ANNUAL REPORT 2010

# 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)*

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

**Low Ping Lin**
*(Executive Director)*

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

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

**Abd Hamid bin Ibrahim**
*(Independent Non-Executive Director)*

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

## Audit Committee

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

## Company Secretaries

Lee Poh Kwee *(MIA 8033)*
Lim Suak Guak *(MIA 19689)*
Catherine Mah Suik Ching *(LS 01302)*

## 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

Crowe Horwath *(Firm No. AF1018)*
Chartered Accountants
Level 16, Tower C, Megan Avenue II
12, Jalan Yap Kwan Seng
50460 Kuala Lumpur, 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

Tricor Investor Services 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 Market 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 Market 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

# Contents



Construction work in progress for South Klang Valley Expressway ("SKVE")

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Thirty-Eighth Annual General Meeting of Muhibbah Engineering (M) Bhd will be held at Kayangan Ballroom, Quality Hotel Shah Alam, Ground Floor, Plaza Perangsang, Persiaran Perbandaran, 40000 Shah Alam, Selangor Darul Ehsan on Tuesday, 28 June 2011 at 4.00 p.m. for the following purposes :-

## Agenda

**As Ordinary Business**

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 and the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To approve a First and Final Dividend of 7% less 25% income tax per ordinary share in respect of the financial year ended 31 December 2010. **Resolution 2**

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

   (i) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor **Resolution 3**
   (ii) Datuk Zakaria bin Abdul Hamid **Resolution 4**
   (iii) Abdul Hamid bin Ibrahim **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. Crowe Horwath as the Company's Auditors 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 Main Market 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 ("Proposed Share Buy-Back"), 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

**Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Renewal of Shareholders' Mandate")** **Resolution 9**

"**THAT** subject always to the Main Market 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 2.1.2 of the Circular to Shareholders ("Circular") dated 6 June 2011 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** the Proposed Renewal of Shareholders' Mandate 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 Mandate 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 Proposed Renewal of Shareholders' Mandate."

## 8. Special Resolution

**Proposed Amendments to the Articles of Association of the Company** **Resolution 10**

**Article 73 – Rights to appoint proxy and rights to vote**

**THAT** the existing Article 73(a) of the Articles of Association of the Company be deleted in its entirety and replaced with the new Article 73(a), which shall read as follows:-

*73. (a) A Member shall be entitled to be present and to vote on any question either personally or by proxy, or as proxy for another Member at any General Meeting, or upon a poll and to be reckoned in a quorum in respect of any fully paid-up shares and of any shares upon which calls due and payable to the Company shall have been paid.* ***A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a member appoints two (2) proxies, such appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.***

**THAT** the existing Article 73 of the Articles of Association of the Company be amended by inserting the following new Article numbered as Article 73(d) immediately after Article 73(c):-

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

**Article 75 – Instrument to be left at the Company's office**

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

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

**Article 76 – Form of proxy**

**THAT** the footnote to the Form of Proxy of the existing Article 76 be amended and shall read as follows :-

***A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.***

***A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a member appoints two (2) proxies, such appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.***

***The duly completed Form of Proxy must be deposited at the registered office of the Company or such other place in Malaysia as is specified for that purpose in the notice convening the meeting, at least forty-eight (48) hours before the time set for holding the meeting or adjourned meeting.***

***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.***

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

**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 provision 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. Each proxy appointed, shall represent a minimum of one hundred (100) shares.

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, the detailed information on the Proposed Renewal of Share Buy-Back Authority is set out in the Statement/ Circular to Shareholders dated 6 June 2011 which is dispatched together with the Company's Annual Report 2010.

6. **Resolution pertaining to the Proposed Renewal of Shareholders' Mandate**
For Resolution 9, the detailed information on the Proposed Renewal of Shareholders' Mandate is set out in Statement/ Circular to Shareholders dated 6 June 2011 which is dispatched together with the Company's Annual Report 2010.

7. **Resolution pertaining to the Proposed Amendments to the Articles of Association**
The Proposed Amendments to the Articles of Association of the Company are to further enhance the administration of the Company.

# Notice of Dividend Entitlement and Payment Date

**NOTICE IS HEREBY GIVEN THAT** a First and Final Dividend of 7% less 25% income tax per ordinary share in respect of the financial year ended 31 December 2010, if approved by the shareholders at the forthcoming Thirty-Eighth Annual General Meeting, will be paid on 3 August 2011 to Depositors whose names appear in the Record of Depositors at the close of business on 15 July 2011.

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 15 July 2011 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.

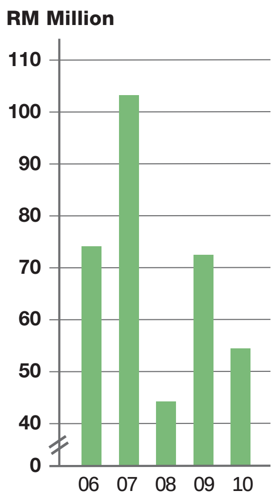
**BY ORDER OF THE BOARD**

**LEE POH KWEE** (MIA 8033)
**LIM SUAK GUAK** (MIA 19689)
**CATHERINE MAH SUIK CHING** (LS 01302)
Company Secretaries

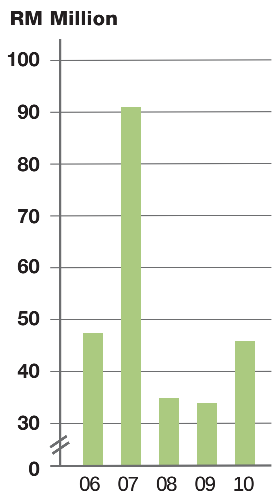
Selangor Darul Ehsan
6 June 2011

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Turnover (RM'000) | 1,086,414 | 1,411,533 | 2,033,535 | 2,252,049 | **1,768,884** |
| Profit Before Tax and Exceptional Items (RM'000) | 73,857 | 103,005 | 44,930 | 72,484 | **53,277** |
| Profit After Tax Before Minority Interest (RM'000) | 47,831 | 90,285 | 34,871 | 33,187 | **46,284** |
| Profit After Tax and Minority Interest (RM'000) | 33,800 | 70,060 | 21,800 | 16,982 | **32,944** |
| Total Equity Attributable to Shareholders of the Company (RM'000) | 321,437 | 393,623 | 441,418 | 425,549 | **451,514** |
| Share Capital (RM'000) | 149,618 | 191,783 | 196,469 | 198,685 | **199,196** |
| Basic Earnings Per Ordinary Share Attributable to Shareholders of the Company (Sen) | 9.17 | 18.60 | 5.64 | 4.30 | **8.32** |
| Net Assets Per Ordinary Share Attributable to Shareholders of the Company (RM) | 0.86 | 1.04 | 1.13 | 1.08 | **1.14** |

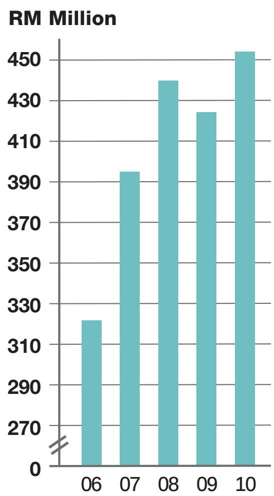
* *The comparative figures for the financial year ended 31 December 2009 have been restated to accounted for the changes in accounting policies in accordance to the adoption of new accounting standards, for reflective comparison purpose.*



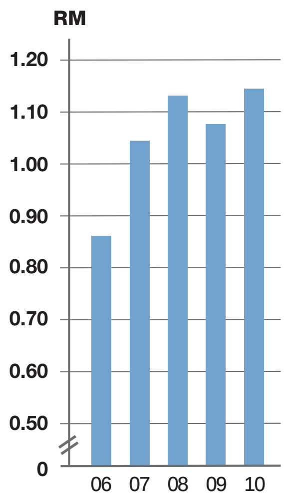

**Profit Before Tax and Exceptional Items**




**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**

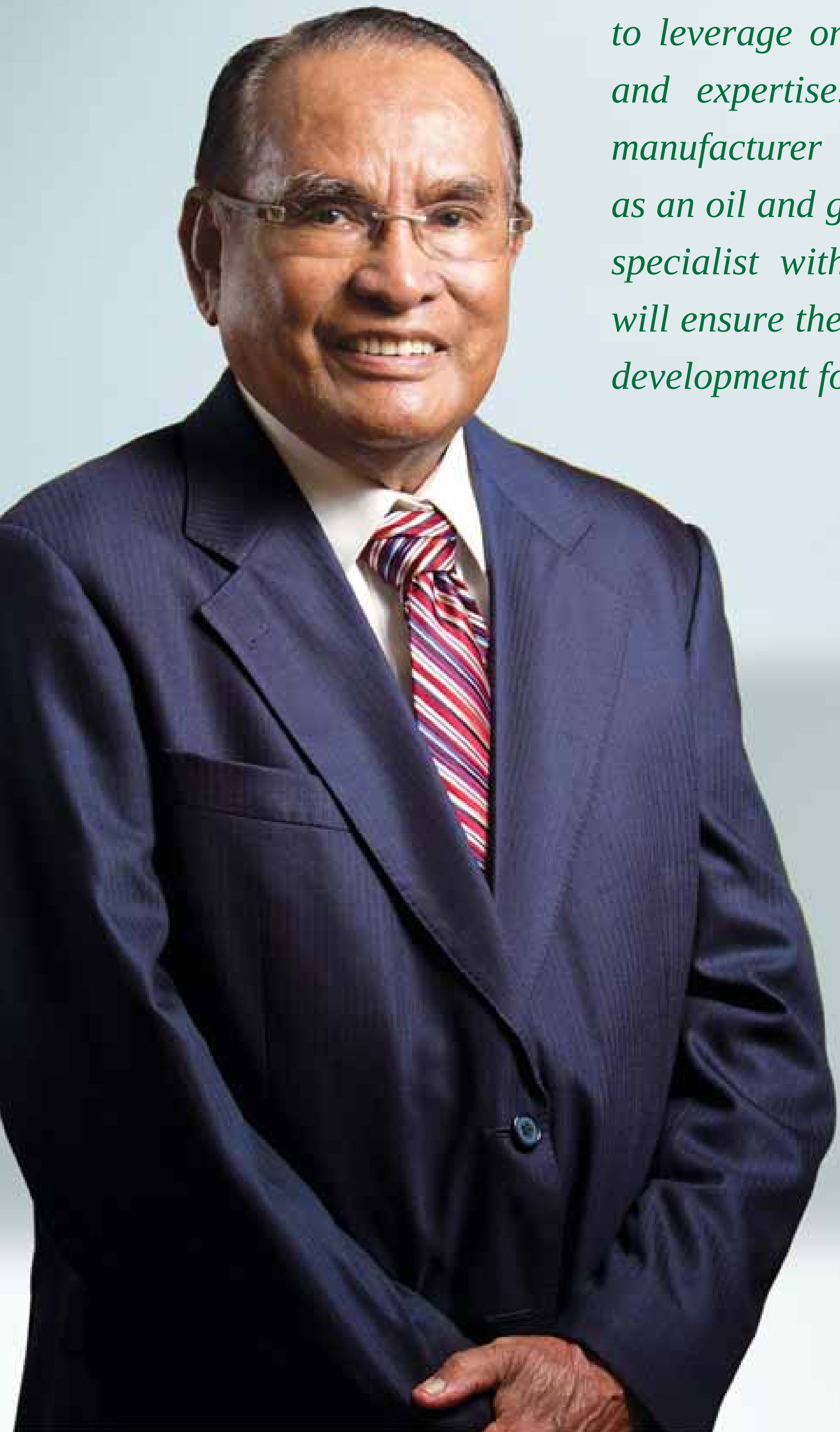
# Core Divisions as at 29 April 2011

**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
  - 90% MUHIBBAH PETROCHEMICAL ENGINEERING SDN. BHD.
  - 60% MUHIBBAH ENGINEERING (CAMBODIA) CO. LTD.
  - 50% FREYSSINET PSC (M) SDN. BHD.
- **CRANES**
  - 55.24% 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% FES EQUIPMENT SERVICES SDN. BHD. (FORMERLY KNOWN AS FAVELLE FAVCO EQUIPMENT SERVICES SDN. BHD.)
    - 100% FAVELLE FAVCO WINCHES PTE. LTD.
- **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*

*"The Group will continue to focus on its core capabilities and build on its inherent competitiveness. The Group will continue to leverage on its established track record and expertise. Our position as a crane manufacturer and a vessel builder as well as an oil and gas infrastructure construction specialist within the oil and gas industry will ensure the Group's ongoing growth and development for the years ahead."*



Tuan Haji 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 2010.

## Overview

The global economy showed signs of a gradual recovery in 2010. However, the recent world events such as the Middle East and North Africa crises as well as the massive earthquake in Japan have made it difficult to predict the future.

Since mid-2010, higher oil prices have seen a return of activities in the oil and gas sector. The market players have reacted to the oil prices and have started investments in exploration and production of new oil and gas fields. The crises in the Middle East and North Africa have resulted in a review of sources for new supplies and thus, investment into this started.

The Malaysian Government's Economic Transformation Programme will also see renewed activities in the construction and the oil and gas sectors.

The Group recorded a lower sales revenue of RM1.77 billion for year 2010 (2009: RM2.25 billion). This was due to a lower turnover for the Construction and Crane Divisions.

Nevertheless, the Group recorded a higher net profit after tax and minority interests of RM32.94 million in 2010 as compared to RM16.98 million in the year 2009. This was mainly due to better efficiency from our Crane subsidiary and shipyard subsidiary.

Ongoing construction works of New Catering Complex for the New Doha International Airport ("NDIA") in Qatar

Precast Concrete Caisson structural works at Muhibbah Steel Industrial yard in Malaysia for the Gorgon Project – Barrow Island LNG Plant in Australia

## Key Financial Highlights

Some key financial highlights for the financial year ended 31 December 2010 are:

- Group's turnover was RM1.77 billion (2009: RM2.25 billion):
- Group's earnings before interest, tax, depreciation, amortisation and tax was RM125.22 million (2009: RM 147.95 million);
- Group's net profit after tax and minority interests increased to RM32.94 million (2009: RM16.98 million);
- Group's basic earnings per share was 8.32 sen (2009: 4.30 sen);
- Group's net assets per share grew from RM1.08 in 2009 to RM1.14 in 2010; and
- Return on equity ("ROE") improved to 8.3%, as compared to 6.3% achieved in 2009.

As at 15 May 2011, the total outstanding order book stands at approximately RM3.188 billion, comprising approximately RM2.285 billion, RM543 million and RM360 million from the Construction and Engineering, the Cranes and the Shipyard Divisions respectively. More than 50% of the total outstanding order book came from the oil and gas sector.

## Dividends

The Board is pleased to recommend a first and final dividend of 7% (3.5 sen) less 25% tax per ordinary share of RM0.50 each (2009: 5% (2.5 sen) less 25% tax 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 dividend payable amounts to RM10.41 million (2009: RM7.42 million).

## Financial Performance

Review of the performance of each division of the Group for the financial year ended 31 December 2010 and the future prospects of the Group are as follows:-

## Construction and Engineering Division

During the year 2010, we successfully secured a contract of RM206 million from Putrajaya Holdings Sdn Bhd for the Ministry of Transport building at Putrajaya. We also secured a wharf contract worth RM129 million from Jurong Town Corporation for the marine centre in Singapore.

Favelle Favco Offshore Crane

2011 started off positively for the Group. In January 2011, the Company, in a consortium with Perunding Ranhill Worley Sdn Bhd, secured a RM1.07 billion contract from Petronas Gas Bhd to construct a regasification gas terminal off the coast of Malacca. The facility will have a processing capacity of 3.8 million tonnes per annum or about 500 million standard cubic feet per day. Gas would be imported in Very Large Crude Carriers ("VLCCs") in liquid form and regasified at the facility before it is transported into the Peninsular Gas Utilisation ("PGU") pipeline network.

We have also been awarded works for precasting concrete caissons for the Gorgon LNG Project in Australia. These units are casted at our fabrication yard in Telok Gong, Klang. The Gorgon Project is one of the world's largest natural gas projects and the largest single resource natural gas project in the history of Australia. The Gorgon Project will develop the Greater Gorgon Area gas fields, located about 130 kilometres off the north-west coast of Western Australia. The entire investment value of the Gorgon Project is approximately AUD43 billion. The Gorgon Project continues to offer opportunities to the Group.

Ongoing contracts are the catering facilities at the New Doha International Airport ("NDIA") in Qatar, the South Klang Valley Expressway ("SKVE") project in Malaysia, the offshore marine centre in South Avenue 8, Singapore, Government offices at Putrajaya and the Gorgon Project in Australia.

As at 15 May 2011, the outstanding secured order book for the construction and engineering division stands at approximately RM2.285 billion. Existing unbilled order book from infrastructure construction projects will continue to contribute to our future earnings and cashflow for the next few years. Apart from the existing contracts, the Group is working to rebuilding its existing order book.

## Crane Division

The year 2010 saw the turnover of the crane division decreased to RM385 million (2009: RM533.20 million). About 60% of the division's revenue is generated from overseas markets. The lower revenue in 2010 was due to the slowdown in the year 2009 with the major players in the oil and gas sector holding back on their investments.

2010 saw a short burst of crane orders, though the earlier part of the year was quiet. Towards the tail end of 2010, there was an increase in orders as a result of higher oil prices.

Keppel Corporation in Singapore, one of the world's largest oil rig builders, continues to be one of our major customers for platform cranes. The Gulf of Mexico oil spill has resulted in the industry rethinking their ageing equipment and hence re-investing in newer equipment. This will provide us with opportunities to secure more work.

