ANNUAL REPORT 2013

MUHIBBAH ENGINEERING (M) BHD

Company No.: 12737-K

Board Of Directors

Tan Sri Zakaria bin Abdul Hamid *(Chairman, Independent Non-Executive Director)*

Mac Ngan Boon @ Mac Yin Boon *(Group Managing Director)*

Ooi Sen Eng *(Executive Director)*

Mac Chung Jin *(Executive Director/Deputy Chief Executive Officer)*

Lee Poh Kwee *(Group Finance Director)*

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

Sobri bin Abu *(Independent Non-Executive Director)*

Dato' Mohamad Kamarudin bin Hassan *(Independent Non-Executive Director)*

Mazlan bin Abdul Hamid *(Non-Independent Non-Executive Director)*

Corporate Information

Audit Committee
Tan Sri Zakaria bin Abdul Hamid *(Chairman)*
Sobri bin Abu
Dato' Mohamad Kamarudin bin Hassan

Company Secretaries
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
50450 Kuala Lumpur, Malaysia

Principal Bankers
Affin Bank Berhad
Ambank (Malaysia) Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
Bank of Tokyo - Mitsubishi UFJ
Hong Leong Bank Berhad
HSBC Bank Malaysia Berhad
Kuwait Finance House (Malaysia) Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
RHB Bank Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas 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

LNG Regasification Facilities Project for PETRONAS in Malacca, Malaysia

Contents

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Forty-First Annual General Meeting of Muhibbah Engineering (M) Bhd will be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 26 June 2014 at 3.30 p.m. for the following purposes :-

Agenda

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of the Directors and Auditors thereon. **Please refer to Note (a)**

2. To approve the declaration of a first and final tax exempt dividend of 9% (4.50 sen) per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2013. **Resolution 1**

3. To re-elect the following Directors who retires pursuant to Article 85 of the Company's Articles of Association :-

   (i) Sobri bin Abu; **Resolution 2**
   (ii) Mac Chung Jin; **Resolution 3**
   (iii) Lee Poh Kwee; **Resolution 4**
   (iv) Mazlan bin Abdul Hamid; and **Resolution 5**
   (v) Dato' Mohamad Kamarudin bin Hassan **Resolution 6**

4. To consider and, if thought fit, to re-appoint the following Directors who retire pursuant to Section 129(2) of the Companies Act, 1965 and in accordance with Section 129(6) of the Companies Act, 1965 be re-appointed to hold office until the conclusion of the next Annual General Meeting :-

   (i) Tan Sri Zakaria bin Abdul Hamid; **Resolution 7**
   (ii) Mac Ngan Boon @ Mac Yin Boon; and **Resolution 8**
   (iii) Ooi Sen Eng **Resolution 9**

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 10**

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

6. ## Ordinary Resolution

   Continuation of Terms of Office as Independent Director

   "THAT pursuant to the Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), approval be and is hereby given to Tan Sri Zakaria bin Abdul Hamid, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company." **Resolution 11**

7. ## Ordinary Resolution

Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965 **Resolution 12**

" THAT pursuant to Section 132D of the Companies Act, 1965, and subject always to approval of the relevant authorities, the Directors be and are hereby empowered to issue and allot shares in the Company, from time to time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company AND THAT the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares on Bursa Malaysia Securities Berhad."

8. ## Ordinary Resolution

Proposed Renewal of Authority for Share Buy-Back **Resolution 13**

"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."

9. Ordinary Resolution

Proposed Renewal of the Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature **Resolution 14**

"THAT subject to the Main Market Listing Requirements of Bursa Securities, approval be and is hereby given for the Renewal of the Existing Shareholders' Mandate for 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 4 June 2014 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; and

THAT a New Shareholders' Mandate be and is hereby granted for the Company and/or its subsidiaries to enter into additional recurrent related party transactions of a revenue or trading nature with related parties which are necessary for the day to day operations and on normal commercial terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders as set out in Section 2.1.2 of the Circular dated 4 June 2014;

(collectively known as the "Proposed Shareholders' Mandate")

THAT the Proposed 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 Proposed Shareholders' 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 Shareholders' Mandate."

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

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company pursuant to Article 58(d) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 18 June 2014 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxies to attend and/or vote on his/her behalf.

Notes :-

(a) *The Audited Financial Statements in Agenda 1 is intended for discussion only as the provision of the Section 169(1) of the Act does not require a formal approval of the members and hence is not put for voting.*

(b) *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. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy and the provision of Section 149(1)(b) of the Act shall not apply to the Company.*

(c) *A member shall not be entitled to appoint more than two (2) proxies to attend, speak 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 shareholdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.*

(d) *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.*

(e) *The duly completed Form of Proxy must be deposited at the Share Registrar's Office, Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia, at least forty-eight (48) hours before the time set for the holding of the Meeting or any adjournment thereof.*

Explanatory Notes on Special Business

1. **Resolution pertaining to the Continuation of Terms of Office as Independent Director**

   For Resolution 11, in line with the Recommendation 3.1 of the MCCG 2012, the Board had conducted an assessment of independence of Tan Sri Zakaria bin Abdul Hamid ("Tan Sri Zakaria"), who has served as an Independent Non-Executive Director of the Company for a cumulative terms of more than nine (9) years, and recommended him to continue to act as Independent Non-Executive Director of the Company.

   Tan Sri Zakaria fulfills the Independent Director criteria set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and therefore, is able to bring independent and objective judgement to the Board. His vast experience in the government service sectors together with the long service and association with the Company enable him to contribute actively and effectively during deliberations at Board meetings.

2. **Resolution pertaining to the Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965**
   For Resolution 12, Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965 if passed will give the Directors of the Company from the date of the above meeting, authority allot and issue ordinary shares from the unissued capital of the Company for such purposes as the Directors consider would be in the interest of the Company. The purposes of this general mandate is for possible fund raising exercise but not limited to further placing of the shares for purpose of funding investment(s), working capital and/or acquisitions at any time to such persons in their absolute discretion without convening a general meeting as it would be both costs and time-consuming to organise a general meeting. This authorization will expire at the conclusion of the next Annual General Meeting of the Company.

3. **Resolution pertaining to the Proposed Renewal of Authority for Share Buy-Back**
   For Resolution 13, the detailed information on the Proposed Renewal of Authority for Share Buy-Back Authority is set out in the Statement/Circular to Shareholders dated 4 June 2014 which is despatched together with the Company's Annual Report 2013.

4. **Resolution pertaining to the Proposed Renewal of Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**
   For Resolution 14, the detailed information on the Proposed Shareholders' Mandate is set out in Statement/Circular to Shareholders dated 4 June 2014 which is despatched together with the Company's Annual Report 2013.

Notice of Dividend Entitlement and Payment Date

NOTICE IS HEREBY GIVEN THAT a first and final tax exempt Dividend of 9% (4.50 sen) per ordinary share of RM0.50 each of the financial year ended 31 December 2013, if approved by the shareholders at the forthcoming Forty-First Annual General Meeting, will be paid on 25 August 2014 to Depositors whose names appear in the Record of Depositors at the close of business on 15 August 2014.

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 August 2014 in respect of ordinary transfers; and

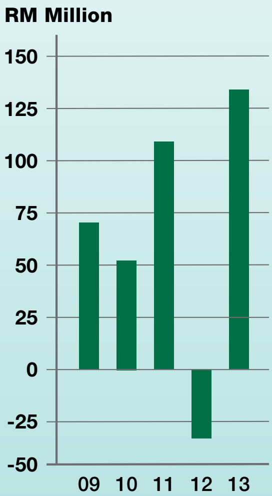
b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

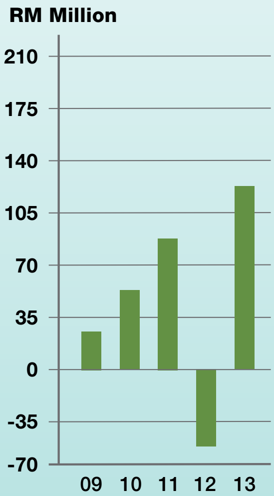
LIM SUAK GUAK (MIA 19689)
CATHERINE MAH SUIK CHING (LS 01302)
Company Secretaries

Selangor Darul Ehsan
4 June 2014

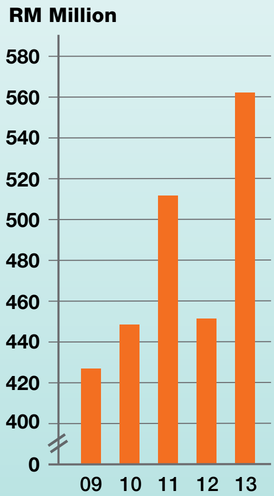
	2009	2010	2011	2012	2013
Turnover (RM'000)	2,252,049	1,768,884	2,026,366	2,625,525	**1,936,401**
Profit Before Tax (RM'000)	72,484	53,277	111,716	(34,977)	**132,570**
Profit After Tax Before Non-controlling Interest (RM'000)	33,187	46,284	82,532	(61,083)	**116,215**
Profit After Tax and Non-controlling Interest (RM'000)	16,982	32,944	63,772	(93,241)	**86,379**
Total Equity Attributable to Owners of the Company (RM'000)	425,549	451,514	515,393	454,055	**562,656**
Share Capital (RM'000)	198,685	199,196	204,107	204,124	**211,214**
Basic Earnings Per Ordinary Share Attributable to Owners of the Company (Sen)	4.30	8.32	15.85	(22.94)	**20.98**
Net Assets Per Ordinary Share Attributable to Owners of the Company (RM)	1.08	1.14	1.27	1.12	**1.34**



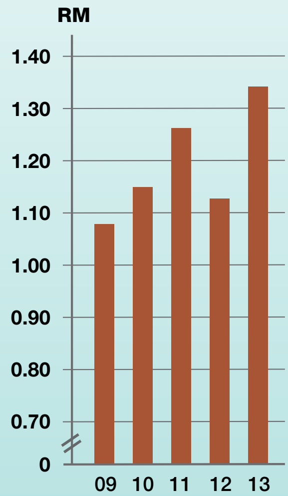
Profit Before Tax



Profit After Tax Before Non-controlling Interest



Total Equity Attributable to Owners of the Company



Net Assets Per Ordinary Share Attributable to Owners of the Company

Chairman's Statement

Tan Sri Zakaria bin Abdul Hamid
(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 2013.

Overview

The Group successfully recovered with a Group profit after tax of RM116.2 million for the current year as compared to a loss after tax of RM61.1 million in 2012, which was consequent to the Group making full provisions for the balance amount of receivables due from the Asia Petroleum Hub project for the year ended 31 December 2012.

The Group reported a lower turnover of approximately RM1.94 billion (2012: RM2.63 billion) primarily due to completion of major projects in 2013. However, our crane and concession divisions reported higher revenues and strong financial performances due to a robust oil and gas market, and our airports concession, a higher turnover.

The key highlight in 2013 was the award of a licence to Muhibbah by Petroliam Nasional Bhd ("PETRONAS") for

Multipurpose Wharf and Associated Facilities at Container Terminal 4 for Northport Project in Malaysia

"Offshore Facilities Construction-Major Onshore Fabrication". Now, Muhibbah's facilities in Pulau Indah, Klang, will be able to participate in tenders for major offshore works. We expect more future earnings for the Group, to be derived from both onshore and offshore oil and gas related projects.

We are also delighted that Muhibbah is one of the public listed companies on Bursa Malaysia that qualify for The Edge-Billion Ringgit Club 2014 with the stock market capitalisation of RM1 billion and above on March 31, 2014.

Key Financial Highlights

Some key financial highlights for the financial year ended 31 December 2013 are:

- Group's turnover of RM1.94 billion (2012: RM2.63 billion);
- Group's earnings before interest, amortisation and tax increased to RM240.31 million (2012: RM 57.2 million);
- Group's net profit/(loss) after tax and non-controlling interests was RM86.38 million (2012: RM(93.24) million);
- Group's basic earnings/(loss) per share was 20.98 sen (2012: (22.94) sen); and
- Group's net assets per share increased to RM1.34 (2012: RM1.12).

As at 15 May 2014, the Group's total outstanding order book stands at approximately RM1.86 billion, comprising approximately RM704 million, RM1.11 billion and RM45 million for the construction and engineering, the cranes and the shipyard divisions respectively. Approximately 60% of the total outstanding order book is from works related to the global oil and gas industry.

Dividends

The Board is pleased to recommend a first and final tax exempt dividend of 9% (4.5 sen) per ordinary share of RM0.50 each (2012: 5% (2.5 sen) less 25% tax per ordinary share of RM0.50 each) in respect of the financial year under review, subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend payable amounts to RM18.93 million (2012: RM7.77 million).

Performance Review of Operations

Review of the performance of each division of the Group for the financial year ended 31 December 2013 and the future prospects of the Group are as follows :-

Construction and Engineering Division

The completion of the Liquefied Natural Gas ("LNG") Regasification Terminal located off the coast of Malacca, Malaysia in May 2013 is of great significance to the Group and the country because the LNG Terminal and facilities will be a major gateway for the import of liquefied natural gas for Malaysia. This is one of the several regasification plants planned by PETRONAS. The Group hopes to capitalise on this experience for future projects in Malaysia and abroad.

Bridge over Selat Lumut for South Klang Valley Expressway ("SKVE"), Selangor, Malaysia

On 3 April 2014, PETRONAS approved the Final Investment Decision for Refinery and Petrochemical Integrated Development ("RAPID") project. The RAPID project is estimated to have an investment of US$27 billion (RM89 billion). The Group is optimistic of participating in some of the related works as Muhibbah has been actively participating in tenders for the RAPID project in year 2013/2014.

Other major jobs completed in 2013 include the South Klang Valley Expressway in Malaysia and the Terminal and Jetty Top-Side Facilities for the Hydrocarbon Storage & Distribution Facility in Tanjung Bin, Johor.

In March 2013, the Company, in a joint venture with Samjung of Korea was awarded a contract by Mass Rapid Transit Corporation Sdn Bhd for the Design, Supply, Installation, Testing and Commissioning of Noise Barriers and Enclosures (Packages V1 to V8) for a total contract sum of approximately RM202 million (the "MRT" project).

To cope with the growth of passengers at our Cambodia airports, in November 2013, our airport concession company, Societe Concessionnaire des Aeroports ("SCA") awarded an EPC contract worth USD87 million (equivalent to RM276 million) to a joint venture between Muhibbah and VINCI Construction Grands Projets from France to extend and build new terminal buildings for the Phnom Penh and Siem Reap airports in Cambodia.

Other ongoing contracts include the Wiggins Island Coal Export Terminal Pty Ltd ("WICET") Project in Gladstone, Queensland, Australia and the development of a multipurpose wharf and associated facilities at Container Terminal 4 for Northport (Malaysia) Bhd, besides the finishing of the Ministry of Transport building in Putrajaya.

Our subsidiary, Muhibbah Steel Industries Sdn Bhd, received an award by JGC (Malaysia) Sdn Bhd ("JGC") for the supply of manpower, plant and equipment to erect structural steel works for PETRONAS LNG Train 9 Project in Bintulu, Sarawak for a total contract sum of RM30 million. JGC is the main contractor for PETRONAS LNG Train 9 project.

As at 15 May 2014, the outstanding secured order book for the construction and engineering division stands at approximately RM704 million.


Favelle Favco Offshore Crane in Singapore

Shipyard Division

The ship building division continues to perform well. Plans are in the pipeline to study the other segment's of shipbuilding and among these are accommodation barges.

As at 15 May 2014, the outstanding secured order book for the shipyard division remain steady. We expect the order book of our shipyard to be improved.

Concessions Division

Passenger arrivals in 2013 at our airports grew year on year 18% (2012: 17%). Both Phnom Penh International Airport and Siem Reap International Airport performed well to passengers' satisfaction.

To maintain this level, the concessionnaire has embarked on an expansion program to build a new terminal for Phnom Penh International Airport and expand the Siem Reap terminal. This will enable the capacities of both airports to be doubled from existing 6 million to 12 million pax accordingly.

Our road maintenance concession also continues to generate recurring cash flow and contribution to the Group.

Crane Division

The crane division reported a better financial result in year 2013. This was the result of higher sales from the oil and gas market and cost optimization initiatives by the Management.

The oil and gas crane market has continued to be robust over the last few years and has seen a geographical shift in rig building activities. The Group has successfully penetrated into new yards and this has resulted in the increase in revenue. We expect continued investments over the next few years on more orders as the replacement cycle continues.

As at 15 May 2014, the outstanding order book for the crane division is at an all-time high of approximately RM1.11 billion. As such, we expect to perform well in the following year.


Favelle Favco Offshore Crane in Germany

Transformation Moving Forward

Since the last Annual General Meeting, four (4) new Directors, namely Mr Mac Chung Jin, Ms Shirleen Lee Poh Kwee, Dato' Mohamad Kamarudin bin Hassan and Encik Mazlan bin Abdul Hamid, have been appointed to the Board replacing the three (3) retired Directors, Tuan Haji Mohamed Taib bin Ibrahim, Mr Low Ping Lin and Mr Lim Teik Hin and one (1) Independent Director, Dato' Seri Dr Raja Ahmad Zainuddin bin Raja Haji Omar, who resigned in compliance with the independence requirement of Malaysian Code of Corporate Governance 2012.

The changes in the board signify a milestone for succession planning and better governance compliance with the recommendations in Malaysian Code of Corporate Governance and Main Market Listing Requirement of Bursa Malaysia Securities Berhad. The new Board reflects a more balanced composition in skill, age, gender as well as wider range of industry expertise, business, technical, financial, strategy, public service and networking experience to lead and manage the Group in years forward.

Future Prospects

The Malaysian economy is expected to accelerate between 5% and 5.5% in 2014. The growth in the Malaysian economy would be anchored by resilient domestic demand and external demand with the recovery momentum of developed economies. The value of the Ringgit remains uncertain due to the reduction in the US Federal Reserve bond-buying and the inflationary pressures remain a concern. Private and public investments are expected to spur Malaysia's economic growth.

On the domestic front, we expect more contracts related to the MRT project and PETRONAS' RAPID project continue to be in play in 2014. The MRT and RAPID project roll out will provide opportunities to the Group. The Economic Transformation Programme ("ETP") places high emphasis on oil and gas sector on the bid to turn the country into the Asia Pacific oil and gas hub by 2020.

JM Gemilang,
Anchor Handling Tug Supply Vessel built by Muhibbah Marine Engineering Sdn Bhd

Government Office Building and Related Works for Federal Government Administrative Centre, Putrajaya, Malaysia

The outlook for the oil and gas sector both support-services sector remains positive in the light of PETRONAS' investment commitments. Against this backdrop, our focus is to continue to grow our core businesses and to look for growth opportunities through strategic tie-ups, joint ventures and acquisitions.

Given a healthy order book of RM1.86 billion and good earnings visibility, the Group remains well positioned to benefit from committed outlay by PETRONAS' investment into downstream activities with the RAPID project and global oil and gas sectors.

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 on Corporate Governance, including a Statement on Risk Management & Internal Control, have been included in this Annual Report in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.

Ship Berth Wharf Construction Work in progress
for the WICET Project in Gladstone, Queensland, Australia

Corporate Social Responsibility

The Group continues to honour our long standing commitment to the environment by proactively addressing environmental challenges, promoting environmental responsibility through Health, Safety and Environmental (“HSE”) management policies, upholding HSE standards and encouraging the development and use of environmental-friendly designs and technologies.

Other Corporate Social Responsibility activities of the Group in 2013 include contributing to community needs, continual commitment to the preservation of the environment, investing in training and education and promoting sports and recreational activities for our employees.

The Group recognises the importance of nurturing talents and apprenticeship programmes. We have initiated the MyGrad Program and have collaboration with local universities and colleges. We participated in the University Malaya Students for Industry-University Partnership Programme and Project Change Scholarship established by a local accounting firm, Crowe Horwath. We also sponsored students to pursue degrees in Petroleum Engineering and Civil Engineering at a local university.

Acknowledgement And Appreciation

On behalf of the Board, I wish to express our appreciation and deepest gratitude to Tuan Haji Mohamed Taib who retired as the Chairman this year. Tuan Haji Mohamed Taib is one of the founders of the Group and he has been a member of the Muhibbah Board of Directors since 4 July 1972. The Group has been under the esteemed leadership of a very committed and dedicated Tuan Haji Mohamed Taib for the past 42 years. We value and honour Tuan Haji Mohamed Taib for his leadership, dedication, invaluable contribution, guidance and long service in bringing the Group to where it is today.

The Board and I would also like to express our appreciation and gratitude to the three (3) retired Directors, who have not only been mentors but have contributed tremendously to the growth of the Group over the years.

I also take the opportunity to welcome the four (4) newly appointed Directors to the Board and looking forward to their invaluable contributions to the Group moving forward.

The Board and I wish to thank the Directors, Management and all employees of the Group for their dedication, resourcefulness, commitment and contribution to the Group over what has been a challenging year. We would also like to take this opportunity to thank our shareholders, associates, clients, bankers, subcontractors and suppliers for their unwavering support to the Group. The Group values and looks forward to this continued relationship as we progress in the years ahead.

Tan Sri Zakaria bin Abdul Hamid
Chairman
19 May 2014

Fabrication Yard of Muhibbah Steel Industries Sdn Bhd in Telok Gong, Port Klang, Malaysia

Core Divisions as at 30 April 2014

MUHIBBAH ENGINEERING (M) BHD
(12737-K)

INFRASTRUCTURE CONSTRUCTION

- 100% MEB CONSTRUCTION SDN. BHD.
- 100% MUHIBBAH STEEL INDUSTRIES SDN. BHD.
- 95% MUHIBBAH MARINE ENGINEERING (DEUTSCHLAND) GmbH
- 90% MUHIBBAH PETROCHEMICAL ENGINEERING SDN. BHD.
- 100% ELELINK SDN. BHD.
  - 60% ITS KONSORTIUM SDN. BHD.
- 60% MUHIBBAH ENGINEERING (CAMBODIA) CO. LTD.
- 50% FREYSSINET PSC (M) SDN. BHD.

CRANES

- 60.94% 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% KROLL CRANES A/S
  - 100% FES EQUIPMENT SERVICES SDN. BHD.
  - 100% FAVELLE FAVCO WINCHES PTE. LTD.
  - 77% SHANGHAI FAVCO ENGINEERING MACHINERY MANUFACTURING CO. LTD.

SHIPYARD

- 100% MUHIBBAH MARINE ENGINEERING SDN. BHD.

CONCESSIONS

- 70% MUHIBBAH MASTERON CAMBODIA JV LIMITED
  - 30% SOCIETE CONCESSIONAIRE DE l' AEROPORT
- 21% ROADCARE (M) SDN. BHD.

Only major active companies are included here

Tan Sri Zakaria bin Abdul Hamid
Aged 70, Malaysian
Chairman, Independent Non-Executive Director
Chairman of the Audit Committee, Remuneration Committee and Nominating Committee

Tan Sri Zakaria bin Abdul Hamid was appointed as Vice Chairman of the Company on 20 February 2002 and a member of the Audit Committee on 28 March 2003. He was redesignated as Chairman of the Company and the Audit Committee and appointed as a member of the Remuneration and Nominating Committee on 15 May 2014, following the retirement of Tuan Haji Mohamed Taib bin Ibrahim. 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.

Tan Sri Zakaria is also a Director of Landmarks Berhad.

Mac Ngan Boon @ Mac Yin Boon
Aged 70, Malaysian
Group Managing Director
Member of the Remuneration Committee

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

Having obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967, Mr Mac is a professional engineer with the Institute of Engineers Malaysia. He started work as construction engineer in 1967. He is also the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998.

Mr Mac is also a Director of Favelle Favco Berhad, a listed subsidrary of Muhibbah Engineering (M) Bhd on the Main Market of Bursa Malaysia Securities Berhad.

Ooi Sen Eng
Aged 72, Malaysian
Executive Director
Member of the Remuneration Committee

Mr 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 six (6) years until he co-founded Muhibbah Engineering (M) Bhd in 1972. He was appointed as Director on 26 May 1973 and a member of the Remuneration Committee on 21 February 2002.

Mac Chung Jin

Aged 40, Malaysian

Executive Director/Deputy Chief Executive Officer

Mr Mac Chung Jin was appointed as Executive Director of Muhibbah Engineering (M) Bhd on 15 May 2014. He was Alternate Director to Mr. Ooi Sen Eng from 2 May 2008 to 15 May 2014. 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 was promoted as Head of Business Development in 1999, spearheading local and international projects. He was appointed as Deputy Chief Executive Officer of the Company on 2 September 2013. He is currently also a member of Risk Management Committee of Muhibbah Group.

Shirleen Lee Poh Kwee

Aged 48, Malaysian

Group Finance Director

Ms Shirleen Lee Poh Kwee was appointed as Group Finance Director to the Board of Muhibbah Engineering (M) Bhd on 15 May 2014. She is currently also a member of Risk Management Committee of Muhibbah Group.

She joined Muhibbah Group in June 1993 as Group Chief Financial Officer to spearhead Muhibbah Group corporate banking and treasury management, corporate finance and development, merger and acquisition, financial management reporting, tax planning, corporate affairs and investor relations as well as Group investment strategy and appraisal.

She is a fellow member of the Association of Chartered Certified Accountants, United Kingdom and Chartered Accountant with Malaysian Institute of Accountants. She is also a Certified Financial Planner of Financial Planning Association of Malaysia.

Prior to joining Muhibbah Group, she was a Senior Auditor with an international accounting firm, KPMG with experience in statutory audit, special audit, due diligence, strategic tax planning and compliance services.

Ms Shirleen is also the Group Finance Director of Favelle Favco Berhad, a listed subsidrary of Muhibbah Engineering (M) Bhd on the Main Market of Bursa Malaysia Securities Berhad.

Sobri bin Abu

Aged 61, Malaysian

Independent Non-Executive Director

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

Encik Sobri bin Abu was appointed to the Board as an Independent Non-Executive Director on 27 June 2013. He was further appointed as a member of Audit Committee as well as Remuneration and Nominating Committees on 28 August 2013.

Encik Sobri career spanning more than thirty (30) years in the oil and gas industry. He has been working for the major international oil companies, namely ExxonMobil, PETRONAS as well as the major international engineering construction companies like Babcock King Wilkinson (UK) Ltd of United Kingdom, Stone and Webster Construction, Inc of United State of America, Petrofac Engineering and Construction of United Arab Emirates and local engineering companies include Sumatec Engineering Bhd and Ranhill WorleyParsons of Malaysia.

Encik Sobri is also a Director of Favelle Favco Berhad, a listed subsidrary of Muhibbah Engineering (M) Bhd on the Main Market of Bursa Malaysia Securities Berhad.

Abd Hamid bin Ibrahim

Aged 65, Malaysian

Independent Non-Executive Director

Encik 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 University of Hawaii in 1980 and Wharton School of Management, University of Pennsylvania, USA in 2000.

Encik Abd Hamid 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 initial publication in April 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.

Encik Abd Hamid is also the Chairman of Barakah Offshore Petroleum Bhd and a Director of Cliq Energy Bhd.

Dato' Mohamad Kamarudin bin Hassan

Aged 58, Malaysian

Independent Non-Executive Director

Member of the Audit Committee, Remuneration Committee and Nominating Committee

Dato' Mohamad Kamarudin bin Hassan was appointed to the Board of Muhibbah Engineering (M) Bhd as an Independent Non-Executive Director and a member of the Audit, Remuneration and Nominating Committees on 15 May 2014.

He graduated with a Bachelor of Economics (Majoring in Business Administration) from the University of Malaya in 1978 and obtained a Diploma in Public Management from Institute Tadbiran Awam Malaysia (INTAN) in 1979. He received a Master Degree in Business Administration (Majoring in Finance) from Oklahoma City University, USA in 1998.

Dato' Mohamad Kamarudin began his career with the Administrative and Diplomatic Service in 1979 with his first posting to the Macro-economic Division of the Economic Planning Unit in the Prime Minister's Department. In 1987, he was transferred to the Ministry of International Trade and Industry ("MITI") where he had served in various divisions of the Ministry. He was then posted to the Malaysian Embassy in Washington DC as the Economic Counsellor from 1992 to 1994. From January 2006 until his retirement on 31 August 2013, he was seconded to Malaysia External Trade Development Corparation ("MATRADE") as the Deputy Chief Executive Officer.

Dato' Mohamad Kamarudin is also a Director of CCM Duopharma Biotech Bhd and ManagePay Systems Bhd.

Mazlan bin Abdul Hamid

Aged 51, Malaysian

Non-Independent Non-Executive Director

Encik Mazlan bin Abdul Hamid was appointed to the Board of Muhibbah Engineering (M) Bhd on 15 May 2014 as Non-Independent Non-Executive Director.

He obtained a Diploma in Engineering from the University of Mara Technology in 1984 and attended an Advanced Metallurgy in the United Kingdom. In the same year, he started his career as a project coordinator in DNT (M) Sdn Bhd. He then joined SCS Petrotechnical (M) Sdn Bhd and was seconded to Sarawak Shell Berhad, and thereafter, Bureau Veritas (M) Sdn Bhd as Surveyor and Marketing Manager. He joined Favelle Favco Cranes (M) Sdn Bhd in 1996 as the Sales & Marketing General Manager and plays a key role in penetrating the international cranes manufacturing market.

Encik Mazlan is also a Director of Favelle Favco Berhad, a listed subsidrary of Muhibbah Engineering (M) Bhd on the Main Market of Bursa Malaysia Securities Berhad.

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. Mac Chung Jin is the son of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd.

2. **Conflict of Interest**

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

3. **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 31 December 2013.

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

   (i) Employees' Share Option Scheme

   Details of the employee's share option of the Company are disclosed on page 42 of this Annual report.

   (ii) Warrants

   As at 31 December 2013, none of the options under the Warrants were exercised.

4. **Depository Receipt Programme**

   The Company did not sponsor any depository receipt 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**

   The amount of non-audit fees paid to the external auditors for the financial years ended 31 December 2013 was RM10,000.

7. **Variation in Results**

   There were no significant variations between the audited results for the financial year ended 31 December 2013 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 2013.

9. Profit Guarantee

There was 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 2013 or entered into since the end of the previous financial year ended 31 December 2012.

11. Revaluation Policy on Landed Properties

The Company revalues its land every five (5) years or shorter interval, whenever 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 2013, 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 6 June 2013. 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 2013 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 2013 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	31,622
		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	1,040
		# Rental of factory and office premises located at Lot 9895, Geran #26559, Kg. Jawa, Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring 5.0 acres	1,148
		# Rental of open yard located at PN 11185, Lot 104505, Telok Gong, Mukim & District of Klang, State of 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.	106
		# Rental of land held under HS(D) 99546 Lot No. 104625 Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring in area approximately 160,000 sq. ft..	2,080
		# Rental of open yard located at Lot 104626 & Lot 129073, Telok Gong, Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring 62,500 sq. ft.	150

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
"MEB"	: Muhibbah Engineering (M) Bhd
"MEB Group"	: MEB, its subsidiaries and associated companies collectively

Introduction

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

This statement describes how the Group has applied the principles set out in Malaysian Code Corporate Governance 2012 ("MCCG 2012") and except where stated otherwise, its compliance with the best practices of the MCCG 2012 for the year ended 31 December 2013.

Board of Directors

Composition and Balance
An experienced Board consisting of members with a wide range business, technical, financial and public service backgrounds to 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 four (4) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and four (4) Executive Directors. As such, more than one third (1/3) of the Board comprises of Independent 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 20 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.

An Independent Non-Executive Chairman leads the Board and the Board has identified Tan Sri Zakaria bin Abdul Hamid as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.

Duties and Responsibilities of the Board
The Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- Oversee the conduct of the businesses and financial performance to determine if the business is being properly managed. Review and adopt financial results of the Company and the Group and adequacy of financial information disclosure;
- Review the conduct and performance of major projects to determine whether they were properly managed;
- Assess and review principal risks;
- Review of related party transactions; and
- Corporate strategy and major investment and financing decision.

The Board has delegated specific responsibilities to Committees to assist the Board in the governance of the Group. The functions and terms of reference of the Committees as well as authority delegated by the Board have been defined by the Board in the Terms of References of the respective Committees. These committees are Audit Committee, Nominating Committee, Remuneration Committee and Option Committee, which administers the Employees' Share Option Scheme. In addition, the Board is also supported by a Risk Management Committee which comprises members of the Board and Senior Management.

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 2013
Tuan Haji Mohamed Taib bin Ibrahim *(Retired on 15 May 2014)*	3/4
Tan Sri Zakaria bin Abdul Hamid*	4/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Ooi Sen Eng	4/4
Abd Hamid bin Ibrahim	4/4
Low Ping Lin *(Retired on 15 May 2014)*	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor *(Resigned on 10 June 2013)*	2/2#
Dato' Seri Dr Raja Ahmad Zainuddin bin Raja Haji Omar *(Resigned on 15 May 2014)*	3/4
Lim Teik Hin *(Retired on 15 May 2014)*	4/4
Sobri bin Abu *(Appointed on 27 June 2013)*	2/2#
Mac Chung Jin *(Appointed on 15 May 2014)*^	4/4
Lee Poh Kwee *(Appointed on 15 May 2014)*	Not applicable
Dato' Mohamad Kamarudin bin Hassan *(Appointed on 15 May 2014)*	Not applicable
Mazlan bin Abdul Hamid *(Appointed on 15 May 2014)*	Not applicable

* *Redesignated as Chairman on 15 May 2014*
^ *Alternate Director to Ooi Sen Eng until 15 May 2014*
\# *Reflects the number of meetings held during the period that the Director held office*

Access to Information and Advice

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 and other relevant documents 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 as well as to the advices and services of the Senior Management of the Company. They are also empowered to seek external independent professional advice in connection with their roles as a Director at the Company's expense, to enable them to make well- informed decisions.

Sustainability

The Board views the commitment to sustainability and environmental, social and governance performance as part of its broader responsibility to clients, shareholders, workplace and the communities in which it operates. Every business decision that the Group makes pertaining to growth and profitability is consistent with its social and environmental needs for sustainability. The corporate responsibility initiatives undertaken by the Company for the financial year ended 31 December 2013 were disclosed in the Chairman's Statement of this Annual Report.

Board Charter and Code of Ethic

As at the date of this Statement, the Board is in the process of reviewing a Board Charter and Code of Ethic. The Board believes that the existing legislation collectively with the various policies, procedures and practices that have been in place for a long time, the Company's Articles of Association, statutory, regulatory requirements, have effectively encapsulated the essence of the suggested contents of a Board Charter and Code of Ethic.

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 yearly financial statements to be disclosed, the scope of works and management letter of the external auditors.

The Audit Committee comprises entirely of Non-Executive Directors. Tan Sri Zakaria bin Abdul Hamid, a Senior 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 32 to 36 of this Annual Report.

(ii) Nominating Committee

The present members of the Nominating Committee are as follows:

Names of Committee Members	Designation
Tan Sri Zakaria bin Abdul Hamid	Chairman *(Appointed on 15 May 2014)* *(Senior Independent Non-Executive Director)*
Sobri bin Abu	Member *(Appointed on 28 August 2013)* *(Independent Non-Executive Director)*
Dato' Mohamad Kamarudin bin Hassan	Member *(Appointed on 15 May 2014)* *(Independent Non-Executive Director)*
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Chairman *(Resigned on 10 June 2013)* *(Senior Independent Non-Executive Director)*
Tuan Haji Mohamed Taib bin Ibrahim	Member *(Retired on 15 May 2014)* *(Independent Non-Executive Director)*
Dato' Seri Dr Raja Ahmad Zainuddin bin Raja Haji Omar	Member *(Resigned on 15 May 2014)* *(Independent Non-Executive Director)*

The Nominating Committee met once during the financial year. In accordance with its terms of reference, the Nominating Committee reviewed the Board structure on the designation, roles and responsibilities of the individual Directors of the Company to ensure that the Board has the required mix of skills, experience and other core competencies. The Nominating Committee performed review on the performance of Independent Directors including the criteria as required under Listing Requirements. All assessments and evaluations carried out by the Nominating Committee are properly documented. The Nominating Committee also reviewed the existing balance, size and composition of the Board of Directors and discussed appointment of new Directors in particular on diversity in gender to the Board. The Nominating Committee identified and recommended to the Board on the Directors who were due for retirement by rotation and/or subject to re-appointment at the forthcoming Annual General Meeting.

(iii) Remuneration Committee

The present members of the Remuneration Committee are as follows:

Names of Committee Members	Designation
Tan Sri Zakaria bin Abdul Hamid	Chairman *(Appointed on 15 May 2014)* *(Senior Independent Non-Executive Director)*
Mac Ngan Boon @ Mac Yin Boon	Member *(Group Managing Director)*
Ooi Sen Eng	Member *(Executive Director)*
Sobri bin Abu	Member *(Appointed 28 August 2013)* *(Independent Non-Executive Director)*
Dato' Mohamad Kamarudin bin Hassan	Member *(Appointed on 15 May 2014)* *(Independent Non-Executive Director)*
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Retired on 15 May 2014)* *(Independent Non-Executive Director)*
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Resigned on 10 June 2013)* *(Senior Independent Non-Executive Director)*
Dato' Seri Dr Raja Ahmad Zainuddin bin Raja Haji Omar	Member *(Resigned on 15 May 2014)* *(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 in accordance with the contribution and level of responsibilities undertaken by the Board 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 based on their experience and level of responsibilities and recommended for the Board's approval. The individual Non-Executive Directors concerned had abstained from discussion of their own remuneration packages.

Board Evaluation

The Nominating Committee was satisfied with the performance and effectiveness of the Board and Board Committees. The Board evaluation criteria was reviewed and enhanced by the Nominating Committee during the financial year.

The Board evaluation comprises a Board Assessment by Individual Directors, Self-Assessment and an Assessment of Independence of Independent Directors. The evaluation involves individual Directors and Committee members completing separate evaluation questionnaires regarding the processes of the Board and its Committees, their effectiveness and where improvements could be considered. The Board also undertook a self-assessment in which they assessed their own performance. The criteria for assessing the independence of an Independent Director include the relationship between the respective Independent Director and the Group and his involvement in any significant transaction with the Group.

Appointments, Re-appointment and Re-election of Directors

In accordance with the Company's Articles of Association, one third (1/3) 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 at the Annual General Meeting.

Directors who are over seventy (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.

The Board is consistently committed to ensuring directors of the Company possess a broad balance of skills, knowledge, experience, independence and diversity, including gender diversity. The Company is supportive towards promoting gender diversity within the Board composition and had on 15 May 2014 promoted Ms Lee Poh Kwee, who is the Group Chief Financial Officer as Group Executive Finance Director through the recommendation of the Nominating Committee.

As part of the succession planning, the Nominating Committee has considered and recommended the promotion of Mr Mac Chung Jin as Executive Director of the Company effective 15 May 2014. He was appointed as an Alternate Director to Mr Ooi Sen Eng since year 2008 and Deputy Chief Executive Officer of the Group in September 2013. He has attended all the Board meetings in year 2013.

Reinforce Independence

The Board acknowledges the importance of Independent Non-Executive Directors in bringing objectivity and impartiality in providing unbiased opinion and judgement to ensure that the interests of the Group, shareholders, customers and other stakeholders are taken into account during its decision making process. The Board consists of four (4) Independent Directors who are neither involved in the business transactions nor participated in the day-to-day management of the Group. The Independent Directors satisfy the definition set out in the Bursa Securities Main Market Listing Requirements and the Company meets the requirement prescribed by the Bursa Securities Main Market Listing Requirements to have at least one-third of its Board members being Independent Non-Executive Directors.

The Company does not have a policy on the number of years an Independent Director should serve. The Board believes that as long as the Independent Director has the commitment, caliber, experience and is able to exercise independent judgement in the best interests of the Group, the Board should continue to propose for the re-appointment of the Director.

Currently, there is one (1) Board Member who has served as an Independent Director for more than nine (9) years. The Nominating Committee had performed the necessary assessment and proposed for his re-appointment as Independent Directors at the forthcoming AGM.

Division of roles and responsibility between Chairman and Managing Director

The Board subscribes to the principle that clear division of responsibilities between the Chairman of the Board and the Managing Director is beneficial to facilitate check and balance mechanism for the effective functioning of the Board. The Chairman of the Board is an Independent Non-Executive Director who is leading the Board in the oversight of Management while the Managing Director focuses on the business and the day-to-day management of the Group. Such separation of roles promotes accountability and ensures that there is a balance of power and authority in the Board's oversight of management.

Directors' Training

The Board is cognizant of the added value that can be brought by the Directors when they are kept up to date with the industry and regulatory development. All the Directors have attended and successfully completed the Mandatory Accreditation Programme (MAP) prescribed by Bursa Securities. During the financial year, seminars and training programmes attended include topics relating to corporate governance, risk management, corporate strategy, leadership management and new legislations.

An induction briefing has been provided by the Board and senior management to newly appointed Independent Non-Executive Directors.

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	396,000	438,500	834,500
Remuneration	3,679,355	71,740	3,751,059
	4,075,355	570,240	4,585,595

The number of Directors in each remuneration band for the financial year 2013 is as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
Below RM50,000	-	2	2
RM50,001 to RM100,000	-	3	3
RM100,001 to RM150,000	-	2	2
RM700,001 to RM750,000	1	-	1
RM1,000,001 to RM1,050,000	2	-	2
RM1,250,001 to RM1,300,000	1	-	1
	4	7	11

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 applicable approved accounting standard 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) Judgments 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 applicable approved accounting 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 Group's Statement on Risk Management & Internal Control which provides an overview of the risk management frameworks and state of internal control within the Group is presented on pages 37 to 38 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.

Timely and High Quality Disclosure

Corporate Disclosure Policy
The Company is committed to ensure that all information such as corporate announcements, circular to shareholders and financial results are disseminated to the general public in a timely and accurate manner.

The Company releases all announcements, material and price sensitive information in a timely manner to Bursa Securities as required under the Main Market Listing Requirements of Bursa Securities as well as to release the Company's updates to the market and community through the Company's website, media releases and other appropriate channels.

The Executive Directors evaluate the release of all major communications to investors or Bursa Securities.

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 has 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. An Investor Relation function is established to facilitate communication between the Company and its existing shareholders and potential investors.

The Investor Relation function communicates with the shareholders and investors through investors meeting 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 meeting.

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.

In accordance with the Articles of Association, voting at general meetings will be conducted by show of hands or by poll if so demanded by the shareholders or Chairman of the meeting. Poll voting will be carried out in resolutions involving related party transactions as required by the listing requirements of Bursa Securities.

Compliance Statement
The Company has applied the Principles as set out in the Malaysian Code on Corporate Governance 2012 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 19 May 2014.

Audit Committee Report

The Board of Directors ("Board") of Muhibbah Engineering (M) Berhad is pleased to present the Audit Committee Report for the financial year ended 2013.

Composition and Attendance

Board members who served on the Audit Committee ("AC") during the financial year and details of their attendance are as follows:

Members	**Designation**	**No of Committee Meetings Attended**
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Independent Non-Executive Director)* *(Retired on 15 May 2014)*	3/4
Tan Sri Zakaria bin Abdul Hamid	Member / Chairman *(Senior Independent Non-Executive Director)* *(Chairman of AC with effect from 15 May 2014)*	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Senior Independent Non-Executive Director)* *(Resigned on 10 June 2013)*	2/2*
Lim Teik Hin	Member *(Non-Independent Non-Executive Director)* *(Member of Malaysian Institute of Accountants)* *(Retired on 15 May 2014)*	4/4
Sobri bin Abu	Member *(Independent Non-Executive Director)* *(Appointed on 28 August 2013)*	2/2*
Dato' Mohamad Kamarudin bin Hassan	Member *(Independent Non-Executive Director)* *(Appointed on 15 May 2014)*	Not applicable

** Reflects the number of meetings held during the period that the Director held office.*

The Audit Committee comprises entirely of Independent Non-Executive Directors. Dato' Mohamad Kamarudin bin Hassan has fulfiled the financial expertise requisite of the Listing Requirements.

Though the Audit Committee reported to the Board on principal matters deliberated during the four (4) Audit Committee meetings, minutes of the meetings had also been circulated to each member of the Board.

The Group's Chief Financial Officer and a representative from Group Internal Audit Department attended all meetings. Other Board members and senior management attended some of the meetings upon invitation by the Chairman of the Audit Committee.

Summary of Activities in 2013

The Audit Committee carried out its duties in accordance with its Terms of Reference. The main activities undertaken are as follows:

(i) Financial Reporting & External Audit
- Reviewed the quarterly financial results as well as the year end financial statements of the Group before submission to the Board of Directors for consideration and approval for announcement.
- Reviewed the external auditors' audit plan, scope of work and results of the annual audit for the Group.
- Convened two (2) meetings with the external auditors without the presence of the Group Management and Executive Directors to discuss relevant issues and obtain feedbacks.

(ii) Internal Audit
- Reviewed and approved the internal audit plan for the Group proposed by Internal Auditors to ensure adequacy of the scope of coverage.
- Reviewed the resources requirement of the internal audit function and approve the additional recruitment required.
- Reviewed and approved the revised Internal Audit Charter.
- Reviewed the audit and follow-up reports presented by the Internal Auditors which included their findings and recommendations. The Audit Committee further deliberated those findings, Management's responses and Internal Auditors' recommendations.

(iii) Reviewed the recurrent related party transactions within the Group to ensure that the amount transacted were within the mandate approved by the shareholders.

(iv) Reviewed the progress status of major projects under construction divisions and material litigations.

(v) Verified 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 an in-house internal audit function namely Group Internal Audit Department ("GIAD"). GIAD is governed by the Internal Audit Charter approved by the Audit Committee. GIAD reports directly to the Audit Committee and has direct access to the members on all the internal control and audit issues. During the financial year, GIAD carried out the following:

- Updated the Internal Audit Charter which was tabled for Audit Committee approval.
- Prepared and presented the audit plan which includes the human resource requirement for Audit Committee's review and approval.
- Performed follow-up reviews to determine if Management had implemented the action plans to address the findings highlighted in the previous internal audit reports.
- Prepared audit reports and sought Management's response on the issues highlighted in the internal audit reports.
- Presented the internal audit and follow-up reports to the Audit Committee for their deliberation.

The total cost incurred for the internal audit function in respect of the financial year amounted to approximately RM150,000.

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 of 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 fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

If a member of the Audit Committee ceases to be a member with the result that the number of members is reduced to 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 four (4) regular meetings per year and such additional meeting as the Chairman shall decide in order to fulfil its duties.

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

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

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

Authority

The Audit Committee is authorised by the Board:

- 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; and
- 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.
   - 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, significant and unusual events and compliance with applicable Financial Reporting 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).
   - a summary of the terms of reference of the Audit Committee, or the key functions, roles and responsibilities 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 Main Market 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 four (4) 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.

Board's Responsibilities

The Board, in discharging its responsibilities, is committed to the maintenance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board affirms its overall responsibility for maintaining a sound system of risk management and internal control so as to safeguard the shareholders' interests and the Group's assets as well as reviewing its adequacy and integrity. The Board has also received opinion from the Deputy Chief Executive Officer and Chief Financial Officer that the Group's risk management and internal control system is operating reasonably adequately and effectively, in main material aspects.

Due to inherent limitations in any risk management and internal control system, such system put into place by Management is designed to manage rather than to eliminate the risks of failure to achievement of the Group's business objectives. Accordingly, the risk management and internal control system can only provide reasonable and not absolute assurance against material error, misstatement or loss.

Risk Management

In line with the good practice to closely monitor the Group's risk exposures, a Risk Management Committee ("RMC") with its principal roles and responsibilities stated in the risk management policy and procedure was established at the Group level. The RMC that consists of Executive Directors and members from Senior Management, monitors the Group's risk exposures by meeting on a half-yearly basis to review the risk profile.

The RMC is supported by Risk Management Units ("RMUs") set up at the respective business entities. The RMU within each business entity meets on a quarterly basis to review the status of the risks profile and the results of their reviews are documented in the report that comprises risk matrix and the meeting minutes.

The RMC and RMUs are playing role in the Group's risk management process established with the aim of providing a continuing and consistent approach in identifying and assessing risks as well as facilitating the review of the adequacy of the related key internal control procedure in mitigating the risk. Such risk management process had been in place as at to date.

Internal Control

- Organisation Structure & Authorisation Procedures
  The Group maintains a formal organisational structure that includes clear delegation of responsibilities and accountability. It sets out the roles and responsibilities, review and approval procedures to enhance the internal control system of the Group's various business units.

- Group Policies and Procedures
  Policies, objectives, quality procedures and environmental procedures for key business processes are formalised and documented in quality and environmental manuals. The Corporate QA/QC Department conducts half yearly Internal Quality Audits and Internal Environmental Audits and checks that operational processes are in accordance with the ISO 9001 : 2008 Quality Management System and ISO 14001 : 2004 Environmental Management System respectively.

- Periodic Project Review
  The Group has established a function that carries out periodic review on operational efficiency, compliance to the standard operating procedures and effectiveness of the cost control of selected projects. The results of the review are discussed with the Project Director or manager in-charge of the projects and reports are then presented to Executive Directors.

- Quality Assurance / Quality Control
  The Corporate QA/QC Department focuses on Quality Assurance of the construction and fabrication works of the Group. A team of Quality Control Inspectors are posted at various project sites and fabrications yards carrying out quality control activities at sites/yards to ensure that the works performance complied with the quality specifications and safety requirements.

- Safety, Health and Environment
  Safety, Health and Environment Department has been embarking on the periodic training and inspection at construction sites and fabrications yards to ensure reasonable level of awareness and compliance to the required law and standard. Reports on the activities were submitted to the Board on a quarterly basis.

- Internal Audit Function
  The Group has an in-house Internal Audit department which provides reasonable assurance on the efficiency and effectiveness of risk management and internal control systems. A description of the activities of the Internal Audit function can be found in the Audit Committee report included in this Annual Report.

- External Audit
  If the external auditors detect any internal control weakness during the course of their audit, they will highlight such weakness in the audit review memorandum to the Audit Committee for their attention.

The Group's system of internal control does not apply to Associate Companies and Jointly Controlled Entities where the Group does not have full management control over these entities. However, the Group's interest is served through representations on the Board of the respective Associate Companies and Jointly Controlled Entities.

Review of This Statement

The external auditors have reviewed this Statement on Risk Management and Internal Control Statement pursuant to Paragraph 15.23 of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad and in accordance with the scope set out in Recommended Practice Guide ("RPG") 5 issued by the Malaysian Institute of Accountant for inclusion in the Annual Report for the financial year ended 31 December 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the risk management and internal control system.

Conclusion

The Board is of the view that the Group's system of internal control is reasonably adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, effect appropriate action plans to further enhance the system of internal control and risk management framework.

This statement was approved by the Board of Directors on 19 May 2014.

Financial Statements

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 2013.

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 involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airport concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 26 to the financial statements. The principal activities of the subsidiaries are 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	86,379	26,026
Non-controlling interests	29,836	-
Profit for the year	116,215	26,026

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 of 25% totalling RM7,774,000 in respect of the financial year ended 31 December 2012.

The first and final tax exempt dividend recommended by the Directors in respect of the financial year ended 31 December 2013 is 9% (4.50 sen) per ordinary share of RM0.50 each totalling RM18,929,000 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Directors of the Company

Directors who served since the date of the last report are:

Tuan Haji Mohamed Taib bin Ibrahim
Mac Ngan Boon @ Mac Yin Boon
Ooi Sen Eng
Low Ping Lin
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor (resigned on 10.06.2013)
Tan Sri Zakaria bin Abdul Hamid
Dato' Seri Dr Raja Ahmad Zainuddin bin Raja Haji Omar
Lim Teik Hin
Abd Hamid bin Ibrahim
Sobri bin Abu (appointed on 27.06.2013)
Mac Chung Jin (alternate to Ooi Sen Eng)

Directors' interests

The direct interests in the shares and employees' share 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 1.1.2013	Allotted/ Bought	Sold	At 31.12.2013
Muhibbah Engineering (M) Bhd:				
Tuan Haji Mohamed Taib bin Ibrahim	7,543,392	-	(6,349,642)	1,193,750
Mac Ngan Boon @ Mac Yin Boon	70,691,416	900,000	-	71,591,416
Ooi Sen Eng	13,045,066	800,000	(420,000)	13,425,066
Low Ping Lin	3,050,500	830,000	(1,280,000)	2,600,500
Mac Chung Jin	5,160,000	-	-	5,160,000
Tan Sri Zakaria bin Abdul Hamid	16,000	-	(16,000)	-
Favelle Favco Berhad (a subsidiary):				
Tuan Haji Mohamed Taib bin Ibrahim	2,845,671	-	(2,400,200)	445,471
Mac Ngan Boon @ Mac Yin Boon	8,192,913	300,000	-	8,492,913
Ooi Sen Eng	1,326,000	-	(170,000)	1,156,000
Low Ping Lin	76,000	-	-	76,000
Mac Chung Jin	697,000	-	(20,000)	677,000
Lim Teik Hin	100,000	-	(100,000)	-
Tan Sri Zakaria bin Abdul Hamid	220,000	-	-	220,000
Abd Hamid bin Ibrahim	95,000	-	-	95,000

The options granted to eligible Directors over unissued ordinary shares of the Company and of its related corporation (other than wholly-owned subsidiaries) pursuant to the Employees' Share Option Scheme are set out below:

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2013	Granted	Exercised	At 31.12.2013
Muhibbah Engineering (M) Bhd:				
Mac Ngan Boon @ Mac Yin Boon	2,780,000	-	(900,000)	1,880,000
Ooi Sen Eng	2,500,000	-	(800,000)	1,700,000
Low Ping Lin	2,500,000	-	(830,000)	1,670,000
Mac Chung Jin (alternate to Ooi Sen Eng)	2,000,000	-	-	2,000,000
Favelle Favco Berhad (a subsidiary):				
Mac Ngan Boon @ Mac Yin Boon	950,000	-	(300,000)	650,000

By virtue of his interests in shares of the Company, Mac Ngan Boon @ Mac Yin Boon's shareholdings of more than 15% is also deemed to have interest in the shares of all the 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 2013 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 corporations) 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 except for any benefits which may be deemed to arise from transaction entered into in the ordinary course of business with companies in which certain directors have substantial financial interest as disclosed in Note 30 to the financial statements.

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 14 to the financial statements.

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

Treasury shares

The treasury shares are disclosed in Note 15 to the financial statements.

Options granted over unissued shares

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

The Company operates an Employees' Share Option Scheme ("ESOS Scheme") that was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 28 June 2011. The main features of the ESOS, details of share options offered and exercised during the financial year are disclosed in Note 24.

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 option holders, other than Directors, who have been granted options representing 700,000 ordinary shares of RM0.50 each and below under the ESOS Scheme. The option holders who have been granted options representing more than 700,000 ordinary shares of RM0.50 each are as follows:-

	Number of options over ordinary shares of RM0.50 each			
	Balance at 1.1.2013	**Granted**	**Exercised**	**Balance at 31.12.2013**
Chong Lai Keong	1,500,000	-	(1,000,000)	500,000
Lee Poh Kwee	2,000,000	-	-	2,000,000
Tan Bin Tat	1,500,000	-	(750,000)	750,000
Tan Chin Guan	1,500,000	-	(500,000)	1,000,000
Ooi Kien Chuan	1,000,000	-	(666,000)	334,000
Mac Chung Hui	700,000	-	(233,000)	467,000

Other statutory information

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

i) all known bad debts had been written off and adequate allowance had been made for impairment losses on receivables, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so 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 allowance for impairment losses on receivables 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 financial statements of the Group and of the Company misleading, or

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 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: 18 April 2014

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Assets					
Property, plant and equipment	3	710,676	718,477	144,406	156,459
Investment properties	4	276	497	1,232	1,485
Investments in subsidiaries	5	-	-	258,364	243,282
Investments in associates	6	190,301	171,331	8,424	8,424
Receivables, deposits and prepayments	7	4,933	-	10,000	10,000
Deferred tax assets	8	5,481	2,391	-	-
Other non-current assets	9	18,922	15,472	9	9
Total non-current assets		930,589	908,168	422,435	419,659
Receivables, deposits and prepayments	7	664,230	917,718	549,591	775,297
Amount due from contract customers	10	412,335	456,683	237,082	240,252
Inventories	11	206,565	208,595	-	-
Current tax assets		9,417	4,837	1,132	-
Derivative assets	12	726	1,186	-	-
Cash and cash equivalents	13	426,307	336,743	72,012	46,444
Total current assets		1,719,580	1,925,762	859,817	1,061,993
Total assets		2,650,169	2,833,930	1,282,252	1,481,652

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Equity					
Share capital	14	211,214	204,124	211,214	204,124
Reserves	15	351,442	249,931	82,704	54,297
Total equity attributable to owners of the Company		562,656	454,055	293,918	258,421
Non-controlling interests		194,456	166,353	-	-
Total equity		757,112	620,408	293,918	258,421
Liabilities					
Loans and borrowings	16	137,296	154,404	90,241	95,742
Payables and accruals	17	14,232	14,017	-	-
Deferred tax liabilities	8	47,489	46,006	8,401	8,516
Total non-current liabilities		199,017	214,427	98,642	104,258
Payables and accruals	17	539,707	607,746	202,272	240,308
Amount due to contract customers	10	408,161	416,920	43,382	82,682
Bills payable	18	616,600	686,843	557,822	553,962
Derivative liabilities	12	2,909	73	706	73
Loans and borrowings	16	120,913	272,360	85,510	230,989
Current tax liabilities		5,750	15,153	-	10,959
Total current liabilities		1,694,040	1,999,095	889,692	1,118,973
Total liabilities		1,893,057	2,213,522	988,334	1,223,231
Total equity and liabilities		2,650,169	2,833,930	1,282,252	1,481,652

The notes on pages 54 to 123 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Revenue	19	1,936,401	2,625,525	578,129	1,265,177
Cost of sales		(1,723,119)	(2,354,013)	(517,194)	(1,076,858)
Gross profit		213,282	271,512	60,935	188,319
Other income		2,993	3,410	2,383	67,105
Distribution costs		(16,771)	(15,957)	(2,687)	(2,161)
Administrative expenses		(94,565)	(83,747)	(18,341)	(18,115)
Other expenses		-	(245,037)	(9,698)	(243,865)
Results from operating activities		104,939	(69,819)	32,592	(8,717)
Interest income		7,196	11,746	4,681	3,615
Finance costs		(26,137)	(21,126)	(18,063)	(21,394)
Operating profit/(loss)	20	85,998	(79,199)	19,210	(26,496)
Share of profit after tax and minority interest of equity accounted associates		46,572	44,222	-	-
Profit/(Loss) before tax		132,570	(34,977)	19,210	(26,496)
Income tax (expense)/benefits	22	(16,355)	(26,106)	6,816	(12,912)
Profit/(Loss) for the year		116,215	(61,083)	26,026	(39,408)
Profit/(Loss) attributable to:					
Owners of the Company		86,379	(93,241)	26,026	(39,408)
Non-controlling interests		29,836	32,158	-	-
Profit /(Loss) for the year		116,215	(61,083)	26,026	(39,408)
Earnings per ordinary share (sen)					
- Basic	23	20.98	(22.94)		
- Diluted	23	19.74	(22.58)		

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit/(Loss) for the year		**116,215**	**(61,083)**	**26,026**	**(39,408)**
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Movement in revaluation of property, plant and equipment, net of tax		-	56,239	-	-
Crystallisation of deferred tax on disposal of revalued property, plant and equipment		115	-	115	-
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		14,816	(5,114)	-	-
Other comprehensive income for the year, net of tax		14,931	51,125	115	-
Total comprehensive income/ (expenses) for the year		131,146	(9,958)	26,141	(39,408)
Total comprehensive income/ (expenses) attributable to:					
Owners of the Company		100,103	(47,132)	26,141	(39,408)
Non-controlling interests		31,043	37,174	-	-
Total comprehensive income/ (expenses) for the year		131,146	(9,958)	26,141	(39,408)

The notes on pages 54 to 123 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

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 options reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		/----Attributable to owners of the Company----									/		
		/----Non-distributable----							/	Distributable			
At 1 January 2012		204,107	(5,561)	6,130	2,280	116,718	2,237	3,027	3,340	183,115	515,393	124,583	639,976
Rectification of brought forward share option forfeited		-	-	-	-	-	-	(604)	-	604	-	-	-
At 1 January 2012, restated		204,107	(5,561)	6,130	2,280	116,718	2,237	2,423	3,340	183,719	515,393	124,583	639,976
Other comprehensive income:													
- Foreign currency translation differences for foreign operations		-	-	-	-	-	-	-	(4,804)	-	(4,804)	(310)	(5,114)
- Movement in revaluation of property, plant and equipment, net of tax		-	-	-	-	50,913	-	-	-	-	50,913	5,326	56,239
Loss for the year		-	-	-	-	-	-	-	-	(93,241)	(93,241)	32,158	(61,083)
Total comprehensive expenses		-	-	-	-	50,913	-	-	(4,804)	(93,241)	(47,132)	37,174	(9,958)
Share-based payment	24	-	-	-	-	-	-	8,421	-	-	8,421	735	9,156
Share option exercised	14	17	-	13	-	-	-	-	-	-	30	924	954
Transfer to share premium for share option exercised		-	-	312	-	-	-	(312)	-	-	-	-	-
Capitalisation of retained earnings pursuant to bonus issue by subsidiary		-	-	-	-	-	3,000	-	-	(3,000)	-	-	-
Issue of shares to non-controlling interest		-	-	-	-	-	-	-	-	-	-	1,746	1,746
Dilution of interest in subsidiary		-	-	-	-	-	-	-	-	(7,416)	(7,416)	7,416	-
Dividend to owners of the Company	25	-	-	-	-	-	-	-	-	(15,241)	(15,241)	-	(15,241)
Dividend to non-controlling interest		-	-	-	-	-	-	-	-	-	-	(6,225)	(6,225)
Total transactions with owners		17	-	325	-	-	3,000	8,109	-	(25,657)	(14,206)	4,596	(9,610)
At 31 December 2012		204,124	(5,561)	6,455	2,280	167,631	5,237	10,532	(1,464)	64,821	454,055	166,353	620,408
			/----Note 15----							/			

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 options reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		/------Attributable to owners of the Company------/											
		/------Non-distributable------/							Distributable				
At 1 January 2013		204,124	(5,561)	6,455	2,280	167,631	5,237	10,532	(1,464)	64,821	454,055	166,353	620,408
Other comprehensive income:													
- Foreign currency translation differences for foreign operations		-	-	-	-	-	-	-	13,609	-	13,609	1,207	14,816
- Disposal of revalued property, plant and equipment		-	-	-	-	(346)	-	-	-	346	-	-	-
- Crystallisation of deferred tax on disposal of revalued property, plant and equipment		-	-	-	-	-	-	-	-	115	115	-	115
Profit for the year		-	-	-	-	-	-	-	-	86,379	86,379	29,836	116,215
Total comprehensive income		-	-	-	-	(346)	-	-	13,609	86,840	100,103	31,043	131,146
Share-based payment	24	-	-	-	-	-	-	5,255	-	-	5,255	386	5,641
Share option exercised	14	7,090	-	5,388	-	-	-	-	-	-	12,478	2,629	15,107
Transfer to share premium for share option exercised		-	-	6,421	-	-	-	(6,421)	-	-	-	-	-
Issue of shares to non-controlling interest		-	-	-	-	-	-	-	-	-	-	493	493
Dilution of interest in subsidiary		-	-	-	-	-	-	-	-	(1,461)	(1,461)	1,461	-
Dividend to owners of the Company	25	-	-	-	-	-	-	-	-	(7,774)	(7,774)	-	(7,774)
Dividend to non-controlling interest		-	-	-	-	-	-	-	-	-	-	(7,909)	(7,909)
Total transactions with owners		7,090	-	11,809	-	-	-	(1,166)	-	(9,235)	8,498	(2,940)	5,558
At 31 December 2013		211,214	(5,561)	18,264	2,280	167,285	5,237	9,366	12,145	142,426	562,656	194,456	757,112
			/------Note 15------/										

The notes on pages 54 to 123 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2013

		/------Non-distributable					------/ Distributable	
Company	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Warrant reserve RM'000	Revaluation reserve RM'000	Share options reserve RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2012		204,107	(5,561)	5,231	2,280	26,310	2,115	71,331	305,813
Loss for the year/Total comprehensive expenses		-	-	-	-	-	-	(39,408)	(39,408)
Share-based payment	24	-	-	-	-	-	7,227	-	7,227
Share option exercised	14	17	-	13	-	-	-	-	30
Transfer to share premium for share option exercised		-	-	13	-	-	(13)	-	-
Dividend to owners of the Company	25	-	-	-	-	-	-	(15,241)	(15,241)
Total transactions with owners		17	-	26	-	-	7,214	(15,241)	(7,984)
At 31 December 2012/ At 1 January 2013		204,124	(5,561)	5,257	2,280	26,310	9,329	16,682	258,421
Other comprehensive income:									
- Disposal of revalued property, plant and equipment		-	-	-	-	(346)	-	346	-
- Crystallisation of deferred tax on disposal of revalued property, plant and equipment		-	-	-	-	-	-	115	115
Profit for the year		-	-	-	-	-	-	26,026	26,026
Total comprehensive income		-	-	-	-	(346)	-	26,487	26,141
Share-based payment	24	-	-	-	-	-	4,652	-	4,652
Share option exercised	14	7,090	-	5,388	-	-	-	-	12,478
Transfer to share premium for share option exercised		-	-	5,615	-	-	(5,615)	-	-
Dividend to owners of the Company	25	-	-	-	-	-	-	(7,774)	(7,774)
Total transactions with owners		7,090	-	11,003	-	-	(963)	(7,774)	9,356
At 31 December 2013		211,214	(5,561)	16,260	2,280	25,964	8,366	35,395	293,918
			/------	------Note 15	------	------	------	------/	

The notes on pages 54 to 123 are an integral part of these financial statements.

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash flows from operating activities				
Profit/(Loss) before tax	132,570	(34,977)	19,210	(26,496)
Adjustments for:				
Amortisation of development costs	1,614	2,220	-	-
Amortisation of intellectual property	218	217	-	-
Bad debts written off	-	5,203	28	-
Depreciation of investment properties	12	19	44	51
Depreciation of property, plant and equipment	52,556	45,482	15,477	16,085
Dividend income	-	-	(66,898)	(197,587)
Finance costs	46,826	43,221	29,622	32,239
Loss/(Gain) on disposal of property, plant and equipment	121	(2,128)	(1,785)	(64,477)
Gain on disposal of investment properties	(701)	-	(701)	-
Interest income	(7,196)	(11,746)	(4,681)	(5,352)
Net fair value adjustment on derivative instruments	3,296	5,325	633	3,522
Net impairment loss on development costs	1,262	(138)	-	-
Net impairment loss on investments in subsidiaries	-	-	19,453	971
Net impairment loss on receivables	(10,346)	238,459	(10,327)	242,894
Net impairment loss on other investments	(29)	(2)	-	-
Net impairment loss on property, plant and equipment	3,885	-	-	-
Net provision for warranties	2,835	31,786	-	-
Property, plant and equipment written off	3,571	93	1,611	-
Share based payments	5,641	9,156	4,652	7,227
Share of profit of associates	(46,572)	(44,222)	-	-
Write-off of investment in a subsidiary	-	-	66	-
Write-down of inventories	3,842	1,533	-	-
Operating profit before changes in working capital	193,405	289,501	6,404	9,077

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Operating profit before changes in working capital (continued)	193,405	289,501	6,404	9,077
Receivables, deposits and prepayments	253,712	(288,459)	236,824	(172,540)
Inventories	(12,744)	(7,163)	-	-
Payables and accruals	(70,788)	(62,653)	(38,036)	(129,203)
Amount due to/(from) contract customers	35,589	250,261	(36,130)	137,930
Cash generated from/(used in) operations	399,174	181,487	169,062	(154,736)
Taxes paid	(31,622)	(24,437)	(11,341)	(1,455)
Taxes refund	306	69	-	-
Net cash generated from/(used in) operating activities	367,858	157,119	157,721	(156,191)
Cash flows from investing activities				
Additions to development expenditure	(6,083)	(1,261)	-	-
Dividend received from:				
- subsidiaries	-	-	43,655	188,054
- associates	39,620	19,625	21,300	9,533
Increase in equity interest in subsidiaries	-	-	(34,600)	-
Investment in associates	(4,165)	(8,389)	-	-
Interest received	5,769	5,846	4,681	3,615
Proceeds from disposal of property, plant and equipment	7,812	9,953	5,017	6,958
Purchase of property, plant and equipment	(38,113)	(72,320)	(7,417)	(10,940)
Purchase of other non-current assets	(220)	(1,800)	-	-
Net cash generated from/(used in) investing activities	4,620	(48,346)	32,636	197,220
Cash flows from financing activities				
Dividend paid to owners of the Company	(7,774)	(15,241)	(7,774)	(15,241)
Dividend paid to non-controlling interest	(7,909)	(6,225)	-	-
Interest paid	(39,545)	(44,380)	(22,373)	(23,867)
Proceeds from exercise of share option	12,478	30	12,478	30
Proceeds from issuance of shares to non-controlling interests of a subsidiary	3,122	2,670	-	-
Net repayment of loans and borrowings	(227,000)	(43,936)	(136,641)	(41,975)
Net cash used in financing activities	(266,628)	(107,082)	(154,310)	(81,053)

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Exchange differences on translation of the financial statements of foreign operations		(4,488)	2,760	-	-
Net increase/(decrease) in cash and cash equivalents		101,362	4,451	36,047	(40,024)
Cash and cash equivalents at beginning of year		320,285	315,834	33,955	73,979
Cash and cash equivalents at end of year	(i)	421,647	320,285	70,002	33,955

(i) Cash and cash equivalents

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

	Note	Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash and bank balances	13	217,334	233,911	5,306	37,376
Deposits placed with licensed banks	13	208,973	102,832	66,706	9,068
Bank overdrafts	16	(4,660)	(16,458)	(2,010)	(12,489)
		421,647	320,285	70,002	33,955

The notes on pages 54 to 123 are an integral part of these 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 2013 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled operations. The financial statements of the Company as at and for the year ended 31 December 2013 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 involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airport concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 26 to the financial statements. The principal activities of its subsidiaries are as stated in Note 5.

The financial statements were authorised for issue by the Board of Directors on 18 April 2014.

1. Basis of preparation

(a) Statement of compliance

These financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

During the current financial year, the Group and the Company have adopted the following new accounting standards and interpretations (including the consequential amendments, if any):-

MFRSs and IC Interpretations (Including The Consequential Amendments)
MFRS 10 *Consolidated Financial Statements*
MFRS 11 *Joint Arrangements*
MFRS 12 *Disclosure of Interests in Other Entities*
MFRS 13 *Fair Value Measurement*
MFRS 119 (2011) *Employee Benefits*
MFRS 127 (2011) *Separate Financial Statements*
MFRS 128 (2011) *Investments in Associates and Joint Ventures*
Amendments to MFRS 7: *Disclosures – Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 10, MFRS 11 and MFRS 12: *Transition Guidance*
Amendments to MFRS 101: *Presentation of Items of Other Comprehensive Income*
IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements to MFRSs 2009 – 2011 Cycle

The adoption of the above accounting standards and interpretations (including the consequential amendments) did not have any material impact on the Group and the Company financial statements.

The Group and the Company have not applied in advance the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial year.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments	***Effective date***
• MFRS 9 *Financial Instruments (2009 & 2010)*	1 January 2015
• Amendments to MFRS 9 and MFRS 7: *Mandatory Effective Date of MFRS 9 and Transition Disclosures*	1 January 2015
• Amendment to MFRS 10, *Consolidated Financial Statements: Investment Entities*	1 January 2014
• Amendment to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*	1 January 2014
• Amendment to MFRS 127, *Separate Financial Statements (2011): Investment Entities*	1 January 2014
• Amendment to MFRS 132, *Financial Statements: Presentation – Offsetting Financial Assets and Financial Liabilities*	1 January 2014
• Amendment to MFRS 136, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*	1 January 2014
• Amendment to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
• IC Interpretation 21 *Levies*	1 January 2014

The initial application of the abovementioned standards, amendments or interpretations are not expected to have any material impacts to the financial statements of the Group and the Company upon their first adoption.

(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 in conformity with MFRSs 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 of uncertainty and critical judgements in applying accounting policies that have significant effects on the amounts recognised in the financial statements other than:

- recognition of revenue and profit from construction contracts
- valuation of investment properties
- impairment test of goodwill
- share-based payments
- depreciation
- income tax

2. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In previous financial years, 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.
- Potential voting rights are considered when assessing control only when such rights are substantive. In previous years, potential voting rights are considered when assessing control when such rights are present exercisable.
- The Group considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In previous financial years, the Group did not consider *de facto* power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expenses as incurred.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of the influence retained.

(v) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the 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 associate, the carrying amount of that interest including any long-term investments is reduced to zero, 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 associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit and loss.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associates (continued)

When the Group's interest in an associate decrease but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(vi) Jointly arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

The Group adopted MFRS 11, *Joint Arrangements* in the current financial year. As a result, joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

In previous financial years, joint arrangements were classified and accounted for as follows:

- For jointly controlled entity, the Group accounted for its interest using the equity method.
- For jointly controlled asset or jointly controlled operation, the Group and the Company accounted for each its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 11. The adoption of MFRS 11 has no significant impact to the financial statements of the Group.

(vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to equity holders of the Company, 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. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(viii) 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 associates are eliminated against the investment to the extent of the Group's interest in the associates. 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 end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

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.

Foreign currency differences arising from 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 arising on acquisition, 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 2011 which are treated as assets and liabilities of the Company. 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 (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the accumulative amount in the FCTR related to that foreign operation is reclassified to profit and loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit and loss.

2. Significant accounting policies (continued)

(b) Foreign currency (continued)

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

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or financial liability is recognised in the statements of financial position 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.

(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 or 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 financial guarantee contract or 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.

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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

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 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.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss

(d) Property, plant and equipment

(i) Recognition and measurement

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

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 values of the freehold land and leasehold land are expected to differ materially from their carrying values.

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.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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.

Dry-docking costs are recognised in the carrying amount of ships, rigs, etc. when incurred and depreciated over the period until the next dry-docking.

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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is 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 a component 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 component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. 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 component 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.

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

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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 reviewed at end of the reporting period.

(e) Leased assets

Finance lease

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

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

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(f) Investment properties

Investment properties carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purpose.

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).

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.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2. Significant accounting policies (continued)

(g) Intangible assets

(i) Goodwill

Goodwill arises from business combinations is measured at cost less any accumulated impairment losses. In respect of equity accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted associates.

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 and use or sell the assets.

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.

(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) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is measured based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in 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.

2. Significant accounting policies (continued)

(i) Amount due from/(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 for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of the deferred income in the statement of financial position.

(j) 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 fair value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(k) Impairment

(i) Financial assets

All 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 investment in 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 classified as available for sale 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.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories, amount due from contract customers, deferred tax asset, assets arising from employee benefits, investment property 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, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

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 cash-generating unit. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an assets or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (group of cash generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at 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 since the last impairment loss was recognised. 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 financial year in which the reversals are recognised.

(l) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not re-measured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

2. Significant accounting policies (continued)

(l) Equity instruments (continued)

(iii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distribution within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(iv) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

When treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(m) 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 are based on the 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 the 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 16 to the financial statements.

(n) 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)

(o) Employee benefits

(i) Short term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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 share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the adwards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(p) Provisions

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

(i) Warranties

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

(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 not recognised in the statements of financial position and 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.

2. Significant accounting policies (continued)

(q) Revenue

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

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.

(r) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss 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)

(s) 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.

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.

(t) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax 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 or receivable on the taxable income or loss 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 financial 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 or 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

Unutilised reinvestment allowance and investment tax allowance, being tax incentive that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against the unutilised tax incentive can be utilised.

2. Significant accounting policies (continued)

(u) Earnings per share

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

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 adjusted for own shares held .

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

(v) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating result are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(w) Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market’s participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. However, this basis does not apply to share-based payment transactions.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

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 2012	226,001	175,921	45,368	133,804	566,309	3,334	1,150,737
Change in fair value	58,906	-	-	-	-	-	58,906
Additions	2,297	3,068	-	16,717	44,690	5,548	72,320
Disposals	(1,544)	-	-	(12,610)	(132,944)	-	(147,098)
Written off	-	-	-	-	(355)	(12)	(367)
Reclassification	-	99	-	-	5,721	(5,641)	179
Exchange differences	(1,484)	(514)	-	(811)	(4,630)	(5)	(7,444)
At 31 December 2012/ 1 January 2013	284,176	178,574	45,368	137,100	478,791	3,224	1,127,233
Addition	-	2,336	-	2,172	23,008	10,597	38,113
Disposals	(551)	-	-	(4,725)	(9,945)	-	(15,221)
Written off	-	-	-	(114)	(8,563)	-	(8,677)
Reclassification	-	434	-	14,884	2,599	-	17,917
Exchange differences	3,464	2,231	-	4,061	9,944	128	19,828
At 31 December 2013	287,089	183,575	45,368	153,378	495,834	13,949	1,179,193
Representing items at:							
Cost	2,464	183,575	45,368	153,378	495,834	13,949	894,568
Valuation	284,625	-	-	-	-	-	284,625
	287,089	183,575	45,368	153,378	495,834	13,949	1,179,193
Accumulated depreciation and impairment losses							
At 1 January 2012	4,822	50,537	13,074	43,545	274,378	-	386,356
Depreciation for the year	1,685	2,606	1,019	5,601	34,571	-	45,482
Disposals	-	-	-	(8,430)	(11,727)	-	(20,157)
Written off	-	-	-	-	(274)	-	(274)
Reclassification	-	15	-	-	26	-	41
Exchange differences	-	(345)	-	(546)	(1,801)	-	(2,692)
Accumulated depreciation	6,507	37,133	14,093	39,634	293,733	-	391,100
Accumulated impairment loss	-	15,680	-	536	1,440	-	17,656
At 31 December 2012/ 1 January 2013	6,507	52,813	14,093	40,170	295,173	-	408,756
Depreciation for the year	1,933	4,090	1,017	6,906	38,610	-	52,556
Impairment loss	-	-	-	-	3,885	-	3,885
Disposals	(17)	-	-	(2,765)	(5,356)	-	(8,138)
Written off	-	-	-	(114)	(4,992)	-	(5,106)
Reclassification	-	401	-	3,818	2,766	-	6,985
Exchange differences	-	1,792	-	2,903	4,884	-	9,579
Accumulated depreciation	8,423	43,416	15,110	50,382	329,645	-	446,976
Accumulated impairment loss	-	15,680	-	536	5,325	-	21,541
At 31 December 2013	8,423	59,096	15,110	50,918	334,970	-	468,517
Carrying amounts							
At 1 January 2012	221,179	125,384	32,294	90,259	291,931	3,334	764,381
At 31 December 2012/ 1 January 2013	277,669	125,761	31,275	96,930	183,618	3,224	718,477
At 31 December 2013	278,666	124,479	30,258	102,460	160,864	13,949	710,676

3. Property, plant and equipment (continued)

Company	Land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/Valuation						
At 1 January 2012	43,554	2,402	33,385	246,513	2,723	328,577
Additions	-	-	-	7,362	3,578	10,940
Disposals	-	-	(10,274)	(78,996)	-	(89,270)
Reclassification	-	-	-	5,591	(5,591)	-
At 31 December 2012/ 1 January 2013	43,554	2,402	23,111	180,470	710	250,247
Addition	-	-	-	4,675	2,742	7,417
Disposals	(551)	-	(200)	(3,993)	-	(4,744)
Written off	-	-	(114)	(5,375)	-	(5,489)
At 31 December 2013	43,003	2,402	22,797	175,777	3,452	247,431
Accumulated depreciation						
At 1 January 2012	1,294	205	12,107	74,996	-	88,602
Depreciation for the year	438	48	1,397	14,202	-	16,085
Disposals	-	-	(4,840)	(6,059)	-	(10,899)
At 31 December 2012/ 1 January 2013	1,732	253	8,664	83,139	-	93,788
Depreciation for the year	516	47	1,414	13,500	-	15,477
Disposals	(17)	-	(30)	(2,315)	-	(2,362)
Written off	-	-	(114)	(3,764)		(3,878)
At 31 December 2013	2,231	300	9,934	90,560	-	103,025
Carrying amounts						
At 1 January 2012	42,260	2,197	21,278	171,517	2,723	239,975
At 31 December 2012/ 1 January 2013	41,822	2,149	14,447	97,331	710	156,459
At 31 December 2013	40,772	2,102	12,863	85,217	3,452	144,406

3. Property, plant and equipment (continued)

Depreciation charge for the year is allocated as follows:

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Operating expenses	20	33,907	26,307	1,263	1,037
Contract costs	10	18,649	19,175	14,214	15,048
		52,556	45,482	15,477	16,085

Security

The freehold land, buildings and certain long term leasehold land of the Group with a total carrying amount of RM177,737,000 (2012 - RM283,470,000) have been pledged to certain licensed banks as security for term loan facilities granted to the Group (Note 16).

Assets under hire purchase

Included in property, plant and equipment of the Group are motor vehicles acquired under hire purchase arrangements with a carrying amount of RM27,000 (2012 - RM106,000).

Property, plant and equipment under the revaluation model

The Group and Company's freehold land and leasehold land were revalued upwards by independent professional qualified valuers in year 2012 and year 2010 respectively by using an open market value method.

Had the freehold land and leasehold land been carried under the cost model, the net book value of the Group's freehold land would have been RM34,791,000 (2012 - RM32,225,000) and Group and Company's leasehold land would have been RM25,920,000 (2012 - RM28,386,000) and RM8,386,000 (2012 - RM8,398,000) respectively.

Land

Included in the carrying amounts of land are:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Freehold land	134,378	130,965	50	50
Long term leasehold land	144,288	146,704	40,722	41,772
	278,666	277,669	40,772	41,822

4. Investment properties

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cost				
At 1 January	1,058	1,058	2,687	26,769
Disposal	(429)	-	(427)	(24,082)
At 31 December	629	1,058	2,260	2,687
Accumulated depreciation and impairment loss				
At 1 January	561	542	1,202	6,759
Depreciation for the year	12	19	44	51
Disposal	(220)	-	(218)	(5,608)
At 31 December	353	561	1,028	1,202
Carrying amounts				
At 31 December	276	497	1,232	1,485
Included in the above are:				
Freehold land	94	158	94	159
Buildings	182	339	1,138	1,326
	276	497	1,232	1,485

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.

Market value

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Market value of investment properties - aggregated basis	1,280	1,668	6,115	9,496

The market value of the investment properties of the Group and of the Company were 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	
		2013 RM'000	2012 RM'000
Ordinary shares			
Quoted shares - in Malaysia		98,663	98,663
Unquoted shares - at cost		243,030	208,495
Cumulative redeemable convertible preference shares, at cost	(a)	1,800	1,800
		343,493	308,958
Less: Impairment losses		(85,129)	(65,676)
		258,364	243,282
Market value			
Quoted shares in Malaysia		413,409	216,548

(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

5. Investments in subsidiaries (continued)

The principal activities of the subsidiaries, their places of incorporation and the interest of Muhibbah Engineering (M) Bhd. are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2013 %	2012 %
Cranes segment				
Favelle Favco Berhad	Investment holding	Malaysia	60.99	61.91
Favelle Favco Cranes (M) Sdn. Bhd.	Manufacturing of cranes	Malaysia	60.99	61.91
Favelle Favco Cranes Pte. Ltd.*	Trading of cranes, spare parts and services	Singapore	60.99	61.91
Favelle Favco Cranes (USA), Inc.*	Manufacturing of cranes	United States of America	60.99	61.91
Favelle Favco Cranes Pty Limited* and its subsidiaries:	Manufacturing of cranes	Australia	60.99	61.91
FF Management Pty. Limited*	Management services	Australia	60.99	61.91
Milperra Blasting and Coating Pty. Limited*	Dormant	Australia	60.99	61.91
Kroll Cranes A/S*	Manufacturing of cranes	Denmark	60.99	61.91
Favelle Favco Cranes International Ltd.	Dormant	Labuan	60.99	61.91
FES Equipment Services Sdn. Bhd.	Hiring and repair of cranes	Malaysia	60.99	61.91
Favelle Favco Winches Pte. Ltd.*	Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment	Singapore	60.99	61.91
Favelle Favco Management Services Sdn Bhd*	Dormant	Malaysia	60.99	61.91
Shanghai Favco Engineering Machinery Manufacturing Co. Ltd.*	Manufacturing of cranes	China	36.59	37.15

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2013 %	Effective ownership interest 2012 %
Marine ship building and ship repair segment				
Muhibbah Marine Engineering Sdn. Bhd. and its subsidiary:	Ship building, renting of ship, providing ship repair services, trading of marine supplies and provision of other engineering works	Malaysia	100	100
Energy Ocean Ltd.	Trading of motor vessels, spare parts and other services	Labuan	100	100
Infrastructure construction segment				
Juara Lagi Sdn. Bhd.#	Vessel chartering services	Malaysia	100	100
Elelink Sdn. Bhd.* and its subsidiary:	Investment holding	Malaysia	100	100
ITS Konsortium Sdn. Bhd.	Commissioning of intelligent transport system solution	Malaysia	60	60
Muhibbah Petrochemical Engineering Sdn. Bhd.# and its subsidiary:	Oil, gas, petrochemical engineering and related works	Malaysia	90	90
Eaststar Ltd.	Leasing of plant and machinery	Labuan	90	90
Muhibbah Engineering (Singapore) Pte. Ltd*	Civil and structural engineering contract works	Singapore	100	100
MEB Construction Sdn. Bhd.#	Civil and structural engineering contract works	Malaysia	100	100
Muhibbah Steel Industries Sdn. Bhd.*	Structural steel fabrication and related works	Malaysia	100	100
Muhibbah Airline Support Industries Sdn. Bhd.	Manufacturing and services for airline support equipment	Malaysia	100	100
Muhibbah Marine Engineering (Deutschland) GmbH*	Constructing and leasing of marine plants	Germany	95	95

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2013 %	2012 %
Infrastructure construction segment (continued)				
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	Malaysia	100	100
Muhibbah Reefers Sdn. Bhd.*	Manufacturing of containers and refrigerator containers	Malaysia	100	100
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.	Offshore leasing business	Labuan	95	95
Muhibbah Engineering (Cambodia) Co. Ltd#	Construction, quarry and trading business	Cambodia	60	60
Muhibbah-LTAT JV Sdn. Bhd.	Civil, marine and structural engineering contract works	Malaysia	51	51
Citech Energy Recovery System Malaysia Sdn. Bhd.* and its subsidiary:	Manufacture of waste heat recovery units for the oil and gas industry.	Malaysia	100	100
Citech Energy Recovery Solutions UK (Ltd)*	Trading of waste heat recovery units, spare parts and other services	United Kingdom	100	-
CB International Engineering Sdn. Bhd.	Rental of investment properties and related services and provision of vessel chartering services	Malaysia	100	100
Muhibbah Construction Pty. Limited.*	Marine and port construction work	Australia	100	100

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2013 %	2012 %
Infrastructure construction segment (continued)				
Karisma Duta Sdn. Bhd.*	Dormant	Malaysia	100	100
Muhibbah Oil & Gas Sdn. Bhd.* (formerly known as Besimega Sdn. Bhd.)	Dormant	Malaysia	100	100
Konsortium Muhibbah Eng-LTAT Sdn. Bhd.	Dormant	Malaysia	100	100
Sun Vibrant Sdn. Bhd.*	Dormant	Malaysia	51	51
MEB Equipment Sdn. Bhd.*#	Dormant	Malaysia	100	100
Advance Vision Ltd.#	Dormant	Labuan	100	100
Cambodia Land Ltd.#	Dormant	Labuan	100	100
Delta Field Ltd.#	Dormant	Labuan	100	100
Muhibbah Yangon Limited*	Dormant	Union of Myanmar	-	100
Muhibbah Engineering (Philippines) Corporation*#	Civil and structural engineering contract works	Philippines	99.99	99.99
Concession segment				
Muhibbah Airport Services (Labuan) Ltd.#	Investment holding	Labuan	70	70

* Subsidiaries not audited by Messrs. 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 61.91% to 60.99%, pursuant to the exercise of employees share options by eligible employees of FFB during the year.

5. Investments in subsidiaries (continued)

Non-controlling interest in subsidiaries

The following table lists out the information relating to Favelle Favco Bhd, the subsidiaries of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amount before any inter-company elimination.

	Group	
	2013 RM'000	2012 RM'000
NCI percentage	39.01%	38.09%
Carrying amount of NCI	163,158	139,339
Profit allocated to NCI	23,833	23,610
Dividends paid to NCI	6,338	4,776
Total assets	955,008	902,504
Total liabilities	553,642	556,316
Revenue	764,185	696,747
Profit for the year	64,995	61,155

6. Investments in associates

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Unquoted shares				
- At cost	86,690	82,676	8,501	8,501
- Share of post-acquisition reserves	103,688	88,883	-	-
	190,378	171,559	8,501	8,501
Less: Impairment loss	(77)	(228)	(77)	(77)
	190,301	171,331	8,424	8,424

6. Investments in associates (continued)

Details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2013 %	2012 %
Concession segment				
Roadcare (M) Sdn. Bhd.*	Operation and maintenance of roadways and bridges	Malaysia	21	21
Société Concessionnaire 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
Infrastructure construction segment				
Freyssinet PSC (M) Sdn. Bhd.*	Civil engineering and construction works	Malaysia	50	50
Inno Marine Services Sdn. Bhd.*#	Marine leasing activities	Malaysia	37.5	37.5
IDS Darul Ehsan Sdn. Bhd.*	Dormant	Malaysia	50	50
IDS Cahaya Sdn. Bhd.*#	Investment holding	Malaysia	50	50
IDS Cahaya Ltd.#	Offshore leasing business	Labuan	50	50
IDS Darussalam Sdn. Bhd.*#	Ship management services	Malaysia	50	50
IDS Offshore Sdn. Bhd.*#	Ship management services	Malaysia	50	50
MEB (Thailand) Co., Ltd.*	Dormant	Thailand	40	40
Muhibbah Emirates Contracting L.L.C*#	Dormant	United Arab Emirates	-	49
Cranes segment				
Favco Offshores Sdn. Bhd.#	Manufacture, supply, servicing and renting of cranes	Malaysia	18.30	18.57
Favelle Favco Machinery and Equipment L.L.C*#	Trading and rental of construction equipment	United Arab Emirates	29.88	30.34
Favco Heavy Industry (Changsu) Co., Ltd.*#	Supply, renting and servicing of lifting equipment and spare parts	China	30.49	30.95

6. Investments in associates (continued)

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

* Associates not audited by Messrs. Crowe Horwath
\# Associates of subsidiaries of Muhibbah Engineering (M) Bhd.

Summary financial information of material associates

Summarised financial information of the concession segment, the major associates of the Group, adjusted for any differences in accounting policies and the carrying amounts in the consolidated financial statements, are disclosed below:

	Group	
	2013 RM'000	**2012 RM'000**
Gross amount of the concession associates		
Non-current assets	578,106	476,228
Current assets	523,825	389,461
Non-current liabilities	56,945	67,453
Current liabilities	378,017	217,917
Revenue	836,202	690,281
Profit for the year	201,271	182,057
Dividends received	35,120	15,626
Carrying amount in the consolidated financial statements	137,748	126,362

Aggregate information of immaterial associates

	Group	
	2013 RM'000	**2012 RM'000**
Aggregate carrying amount	52,553	44,969
Aggregate amount of the group share:		
- Profit for the year	6,659	7,351

7. Receivables, deposits and prepayments

		Group		Company	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Non-current					
Non-trade					
Amount due from a subsidiary	7.1	-	-	10,000	10,000
Amount due from associates	7.4	4,933	-	-	-
		4,933	-	10,000	10,000
Current					
Trade					
Trade receivables	7.2	323,543	389,553	-	-
Progress billings receivable	7.2	665,369	875,075	653,279	728,864
Amount due from subsidiaries	7.3	-	-	40,848	102,159
Amount due from associates	7.4	17,021	11,197	-	-
Amount due from joint venture		2,861	4,950	-	-
		1,008,794	1,280,775	694,127	831,023
Less: Allowance for impairment loss		(443,261)	(453,603)	(460,293)	(470,688)
		565,533	827,172	233,834	360,335
Non-trade					
Amount due from subsidiaries	7.3	-	-	297,019	288,670
Amount due from associates	7.4	33,324	26,205	13,734	5,354
Other receivables		64,606	70,010	18,007	134,986
		97,930	96,215	328,760	429,010
Less: Allowance for impairment loss		(12,883)	(15,573)	(14,618)	(15,715)
		85,047	80,642	314,142	413,295
Deposits		3,793	3,329	1,615	1,667
Prepayments		9,857	6,575	-	-
		98,697	90,546	315,757	414,962
		664,230	917,718	549,591	775,297

7. Receivables, deposits and prepayments (continued)

7.1 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.

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Australian Dollar	29,147	61,921	-	-
Euro	32,463	2,929	-	-
Qatari Riyal	83,862	94,121	83,862	105,272
Singapore Dollar	15,189	38,692	-	-
Chinese Renminbi	78,885	64,513	-	-
Danish Krone	15,753	33,313	-	-
US Dollar	77,335	52,329	2,027	1,888
Sterling Pound	16	-	-	-

Also included in trade receivables and progress billings receivable of the Group and of the Company are retention sums of RM97,381,000 (2012 - RM92,260,000) and RM97,045,000 (2012 - RM90,932,000) respectively.

7.3 The amounts due from subsidiaries of the Company are interest free, unsecured with no fixed terms of repayment, other than an amount due from a subsidiary of RM49,631,000 (2012 - RM49,631,000) which is subject to interest of 5% (2012 - 5.0%) per annum.

7.4 The amounts due from associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment, other than an amount due from an associate of RM4,933,000 (2012 - Nil) which is subject to interest of 1% (2012 - Nil) per annum.

8. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

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

	Assets		Liabilities		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Group						
Property, plant and equipment	-	6	52,284	50,734	52,284	50,740
Tax losses carry forward	(3,521)	(29)	-	-	(3,521)	(29)
Unabsorbed capital allowances	(2,801)	-	-	(1,792)	(2,801)	(1,792)
Other items	(5,181)	(6,202)	1,227	898	(3,954)	(5,304)
Tax (assets)/liabilities	(11,503)	(6,225)	53,511	49,840	42,008	43,615
Set off of tax	6,022	3,834	(6,022)	(3,834)	-	-
Net tax (assets)/liabilities	(5,481)	(2,391)	47,489	46,006	42,008	43,615
Company						
Property, plant and equipment	-	-	8,401	8,516	8,401	8,516
Net tax liabilities	-	-	8,401	8,516	8,401	8,516

Unrecognised deferred tax assets

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Property, plant and equipment	(73,480)	(75,104)	(69,644)	(69,609)
Other temporary differences	30,816	71,480	-	-
Unabsorbed capital allowances	52,179	41,155	43,112	32,321
Tax losses carry forward	513,037	502,579	326,002	308,002
	522,552	540,110	299,470	270,714

8. 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 therefrom.

Movement in temporary differences during the year

	Property plant and equipment RM'000	Tax losses carry forward RM'000	Unabsorbed capital allowances RM'000	Other items RM'000	Total RM'000
Group					
As at 1 January 2012	47,519	(31)	-	(3,387)	44,101
Recognised in profit or loss (Note 22)	3,289	2	(1,792)	(1,958)	(459)
Exchange differences	(68)	-	-	41	(27)
As at 31 December 2012/ 1 January 2013	50,740	(29)	(1,792)	(5,304)	43,615
Recognised in equity	(115)	-	-	-	(115)
Recognised in profit or loss (Note 22)	1,659	(3,231)	(1,009)	711	(1,870)
Reclassification	-	(261)	-	261	-
Exchange differences	-	-	-	378	378
As at 31 December 2013	52,284	(3,521)	(2,801)	(3,954)	42,008
Company					
As at 1 January 2012	8,516	-	-	-	8,516
Recognised in profit or loss (Note 22)	-	-	-	-	-
As at 31 December 2012/ 1 January 2013	8,516	-	-	-	8,516
Recognised in equity	(115)	-	-	-	(115)
Recognised in profit or Loss (Note 22)	-	-	-	-	-
As at 31 December 2013	8,401	-	-	-	8,401

9. Other non-current assets

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Other investments	633	604	9	9
Land held for development	8,290	7,516	-	-
Development costs	8,634	5,769	-	-
Intellectual property	1,365	1,583	-	-
	18,922	15,472	9	9

	Land held for development Group		Development costs Group	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cost				
At 1 January	7,516	12,208	20,816	21,819
Additions	220	1	6,083	1,679
Disposal	-	(419)	-	-
Written off	-	(1,308)	(3,479)	(2,173)
Change in fair value	-	(2,667)	-	-
Reclassification	-	-	-	(179)
Exchange difference	554	(299)	(487)	(330)
At 31 December	8,290	7,516	22,933	20,816
Accumulated impairment/amortisation				
At 1 January	-	1,350	15,047	15,472
Amortisation charge for the year	-	-	1,614	2,220
Written off	-	(1,308)	(3,479)	(2,173)
Impairment loss	-	-	1,262	-
Reversal of impairment loss	-	-	-	(138)
Reclassification	-	-	-	(41)
Exchange difference	-	(42)	(145)	(293)
At 31 December	-	-	14,299	15,047
Carrying amounts				
At 1 January	7,516	10,858	5,769	6,347
At 31 December	8,290	7,516	8,634	5,769

Development costs represent internally generated development expenditure by subsidiaries on new or substantially improved projects. It is reasonably anticipated that the development expenditure will be recovered through future commercial activity. The amortisation period of development expenditure ranged from 1 year to 5 years (2012 - 1 year to 5 years).

9. Other non-current assets (continued)

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.

	Intellectual property Group	
	2013 RM'000	**2012 RM'000**
Cost		
At 1 January	4,319	2,519
Additions	-	1,800
Written off	(2,519)	-
At 31 December	1,800	4,319
Accumulated impairment/amortisation		
At 1 January	2,736	2,519
Amortisation charge for the year	218	217
Written off	(2,519)	-
At 31 December	435	2,736
Carrying amounts		
At 1 January	1,583	-
At 31 December	1,365	1,583

Intellectual property represents the acquisition of know-how, rights to industrial property and trade name by subsidiaries. It is reasonably anticipated that the intellectual property will be recovered through future commercial activity.

10. Amounts due from/(to) contract customers

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Aggregate costs incurred to date	8,257,155	7,666,686	4,374,980	3,961,128
Add: Attributable profits less foreseeable losses	130,265	160,493	34,966	47,258
	8,387,420	7,827,179	4,409,946	4,008,386
Less: Progress billings	(8,383,246)	(7,787,416)	(4,216,246)	(3,850,816)
	4,174	39,763	193,700	157,570
Represented by:				
Amount due from contract customers	412,335	456,683	237,082	240,252
Amount due to contract customers	(408,161)	(416,920)	(43,382)	(82,682)
	4,174	39,763	193,700	157,570

Additions to aggregate costs incurred during the year include:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Depreciation of property, plant and equipment	18,649	19,175	14,214	15,048
Finance costs	20,689	22,095	9,740	10,845
Rental expense	22,963	210,409	37,782	210,085
Share-based payments	3,598	3,337	3,598	3,337

The amount due from contract customers include an interim amount of RM224 million (2012 – RM219 million) for a completed project. The Company has consulted and engaged an experienced claim consultant to assist the Company to obtain approval for additional claims from the customer. The claim consultant is of the opinion that there are valid grounds for the claims which, inter alia represents works performed in addition to the original scope of the contract and claims that can be recovered in accordance with the law and the terms of the contract and should be approved by the customer.

The directors are of the opinion that the claims are recoverable in due course.

11. Inventories

	Group	
	2013 RM'000	2012 RM'000
At cost:		
Cranes	3	469
Raw materials	12,252	13,340
Crane components	108,907	101,613
Work-in-progress	64,872	63,524
Manufactured and trading inventories	4,081	3,943
	190,115	182,889
At net realisable value:		
Cranes	3,984	16,232
Crane components	12,431	9,439
Raw materials	35	35
	206,565	208,595

12. Derivative assets/(liabilities)

	2013			2012		
	Contract/ Notional amount RM'000	Derivative assets RM'000	Derivative liabilities RM'000	Contract/ Notional amount RM'000	Derivative assets RM'000	Derivative liabilities RM'000
Group						
Forward foreign currency contracts	599,116	726	(2,909)	362,356	1,186	(73)
Company						
Forward foreign currency contracts	87,097	-	(706)	84,172	-	(73)

Forward exchange contracts are used to manage the foreign currency exposure arising from the Group's receivables and payables denominated in currencies other than the functional currency of the Group. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward contracts are rolled over at maturity. There is minimal credit and market risk because the contracts are with reputable banks.

13. Cash and cash equivalents

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Cash and bank balances	217,334	233,911	5,306	37,376
Deposits placed with licensed banks	208,973	102,832	66,706	9,068
	426,307	336,743	72,012	46,444

14. Share capital

		Group and Company			
		Number of shares		Amount	
		2013 '000	2012 '000	2013 RM'000	2012 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		408,248	408,213	204,124	204,107
Exercise of ESOS	(i)	14,180	35	7,090	17
At 31 December		422,428	408,248	211,214	204,124

(i) During the financial year, a total of 14,180,000 (2012 - 35,000) new ordinary shares of RM0.50 (2012 - RM0.50) each were issued at RM0.88 (2012 - RM0.88) for cash pursuant to the employees' share options scheme ("ESOS") of the Company. The premium arising from the exercise of ESOS of RM5,388,400 (2012 - RM13,300) has been credited to the share premium account. The details of options granted under the Company's ESOS, which remain outstanding at 31 December 2013, are disclosed in Note 24.

15. Capital and reserves

Treasury shares

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

The number of treasury shares held is 1,783,000 (2012 - 1,783,000). None of the treasury shares held was sold or cancelled during the financial year ended 31 December 2013.

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 an 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, is credited to a warrant reserve account which is non-distributable. Warrant reserve will be transferred to the share premium accounts upon the exercise of warrants and the warrant reserve in relation to the unexercised warrants on the expiry date of the exercise period will be transferred to retained earnings.

Single tier tax system

Under the single tier tax system, tax on the Company's profits is the final tax and accordingly, any dividends to the shareholders are not subject to tax.

16. 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 28.

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Non-current				
Secured				
Term loans	47,041	58,633	-	-
Hire purchase payables	14	29	-	-
Unsecured				
Term loans	20,241	25,742	20,241	25,742
Bond	70,000	70,000	70,000	70,000
	137,296	154,404	90,241	95,742
Current				
Secured				
Term loans	11,592	14,244	-	-
Hire purchase payables	15	212	-	-
	11,607	14,456	-	-
Unsecured				
Term loans	5,500	5,500	5,500	5,500
Bank overdrafts	4,660	16,458	2,010	12,489
Bond	-	60,000	-	60,000
Revolving credits	94,866	173,187	78,000	153,000
Insurance premium finance	4,280	2,759	-	-
	120,913	272,360	85,510	230,989
	258,209	426,764	175,751	326,731

16. Loans and borrowings (continued)

Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2013						
Term loans						
- secured	2015- 2020	58,633	11,592	11,051	28,440	7,550
- unsecured	2018	25,741	5,500	5,500	14,741	-
Bank overdrafts						
- unsecured	-	4,660	4,660	-	-	-
Revolving credits						
- unsecured	-	94,866	94,866	-	-	-
Bond						
- unsecured	2015	70,000	-	70,000	-	-
Insurance premium finance						
- unsecured	-	4,280	4,280	-	-	-
Hire purchase payables	2015	29	15	14	-	-
		258,209	120,913	86,565	43,181	7,550
2012						
Term loans						
- secured	2013 - 2020	72,877	14,244	11,592	30,011	17,030
- unsecured	2018	31,242	5,500	5,500	16,500	3,742
Bank overdrafts						
- unsecured	-	16,458	16,458	-	-	-
Revolving credits						
- unsecured	-	173,187	173,187	-	-	-
Bonds						
- unsecured	2013 - 2015	130,000	60,000	-	70,000	-
Insurance premium finance						
- unsecured	-	2,759	2,759	-	-	-
Hire purchase payables	2013 - 2015	241	212	15	14	-
		426,764	272,360	17,107	116,525	20,772

16. Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

Company	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
2013						
Term loans						
- unsecured	2018	25,741	5,500	5,500	14,741	-
Bank overdrafts						
- unsecured	-	2,010	2,010	-	-	-
Revolving credits						
- unsecured	-	78,000	78,000	-	-	-
Bond						
- unsecured	2015	70,000	-	70,000	-	-
		175,751	85,510	75,500	14,741	-
2012						
Term loans						
- unsecured	2018	31,242	5,500	5,500	16,500	3,742
Bank overdrafts						
- unsecured	-	12,489	12,489	-	-	-
Revolving credits						
- unsecured	-	153,000	153,000	-	-	-
Bonds						
- unsecured	2013 - 2015	130,000	60,000	-	70,000	-
		326,731	230,989	5,500	86,500	3,742

Hire purchase payables are payable as follows:

Group	Gross 2013 RM'000	Interest 2013 RM'000	Principal 2013 RM'000	Gross 2012 RM'000	Interest 2012 RM'000	Principal 2012 RM'000
Less than one year	16	(1)	15	217	(5)	212
Between one and five year	15	(1)	14	31	(2)	29
	31	(2)	29	248	(7)	241

Term loans

The secured term loans of the subsidiaries are charged against long term leasehold land, freehold land and buildings of subsidiaries (Note 3).

17. Payables and accruals

		Group		Company	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Non-current					
Non-trade					
Advance from minority shareholders	(i)	14,232	14,017	-	-
Current					
Trade					
Trade payables	(ii)	393,795	506,085	108,870	183,469
Amounts due to subsidiaries	(iii)	-	-	62,751	39,917
Amounts due to associates	(iv)	4,951	102	4,835	13
		398,746	506,187	176,456	223,399
Non-trade					
Amounts due to subsidiaries	(iii)	-	-	14,389	7,473
Amounts due to associates	(iv)	647	1,136	-	-
Provision for warranty costs	(v)	38,053	40,173	776	776
Other payables		56,327	26,995	5,683	2,307
Accrued expenses		45,934	33,255	4,968	6,353
		140,961	101,559	25,816	16,909
		539,707	607,746	202,272	240,308

(i) The advance from minority shareholders of a subsidiary is 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 is advance received from contract customers amounting to Nil (2012 - RM2,802,207).

17. Payables and accruals (continued)

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Australian Dollar	23,747	67,450	-	22
Danish Krone	5,431	20,789	-	-
Euro	12,999	10,542	122	-
Qatari Riyal	39,353	71,400	39,353	71,400
Singapore Dollar	5,397	18,607	-	3,468
US Dollar	41,969	40,985	5,716	6,954
Sterling Pound	654	416	-	46
Norwegian Krone	-	121	-	-
Japanese Yen	79	89	-	-
Philippine Peso	48	127	-	-
Hong Kong Dollar	6	-	-	-
Chinese Renminbi	18,361	26,985	-	-

(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.

18. 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.

19. Revenue

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Contract revenue	1,774,491	2,502,057	504,317	1,063,068
Sale of goods	115,201	78,232	-	-
Services rendered	46,709	45,236	6,914	4,522
Dividend income	-	-	66,898	197,587
	1,936,401	2,625,525	578,129	1,265,177

20. Operating profit/(loss)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Operating profit/(loss) is arrived at after charging:				
Amortisation of development costs	1,614	2,220	-	-
Amortisation of intellectual property	218	217	-	-
Audit fee - statutory:				
- Holding company's auditors				
- Statutory audit	471	411	163	140
- Others	20	20	10	10
- Other auditors	579	554	23	31
Bad debts written off	-	5,203	28	-
Cost of construction	1,723,119	2,354,013	517,194	1,076,858
Depreciation of investment properties	12	19	44	51
Depreciation of property, plant and equipment				
- operating expenses	33,907	26,307	1,263	1,037
- contract costs	18,649	19,175	14,214	15,048
	52,556	45,482	15,477	16,085
Finance costs				
- borrowings	18,856	22,285	12,633	13,022
- interest expenses/(income) arising on financial assets/liabilities measured under MFRS139	7,281	(1,159)	7,249	8,372
	26,137	21,126	19,882	21,394
- contract costs	20,689	22,095	9,740	10,845
	46,826	43,221	29,622	32,239
Net fair value adjustment on derivative instruments	3,296	5,325	633	3,522
Net impairment loss on development costs	1,262	(138)	-	-
Net impairment loss on investments in subsidiaries	-	-	19,453	971
Net impairment loss on receivables	(10,346)	238,459	(10,327)	242,894
Net impairment loss on other investments	(29)	(2)	-	-
Net impairment loss on property, plant and equipment	3,855	-	-	-
Personnel expenses (including key management personnel)				
- contribution to Employee Provident Fund	12,331	10,603	1,445	1,171
- wages, salaries and others	126,547	110,777	13,464	10,159
Property, plant and equipment written off	3,571	93	1,611	-
Rental expenses on:				
- premises	2,578	3,331	1,589	4,710
- equipment	30,244	215,961	37,619	206,724
Share-based payments	5,641	9,156	4,652	7,227
Write-down of inventories	3,842	1,533	-	-

20. Operating profit/(loss) (continued)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
and after crediting:				
Gain on disposal of investment properties	701	-	701	-
(Loss)/Gain on disposal of property, plant and equipment	(121)	2,128	1,785	64,477
Gross dividend	41,120	20,958	66,898	197,587
Interest income	5,769	5,846	4,681	3,615
Interest income arising on financial assets/ liabilities measured under MFRS139	1,427	5,900	-	1,737
Net gain/(loss) on foreign exchange				
- realised	1,944	16,078	388	11,448
- unrealised	10,437	(2,381)	-	-
	12,381	13,697	388	11,448
Rental income on:				
- premises	887	523	858	2,120
- equipment	11,014	18,993	-	87

21. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Directors of the Company				
- Fees	835	866	476	480
- Remuneration	3,751	3,432	3,575	3,242
	4,586	4,298	4,051	3,722

The Directors of the Company are the key management personnel for the Group with ultimate authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

22. Income tax expense/(benefits)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Current tax expense				
Malaysia - current	15,021	11,746	(6,039)	1,363
- over provision in prior year	(603)	(1,512)	(121)	(423)
	14,418	10,234	(6,160)	940
Foreign - current	4,554	4,238	-	-
- over provision in prior year	(91)	(114)	-	-
	4,463	4,124	-	-
Deferred tax expense (Note 8)				
Origination of temporary differences	1,223	1,132	-	-
Over provision in prior years	(3,093)	(1,591)	-	-
	(1,870)	(459)	-	-
Others				
Withholding tax	-	235	-	-
Capital gains tax	(656)	11,972	(656)	11,972
	(656)	12,207	(656)	11,972
Total income tax expense/(benefits)	16,355	26,106	(6,816)	12,912
Reconciliation of tax expense				
Profit/(Loss) before tax	132,570	(34,977)	19,210	(26,496)
Income tax using Malaysian tax rate at 25% (2012 - 25%)	33,143	(8,744)	4,803	(6,624)
Effect of different tax rates in foreign jurisdictions	3,565	(11,889)	-	-
Effect of deferred tax benefits not recognised	2,089	63,700	(820)	49,089
Non-deductible expenses	22,332	21,504	9,095	12,500
Non-taxable income	(27,586)	(42,433)	(19,915)	(74,024)
Tax incentives	(12,962)	(5,781)	-	-
Tax exempt income	(128)	(19,661)	-	-
Non-deductible losses from foreign projects	798	20,422	798	20,422
Capital gains tax	(656)	11,972	(656)	11,972
Withholding tax	-	235	-	-
Others	(453)	(2)	-	-
	20,142	29,323	(6,695)	13,335
Over provision in prior years				
- current tax expense	(694)	(1,626)	(121)	(423)
- deferred tax expense	(3,093)	(1,591)	-	-
Total income tax expense/(benefits)	16,355	26,106	(6,816)	12,912

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2013 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2013 RM'000	2012 RM'000
Profit/(Loss) attributable to owners of the Company	86,379	(93,241)

	Group	
	2013	2012
In thousands units of shares		
Number of ordinary shares issued at 1 January	406,465	406,430
Effect of shares issued under ESOS	5,218	8
Total weighted average number of ordinary shares in issue	411,683	406,438

	Group	
	2013	2012
Basic earnings per share (sen)	20.98	(22.94)

Diluted earnings per share

The Group has dilutive potential ordinary shares from the options granted to eligible employees of the Group and warrants.

The calculation of diluted earnings per share for the year ended 31 December 2013 was based on profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

	Group	
	2013 RM'000	2012 RM'000
Profit/(Loss) attributable to owners of the Company	86,379	(93,241)

23. Earnings per share (continued)

Diluted earnings per share (continued)

	Group	
	2013	**2012**
In thousands units of shares		
Weighted average number of ordinary shares	411,683	406,438
Effect of dilution arising from conversion of all:		
- employee share options	11,172	6,422
- warrants	14,766	-
Adjusted weighted average number of ordinary shares at 31 December	437,621	412,860

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	
	2013	**2012**
Diluted earnings per share (sen)	19.74	(22.58)

24. Employee benefits

Share-based payments

On 28 June 2011, 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 New ESOS Scheme are as follows:

(i) The maximum number of approved unissued new ordinary shares shall not exceed in aggregate 10% of the issued and paid-up share capital of the Company at any point in time during the duration of the ESOS Scheme;

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

24. 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 option '000	At 1.1.2013 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2013 '000	Expiry date
29.9.2011	38,170	36,970	-	(14,180)	(318)	22,472	2.8.2016

Subsidiary

Grant date	Exercise price RM	At 1.1.2013 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2013 '000	Expiry date
28.9.2011	0.80	8,497	-	(3,133)	(219)	5,145	27.9.2016
28.9.2012	1.57	434	-	(78)	(60)	296	27.9.2016
1.10.2013	2.50	-	620	-	(9)	611	27.9.2016
		8,931	620	(3,211)	(288)	6,052	

Details relating to options exercised during the year

	Company	
	2013 RM'000	2012 RM'000
Ordinary share capital at par	7,090	17
Share premium	5,388	13
Proceeds received from exercise of share options	12,478	30

24. Employee benefits (continued)

Details relating to options exercised during the year (continued)

	Company		Subsidiary	
	2013 RM	2012 RM	2013 RM	2012 RM
Average share price for the year	1.75	1.07	2.53	1.53

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Expense recognised as share-based payments	5,641	9,156	4,652	7,227

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	
	2013	2012	2013	2012
Fair value at grant date (RM)				
- Granted in 2011	0.40 – 0.50	0.40 – 0.50	0.34 – 0.42	0.34 – 0.42
- Granted in 2012	-	-	0.49 – 0.67	0.49 – 0.67
- Granted in 2013	-	-	0.83 – 1.01	-
Weighted average share price (RM)				
- Granted in 2011	0.96	0.96	0.88	0.88
- Granted in 2012	-	-	1.74	1.74
- Granted in 2013	-	-	2.75	-
Exercise price (RM)				
- Granted in 2011	0.88	0.88	0.80	0.80
- Granted in 2012	-	-	1.57	1.57
- Granted in 2013	-	-	2.50	-
Expected volatility (%)	51.64	51.64	38.01 – 46.94	38.01 – 45.20
Expected option life (years)	3	4	3	4

24. Employee benefits (continued)

Fair value of share options and assumptions (continued)

	Company		Subsidiary	
	2013	**2012**	**2013**	**2012**
Risk free interest rate (%) (based on Malaysia government bonds)				
- Granted in 2011	3.24 – 3.41	3.24 – 3.41	3.23 – 3.41	3.23 – 3.41
- Granted in 2012	-	-	3.06 – 3.24	3.06 – 3.24
- Granted in 2013	-	-	3.21 – 3.38	-
Expected staff turnover (%)	12.00	12.00	10.00	10.00

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.

25. Dividend

The dividend recognised in the current year by the Company is:

Ordinary dividend	Per share Sen	Total amount RM'000	Date of payment
2013			
Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2012	2.50	7,774	29 August 2013
2012			
Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2011	5.00	15,241	10 August 2012

Proposed final dividend for the year ended 31 December 2013

The Directors have recommended a first and final tax exempt dividend of 9% (4.50 sen) per ordinary share of RM0.50 each totaling RM18,929,036 in respect of the financial year ended 31 December 2013, which will be paid after the financial year end subject to the approval of the shareholders at the forthcoming Annual General Meeting, based on the issued and paid-up share capital (excluding treasury shares) of 420,645,250 ordinary shares of RM0.50 each as at 31 December 2013. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2013.

25. Dividend (continued)

Dividend per ordinary share

The calculation of dividend per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2013 of RM18,929,036 (2012 - RM10,161,631) on the issued and paid-up share capital (excluding treasury shares) of 420,645,250 ordinary shares of RM0.50 each (2012 - 406,465,250 ordinary shares of RM0.50 each) as at 31 December 2013.

26. 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.

26. Segmental information (continued)

Business segments

	Infrastructure construction		Cranes		Marine ship building and ship repair		Concession		Eliminations		Consolidated	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Segment profit	28,227	48,162[(i)]	79,950	66,158	53,565	60,026	40,985	36,978	(70,157)	(246,301)	132,570	(34,977)
Included in the measure of segment profit are:												
Revenue from external customers	966,952	1,669,228[(i)]	762,026	695,678	207,423	260,619	-	-	-	-	1,936,401	2,625,525
Inter-segment revenue	532,573	737,870	2,159	1,069	2,865	20,313	1,134	736	(538,731)	(759,988)	-	-
Interest income	8,578	12,204	2,837	7,854	11,431	2,798	-	-	(15,650)	(11,110)	7,196	11,746
Finance costs	(35,837)	(30,095)	(7,667)	(3,440)	(19)	(1,351)	(414)	(447)	17,800	14,207	(26,137)	(21,126)
Share of results of associates	6,608	7,878	51	(526)	-	-	39,913	36,870	-	-	46,572	44,222
Net segment assets	389,250	344,723	403,184	346,788	132,481	89,881	133,178	121,098	(300,981)	(282,082)	757,112	620,408

(i) Included in segment revenue and segment profit of the infrastructure construction are revenue of RM62 million and profit of RM67 million on disposal of vessels respectively.

26. Segmental information (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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Geographical information								
Revenue	1,679,782	2,335,486	795,350	1,050,027	(538,731)	(759,988)	1,936,401	2,625,525
Total assets	2,425,926	2,765,650	1,130,550	1,063,696	(906,307)	(995,416)	2,650,169	2,833,930

27. Capital commitments

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

28. Financial instruments

28.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL)
- held for trading (HFT); and

(c) Financial liabilities measured at amortised cost (FL).

Group	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
2013			
Financial assets			
Receivables and deposits	654,373	654,373	-
Derivative assets	726	-	726
Cash and cash equivalents	426,307	426,307	-
	1,081,406	1,080,680	726

28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

Group	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
2013			
Financial liabilities			
Loan and borrowings	(258,209)	(258,209)	-
Payables and accruals	(553,939)	(553,939)	-
Bills payable	(616,600)	(616,600)	-
Derivative liabilities	(2,909)	-	(2,909)
	(1,431,657)	(1,428,748)	(2,909)
2012			
Financial assets			
Receivables and deposits	911,143	911,143	-
Derivative assets	1,186	-	1,186
Cash and cash equivalents	336,743	336,743	-
	1,249,072	1,247,886	1,186
Financial liabilities			
Loan and borrowings	(426,764)	(426,764)	-
Payables and accruals	(621,763)	(621,763)	-
Bills payable	(686,843)	(686,843)	-
Derivative liabilities	(73)	-	(73)
	(1,735,443)	(1,735,370)	(73)
Company			
2013			
Financial assets			
Receivables and deposits	559,591	559,591	-
Cash and cash equivalents	72,012	72,012	-
	631,603	631,603	-
Financial liabilities			
Loan and borrowings	(175,751)	(175,751)	-
Payables and accruals	(202,272)	(202,272)	-
Bills payable	(557,822)	(557,822)	-
Derivative liabilities	(706)	-	(706)
	(936,551)	(935,845)	(706)
2012			
Financial assets			
Receivables and deposits	785,297	785,297	-
Cash and cash equivalents	46,444	46,444	-
	831,741	831,741	-

28. Financial instruments (continued)

28.1 Categories of financial instruments (continued)

Company	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
2012			
Financial liabilities			
Loan and borrowings	(326,731)	(326,731)	-
Payables and accruals	(240,308)	(240,308)	-
Bills payable	(553,962)	(553,962)	-
Derivative liabilities	(73)	-	(73)
	(1,121,074)	(1,121,001)	(73)

28.2 Financial risk management objectives and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its credit, liquidity, interest rate and foreign currency risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

28.3 Credit risk

The Group's credit risk is primarily attributable to trade receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

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

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Asia	370,873	610,646	149,972	266,215
Europe	54,287	48,846	-	-
America	27,799	25,830	-	-
Middle East	87,688	101,730	83,862	94,120
Australia	24,886	40,120	-	-
	565,533	827,172	233,834	360,335

28. Financial instruments (continued)

28.3 Credit risk (continued)

The ageing of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Impairment RM'000	Net RM'000
2013			
Not past due	286,125	-	286,125
Past due 0 – 90 days	82,891	-	82,891
Past due 91 – 180 days	44,620	-	44,620
Past due more than 180 days	595,158	(443,261)	151,897
	1,008,794	(443,261)	565,533
2012			
Not past due	537,732	-	537,732
Past due 0 – 90 days	144,970	-	144,970
Past due 91 – 180 days	51,791	-	51,791
Past due more than 180 days	546,282	(453,603)	92,679
	1,280,775	(453,603)	827,172

The movements in the allowance for impairment losses of trade receivables during the year were:

	Group	
	2013 RM'000	2012 RM'000
At 1 January	453,603	27,944
Impairment loss recognised	4,000	246,192
Reversal of impairment loss	(14,413)	(14,592)
Reclassification	-	194,198
Exchange difference	71	(139)
At 31 December	443,261	453,603

28. Financial instruments (continued)

28.3 Credit risk (continued)

Company	Gross RM'000	Impairment RM'000	Net RM'000
2013			
Not past due	165,772	-	165,772
Past due 0 – 90 days	29,589	-	29,589
Past due 91 – 180 days	2,941	-	2,941
Past due more than 180 days	495,825	(460,293)	35,532
	694,127	(460,293)	233,834
2012			
Not past due	238,574	-	238,574
Past due 0 – 90 days	34,949	-	34,949
Past due 91 – 180 days	47,499	-	47,499
Past due more than 180 days	510,001	(470,688)	39,313
	831,023	(470,688)	360,335

The movements in the allowance for impairment losses of trade receivables during the year were:

	Company	
	2013 RM'000	2012 RM'000
At 1 January	470,688	40,821
Impairment loss recognised	139	243,856
Reversal of impairment loss	(10,534)	(8,187)
Reclassification	-	194,198
At 31 December	460,293	470,688

The Group's trade receivables as at 31 December 2013 have been assessed for impairment losses. For those trade receivables that are not provided for impairment, the Group is satisfied that recovery of the amounts is possible.

28. Financial instruments (continued)

28.4 Liquidity risk

The Group's exposure to liquidity risk primarily arises from its capabilities to meet its financial obligations, principally its trade payables, loan and borrowings, as and when it falls due.

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 table below summaries the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows:

Group	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
2013						
Secured borrowings						
- Term loans	4.7 – 5.4	58,633	60,150	12,189	40,365	7,596
- Hire purchase payables	5.7	29	29	15	14	-
Unsecured borrowings						
- Term loans	4.3 – 4.4	25,741	28,438	6,521	21,917	-
- Bank overdrafts	6.2 – 8.5	4,660	4,773	4,773	-	-
- Revolving credits	3.3 – 5.5	94,866	95,555	95,555	-	-
- Bond	4.7	70,000	74,935	3,290	71,645	-
- Insurance premium finance	4.9	4,280	4,308	4,308	-	-
Unsecured bills payable	3.4 – 4.8	616,600	616,600	616,600	-	-
Unsecured payables and accruals	-	515,886	515,886	501,654	-	14,232
		1,390,695	1,400,674	1,244,905	133,941	21,828
2012						
Secured borrowings						
- Term loans	4.7 – 6.2	72,877	75,337	15,030	43,106	17,201
- Hire purchase payables	4.3 – 7.2	241	244	215	29	-
Unsecured borrowings						
- Term loans	4.3 – 4.4	31,242	35,202	6,763	24,635	3,804
- Bank overdrafts	6.5 – 8.5	16,458	16,525	16,525	-	-
- Revolving credits	2.7 – 5.9	173,187	173,212	173,212	-	-
- Bonds	4.2 – 4.7	130,000	138,517	64,130	74,387	-
- Insurance premium finance	2.9	2,759	2,775	2,775	-	-
Unsecured bills payable	3.0 – 5.5	686,843	686,843	686,843	-	-
Unsecured payables and accruals	-	581,590	581,590	567,573	-	14,017
		1,695,197	1,710,245	1,533,066	142,157	35,022

28. Financial instruments (continued)

28.4 Liquidity risk (continued)

Company	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
2013						
Unsecured borrowings						
- Term loans	4.3 - 4.4	25,741	28,438	6,521	21,917	-
- Bank overdrafts	7.4	2,010	2,022	2,022	-	-
- Revolving credits	3.6 – 4.2	78,000	78,660	78,660	-	-
- Bond	4.7	70,000	74,935	3,290	71,645	-
Unsecured bills payable	3.4 – 3.9	557,822	566,430	566,430	-	-
Unsecured payables and accruals	-	201,496	201,496	201,496	-	-
		935,069	951,981	858,419	93,562	-
2012						
Unsecured borrowings						
- Term loans	4.3 - 4.4	31,242	35,202	6,763	24,635	3,804
- Bank overdrafts	6.6	12,489	12,556	12,556	-	-
- Revolving credits	4.2 – 5.9	153,000	153,000	153,000	-	-
- Bonds	4.2 – 4.7	130,000	138,517	64,130	74,387	-
Unsecured bills payable	3.4 – 4.4	553,962	553,962	553,962	-	-
Unsecured payables and accruals	-	239,532	239,532	239,532	-	-
		1,120,225	1,132,769	1,029,943	99,022	3,804

28.5 Interest rate risk

The Group's interest rate risk arises from its interest bearing financial instruments that could impact fair value and future cash-flows due to fluctuation in market interest rates. 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.

28. Financial instruments (continued)

28.5 Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

Group	2013 Effective interest rate %	2013 Total RM'000	2013 Less than 1 year RM'000	2012 Effective interest rate %	2012 Total RM'000	2012 Less than 1 year RM'000
Financial assets						
Deposits placed with licensed banks	0.7 – 5.6	208,973	208,973	0.6 – 5.9	102,832	102,832
Financial liabilities						
Secured borrowings						
- Term loans	4.7 – 5.4	58,633	58,633	4.7 – 6.2	72,877	72,877
- Hire purchase payables	5.7	29	29	4.3 – 7.2	241	241
Unsecured borrowings						
- Term loans	4.3 – 4.4	25,741	25,741	4.3 – 4.4	31,242	31,242
- Bank overdrafts	6.2 – 8.5	4,660	4,660	6.5 – 8.5	16,458	16,458
- Revolving credits	3.3 – 5.5	94,866	94,866	2.7 – 5.9	173,187	173,187
- Bonds	4.7	70,000	70,000	4.2 – 4.7	130,000	130,000
- Insurance premium finance	4.9	4,280	4,280	2.9	2,759	2,759
Unsecured bills payable	3.4 – 4.8	616,600	616,600	3.0 – 5.5	686,843	686,843
		874,809	874,809		1,113,607	1,113,607
Company						
Financial assets						
Deposits placed with licensed banks	2.5 – 2.8	66,706	66,706	2.5 – 2.8	9,068	9,068
Financial liabilities						
Unsecured borrowings						
- Term loans	4.3 – 4.4	25,741	25,741	4.3 – 4.4	31,242	31,242
- Bank overdrafts	7.4	2,010	2,010	6.6	12,489	12,489
- Revolving credits	3.6 – 4.2	78,000	78,000	4.2 – 5.9	153,000	153,000
- Bonds	4.7	70,000	70,000	4.2 – 4.7	130,000	130,000
Unsecured bills payable	3.4 – 3.9	557,822	557,822	3.4 – 4.4	553,962	553,962
		733,573	733,573		880,693	880,693

28. Financial instruments (continued)

28.5 Interest rate risk (continued)

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
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 and the Company's profit after taxation would have decreased by RM6,008,000 (2012- RM5,428,000) and RM4,664,000 (2012- RM4,239,000) . A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

28.6 Foreign currency risk

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US Dollar, Euro, AUD, Chinese Renminbi, SGD, Norwegian Krone and Qatari Riyal.

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.

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

Group	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
2013					
Financial assets	188,496	39,533	119,181	82,511	63,741
Financial liabilities	(88,388)	(25,473)	(62,311)	(19,997)	(8,031)
Net financial assets	100,108	14,060	56,870	62,514	55,710
Less: Net financial assets denominated in the respective entities' functional currencies	(45,127)	(1,651)	(45,382)	(22,275)	(12,916)
Less: Forward foreign currency contracts (contracted notional principal)	(344,019)	(23,379)	(27,122)	-	(195,629)
Net currency exposure	(289,038)	(10,970)	(15,634)	40,239	(152,835)

28. Financial instruments (continued)

28.6 Foreign currency risk (continued)

Group	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
2012					
Financial assets	136,204	13,436	157,533	66,404	48,100
Financial liabilities	(82,736)	(27,908)	(82,553)	(26,985)	(25,474)
Net financial assets/(liabilities)	53,468	(14,472)	74,980	39,419	22,626
Less: Net financial assets denominated in the respective entities' functional currencies	(60,407)	(1,700)	(39,402)	(8,972)	(26,527)
Less: Forward foreign currency contracts (contracted notional principal)	(194,305)	(18,062)	(54,978)	-	(90,135)
Net currency exposure	(201,244)	(34,234)	(19,400)	30,447	(94,036)

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

Group	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
2013					
- strengthened by 5%	(10,839)	(411)	(586)	1,509	(5,731)
- weakened by 5%	10,839	411	586	(1,509)	5,731
2012					
- strengthened by 5%	(7,547)	(1,284)	(728)	1,142	(3,526)
- weakened by 5%	7,547	1,284	728	(1,142)	3,526

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

Company	USD RM'000	Euro RM'000	AUD RM'000	SGD RM'000	QAR RM'000
2013					
Financial assets	39,895	23	23	1,908	97,368
Financial liabilities	(17,486)	(8,419)	(62)	(21,214)	(39,353)
Net financial assets/(liabilities)	22,409	(8,396)	(39)	(19,306)	58,015
Less: Net financial assets denominated in the respective entities' functional currencies	-	-	-	-	(58,015)
Less: Forward foreign currency contracts (contracted notional principal)	(87,602)	-	-	-	-
Net currency exposure	(65,193)	(8,396)	(39)	(19,306)	-

28. Financial instruments (continued)

28.6 Foreign currency risk (continued)

Company	USD RM'000	Euro RM'000	AUD RM'000	SGD RM'000	QAR RM'000
2012					
Financial assets	33,114	1	4	1,579	110,962
Financial liabilities	(15,580)	(4,028)	(520)	(12,536)	(71,400)
Net financial assets/(liabilities)	17,534	(4,027)	(516)	(10,957)	39,562
Less: Net financial assets denominated in the respective entities' functional currencies	-	-	-	-	(39,562)
Less: Forward foreign currency contracts (contracted notional principal)	(79,241)	-	-	-	-
Net currency exposure	(61,707)	(4,027)	(516)	(10,957)	-

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

Company	USD RM'000	Euro RM'000	AUD RM'000	SGD RM'000	QAR RM'000
2013					
- strengthened by 5%	(2,339)	(315)	(1)	(724)	-
- weakened by 5%	2,339	315	1	724	-
2012					
- strengthened by 5%	(2,309)	(155)	(19)	(413)	-
- weakened by 5%	2,309	155	19	413	-

28.7 Fair values

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

Company	2013 Carrying amount RM'000	2013 Fair value RM'000	2012 Carrying amount RM'000	2012 Fair value RM'000
Financial assets				
Quoted shares - long-term	98,663	413,409	98,663	216,548

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

28. Financial instruments (continued)

28.7 Fair values (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2013				
Financial assets				
Forward exchange contracts	726	-	-	726
Financial liability				
Forward exchange contracts	(2,909)	-	-	(2,909)
2012				
Financial assets				
Forward exchange contracts	1,186	-	-	1,186
Financial liability				
Forward exchange contracts	(73)	-	-	(73)
Company				
2013				
Financial assets				
Forward exchange contracts	-	-	-	-
Financial liability				
Forward exchange contracts	(706)	-	-	(706)
2012				
Financial assets				
Forward exchange contracts	-	-	-	-
Financial liability				
Forward exchange contracts	(73)	-	-	(73)

29. Contingent liabilities - unsecured

	Company	
	2013 RM'000	2012 RM'000
Corporate guarantees		
Corporate guarantees to licensed banks for credit facilities granted to subsidiaries	84,633	151,842

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 the Company, its subsidiary Favelle Favco Berhad ("FFB") and FFB's subsidiary Favelle Favco Cranes (USA) Inc. ("FFCUSA") 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 has been filed against the Company, FFB and FFCUSA.

The Suit relates to an incident involving the collapse of a Favelle Favco crane said to be caused by rigging activity carried out by a third party. The U.S. Occupational Safety & Health Administration ("OSHA") found that slings (independent of the crane per se) used during the rigging activity tore open causing the said incident. The Company's, 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 Company's, FFB's and FFCUSA's management 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, Favelle Favco Cranes (USA) Inc. in the Supreme Court of the State of New York, County of New York***

Favelle Favco Cranes (USA) Inc. ("FFCUSA") has been named as a defendant in connection with a lawsuit placed by Mr. Robert Paranella, who is claiming personal injuries resulting from an accident while descending a ladder on a crane. The plaintiff has alleged claims of general negligence and Labor Law claims. Based on the claim as it is, the management believes FFCUSA cannot be held liable.

The case remains ongoing and it is too early to determine whether or not Mr. Paranella's claims have any merit.

c) ***United Engineers Malaysia Bhd ("UEM") v. MEB***

Muhibbah Engineering (M) Bhd ("Company") was a subcontractor to UEM for the construction of the Salwa Road Project in Qatar and the project was completed several years ago. The Company received on 5 October 2012 a notification from the Secretariat of the ICC International Court of Arbitration – Asia Office of a Request for Arbitration ("Request") from UEM, in respect of an alleged claim by UEM for QAR31.4million, which is approximately RM26.5 million. The Company intends to vigorously defend the Claim (in which event will file a counterclaim of approximately QAR11.6 million). The challenge by the Company of the jurisdiction of such Request was heard under the ICC Rules of Arbitration in Singapore on 10 September 2013.

The Arbitration Tribunal has declared that they have no jurisdiction to decide the dispute set out in the Request and has awarded cost to the Company. UEM has to bear the costs of the arbitration.

29. Contingent liabilities – unsecured (continued)

Contingent liabilities –litigation (Group) (continued)

d) Muhibbah-LTAT JV (the "Joint Venture") v. Government Of Malaysia

The Government of Malaysia vide the Ministry of Defence ("GOM") was the Owner for the project known as "Design, Construction, Completion, Commissioning, Equipping and Maintenance of the Proposed Royal Malaysian Naval Base at Teluk Sepangar, Kota Kinabalu Sabah" ("the Project"). GOM had appointed the Joint Venture of which Muhibbah Engineering (M) Bhd ("MEB") and Lembaga Tabung Angkatan Tentera ("LTAT") [collectively referred to as the "Joint Venture"] had 51% and 49% interest respectively, to execute the works for the Project in 2001. The Project was completed in 2007. However there are claims arising from the Project that are yet to be paid by GOM. The Joint Venture has therefore commenced arbitration against GOM for claims amounting to approximately RM26 million. The Arbitration proceedings commenced on 10-14 February 2014 and is fixed for continued hearing from 25-28 August 2014.

Should the said arbitration be successful, it will have a positive financial impact to the MEB Group.

e) MEB v. ZAQ Construction Sdn Bhd ("ZAQ")

The Company has commenced court proceedings against ZAQ, the managing contractor for the project known as "The Procurement, Construction and Commissioning of a Petroleum Hub At the Reclaimed Island Off Tanjung Bin, Johor" for Asia Petroleum Hub Sdn Bhd ("the Project") to recover outstanding claims of approximately RM381 million as at 20 February 2012 together with continuing contractual financing charges due and owing by ZAQ to the Company, under the Sub-Contract for the Project.

ZAQ was wound up on 19 November 2013. The case is now fixed on 15 April 2014 for case management. The Company has submitted its proof of debt ("Proof of Debt") dated 24 January 2014 to the Official Receiver and such Proof of Debt is pending adjudication. The Company has made full provision in 2012 for the amount receivable from the Project and any recovery of debts will be positive to the Company.

f) QSA Marine Logistics Pte Ltd ("QSA") v. MEB

QSA filed its Statement of Claim in arbitration on 8 December 2010 in Singapore against the Company, for alleged breach of a bareboat charter party contract entered into between the two parties for the charter of a barge by the Company from QSA (disponent owner of the said barge). The Company lodged a Statement of Defence on 4 March 2011. The said Arbitration proceedings against the Company commenced by QSA in Singapore has come to an end, as QSA and the Company agreed to settle the matter amicably.

30. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company 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 or the Company 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).

30. Related parties (continued)

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

	Company	
	2013 RM'000	2012 RM'000
Significant transactions with subsidiaries:		
Gross dividend income receivable	(44,098)	(188,054)
Interest income receivable	(3,049)	(2,747)
Progress billings receivable	-	(1,973)
Purchase of materials and services	307,314	380,928
Rental expense	38,411	38,159
Purchase of property, plant and equipment	1,260	8,094
Rental income receivable	(218)	(2,071)
Sale of property, plant and equipment	(315)	(52,101)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Significant transactions with associates:				
Gross dividend income receivable	(41,120)	(20,958)	(22,800)	(9,533)
Technical assistance fee receivable	(6,914)	(4,522)	(6,914)	(4,522)
Purchase of materials, and services	324	25	-	3,035
Sale of goods	(4,663)	(9,297)	-	-

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

The outstanding net amounts due from/(to) subsidiaries and associates and joint ventures as at 31 December 2013 are disclosed in Note 7 and Note 17 respectively.

The allowance for impairment loss on receivables in respect of the above significant related party transactions with subsidiaries and associates for the financial year ended 31 December 2013 amounted to RM27,997,000 (2012 - RM27,997,000) and RM2,286,000 (2012 - RM3,338,000) respectively.

31. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic and business conditions or expansion plans of the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's approach to capital management during the year.

32. Realised and unrealised profits/losses

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

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total retained profits/(accumulated losses) of Muhibbah Engineering (M) Bhd and its subsidiaries:				
- Realised	186,032	112,489	48,755	35,409
- Unrealised	(54,260)	(51,889)	(13,360)	(18,727)
Total retained profits/(accumulated losses)	131,772	60,600	35,395	16,682
from associated companies:				
- Realised	112,790	105,407	-	-
- Unrealised	(516)	(84)	-	-
Less: Consolidated adjustments	(101,620)	(101,102)	-	-
Total retained profits	142,426	64,821	35,395	16,682

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 44 to 123 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2013 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in note 32 on page 124 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised* and *Unrealised Profits* or *Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....
Mac Ngan Boon @ Mac Yin Boon
Klang,
Date: 18 April 2014

....
Low Ping Lin

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 44 to 124 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 18 April 2014.

....
Lee Poh Kwee

Before me:

Azmi Bin Ishak
Pesuruhjaya Sumpah Malaysia
(No. B413)

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 2013 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 44 to 123.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible 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 entity'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 entity'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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 10 to the financial statements, the amount due from contract customers include an interim amount of RM224 million for a completed project. The Company has consulted and engaged an experienced claim consultant to assist the Company to obtain approval for additional claims from the customer. The claim consultant is of the opinion that there are valid grounds for the claims which, inter alia represents works performed in addition to the original scope of the contract and claims that can be recovered in accordance with the law and the terms of the contract and should therefore be approved by the customer. The directors are of the opinion that the claims are recoverable in due course.

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 5 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.

Other Reporting Responsibilities

The supplementary information set out in Note 32 on page 124 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
Firm Number: AF 1018
Chartered Accountants

Onn Kien Hoe
1772/11/14(J/PH)
Chartered Accountant

Kuala Lumpur,

Date: 18 April 2014

Top 10 List Properties as at 31 December 2013

No.	Location	Description of Property	Year of Revaluation	Tenure	Land Area	Age of Building	Carrying Value RM'000
1	HS(D) 99546, Lot 104625, Telok Gong, Mukim of Klang, District of Klang, Selangor	Office building and factory	2010	Leasehold expiring 2103	148,400 sq. m.	7 years	111,715
2	Hakmilik 75336, Lot 104505, Mukim of Klang, District of Klang, Selangor	Office building, factory and warehouse	2010	Leasehold expiring 2106	86,937 sq. m.	17 years	69,258
3	28, Yarrunga Street, Prestons, NSW 2170, Australia	Office building and factory	2012	Freehold	11.6 acres	45 years	47,095
4	Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan	Factory building with office block	2012	Freehold	68,846 sq. m.	9 years	31,773
5	Geran Mukim 17872, Lot 69222, Mukim Kapar, District of Klang, Selangor	Office building and factory	2012	Freehold	18,207 sq. m.	32 years	26,018
6	HS(D) 99547, Lot 104626, Telok Gong, Mukim of Klang, District of Klang, Selangor	Factory building and workshop	2010	Leasehold expiring 2103	52,490 sq. m.	4 years	22,616
7	Ream, Sihanoukville, Cambodia	Vacant land	2012	Leasehold expiring 2105	23.97 hectare	NA	18,446
8	Geran # 26559, Lot 9895, Kg. Jawa, Mukim of Klang, District of Klang, Selangor	Office building and factory	2012	Freehold	5.0 acres	22 years	17,972
9	7 AL, Nordkranvej, 2 3540, Lynge DK Denmark	Factory building with office block	2012	Freehold	59,525 sq. m.	44 years	13,909
10	Hakmilik 6322, Lot 129073, Telok Gong, Mukim Klang, District of Klang Selangor	Vacant land	2010	Leasehold expiring 2104	30,889 sq. m.	NA	11,704

A. Share Capital

Authorised share	:	RM500,000,000
Issued and fully paid-up capital	:	422,459,250 shares
Class of shares	:	Ordinary shares of RM0.50 each
Voting rights	:	One vote per ordinary share

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Capital*
1 – 99	101	1.897	2,257	0.001
100 – 1,000	860	16.153	719,992	0.170
1,001 –10,000	3,137	58.922	14,089,208	3.335
10,001 –100,000	908	17.055	29,070,512	6.881
100,001 – 21,122,961	317	5.954	324,435,865	76.797
21,122,962 and above	1	0.019	54,141,416	12.816
Total	5,324	100.000	422,459,250	100.000

Note:
* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2014.*

Directors' Shareholdings as per Register of Directors' Shareholdings as at 30 April 2014

Name	Direct Interest	%*	Deemed Interest	%*
Tuan Haji Mohamed Taib bin Ibrahim#	1,193,750	0.283	6,555,392[(a)]	1.552
Mac Ngan Boon @ Mac Yin Boon	71,591,416[(b)]	16.946	24,832,500[(a)]	5.878
Ooi Sen Eng	13,425,066[(c)]	3.178	-	-
Low Ping Lin#	2,600,500	0.616	-	-
Lim Teik Hin#	-	-	50,000[(d)]	0.012
Mac Chung Jin^	5,060,000[(c)]	1.198	50,000[(d)]	0.012
Lee Poh Kwee^	4,046,272[(e)]	0.958	650,000[(d)]	0.154
Mazlan bin Abdul Hamid^	355,000	0.084	-	-

\# *Retired on 15 May 2014*
^ *Appointed on 15 May 2014*

Notes:-
(a) *Deemed interested 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 Maybank Securities Nominees (Tempatan) Sdn Bhd, RHB Capital Nominees (Tempatan) Sdn Bhd and EB Nominees (Tempatan) Sendirian Bhd.*

(c) *Certain shares are registered under Maybank Securities Nominees (Tempatan) Sdn Bhd.*

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

(e) *Certain shares are registered under RHB Capital Nominees (Tempatan) Sdn Bhd, Citigroup Nominees (Tempatan) Sdn Bhd and HLB Nominees (Tempatan) Sdn Bhd.*

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2014.*

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 2013 on page 41 of this Annual Report.

Options in 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 2013 on page 41 of this Annual Report.

Substantial Shareholders as per Register of Substantial Shareholders as at 30 April 2014

Name	Direct Interest	%*	Deemed Interest	%*
Mac Ngan Boon @ Mac Yin Boon	71,591,416 [(a)]	16.946	-	-

Notes:-
(a) Certain shares are registered under Maybank Securities Nominees (Tempatan) Sdn Bhd, RHB Capital Nominees (Tempatan) Sdn Bhd and EB Nominees (Tempatan) Sendirian Bhd.

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2014.*

List of 30 Largest Shareholders as at 30 April 2014

No.	Name	No. of Shares Held	% of Issued Capital*
1	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Ngan Boon @ Mac Yin Boon	54,141,416	12.816
2	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	12,800,000	3.030
3	Maybank Securities Nominees (Tempatan) Sdn Bhd Ooi Sen Eng	12,500,000	2.959
4	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	12,010,200	2.843
5	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPmorgan Chase Bank, National Association (BVI)	10,218,500	2.419
6	Maybank Securities Nominees (Tempatan) Sdn Bhd Chew Keng Siew	10,217,500	2.419
7	Lembaga Tabung Haji	8,531,800	2.020
8	Cartaban Nominees (Asing) Sdn Bhd BBH (Lux) SCA For Fidelity Funds Pacific	7,541,600	1.785
9	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Dr)	7,000,300	1.657
10	Aminah binti Mohd Taib	6,349,642	1.503
11	Citigroup Nominees (Asing) Sdn Bhd CBNY For Dimensional Emerging Markets Value Fund	5,494,100	1.301
12	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Hui	5,405,000	1.279
13	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities)	5,146,700	1.218
14	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Jin	5,060,000	1.198
15	HSBC Nominees (Asing) Sdn Bhd Exempt An For J.P. Morgan Bank Luxembourg S.A.	5,009,000	1.186
16	Cartaban Nominees (Tempatan) Sdn Bhd Exempt An For Eastspring Investments Berhad	4,981,200	1.179
17	Noriyati binti Hassan	4,950,636	1.172

List of 30 Largest Shareholders as at 30 April 2014 (continued)

No.	Name	No. of Shares Held	% of Issued Capital*
18	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	4,650,000	1.101
19	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	4,354,200	1.031
20	Tokio Marine Life Insurance Malaysia Bhd As Beneficial Owner (PF)	4,203,500	0.995
21	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (PHEIM)	4,026,900	0.953
22	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Lynn	4,000,000	0.947
23	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Exempt An For Kumpulan Sentiasa Cemerlang Sdn Bhd (TSTAC/CLNT)	3,450,000	0.817
24	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	3,399,100	0.805
25	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati binti Hassan	3,375,000	0.799
26	Citigroup Nominees (Asing) Sdn Bhd CBNY For Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	3,221,800	0.763
27	Citigroup Nominees (Asing) Sdn Bhd CBNY For DFA Emerging Markets Small Cap Series	3,118,350	0.738
28	HSBC Nominees (Asing) Sdn Bhd Exempt An For The Bank Of New York Mellon (Mellon Acct)	3,110,800	0.736
29	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AMUNDI)	3,000,000	0.710
30	Amanahraya Trustees Berhad Public Islamic Select Treasures Fund	2,950,000	0.698
		224,217,244	53.077

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	% 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 – 1,900,000	-	-	-	-
1,900,001 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 30 April 2014

No.	Name	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

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MUHIBBAH ENGINEERING (M) BHD
(12737-K)

Number of Shares Held

Proxy Form

*I/*We ______________________ NRIC No. (New) ____________ (old) ____________

of ______________________

being a member/members of **Muhibbah Engineering (M) Bhd.**, hereby appoint Mr/Ms ______________________

______________________ NRIC No. (New) ____________ (old) ____________

of ______________________

OR failing whom, Mr/Ms ______________________ NRIC No. (New) ____________ (old) ____________

of ______________________

OR failing whom, the Chairman of the Meeting as *my/*our proxy to vote for *me/*us and on *my/*our behalf at the Forty-First Annual General Meeting of the Company which is to be held at Concorde Hotel Shah Alam, Concorde II, Level 2, No. 3, Jalan Tengku Ampuan Zabedah C9/C, 40100 Shah Alam, Selangor Darul Ehsan on Thursday, 26 June 2014 at 3.30 p.m. and at any adjournment thereof.

The Proportion of *my/*our holding to be represented by *my/*our proxies are as follows :

Proxy 1	%	Proxy 2	%	100%

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

Resolution No.	Ordinary Business :	For	Against
1.	To approve the declaration of a first and final tax exempt dividend of 9% (4.50 sen) per ordinary share of RM0.50 each.		
2.	To re-elect Sobri bin Abu as Director.		
3.	To re-elect Mac Chung Jin as Director.		
4.	To re-elect Lee Poh Kwee as Director.		
5.	To re-elect Mazlan bin Abdul Hamid as Director.		
6.	To re-elect Dato' Mohamad Kamarudin bin Hassan as Director.		
7.	To re-appoint Tan Sri Zakaria bin Abdul Hamid as Director.		
8.	To re-appoint Mac Ngan Boon @ Mac Yin Boon as Director.		
9.	To re-appoint Ooi Sen Eng as Director.		
10.	To re-appoint Messrs. Crowe Horwath as the Company's Auditors and to authorise the Directors to fix their remuneration.		
	Special Business :		
11.	To retain Tan Sri Zakaria bin Abdul Hamid as an Independent Non-Executive Director.		
12.	To authorise the Directors to issue and allot shares pursuant to Section 132D of the Companies Act, 1965.		
13.	To approve the Proposed Renewal of Authority for Share Buy-Back.		
14.	To approve the Proposed Renewal of the Existing and New Shareholders' Mandates for Recurrent Related Party Transactions of a Revenue or Trading Nature.		

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 2014

[* Delete if not applicable]

....

[Signature/Common Seal of Shareholder(s)]

Notes:

(a) 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. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy and the provision of Section 149(1)(b) of the Act shall not apply to the Company.

(b) A member shall not be entitled to appoint more than two (2) proxies to attend, speak 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 shareholdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.

(c) 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.

(d) The duly completed Form of Proxy must be deposited at the Share Registrar's Office, Tricor Investor Services Sdn Bhd, Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia, at least forty-eight (48) hours before the time set for the holding of the Meeting or any adjournment thereof.

Affix
Stamp
Here

Muhibbah Engineering (M) Bhd (12737-K)

Share Registrar
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia