

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS

(As extracted from the audited consolidated financial statements of FFB for the FYE 2005)



KPMG (Firm No. AF 0758)
Chartered Accountants
Wisma KPMG
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388
Fax +60 (3) 2095 0971
Internet www.kpmg.com.my

**Report of the auditors to the members of
Favelle Favco Berhad**

(Company No. 249243-W)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 182 to 224. The preparation of the financial statements is the responsibility of the Company's Directors.

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

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Company at 31 December 2005 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**



The subsidiaries in respect of which we have not acted as auditors are identified in Note 26 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

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

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/06(J)

Kuala Lumpur,

Date: 24 April 2006

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

Favelle Favco Berhad

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Balance sheets at 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Property, plant and equipment	2	61,855	38,068	2,357	2,486
Investments in subsidiaries	3	-	-	29,027	29,027
Investments in associates	4	312	314	256	180
Development costs	5	6,362	5,154	-	-
Deferred expenditure		350	557	350	557
Other intangible assets	6	1,356	2,179	329	439
Deferred tax asset	17	-	620	-	-
Long term advances due from a subsidiary	7	-	-	24,244	33,456
		<u>70,235</u>	<u>46,892</u>	<u>56,563</u>	<u>66,145</u>
Current assets					
Inventories	8	72,850	57,936	-	-
Trade and other receivables	9	228,443	168,220	38,753	30,558
Tax recoverable		1,799	1,721	27	23
Cash and cash equivalents	10	17,564	9,127	13	13
		<u>320,656</u>	<u>237,004</u>	<u>38,793</u>	<u>30,594</u>
Current liabilities					
Trade and other payables	11	146,317	96,179	7,678	6,787
Bills payable	12	73,302	31,691	-	-
Bank overdrafts, loans and hire purchase	13	44,560	50,656	11,416	14,440
Provisions	14	10,406	10,988	-	460
		<u>274,585</u>	<u>189,514</u>	<u>19,094</u>	<u>21,687</u>
Net current assets		<u>46,071</u>	<u>47,490</u>	<u>19,699</u>	<u>8,907</u>
		<u><u>116,306</u></u>	<u><u>94,382</u></u>	<u><u>76,262</u></u>	<u><u>75,052</u></u>

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Balance sheets at 31 December 2005

(continued)

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Financed by:					
Capital and reserves					
Share capital	15	50,000	50,000	50,000	50,000
Reserves	16	20,351	17,768	741	376
Shareholders' fund		<u>70,351</u>	<u>67,768</u>	<u>50,741</u>	<u>50,376</u>
Long term and deferred liabilities					
Term loans and hire purchase	13	18,983	505	-	-
Provisions	14	-	828	-	-
Deferred tax liabilities	17	1,451	604	-	-
Long term advances due to holding company	18	25,521	24,677	25,521	24,676
		<u>45,955</u>	<u>26,614</u>	<u>25,521</u>	<u>24,676</u>
		<u>116,306</u>	<u>94,382</u>	<u>76,262</u>	<u>75,052</u>

The financial statements were approved and authorised for issue by the Board of Directors on 24 April 2006.

The notes set out on pages 190 to 224 form an integral part of, and should be read in conjunction with, these financial statements.

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Berhad

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Income statements for the year ended 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue					
- contract revenue		280,854	222,642	-	-
- sale of goods		30,353	28,589	-	-
- services rendered		24,439	15,734	-	30
- dividends		-	-	8,901	-
		<u>335,646</u>	<u>266,965</u>	<u>8,901</u>	<u>30</u>
Cost of sales					
- contract costs		(260,592)	(193,542)	-	-
- sale of goods		(15,196)	(23,822)	-	-
- services rendered		(9,405)	(7,103)	-	-
		<u>(285,193)</u>	<u>(224,467)</u>	<u>-</u>	<u>-</u>
Gross profit		50,453	42,498	8,901	30
Distribution costs		(7,035)	(8,403)	-	-
Administrative expenses		(29,961)	(29,041)	(2,045)	(221)
Other operating expenses					
- exceptional items	21	(571)	(10,021)	-	(4,650)
- others		-	-	(6,000)	-
Other operating income					
- exceptional item	21	-	18,798	-	18,798
- others		1,265	2,140	460	580
Operating profit	19	<u>14,151</u>	<u>15,971</u>	<u>1,316</u>	<u>14,537</u>
Interest expense		(5,377)	(3,299)	(955)	(576)
Interest income		182	203	4	3
Share of (loss)/profit of associates		(73)	9	-	-
Profit before taxation		<u>8,883</u>	<u>12,884</u>	<u>365</u>	<u>13,964</u>
Tax expense	23	(1,703)	432	-	-
Net profit for the year		<u>7,180</u>	<u>13,316</u>	<u>365</u>	<u>13,964</u>
Basic earnings per ordinary share (sen)	22	<u>14.4</u>	<u>26.7</u>		

The notes set out on pages 190 to 224 form an integral part of, and should be read in conjunction with, these financial statements.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Favelle Favco Berhad
(Company No. 249243-W)
(Incorporated in Malaysia)
and its subsidiaries

Statements of changes in equity for the year ended 31 December 2005

Group	Reserves					Total RM'000
	Share capital RM'000	Translation reserve RM'000	Non-distributable Reserves arising on consolidation RM'000	Retained profits/ (Accumulated losses) RM'000	Sub-total RM'000	
At 1 January 2004	50,000	11,976	2,145	(12,718)	1,403	51,403
Changes in accounting policies Effect of adopting FRS 3	-	-	(2,145)	2,145	-	-
Restated balance	50,000	11,976	-	(10,573)	1,403	51,403
Exchange differences on translation of financial statements of foreign entities	-	3,049	-	-	3,049	3,049
Net gain not recognised in the income statement	-	3,049	-	-	3,049	3,049
Net profit for the year	-	-	-	13,316	13,316	13,316
At 31 December 2004	50,000	15,025	-	2,743	17,768	67,768
Exchange differences on translation of financial statements of foreign entities	-	(4,597)	-	-	(4,597)	(4,597)
Net loss not recognised in the income statement	-	(4,597)	-	-	(4,597)	(4,597)
Net profit for the year	-	-	-	7,180	7,180	7,180
At 31 December 2005	50,000	10,428	-	9,923	20,351	70,351

Note 15

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

**Statements of changes in equity for the year ended
31 December 2005**

(continued)

<i>Company</i>	Share capital RM'000	Retained profits/ (Accumulated losses) RM'000	Total RM'000
At 1 January 2004	50,000	(13,588)	36,412
Net profit for the year	-	13,964	13,964
At 31 December 2004	50,000	376	50,376
Net profit for the year	-	365	365
At 31 December 2005	50,000	741	50,741

Note 15

The notes set out on pages 190 to 224 form an integral part of, and should be read in conjunction with, these financial statements.

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Berhad

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Cash flow statements for the year ended 31 December 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash flows from operating activities					
Profit before taxation		8,883	12,884	365	13,964
Adjustments for:					
Allowance for doubtful debts		329	1,131	6,000	-
Amortisation of development costs		2,011	1,608	-	-
Amortisation of intellectual property		252	252	110	110
Depreciation		7,832	6,808	129	17
Loss/(Gain) on disposal of property, plant and equipment		27	(18,794)	-	(18,798)
Goodwill written off		571	-	-	-
Interest expense		5,377	3,299	955	576
Interest income		(182)	(203)	(4)	(3)
Unrealised loss/(gain) on foreign exchange		2,792	(4,296)	1,169	(1,133)
Share of loss/(profit) of associates (net of tax)		73	(8)	-	-
Addition of provisions		4,498	13,037	-	4,650
Reversal of provisions		(2,194)	(1,647)	(460)	-
Operating profit/(loss) before working capital changes		30,269	14,071	8,264	(617)
Changes in working capital:					
Development costs incurred		(3,496)	-	-	-
Inventories		(15,143)	2,306	-	-
Trade and other receivables		(63,137)	(62,653)	(8,312)	1,883
Trade and other payables		91,747	46,789	891	753
Cash generated from operations		40,240	513	843	2,019
Interest paid		(3,666)	(1,814)	(955)	(576)
Interest received		182	203	4	3
Income taxes paid		(443)	(990)	(4)	(3)
Provisions paid		(3,463)	(965)	-	-
Net cash generated from/(used in) operating activities		32,850	(3,053)	(112)	1,443

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Cash flow statements for the year ended 31 December 2005
(continued)

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash flows from investing activities					
Acquisition of associate (Note 4)		(76)	-	(76)	-
Proceeds from disposal of property, plant and equipment		77	86	-	-
Purchase of property, plant and equipment	(i)	(34,710)	(9,206)	-	-
Net cash used in investing activities		(34,709)	(9,120)	(76)	-
Cash flows from financing activities					
Advance from ultimate holding company		844	1,201	-	1,201
Interest paid		(1,711)	(1,485)	-	-
Repayment of hire purchase liabilities		(213)	(105)	-	-
Repayment of onshore foreign currency loan		(4,560)	-	-	-
Drawdown of term loans		21,120	6,771	-	-
Drawdown of revolving credits		-	7,000	-	-
Repayment from a subsidiary		-	-	3,212	-
Repayment of term loans		(4,951)	(6,067)	(3,024)	(2,660)
Repayment of revolving credits		(60)	-	-	-
Net cash generated from/(used in) financing activities		10,469	7,315	188	(1,459)
Exchange difference on translation of the financial statements of foreign operations		124	1,069	-	-
Net increase/(decrease) in cash and cash equivalents		8,734	(3,789)	-	(16)
Cash and cash equivalents at beginning of year	(ii)	(2,853)	515	13	29
Foreign exchange difference on opening balance		(812)	421	-	-
Cash and cash equivalents at end of year	(ii)	5,069	(2,853)	13	13

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Cash flow statements for the year ended 31 December 2005
(continued)

(i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM35,239,000 (2004 - RM9,458,000), of which RM529,000 (2004 - RM252,000) were acquired by means of hire purchases.

(ii) Cash and cash equivalents

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

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances (Note 10)	16,023	8,765	13	13
Deposit (Note 10)	1,541	362	-	-
Bank overdrafts (Note 13)	(12,495)	(11,980)	-	-
	<u>5,069</u>	<u>(2,853)</u>	<u>13</u>	<u>13</u>

The notes set out on pages 190 to 224 form an integral part of, and should be read in conjunction with, these financial statements.

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Berhad

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Notes to the financial statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and by the Company and are consistent with those adopted in previous years except for the adoption of the following:

- (i) FRS 3, Business Combinations;
- (ii) FRS 136, Impairment of Assets; and
- (iii) FRS 138, Intangible Assets.

In addition to the new policies and extended disclosures where required by the new standard, the effects of the changes in the above accounting policies are disclosed in Note 28 to these financial statements.

(a) Basis of accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

(b) Basis of consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company' balance sheet at cost less impairment losses. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

A subsidiary is excluded from consolidation when either control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

All business combinations are accounted for by applying the purchase method.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

Under the purchase method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group's financial statements. The excess of the acquisition cost over the fair values of the subsidiaries' net assets is reflected as goodwill. The excess of the fair values of the subsidiaries' net assets over the acquisition cost, after reassessment, is recognised immediately in the income statement.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Associates

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

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

(d) Affiliated company

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

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Freehold land and capital work-in-progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation

Depreciation commences when the assets are ready for their intended use.

Freehold land and capital work-in-progress are not amortised.

The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Buildings	2% - 10%
Cranes	6 $\frac{2}{3}$ % - 10%
Plant, equipment and motor vehicles	8% - 33 $\frac{1}{3}$ %

(f) Intangible assets

(i) *Development costs*

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

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the remuneration of staff directly involved in the development activities, cost of materials and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses, if any.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised of five to eight years.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

(ii) 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, if any. Intellectual property is amortised and recognised as an expense over ten years on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised, unless the Directors consider that a continuing benefit will not accrue.