Going forward, we see continuing improvements in the rig market with the resumption of oil and gas activities globally especially in the Gulf of Mexico. The rig owners are also investing in more drill ships and in turn, we expect a recovery of the crane market in the oil and gas sector.

Operationally, we are mindful of the direction of the oil and gas industry and are scaling our crane operations according to market demands. The crane division has managed to maintain its profitability and achieved a slight increase in profit after taxation as compared to the previous financial year.

The year under review also saw our entering into a joint venture for tower crane rentals business in China with our long-standing partner there. The China market remains a large market and is increasingly moving towards crane rentals.

Our strategy to improve our after-sales service market is producing promising results. We won several maintenance contracts from a few global oil and gas players and we have also added offshore crane rentals to our range of service.

Favelle Favco Tower Crane in Guangzhou, China

Favelle Favco Offshore Crane

A recent addition to our Group is a winch manufacturing company which we acquired in March 2011. The company is in the business of manufacturing custom-designed winches like mooring winches and anchor handling winches. We expect this new product offering to complement our Favco product range.

As at 15 May 2011, the outstanding secured order book for the crane division stands at approximately RM543 million.

## Shipyard Division

During the year 2010, our shipyard delivered six (6) vessels as in 2009. Repeat orders from our customers are an indication of our customers' confidence in us and their satisfaction with the performance of our yard and our vessels.

Moving forward, the shipyard division is expected to ride on the renewed demand for new vessels with Petronas' deep sea and marginal fields taking off. The spin-off from this will see a demand within the related industries and in turn spur the demand for our offshore support vessels.

As at 15 May 2011, the outstanding secured order book for the shipyard division stands at approximately RM360 million. Anchor handling tugboats and offshore supply vessels continue to be the mainstay of the order book.

## Concessions Division

Our Cambodian airports continue to benefit from the Indochina business and tourism growth. With the recovery in the general global economy, international passenger arrivals have rebounded with a 17% growth.

The concession for the Cambodian airports and road maintenance works for federal roads in the central region and the east coast of Peninsular Malaysia continue to generate strong recurring cash flow and contribution for the Group.

## Corporate Development and Future Prospects

Towards the last quarter of 2010, we saw an increase in projects mainly from the oil and gas sector.

2011 looks promising. We see the oil and gas sector continuing to rebound in the global and domestic markets. We believe the recovery in the oil and gas sector is sustainable.

We will continue to focus on our core capabilities and leverage on our established track record, especially within the oil and gas sector.

The oil and gas sector has been identified as one of the biggest key growth engines amongst the 12 National Key Economic Areas ("NKEAs") in the Economic Transformation Programme ("ETP"). The Government's ETP wishes to promote Malaysia as the No.1 Asian Petroleum hub for oil fields services and equipment. Petronas has also announced its plan to invest approximately RM250 billion in exploration and production activities to sustain the oil and gas production over the next 5 years.

In overseas, we continue to explore opportunities in Qatar with the country's recent success in its bid to host FIFA World Cup 2022. The Qatar Projects Report 2011-2012 details more than RM250 billion worth of major projects. The major projects to be implemented are in the oil and gas sector, heavy industry, electricity generation and water desalination, water and water reuse, social infrastructure and roads, ports, airports and railways. The capital investment in Qatar from now till 2022 calls for modernisation and construction of up to 90,000 hotel rooms to serve 500,000 football fans expected at the world cup.

Moving forward, we will capitalise on the opportunities in the oil and gas sectors and infrastructure construction both globally and domestically. Our direction for the years ahead is to ensure our ongoing growth in the infrastructure construction sector, offshore pedestal cranes, marine and oil and gas projects.


Anchor Handling Tug Supply Vessels


Engineering, Procurement and Construction of the Central Oil Distribution Terminal ("CODT") in Tanjung Manis, Sarawak


Bored precast spun pile (Raker) installation for Offshore Marine Centre at Tuas South Avenue 8, Singapore

## 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 on 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 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 2010 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 of and recreational activities for our employees.

## Acknowledgement and Appreciation

On behalf of the Board, I would like to extend our gratitude to the Management and staff of the Group for their continued commitment and relentless efforts to the Group during the year 2010, despite the challenging business environment. I am confident that once again we shall succeed in our concerted efforts as we embark on yet another year to elevate the Group to greater heights.

Last but not least, I would also like to record my sincere appreciation to all our customers, business partners, suppliers, bankers and shareholders for their continued support and unwavering confidence in us.

**Tuan Haji Mohamed Taib bin Ibrahim**
Chairman

## Tuan Haji Mohamed Taib bin Ibrahim

Aged 86, 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 67, 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 67, 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.

## Ooi Sen Eng

Aged 69, 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 1976 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.

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

Aged 67, Malaysian

*(Senior Independent Non-Executive Director)*

Member of the Audit Committee, Remuneration Committee and Nomination Committee.

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

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

He is presently also a Director of Favelle Favco Berhad, Affin Bank Berhad, Affin Islamic Bank Berhad and Boustead Heavy Industries Corporation Berhad.

## Low Ping Lin

Aged 57, 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 55, 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.

He is also a Director of Ken Holdings Berhad and Majuperak Holdings Berhad.

## Lim Teik Hin

Aged 69, Malaysian

*(Non-Independent and Non-Executive Director)*

Member of the Audit Committee.

Lim Teik Hin was appointed to the Board of Muhibbah Engineering (M) Bhd on 28 March 2003 as a Non-Independent Non-Executive Director. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants and CPA Australia. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A.Walker & Sons) and subsequently worked with KPMG (Penang) in Malaysia. He then joined Federal Aluminium (M) Bhd. as an Operations Manager. His last held position was Senior Manager in Muhibbah Engineering (M) Bhd.

He is also a Director of Favelle Favco Berhad.

## Abd Hamid bin Ibrahim

Aged 62, Malaysian

*(Independent Non-Executive Director)*

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

He holds a Master's Degree in Petroleum Engineering from Heriot-Watt University, Scotland and a degree in Mining from Camborne School of Mines, UK. He also attended the Advanced Management Program 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 till May 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 quarterly magazine of the Malaysian Petroleum Club since its inception in 1992. In July 2004, he was appointed as the PETRONAS representative to the Board of Trustees of CARIF (Cancer Research Initiatives Foundation). He has been a member of the Executive Committee of the Malaysian Oil & Gas Services Council (MOSGC) since first elected in May 2006.

He is also a Director of Borneo Oil Berhad.

## Mac Chung Jin

Aged 37, 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 2nd 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 has been the 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 son of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd whereas Lim Teik Hin is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon.

2. **Conflict of interest**

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

3. **Convictions for Offences within the past 10 years, other than traffic offences**

   None of the Directors have been convicted for offences.

## Additional Compliance Information

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

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

2. **Share Buy-Backs**

   The Company did not repurchase any ordinary shares of RM0.50 each of its own shares from the open market of Bursa Malaysia Securities Berhad during the financial year ended 31December 2010.

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

   (i) ESOS

   Details of the exercise of employees' share options of the Company are disclosed on page 38 of this Annual Report.

   (ii) Warrants

   On 27 April 2010, the Company successfully completed the issuance of RM130 million 3 to 5 years Islamic Bonds with 38,000,000 Warrants 2010/2015 at an issue price of RM0.06 per Warrant.

   The salient features of the Warrants are as follows :-

   (a) the Warrants may be exercised at any time after the date of issue of the Warrants until the expiry date which is the date occurring on the fifth (5th) anniversary of the issue date of the Warrants; and

   (b) subject to adjustments, in accordance with the Deed Poll, during the exercise period each Warrant entitles its registered holder to subscribe for one (1) new ordinary share of RM0.50 each at an exercise price of RM1.07 at any time from the date of issue up to the expiry date.

   As at 31 December 2010, none of the options under the Warrants were exercised.

**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 material sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

**6. Non-Audit Fees**

During the financial year ended 31 December 2010, there were no non-audit fees paid to the external auditors.

**7. Variation in Results**

There were no significant variations between the audited results for the financial year ended 31 December 2010 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 2010.

**9. Profit Guarantee**

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

**10. Material Contracts**

Save for the recurrent related party transactions disclosed under item (12), 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 2010 or entered into since the end of the previous financial year ended 31 December 2009.

**11. Revaluation Policy on Landed Properties**

The Company revalues its freehold and leasehold land every 5 years or shorter interval, whichever the fair value of the land is expected to differ materially from the carrying value.

**12. Recurrent Related Party Transactions**

At the Annual General Meeting held on 28 June 2010, 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 4 June 2010. In accordance with Section 3.1.5 of Practice Note No. 12/2001 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2010 pursuant to the shareholders' mandate are disclosed as follows :-

| Transacting Parties | Related Party | Nature of Transactions | Actual Transactions Value for the Financial Year Ended 31 December 2010 RM'000 |
|---|---|---|---|
| MEB Group and FFB Group | Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui and Mazlan bin Abdul Hamid | Sales of cranes and parts and rental of cranes, plant and equipment by MEB Group to FFB Group; and subcontracting work awarded by FFB Group to MEB Group | 4,194 |
| | | Purchases and rental of cranes and parts by MEB Group from FFB Group, and the provision of crane maintenance and services by FFB Group to MEB Group | 462 |
| | | Rental of barges by FO from MEB and its related maintenance cost and sale of spare parts from MEB to FO | - |
| | | # Rental of office building and factory located at 28, Yarrunga Street, Prestons, NSW 2170, Australia by MEB Group to FFB Group, measuring 11.6 acres | 640 |
| | | # Rental of factory and office premises located at Lot 9895, Geran #26559, Kg. Jawa, Mukim of Klang, District of Klang, Selangor by MEB Group to FFB Group, measuring 5.0 acres | 240 |
| | | # Rental of open yard located at PN 11185, Lot 104505, Telok Gong, District of Klang, Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft. | - |
| | | # Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft. | 96 |
| | | # Rental of land held under HS(D) 99546 Lot No. 104625 Mukim & District of Klang, State of Selangor measuring in area approximately 140,000* square metres by MEB Group to FFB Group *The total rental of land would increase from 140,000 square metres to 300,000 square metres. | 1,370 |

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

**Abbreviations**

"FFB" : Favelle Favco Berhad
"FFB Group" : FFB, its subsidiaries and associated companies collectively
"FO" : Favco Offshores Sdn Bhd, an associated company of FFB
"MEB" : Muhibbah Engineering (M) Bhd
"MEB Group" : MEB, its subsidiaries and associated companies

## Introduction

The Board of Directors ("the Board") is committed towards ensuring that good 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.

The Board believes that the current composition is appropriate given the nature of business and scale of operations of the Group. Profiles of the Directors are presented on pages 17 to 19 of this Annual Report.

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

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

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

The Board has identified Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor 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:

| Names of Directors | Attendance at Meetings in 2010 |
|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | 4/4 |
| Datuk Zakaria bin Abdul Hamid | 4/4 |
| Mac Ngan Boon @ Mac Yin Boon | 4/4 |
| Ooi Sen Eng | 4/4 |
| Low Ping Lin | 4/4 |
| Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar | 4/4 |
| Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | 3/4 |
| Lim Teik Hin | 4/4 |
| Abd Hamid bin Ibrahim | 3/4 |
| Mac Chung Jin *(Alternate Director to Ooi Sen Eng)* | 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.

**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 29 to 33 of this Annual Report.

### *(ii) Nomination Committee*

The present members of the Nomination Committee are as follows:

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

The Nomination Committee met once during the financial year. In accordance with its terms of reference, the Nomination Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Directors of the Company to ensure that the Board has the required mix of skills, experience and other core competencies. All assessments 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.

### *(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)* |
| Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member *(Senior Independent Non-Executive Director)* |
| Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar | Member *(Independent Non-Executive Director)* |

The Remuneration Committee met once during the financial year. In accordance with its terms of reference, the Remuneration Committee reviewed the remuneration packages and benefits of the Executive Directors to ensure the Company is able to attract high calibre executives to run the Company successfully. Directors do not participate in decisions on their own remuneration. At the same time, the Non-Executive Directors' fees were also reviewed and recommended for 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.

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

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 RM | Non Executive Directors RM | Total RM |
|---|---|---|---|
| Fees | 144,000 | 288,000 | 432,000 |
| Remuneration | 2,243,640 | 114,240 | 2,357,880 |
| | 2,387,640 | 402,240 | 2,789,880 |

The number of Directors in each remuneration band for the financial year 2010 are as follows:

| Range of Remuneration | Executive Directors | Non Executive Directors | Total |
|---|---|---|---|
| RM50,001 to RM100,000 | - | 5 | 5 |
| RM100,001 to RM150,000 | - | 1 | 1 |
| RM250,001 to RM300,000 | 1 | - | 1 |
| RM650,001 to RM700,000 | 3 | - | 3 |
| | 4 | 6 | 10 |

## 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 investors briefing with fund managers, institutional investors and research analysts. Information such as the Group's performance, strategy and major development are presented and explained during these investors briefing.

Apart from the mandatory announcements of the Group's financial results and corporate developments to Bursa Malaysia Securities Berhad, the Group maintains a website (www.muhibbah.com) that allows all shareholders to gain access to information and business activities and recent developments of the Group and for feedback.

**Annual General Meeting**

The Annual General Meeting is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire on the Company's progress and performance. The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting.

## Accountability And Audit

**Financial Reporting and Statement of Directors' Responsibility**

The Directors are responsible to ensure that the financial statements are drawn up in accordance with the 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 page 34 of this Annual Report.

### Recurring Related Party Transactions
The Board, through the Audit Committee, reviews all recurring related party transactions.

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

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

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 12 May 2011.

## 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 2010** |
|---|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | Chairman *(Independent Non-Executive Director)* | 4/4 |
| Datuk Zakaria bin Abdul Hamid | Member *(Independent Non-Executive Director)* | 4/4 |
| Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor | Member *(Senior Independent Non-Executive Director)* | 3/4 |
| Lim Teik Hin | Member *(Non-Independent and Non-Executive Director)* | 4/4 |

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

The Audit Committee held four (4) meetings during the financial year ended 31 December 2010. The Group's Chief Financial Officer and the Group's Internal Audit Manager attended all meetings. Other Board members and senior management attended some of the 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 the terms of reference. These include:

(i) Reviewing the quarterly results and year end financial statements before submission to the Board of Directors for consideration and approval for announcement to Bursa Malaysia Securities Berhad.

(ii) Reviewing with external auditors, the result of the annual audit and the audit report including the Management response to the findings of the external auditors.

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

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

## Summary of Activities (continued)

(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 directly 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 cost incurred for the internal audit function in respect of the financial year amounted to approximately RM217,000.

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.

## 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, wherever deemed necessary.

**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.

**Duties** (continued)

- the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.

- the quarterly results and year end financial statements before submission to the Board of Directors for approval, focusing particularly on changes in or implementation of major accounting policy changes, significant and unusual events and compliance with accounting standards and other legal requirements.

- any related party transactions and conflict of interest situations that may arise within the Group or Company including any transaction, procedure or course of conduct that raises questions of management integrity.

- the appointment of the external auditors and audit fees, and any questions of resignation or dismissal.

2. To recommend the nomination of a person or persons as External Auditors.

3. To ensure that the Audit Committee Report is prepared at the end of each financial year for inclusion in the Annual Report of the Company. The Audit Committee Report shall comprise:

   - the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise).

   - the terms of reference of the Audit Committee.

   - the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member.

   - a summary of the activities of the Audit Committee in the discharge of functions and duties for that financial year of the Company.

   - a summary of the activities of the internal audit function or activity.

4. To 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 opened 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 checked that operational processes are in accordance with the ISO 9001 : 2000 Quality Management System and ISO 14001 : 2004 Environmental Management System respectively;
- The Internal Audit Department provides the Audit Committee with reviews of processes, risk exposures (through Enterprise Risk Management) and system of internal controls of the Group. The Internal Audit Department carried out audits based on audit plans approved by the Audit Committee;
- Subsequent follow-up reviews on recommendations and outstanding issues are conducted by the 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.

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 2010. The Group continues to take the necessary measures to ensure that the system of internal control is in place and functioning effectively.

# Financial Statements

# Directors' report for the year ended 31 December 2010

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 2010.

## Principal activities

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are mainly involved in design, manufacture, commission, repair, maintenance and customisation of offshore pedestal cranes, offshore supply vessels and anchor handling tugboats for global oil and gas industry. The associates are mainly involved in international airports concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 27 to the financial statements. The principal activities of the subsidiaries are as stated in Note 5 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: | | |
| Owners of the Company | 32,944 | 15,708 |
| Minority interest | 13,340 | - |
| Profit for the year | 46,284 | 15,708 |

## 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 5% (2.50 sen) per ordinary share of RM0.50 each less tax at 25% totaling RM7,425,000 in respect of the year ended 31 December 2009.

The first and final dividend recommended by the Directors in respect of the year ended 31 December 2010 is 7% (3.50 sen) per ordinary share of RM0.50 each less tax at 25% totaling RM10,411,000 subject to approval of the shareholders at the forthcoming Annual General Meeting

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

## 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 1.1.2010 | Bought | Sold | At 31.12.2010 |
| **Interest in the Company:** | | | | |
| Tuan Haji Mohamed Taib bin Ibrahim | 7,543,392 | - | - | 7,543,392 |
| Mac Ngan Boon @ Mac Yin Boon | 68,808,916 | - | - | 68,808,916 |
| Ooi Sen Eng | 13,045,066 | - | (500,000) | 12,545,066 |
| Low Ping Lin | 2,955,000 | - | - | 2,955,000 |
| Mac Chung Jin | 4,595,000 | - | - | 4,595,000 |
| Datuk Zakaria bin Abdul Hamid | 10,000 | 6,000 | - | 16,000 |

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 1.1.2010 | Bought | Sold | At 31.12.2010 |
| Mac Ngan Boon @ Mac Yin Boon | 1,832,500 | - | - | 1,832,500 |
| Ooi Sen Eng | 900,000 | - | - | 900,000 |
| Low Ping Lin | 832,500 | - | - | 832,500 |
| Mac Chung Jin *(alternate to Ooi Sen Eng)* | 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 2010 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.

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 and warrants granted over unissued shares

During the year, the Company issued RM130,000,000 nominal value of the Islamic Bonds together with 38,000,000 detachable warrants in accordance to approval of shareholders and relevant authorities.

The main features of the Company's duly approved employees' share option scheme (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 Company Directors and directors of subsidiaries, who have been granted options representing 1,000,000 ordinary shares of RM0.50 each and below under the ESOS Scheme. The interest of option holders who have been granted original options representing more than 1,000,000 ordinary shares of RM0.50 each as at year end are as follow:-

| | **Number of options over ordinary shares of RM0.50 each** | | | |
|---|---|---|---|---|
| | **Balance at 1.1.2010** | **Granted** | **Exercised** | **Balance at 31.12.2010** |
| Lee Poh Kwee | 2,000,000 | - | - | 2,000,000 |
| Tan Bin Tat | 500,000 | - | - | 500,000 |
| Tan Chin Guan | 500,000 | - | - | 500,000 |

## Other statutory information

Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took steps:

i) to ascertain that proper action had been taken in relation to writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) to ensure that any current assets which were unlikely to realise their value in the ordinary course of business had been written down to an amount which they might be expected to realise.

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

## Other statutory information (continued)

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

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

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

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

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

No contingent liability or other liability of any 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 2010 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. Crowe Horwath, 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** **Low Ping Lin**

Klang,

Date: 15 April 2011

# Statements of financial position at 31 December 2010

| | | Group | | | Company | |
|---|---|---|---|---|---|---|
| | Note | 31.12.2010<br>RM'000 | 31.12.2009 restated<br>RM'000 | 1.1.2009 restated<br>RM'000 | 31.12.2010<br>RM'000 | 31.12.2009 restated<br>RM'000 |
| **Assets** | | | | | | |
| Property, plant and equipment | 3 | **623,099** | 545,016 | 528,184 | **148,011** | 140,648 |
| Investment properties | 4 | **532** | 551 | 568 | **20,196** | 20,382 |
| Investments in subsidiaries | 5 | - | - | - | **196,522** | 193,010 |
| Investments in associates | 6 | **135,817** | 124,967 | 124,209 | **8,424** | 8,424 |
| Goodwill on consolidation | 8 | **14,400** | 21,600 | 22,171 | **-** | - |
| Receivables, deposits and prepayments | 7 | **-** | - | - | **10,000** | 10,000 |
| Deferred tax assets | 9 | **2,660** | 1,593 | 33 | **-** | - |
| Other non-current assets | 10 | **27,754** | 24,825 | 27,468 | **9** | 9 |
| **Total non-current assets** | | **804,262** | 718,552 | 702,633 | **383,162** | 372,473 |
| Receivables, deposits and prepayments | 7 | **896,562** | 1,018,062 | 721,013 | **1,001,740** | 869,033 |
| Amount due from contract customers | 11 | **583,071** | 320,982 | 699,816 | **237,157** | 183,185 |
| Inventories | 12 | **179,118** | 200,166 | 215,617 | **-** | - |
| Current tax assets | | **3,374** | 1,168 | 15,738 | **693** | 2,831 |
| Derivative assets | 13 | **41,312** | - | - | **31,401** | - |
| Cash and cash equivalents | 14 | **201,106** | 249,309 | 216,730 | **23,073** | 27,761 |
| **Total current assets** | | **1,904,543** | 1,789,687 | 1,868,914 | **1,294,064** | 1,082,810 |
| **Total assets** | | **2,708,805** | 2,508,239 | 2,571,547 | **1,677,226** | 1,455,283 |

# Statements of financial position at 31 December 2010 (continued)

| | | Group | | | Company | |
|---|---|---|---|---|---|---|
| | Note | 31.12.2010<br>RM'000 | 31.12.2009<br>restated<br>RM'000 | 1.1.2009<br>restated<br>RM'000 | 31.12.2010<br>RM'000 | 31.12.2009<br>restated<br>RM'000 |
| **Equity** | | | | | | |
| Share capital | 15 | **199,196** | 198,685 | 196,469 | **199,196** | 198,685 |
| Reserves | 16 | **252,318** | 226,864 | 216,008 | **89,099** | 118,642 |
| **Total equity attributable to owners of the Company** | | **451,514** | 425,549 | 412,477 | **288,295** | 317,327 |
| **Minority interest** | | **107,551** | 101,504 | 87,629 | **-** | - |
| **Total equity** | | **559,065** | 527,053 | 500,106 | **288,295** | 317,327 |
| **Liabilities** | | | | | | |
| Payables and accruals | 18 | **15,324** | 16,905 | 17,449 | **-** | - |
| Loans and borrowings | 17 | **264,154** | 170,015 | 116,625 | **171,377** | 57,706 |
| Deferred tax liabilities | 9 | **48,240** | 21,716 | 7,658 | **8,516** | 7,400 |
| **Total non-current liabilities** | | **327,718** | 208,636 | 141,732 | **179,893** | 65,106 |
| Provisions, payables and accruals | 18 | **807,191** | 858,307 | 735,738 | **521,149** | 675,538 |
| Amount due to contract customers | 11 | **278,022** | 342,390 | 363,462 | **52,868** | 13,595 |
| Bills payable | 19 | **540,596** | 466,356 | 679,212 | **501,516** | 349,802 |
| Derivative liabilities | 13 | **3,509** | - | - | **-** | - |
| Loans and borrowings | 17 | **182,069** | 86,050 | 135,882 | **132,948** | 27,096 |
| Current tax liabilities | | **10,635** | 19,447 | 15,415 | **557** | 6,819 |
| **Total current liabilities** | | **1,822,022** | 1,772,550 | 1,929,709 | **1,209,038** | 1,072,850 |
| **Total liabilities** | | **2,149,740** | 1,981,186 | 2,071,441 | **1,388,931** | 1,137,956 |
| **Total equity and liabilities** | | **2,708,805** | 2,508,239 | 2,571,547 | **1,677,226** | 1,455,283 |

The notes on pages 52 to 112 are an integral part of these financial statements.

# Statements of comprehensive income for the year ended 31 December 2010

| | Note | Group 2010 RM'000 | Group 2009 restated RM'000 | Company 2010 RM'000 | Company 2009 restated RM'000 |
|---|---|---|---|---|---|
| **Revenue** | 20 | **1,768,884** | 2,252,049 | **740,799** | 1,254,710 |
| Cost of sales | | **(1,604,173)** | (2,105,312) | **(712,503)** | (1,195,090) |
| **Gross profit** | | **164,711** | 146,737 | **28,296** | 59,620 |
| Other income | | **11,670** | 12,392 | **6,194** | 30,625 |
| Distribution costs | | **(12,632)** | (15,722) | **(1,168)** | (1,569) |
| Administrative expenses | | **(92,280)** | (75,667) | **(13,111)** | (9,720) |
| Other expenses | | **(35,249)** | (11,974) | **(12,978)** | (47,000) |
| **Results from operating activities** | | **36,220** | 55,766 | **7,233** | 31,956 |
| Interest income | | **6,156** | 2,966 | **3,191** | 5,196 |
| Finance costs | | **(15,726)** | (9,037) | **(7,712)** | - |
| **Operating profit** | 21 | **26,650** | 49,695 | **2,712** | 37,152 |
| Share of profit after tax and minority interest of equity accounted associates | | **26,627** | 22,789 | **-** | - |
| **Profit before tax** | | **53,277** | 72,484 | **2,712** | 37,152 |
| Income tax (expense)/benefits | 23 | **(6,993)** | (39,297) | **12,996** | (21,114) |
| **Profit for the year** | | **46,284** | 33,187 | **15,708** | 16,038 |
| **Other comprehensive income** | | | | | |
| Foreign currency translation differences for foreign operations | | **(18,244)** | 5,898 | **(1,462)** | 362 |
| Movement in revaluation of property, plant and equipment, net of tax | | **88,738** | (3,780) | **25,546** | - |
| **Other comprehensive income for the year** | | **70,494** | 2,118 | **24,084** | 362 |
| **Total comprehensive income for the year** | | **116,778** | 35,305 | **39,792** | 16,400 |

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2010<br>RM'000 | 2009<br>restated<br>RM'000 | 2010<br>RM'000 | 2009<br>restated<br>RM'000 |
| **Profit attributable to:** | | | | | |
| Owners of the Company | | **32,944** | 16,982 | **15,708** | 16,038 |
| Minority interest | | **13,340** | 16,205 | **-** | - |
| **Profit for the year** | | **46,284** | 33,187 | **15,708** | 16,038 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the Company | | **106,011** | 17,503 | **39,792** | 16,400 |
| Minority interest | | **10,767** | 17,802 | **-** | - |
| **Total comprehensive income for the year** | | **116,778** | 35,305 | **39,792** | 16,400 |
| **Earnings per ordinary share (sen)** | | | | | |
| - Basic | 24 | **8.32** | 4.30 | | |
| - Diluted | 24 | **8.22** | 4.24 | | |

The notes on pages 52 to 112 are an integral part of these financial statements.

# Consolidated statement of changes in equity for the year ended 31 December 2010

| | | *Attributable to owners 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 interest RM'000** | **Total equity RM'000** |
| **At 1 January 2009** | | | | | | | | | | | | |
| As previously stated | | 196,469 | (5,561) | 2,140 | 30,129 | 1,612 | 5,240 | 11,735 | 199,654 | 441,418 | 87,629 | 529,047 |
| Rectification of brought forward realised foreign exchange difference previously included in work-in-progress | | - | - | - | - | - | - | - | (28,941) | (28,941) | - | (28,941) |
| **At 1 January 2009, restated** | | 196,469 | (5,561) | 2,140 | 30,129 | 1,612 | 5,240 | 11,735 | 170,713 | 412,477 | 87,629 | 500,106 |
| Total comprehensive income for the year | | - | - | - | (2,149) | - | - | 2,670 | 16,982 | 17,503 | 17,802 | 35,305 |
| Share-based payments | 25 | - | - | - | - | - | 706 | - | - | 706 | 139 | 845 |
| Share options exercised | 15 | 2,216 | - | 44 | - | - | - | - | - | 2,260 | - | 2,260 |
| Transfer to share premium for share options exercised | | - | - | 990 | - | - | (990) | - | - | - | - | - |
| Dilution of interest in subsidiary | | - | - | - | - | - | - | - | - | - | 1,021 | 1,021 |
| Dividends to owners of the Company | | - | - | - | - | - | - | - | (7,397) | (7,397) | - | (7,397) |
| Dividends to minority interest | | - | - | - | - | - | - | - | - | - | (4,676) | (4,676) |
| Acquisition of minority interest | | - | - | - | - | - | - | - | - | - | (411) | (411) |
| **At 31 December 2009, restated** | | 198,685 | (5,561) | 3,174 | 27,980 | 1,612 | 4,956 | 14,405 | 180,298 | 425,549 | 101,504 | 527,053 |

Note 16

# Consolidated statement of changes in equity for the year ended 31 December 2010 (continued)

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-distributable | | | | | | | Distributable | | | | |
| Group | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Warrant reserve 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 interest RM'000 | Total equity RM'000 |
| At 1 January 2010 | | | | | | | | | | | | | |
| As previously stated | | 198,685 | (5,561) | 3,174 | - | 27,980 | 1,612 | 4,956 | 14,405 | 204,937 | 450,188 | 101,504 | 551,692 |
| Rectification of brought forward realised foreign exchange difference previously included in work-in-progress | | - | - | - | - | - | - | - | - | (24,639) | (24,639) | - | (24,639) |
| | | 198,685 | (5,561) | 3,174 | - | 27,980 | 1,612 | 4,956 | 14,405 | 180,298 | 425,549 | 101,504 | 527,053 |
| Effect of adopting FRS 139 | | - | - | - | - | - | - | - | - | (75,522) | (75,522) | (5,551) | (81,073) |
| At 1 January 2010, restated | | 198,685 | (5,561) | 3,174 | - | 27,980 | 1,612 | 4,956 | 14,405 | 104,776 | 350,027 | 95,953 | 445,980 |
| Total comprehensive income for the year | | - | - | - | - | 88,738 | - | - | (15,671) | 32,944 | 106,011 | 10,767 | 116,778 |
| Share-based payments | 25 | - | - | - | - | - | - | 100 | - | - | 100 | 61 | 161 |
| Share options exercised | 15 | 511 | - | 10 | - | - | - | - | - | - | 521 | 2,644 | 3,165 |
| Transfer to share premium for share options exercised | | - | - | 700 | - | - | - | (700) | - | - | - | - | - |
| Issuance of warrants | | - | - | - | 2,280 | - | - | - | - | - | 2,280 | - | 2,280 |
| Dilution of interest in subsidiary | | - | - | - | - | - | - | - | - | - | - | 1,280 | 1,280 |
| Dividends to owners of the Company | | - | - | - | - | - | - | - | - | (7,425) | (7,425) | - | (7,425) |
| Dividends to minority interest | | - | - | - | - | - | - | - | - | - | - | (3,154) | (3,154) |
| At 31 December 2010 | | 199,196 | (5,561) | 3,884 | 2,280 | 116,718 | 1,612 | 4,356 | (1,266) | 130,295 | 451,514 | 107,551 | 559,065 |

Note 16

The notes on pages 52 to 112 are an integral part of these financial statements.

# Statement of changes in equity for the year ended 31 December 2010

| | | 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 2009** | | | | | | | | | |
| As previously stated | | 196,469 | (5,561) | 2,140 | 764 | 3,700 | 1,404 | 135,565 | 334,481 |
| Rectification of brought forward realised foreign exchange difference previously included in work-in-progress | | - | - | - | - | - | - | (28,941) | (28,941) |
| **At 1 January 2009, restated** | | 196,469 | (5,561) | 2,140 | 764 | 3,700 | 1,404 | 106,624 | 305,540 |
| Total comprehensive income for the year | | - | - | - | - | - | 362 | 16,038 | 16,400 |
| Share-based payments | 25 | - | - | - | - | 524 | - | - | 524 |
| Share options exercised | 15 | 2,216 | - | 44 | - | - | - | - | 2,260 |
| Transfer to share premium for share options exercised | | - | - | 847 | - | (847) | - | - | - |
| Dividends to owners of the Company | 26 | - | - | - | - | - | - | (7,397) | (7,397) |
| **At 31 December 2009, restated** | | 198,685 | (5,561) | 3,031 | 764 | 3,377 | 1,766 | 115,265 | 317,327 |
| | | | | Note 16 | | | | | |

# Statement of changes in equity for the year ended 31 December 2010

| Company | Note | Share capital RM'000 | Treasury shares RM'000 | Share premium RM'000 | Warrant reserve RM'000 | Revaluation reserve RM'000 | Share option reserve RM'000 | Translation reserve RM'000 | Retained earnings RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *Non-distributable* | | | | | | | *Distributable* | |
| **At 1 January 2010** | | | | | | | | | | |
| As previously stated | | 198,685 | (5,561) | 3,031 | - | 764 | 3,377 | 1,766 | 139,904 | 341,966 |
| Rectification of brought forward realised foreign exchange difference previously included in work-in-progress | | - | - | - | - | - | - | - | (24,639) | (24,639) |
| | | 198,685 | (5,561) | 3,031 | - | 764 | 3,377 | 1,766 | 115,265 | 317,327 |
| Effect of adopting FRS 139 | | - | - | - | - | - | - | - | (64,226) | (64,226) |
| **At 1 January 2010, restated** | | 198,685 | (5,561) | 3,031 | - | 764 | 3,377 | 1,766 | 51,039 | 253,101 |
| Total comprehensive income for the year | | - | - | - | - | 25,546 | - | (1,462) | 15,708 | 39,792 |
| Share-based payments | 25 | - | - | - | - | - | 26 | - | - | 26 |
| Share options exercised | 15 | 511 | - | 10 | - | - | - | - | - | 521 |
| Transfer to share premium for share options exercised | | - | - | 194 | - | - | (194) | - | - | - |
| Issuance of warrants | | - | - | - | 2,280 | - | - | - | - | 2,280 |
| Dividends to owners of the Company | 26 | - | - | - | - | - | - | - | (7,425) | (7,425) |
| **At 31 December 2010** | | 199,196 | (5,561) | 3,235 | 2,280 | 26,310 | 3,209 | 304 | 59,322 | 288,295 |
| | | | | Note 16 | | | | | | |

The notes on pages 52 to 112 are an integral part of these financial statements.

# Statements of cash flows
# for the year ended 31 December 2010

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 restated | 2010 | 2009 restated |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cash flows from operating activities** | | | | |
| Profit before tax | **53,277** | 72,484 | **2,712** | 37,152 |
| Adjustments for: | | | | |
| Amortisation of development costs | **2,024** | 3,084 | **-** | - |
| Amortisation of land held for development | **46** | - | **-** | - |
| Depreciation of investment properties | **19** | 17 | **185** | 186 |
| Depreciation of property, plant and equipment | **31,059** | 40,495 | **13,332** | 14,242 |
| Development costs written off` | **-** | 210 | **-** | - |
| Dividend income | **-** | - | **(72,036)** | (91,814) |
| Finance costs | **34,506** | 28,421 | **16,319** | 19,384 |
| Loss/(Gain) on disposal of property, plant and equipment | **153** | (1,061) | **547** | (322) |
| Gain on disposal of investment properties | **-** | - | **-** | (6,121) |
| Impairment loss of goodwill on consolidation | **7,805** | 571 | **-** | - |
| Impairment loss on investments in subsidiaries | **-** | - | **-** | 30,156 |
| Impairment loss on property, plant and equipment | **14,734** | - | **-** | - |
| (Reversal of impairment)/Impairment loss on other investment | **(18)** | 22 | **-** | - |
| Interest income | **(6,156)** | (2,966) | **(3,191)** | (5,196) |
| Loss on dilution of interest in subsidiary | **1,280** | 294 | **-** | - |
| Property, plant and equipment written off | **1,125** | 478 | **-** | - |
| Share based payments | **161** | 845 | **26** | 524 |
| Share of profit of associates | **(26,627)** | (22,789) | **-** | - |
| Gain on fair value through profit or loss - forward contract | **(17,521)** | - | **(16,492)** | - |
| **Operating profit/(loss) before changes in working capital** | **95,867** | 120,105 | **(58,598)** | (1,809) |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2010 RM'000 | 2009 restated RM'000 | 2010 RM'000 | 2009 restated RM'000 |
| **Operating profit/(loss) before changes in working capital (continued)** | | **95,867** | 120,105 | **(58,598)** | (1,809) |
| Receivables, deposits and prepayments | | **41,853** | (297,049) | **(194,116)** | (294,617) |
| Inventories | | **21,048** | 15,451 | **-** | - |
| Payables and accruals | | **(52,569)** | 113,063 | **(154,196)** | 154,827 |
| Amount due (from)/to contract customers | | **(345,191)** | 373,212 | **(32,424)** | 273,063 |
| **Cash (used in)/generated from operations** | | **(238,992)** | 324,782 | **(439,334)** | 131,464 |
| Income taxes paid | | **(24,397)** | (11,395) | **(1,691)** | (10,860) |
| Tax refund | | **3,513** | - | **2,970** | - |
| **Net cash (used in)/generated from operating activities** | | **(259,876)** | 313,387 | **(438,055)** | 120,604 |
| **Cash flows from investing activities** | | | | | |
| Investment in associates | | **(11,566)** | - | **-** | - |
| Changes in interest of subsidiaries | | **-** | (411) | **(3,512)** | (28,473) |
| Additions to development expenditure | | **(6,771)** | - | **-** | - |
| Dividends received from: | | | | | |
| - subsidiaries | | **-** | - | **59,353** | 77,441 |
| - associates | | **19,381** | 20,556 | **12,683** | 10,966 |
| Interest received | | **3,182** | 2,966 | **3,191** | 5,196 |
| Proceeds from disposal of property, plant and equipment | | **14,582** | 8,772 | **17,774** | 10,311 |
| Proceeds from disposal of investment properties and land held for development | | **-** | 332 | **-** | 14,500 |
| Purchase of property, plant and equipment | (i) | **(38,639)** | (66,441) | **(4,954)** | (32,528) |
| Purchase of other non-current assets | | **(6)** | (239) | **-** | - |
| **Net cash (used in)/generated from investing activities** | | **(19,837)** | (34,465) | **84,535** | 57,413 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2010 | 2009 restated | 2010 | 2009 restated |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cash flows from financing activities** | | | | | |
| Dividends paid to owners of the Company | | **(7,425)** | (7,397) | **(7,425)** | (7,397) |
| Dividends paid to minority interests | | **(3,154)** | (4,676) | **-** | - |
| Interest paid | | **(34,506)** | (28,421) | **(16,319)** | (19,384) |
| Proceeds from exercise of shares options | | **521** | 2,260 | **521** | 2,260 |
| Proceeds from issuance of shares to minority interest of a subsidiary | | **2,644** | 727 | **-** | - |
| Proceeds from allotment of warrant | | **2,280** | - | **2,280** | - |
| Net drawdown/(repayment) of loans and borrowings | | **257,628** | (203,290) | **371,346** | (228,401) |
| **Net cash generated from/(used in) financing activities** | | **217,988** | (240,797) | **350,403** | (252,922) |
| **Exchange differences on translation of the financial statements of foreign operations** | | **6,825** | 595 | **(1,462)** | - |
| **Net (decrease)/increase in cash and cash equivalents** | | **(54,900)** | 38,720 | **(4,579)** | (74,905) |
| **Cash and cash equivalents at beginning of year** | | **247,242** | 208,522 | **27,475** | 102,380 |
| **Cash and cash equivalents at end of year** | (ii) | **192,342** | 247,242 | **22,896** | 27,475 |

***(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 RM38,712,000 (2009 - RM66,574,000) and RM4,954,000 (2009 - RM32,528,000) respectively, of which RM73,000 (2009 - RM133,000) of the Group and Nil (2009 - Nil) of the Company were acquired by means of hire purchases liabilities.

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

Cash and cash equivalents included in the statements of cash flows comprise the following statement of financial position amounts:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Cash and bank balances | 14 | **153,958** | 196,860 | **19,410** | 27,004 |
| Deposits placed with licensed banks | 14 | **47,148** | 52,449 | **3,663** | 757 |
| Bank overdrafts | 17 | **(8,764)** | (2,067) | **(177)** | (286) |
| | | **192,342** | 247,242 | **22,896** | 27,475 |

The notes on pages 52 to 112 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 Market 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 consolidated financial statements as at and for the year ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint ventures. The financial statements of the Company as at and for the year ended 31 December 2010 do not include other entities.

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are mainly involved in design, manufacture, commission, repair, maintenance and customisation of offshore pedestal cranes, offshore supply vessels and anchor handling tugboats for global oil and gas industry. The associates are mainly involved in international airports concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 27 to the financial statements. The principal activities of the subsidiaries are as stated in Note 5 to the financial statements.

The financial statements were approved by the Board of Directors on 15 April 2011.

## 1. Basis of preparation

### (a) Statement of compliance

These financial statements 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 new / revised accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Company:

| ***FRSs, Interpretations*** | ***Effective date*** |
|---|---|
| • FRS 1, *First-time Adoption of Financial Reporting Standards* | 1 July 2010 |
| • FRS 3 (revised), *Business Combinations* | 1 July 2010 |
| • FRS 127 (revised), *Consolidated and Separate Financial Statements* | 1 July 2010 |
| • Amendments to FRS 5, *Plan to Sell the Controlling Interest in a Subsidiary* | 1 July 2010 |
| • Amendments to FRS 2, *Scope of FRS2 and FRS3 (revised)* | 1 July 2010 |
| • Amendments to FRS 138, *Consequential Amendments Arising from FRS 3 (revised)* | 1 July 2010 |
| • Amendments to FRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions* | 1 January 2011 |
| • Amendments to FRS1 (revised), *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First- time Adopters* | 1 January 2011 |
| • Amendments to FRS 7, *Improving Disclosures about Financial Instruments* | 1 January 2011 |
| • FRS 124 (revised), *Related Party Disclosures* | 1 January 2012 |
| • Amendments to IC Interpretation 9, *Scope of IC Interpretation 9 and FRS 3 (revised)* | 1 July 2010 |
| • IC Interpretation 12, *Service Concession Arrangements* | 1 July 2010 |
| • IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation* | 1 July 2010 |
| • IC Interpretation 17, *Distributions of Non-cash Assets to Owners* | 1 July 2010 |
| • IC Interpretation 18, *Transfers of Assets from Customers* | 1 January 2011 |
| • IC Interpretation 4, *Determining Whether An Arrangement Contains a Lease* | 1 January 2011 |
| • Amendments to IC Interpretation 14, *Prepayments of Minimum Funding Requirement* | 1 July 2011 |
| • IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments* | 1 July 2011 |
| • IC Interpretation 15, *Agreements for the Construction of Real Estate* | 1 January 2012 |

## 1. Basis of preparation (continued)

**(a) Statement of compliance (continued)**

The Group and the Company plan to apply the abovementioned FRSs / Interpretations from the annual period beginning 1 January 2011.

The initial application of the above standards, (and its consequential amendments) and interpretations are not expected to have any financial impact on the financial statements of the Group and the Company other than expected changes in accounting policies as discussed below:

**(i) FRS 3 (revised), *Business Combinations***

FRS 3 (revised) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit and loss.
- Any minority (will be known as non-controlling) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

FRS 3 (revised), which becomes mandatory for the Group's 2011 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2011 consolidated financial statements.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

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

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

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

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

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

- recognition of revenue from construction contracts
- valuation of investment properties and land
- impairment test of goodwill and receivables
- share-based payments

## 2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, other than those disclosed in the following notes:

- Note 2(c) – Financial instruments
- Note 2(e) – Leased assets
- Note 2(f) – Investment properties
- Note 2(v) – Borrowing costs
- Note 2(y) – Operating segments

**(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 statement of financial position 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 and other comprehensive income of the equity accounted associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

Investments in associates are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale.

***(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.

## 2. Significant accounting policies (continued)

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

#### *(iii) Joint ventures - Jointly-controlled entities (continued)*

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 statement of financial position at cost less impairment losses.

#### *(iv) Minority interest*

Minority interests at the end of the reporting period, being the portion of the net identifiable assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Minority interests in the results of the Group is presented on the face of the consolidated statement of comprehensive income as an allocation of the comprehensive income for the year between minority interests and the owners of the Company.

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

#### *(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 Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

## 2. Significant accounting policies (continued)

**(b) Foreign currency (continued)**

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2006 which are reported using the exchange rates at the dates of the acquisitions. The income and expenses of foreign operations 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 other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of foreign operations, accumulated translation differences are recognised to profit or loss as part of the gain or loss on disposal.

***(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 profit or loss. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are recognised in the consolidated statement of comprehensive income upon disposal of the investment.

**(c) Financial instruments**

Arising from the adoption of FRS 139, *Financial Instruments: Recognition and Measurement*, with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2010, different accounting policies were applied.

***(i) Initial recognition and measurement***

A financial instrument is recognised in the financial statements when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument. A finance instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### *(ii) Financial instrument categories and subsequent measurement*

The Group and the Company categorise financial instruments as follows:

**Financial assets**

***(a) Financial assets at fair value through profit and loss***

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

***(b) Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

**Financial liabilities**

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

### (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.

## 2. Significant accounting policies (continued)

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

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

The Group and the Company adopted the policy to revalue their freehold land and leasehold land every 5 years or at shorter intervals whenever the fair value of the land is expected to differ materially from their carrying value.

Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under the revaluation reserve. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. 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 knowledgeable willing parties 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 available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

#### *(ii) 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 profit or loss as incurred.

#### *(iii) Depreciation*

Depreciation is recognised in profit or loss 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.

## 2. Significant accounting policies (continued)

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

#### *(iii) Depreciation (continued)*

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 end of the reporting period.

### (e) Leased assets

Leases, where the Group does not assume substantially all the risks and rewards of 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 statement of financial position.

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land was accounted for as prepaid lease payments, except for leasehold land classified as investment property.

The Group has adopted the amendment made to FRS117, *Leases* in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

### (f) Investment properties

***Investment properties carried at cost***

Investment properties are properties which are owned or held to earn rental income or for capital appreciation or for both from external parties. These include 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).

## 2. Significant accounting policies (continued)

### (f) Investment properties (continued)

***Investment properties carried at cost (continued)***

Following the amendment made to FRS140, *Investment Property*, with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determined, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier. 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 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 profit or loss.

Goodwill with indefinite useful lives are not amortised but are tested for impairment annually and whether there is an indication that they may be impaired.

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

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured 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.

## 2. Significant accounting policies (continued)

### (g) Intangible assets (continued)

#### (iv) Amortisation

Other than goodwill, other intangible assets are amortised from the date that they are available for use. Amortisation is recognised to profit or loss 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.

### (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

Prior to 1 January 2010, receivables were initially recognised at their costs and subsequently stated at cost less allowance for doubtful debts.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with note 2(c)(ii).

### (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. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Amount due from contract customers is presented as part of total current assets in the statement of financial position. Where progress billings exceed the cost incurred 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 statement of financial position.

### (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 statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

## 2. Significant accounting policies (continued)

### (m) Impairment

#### *(i) Financial assets*

The carrying amounts of financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the assets's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

#### *(ii) Non-financial assets*

The carrying amounts of non-financial assets (except for deferred tax asset, inventories and assets arising from construction contract, assets arising from employee benefits, investment property that is measured in fair value and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

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

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

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

## 2. Significant accounting policies (continued)

### (m) Impairment (continued)

#### *(ii) Non-financial assets (continued)*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period 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 profit or loss 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) Bonds

The Redeemable Islamic bonds with detachable provisional rights to allotment of warrants are issued in the form of Sukuk Mudharabah in accordance with the Syariah principles of Mudharabah. The Islamic bonds is based on Master Mudharabah (Profit Sharing) Agreement *("MAA")* entered into between the Company *(Mudharib)* and Trustee on behalf of the investor *(rabb al-mal)*. The investors provide the required capital to Company under the principle of Mudharabah Mutlaqah or unrestricted Mudharabah for the relevant investment period, subject to specified terms and conditions, where absolute entrepreneurial authority was granted to the Company to manage the investment capital in Shariah compliant, general business activities of the Company.

The proceeds from the issue of Warrants, net of issue costs, will be credited to a warrants reserve account which is non-distributable. Warrants reserve will be transferred to the share premium accounts upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants on the expiry date of the exercise period will be transferred to retained earnings. Further details of the Islamic bonds in issue are disclosed in Note 17 to the financial statements.

### (p) Loans and borrowings

Loans and borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and redemption value is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

## 2. Significant accounting policies (continued)

### (q) Employee benefits

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

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

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contributions to the Employees Provident Fund are charged to profit or loss 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.

### (r) 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.

### (s) Payables

Prior to 1 January 2010, payables were measured initially and subsequently at cost. Payables were recognised when there was a contractual obligation to deliver cash or another financial asset to another entity.

Following the adoption of FRS 139, payables are measured at amortised cost in accordance with note 2(c)(ii).

## 2. Significant accounting policies (continued)

### (t) Revenue

#### *(i) Construction contracts*

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss 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. An expected loss on a contract is recognised immediately in profit or loss.

#### *(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 received or receivable and is recognised in profit or loss 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 profit or loss 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 profit or loss as it accrues over the term of the lease.

Revenue from rental of cranes and vessels is recognised in profit or loss as it accrues.

#### *(iv) Dividend income*

Dividend income is recognised in profit or loss when the right to receive payment is established.

### (u) Interest income

Interest income is recognised as it accrues, using the effective interest method except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

## 2. Significant accounting policies (continued)

### (v) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Before 1 January 2010, all borrowing costs were recognised in profit or loss using effective interest method in the period in which they are incurred.

Following the adoption of FRS 123, *Borrowing Costs*, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### (w) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss 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.

## 2. Significant accounting policies (continued)

### (x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### (y) Operating segments

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

Following the adoption of FRS 8, *Operating Segments*, an operating segment is a division of the Group that operating results are reviewed regularly by the Group Executive Committee, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## 3. Property, plant and equipment

| Group | 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/ Valuation*** | | | | | | | |
| At 1 January 2009, restated | 109,290 | 159,657 | 45,368 | 117,376 | 436,794 | 5,556 | 874,041 |
| Additions | 102 | 21,008 | - | 26,366 | 15,340 | 3,758 | 66,574 |
| Disposals | - | - | - | (9,281) | (25,394) | - | (34,675) |
| Write off | - | - | - | - | (1,412) | - | (1,412) |
| Exchange differences | (49) | 96 | - | 310 | 654 | (18) | 993 |
| Change in fair value | (662) | - | - | - | - | - | (662) |
| Reclassification | - | - | - | - | 6,804 | (6,804) | - |
| At 31 December 2009/ 1 January 2010, restated | 108,681 | 180,761 | 45,368 | 134,771 | 432,786 | 2,492 | 904,859 |
| Additions | 1,621 | 12,181 | - | 9,940 | 14,851 | 119 | 38,712 |
| Disposals | - | (3,667) | - | (15,423) | (24,157) | - | (43,247) |
| Write off | - | (476) | - | - | (3) | (1,654) | (2,133) |
| Exchange differences | (3,217) | (3,581) | - | (8,097) | (17,096) | (190) | (32,181) |
| Change in fair value | 118,318 | - | 549 | - | - | - | 118,867 |
| Reclassification | 18 | (11,611) | - | - | 11,611 | - | 18 |
| At 31 December 2010 | 225,421 | 173,607 | 45,917 | 121,191 | 417,992 | 767 | 984,895 |
| ***Representing items at:*** | | | | | | | |
| Cost | 6,669 | 173,607 | - | 121,191 | 417,992 | 767 | 720,226 |
| Revaluation | 218,752 | - | 45,917 | - | - | - | 264,669 |
| | 225,421 | 173,607 | 45,917 | 121,191 | 417,992 | 767 | 984,895 |
| ***Accumulated depreciation and impairment losses*** | | | | | | | |
| At 1 January 2009, restated | 2,406 | 37,262 | 10,018 | 52,027 | 244,144 | - | 345,857 |
| Depreciation for the year | 377 | 2,849 | 1,018 | 4,771 | 31,480 | - | 40,495 |
| Disposals | - | - | - | (4,271) | (22,693) | - | (26,964) |
| Write off | - | - | - | - | (934) | - | (934) |
| Exchange differences | - | 84 | - | 235 | 1,070 | - | 1,389 |
| Accumulated depreciation | 2,783 | 38,701 | 11,036 | 52,226 | 251,627 | - | 356,373 |
| Accumulated impairment losses | - | 1,494 | - | 536 | 1,440 | - | 3,470 |
| At 31 December 2009 / 1 January 2010, restated | 2,783 | 40,195 | 11,036 | 52,762 | 253,067 | - | 359,843 |
| Depreciation for the year | 322 | 3,819 | 1,019 | 3,734 | 22,165 | - | 31,059 |
| Impairment loss | - | 14,734 | - | - | - | - | 14,734 |
| Disposals | - | (2,153) | - | (8,735) | (17,620) | - | (28,508) |
| Write off | - | (31) | - | - | (977) | - | (1,008) |
| Exchange differences | - | (2,633) | - | (6,061) | (5,648) | - | (14,342) |
| Reclassification | 18 | (7,068) | - | - | 7,068 | - | 18 |
| Accumulated depreciation | 3,123 | 30,635 | 12,055 | 41,164 | 256,615 | - | 343,592 |
| Accumulated impairment losses | - | 16,228 | - | 536 | 1,440 | - | 18,204 |
| At 31 December 2010 | 3,123 | 46,863 | 12,055 | 41,700 | 258,055 | - | 361,796 |

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

| Group (continued) | Land RM'000 | Buildings RM'000 | Drydock and slipway RM'000 | Cranes RM'000 | Plant, equipment and motor vehicles RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| ***Carrying amounts*** | | | | | | | |
| At 1 January 2009, restated | 106,884 | 122,395 | 35,350 | 65,349 | 192,650 | 5,556 | 528,184 |
| At 31 December 2009/ 1 January 2010, restated | 105,898 | 140,566 | 34,332 | 82,009 | 179,719 | 2,492 | 545,016 |
| At 31 December 2010 | 222,298 | 126,744 | 33,862 | 79,491 | 159,937 | 767 | 623,099 |

| Company | Land RM'000 | Buildings RM'000 | and motor Cranes RM'000 | Plant, equipment work-in- vehicles RM'000 | Capital progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| At 1 January 2009, restated | 9,492 | 285 | 37,246 | 157,045 | 4,074 | 208,142 |
| Additions | - | - | 4,430 | 25,368 | 2,730 | 32,528 |
| Disposals | - | - | (6,703) | (22,600) | - | (29,303) |
| Reclassification | - | - | - | 6,804 | (6,804) | - |
| At 31 December 2009/ 1 January 2010, restated | 9,492 | 285 | 34,973 | 166,617 | - | 211,367 |
| Change in fair value | 34,062 | - | - | - | - | 34,062 |
| Additions | - | 2,117 | 365 | 2,472 | - | 4,954 |
| Disposals | - | - | (5,537) | (26,378) | - | (31,915) |
| At 31 December 2010 | 43,554 | 2,402 | 29,801 | 142,711 | - | 218,468 |
| ***Accumulated depreciation*** | | | | | | |
| At 1 January 2009, restated | 669 | 103 | 8,319 | 66,700 | - | 75,791 |
| Depreciation for the year | 93 | 6 | 1,663 | 12,480 | - | 14,242 |
| Disposals | - | - | (1,583) | (17,731) | - | (19,314) |
| At 31 December 2009/ 1 January 2010, restated | 762 | 109 | 8,399 | 61,449 | - | 70,719 |
| Depreciation for the year | 94 | 48 | 1,969 | 11,222 | - | 13,333 |
| Disposals | - | - | (1,284) | (12,311) | - | (13,595) |
| At 31 December 2010 | 856 | 157 | 9,084 | 60,360 | - | 70,457 |
| ***Carrying amounts*** | | | | | | |
| At 1 January 2009, restated | 8,823 | 182 | 28,927 | 90,345 | 4,074 | 132,351 |
| At 31 December 2009/ 1 January 2010, restated | 8,730 | 176 | 26,574 | 105,168 | - | 140,648 |
| At 31 December 2010 | 42,698 | 2,245 | 20,717 | 82,351 | - | 148,011 |

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

Depreciation charge for the year is allocated as follows:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Profit or loss | 21 | **14,146** | 25,045 | **600** | 897 |
| Contract costs | 11 | **16,913** | 15,450 | **12,733** | 13,345 |
| | | **31,059** | 40,495 | **13,333** | 14,242 |

***Security***

The freehold land, buildings, certain items of plant and equipment and certain long term leasehold land of the Group and of the Company with total carrying amount of RM271,046,000 (2009 - RM184,343,000) and RM2,712,000 (2009 - RM1,356,000), respectively have been pledged to certain licensed banks as security for term loan facilities granted to the Group and 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 RM1,949,00 (2009 - RM1,577,000).

***Property, plant and equipment under the revaluation model***

The Group's and Company's freehold and leasehold land were revalued upwards by qualified valuers in year 2008 and year 2010 respectively by using an open market value method.

## 4. Investment properties

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| ***Cost*** | | | | |
| At 1 January | **1,212** | 1,212 | **26,769** | 37,446 |
| Additions | **-** | - | **-** | - |
| Disposal | **-** | - | **-** | (10,677) |
| Reclassification | **(154)** | - | **-** | - |
| At 31 December | **1,058** | 1,212 | **26,769** | 26,769 |
| ***Accumulated depreciation and impairment loss*** | | | | |
| At 1 January | **661** | 644 | **6,387** | 8,499 |
| Depreciation for the year | **19** | 17 | **186** | 186 |
| Impairment loss | **-** | - | **-** | - |
| Disposal | **-** | - | **-** | (2,298) |
| Reclassification | **(154)** | - | **-** | - |
| At 31 December | **526** | 661 | **6,573** | 6,387 |
| ***Carrying amounts*** | | | | |
| At 31 December | **532** | 551 | **20,196** | 20,382 |
| Included in the above are: | | | | |
| Freehold land | **158** | 158 | **12,942** | 12,942 |
| Buildings | **374** | 393 | **7,254** | 7,440 |
| | **532** | 551 | **20,196** | 20,382 |

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

## 4. Investment properties (continued)

**Market value**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Market value of investment properties - aggregated basis | **1,490** | 1,780 | **49,897** | 33,754 |

The market value of the investment properties of the Group and of the Company was derived at by reference to market indication of transaction prices for similar properties within the same/adjacent location. The Directors estimated the fair values of the Group's investment properties without involvement of independent valuers.

## 5. Investments in subsidiaries

| | | Company | |
|---|---|---|---|
| | | **2010 RM'000** | **2009 RM'000** |
| Ordinary shares | | | |
| Quoted shares - in Malaysia | | **49,000** | 49,000 |
| Unquoted shares - at cost | | **208,496** | 204,984 |
| Cumulative redeemable convertible preference shares, at cost | (a) | **1,800** | 1,800 |
| Non-cumulative non-convertible redeemable preference shares, at cost | (b) | **6,250** | 6,250 |
| | | **265,546** | 262,034 |
| Less: Impairment losses | | **(69,024)** | (69,024) |
| | | **196,522** | 193,010 |
| **Market value** | | | |
| Quoted shares in Malaysia | | **102,900** | 80,360 |

(a) The cumulative redeemable convertible preference shares are held in a subsidiary and shall be redeemable at any time after 30 June 2009, at the discretion of the directors of the subsidiary.

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

## 5. 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 2010 % | 2009 % |
|---|---|---|---|---|
| ***Cranes segment*** | | | | |
| Favelle Favco Berhad | Investment holding | Malaysia | **55.33** | 56.87 |
| Favelle Favco Cranes (M) Sdn. Bhd. | Manufacturing of cranes | Malaysia | **55.33** | 56.87 |
| Favelle Favco Cranes Pte. Ltd.* | Trading of cranes, spare parts and services | Singapore | **55.33** | 56.87 |
| Favelle Favco Cranes (USA), Inc* | Manufacturing of cranes | United States of America | **55.33** | 56.87 |
| Favelle Favco Cranes Pty Limited* and its subsidiaries: | Manufacturing of cranes | Australia | **55.33** | 56.87 |
| FF Management Pty. Limited* | Management services | Australia | **55.33** | 56.87 |
| Kroll Cranes A/S* | Manufacturing of cranes | Denmark | **55.33** | 56.87 |
| Favelle Favco Equipment Services Sdn. Bhd. | Hiring and repair of cranes | Malaysia | **55.33** | 56.87 |
| ***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 |
| Energy Ocean Ltd. | Trading of motor vessels, spare parts and other services | Labuan | **100** | 100 |
| Juara Lagi Sdn. Bhd. | Vessel chartering services | Malaysia | **100** | 100 |

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2010 % | Effective ownership interest 2009 % |
|---|---|---|---|---|
| ***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 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 |
| Aspect Saga Sdn. Bhd.*# | Investment holding company | Malaysia | **100** | 100 |
| Muhibbah Reefers Sdn. Bhd.* | Manufacturing of containers and refrigerator containers | Malaysia | **100** | 100 |

## 5. Investments in subsidiaries (continued)

| Company | Principal activities | Country of incorporation | Effective ownership interest 2010 % | 2009 % |
|---|---|---|---|---|
| ***Infrastructure construction segment (continued)*** | | | | |
| Khas Jejaka Sdn. Bhd.* | Investment holding | Malaysia | **100** | 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** | 60 |
| ***Concession segment*** | | | | |
| Muhibbah Airport Services (Labuan) Ltd. | Investment holding | Labuan | **70** | 70 |

* Subsidiaries not audited by Crowe Horwath

\# 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.

(a) The Group's effective interest in Favelle Favco Berhad ("FFB") was diluted from 56.87% to 55.33%, pursuant to the exercise of employees share options by eligible employees of FFB during the year.

(b) On 26 April 2010, the Company subscribed for an additional new issue of 1,500,000 ordinary shares of SGD1 each in Muhibbah Engineering (Singapore) Pte. Ltd. at par for a cash consideration of SGD1,500,000/ RM3,512,000.

## 6. Investments in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Unquoted shares | | | | |
| - At cost | **74,310** | 62,744 | **8,501** | 8,501 |
| - Share of post-acquisition reserves | **61,979** | 62,695 | **-** | - |
| | **136,289** | 125,439 | **8,501** | 8,501 |
| Less: Impairment loss | **(472)** | (472) | **(77)** | (77) |
| | **135,817** | 124,967 | **8,424** | 8,424 |
| **Summary financial information of associates:** | | | | |
| Total assets (100%) | **948,832** | 917,855 | | |
| Total liabilities (100%) | **467,765** | 473,169 | | |
| Revenue (100%) | **567,282** | 537,266 | | |
| Profit for the year (100%) | **111,725** | 100,657 | | |

Details of the active associates are as follows:

| Company | Principal activities | Country of incorporation | Effective ownership interest 2010 % | 2009 % |
|---|---|---|---|---|
| ***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 Ltd * | Provision of airport management services | Cambodia | **21** | 21 |
| Inno Marine Services Sdn. Bhd.* | Marine leasing activities | Malaysia | **37.5** | 37.5 |

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

The investments in Roadcare (M) Sdn. Bhd., Freyssinet PSC (M) Sdn. Bhd. have been equity accounted for based on the unaudited financial statements of the associates for the year ended 31 December 2010.

* Associates not audited by Crowe Horwath

## 7. Receivables, deposits and prepayments

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Non-current** | | | | | |
| **Non-trade** | | | | | |
| Amount due from a subsidiary | 7.2 | **-** | - | **10,000** | 10,000 |
| | | **-** | - | **10,000** | 10,000 |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | 7.1/7.3 | **169,601** | 206,987 | **-** | - |
| Progress billings receivable | 7.3 | **649,968** | 673,961 | **572,514** | 566,885 |
| Amounts due from subsidiaries | 7.4 | **-** | - | **288,193** | 160,560 |
| Amounts due from associates | 7.5 | **10,094** | 64,510 | **5,476** | 3,505 |
| Amounts due from joint ventures | 7.6 | **-** | 4,982 | **-** | - |
| | | **829,663** | 950,440 | **866,183** | 730,950 |
| Less: Allowance for doubtful debts | | **(20,616)** | (15,254) | **(39,005)** | (26,032) |
| | | **809,047** | 935,186 | **827,178** | 704,918 |
| **Non-trade** | | | | | |
| Amounts due from subsidiaries | 7.4 | **-** | - | **149,567** | 125,265 |
| Amounts due from associates | 7.5 | **26,778** | 25,845 | **7,047** | 6,731 |
| Other receivables | | **58,825** | 57,593 | **26,878** | 41,352 |
| | | **85,603** | 83,438 | **183,492** | 173,348 |
| Less: Allowance for doubtful debts | | **(9,275)** | (9,284) | **(9,489)** | (9,534) |
| | | **76,328** | 74,154 | **174,003** | 163,814 |
| Deposits | | **2,341** | 2,058 | **559** | 301 |
| Prepayments | | **8,846** | 6,664 | **-** | - |
| | | **87,515** | 82,876 | **174,562** | 164,115 |
| | | **896,562** | 1,018,062 | **1,001,740** | 869,033 |

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

7.1 Included in the trade receivables and amounts due from contract customers (Note 11) for contract works is debt and claims outstanding amounting to RM370.8 million on a project undertaken by the Company for the engineering, construction, installation, commissioning and completion of a bunkering facility which has been outstanding for more than a year, pending the finalisation of fund raising exercise by the client to complete the project.

The project has temporarily ceased during the financial year ended 31 December 2009 due to financing difficulties encountered by the project owner. The last progress payment received by the Company was in February 2009. The project owner has continued to approve the progress billings submitted by the Company and had acknowledged its obligations under the contract signed with the Company. The project owner has informed the Company that it is in the process of arranging an alternative source of financing to complete the bunkering facility. The project owner is confident that alternative arrangement can be completed in 2011, as negotiations with interested party have reached an advanced stage. The project owner has also confirmed that the project was stalled due to refinancing issue, and that they are not in default of any borrowings nor involved in any litigation with their existing lender.

The Directors have evaluated the situation and other evidence available, including the assessment of the status of the project owner's refinancing arrangements, and are of the view that no allowance for impairment loss on this receivable or a write down in the amount due from contract customer is required at this moment.

7.2 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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Australian Dollars | **37,386** | 4,602 | **-** | - |
| Euro Dollars | **31,541** | 7,323 | **1,974** | 1,974 |
| Qatar Riyal | **107,697** | 16,004 | **107,697** | 28,108 |
| Singapore Dollars | **19,234** | 102,384 | **-** | - |
| Chinese Yuan Renminbi | **6,324** | 6,315 | **-** | - |
| Danish Kroner | **4,749** | - | **-** | - |
| US Dollars | **141,571** | 132,249 | **85,544** | 80,949 |

Also included in trade receivables and progress billings receivable of the Group and of the Company are retention sums of RM122,010,000 (2009 - RM118,117,000) and RM120,616,000 (2009 - RM116,466,000) respectively.

7.4 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 RM49,631,000 (2009 - RM2,745,000) which is subject to interest of 5% (2009 - 5.0%) per annum.

7.5 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 (2009 - RM355,000).

