1 January 2007		3,195	20,098	23,293
Disposal		(2,095)	-	(2,095)
At 31 December 2007/1 January 2008		1,100	20,098	21,198
Extension of leasehold period to more than 50 years		(1,100)	1,100	-
Additions		-	415	415
Disposals		-	(12,172)	(12,172)
At 31 December 2008		-	9,441	9,441
Accumulated amortisation				
At 1 January 2007		766	967	1,733
Amortisation for the year	21	28	200	228
Disposals		(681)	-	(681)
At 31 December 2007/1 January 2008		113	1,167	1,280
Extension of leasehold period to more than 50 years		(113)	113	-
Amortisation for the year	21	-	112	112
Disposals		-	(723)	(723)
At 31 December 2008		-	669	669

Notes to the financial statements (continued)

4. Prepaid lease payments (continued)

	Leasehold land Unexpired period less than 50 years RM'000	Leasehold land Unexpired period more than 50 years RM'000	Total RM'000
Company (continued)			
Carrying amounts			
At 1 January 2007	2,429	19,131	21,560
At 31 December 2007	987	18,931	19,918
At 31 December 2008	-	8,772	8,772

Extension of leasehold period

During the year ended 31 December 2008, the leasehold period of a piece of leasehold land registered under the name of the Company, was extended from the remaining 33 years to 99 years.

Security

Certain long term leasehold land of the Group and of the Company with the total carrying amount of RM8,366,000 (2007 – RM23,665,000) and RM8,366,000 (2007 – RM16,597,000), respectively have been pledged to certain licensed banks as security for long-term facilities granted to the Group and the Company (Note 17).

Notes to the financial statements (continued)

5. Investment properties

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Cost				
At 1 January	**1,057**	1,098	**37,291**	37,332
Additions	**155**	-	**155**	-
Disposal	**-**	(41)	**-**	(41)
At 31 December	**1,212**	1,057	**37,446**	37,291
Accumulated depreciation and impairment loss				
At 1 January	**471**	463	**3,603**	3,244
Depreciation for the year	**173**	19	**372**	370
Impairment loss	**-**	-	**4,524**	-
Disposal	**-**	(11)	**-**	(11)
At 31 December	**644**	471	**8,499**	3,603
Carrying amounts				
At 31 December	**568**	586	**28,947**	33,688
Included in the above are:				
Freehold land	**158**	158	**14,281**	18,805
Buildings	**410**	428	**14,666**	14,883
	568	586	**28,947**	33,688

The Directors are of the opinion that the fair values of the investment properties of the Group as at 31 December 2008 are not materially different from their carrying amount.

Impairment loss has been recognised for an investment property of the Company, which derives rental income from a subsidiary, with a carrying amount of RM12,782,865.

Notes to the financial statements (continued)

6. Investments in subsidiaries

		Company	
		2008 RM'000	2007 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		**154,907**	106,470
Cumulative redeemable convertible preference shares, at cost	(b)	**1,800**	1,800
Non-Cumulative non-convertible redeemable preference shares, at cost	(c)	**6,250**	6,250
		216,561	168,124
Less: Impairment losses		**(38,868)**	(26,401)
		177,693	141,723
Market value			
Quoted investment of a subsidiary in Malaysia		**72,520**	156,800

(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.

(c) The non-cumulative non-convertible redeemable preference shares are redeemable before 31 December 2012.

Notes to the financial statements (continued)

6. Investments in subsidiaries (continued)

The principal activities of the active 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 2008 %	2007 %
Cranes Segment				
Favelle Favco Berhad	Investment holding	Malaysia	**57.30**	57.53
Favelle Favco Cranes (M) Sdn. Bhd.	Manufacturing of cranes	Malaysia	**57.30**	57.53
Favelle Favco Cranes Pte. Ltd.* *	Trading of cranes, spare parts and services	Singapore	**57.30**	57.53
Favelle Favco Cranes (USA), Inc.*	Manufacturing of cranes	United States of America	**57.30**	57.53
Favelle Favco Cranes Pty Limited* and its subsidiaries:	Manufacturing of cranes	Australia	**57.30**	57.53
FF Management Pty. Limited*	Management services	Australia	**57.30**	57.53
Kroll Cranes A/S*	Manufacturing of cranes	Denmark	**57.30**	57.53
Favelle Favco Equipment Services Sdn. Bhd.	Hiring and repairing of cranes	Malaysia	**57.30**	57.53
Marine shipbuilding 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

Notes to the financial statements (continued)

6. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2008 %	2007 %
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 and services for airline support equipment	Malaysia	**100**	100
Muhibbah Marine Engineering (Deutschland) GmbH*	Constructing and leasing of marine plants	Germany	**95**	95
Muhibbah Masteron Cambodia JV Limited*	Investment holding and civil and structural engineering contract works	Cambodia	**70**	70
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

Notes to the financial statements (continued)

6. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2008 %	2007 %
Infrastructure construction segment (continued)				
Muhibbah Reefers Sdn. Bhd.*	Manufacturing of containers and refrigerator containers	Malaysia	**100**	100
Khas Jejaka Sdn. Bhd.*	Investment holding	Malaysia	**100**	-
Muhibbah International Labuan Ltd.	Offshore leasing and International trade business	Labuan	**100**	100
Muhibbah Offshore Services Ltd	Leasing of plants	Labuan	**95**	95
Muhibbah Engineering (Cambodia) Co. Ltd*#	Construction, quarry and trading business	Cambodia	**60**	49
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

\# The auditors' reports on the audited financial statements of the subsidiaries contained an emphasis on the reliance of these subsidiaries on the continuing financial support from the Company and/or bankers in order to continue operating as going concerns

(i) On 3 January 2008, the Company subscribed for an additional new issue of 207 ordinary shares of USD250 each in Muhibbah Engineering (Cambodia) Co. Ltd., resulting in the change of status from an investment in associate of 49% to investment in subsidiary of 60%.

(ii) The Group's effective interest in Favelle Favco Berhad ("FFB") was diluted from 57.53% to 57.30%, pursuant to the exercise of employees share options by eligible employees of FFB during the year.

Notes to the financial statements (continued)

6. Investments in subsidiaries (continued)

(iii) During the financial year, the Company subscribed for additional new issue of ordinary shares at par for cash in the following subsidiaries:-

Date	Subsidiary	Ordinary shares of RM1 each ('000)
3 January 2008	MEB Construction Sdn. Bhd.	4,000
2 July 2008	Khas Jejaka Sdn Bhd	2,000
13 December 2008	Muhibbah Steel Industries Sdn. Bhd.	22,400
30 December 2008	Muhibbah International Labuan Ltd.	17,402
31 December 2008	Muhibbah Reefers Sdn. Bhd.	2,000

7. Investments in associates

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Ordinary unquoted shares				
- At cost	**62,035**	58,289	**8,501**	9,136
- Share of post-acquisition reserves	**63,251**	50,449	**-**	-
	125,286	108,738	**8,501**	9,136
Less: Impairment loss	**(1,077)**	(1,107)	**(77)**	(712)
	124,209	107,631	**8,424**	8,424
Represented by:				
Group's share of net assets	**112,043**	94,860		
Goodwill on acquisition of associates	**12,166**	12,771		
	124,209	107,631		
Summary financial information:				
Total assets (100%)	**752,666**	681,289		
Total liabilities (100%)	**327,527**	362,623		
Revenue (100%)	**556,843**	509,860		
Net profit for the year (100%)	**114,663**	114,941		

7. Investments in associates (continued)

Details of the active associates are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2008 %	Effective ownership interest 2007 %
Concession segment				
Roadcare (M) Sdn. Bhd.*	Operation and maintenance of roadways and bridges	Malaysia	**21**	21
Freyssinet PSC (M) Sdn. Bhd.*	Civil engineering and construction works	Malaysia	**50**	50
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
Inno Marine Sdn. Bhd.*	Marine leasing activities	Malaysia	**37.5**	-

On 30 June 2008, the Company subscribed for 37.5% ordinary shares of Inno Marine Sdn Bhd for a consideration of RM4,380,656.

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

The investments in Roadcare (M) Sdn. Bhd., Freyssinet PSC (M) Sdn. Bhd., Societe Concessionaire de l' Aeroport and Inno Marine Sdn. Bhd. have been equity accounted for based on the unaudited financial statements of the associates for the year ended 31 December 2008.

* Associates not audited by KPMG
** Associate audited by a member firm of KPMG International

Notes to the financial statements (continued)

8. Receivables, deposits and prepayments

		Group		Company	
		2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Non-current					
Trade					
Amount due from an associate	(i)	**-**	10,000	**-**	10,000
Amount due from a subsidiary	(i)	**-**	-	**10,000**	-
		-	10,000	**10,000**	10,000
Current					
Trade					
Trade receivables	(ii)	**197,913**	123,499	**-**	-
Progress billings receivable	(ii)	**444,169**	143,525	**301,156**	73,285
Amounts due from subsidiaries	(iii)	**-**	-	**214,283**	95,466
Amounts due from associates	(iv)	**11,967**	45,876	**-**	355
Amounts due from joint ventures	(v)	**4,982**	7,998	**-**	6,708
		659,031	320,898	**515,439**	175,814
Less: Allowance for doubtful debts		**(10,455)**	(8,804)	**(10,800)**	(4,400)
		648,576	312,094	**504,639**	171,414
Non-trade					
Amounts due from subsidiaries	(iii)	**-**	-	**163,636**	131,101
Amounts due from associates	(iv)	**18,132**	33,297	**5,884**	31,693
Other receivables		**51,657**	35,163	**36,453**	27,015
		69,789	68,460	**205,973**	189,809
Less: Allowance for doubtful debts		**(9,076)**	(7,637)	**(30,275)**	(21,913)
		60,713	60,823	**175,698**	167,896
Deposits		**4,685**	3,167	**405**	365
Prepayments		**7,039**	4,540	**-**	-
		72,437	68,530	**176,103**	168,261
		721,013	380,624	**680,742**	339,675

(i) The long term advance due from a subsidiary is non-trade in nature, interest free, unsecured and is not expected to be repayable within the next twelve months. The amount has been reclassified from amount due from associate as the Company acquired additional equity interest in the associate, resulting in the change of status from an investment in associate to an investment in subsidiary.

Notes to the financial statements (continued)

8. Receivables, deposits and prepayments (continued)

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

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Australian Dollars	**19,951**	19,529	**-**	-
Danish Krone	**36,162**	20,241	**-**	-
Euro Dollars	**14,649**	-	**1,116**	-
Qatar Riyal	**35,863**	16,603	**35,863**	16,603
Singapore Dollars	**9,352**	5,494	**-**	-
Chinese Renminbi	**5,592**	-	**-**	-
Hong Kong Dollar	**875**	-	**-**	-
US Dollars	**141,289**	72,587	**59,559**	29,005

Included in trade receivables and progress billings receivable of the Group and of the Company are retention sums of RM47,372,000 (2007 - RM20,532,000) and RM46,702,000 (2007 - RM18,958,000) respectively.

(iii) 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 RM2,832,000 (2007 - RM2,388,000) which is subject to interest of 5.0% (2007 - 5.0%) per annum.

(iv) 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 (2007 - RM355,000).

(v) 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 at 31 December 2007 was retention sums RM1,442,000.

Notes to the financial statements (continued)

9. Goodwill on consolidation

	Group	
	2008 **RM'000**	2007 RM'000
Cost /Carrying amounts		
At 1 January	**571**	571
Acquisition of subsidiary	**21,600**	-
At 31 December	**22,171**	571

Impairment testing for goodwill

Goodwill has been allocated to the Group's cash-generating units, all operating in Malaysia, according to business segments. Goodwill allocated to the construction segment represents approximately 97% of the total goodwill.

The carrying amount of the goodwill was assessed for impairment during the year. The recoverable amount of the goodwill of a subsidiary in the construction segment is determined based on the value in use of the investment in 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:

a) cash flows were projected based on actual operating results

b) the subsidiary will continue its operations indefinitely

c) the projected gross margin reflects the average historical gross margin, adjusted for projected market and economic conditions

d) the post-tax discount rate used is 7% which approximates the subsidiary's average cost of fund.

10. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000 Restated	**2008 RM'000**	2007 RM'000 Restated
Group						
Property, plant and equipment	**-**	1	**7,385**	12,069	**7,385**	12,070
Unabsorbed capital allowances	**-**	-	**-**	(409)	**-**	(409)
Tax loss carry-forwards	**(33)**	(149)	**-**	(2,753)	**(33)**	(2,902)
Other items	**-**	-	**273**	(314)	**273**	(314)
Net tax (assets)/ liabilities	**(33)**	(148)	**7,658**	8,593	**7,625**	8,445

Unrecognised deferred tax assets

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

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Property, plant and equipment	**(22,191)**	(42,899)	**(22,318)**	(66,543)
Provisions	**35,090**	4,132	**34,864**	4,088
Unabsorbed capital allowances	**64,677**	67,652	**49,158**	51,797
Tax loss carry-forwards	**189,136**	168,004	**75,075**	27,559
Other items	**-**	(30)	**-**	(30)
	266,712	196,859	**136,779**	16,871

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

Notes to the financial statements (continued)

10. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Property plant and equipment RM'000	Unabsorbed capital allowances RM'000	Tax loss carry forwards RM'000	Other items RM'000	Total RM'000
Group					
As at 1 January 2007, restated	19,441	(10,156)	(3,457)	(1,648)	4,180
Recognised in income statement, restated (Note 23)	(11,763)	9,747	3,974	1,334	3,292
Acquisition of a subsidiary	4,392	-	(3,419)	-	973
As at 31 December 2007, restated	12,070	(409)	(2,902)	(314)	8,445
Recognised in income statement (Note 23)	(4,685)	409	2,869	587	(820)
As at 31 December 2008	7,385	-	(33)	273	7,625
Company					
As at 1 January 2007	12,634	(3,832)	(1,279)	(1,249)	6,274
Recognised in income statement (Note 23)	(12,634)	3,832	1,279	1,249	(6,274)
As at 31 December 2007/ 31 December 2008	-	-	-	-	-

11. Other non-current assets

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Intellectual property	(i)	**-**	281	**-**	-
Other investments		**84**	114	**9**	4
Development costs	(ii)	**13,572**	3,127	**-**	-
Land held for development	(ii)	**13,812**	6,028	**-**	-
		27,468	9,550	**9**	4

Notes to the financial statements (continued)

11. Other non-current assets (continued)

(i) 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. It is reasonably anticipated that the intellectual property will be recovered through future commercial activity. The intellectual property has been fully amortised during the year.