(iii) Goodwill arising on consolidation

Goodwill arising on consolidation represents the difference between the acquisition cost and the fair values of the net identifiable assets acquired of the subsidiaries and associates at the date of acquisition.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(g) Investments

Investments in subsidiaries and associates are stated at cost in the Company, less impairment loss, where applicable.

(h) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

(i) Employee benefits

(i) Short term employee benefits

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(j) Provision

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount.

(i) Provision for warranties

A provision for warranties for the manufacture of cranes is recognised when the defect liability periods have commenced. It is based on historical warranty data and a weighting of all possible outcomes against the associated probabilities.

(ii) Provision for restructuring cost

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

(k) Liabilities

Borrowings and trade and other payables are stated at cost.

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

Amount due from/(to) contract customers on the manufacture of cranes is stated, using the percentage of completion method, at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is shown in trade and other payables as amount due to contract customers.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)**(m) Inventories**

Inventories comprise crane components, work-in-progress and assembled cranes and are stated at the lower of cost and net realisable value. Crane components are determined on a first-in, first-out basis. Cost of work-in-progress and assembled cranes is determined on a specific identification basis.

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

Cost of work-in-progress and assembled cranes consists of crane components, direct labour and an appropriate proportion of fixed and variable production overhead.

(n) Cash and cash equivalents

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

(o) Impairment

The carrying amount of assets, other than inventories, assets arising from construction contracts and deferred tax assets and financial assets (other than investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

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

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(o) Impairment (continued)

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. However, an impairment loss in respect of goodwill is not reversed.

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. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

(p) Hire purchase

Property, plant and equipment acquired under hire purchase arrangements are capitalised at their purchase cost and depreciated on the same basis as owned assets. The total amounts payable under hire purchase agreements are included as hire purchase liabilities.

(q) Capitalisation of borrowing costs

Borrowing costs incurred on development activities are capitalised. Capitalisation of borrowing costs will cease when the assets are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(r) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purpose and the initial recognition of assets or liabilities that at the time of transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(s) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of transactions.

(ii) Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in equity.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(s) Foreign currency (continued)

(ii) Financial statements of foreign operation (continued)

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

1USD	RM3.78	(2004: 1USD	RM3.80)
1SGD	RM2.27	(2004: 1SGD	RM2.32)
1AUD	RM2.76	(2004: 1AUD	RM2.96)
1DKK	RM0.60	(2004: 1DKK	RM0.70)
1GBP	RM6.52	(2004: 1GBP	RM7.31)
1EURO	RM4.48	(2004: 1EURO	RM5.17)
1THB	RM0.09	(2004: 1THB	RM0.10)
1BND	RM2.27	(2004: 1BND	RM2.32)

(t) Revenue

(i) Construction contracts

Revenue from the manufacture of cranes is recognised on the percentage of completion method, measured by reference to the proportion of contract costs incurred for contract work performed to date that reflect work performed bear to the total estimated contract costs.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on a contract is recognised immediately in the income statement.

(ii) Goods sold and services rendered

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

Revenue from services rendered is recognised in the income statement by reference to the value of works performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

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

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

1. Summary of significant accounting policies (continued)

(t) Revenue (continued)

(iii) Dividend income

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

(iv) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

When the recoverability of the interest income is uncertain, interest is suspended until it is realised on cash basis.

(u) Expenses

(i) Hire purchase payment

The interest component of hire purchase payments is recognised in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.

(ii) Financing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than borrowing costs directly attributable to the development activities which are capitalised, as disclosed in Note 1(q).

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

2. Property, plant and equipment

Group	Freehold land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
Cost						
Opening balance	239	18,162	47,429	32,963	1,620	100,413
Additions	9,000	15,052	3,564	3,811	3,812	35,239
Disposals	-	-	(27)	(369)	-	(396)
Reclassification	-	3,086	-	1,869	(4,955)	-
Exchange differences	(32)	1,346	(6,127)	(1,574)	-	(6,387)
Closing balance	9,207	37,646	44,839	36,700	477	128,869
Depreciation and impairment losses						
Accumulated depreciation	-	9,558	25,571	24,193	-	59,322
Accumulated impairment losses	-	1,494	536	993	-	3,023
Opening balance	-	11,052	26,107	25,186	-	62,345
Charge for the year	-	667	4,291	2,874	-	7,832
Disposals	-	-	-	(261)	-	(261)
Exchange differences	-	2,092	(3,635)	(1,359)	-	(2,902)
Accumulated depreciation	-	12,317	26,227	25,447	-	63,991
Accumulated impairment losses	-	1,494	536	993	-	3,023
Closing balance	-	13,811	26,763	26,440	-	67,014
Net book value						
At 31 December 2005	9,207	23,835	18,076	10,260	477	61,855
At 31 December 2004	239	7,110	21,322	7,777	1,620	38,068
Depreciation charge for the year ended 31 December 2004	-	539	3,585	2,684	-	6,808
Impairment loss for the year ended 31 December 2004	-	1,494	-	993	-	2,487

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

2. Property, plant and equipment (continued)

<i>Company</i>	Buildings	Plant, equipment and motor vehicles	Total
	RM'000	RM'000	RM'000
Cost			
Opening balance/			
Closing balance	2,989	1,984	4,973
Depreciation and impairment losses			
Accumulated depreciation	-	-	-
Accumulated impairment losses	1,494	993	2,487
Opening balance	1,494	993	2,487
Depreciation charge for the year	30	99	129
Accumulated depreciation	30	99	129
Accumulated impairment losses	1,494	993	2,487
Closing balance	1,524	1,092	2,616
Net book value			
At 31 December 2005	1,465	892	2,357
At 31 December 2004	1,495	991	2,486
Depreciation charge for the year ended 31 December 2004	17	-	17
Impairment losses for the year ended 31 December 2004	1,494	993	2,487

Security

The freehold land, buildings, plant and equipment of subsidiaries with total net book value of RM32,127,000 (2004 - RM8,231,000) have been pledged to certain licensed banks as security for term loan facilities granted to the respective subsidiary (Note 13).

Assets under hire purchase arrangements

Included in property, plant and equipment of the Group are motor vehicles acquired under hire purchase arrangements with net book value of RM1,693,000 (2004 - RM387,000).

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3. Investments in subsidiaries

	Company	
	2005	2004
	RM'000	RM'000
Unquoted shares, at cost	56,470	56,470
Less: Allowance for diminution in value	(27,443)	(27,443)
	<u>29,027</u>	<u>29,027</u>

Details of the subsidiaries are shown in Note 26.

4. Investments in associates

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Unquoted shares, at cost	256	180	256	180
Share of post-acquisition reserves	56	134	-	-
	<u>312</u>	<u>314</u>	<u>256</u>	<u>180</u>
Represented by:				
Group's share of net assets	<u>312</u>	<u>314</u>		

Details of the associates are set out as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest	
			2005	2004
			%	%
Favco Offshores Sdn. Bhd.	Designing, manufacturing, supply, servicing and trading of cranes and renting of cranes and marine plant and undertaking other engineering works.	Malaysia	30	30
Favelle Favco Machinery and Equipments LLC	Import and trade of building and construction machinery, equipment and spare parts, trade of handling, loading and unloading equipment and rental of construction and building equipment.	United Arab Emirates	49	-

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

5. Development costs

<i>Cost</i>	Group	
	2005	2004
	RM'000	RM'000
Opening balance	11,173	7,836
Additions	3,496	3,017
Exchange differences	(725)	320
Closing balance	<u>13,944</u>	<u>11,173</u>
<i>Amortisation</i>		
Opening balance	6,019	4,148
Amortisation charge for the year (Note 19)	2,011	1,608
Exchange differences	(448)	263
Closing balance	<u>7,582</u>	<u>6,019</u>
<i>Net book value</i>		
At 31 December	<u>6,362</u>	<u>5,154</u>

6. Other intangible assets

<i>Group</i>	Intellectual	Goodwill	Total
	property	on	
	RM'000	consolidation	RM'000
	RM'000	RM'000	RM'000
<i>Cost</i>			
Opening balance	2,519	1,143	3,662
Written off (Note 21)	-	(571)	(571)
Closing balance	<u>2,519</u>	<u>572</u>	<u>3,091</u>
<i>Amortisation</i>			
Opening balance	1,483	-	1,483
Amortisation charge for the year (Note 19)	252	-	252
Closing balance	<u>1,735</u>	<u>-</u>	<u>1,735</u>
<i>Net book value</i>			
At 31 December 2005	<u>784</u>	<u>572</u>	<u>1,356</u>
At 31 December 2004	<u>1,036</u>	<u>1,143</u>	<u>2,179</u>
Amortisation charge for the year ended 31 December 2004	<u>252</u>	<u>-</u>	<u>252</u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

6. Other intangible assets (continued)

<i>Company</i>	Intellectual property RM'000
<i>Cost</i>	
Opening balance/Closing balance	1,098
<i>Amortisation</i>	
Opening balance	659
Amortisation charge for the year (Note 19)	110
Closing balance	769
<i>Net book value</i>	
At 31 December 2005	329
At 31 December 2004	439
Amortisation charge for the year ended 31 December 2004	110

Intellectual property represents the rights to trade name, know how and industrial property rights.

7. Long term advances due from a subsidiary

	Company	
	2005 RM'000	2004 RM'000
Long term advances due from a subsidiary	49,244	52,456
Less: Allowance for doubtful debts (Note 19)	(25,000)	(19,000)
	<u>24,244</u>	<u>33,456</u>

These advances to a subsidiary are non-trade in nature, unsecured, interest free and not expected to be repayable within the next twelve months.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

8. Inventories

	Group	
	2005 RM'000	2004 RM'000
At cost:		
Cranes	8,263	8,778
Crane components	32,781	25,620
Work-in-progress	16,354	14,964
	57,398	49,362
At net realisable value:		
Cranes	5,737	5,643
Crane components	9,715	2,931
	72,850	57,936

Security

The inventories of a subsidiary with a total cost and net realisable value of RM3,780,000 (2004 - RM1,395,000) have been pledged to certain licensed banks as security for revolving credit facility granted to the subsidiary (Note 13).

9. Trade and other receivables

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Progress billings receivable	2,414	13,230	-	-
Trade receivables	66,905	40,156	-	-
Less: Allowance for doubtful debts	(2,258)	(3,645)	-	-
	64,647	36,511	-	-
Amount due from contract customers	147,258	107,139	-	-
Ultimate holding company	4,262	1,702	-	-
Subsidiaries	-	-	36,258	30,388
Related companies	1,105	2,112	-	-
Associates	428	229	11	-
Affiliated company	116	-	-	-
Other receivables, deposits and prepayments	8,213	7,297	2,484	170
	228,443	168,220	38,753	30,558

15. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

9. Trade and other receivables (continued)

Amount due from contract customers

	Group	
	2005	2004
	RM'000	RM'000
Aggregate costs incurred to date	259,605	155,127
Add: Attributable profits less foreseeable losses	63,231	48,463
	<u>322,836</u>	<u>203,590</u>
Less: Progress billings	(195,963)	(111,223)
	<u>126,873</u>	<u>92,367</u>
Amount due to contract customers reclassified (Note 11)	20,385	14,772
	<u>147,258</u>	<u>107,139</u>

Company

Subsidiaries

The amounts due from subsidiaries of the Company are unsecured with no fixed terms of repayment and are interest free, other than amounts due from certain subsidiaries of RM94,000 (2004 - RM91,000) which bear interest at 5.0% (2004 - 5.0%) per annum.

Included in amount due from subsidiaries of the Company are non-trade related balances amounting to RM35,643,000 (2004 - RM29,730,000).

Associate

The amount due from an associate of the Company is non-trade in nature, unsecured, interest free with no fixed terms of repayment.

Group

Ultimate holding company

The ultimate holding company is Muhibbah Engineering (M) Bhd. ("MEB"), a company incorporated in Malaysia and listed on the Bursa Malaysia Securities Berhad.

The amount due from ultimate holding company is unsecured, interest free with no fixed terms of repayment.

Included in amount due from ultimate holding company is a non-trade related balance amounting to RM1,482,000 (2004 - RM1,702,000).

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9. Trade and other receivables (continued)

Related companies

The amount due from related companies is unsecured, interest free with no fixed terms of repayment. The amount is non-trade in nature (2004 - amount of RM1,996,000 was non-trade in nature).

Associates

The amount due from associates is unsecured, interest free with no fixed terms of repayment and includes a non-trade balance of RM76,000 (2004 - RM3,000).

Affiliated company

The amount due from an affiliated company is trade in nature, interest free with no fixed terms of repayment.

10. Cash and cash equivalents

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	16,023	8,765	13	13
Deposit placed with a licensed bank	1,541	362	-	-
	<u>17,564</u>	<u>9,127</u>	<u>13</u>	<u>13</u>

11. Trade and other payables

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Trade payables	88,927	51,455	-	-
Amount due to contract customers (Note 9)	20,385	14,772	-	-
Ultimate holding company	7,427	9,412	-	-
Subsidiary	-	-	7,590	6,768
Related companies	4,261	2,984	-	-
Associate	50	-	50	-
Affiliated company	468	491	-	-
Other payables and accrued expenses	24,799	17,065	38	19
	<u>146,317</u>	<u>96,179</u>	<u>7,678</u>	<u>6,787</u>

**15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

11. Trade and other payables (continued)

Company

Subsidiary

The amount due to a subsidiary is non-trade in nature, unsecured with no fixed term of repayment and bears interest at 9.0% (2004 - 9.0%) per annum.

Associate

The amount due to an associate is non-trade in nature, unsecured, interest free with no fixed terms of repayment.

Group

Ultimate holding company

The amount due to ultimate holding company is non-trade in nature, unsecured, interest free with no fixed terms of repayment.

Related companies

The amount due to related companies is interest free, unsecured with no fixed terms of repayment and includes non-trade balances amounting to RM3,052,000 (2004 - RM113,000).

Associate

The amount due to an associate is non-trade in nature, unsecured, interest free with no fixed terms of repayment.

Affiliated company

The amount due to an affiliated company is non-trade in nature, unsecured, interest free with no fixed terms of repayment.

12. Bills payable

Bills payable of a subsidiary represent bankers' acceptances and are supported by a corporate guarantee from the ultimate holding company and bear interest at rates ranging from 2.61% to 5.30% (2004 - 2.58% to 4.85%) per annum.

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

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

13. Bank overdrafts, loans and hire purchase

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current:				
Term loans - secured	6,329	5,528	-	-
Term loan - unsecured	-	3,040	-	3,040
Bank overdraft - secured	2,296	2,523	-	-
Bank overdrafts - unsecured	10,199	9,457	-	-
Revolving credit - secured	1,323	-	-	-
Revolving credits - unsecured	23,416	23,400	11,416	11,400
Onshore foreign currency loan-unsecured	-	4,560	-	-
Insurance premium finance-unsecured	772	1,960	-	-
Hire purchase liabilities	225	188	-	-
	<u>44,560</u>	<u>50,656</u>	<u>11,416</u>	<u>14,440</u>
Non-current:				
Term loans - secured	18,474	277	-	-
Hire purchase liabilities	509	228	-	-
	<u>18,983</u>	<u>505</u>	<u>-</u>	<u>-</u>
	<u>63,543</u>	<u>51,161</u>	<u>11,416</u>	<u>14,440</u>

Terms and debt repayment schedule

Group	Total RM'000	Under	1 - 2	2 - 5	Over 5
		1 year RM'000	years RM'000	years RM'000	years RM'000
2005					
Term loans - secured	24,803	6,329	4,224	6,336	7,914
Bank overdraft - secured	2,296	2,296	-	-	-
Bank overdrafts - unsecured	10,199	10,199	-	-	-
Revolving credit - secured	1,323	1,323	-	-	-
Revolving credits- unsecured	23,416	23,416	-	-	-
Insurance premium finance- unsecured	772	772	-	-	-
Hire purchase liabilities	734	225	329	91	89
	<u>63,543</u>	<u>44,560</u>	<u>4,553</u>	<u>6,427</u>	<u>8,003</u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

13. Bank overdrafts, loans and hire purchase (continued)

<i>Group</i>		Total	Under	1 - 2	2 - 5	Over 5
		RM'000	1 year	years	years	years
2004			RM'000	RM'000	RM'000	RM'000
Term loans - secured		5,805	5,528	277	-	-
Term loan - unsecured		3,040	3,040	-	-	-
Bank overdraft - secured		2,523	2,523	-	-	-
Bank overdrafts - unsecured		9,457	9,457	-	-	-
Revolving credits - unsecured		23,400	23,400	-	-	-
Onshore foreign currency loan - unsecured		4,560	4,560	-	-	-
Insurance premium finance - unsecured		1,960	1,960	-	-	-
Hire purchase liabilities		416	188	144	84	-
		<u>51,161</u>	<u>50,656</u>	<u>421</u>	<u>84</u>	<u>-</u>
<i>Company</i>		Total	Under	1 - 2	2 - 5	
		RM'000	1 year	years	years	
2005			RM'000	RM'000	RM'000	RM'000
Revolving credits - unsecured		11,416	11,416	-	-	
		<u>11,416</u>	<u>11,416</u>	<u>-</u>	<u>-</u>	
2004						
Term loan - unsecured		3,040	3,040	-	-	
Revolving credit - unsecured		11,400	11,400	-	-	
		<u>14,440</u>	<u>14,440</u>	<u>-</u>	<u>-</u>	

Hire purchase liabilities are payable as follows:

<i>Group</i>	Payments	Interest	Principal	Payments	Interest	Principal
	2005	2005	2005	2004	2004	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Less than one year	251	(26)	225	224	(36)	188
Between one and five years	581	(72)	509	256	(28)	228
	<u>832</u>	<u>(98)</u>	<u>734</u>	<u>480</u>	<u>(64)</u>	<u>416</u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

13. Bank overdrafts, loans and hire purchase (continued)

Term loans

The secured term loans of certain subsidiaries are charged against their freehold land, buildings, plant and equipment (Note 2) and are backed by the corporate guarantee from the ultimate holding company.