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

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

## 8. Goodwill on consolidation

| | Group | |
|---|---|---|
| Cost /Carrying amounts | 2010 RM'000 | 2009 RM'000 |
| At 1 January | **21,600** | 22,171 |
| Impairment losses | **(7,200)** | (571) |
| At 31 December | **14,400** | 21,600 |

**Impairment testing for goodwill**

Goodwill has been allocated to the Group's cash generating units, all operating in Malaysia, according to business segments. The carrying amount of goodwill was assessed for impairment during the year. The recoverable amount of goodwill is determined based on the value in use of 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 subsidiary will generate cash flow from the sale of a piece of land. Should the sale be aborted, the cash flows to be generated from the use of the land will exceed the projected sale value

e) the post-tax discount rate used is 7%

## 9. Deferred tax (assets) and liabilities

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

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

| Group | Assets 2010 RM'000 | Assets 2009 RM'000 | Liabilities 2010 RM'000 | Liabilities 2009 RM'000 | Net 2010 RM'000 | Net 2009 RM'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **-** | - | **50,596** | 25,135 | **50,596** | 25,135 |
| Tax loss carry-forwards | **(5,016)** | (5,008) | **-** | - | **(5,016)** | (5,008) |
| Other items | **-** | (4) | **-** | - | **-** | (4) |
| Tax (assets)/liabilities | **(5,016)** | (5,012) | **50,596** | 25,135 | **45,580** | 20,123 |
| Set off of tax | **2,356** | 3,419 | **(2,356)** | (3,419) | **-** | - |
| Net tax (assets)/liabilities | **(2,660)** | (1,593) | **48,240** | 21,716 | **45,580** | 20,123 |

| Company | Assets 2010 RM'000 | Assets 2009 RM'000 | Liabilities 2010 RM'000 | Liabilities 2009 RM'000 | Net 2010 RM'000 | Net 2009 RM'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **-** | - | **8,516** | 12,375 | **8,516** | 12,375 |
| Tax loss carry-forwards | **-** | (4,975) | **-** | - | **-** | (4,975) |
| Net tax (assets)/liabilities | **-** | (4,975) | **8,516** | 12,375 | **8,516** | 7,400 |

**Unrecognised deferred tax assets**

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

| | Group 2010 RM'000 | Group 2009 RM'000 | Company 2010 RM'000 | Company 2009 RM'000 |
|---|---|---|---|---|
| Property, plant and equipment | **(8,939)** | (8,214) | **(16,165)** | - |
| Other temporary differences | **23,617** | 18,240 | **-** | - |
| Unabsorbed capital allowances | **11,386** | 13,648 | **6,055** | - |
| Tax loss carry-forwards | **95,632** | 190,596 | **23,377** | - |
| | **121,696** | 214,270 | **13,267** | - |

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

**Unrecognised deferred tax assets (continued)**

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

**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 2009 | 7,385 | - | (33) | 273 | 7,625 |
| Recognised in equity | 3,198 | - | - | - | 3,198 |
| Recognised in income statement (Note 23) | 14,552 | - | (4,975) | (277) | 9,300 |
| As at 31 December 2009/ 1 January 2010 | 25,135 | - | (5,008) | (4) | 20,123 |
| Recognised in equity | 29,580 | - | - | (11,404) | 18,176 |
| Recognised in income statement (Note 23) | 7,289 | - | (8) | - | 7,281 |
| As at 31 December 2010 | 62,004 | - | (5,016) | (11,408) | 45,580 |
| **Company** | | | | | |
| As at 1 January 2009 | - | - | - | - | - |
| Recognised in income statement (Note 23) | 12,375 | - | (4,975) | - | 7,400 |
| As at 31 December 2009/ 1 January 2010 | 12,375 | - | (4,975) | - | 7,400 |
| Recognised in equity | 8,516 | - | - | - | 8,516 |
| Recognised in income statement (Note 23) | (12,375) | - | 4,975 | - | (7,400) |
| As at 31 December 2010 | 8,516 | - | - | - | 8,516 |

## 10. Other non-current assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Other investments | **80** | 62 | **9** | 9 |
| Development costs | **15,235** | 11,185 | **-** | - |
| Land held for development | **12,439** | 13,578 | **-** | - |
| | **27,754** | 24,825 | **9** | 9 |

| | Land held for development Group | | Development costs Group | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| ***Cost*** | | | | |
| At 1 January | **14,956** | 15,204 | **21,611** | 19,921 |
| Additions | **6** | 239 | **6,771** | - |
| Acquisition of a subsidiary | **-** | - | **-** | - |
| Disposal | **-** | (332) | **-** | - |
| Written off | **-** | - | **-** | (210) |
| Exchange difference | **(1,238)** | (155) | **(671)** | 1,900 |
| At 31 December | **13,724** | 14,956 | **27,711** | 21,611 |
| ***Accumulated impairment/amortisation*** | | | | |
| At 1 January | **1,378** | 1,392 | **10,426** | 6,349 |
| Amortisation charge for the year | **46** | - | **2,024** | 3,084 |
| Exchange difference | **(139)** | (14) | **26** | 993 |
| At 31 December | **1,285** | 1,378 | **12,476** | 10,426 |
| ***Carrying amounts*** | | | | |
| At 1 January | **13,578** | 13,812 | **11,185** | 13,572 |
| At 31 December | **12,439** | 13,578 | **15,235** | 11,185 |

## 10. Other non-current assets (continued)

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 3 years (2009 - 1 year to 4 years).

***Title***

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

## 11. Amount due from/(to) contract customers

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Aggregate costs incurred to date | **4,812,561** | 5,303,259 | **2,409,798** | 3,373,331 |
| Add: Attributable profits less foreseeable losses | **311,295** | (69,453) | **118,186** | (55,130) |
| | **5,123,856** | 5,233,806 | **2,527,984** | 3,318,201 |
| Less: Progress billings | **(4,818,807)** | (5,255,214) | **(2,343,695)** | (3,148,611) |
| | **305,049** | (21,408) | **184,289** | 169,590 |
| Amount due from contract customers | **583,071** | 320,982 | **237,157** | 183,185 |
| Amount due to contract customers | **(278,022)** | (342,390) | **(52,868)** | (13,595) |
| | **305,049** | (21,408) | **184,289** | 169,590 |

Additions to aggregate costs incurred during the year include:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Depreciation of property, plant and equipment | **16,913** | 15,450 | **12,733** | 13,345 |
| Finance costs | **18,780** | 19,384 | **8,607** | 19,384 |
| Rental expense | **63,466** | 167,557 | **48,989** | 158,914 |
| Share-based payments | **4** | 210 | **4** | 210 |

## 12. Inventories

| | Group | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| At cost: | | |
| Cranes | **4,058** | 4,512 |
| Raw materials | **36,176** | 40,760 |
| Crane components | **67,737** | 80,458 |
| Work-in-progress | **38,589** | 39,591 |
| Manufactured and trading inventories | **3,274** | 3,475 |
| | **149,834** | 168,796 |
| At net realisable value: | | |
| Cranes | **20,695** | 19,338 |
| Crane components | **8,554** | 11,997 |
| Raw materials | **35** | 35 |
| | **179,118** | 200,166 |

## 13. Derivative assets/(liabilities)

| | Contract/ Notional amount 2010 RM'000 | Derivative assets 2010 RM'000 | Derivative liabilities 2010 RM'000 |
|---|---|---|---|
| **Group** | | | |
| Forward foreign currency contracts | 678,451 | 41,312 | 3,509 |
| **Company** | | | |
| Forward foreign currency contracts | 392,090 | 31,401 | - |

Derivative assets and liability represents unrealised gain and loss respectively derived on the forward foreign currency contract as at end of the reporting period.

Forward foreign exchange contract is used as a hedging tool to minimise the Group's and Company's exposure to exchanges in fair value of its commitment, conducted in the ordinary course of business, as a result of fluctuation in exchange rate. There is minimal credit and market risk because the contracts are hedged with reputable banks.

## 14. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| Cash and bank balances | **153,958** | 196,860 | **19,410** | 27,004 |
| Deposits placed with licensed banks | **47,148** | 52,449 | **3,663** | 757 |
| | **201,106** | 249,309 | **23,073** | 27,761 |

## 15. Share capital

| | | Group and Company | | | |
|---|---|---|---|---|---|
| | | Number of shares | | Amount | |
| | | 2010 '000 | 2009 '000 | 2010 RM'000 | 2009 RM'000 |
| Ordinary shares of RM0.50 each | | | | | |
| ***Authorised:*** | | | | | |
| At 1 January/31 December | | **1,000,000** | 1,000,000 | **500,000** | 500,000 |
| ***Issued and fully paid:*** | | | | | |
| At 1 January | | **397,371** | 392,938 | **198,685** | 196,469 |
| Exercise of ESOS | (i) | **1,021** | 4,433 | **511** | 2,216 |
| At 31 December | | **398,392** | 397,371 | **199,196** | 198,685 |

(i) During the financial year, a total of 1,021,000 (2009 - 4,433,250) new ordinary shares of RM0.50 (2009 - RM0.50) each were issued at RM0.51 (2009 - RM0.51) for cash pursuant to the employees' share options scheme ("ESOS") of the Company. The premium arising from the exercise of ESOS of RM10,210 (2009 - RM44,000) has been credited to the share premium account. The details of options granted under the Company's ESOS, which remain outstanding at 31 December 2010, are disclosed in Note 25.

## 16. 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.

The number of treasury shares held is 1,783,000 (2009 - 1,783,000). None of the treasury shares held are sold or cancelled during the year ended 31 December 2010.

## 16. 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.

**Revaluation reserve**

Revaluation reserve of the Group relates to the revaluation of freehold land and leasehold land of the Company and certain subsidiaries, and the revaluation of an 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.

**Warrant reserve**

The proceeds from the issue of Warrants, net of issue costs, will be credited to a warrants reserve account which is non-distributable. Warrants reserve will be transferred to the share premium accounts upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants on the expiry date of the exercise period will be transferred to retained earnings.

**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 2010 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.

## 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 29.

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| **Non-current** | | | | |
| ***Secured*** | | | | |
| Term loans | **92,138** | 109,439 | **-** | - |
| Hire purchase liabilities | **639** | 1,256 | **-** | - |
| ***Unsecured*** | | | | |
| Term loans | **41,377** | 59,320 | **41,377** | 57,706 |
| Bonds | **130,000** | - | **130,000** | - |
| | **264,154** | 170,015 | **171,377** | 57,706 |
| **Current** | | | | |
| ***Secured*** | | | | |
| Bank borrowings | **19,261** | 19,273 | **-** | - |
| Hire purchase liabilities | **297** | 542 | **-** | - |
| | **19,558** | 19,815 | **-** | - |
| ***Unsecured*** | | | | |
| Bank borrowings | **159,359** | 64,602 | **132,948** | 27,096 |
| Insurance premium finance | **3,152** | 1,633 | **-** | - |
| | **182,069** | 86,050 | **132,948** | 27,096 |
| | **446,223** | 256,065 | **304,325** | 84,802 |

The secured bank borrowings of the subsidiaries are charged against some land of subsidiaries and a piece of long term leasehold land of the Company, freehold land, buildings and certain plant and equipment (Note 3).

## 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 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2010** | | | | | | |
| Bank borrowings | 2011 - 2019 | 313,071 | 178,917 | 29,699 | 53,724 | 50,731 |
| Unsecured bonds | 2013 - 2015 | 130,000 | - | - | 130,000 | - |
| Unsecured insurance premium finance and hire purchase liabilities | 2012 - 2014 | 3,152 | 3,152 | - | - | - |
| | | 446,223 | 182,069 | 29,699 | 183,724 | 50,731 |
| **2009** | | | | | | |
| Bank borrowings | 2011 - 2019 | 252,634 | 83,875 | 36,695 | 66,751 | 65,313 |
| Unsecured insurance premium finance and hire purchase liabilities | 2012 - 2014 | 3,431 | 2,175 | 1,115 | 141 | - |
| | | 256,065 | 86,050 | 37,810 | 66,892 | 65,313 |

| | Year of maturity | Carrying amount RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 3 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2010** | | | | | | |
| Bank borrowings | 2018 | 174,325 | 132,948 | 10,136 | 16,500 | 14,741 |
| Unsecured bonds | 2013 - 2015 | 130,000 | - | - | 130,000 | - |
| | | 304,325 | 132,948 | 10,136 | 146,500 | 14,741 |
| **2009** | | | | | | |
| Bank borrowings | 2018 | 84,802 | 27,096 | 15,810 | 21,655 | 20,241 |

## 17. Loans and borrowings (continued)

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

Hire purchase liabilities are payable as follows:

| | Gross 2010 RM'000 | Interest 2010 RM'000 | Principal 2010 RM'000 | Gross 2009 RM'000 | Interest 2009 RM'000 | Principal 2009 RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Less than one year | **339** | **(42)** | **297** | 577 | (35) | 542 |
| Between one and five year | **673** | **(34)** | **639** | 1,300 | (44) | 1,256 |
| | **1,012** | **(76)** | **936** | 1,877 | (79) | 1,798 |

## 18. Payables and accruals

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Non-current** | | | | | |
| ***Non-trade*** | | | | | |
| Advances from minority shareholders | (i) | **15,324** | 16,905 | **-** | - |
| **Current** | | | | | |
| ***Trade*** | | | | | |
| Trade payables | (ii) | **735,866** | 757,861 | **478,886** | 469,507 |
| Amounts due to subsidiaries | (iii) | **-** | - | **17,195** | 180,472 |
| Amounts due to associates | (iv) | **977** | 1,548 | **614** | 711 |
| | | **736,843** | 759,409 | **496,695** | 650,690 |
| ***Non-trade*** | | | | | |
| Amounts due to subsidiaries | (iii) | **-** | - | **13,102** | 10,068 |
| Amounts due to associates | (iv) | **866** | 542 | **-** | - |
| Provision | (v) | **13,042** | 16,736 | **4,528** | 4,527 |
| Other payables | | **16,425** | 35,777 | **2,670** | 4,382 |
| Accrued expenses | | **40,015** | 45,843 | **4,154** | 5,871 |
| | | **70,348** | 98,898 | **24,454** | 24,848 |
| Total | | **807,191** | 858,307 | **521,149** | 675,538 |

## 18. Payables and accruals (continued)

(i) The advances from minority shareholders of a subsidiary of RM15,324,000 (2009 - RM16,905,000) are interest free, unsecured and are not expected to be repayable within the next twelve months.

(ii) Included in trade payables of the Group and of the Company are advances received from contract customers amounting to RM145,419,520 (2009 - RM249,168,000).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Australian Dollars | **57,299** | 17,429 | **-** | - |
| Danish Krone | **9,917** | - | **-** | - |
| Euro Dollars | **25,802** | 24,807 | **16,739** | 17,227 |
| Qatar Riyal | **108,290** | 107,101 | **108,290** | 107,101 |
| Singapore Dollars | **24,929** | 11,879 | **-** | 199 |
| US Dollars | **38,830** | 15,428 | **8,615** | 5,773 |
| Norwegian Krone | **1,335** | - | **-** | - |
| Japan Yen | **1,332** | 1,237 | **-** | - |
| Sudanese Pound | **609** | - | **609** | - |
| UAE Dirham | **327** | - | **327** | - |
| China Yuan Renminbi | **9,538** | 8,637 | **-** | - |

(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.

## 20. Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| **Revenue** | | | | |
| Contract revenue | **1,649,622** | 2,035,089 | **664,535** | 1,158,279 |
| Sale of goods | **76,497** | 136,795 | **-** | - |
| Services rendered | **42,765** | 80,165 | **4,228** | 4,617 |
| Dividend income | **-** | - | **72,036** | 91,814 |
| | **1,768,884** | 2,252,049 | **740,799** | 1,254,710 |

## 21. Operating profit

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| **Operating profit is arrived at after charging:** | | | | |
| Allowance for doubtful debts | **14,884** | 5,007 | **12,977** | - |
| Allowance for slow moving inventories | **1,852** | 2,882 | **-** | - |
| Amortisation of development costs | **2,024** | 3,084 | **-** | - |
| Amortisation of land held for development | **46** | - | **-** | - |
| Depreciation of investment properties | **19** | 17 | **186** | 186 |
| Depreciation of property, plant and equipment | | | | |
| - Income statement | **14,146** | 25,045 | **600** | 897 |
| - Contract costs | **16,913** | 15,450 | **12,733** | 13,345 |
| | **31,059** | 40,495 | **13,333** | 14,242 |
| Finance cost | | | | |
| - Income statement | **15,726** | 9,037 | **7,712** | - |
| - Contract cost | **18,780** | 19,384 | **8,607** | 19,384 |
| | **34,506** | 28,421 | **16,319** | 19,384 |
| Development costs written off | **-** | 210 | **-** | - |
| Impairment loss of investments in subsidiaries | **-** | - | **-** | 30,156 |
| Impairment loss of property, plant and equipment | **14,185** | - | **-** | - |
| (Reversal of impairment)/Impairment loss of other investment | **(18)** | 22 | **-** | - |
| Bad debts written off | **55** | 145 | **-** | - |
| Cost of construction | **1,501,284** | 1,937,057 | **712,503** | 1,199,392 |

## 21. Operating profit (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Operating profit is arrived at after charging: (continued)** | | | | |
| Audit fees - statutory: | | | | |
| - Holding company's auditors | | | | |
| - Statutory audit | **403** | 340 | **90** | 90 |
| - Others | **20** | 20 | **10** | 10 |
| - Other auditors | **574** | 578 | **-** | - |
| Impairment of goodwill | **7,805** | 571 | **-** | - |
| Loss on dilution of interest in subsidiary | **1,280** | 294 | **-** | - |
| Loss on foreign exchange | **17,001** | 7,041 | **-** | 90 |
| Loss on disposal of property, plant and equipment | **153** | - | **130** | - |
| Personnel expenses (including key management personnel) | | | | |
| - contribution to Employees Provident Fund | **7,994** | 8,136 | **1,042** | 1,516 |
| - wages, salaries and others | **91,149** | 97,128 | **10,176** | 11,791 |
| Property, plant and equipment written off | **1,125** | 478 | **-** | - |
| Rental expense on: | | | | |
| - premises | **1,812** | 1,740 | **762** | 850 |
| - equipment | **5,275** | 4,363 | **-** | - |
| Share-based payments | **100** | 845 | **20** | 524 |
| **and after crediting:** | | | | |
| Gain on disposal of property, plant and equipment | **-** | 1,061 | **-** | 322 |
| Gain on disposal of investment properties | **-** | - | **-** | 6,121 |
| Gain on foreign exchange | **8,962** | 4,410 | **4,704** | - |
| Gross dividend income | **-** | - | **72,035** | 91,814 |
| Rental income on: | | | | |
| - premises | **612** | 1,682 | **732** | 914 |
| - plant and machinery | **5,416** | 10,885 | **627** | 1,037 |
| Reversal of allowance for doubtful debts | **2,432** | - | **-** | 5,509 |
| Bad debts recovered | **100** | - | **-** | - |
| Forward contract derivative gain | **17,521** | - | **16,492** | - |
| Interest income | **3,182** | 2,966 | **3,191** | 5,196 |
| Interest income arising on financial assets/ (liabilities) measured under FRS 139 | **20,699** | - | **17,725** | - |

## 22. Key management personnel compensation

The key management personnel compensations are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Directors of the Company | | | | |
| - Fees | **822** | 810 | **432** | 432 |
| - Remuneration | **2,549** | 2,530 | **2,358** | 2,336 |
| | **3,371** | 3,340 | **2,790** | 2,768 |

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. Income tax expense/(benefits)

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| **Current tax expense** | | | | |
| Malaysia - current | **(12,209)** | 10,898 | **2,383** | 5,591 |
| - prior year | **2,015** | 1,868 | **(1,951)** | 1,914 |
| | **(10,194)** | 12,766 | **432** | 7,505 |
| Foreign - current | **9,038** | 17,548 | **-** | 5,314 |
| - prior year | **868** | (317) | **(6,028)** | 895 |
| | **9,906** | 17,231 | **(6,028)** | 6,209 |
| **Deferred tax expense** | | | | |
| Origination/(Reversal) of temporary differences | **6,583** | 10,088 | **(7,400)** | 7,400 |
| Under/(Over)provision in prior years | **698** | (788) | **-** | - |
| | **7,281** | 9,300 | **(7,400)** | 7,400 |
| Total income tax expense/(benefits) | **6,993** | 39,297 | **(12,996)** | 21,114 |

## 23. Income tax expense/(benefits) (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Reconciliation of tax expense | | | | |
| Profit before tax | **53,277** | 68,182 | **2,712** | 32,850 |
| Income tax using Malaysian tax rate at 25% (2009 - 25%) | **13,319** | 17,046 | **678** | 8,212 |
| Effect of different tax rates in foreign jurisdictions | **1,181** | (2,086) | **(15,089)** | 1,134 |
| Effect of deferred tax benefits not recognised | **-** | - | **18,243** | - |
| Utilisation of deferred tax benefits previously not recognised | **-** | (13,111) | **-** | (27,445) |
| Non-deductible expenses | **18,075** | 27,584 | **876** | 13,689 |
| Non-taxable income | **(8,446)** | (5,887) | **(7,632)** | (5,837) |
| Tax incentives | **(5,703)** | (13,283) | **-** | - |
| Tax exempt income | **(26,106)** | (18,631) | **(15,626)** | (18,350) |
| Non-deductible losses from foreign projects | **13,533** | 46,902 | **13,533** | 46,902 |
| Others | **(2,441)** | - | **-** | - |
| | **3,412** | 38,534 | **(5,017)** | 18,305 |
| Under/(Over)provision in prior years | | | | |
| - current tax expense | **2,883** | 1,551 | **(7,979)** | 2,809 |
| - deferred tax expense | **698** | (788) | **-** | - |
| Total income tax expense | **6,993** | 39,297 | **(12,996)** | 21,114 |

The corporate tax rates are 25% for the year of assessment 2009, 25% for year of assessment 2010 and subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

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

## 24. Earnings per share

***Basic earnings per share***

The calculation of basic earnings per share for the year ended 31 December 2010 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

| | Group | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| Profit attributable to ordinary shareholders | **32,944** | 16,982 |

| | Group | |
|---|---|---|
| | **2010** | **2009** |
| *In thousands of shares* | | |
| Number of ordinary shares in issue at 1 January | **395,588** | 392,938 |
| Effect of shares issued under ESOS | **414** | 1,551 |
| Total weighted average number of ordinary shares in issue (unit'000) | **396,002** | 394,489 |
| Basic earnings per share (sen) | **8.32** | 4.30 |

***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 2010 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 | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| Profit attributable to ordinary shareholders | **32,944** | 16,982 |

## 24. Earnings per share (continued)

| | Group | |
|---|---|---|
| | **2010** | **2009** |
| *In thousands of shares* | | |
| Weighted average number of ordinary shares | **396,002** | 394,489 |
| Effect of dilution arising from conversion of all employee share options | **4,979** | 5,972 |
| Adjusted weighted average number of ordinary shares at 31 December (unit '000) | **400,981** | 400,461 |

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 | |
|---|---|---|
| | **2010** | **2009** |
| Diluted earnings per share (sen) | **8.22** | 4.24 |

## 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 the Company at any point in time during the duration of the ESOS Scheme;

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

## 25. Employee benefits (continued)

**Share-based payments (continued)**

| | | 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 1.1.2010 '000 | Exercised '000 | Forfeited '000 | Outstanding/ Exercisable at 31.12.2010 '000 | Expiry date |
|---|---|---|---|---|---|---|
| 30.6.2006 | 37,270 | 11,010 | (1,021) | (25) | 9,964 | 2.8.2011 |
| 30.8.2007 | 692 | 488 | - | (110) | 378 | 2.8.2011 |
| | | 11,498 | (1,021) | (135) | 10,342 | |

**Subsidiary**

| Grant date | Exercise price RM | At 1.1.2010 '000 | Granted '000 | Exercised '000 | Forfeited '000 | At 31.12.2010 '000 | Expiry date |
|---|---|---|---|---|---|---|---|
| 30.6.2006 | 0.55 | 6,521 | - | (4,738) | (16) | 1,767 | 29.6.2011 |
| 30.6.2007 | 1.90 | 274 | - | - | (35) | 239 | 29.6.2011 |
| 30.6.2008 | 1.09 | 374 | - | - | (147) | 227 | 29.6.2011 |
| 30.6.2009 | 0.86 | 568 | - | (13) | (152) | 403 | 29.6.2011 |
| 30.6.2010 | 0.75 | - | 227 | (36) | (84) | 107 | 29.6.2011 |
| | | 7,737 | 227 | (4,787) | (434) | 2,743 | |

## 25. Employee benefits (continued)

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

| | Company | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| Ordinary share capital at par | **511** | 2,216 |
| Share premium | **10** | 44 |
| Proceeds received on exercise of share options | **521** | 2,260 |

| | Company | | Subsidiary | |
|---|---|---|---|---|
| | **2010 RM** | **2009 RM** | **2010 RM** | **2009 RM** |
| Average share price for the year | **1.02** | 1.06 | **0.86** | 0.83 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Expense recognised as share-based payments | **161** | 845 | **26** | 524 |

## 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 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| 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** | 0.30 - 0.37 |
| - Granted in 2009 | **-** | - | **0.32** | 0.32 |
| - Granted in 2010 | **-** | - | **0.25** | - |
| 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** | 1.18 |
| - Granted in 2009 | **-** | - | **0.98** | 0.98 |
| - Granted in 2010 | **-** | - | **0.84** | - |
| 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** | 1.09 |
| - Granted in 2009 | **-** | - | **0.86** | 0.86 |
| - Granted in 2010 | **-** | - | **0.75** | - |
| Expected volatility (%) | **38.40-40.98** | 38.40-40.98 | **31.99-59.24** | 38.69-59.24 |
| Expected option life (years) | **1** | 2 | **1** | 2 |
| 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** | 4.04 - 4.12 |
| - Granted in 2009 | **-** | - | **2.56** | 2.56 |
| - Granted in 2010 | **-** | - | **2.79** | - |
| Expected staff turnover (%) | **5.00** | 5.00 | **5.00 - 15.00** | 5.00 - 15.00 |

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.

## 26. Dividends

Dividends recognised in the current year by the Company are:

| Ordinary dividends | Per share Sen | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2010** | | | |
| Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2009 | 2.50 | 7,425 | 16 September 2010 |
| **2009** | | | |
| Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2008 | 2.50 | 7,397 | 17 September 2009 |

***Proposed final dividend for the year ended 31 December 2010***

The Directors have recommended a first and final dividend of 7% (3.50 sen) less 25% tax per ordinary share of RM0.50 each totaling RM10,410,980 in respect of the year ended 31 December 2010, 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 396,608,750 ordinary shares of RM0.50 each as at 31 December 2010. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2010.

***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 2010 of RM13,881,306 (2009 - RM9,889,694) on the issued and paid-up share capital (excluding treasury shares) of 396,608,750 ordinary shares of RM0.50 each (2009 - 395,587,750 ordinary shares of RM0.50 each) as at 31 December 2010.

## 27. Operating segments

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purposes, the Group is organised into business units based on their products and services provided.

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 |

***Segment assets and segment liabilities***

The Group Executive Committee reviews the segments' operating performance on segment net assets basis. Hence the segment assets and segment liabilities is presented on the same basis.

## 27. Operating segments (continued)

**Business segments**

| | Infrastructure construction | | Cranes | | Marine ship building and ship repair | | Concession | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Segment profit** | 31,140 | 56,147 | 34,298 | 35,081 | 45,117 | 56,576 | 24,913 | 18,908 | (82,191) | (94,228) | 53,277 | 72,484 |
| *Included in the measure of segment profit are:* | | | | | | | | | | | | |
| Revenue from external customers | 1,033,436 | 1,422,640 | 384,995 | 533,203 | 350,453 | 296,206 | - | - | - | - | 1,768,884 | 2,252,049 |
| Inter-segment revenue | 303,969 | 358,529 | 473 | 1,544 | 2,735 | 18,426 | 1,077 | 1,169 | (308,254) | (379,668) | - | - |
| Interest income | 4,504 | 5,909 | 3,686 | 447 | 966 | 569 | - | - | (3,000) | (3,959) | 6,156 | 2,966 |
| Finance costs | (13,386) | (6,482) | (2,199) | (5,028) | (2,640) | (1,366) | (1,316) | (120) | 3,815 | 3,959 | (15,726) | (9,037) |
| Share of results of associates | 556 | 5,750 | (149) | 27 | 700 | (827) | 25,520 | 17,839 | - | - | 26,627 | 22,789 |
| **Net segment assets** | 374,239 | 397,651 | 195,755 | 189,112 | 118,668 | 94,024 | 98,510 | 96,349 | (228,107) | (250,083) | 559,065 | 527,053 |

## 27. Operating segments (continued)

**Geographical segments**

The infrastructure construction segment is operating mainly in Malaysia, Qatar, 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.

| | Inside Malaysia | | Outside Malaysia | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| **Geographical information** | | | | | | | | |
| **Revenue** | 1,493,154 | 1,887,839 | 583,984 | 743,878 | (308,254) | (379,668) | 1,768,884 | 2,252,049 |
| **Total assets** | 2,699,658 | 2,278,920 | 836,522 | 1,097,388 | (827,375) | (868,069) | 2,708,805 | 2,508,239 |

## 28. Capital commitments

There is no material capital commitments of Group and Company contracted but not provided for.

## 29. 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 the end of the reporting period, there were no significant concentrations of credit risk other than the amount due from a trade debtor of RM370.8 million (2009: RM337.0 million) as mentioned in Note 7 to the financial statements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

## 29. Financial instruments (continued)

**Credit risk (continued)**

The exposure of credit risk for trade receivables by geographical region is as follows:

| | Group | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| Asia | **547,815** | 722,115 |
| Europe | **36,511** | 8,331 |
| America | **29,119** | 44,045 |
| Middle East | **180,868** | 72,473 |
| Africa | **4,640** | 24,480 |
| | **798,953** | 871,444 |

The Group's trade receivables as at 31 December 2010 with total carrying amount of RM798,953,000 have been provided for impairment (net of provision for impairment). For those trade receivables that are not provided for impairment, the Group is satisfied that recovery of the amounts is possible.

**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.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows:

| Group 2010 | Effective interest rate % | Carrying amount RM'000 | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| Secured borrowings | 2.9 - 7.2 | 112,335 | 120,406 | 23,596 | 66,029 | 30,781 |
| Unsecured borrowings | 2.4 - 8.4 | 333,888 | 362,191 | 170,265 | 170,084 | 21,842 |
| Unsecured bill payable | 2.2 - 5.3 | 540,596 | 540,596 | 540,596 | - | - |
| Unsecured payables and accruals | - | 776,810 | 776,810 | 776,810 | - | - |
| | | 1,763,629 | 1,800,003 | 1,511,267 | 236,113 | 52,623 |

## 29. Financial instruments (continued)

**Liquidity risk (continued)**

| Company 2010 | Effective interest rate % | Carrying amount RM'000 | Contractual cash flows RM'000 | Less than 1 year RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 |
|---|---|---|---|---|---|---|
| Unsecured borrowings | 2.4 - 6.8 | 304,326 | 332,589 | 140,664 | 98,439 | 93,486 |
| Unsecured bill payable | 2.5 - 4.1 | 501,516 | 501,516 | 501,516 | - | - |
| Unsecured payables and accruals | - | 475,447 | 475,447 | 475,447 | - | - |
| | | 1,281,289 | 1,309,552 | 1,117,627 | 98,439 | 93,486 |

**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 end of the reporting period and the periods in which they mature, or if earlier, reprice.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Group 2010** | **Effective interest rate %** | **Total RM'000** | **Less than 1 year RM'000** | **Effective interest rate %** | **Total RM'000** | **Less than 1 year RM'000** |
| **Financial assets** | | | | | | |
| Deposits placed with licensed banks | 0.6 - 5.6 | **47,148** | **47,148** | 1.6 - 3.2 | 52,449 | 52,449 |
| **Financial liabilities** | | | | | | |
| Secured borrowings | 2.9 - 7.2 | **112,335** | **112,335** | 2.9 - 5.6 | 128,712 | 128,712 |
| Unsecured borrowings | 2.4 - 8.4 | **333,888** | **333,888** | 2.6 - 8.4 | 125,555 | 125,555 |
| Unsecured bill payable | 2.2 - 5.3 | **540,596** | **540,596** | 2.2 - 4.8 | 466,356 | 466,356 |
| | | **986,819** | **986,819** | | 720,623 | 720,623 |

## 29. Financial instruments (continued)

**Interest rate risk (continued)**

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

| Company 2010 | Effective interest rate % | 2010 Total RM'000 | Less than 1 year RM'000 | Effective interest rate % | 2009 Total RM'000 | Less than 1 year RM'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Deposits placed with licensed banks | 1.6 - 2.0 | **3,663** | **3,663** | 1.6 - 2.0 | 757 | 757 |
| **Financial liabilities** | | | | | | |
| Unsecured borrowings | 2.4 - 6.8 | **304,326** | **304,326** | 2.6 - 6.8 | 84,802 | 84,802 |
| Unsecured bill payable | 2.5 - 4.1 | **501,516** | **501,516** | 2.3 - 4.5 | 349,802 | 349,802 |
| | | **805,842** | **805,842** | | 434,604 | 434,604 |

***Interest rate risk sensitivity analysis***

If interest rates as at the end of the reporting period increase by 100 basis points (bp) with all other variables being held constant, the Group's and Company's profit after taxation would have decreased by RM3,492,000 and RM1,576,000 respectively. A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

**Foreign currency risk**

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

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.

## 29. Financial instruments (continued)

**Foreign currency risk (continued)**

The Group's exposure to foreign currency is as follows:

| **Group 2010** | **USD RM'000** | **Euro RM'000** | **NOK RM'000** | **QAR RM'000** | **SGD RM'000** |
|---|---|---|---|---|---|
| Financial assets | 192,040 | 44,462 | - | 136,233 | 71,749 |
| Financial liabilities | (100,556) | (29,978) | (1,335) | (108,290) | (25,051) |
| Net financial assets/(liabilities) | 91,484 | 14,484 | (1,335) | 27,943 | 46,698 |
| Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies | (22,954) | (6,729) | - | (9,761) | (3,075) |
| Less: Forward foreign currency contracts (contracted notional principal) | (360,132) | (97,598) | 18,314 | - | (72,153) |
| **Net currency exposure** | (291,602) | (89,843) | 16,979 | 18,182 | (28,530) |
| Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant: | | | | | |
| **Effects on profit after taxation** | | | | | |
| - strengthened by 5% | (10,935) | (3,369) | 637 | 682 | (1,070) |
| - weakened by 5% | 10,935 | 3,369 | (637) | (682) | 1,070 |

## 29. Financial instruments (continued)

**Foreign currency risk (continued)**

The Company's exposure to foreign currency is as follows:

| Company 2010 | USD RM'000 | Euro RM'000 | AUD RM'000 | SGD RM'000 | QAR RM'000 | AED RM'000 | SDG RM'000 |
|---|---|---|---|---|---|---|---|
| Financial assets | 102,098 | 1,978 | - | 3,343 | 136,233 | - | 5 |
| Financial liabilities | (35,528) | (18,483) | (1,663) | (7,030) | (108,290) | (327) | (609) |
| Net financial assets/(liabilities) | 66,570 | (16,505) | (1,663) | (3,687) | 27,943 | (327) | (604) |
| Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies | - | - | - | - | (27,868) | - | (604) |
| Less: Forward foreign currency contracts (contracted notional principal) | (220,329) | (105,735) | - | - | - | - | - |
| **Net currency exposure** | (153,759) | (122,240) | (1,663) | (3,687) | 75 | (327) | - |
| Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant: | | | | | | | |
| **Effects on profit after taxation** | | | | | | | |
| - strengthened by 5% | (6,539) | (22,342) | (83) | (286) | 4 | (20) | - |
| - weakened by 5% | 6,539 | 22,342 | 83 | 286 | (4) | 20 | - |

**Fair values**

***Recognised financial instruments***

The carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values except for the following:

| Company | 2010 Carrying amount RM'000 | 2010 Fair value RM'000 | 2009 Carrying amount RM'000 | 2009 Fair value RM'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Quoted shares - long-term | **49,000** | **102,900** | 49,000 | 80,360 |

For those financial assets and financial liabilities that is impractical to establish the market value or fair value, are carried at cost less impairment, if any.

## 30. Contingent liabilities - unsecured

| | Company | |
|---|---|---|
| | 2010 RM'000 | 2009 RM'000 |
| ***Corporate guarantees*** | | |
| Corporate guarantees to licensed banks for credit facilities granted to subsidiaries | **156,064** | 192,828 |

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

***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 (Note 5).

**Contingent liabilities –litigation (Group)**

a) ***Litigation against a subsidiary, Favelle Favco Berhad and Favelle Favco Cranes (USA) Inc., in the Supreme Court of the State of New York***

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

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

The Suit remains ongoing and the Directors are of the opinion that it is premature to assess the outcome of the actions at this point in time.

b) ***Litigation against a subsidiary, Kroll Cranes A/S ("Kroll")***

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

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

## 31. 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 5) and its associates (see Note 6).

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

| | Company | |
|---|---|---|
| | **2010 RM'000** | **2009 RM'000** |
| Significant transactions with subsidiaries: | | |
| Gross dividend income receivable | **(59,352)** | (78,747) |
| Interest income receivable | **(1,750)** | (3,959) |
| Progress billings receivable | **(9,350)** | (28,992) |
| Purchase of materials and services | **132,453** | 154,589 |
| Rental expense | **30,675** | 40,489 |
| Purchase of property, plant and equipment | **-** | 13,477 |
| Rental income receivable | **(675)** | (859) |
| Sale of property, plant and equipment | **(11,105)** | (5,145) |
| Sale of prepaid lease payments | **-** | (14,500) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RM'000** | **2009 RM'000** | **2010 RM'000** | **2009 RM'000** |
| Significant transactions with associates: | | | | |
| Gross dividend income receivable | **(20,714)** | (23,824) | **(12,683)** | (13,067) |
| Progress billing receivable | **(9,141)** | (47,811) | **(1,426)** | - |
| Technical assistance fee receivable | **(5,152)** | (4,617) | **(4,228)** | (4,617) |
| Sale of goods | **(8,168)** | (18,138) | **-** | - |

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

## 31. Related parties (continued)

There are no significant allowance for doubtful receivables as at 31 December 2010 in respect of the above significant related party balances except for the receivables from certain subsidiaries and associates; MEB (Thailand) Co, Ltd of RM2,130,000 (2009 - RM2,154,880), Muhibbah Emirates Contracting LLC of RM1,840,000 (2009 - RM1,648,000), Muhibbah Engineering and Contracting Gulf WLL of RM367,000 (2009 - RM303,000), Muhibbah Airline Industries Ltd of RM1,971,000 (2009 - RM1,983,000), Muhibbah Airline Support Industries Sdn. Bhd. of RM315,000 (2009 - RM365,000) and Muhibbah Petrochemical Engineering Sdn. Bhd. of RM26,032,000 (2009 - RM26,032,000).

The outstanding net amount due from/(to) subsidiaries and associates and joint ventures as at 31 December 2010 are disclosed in Note 7 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 2010 amounted to RM28,318,000 (2009 – RM28,380,000) and RM4,337,000 (2009 - RM4,105,880) respectively.

## 32. Realised and unrealised profits/(losses)

The breakdown of the retained profits/(accumulated losses) of the Group as at the end of the reporting period into realised and unrealised profits/(losses) are presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:-

| | **2010<br>RM'000** | **2009<br>RM'000** |
|---|---|---|
| Total retained profits / (accumulated losses) of Muhibbah Engineering (M) Bhd and its subsidiaries: | | |
| - Realised | **131,341** | |
| - Unrealised | **(58,755)** | Note: |
| | **72,586** | Comparative figures are not required in the first financial year of complying. |
| Total retained profits / (accumulated losses) from associated companies: | | |
| - Realised | **78,080** | |
| - Unrealised | **(1,981)** | |
| Less: Consolidation adjustments | **(18,390)** | |
| Total Group retained profits | **130,295** | |

## 33. Comparative figures

Following the adoption of the amendment to FRS 117 and the rectification of brought forward realised foreign exchange difference previously included in work-in-progress, certain comparatives have been re-presented as follows:

| Group | 31.12.2009 As restated RM'000 | 31.12.2009 As previously stated RM'000 | 1.1.2009 As restated RM'000 | 1.1.2009 As previously stated RM'000 |
|---|---|---|---|---|
| ***Cost/Valuation*** | | | | |
| Property, plant and equipment | 545,016 | 513,204 | 528,184 | 495,995 |
| Prepaid lease payments | - | 31,812 | - | 32,189 |
| Amount due from contract customers | 320,982 | 354,866 | 699,816 | 738,207 |
| Amount due to contract customers | 342,390 | 351,635 | 363,462 | 372,912 |
| Retained earnings | 180,298 | 204,937 | 170,713 | 199,654 |

| Company | 31.12.2009 As restated RM'000 | 31.12.2009 As previously stated RM'000 |
|---|---|---|
| ***Cost/Valuation*** | | |
| Property, plant and equipment | 140,648 | 131,969 |
| Prepaid lease payments | - | 8,679 |
| Amount due from contract customers | 183,185 | 217,069 |
| Amount due to contract customers | 13,595 | 22,840 |
| Retained earnings | 115,265 | 139,904 |

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

In the opinion of the Directors, the financial statements set out on pages 40 to 112 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 2010 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** **Low Ping Lin**

Klang,

Date: 15 April 2011

# 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 40 to 112 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 15 April 2011.

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

**Lee Poh Kwee**

Before me:

**Tee Hsiao Mei**
Pesuruhjaya Sumpah Malaysia
(No. B272)

# 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 statements of financial position as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 112.

*Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 about 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 of financial statements that give a true and fair view 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 2010 and of their financial performance and cash flows for the year then ended.

***Emphasis of matter***

Without qualifying our opinion, we draw attention to Note 7 to the financial statements where, included in the trade receivables and amounts due from contract customers (Note 11) for contract works, are debt and claims outstanding amounting to RM370.8 million on a project undertaken by the Company for the engineering, construction, installation, commissioning and completion of a bunkering facility which has been outstanding for more than a year, pending the finalisation of fund raising exercise by the client to complete the project.

The project has temporarily ceased during the financial year ended 31 December 2009 due to financing difficulties encountered by the project owner. The last progress payment received by the Company was in February 2009. The project owner has continued to approve the progress billings submitted by the Company and had acknowledged its obligations under the contract signed with the Company. The project owner has informed the Company that it is in the process of arranging an alternative source of financing to complete the bunkering facility. The project owner is confident that alternative arrangement can be completed in 2011, as negotiations with interested party have reached an advanced stage. The project owner has also confirmed that the project was stalled due to refinancing issue, and that they are not in default of any borrowings nor involved in any litigation with their existing lender.

The Directors have evaluated the situation and other evidence available, including the assessment of the status of the project owner's refinancing arrangements, and are of the view that no allowance for impairment loss on receivables or a writedown in the amount due from contract customer is required at this moment.

**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 financial statements 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 financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the 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 financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

The supplementary information set out in Note 32 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

**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.

| | |
|---|---|
| **Crowe Horwath** | **Onn Kien Hoe** |
| Firm Number: AF 1018 | 1772/11/12 (J/PH) |
| Chartered Accountants | Chartered Accountant |

Kuala Lumpur

Date: 15 April 2011

# Top 10 List Properties as at 31 December 2010

| No. | Location | Description of Property | Year of Revaluation | Tenure | Land Area | Age of Building | Carrying Value RM'000 |
|---|---|---|---|---|---|---|---|
| 1 | HS(D) 99546, Lot 104625, Teluk Gedung, Mukim of Klang, District of Klang, Selangor | Office building and factory | 2010 | Leasehold expiring 2103 | 148,400 sq.m. | 3 years | 115,556 |
| 2 | HSD 123837, Lot 104505, District of Klang, Selangor | 4 storey office building, factory and warehouse | 2010 | Leasehold expiring 2106 | 86,937 sq.m. | 13 years | 70,335 |
| 3 | Lot Nos. 31792 & 31814, Town of Senawang, Seremban, Negeri Sembilan | Factory building with office block | 2008 | Freehold | 68,846 sq.m. | 6 years | 29,697 |
| 4 | HS(D) 99547, Lot 104626, Teluk Gedung, Mukim of Klang, District of Klang, Selangor | Factory and workshop | 2010 | Leasehold expiring 2103 | 52,490 sq.m | 1 year | 23,546 |
| 5 | 28, Yarrunga Street, Pestons, NSW 2170, Australia | Office building and factory | 2008 | Freehold | 11.6 acres | 40 years | 15,445 |
| 6 | 7 AL, Nordkranvej, 2 3540, Lynge DK Denmark | Factory building with office block | 2008 | Freehold | 59,525 sq.m. | 41 years | 13,900 |
| 7 | Geran # 26559, Lot 9895, Kg. Jawa, Mukim of Klang, District of Klang, Selangor | Office building and factory | 2008 | Freehold | 5.0 acres | 17 years | 13,612 |
| 8 | HS(M) 42560, Lot 129073, Telok Gong, Mukim Klang, Selangor | Vacant land | 2010 | Leasehold expiring 2104 | 30,889 sq.m. | NA | 12,635 |
| 9 | Ream, Sihanoukville, Cambodia | Vacant land | 2005 | Leasehold expiring 2105 | 23.97 hectare | NA | 10,361 |
| 10 | Lot 17579, Mukim of Kapar, Sungai Rasau Kecil, Selangor | Office building and factory | 2007 | Freehold | 1.57 acres | 13 years | 9,668 |

# Analysis of Shareholdings as at 29 April 2011

## A. Share Capital

| | | |
|---|---|---|
| Authorised share | : | RM500,000,000 |
| Issued and fully paid-up capital | : | 400,010,250 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 | 69 | 0.711 | 2,201 | 0.000 |
| 100 – 1,000 | 1,082 | 11.143 | 982,877 | 0.247 |
| 1,001 –10,000 | 6,261 | 64.480 | 31,408,016 | 7.887 |
| 10,001 –100,000 | 1,995 | 20.546 | 59,397,328 | 14.915 |
| 100,001 – 19,911,361 | 301 | 3.100 | 218,724,828 | 54.924 |
| 19,911,362 and above | 2 | 0.020 | 87,712,000 | 22.025 |
| Total | 9,710 | 100.000 | 398,227,250 | 100.000 |

***Note:***

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2011.*

**Directors' Shareholdings as per Register of Directors' Shareholdings as at 29 April 2011**

| Name | Direct Interest | %* | Indirect Interest | %* |
|---|---|---|---|---|
| Tuan Haji Mohamed Taib bin Ibrahim | 7,543,392 | 1.894 | 153,750(a) | 0.039 |
| Datuk Zakaria Bin Abdul Hamid | 16,000 | 0.004 | - | - |
| Mac Ngan Boon @ Mac Yin Boon | 68,808,916(b) | 17.279 | 24,007,500(a) | 6.029 |
| Ooi Sen Eng | 12,345,066 | 3.100 | - | - |
| Low Ping Lin | 2,655,000 | 0.667 | - | - |
| Lim Teik Hin | - | - | 50,000(c) | 0.013 |
| Mac Chung Jin | 4,595,000 | 1.154 | - | - |

***Notes:-***

(a) *Deemed interest by virtue of the shares held by spouse and children pursuant to Section 134(12)(c) of the Companies Act,1965.*

(b) *Certain shares are registered under EB Nominees (Tempatan) Sendirian Bhd, Mayban Securities Nominees (Tempatan) Sdn Bhd and RHB Capital Nominees (Tempatan) Sdn Bhd.*

(c) *Deemed interest by virtue of the shares held by spouse pursuant to Section134(12)(c) of the Companies Act,1965.*

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2011.*

**Shares in related corporation**

There is no change in the deemed interest of directors in related companies as disclosed in the Directors' Report for the year ended 31 December 2010 on page 37 of this Annual Report.

**Options in the Company**

There is no change in the employee share options held by the Directors in the Company as disclosed in Directors' Report for the year ended 31 December 2010 on page 37 of this Annual Report.

**Substantial Shareholders as per Register of Substantial Shareholders as at 29 April 2011**

| Name | Direct Interest | %* | Deemed Interest | % |
|---|---|---|---|---|
| Mac Ngan Boon @ Mac Yin Boon | 68,808,916[(a)] | 17.279 | - | - |
| Lembaga Tabung Haji | 42,439,000[(b)] | 10.657 | - | - |

***Notes:-***

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

*(b) Based on the notice of interest of substantial shareholders pursuant to Section 69 of the Companies Act, 1965 which had been received by the Company.*

** Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2011.*

## List of 30 Largest Shareholders as at 29 April 2011

| No. | Name of Shareholders | No of Shares held | % of issued capital* |
|---|---|---|---|
| 1 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 48,350,000 | 12.141 |
| 2 | Lembaga Tabung Haji | 39,362,000 | 9.884 |
| 3 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 12,800,000 | 3.214 |
| 4 | Ooi Sen Eng | 12,345,066 | 3.100 |
| 5 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Chew Keng Siew | 10,000,000 | 2.511 |
| 6 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Noriyati Binti Hassan | 10,000,000 | 2.511 |
| 7 | HSBC Nominees (Asing) Sdn Bhd<br>HSBC-FS For LEGG Mason Western Asset Southeast Asia<br>Special Situations Trust | 8,598,000 | 2.159 |
| 8 | Mohamed Taib Bin Ibrahim | 6,349,642 | 1.594 |
| 9 | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Great Eastern Life Assurance (Malaysia) Berhad | 5,535,400 | 1.390 |
| 10 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 5,500,000 | 1.381 |
| 11 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN For JPMorgan Chase Bank, National Association | 5,016,700 | 1.260 |
| 12 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Hui | 5,000,000 | 1.256 |
| 13 | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Great Eastern Life Assurance (Malaysia) Berhad | 4,951,600 | 1.243 |
| 14 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY For Dimensional Emerging Markets Value Fund | 4,845,400 | 1.217 |
| 15 | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon | 4,650,000 | 1.168 |

## List of 30 Largest Shareholders as at 29 April 2011 (continued)

| No. | Name of Shareholders | No of Shares held | % of issued capital* |
|---|---|---|---|
| 16 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Jin | 4,250,000 | 1.067 |
| 17 | Mayban Securities Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mac Chung Lynn | 4,000,000 | 1.004 |
| 18 | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>MIDF Amanah Asset Management Berhad For Lembaga Tabung Haji | 3,077,000 | 0.773 |
| 19 | Mac Ngan Boon @ Mac Yin Boon | 3,008,916 | 0.756 |
| 20 | Mayban Nominees (Tempatan) Sdn Bhd<br>ETIQA Insurance Berhad | 2,977,700 | 0.748 |
| 21 | Low Ping Lin | 2,655,000 | 0.667 |
| 22 | Othman Bin Chut | 2,288,312 | 0.575 |
| 23 | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Teo Chang Seng | 2,113,750 | 0.531 |
| 24 | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>Exempt AN For Kumpulan Sentiasa Cemerlang Sdn Bhd | 1,971,500 | 0.495 |
| 25 | Mayban Nominees (Tempatan) Sdn Bhd<br>ETIQA Insurance Berhad | 1,860,400 | 0.467 |
| 26 | Citigroup Nominees (Asing) Sdn Bhd<br>UBS AG Singapore For Keen Capital Investments Limited | 1,769,000 | 0.444 |
| 27 | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Great Eastern Life Assurance (Malaysia) Berhad | 1,672,600 | 0.420 |
| 28 | Noriyati Binti Hassan | 1,503,336 | 0.378 |
| 29 | Employees Provident Fund Board | 1,500,000 | 0.377 |
| 30 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt AN For BNP Paribas Securities Services | 1,403,300 | 0.352 |

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 29 April 2011.*

# Analysis of Shareholdings as at 29 April 2011 (continued)

## B. Warrant 2010/2015

| | | |
|---|---|---|
| Outstanding Warrant | : | 38,000,000 |
| Issued Price | : | RM0.06 each |
| Exercise Price | : | RM1.07 each |
| Expiry Date | : | 26 April 2015 |
| Voting rights | : | One vote for each Warrant held |

| Size of Holdings | No. of Warrant Holders | % | No. of Outstanding Warrant | % of Outstanding Warrant |
|---|---|---|---|---|
| 1 – 99 | - | - | - | - |
| 100 – 1,000 | - | - | - | - |
| 1,001 –10,000 | - | - | - | - |
| 10,001 –100,000 | - | - | - | - |
| 100,001 – 19,000,000 | - | - | - | - |
| 19,000,001 and above | 3 | 100.000 | 38,000,000 | 100.000 |
| Total | 3 | 100.000 | 38,000,000 | 100.000 |

**List of Warrants Holders as at 29 April 2010**

| No | Name of Warrant holders | No of Warrant Held | % of Warrant Held |
|---|---|---|---|
| 1 | Universal Capital Resources Sdn Bhd | 18,000,000 | 47.368 |
| 2 | Transasia Assets Sdn Bhd | 10,000,000 | 26.316 |
| 3 | Harmony Effective Sdn Bhd | 10,000,000 | 26.316 |
| | Total | 38,000,000 | 100.000 |

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

# 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-Eighth Annual General Meeting of the Company which is to be held at Kayangan Ballroom, Quality Hotel Shah Alam, Ground Floor, Plaza Perangsang, Persiaran Perbandaran, 40000 Shah Alam, Selangor Darul Ehsan on Tuesday, 28 June 2011 at 4.00 p.m. and at any adjournment thereof.

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

| Resolution No | Ordinary Business : | For | Against |
| --- | --- | --- | --- |
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2010 and the Reports of the Directors and Auditors thereon. | | |
| 2. | To approve a First and Final Dividend of 7% less 25% income tax per ordinary share in respect of the financial year ended 31 December 2010. | | |
| 3. | To re-elect Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor as Director. | | |
| 4 | To re-elect Datuk Zakaria bin Abdul Hamid as Director. | | |
| 5 | To re-elect Abdul Hamid bin Ibrahim as Director. | | |
| 6. | To re-appoint Tuan Haji Mohamed Taib bin Ibrahim as Director. | | |
| 7. | To re-appoint Messrs. Crowe Horwath as the Company's Auditors for the ensuing year and to authorise the Directors to fix their remuneration. | | |
| | **Special Business :** | | |
| 8. | To approve the Proposed Renewal of Share Buy-Back Authority. | | |
| 9. | To approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions. | | |
| 10. | To approve the Proposed Amendments to the Articles of Association of the Company. | | |

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

Dated this ................ day of ................................ 2011

.....................................................................................
[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 provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. When a member appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the 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.