(ii)

	Land held for Development Group		Development costs Group	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Cost				
At 1 January	**7,364**	8,188	**8,048**	15,630
Additions	**18**	-	**12,922**	-
Acquisition of a subsidiary	**8,237**	-	**-**	-
Disposal/Written off	**(960)**	(375)	**-**	(7,942)
Exchange difference	**545**	(449)	**(1,049)**	360
At 31 December	**15,204**	7,364	**19,921**	8,048
Accumulated impairment/amortisation				
At 1 January	**1,336**	1,413	**4,921**	10,069
Amortisation charge for the year	**-**	-	**2,079**	2,507
Written off	**-**	-	**-**	(7,942)
Exchange difference	**56**	(77)	**(651)**	287
At 31 December	**1,392**	1,336	**6,349**	4,921
Carrying amounts				
At 1 January	**6,028**	6,775	**3,127**	5,561
At 31 December	**13,812**	6,028	**13,572**	3,127

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 (2007 - 1 year to 5 years).

Notes to the financial statements (continued)

11. Other non-current assets (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.

12. Amount due from contract customers / Amount due to contract customers

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Aggregate costs incurred to date	**4,749,534**	3,867,078	**2,377,432**	1,396,359
Add: Attributable profits less foreseeable losses	**221,807**	275,354	**(44,180)**	(16,974)
	4,971,341	4,142,432	**2,333,252**	1,379,385
Less: Progress billings	**(4,606,046)**	(3,759,165)	**(1,951,086)**	(1,139,126)
	365,295	383,267	**382,166**	240,259
Amount due from contract customers	**738,207**	540,731	**481,088**	250,324
Amount due to contract customers	**(372,912)**	(157,464)	**(98,922)**	(10,065)
	365,295	383,267	**382,166**	240,259

Additions to aggregate costs incurred during the year include:

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Depreciation of property, plant and equipment	**11,466**	13,611	**11,332**	13,496
Finance costs	**25,889**	27,272	**25,889**	27,272
Rental expense	**161,189**	51,617	**142,734**	28,173
Share-based payments	**762**	2,265	**762**	2,265

13. Inventories

	Group	
	2008 RM'000	2007 RM'000
At cost:		
Cranes	**4,237**	456
Raw materials	**75,762**	27,138
Crane components	**76,395**	70,964
Work-in-progress	**32,368**	27,788
Manufactured and trading inventories	**3,848**	3,030
	192,610	129,376
At net realisable value:		
Cranes for rental	**12,817**	18,831
Crane components	**10,155**	11,653
Raw materials	**35**	35
	215,617	159,895
Carrying amount of inventories pledged as security for bank borrowings	**2,372**	2,386

14. Cash and cash equivalents

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Cash and bank balances	**108,363**	87,870	**38,119**	2,019
Deposits placed with licensed banks	**108,367**	92,205	**65,757**	757
	216,730	180,075	**103,876**	2,776

Notes to the financial statements (continued)

15. Share capital

		Group and Company			
		Number of shares		Amount	
		2008	2007	**2008**	2007
		'000	'000	**RM'000**	RM'000
Ordinary share of RM1 each before share split/RM 0.50 each after share split:					
Authorised:					
At 1 January		**1,000,000**	500,000	**500,000**	500,000
Share split		**-**	500,000	**-**	-
At 31 December		**1,000,000**	1,000,000	**500,000**	500,000
Issued and fully paid:					
At 1 January		**383,566**	149,618	**191,783**	149,618
Exercise of ESOS	(i)	**9,372**	3,964	**4,686**	3,948
Bonus issued		**-**	38,217	**-**	38,217
Share split		**-**	191,767	**-**	-
At 31 December		**392,938**	383,566	**196,469**	191,783

(i) During the financial year, a total of 9,371,750 new ordinary shares of RM0.50 each were issued at RM0.51 for cash pursuant to the employees' share options scheme ("ESOS") of the Company. The premium arising from the exercise of ESOS of RM92,000 has been credited to the share premium account. The details of options granted under the Company's ESOS, which remain outstanding at 31 December 2008, are disclosed in Note 25.

(ii) On 2 November 2007, the Company completed a bonus issue of 1 bonus share for 4 existing ordinary shares of RM1.00 each into 2 ordinary shares of RM0.50 each.

16. Capital and reserves

Treasury shares

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

During the financial year, the Company repurchased 412,000 ordinary shares of RM0.50 each of its issued shares from the open market at an average price of RM2.11 per ordinary share. The total consideration paid (inclusive of transaction costs) for the repurchases was RM892,869. The number of treasury shares held is 1,783,000 (2007 - 1,371,000). None of the treasury shares held are sold or cancelled during the year ended 31 December 2008.

16. Capital and reserves (continued)

Share premium

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

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

Revaluation reserve

Revaluation reserve of the Group relates to the revaluation of freehold land of the Company and certain subsidiaries and revaluation of investment in a subsidiary by the Company in 1982.

Capital reserve

The capital reserve of the Group represents reserve arising from the redemption of preference shares issued by a subsidiary, and the capitalisation of distributable reserve for issuance of bonus shares by subsidiaries in previous years.

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.

Section 108 credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2008 if paid out as dividends.

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

Notes to the financial statements (continued)

17. Loans and borrowings

The 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 risk, see Note 30.

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Non-current				
Secured				
Term loans	**37,811**	50,596	**-**	2,994
Hire-purchase liabilities	**1,707**	1,306	**-**	-
Unsecured				
Term loans	**77,107**	40,606	**73,838**	35,899
	116,625	92,508	**73,838**	38,893
Current				
Secured				
Term loans	**9,792**	13,028	**-**	2,096
Bank overdrafts	**5**	15,922	**-**	-
Hire-purchase liabilities	**517**	535	**-**	-
	10,314	29,485	**-**	2,096
Unsecured				
Term loans	**17,574**	14,444	**15,939**	4,175
Bank overdrafts	**8,203**	14,914	**1,496**	8,499
Revolving credits	**98,939**	67,519	**73,000**	40,000
Insurance premium finance	**852**	870	**-**	-
	135,882	127,232	**90,435**	54,770
	252,507	219,740	**164,273**	93,663

17. Loans and borrowings (continued)

Terms and debt repayment schedule

	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
Group						
2008						
Term loans						
- secured	**2011 - 2015**	**47,603**	**9,792**	**9,792**	**24,336**	**3,683**
- unsecured	**2009 - 2012**	**94,681**	**17,574**	**13,659**	**37,706**	**25,742**
Bank overdrafts						
- secured	**2009**	**5**	**5**	**-**	**-**	**-**
- unsecured	**2009**	**8,203**	**8,203**	**-**	**-**	**-**
Revolving credits						
- unsecured	**2009**	**98,939**	**98,939**	**-**	**-**	**-**
Insurance premium finance						
- unsecured	**2009**	**852**	**852**	**-**	**-**	**-**
Hire-purchase liabilities	**2012 - 2013**	**2,224**	**517**	**1,436**	**271**	**-**
		252,507	**135,882**	**24,887**	**62,313**	**29,425**
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 liabilities	2012 - 2013	1,841	535	424	788	94
		219,740	127,232	23,900	60,080	8,528

Notes to the financial statements (continued)

17. Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

	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
Company						
2008						
Term loans						
- unsecured	**2012**	**89,777**	**15,939**	**12,024**	**36,072**	**25,742**
Bank overdrafts						
- unsecured	**2009**	**1,496**	**1,496**	**-**	**-**	**-**
Revolving credits						
- unsecured	**2009**	**73,000**	**73,000**	**-**	**-**	**-**
		164,273	**90,435**	**12,024**	**36,072**	**25,742**
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	-

Hire-purchase liabilities are payable as follows:

	Gross 2008 RM'000	Interest 2008 RM'000	Principal 2008 RM'000	Gross 2007 RM'000	Interest 2007 RM'000	Principal 2007 RM'000
Group						
Less than one year	**553**	**(36)**	**517**	613	(78)	535
Between one and five year	**1,741**	**(34)**	**1,707**	1,420	(208)	1,212
More than five years	**-**	**-**	**-**	119	(25)	94
	2,294	**(70)**	**2,224**	2,152	(311)	1,841

17. Loans and borrowings (continued)

Term loans

Subsidiaries

The secured term loans of the subsidiaries are charged against a piece of long-term leasehold land of a subsidiary and a piece of long-term leasehold land of the Company (Note 4), freehold land, buildings and certain plant and equipment (Note 3) and inventories (Note 13).

18. Payables

		Group		Company	
		2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Non-current					
Non-trade					
Advances from minority shareholders	(i)	**17,449**	16,795	**-**	-
Current					
Trade					
Trade payables	(ii)	**629,535**	341,606	**441,668**	148,470
Amounts due to subsidiaries	(iii)	**-**	-	**47,069**	59,940
Amounts due to associates	(iv)	**847**	-	**616**	-
		630,382	341,606	**489,353**	208,410
Non-trade					
Amounts due to subsidiaries	(iii)	**-**	-	**9,169**	5,198
Amounts due to associates	(iv)	**296**	825	**-**	-
Provision	(v)	**9,649**	8,921	**82**	2,276
Other payables		**57,214**	44,009	**13,938**	12,251
Accrued expenses		**38,197**	38,127	**8,034**	10,003
Dividend payable		**-**	10,000	**-**	-
		105,356	101,882	**31,223**	29,728
Total		**735,738**	443,488	**520,576**	238,138

Notes to the financial statements (continued)

18. Payables (continued)

(i) The advances from minority shareholders of a subsidiary of RM17,449,000 (2007 - RM16,795,000) are interest free, unsecured and are not expected to be repayable within the next twelve months.

(ii) Included in the trade payables of the Group and of the Company as at 31 December 2008 are retention sums of Nil (2007 - RM4,368,000) 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 RM283,152,000 (2007 - RM85,703,000).

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

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Australian Dollars	**17,848**	34,568	**217**	-
Danish Krone	**14,466**	5,908	**-**	-
Euro Dollars	**49,533**	-	**37,284**	-
Qatar Riyal	**119,115**	68,759	**119,115**	68,759
Singapore Dollars	**13,948**	18,341	**2,026**	-
US Dollars	**66,286**	43,668	**33,317**	931

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

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

(v) 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.

19. Bills payable

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 year and not subject to repricing before maturity.

Notes to the financial statements (continued)

20. Revenue

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Contract revenue	**1,832,430**	1,284,761	**1,045,603**	523,862
Sale of goods	**110,574**	88,012	**-**	-
Services rendered	**90,531**	38,760	**-**	-
Dividend income	**-**	-	**108,929**	39,231
	2,033,535	1,411,533	**1,154,532**	563,093

21. Operating profit

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Operating profit is arrived at after charging:				
Allowance for doubtful debts	**3,090**	2,070	**19,162**	14,896
Allowance for slow moving inventories	**5,984**	1,046	**-**	-
Allowance for diminution in value of subsidiaries	**-**	-	**12,467**	-
Amortisation of development costs	**2,079**	2,507	**-**	-
Amortisation of intellectual property	**281**	251	**-**	-
Amortisation of prepaid lease payments	**648**	317	**112**	228
Impairment of goodwill of associates	**605**	605	**-**	-
Impairment loss of investment properties	**-**	-	**4,524**	-
Audit fees - statutory:				
- Holding company's auditors	**297**	260	**90**	90
- Other auditors	**568**	403	**-**	-
Bad debts written off	**795**	14	**221**	14
Depreciation of investment properties	**173**	19	**372**	370
Depreciation of property, plant and equipment	**30,181**	20,832	**2,186**	1,240
Investment in subsidiary written off	**-**	-	**-**	2,588
Loss on disposal of associate	**-**	122	**-**	-
Personnel expenses (including key management personnel)				
- contribution to Employees Provident Fund	**9,718**	7,142	**1,576**	1,534
- wages, salaries and others	**131,767**	79,223	**12,147**	12,291

Notes to the financial statements (continued)

21. Operating profit (continued)

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Operating profit is arrived at after charging: (continued)				
Rental expense on:				
- premises	**2,332**	510	**740**	3
- equipment	**1,374**	4,558	**-**	-
Share-based payments	**1,713**	3,423	**1,903**	2,670
and after crediting:				
Gain on disposal of property, plant and equipment	**1,070**	2,725	**27,392**	2,004
Gain on disposal of prepaid lease payments	**-**	1,013	**33,251**	1,013
Gain on foreign exchange	**10,866**	12,272	**4,701**	445
Gross dividend income	**-**	-	**108,929**	39,231
Rental income on:				
- premises	**1,091**	2,333	**928**	784
- plant and machinery	**10,200**	12,592	**263**	1,101
Reversal of impairment loss of property, plant and equipment	**-**	214	**-**	-
Reversal of impairment loss for investment in subsidiary	**-**	-	**-**	1,500

22. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Directors of the Company				
- Fees	**765**	784	**432**	432
- Remuneration	**2,018**	1,737	**1,851**	1,563
	2,783	2,521	**2,283**	1,995

Notes to the financial statements (continued)

22. 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.

23. Tax expense

	Group		Company	
	2008 RM'000	2007 RM'000 Restated	**2008 RM'000**	2007 RM'000
Income tax expense				
Malaysia - current	**1,672**	7,876	**2,744**	5,243
- prior years	**(8,644)**	(3,614)	**1,781**	(3,985)
	(6,972)	4,262	**4,525**	1,258
Foreign - current	**16,408**	4,324	**8,338**	894
- prior years	**1,443**	842	**1,489**	808
	17,851	5,166	**9,827**	1,702
Deferred tax expense				
Origination/(Reversal) of temporary differences	**15**	3,090	**-**	(6,274)
(Over)/Underprovision in prior years	**(835)**	82	**-**	-
Effect of adopting revised FRS 112	**-**	120	**-**	-
	(820)	3,292	**-**	(6,274)
Total tax expenses	**10,059**	12,720	**14,352**	(3,314)

Notes to the financial statements (continued)

23. Tax expense (continued)

	Group		Company	
	2008 RM'000	2007 RM'000 Restated	**2008 RM'000**	2007 RM'000
Reconciliation of tax expense				
Profit before tax	**44,930**	103,005	**66,948**	36,542
Income tax using Malaysian tax rate at 26% (2007 - 27%)	**11,682**	27,811	**17,406**	9,866
Effect of different tax rates in foreign jurisdictions	**(1,824)**	(1,652)	**(453)**	(875)
Utilisation of unrecognised deferred tax benefits	**-**	(2,944)	**-**	(327)
Effect of deferred tax benefits not recognised	**17,463**	-	**29,977**	-
Non-deductible expenses	**31,896**	22,558	**10,331**	12,546
Non-taxable income	**(20,075)**	(7,975)	**(15,970)**	(1,848)
Tax incentives	**(18,166)**	(3,107)	**-**	-
Tax exempt income	**(1,961)**	(20,103)	**(30,209)**	(19,499)
Others	**(920)**	702	**-**	-
Effect of adopting revised FRS 112	**-**	120	**-**	-
	18,095	15,410	**11,082**	(137)
(Over)/Underprovision in prior years				
- income tax expense	**(7,201)**	(2,772)	**3,270**	(3,177)
- deferred tax expense	**(835)**	82	**-**	-
Total tax expenses	**10,059**	12,720	**14,352**	(3,314)

The corporate tax rates are 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.

Notes to the financial statements (continued)

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2008 RM'000	2007 RM'000 Restated
Profit attributable to ordinary shareholders	**21,800**	70,060

	Group	
	2008	2007
In thousands of shares		
Number of ordinary shares in issue at 1 January	**383,566**	374,045
Effect of shares issued under ESOS	**3,352**	3,637
Effect of shares repurchased	**(333)**	(855)
Total weighted average number of ordinary shares in issue (unit'000)	**386,585**	376,827

	Group	
	2008	2007
Basic earnings per share (sen)	**5.64**	18.60

Notes to the financial statements (continued)

24. 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 for the year ended 31 December 2008 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	
	2008 RM'000	2007 RM'000 Restated
Profit attributable to ordinary shareholders	**21,800**	70,060

	Group	
	2008	2007
In thousands of shares		
Weighted average number of ordinary shares	**386,585**	376,827
Effect of dilution arising from conversion of all employee share options	**13,819**	20,862
Adjusted weighted average number of ordinary shares at 31 December (unit '000)	**400,404**	397,689

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	
	2008	2007
Diluted earnings per share (sen)	**5.44**	17.62

The comparative figures for basic earnings per share and diluted earnings per share have been restated to account for the effect of the adoption of FRS 112, (revised) during the financial year.

25. Employee benefits

Share-based payments

On 26 June 2006, the Company established an employees' share option scheme ("ESOS Scheme") to the eligible employees including Directors of the Company and its subsidiaries.

The main features of the ESOS Scheme are as follows:

(i) The maximum number of approved unissued new ordinary shares shall not exceed in aggregate 15% of the issued and paid-up share capital of Company at any point in time during the duration of the ESOS Scheme;

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

(iii) 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%

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

The following options were granted under the ESOS schemes:

Grant date	Number of Options '000	Outstanding at 1.1.2008 '000	Exercised '000	Forfeited '000	Outstanding/ Exercisable at 31.12.2008 '000	Expiry date
30.6.2006	37,270	25,390	(9,372)	(15)	16,003	2.8.2011
30.8.2007	692	643	-	-	643	2.8.2011
		26,033	(9,372)	(15)	16,646	

Notes to the financial statements (continued)

25. Employee benefits (continued)

Share-based payments (continued)

Subsidiary

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

Details relating to options exercised during the year

	Company	
	2008 RM'000	2007 RM'000
Ordinary share capital at par	**4,686**	3,949
Share premium	**92**	1,101
Proceeds received on exercise of share options	**4,778**	5,050

	Company		Subsidiary	
	2008 RM	2007 RM	**2008 RM**	2007 RM
Average share price for the year	**2.07**	2.94	**1.20**	1.60

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

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Expense recognised as share-based payments	**2,233**	5,688	**1,903**	4,935

25. Employee benefits (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	
	2008	2007	**2008**	2007
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**	0.98 - 1.39	**0.76 - 1.03**	0.76 - 1.03
- Granted in 2008	**-**	-	**0.30 - 0.37**	-
Weighted average share price (RM)				
- Granted in 2006	**0.57**	0.57	**0.55**	0.55
- Granted in 2007	**3.70**	3.70	**2.04**	2.04
- Granted in 2008	**-**	-	**1.18**	-
Exercise price (RM)				
- Granted in 2006	**0.51**	0.51	**0.55**	0.55
- Granted in 2007	**3.60**	3.60	**1.90**	1.90
- Granted in 2008	**-**	-	**1.09**	-
Expected volatility (%)	**38.40 - 40.98**	38.40 - 40.98	**38.69 - 59.24**	38.00 - 59.24
Expected option life (years)	**3**	4	**3**	4
Risk free interest rate (%) (based on Malaysia 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**	3.45 - 3.48	**3.30 - 3.35**	3.30 - 3.35
- Granted in 2008	**-**	-	**4.04 - 4.12**	-
Expected staff turnover (%)	**5.00**	5.00	**5.00 - 15.00**	5.00

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.

Notes to the financial statements (continued)

26. Dividends

Dividends recognised in the current year by the Company are:

Ordinary dividends	Per share Sen	Total amount RM'000	Date of payment
2008			
Final per ordinary share of RM0.50 each less 26% tax - for the year ended 31 December 2007	**4.50**	**13,005**	**18 September 2008**
2007			
Final per ordinary share of RM1.00 each less 27% tax - for the year ended 31 December 2006	7.50	8,357	24 September 2007

Proposed final dividend for the year ended 31 December 2008

The Directors have recommended a first and final dividend of 5% (2.50 sen) less 25% tax per ordinary share of RM0.50 each totaling RM7,334,000 in respect of the year ended 31 December 2008, 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 391,155,000 ordinary shares of RM0.50 each as at 31 December 2008. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2008.

Dividends per ordinary share

The calculation of dividends per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2008 of RM9,824,000 (2007 - RM17,198,764) on the issued and paid-up share capital (excluding treasury shares) of 391,155,000 ordinary shares of RM0.50 each (2007 - RM382,194,750 ordinary shares of RM0.50 each) as at 31 December 2008.

27. Acquisition of a subsidiary

Business combination

On 3 January 2008, the Company acquired 207 ordinary shares of USD250.00 each in Muhibbah Engineering (Cambodia) Co. Ltd ("MEC") for a total cash consideration of USD1. The principal activities of MEC are infrastructure construction, property development and quarry operations in Cambodia. Upon completion of the acquisition, the direct shareholding of the Company in MEC was increased from 49% to 60%. As such, MEC has become a subsidiary of the Company.

27. Acquisition of a subsidiary (continued)

During the period from 3 January 2008 to 31 December 2008, the subsidiary contributed profits of RM7,247,000 to the Group. The acquisition of the subsidiary decreased the Group's net assets at 31 December 2008 by RM3,959,000 which includes goodwill on acquisition of RM21,600,000.

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
Property, plant and equipment	(19,614)	(7,801)	(27,415)
Land held for development	(5,570)	(2,667)	(8,237)
Receivables, deposits and prepayments	(32,660)	(1,319)	(33,979)
Inventories	(2,615)	-	(2,615)
Cash and cash equivalents acquired	(7,135)	-	(7,135)
Payables and accruals	98,847	-	98,847
Loans and borrowings	1,499	-	1,499
Net identifiable assets and liabilities	32,752	(11,787)	20,965
Goodwill on acquisition			(21,600)
Consideration paid satisfied in cash			(635)
Cash and cash equivalents acquired			7,135
Net cash inflow			6,500

Pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition. The values of assets and liabilities, recognised on acquisition are their estimated fair values.

The goodwill recognised is attributable mainly to the skills and technical talent of the acquired subsidiary's work force and the synergies expected to be achieved from integrating the company into the Group's business.

Notes to the financial statements (continued)

28. Segmental information

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 runway and facility support buildings, heavy concrete foundations and other similar construction works
Cranes	Design, manufacture, supply, trading, leasing 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 and Cambodia. 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 is based on geographical location of the respective principal operations.

28. Segmental information (continued)

Business segments

	Infrastructure construction		Cranes		Marine ship building and ship repair		Concession		Consolidated	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000	**2008 RM'000**	2007 RM'000 Restated	**2008 RM'000**	2007 RM'000	**2008 RM'000**	2007 RM'000 Restated
Revenue from external customers	**1,215,258**	737,037	**571,782**	452,369	**246,495**	222,127	**-**	-	**2,033,535**	1,411,533
Operating profit/(loss)	**(32,467)**	31,534	**27,969**	28,948	**29,365**	25,209	**141**	(403)	**25,008**	85,288
Interest income	**1,759**	1,640	**1,377**	1,334	**(10)**	648	**3**	-	**3,129**	3,622
Finance costs	**(1,669)**	(2,192)	**(6,256)**	(7,921)	**(2,052)**	(2,903)	**79**	(595)	**(9,898)**	(13,611)
Share of result of associates	**4,586**	3,688	**8**	(54)	**-**	-	**22,097**	23,049	**26,691**	26,683
Share of result of joint ventures	**-**	1,023	**-**	-	**-**	-	**-**	-	**-**	1,023
Profit / (loss) before tax	**(27,791)**	35,693	**23,098**	22,307	**27,303**	22,954	**22,320**	22,051	**44,930**	103,005
Tax expense	**(1,338)**	(2,701)	**(5,557)**	(2,740)	**(3,164)**	(7,279)	**-**	-	**(10,059)**	(12,720)
Profit / (loss) after tax	**(29,129)**	32,992	**17,541**	19,567	**24,139**	15,675	**22,320**	22,051	**34,871**	90,285
Segment assets	**1,509,266**	827,120	**610,688**	530,233	**355,716**	279,837	**10,059**	11,042	**2,485,729**	1,648,232
Investments in associates	**21,361**	14,893	**70**	62	**-**	-	**102,778**	92,676	**124,209**	107,631
Investments in joint ventures	**-**	1,257	**-**	-	**-**	-	**-**	-	**-**	1,257
Total assets	**1,530,627**	843,270	**610,758**	530,295	**355,716**	279,837	**112,837**	103,718	**2,609,938**	1,757,120
Total liabilities	**1,396,643**	684,769	**452,143**	396,261	**227,131**	201,433	**4,974**	6,342	**2,080,891**	1,288,805
Total equity	**133,984**	158,501	**158,615**	134,034	**128,585**	78,404	**107,863**	97,376	**529,047**	468,315

Notes to the financial statements (continued)

28. Segmental information (continued)

Geographical segments

	Inside Malaysia 2008 RM'000	Inside Malaysia 2007 RM'000	Outside Malaysia 2008 RM'000	Outside Malaysia 2007 RM'000	Consolidated 2008 RM'000	Consolidated 2007 RM'000
Revenue from external customers	**1,191,633**	698,454	**841,902**	713,079	**2,033,535**	1,411,533
Segment assets	**1,822,447**	1,104,852	**787,491**	652,268	**2,609,938**	1,757,120

29. Capital commitments

	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Contracted but not provided for:				
Plant and equipment	**5,869**	47,983	**5,869**	42,983
Factory building	**5,637**	25,000	**-**	-
Information technology system	**-**	902	**-**	-
Total (within one year)	**11,506**	73,885	**5,869**	42,983

30. 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.

Notes to the financial statements (continued)

30. Financial instruments (continued)

Interest rate risk

The Group and the Company borrow to fund the acquisition of property, plant and equipment 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.

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.

	2008			2007		
	Effective interest rate %	**Total RM**	**Less than 1 year RM**	Effective interest rate %	Total RM	Less than 1 year RM
Group						
Financial assets						
Deposits placed with licensed banks	**2.0 - 3.5**	**108,367**	**108,367**	3.0 - 3.1	92,205	92,205
Financial liabilities						
Secured term loans	**4.5 - 5.6**			5.5 - 6.4		
- RM floating rate loans		**47,603**	**47,603**		62,484	62,484
- DKK fixed rate loan		**-**	**-**		1,140	1,140
Unsecured term loans	**3.3 - 6.2**			6.1 - 7.8		
- RM floating rate loans		**53,242**	**53,242**		8,700	8,700
- USD floating rate loans		**41,439**	**41,439**		46,350	46,350
Unsecured revolving credits	**4.1 - 5.5**			4.5 - 8.3		
- RM		**98,939**	**98,939**		67,519	67,519
Secured overdrafts	**7.0**			7.0		
- DKK		**5**	**5**		15,922	15,922
Unsecured bank overdrafts	**7.3 - 7.8**			4.5 - 9.2		
- RM		**7,559**	**7,559**		11,588	11,588
- SGD		**-**	**-**		614	614
- USD		**644**	**644**		2,712	2,712
Insurance premium finance unsecured	**3.2**			2.6		
- AUD		**852**	**852**		870	870
Bill payables	**4.0 - 4.5**	**679,212**	**679,212**	3.9 - 7.8	431,914	431,914
		929,495	**929,495**		649,813	649,813

Notes to the financial statements (continued)

30. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

	2008 Effective interest rate %	2008 Total RM	2008 Less than 1 year RM	2007 Effective interest rate %	2007 Total RM	2007 Less than 1 year RM
Company						
Financial assets						
Deposits placed with licensed banks	**2.0 - 3.5**	**65,757**	**65,757**	3.0 - 3.1	757	757
Financial liabilities						
Secured term loans	**-**			6.4		
- RM floating rate loans		**-**	**-**		5,090	5,090
Unsecured term loans	**3.4 - 6.2**			6.1		
- RM floating rate loans		**53,242**	**53,242**		-	-
- USD floating rate loans		**36,535**	**36,535**		40,074	40,074
Unsecured revolving credits	**4.1 - 5.5**			4.5 - 8.3		
- RM		**73,000**	**73,000**		40,000	40,000
Unsecured bank overdrafts	**7.3 - 7.8**			4.5 - 8.3		
- RM		**1,496**	**1,496**		8,499	8,499
Bill payables	**4.0 - 4.5**	**499,975**	**499,975**	3.9 - 7.8	296,521	296,521
		664,248	**664,248**		390,184	390,184

Foreign currency risk

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. The exposure to foreign currency risk of the Group and of the Company is monitored by the management from time to time.

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.

30. Financial instruments (continued)

Fair values

Recognised financial instruments

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.

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.

	2008 Carrying amount RM'000	**2008 Fair value RM'000**	2007 Carrying amount RM'000	2007 Fair value RM'000
Group				
Financial assets				
Quoted shares - long-term	**84**	**84**	114	114
Financial liabilities				
Secured term loans:				
RM floating rate loans	**47,603**	**47,603**	62,484	62,484
DKK fixed rate loan	**-**	**-**	1,140	1,140
Unsecured term loans:				
RM floating rate loans	**53,242**	**53,242**	8,700	8,700
USD floating rate loans	**41,439**	**41,439**	46,350	46,350
Company				
Financial assets				
Quoted shares - long-term	**49,000**	**72,520**	49,004	156,804
Financial liabilities				
Secured term loans:				
RM floating rate loans	**-**	**-**	5,090	5,090
Unsecured term loans:				
RM floating rate loans	**53,242**	**53,242**	-	-
USD floating rate loans	**36,535**	**36,535**	40,074	40,074

Notes to the financial statements (continued)

30. Financial instruments (continued)

Fair values (continued)

The fair value of quoted shares is their quoted market price at the balance sheet date.

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 repriced to market interest rates for liabilities with similar risk profiles.

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.

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.

31. Contingent liabilities - unsecured

	Company	
	2008 RM'000	2007 RM'000
Corporate guarantees		
Corporate guarantees to licensed banks for credit facilities granted to subsidiaries	**160,914**	339,184

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)

31. Contingent liabilities – unsecured (continued)

Contingent liabilities not considered remote – litigation

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

Della Porta v. East 51st Street

A composition of personal injury actions, wrongful death actions, property damages actions, subrogation actions, and lien actions related to the collapse of a Favelle Favco crane on 15th March 2008 in the City of New York have been filed. FFCUSA has been named as a third-party defendant and second third-party defendant with regards to Labor Law/personal injury, lost of crane and wrongful death claims.

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

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

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

32. 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) and its associates (see Note 7).

Notes to the financial statements (continued)

32. Related parties (continued)

The significant related party transactions of the Group and of the Company, other than key management personnel compensation are as follows:

	Company	
	2008 RM'000	2007 RM'000
Significant transactions with subsidiaries:		
Gross dividend income receivable	**(99,903)**	(19,965)
Interest income receivable	**(2,832)**	(2,964)
Progress billings receivable	**(40,600)**	(20,145)
Purchase of materials and services	**357,772**	216,636
Rental expense	**3,400**	3,940
Purchase of property, plant and equipment	**20,688**	468
Rental income receivable	**(1,159)**	(1,854)
Sale of property, plant and equipment	**(96,341)**	(1,671)
Sale of prepaid lease payments	**(44,700)**	-

	Group		Company	
	2008 RM'000	2007 RM'000	**2008 RM'000**	2007 RM'000
Significant transactions with associates:				
Gross dividend income receivable	**(18,734)**	(28,966)	**(9,026)**	(19,266)
Progress billing receivable	**-**	(8,368)	**-**	(4,000)
Technical assistance fee receivable	**(3,456)**	(3,762)	**(3,456)**	(3,762)
Sale of goods	**(35,799)**	(5,895)	**-**	-
Plant maintenance receivables	**-**	(1,549)	**-**	(1,549)
Significant transactions with joint ventures:				
Progress billings receivables	**(17,542)**	(14,423)	**-**	(3,898)

The above transactions have been entered into the natural course of business and have been established under negotiated terms.

There are no significant allowance for doubtful receivables as at 31 December 2008 in respect of the above significant related party balances except for receivables from MEB (Thailand) Co, Ltd of RM2,126,000 (2007 - RM2,049,000), Muhibbah Emirates Contracting LLC of RM1,480,000 (2007 - RM1,305,000),Muhibbah Engineering and Contracting Gulf WLL of RM221,000 (2007 - RM37,000), Muhibbah Engineering (Singapore) Pte Ltd of RM6,881,000 (2007 - Nil), Muhibbah Airline Support Industries Sdn. Bhd. RM13,736,000 (2007 - RM13,736,000) and Muhibbah Petrochemical Engineering Sdn. Bhd. of RM 10,800,000 (2007 - Nil).

32. Related parties (continued)

The outstanding net amount due from/(to) subsidiaries and associates and joint ventures as at 31 December 2008 are disclosed in Note 8 and Note 18 respectively.

The allowance for doubtful debts in respect of the above significant related party transactions with subsidiaries and associates for the year ended 31 December 2008 amounted to RM17,681,000 and RM436,000 respectively.

33. Changes in accounting policies

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2008.

FRS 112, Income Taxes

The change in accounting policy arising from the adoption of the revised FRS 112, Income Taxes is summarised below:

In the previous year, unutilised reinvestment allowance was recognised as a reduction of tax expense as and when it was utilised. Following the adoption of the revised FRS 112, a tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in the income statement as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised. This change in accounting policy is applied retrospectively and the effects are as follow:

	Group	
	2008 RM'000	2007 RM'000
Balance sheets		
Deferred tax liabilities at 31 December	**14,828**	15,753
Over recognition of deferred tax liabilities	**(7,170)**	(7,160)
Deferred tax liabilities at 31 December, restated	**7,658**	8,593
Income statements for the year ended 31 December		
Profit for the year	**34,861**	90,405
Under/(over) recognition of deferred tax liabilities	**10**	(120)
Profit for the year, restated	**34,871**	90,285

Notes to the financial statements (continued)

33. Changes in accounting policies (continued)

Measurement of freehold land

The change in accounting policy for the measurement of freehold land from the cost model to the revaluation model is summarised below:

In the previous year, freehold land of the Group and of the Company was stated at cost and was not depreciated. Gains and losses on disposal of freehold land were determined by comparing the proceeds from disposal with costs and were recognised net within 'other income' or 'other operating expenses' respectively in the income statement.

Following the change in the accounting policy on the measurement of freehold land from the cost model to the revaluation model, the Group revalues its freehold land every 5 years or at shorter intervals whenever the fair value of the freehold land is expected to differ materially from the carrying value. Arising from the revaluation, the Group recognised a revaluation reserve of RM35,814,000 at 31 December 2008.

Surplus arising from revaluation is dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement. The change in accounting policy is applied prospectively.

34. Comparatives

Certain comparative figures have been reclassed as a result of the adoption of revised, FRS 112 Income Taxes.

	As Restated RM'000	As previously stated RM'000
Balance sheets as at 31 December 2007		
Deferred tax liabilities	8,593	15,753
Income statement at the year ended 31 December 2007		
Tax expense	12,720	12,600
Profit for the year	90,285	90,405
Statement of changes in equity		
Retained earning as at 1 January 2007	134,160	126,880
Retained earning as at 31 December 2007	190,859	183,699

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 48 to 122 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

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

....
Mac Ngan Boon @ Mac Yin Boon

....
Ooi Sen Eng

Klang,

Date: 27 April 2009

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 48 to 122 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 27 April 2009

....
Lee Poh Kwee

Before me:

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

Independent auditors' report to the members of Muhibbah Engineering (M) Bhd.

Report on the Financial Statements

We have audited the financial statements of Muhibbah Engineering (M) Bhd., which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 48 to 122.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Independent auditors' report to the members of
Muhibbah Engineering (M) Bhd. (continued)

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

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

Petaling Jaya,
Date: 27 April 2009

Top 10 List Properties As At 31 December 2008

No.	Location	Description of Property	Year of Revaluation/ Acquisition	Tenure	Land Area	Age of Building	Carrying Value RM'000
1	Teluk Gedung, Mukim of Klang, District of Klang, Selangor - Lot 104625 - HS(D) 99546	Office building and factory	2002	Leasehold expiring 2103	200,890 sq.m.	1 year	80,425
2	HSD 123837, Lot 104505, District of Klang, Selangor	4 storey office building, factory and warehouse	1994	Extended leasehold expiring 2106	86,937 sq. m.	11 years	49,055
3	Lot Nos. 31792 & 31814, Town of Senawang, Seremban, Negeri Sembilan.	Factory building with office block	2008	Freehold	68,846 sq. m.	3 years	28,989
4	7AL, Nordkranvej, 2 3540, Lynge DK Denmark	Factory building with office block	2008	Freehold	59,525 sq.m.	38 years	17,011
5	Ream, Sihanoukville, Cambodia	Vacant land	2005	Leasehold expiring 2105	23.9658 hectare	Not applicable	16,678
6	28, Yarrunga Street, Prestons, NSW 2170, Australia	Office building and factory	2008	Freehold	11.6 acres	38 years	15,494
7	Lot 9895, Geran # 26559, Kg. Jawa, Mukim of Klang, District of Klang, Selangor	Office building and factory	2008	Freehold	5.0 acres	15 years	14,039
8	Lot 17579, Mukim of Kapar, Sungai Rasau Kecil, Selangor	Office building and factory	2007	Freehold	1.57 acres	11 years	10,904
9	Lot 586, Mukim of Bukit Raja, District of Klang, Selangor	Detached factory with annexed 2 storey office block	2007	Freehold	2.9 acres	26 years	6,435
10	Ream, Sihanoukville, Cambodia	Land for digging sand to fill up Sihanoukville Airport	2006	Leasehold expiring 2106	154.7770 heactare	Not applicable	5,474

Analysis of Shareholdings as at 13 May 2009

Share Capital

Authorised share	:	RM500,000,000.00
Issued and fully paid-up capital	:	392,975,000 shares
Class of shares	:	Ordinary shares of RM0.50 each
Voting rights	:	One vote per ordinary share

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares/ Securities Held	% of issued capital *
1 – 99	43	0.5361	1,675	0.0004
100 – 1,000	1,113	13.8761	1,029,658	0.2632
1,001 – 10,000	5,088	63.4335	23,890,100	6.1070
10,001 – 100,000	1,543	19.2370	47,094,012	12.0386
100,001 to 19,559,599	230	2.8674	192,704,305	49.2608
19,559,600 and above	4	0.0499	126,472,250	32.3300
Total	8,021	100.0000	391,192,000*	100.0000

Note :

* *Excluding a total of 1,783,000 shares bought-back by the Company and retained as treasury shares as at 13 May 2009.*

Directors' Shareholdings as per the Register of Directors' Shareholdings
Shares in the Company

Name	Direct Interest	% of issued capital *	Deemed Interest	% of issued capital *
Tuan Haji Mohamed Taib bin Ibrahim	7,543,392	1.93	-	-
Datuk Zakaria Bin Abdul Hamid	10,000	0.01	-	-
Low Ping Lin	2,955,000	0.76	-	-
Mac Chung Jin	4,635,000	1.18		
Mac Ngan Boon @ Mac Yin Boon	68,808,916 *(b)*	17.59	24,002,500 *(a)*	6.14
Ooi Sen Eng	13,045,066	3.33	-	-
Lim Teik Hin	-	-	80,000 *(c)*	-

Analysis of Shareholdings as at 13 May 2009 (continued)

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 RHB Capital Nominees (Tempatan) Sdn Bhd and Mayban Securities Nominees (Tempatan) Sdn Bhd.*

(c) *Deemed interest by virtue of the shares held by his wife pursuant to Section 134 of the Act.*

* *Excluding a total of 1,783,000 shares bought-back by the Company and retained as treasury shares as at 13 May 2009.*

Options in the Company

There is no change in the employee share options held by the Directors in the Company as disclosed in the Directors' Report for the year ended 31 December 2008 on page 45 of this annual report.

Substantial Shareholders as per the Register of Substantial Shareholders

Name	Direct Interest	% of issued capital *	Deemed Interest	% of issued capital *
Mac Ngan Boon @ Mac Yin Boon	68,808,916 (a)	17.59	24,002,500 (b)	6.14
Lembaga Tabung Haji	41,016,000	10.48	-	-
Employees Provident Fund Board	31,940,700	8.16	-	-
Genesis Asset Managers, LLP	-	-	23,670,750 (c)	6.05

Notes :

(a) *Certain shares are registered under RHB Capital Nominees (Tempatan) Sdn Bhd and Mayban Securities Nominees (Tempatan) Sdn Bhd.*

(b) *Deemed interest 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 shares bought-back by the Company and retained as treasury shares as at 13 May 2009.*

List of 30 Largest Shareholders as at 13 May 2009

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	40,800,000	10.4297
2.	Lembaga Tabung Haji	39,362,000	10.0621
3.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	25,000,000	6.3907
4.	Employees Provident Fund Board	21,310,250	5.4475
5.	Ooi Sen Eng	13,045,066	3.3347
6.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati Binti Hassan	10,000,000	2.5563
7.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chew Keng Siew	10,000,000	2.5563
8.	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Jersey)	7,025,845	1.7960
9.	Mohamed Taib Bin Ibrahim	6,349,642	1.6232
10.	Alliancegroup Nominees (Tempatan) Sdn Bhd PHEIM Asset Management Sdn Bhd for Employees Provident Fund	5,820,450	1.4879
11.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Hui	5,000,000	1.2781
12.	HSBC Nominees (Asing) Sdn Bhd BBH (LUX) SCA For Fidelity Funds Pacific	4,702,700	1.2021
13.	Citigroup Nominees (Asing) Sdn Bhd CBNY For DFA Emerging Markets Fund	4,613,000	1.1792
14.	HSBC Nominees (Asing) Sdn Bhd TNTC For BT Pension Scheme	4,376,000	1.1186
15.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Jin	4,250,000	1.0864
16.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Chung Lynn	4,000,000	1.0225

List of 30 Largest Shareholders as at 13 May 2009 (continued)

No.	Name of Shareholders	No. of Shares held	% of issued capital *
17.	Cartaban Nominees (Asing) Sdn Bhd Exempt An For Caceis Bank Luxembourg (CLT ACCT-LUX)	3,765,150	0.9625
18.	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (U.S.A.)	3,458,000	0.8840
19.	Mac Ngan Boon @ Mac Yin Boon	3,008,916	0.7692
20.	Low Ping Lin	2,955,000	0.7554
21.	Cartaban Nominees (Tempatan) Sdn Bhd Exempt An For MIDF Amanah Asset Nominees (Tempatan) Sdn Bhd (Account 1)	2,911,400	0.7442
22.	HSBC Nominees (Asing) Sdn Bhd BNY Brussels For Greatlink Asean Growth Fund	2,823,000	0.7216
23.	Othman Bin Chut	2,288,312	0.5850
24.	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (RMPP)	2,136,800	0.5462
25.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for MAAKL AL-FAID	2,100,000	0.5368
26.	Cartaban Nominees (Asing) Sdn Bhd RBC Dexia Investor Services Bank for Comgest Growth GEM Promising Companies (Comgest GR PLC)	2,100,000	0.5368
27.	HSBC Nominees (Asing) Sdn Bhd Exempt An For The HongKong And Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)	1,994,000	0.5097
28.	Universal Trustee (Malaysia) Berhad CIMB-Principal Small Cap Fund 2	1,870,000	0.4780
29.	Noriyati Binti Hassan	1,856,336	0.4745
30.	Baharuddin Bin Ali	1,854,916	0.4742
	Total	**240,776,783**	**61.5494**

Note :

* *Excluding a total of 1,783,000 shares bought-back by the Company and retained as treasury shares as at 13 May 2009.*

Proxy Form

Number of Shares Held

*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-Sixth Annual General Meeting of the Company which is to be held at Grand BlueWave Hotel Shah Alam, Kompang Room, Level 1, Convention Center, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 22 June 2009 at 11.00 a.m. and at any adjournment thereof.

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

Ordinary Business	Resolution	For	Against
1. To receive the Audited Financial Statements for the financial year ended 31 December 2008 and the Reports of the Directors and Auditors thereon.	1		
2. To approve a First and Final Dividend of 5% less 25% income tax in respect of the financial year ended 31 December 2008.	2		
3. To re-elect the following Directors who retire pursuant to Article 79 of the Company's Articles of Association:			
a. Mac Ngan Boon @ Mac Yin Boon	3		
b. Dato' Seri Raja Ahmad Zainuddin Bin Raja Haji Omar	4		
c. Vice Admiral Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (Rtd)	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' Mandates for Recurrent Related Party Transactions	9		

Please indicate with (X) 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 2009

....

[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. Where a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
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 Company's Registered Office at Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia at least forty-eight (48) hours before the time set for holding the Meeting or at any adjournment thereof.

Affix
Stamp
Here

Muhibbah Engineering (M) Bhd (12737-K)

Lot 579 & 586, 2nd Mile,
Jalan Batu Tiga Lama, 41300 Klang,
Selangor Darul Ehsan, Malaysia.