The unsecured term loan of the Company was backed by the ultimate holding company, and utilised by a subsidiary. Consequently, the interest expense was borne by the said subsidiary.

These term loans are subject to interest rates ranging from 4.30% to 9.00% (2004 - 3.10% to 8.25%) per annum and are repayable in various instalments at various dates up to ten years.

Bank overdrafts and revolving credits

The secured bank overdraft of a subsidiary is charged against its freehold land, buildings, plant and equipment (Note 2) and is backed by the corporate guarantee from the ultimate holding company.

The unsecured bank overdrafts and revolving credits of certain subsidiaries are backed by the ultimate holding company.

These bank overdrafts and revolving credits bear interest at rates ranging from 7.25% to 9.20% (2004 - 3.10% to 9.20%) per annum.

The revolving credit of the Company is backed by the ultimate holding company, subject to interest at rates ranging from 4.30% to 6.20% (2004 - 3.10% to 3.70%) per annum and are utilised by a subsidiary. Consequently, the interest expense is borne by the said subsidiary.

Onshore foreign currency loan

During the financial year, the Group fully repaid the onshore foreign currency loan. The onshore foreign currency loan was subject to a fixed rate interest rate at 3.53% per annum. The onshore foreign currency loan was backed by the corporate guarantee from the ultimate holding company.

Insurance premium finance

Insurance premium finance of a subsidiary bears interest at rate at 3.13% (2004 - 3.13%) per annum.

Hire purchase liabilities

Hire purchase liabilities of certain subsidiaries bear interest at rates ranging from 3.00% to 7.75% (2004 - 4.25% to 5.90%) per annum.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

14. Provisions

Group	← 2005 →			2004
	Warranties RM'000	Restructuring costs RM'000	Total RM'000	Total RM'000
Opening balance	5,984	5,832	11,816	5,399
Provision made during the year	4,498	-	4,498	13,037
Provision reversed during the year	(1,349)	(845)	(2,194)	(1,647)
Provision used during the year	(2,415)	(1,048)	(3,463)	(5,154)
Exchange differences	(251)	-	(251)	181
Closing balance	<u>6,467</u>	<u>3,939</u>	<u>10,406</u>	<u>11,816</u>
Current	6,467	3,939	10,406	10,988
Non current	-	-	-	828
Balance at 31 December	<u>6,467</u>	<u>3,939</u>	<u>10,406</u>	<u>11,816</u>

Company	2005 RM'000	2004 RM'000
Restructuring costs		
Opening balance	460	-
Provision made during the year	-	4,650
Provision reversed during the year	(460)	(4,190)
Closing balance	<u>-</u>	<u>460</u>

Warranties

The provision for warranties relates to defects rectifications for manufactured cranes sold. This provision is made based on historical track records at a fixed rate. The defect liability period varies from 12 months to 36 months.

Restructuring costs

In the previous year, a provision of RM5,832,000 was made for the Group's restructuring plan. The estimated costs were based on a detailed and formal plan. The related plans were announced in 2004 and the restructuring is expected to be completed by early 2006.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

15. Share capital

	Group and Company	
	2005	2004
	RM'000	RM'000
Ordinary shares of RM1 each:		
Authorised		
Opening balance	500,000	50,000
Created during the year	-	450,000
	<u>500,000</u>	<u>500,000</u>
Closing balance	<u>500,000</u>	<u>500,000</u>
Issued and fully paid	<u>50,000</u>	<u>50,000</u>

16. Reserves

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all its retained profit at 31 December 2005 if paid out as dividends.

17. Deferred tax

The amounts, determined after appropriate offsetting, are as follows:

	Group	
	2005	2004
	RM'000	RM'000
Deferred tax assets	-	(620)
Deferred tax liabilities	1,451	604
	<u>1,451</u>	<u>604</u>

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	Group	
	2005	2004
	RM'000	RM'000
Deductible/(taxable) temporary differences	1,801	(650)
Unutilised tax losses	(350)	634
	<u>1,451</u>	<u>(16)</u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

17. Deferred tax (continued)

	Group	
	2005 RM'000	2004 RM'000
No deferred tax has been recognised for the following items:		
Deductible temporary differences	(28,561)	(5,422)
Unutilised tax losses	(55,724)	(62,929)
	<u>(84,285)</u>	<u>(68,351)</u>

The unutilised tax losses and 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.

18. Long term advances due to ultimate holding company

These advances from the ultimate holding company are non-trade in nature, unsecured, interest free and not repayable within the next twelve months.

19. Operating profit

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Operating profit is arrived at after crediting:				
Allowance for doubtful debts written back	189	400	-	-
Dividend income from unquoted shares of subsidiaries	-	-	8,901	-
Gain on foreign exchange				
- realised	2,040	-	-	-
- unrealised	-	4,296	-	1,133
Rental income on premises	568	696	-	30
Rental income on cranes	16,819	14,365	-	-
Reversal of provision for warranties (Note 14)	1,349	-	-	-
Reversal of provision for restructuring costs (Note 14)	845	-	460	-
Reversal of write down of inventories	440	13	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

19. Operating profit (continued)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
and after charging:				
Allowance for doubtful debts	329	1,131	6,000	-
Allowance for slow moving inventories	955	662	-	-
Audit fees				
- holding company's auditors	104	195	34	20
- other auditors	201	184	-	-
Amortisation of development costs (Note 5)	2,011	1,608	-	-
Amortisation of intellectual property (Note 6)	252	252	110	110
Bad debts written off	-	1,680	-	-
Depreciation (Note 2)	7,832	6,808	129	17
Directors'				
- fees	225	81	91	45
- remuneration	469	385	433	134
Inventory written off	-	1,279	-	-
Loss on foreign exchange:				
- realised	-	2,640	-	553
- unrealised	2,792	-	1,169	-
Loss on disposal of property, plant and equipment	27	4	-	-
Provision for warranties costs (Note 14)	4,498	1,369	-	-
Rental expense on:				
- cranes	4,115	6,352	-	-
- premises	412	539	-	-
- equipments	997	801	-	-
Research and development expenditure not capitalised	-	179	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

20. Employee information

	Group	
	2005 RM'000	2004 RM'000
Staff costs	29,669	26,229
Define contribution	1,392	943
	<u> </u>	<u> </u>

The average number of employees of the Group (including Directors) during the year was 352 (2004 - 321).

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

21. Exceptional items

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Other operating expenses				
- Property, plant and equipment impairment loss (Note 2)	-	(2,487)	-	(2,487)
- Goodwill written off (Note 6)	(571)	(1,702)	-	(1,702)
- Provision for restructuring costs	-	(5,832)	-	(461)
	<u>(571)</u>	<u>(10,021)</u>	<u>-</u>	<u>(4,650)</u>
Other operating income				
- Gain on disposal of property, plant and equipment	-	18,798	-	18,798
	<u>-</u>	<u>18,798</u>	<u>-</u>	<u>18,798</u>

22. Earnings per ordinary share - Group

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM7,180,000 (2004 - RM13,316,000) and the weighted average number of ordinary shares outstanding during the year of 50,000,000 (2004 - 50,000,000).

23. Tax expense

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current tax expense:				
Malaysia - current	930	900	-	-
- prior years	(670)	(712)	-	-
	260	188	-	-
Deferred tax expense:				
Originating and reversal of temporary differences	1,138	(621)	-	-
Underprovision in prior years	300	-	-	-
	<u>1,698</u>	<u>(433)</u>	<u>-</u>	<u>-</u>
Tax expense on share of profit of associates	5	1	-	-
	<u>1,703</u>	<u>(432)</u>	<u>-</u>	<u>-</u>

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

23. Tax expense (continued)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Reconciliation of tax expense				
Profit before taxation	8,883	12,884	365	13,964
Income tax using Malaysian tax rates	2,487	3,608	102	3,910
Effect of different tax rates in foreign jurisdictions	(212)	(290)	-	-
Non-deductible expenses	1,082	3,607	2,520	1,525
Non-taxable income	(129)	(162)	(129)	(162)
Tax exempt income	(5,699)	(8,024)	(2,493)	(5,273)
Effect of utilisation of deferred tax assets previously not recognised	(289)	(378)	-	-
Effect of deferred tax assets not recognised	4,461	1,805	-	-
Effect of changes in tax rates	-	(54)	-	-
Others	372	168	-	-
	2,073	280	-	-
(Over)/underprovision in prior years				
- current tax expense	(670)	(712)	-	-
- deferred tax expense	300	-	-	-
Tax expense	1,703	(432)	-	-

24. Segmental information

Segment information is presented in respect of the geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

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

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

24. Segmental information (continued)

Geographical segments

The Group's business is managed on a worldwide basis with its head office in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are also based on the geographical location of assets.

The financial information by business segment is not presented as the Group's activities are primarily in the manufacturing and supplying of cranes.

	Inside Malaysia		Outside Malaysia		Eliminations		Consolidated	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Geographical segments								
Revenue from								
external customers	127,577	59,328	208,069	207,637	-	-	335,646	266,965
Inter-segment revenue	72,698	62,679	48,559	26,969	(121,257)	(89,648)	-	-
Total revenue	200,275	122,007	256,628	234,606	(121,257)	(89,648)	335,646	266,965
Operating profit/(loss)	19,040	24,291	(1,423)	(4,407)	(3,466)	(3,913)	14,151	15,971
Interest expense	(4,574)	(2,404)	(3,148)	(3,188)	2,345	2,293	(5,377)	(3,299)
Interest income	4	6	2,376	2,641	(2,198)	(2,444)	182	203
Share of profit/(loss) of associates	3	9	(76)	-	-	-	(73)	9
Profit/(loss) before taxation	14,473	21,902	(2,271)	(4,954)	(3,319)	(4,064)	8,883	12,884
Segment assets	341,297	248,071	259,057	249,430	(209,775)	(213,919)	390,579	283,582
Investments in associates	312	314	-	-	-	-	312	314
Total assets	341,609	248,385	259,057	249,430	(209,775)	(213,919)	390,891	283,896
Segment liabilities	250,150	164,559	272,582	252,324	(202,192)	(200,755)	320,540	216,128

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

25. Related parties

Controlling related party relationships are as follows:

- i) The ultimate holding company as disclosed in Note 9.
- ii) The Company's subsidiaries as disclosed in Note 26.
- iii) The substantial shareholder of the ultimate holding company, Mr Mac Ngan Boon @ Mac Yin Boon.
- iv) Its associates and affiliated companies as disclosed in Note 4 and Note 1(d) respectively.

Significant transactions with related parties:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Ultimate holding company				
Purchase of property, plant and equipment	161	61	-	-
Purchase of goods	769	-	-	-
Rental expense payable	1,277	1,341	-	-
Sale of goods	(4,505)	(5,229)	-	-
Subcontract cost payable	200	104	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subsidiaries				
Rental income receivable	-	-	-	(30)
Interest expense payable	-	-	955	576
Interest income receivable	-	-	(4)	(3)
Purchase of property, plant and equipment	-	-	-	4,973
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Related companies				
Sale of goods	-	(4)	-	-
Purchase of goods	296	-	-	-
Purchase of services	-	16	-	-
Subcontract cost payable	317	559	-	-
Deposit of property, plant and equipment	-	2,400	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Associates				
Rental income	(95)	(63)	-	-
Sale of services	(828)	(802)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

26. Companies in the Group

The principal activities of the companies in the Group, their places of incorporation and the interest of Favelle Favco Berhad are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest	
			2005 %	2004 %
Favelle Favco Cranes Pty. Limited ** and its subsidiaries:	Designing, manufacturing, supply, servicing and renting of cranes	Australia	100	100
FF Management Pty. Limited **	Management services	Australia	100	100
Milperra Blasting and Coating Pty. Limited **	Dormant	Australia	100	100
Favelle Favco Cranes Pte. Ltd. *	Supplying, servicing, trading and renting of cranes	Singapore	100	100
Favelle Favco Cranes (M) Sdn. Bhd.	Designing, manufacturing, supply, servicing, trading and renting of cranes	Malaysia	100	100
Kroll Cranes A/S ** and its subsidiary:	Designing, manufacturing, supply, servicing, trading and renting of cranes	Denmark	100	100
Kroll Kraner AB **	Ceased operation	Sweden	100	100
Favelle Favco Cranes (USA), Inc. ** @	Designing, manufacturing, supply, servicing, trading and renting of cranes	United States of America	100	100

@ The management financial statements of Favelle Favco Cranes (USA), Inc., have been verified by another firm of accountants for consolidation purposes as a statutory audit is not required in the United States of America.

* Subsidiary audited by overseas offices of KPMG.

** Subsidiaries not audited by KPMG.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

27. Restatement of prior year balances

During the financial year, the Group early adopted FRS 3, Business Combinations, which becomes effective for the financial year beginning on or after 1 January 2006. In accordance with the transitional provisions of FRS 3, the negative goodwill was derecognised with a corresponding adjustment to the opening balance of the retained earnings at 1 January 2005.

The financial statements of the Group for the year ended 31 December 2004 have been restated for the derecognition of the negative goodwill. The effect of the change in accounting policy had been reflected in the statement of changes in equity.

28. Comparative figures

The following comparatives have been restated to reflect the change in accounting policy as explained in Note 27.

Statement of changes in equity	Group	
	As restated RM'000	As previously stated RM'000
Group		
Accumulated losses at 1 January 2004	10,573	12,718
Retained profits at 31 December 2004	2,743	598
	<u> </u>	<u> </u>

29. Financial instruments

Financial risk management objectives and policies

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

Credit risk

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

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

Interest rate risk

The Group and the Company borrow for working capital purposes from banks and financial institutions.

The financial assets and liabilities are short term and the interest rates are subject to changes to the market rate. The Group does not use derivative financial instruments to hedge such risk.

15. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

29. Financial instruments (continued)

Foreign currency risk

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

The currencies giving rise to this risk are mainly US dollars, the EURO, AUD dollars, SGD dollars and DKK Kroner.

The subsidiaries do not have a fixed policy to hedge their sales and purchases in forward contracts. However, the exposure to foreign currency risk is mitigated by way natural hedging via borrowing in the same currency of the revenue receivable and is monitored by management from time to time.

Liquidity risk

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

Effective interest rates and repricing analysis

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

<i>Group</i>	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2005					
Financial liabilities					
Secured term loans:					
- DKK floating rate loan	5.84	4,217	4,217	-	-
- RM floating rate loan	4.76	20,586	2,112	10,560	7,914
Secured revolving credit in USD	9.25	1,323	1,323	-	-
Unsecured revolving credits in:					
- USD	6.20	11,416	11,416	-	-
- RM	5.23	12,000	12,000	-	-
Secured bank overdraft	7.50	2,296	2,296	-	-
Unsecured bank overdrafts	8.48	10,199	10,199	-	-
Unsecured insurance premium finance	3.13	772	772	-	-
Unsecured bills payable	3.26	73,302	73,302	-	-

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)

29. Financial instruments (continued)

<i>Group</i>	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
2004					
Financial liabilities					
Secured term loans:					
- DKK floating rate loan	6.21	5,080	5,080	-	-
- USD fixed rate loan	8.25	725	448	277	-
Unsecured USD floating rate term loan					
	3.70	3,040	3,040	-	-
Unsecured revolving credits in:					
- USD	3.70	11,400	11,400	-	-
- RM	5.68	12,000	12,000	-	-
Secured bank overdraft	7.00	2,523	2,523	-	-
Unsecured bank overdrafts	8.41	9,457	9,457	-	-
Unsecured onshore foreign currency loan					
	3.53	4,560	4,560	-	-
Unsecured insurance premium finance					
	3.13	1,960	1,960	-	-
Unsecured bills payable	3.64	31,691	31,691	-	-

Fair values

Recognised financial instruments

The aggregate fair values of long term financial liabilities carried on the balance sheet as at 31 December are represented in the following table.

<i>Group</i>	2005 Carrying amount RM'000	2005 Fair value RM'000	2004 Carrying amount RM'000	2004 Fair value RM'000
Financial liabilities				
Secured term loans:				
USD fixed rate loan	-	-	277	277
RM floating rate loan	18,474	18,474	-	-

In respect of trade and other receivables, trade and other payables, trade balances of related companies and short term borrowings, the carrying amounts approximate fair value due to the relatively short term nature of these instruments.

It is not possible to establish the fair value of non-trade balances in respect of amounts due to holding company and from/(to) related companies. Most of the balances are interest free and in case where interest is charged, the interest rate are fixed based on the inter-company relationship. The balances have no fixed term of repayment.

15. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

30. Commitments

	Group	
	2005	2004
	RM'000	RM'000
Capital commitments:		
Property, plant and equipment		
Contracted but not provided for in the financial statements	-	21,600
	<u> </u>	<u> </u>

31. Event subsequent to the balance sheet date

On 24 March 2006, the Securities Commission approved the proposed listing of Favelle Favco Berhad on the Second Board of Bursa Malaysia Securities Berhad, subject to the fulfilment of certain conditions.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK