16. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS

(As extracted from the audited consolidated financial statements of FFB for the FYE 2004)

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

(Formerly known as Favelle Favco Cranes Holdings Sdn Bhd)
(Company No. 249243-W)
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 227 to 266 . 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 2004 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.

16. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

KPMG

The subsidiaries in respect of which we have not acted as auditors are identified in Note 22 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

Chan Foo Siong
Partner
Approval Number: 1547/11/06(J/PH)

Kuala Lumpur,

Date: 11 APR 2005

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Favelle Favco Berhad

(Formerly known as Favelle Favco Cranes Holdings Sdn Bhd)
(Company No. 249243-W)
(Incorporated in Malaysia)

and its subsidiaries

Balance sheets at 31 December 2004

		Group		Company	
	Note	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Property, plant and equipment	2	38,068	41,489	2,486	5,219
Investment in subsidiaries	3	-	-	29,027	29,027
Investment in an associate	4	314	306	180	180
Development costs	5	5,154	3,688	-	-
Deferred expenditure		557	-	557	-
Other intangible assets	6	2,179	4,134	439	2,252
Deferred tax asset	14	620	-	-	-
Long term advances due from a subsidiary	7	-	-	33,456	39,805
		46,892	49,617	66,145	76,483
Current assets					
Inventories	8	57,936	60,242	-	-
Trade and other receivables	9	168,220	106,031	30,558	30,489
Tax recoverable		1,721	919	23	20
Cash and bank balances		9,127	10,853	13	29
		237,004	178,045	30,594	30,538
Current liabilities					
Trade and other payables	10	96,179	63,157	6,787	6,034
Bills payable	11	31,691	18,654	-	-
Bank overdrafts, loans and hire purchase	12	50,656	33,332	14,440	14,060
Provisions	20	10,988	3,677	460	-
		189,514	118,820	21,687	20,094
Net current assets		47,490	59,225	8,907	10,444
		94,382	108,842	75,052	86,927

Balance sheets at 31 December 2004

(continued)

	Note	Group 2004 RM'000	Group 2003 RM'000	Company 2004 RM'000	Company 2003 RM'000
Financed by:					
Capital and reserves					
Share capital	13	50,000	50,000	50,000	50,000
Reserves		17,768	1,403	376	(13,588)
Shareholders' fund		67,768	51,403	50,376	36,412
Long term liabilities					
Bank loans and hire purchase	12	505	7,607	-	3,040
Provision for warranty costs	20	828	1,722	-	-
Deferred taxation liabilities	14	604	635	-	-
Long term advances due to holding company	15	24,677	47,475	24,676	47,475
		26,614	57,439	24,676	50,515
		94,382	108,842	75,052	86,927

The financial statements were approved and authorised for issue by the Board of Directors on 11 APR 2005.

The notes set out on pages 235 to 266 form an integral part of, and should be read in conjunction with, these financial statements.

Favelle Favco Berhad

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Income statements for the year ended 31 December 2004

	Note	Group 2004 RM'000	Group 2003 RM'000	Company 2004 RM'000	Company 2003 RM'000
Revenue					
- contract revenue		222,642	143,765	-	-
- sale of goods		28,589	30,288	-	-
- services rendered		15,734	19,457	30	104
- dividends		-	-	-	8,021
		266,965	193,510	30	8,125
Cost of sales					
- contract costs		(193,542)	(127,232)	-	-
- sale of goods		(23,822)	(22,498)	-	-
- services rendered		(7,103)	(11,323)	-	-
		(224,467)	(161,053)	-	-
Gross profit		42,498	32,457	30	8,125
Distribution costs		(8,403)	(7,313)	-	-
Administrative expenses		(29,041)	(24,770)	(221)	(413)
Other operating expenses					
- Exceptional items	18	(10,021)	-	(4,650)	(9,163)
Other operating income					
- Exceptional items	18	18,798	-	18,798	-
- Others		2,140	4,887	580	3,737
Operating profit	16	15,971	5,261	14,537	2,286
Interest expense		(3,299)	(3,574)	(576)	(509)
Interest income		203	270	3	3
Share of profit of an associate		9	4	-	-
Profit before tax		12,884	1,961	13,964	1,780
Tax expense	19	432	(372)	-	-
Net profit for the year		13,316	1,589	13,964	1,780

The notes set out on pages 235 to 266 form an integral part of, and should be read in conjunction with, these financial statements.

Favelle Favco Berhad

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Statements of changes in equity for the year ended 31 December 2004

		Reserves				
		Non-distributable				
Group	Share capital RM'000	Translation reserve RM'000	Reserves arising on consolidation RM'000	Retained profit/ (Accumulated loss) RM'000	Sub-total RM'000	Total RM'000
At 1 January 2003	50,000	4,728	2,145	(14,307)	(7,434)	42,566
Exchange differences on translation of financial statements of foreign entities	-	7,285	-	-	7,285	7,285
Net gain not recognised in the income statement	-	7,285	-	-	7,285	7,285
Realisation of reserve on disposal of a subsidiary	-	(37)	-	-	(37)	(37)
Net profit for the year	-	-	-	1,589	1,589	1,589
At 31 December 2003/1 January 2004	50,000	11,976	2,145	(12,718)	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
Realisation of reserve on disposal of a subsidiary	-	-	-	-	-	-
Net profit for the year	-	-	-	13,316	13,316	13,316
At 31 December 2004	50,000	15,025	2,145	598	17,768	67,768
	Note 13					

Statements of changes in equity for the year ended 31 December 2004

(continued)

Company	Share capital RM'000	Retained profit/ (Accumulated loss) RM'000	Total RM'000
At 1 January 2003	50,000	(15,368)	34,632
Net profit for the year	-	1,780	1,780
At 31 December 2003/1 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
	Note 13		

The notes set out on pages 235 to 266 form an integral part of, and should be read in conjunction with, these financial statements.

Favelle Favco Berhad

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Cash flow statements for the year ended 31 December 2004

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before tax	12,884	1,961	13,964	1,780
Adjustments for:				
Allowance for doubtful debt	-	-	-	9,000
Amortisation of development costs	1,608	1,053	-	-
Amortisation of intellectual property	252	252	110	110
Depreciation	6,808	7,445	17	69
(Gain)/Loss on disposal of property, plant and equipment	(18,794)	6	(18,798)	-
Interest expense	3,299	3,574	576	509
Interest income	(203)	(270)	(3)	(3)
Unrealised gain on foreign exchange	(4,296)	(5,732)	(1,133)	(3,534)
Share of profit of an associate (net of tax)	(8)	(3)	-	-
Inventory written off	-	424	-	-
Provision for warranty costs	3,016	2,744	-	-
Provision for warranty costs written back	(1,647)	(2,853)	-	-
Provision for restructuring costs	10,021	-	4,650	-
Loss on disposal of a subsidiary	-	-	-	163
Operating profit/(loss) before working capital changes	12,940	8,601	(617)	8,094
Changes in working capital:				
Inventories	2,306	6,530	-	-
Trade and other receivables	(61,522)	(28,752)	1,883	(7,633)
Trade and other payables	46,789	4,136	753	(5,044)
Cash (used in)/generated from operations	513	(9,485)	2,019	(4,583)
Interest paid	(1,814)	(1,524)	(576)	(509)
Interest received	203	270	3	3
Income taxes paid	(990)	(886)	(3)	(15)
Warranties paid	(965)	(754)	-	-
Net cash (used in)/generated from operating activities	(3,053)	(12,379)	1,443	(5,104)

Cash flow statements for the year ended 31 December 2004

(continued)

		Group		Company	
		2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities					
Repayment from/(Advances to) a subsidiary		-	-	-	29
Development costs incurred		-	(4,377)	-	-
Proceeds from disposal of property, plant and equipment		86	1,124	-	-
Purchase of property, plant and equipment	(i)	(9,206)	(3,573)	-	-
Proceeds from disposal of a subsidiary (Note 23)		-	468	-	597
Net cash (used in)/generated from investing activities		(9,120)	(6,358)	-	626
Cash flows from financing activities					
Advance from holding company		1,201	6,002	1,201	6,002
Interest paid		(1,485)	(2,050)	-	-
Payment of hire purchase liabilities		(105)	(179)	-	-
Proceeds from term loans		6,771	-	-	-
Proceeds from revolving credits		7,000	-	-	-
Repayment of term loans		(6,067)	(3,192)	(2,660)	(1,520)
Net cash generated from/(used in) financing activities		7,315	581	(1,459)	4,482
Exchange difference on translation of the financial statement of foreign operations		1,069	216	-	-
Net (decrease)/increase in cash and cash equivalents		(3,789)	(17,940)	(16)	4
Cash and cash equivalents at beginning of year	(ii)	515	15,502	29	25
Foreign exchange difference on opening balance		421	2,953	-	-
Cash and cash equivalents at end of year	(ii)	(2,853)	515	13	29

Cash flow statements for the year ended 31 December 2004
(continued)

(i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM9,458,000 (2003 - RM3,628,000), of which RM252,000 (2003 - RM55,000) 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**	
	2004	**2003**	**2004**	**2003**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	8,765	10,853	13	29
Deposits	362	-	-	-
Bank overdrafts (Note 12)	(11,980)	(10,338)	-	-
	(2,853)	515	13	29

The notes set out on pages 235 to 266 form an integral part of, and should be read in conjunction with, these financial statements.

Favelle Favco Berhad

(Formerly known as Favelle Favco Cranes Holdings Sdn Bhd)
(Company No. 249243-W)
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and its subsidiaries

Notes to the financial statements

1. Summary of significant accounting policies

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years.

(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. 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. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition 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 financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

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.

1. Summary of significant accounting policies (continued)

(c) Associate

An associate is an 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 the associate 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 associate 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 associate. 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.

(e) Property, plant and equipment

Capital work-in-progress is stated at cost.

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

Depreciation
Capital work-in-progress are not amortised.

Depreciation commences when the assets are ready for their intended use. Freehold land is 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	6⅔% - 10%
Plant, equipment and motor vehicles	8% - 33⅓%

1. Summary of significant accounting policies (continued)

(f) Intangible assets

(i) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is expensed to the income statement 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 expensed to the income statement 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.

(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 on a systematic basis so as to reflect the pattern in which the related economic benefits of ten years are recognised, unless the Directors consider that a continuing benefit will not accrue.

(iii) Goodwill

Goodwill arising on consolidation and goodwill arising on acquisition of business assets represents the excess of the cost of the acquisition over the fair values of the net identifiable assets acquired. Goodwill is stated at cost and is not amortised unless the Directors are of the opinion that a continuing benefit will not accrue. An impairment loss is also recognised when the Directors are of the view that there is a diminution in their values which is other than temporary.

(g) Investments

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

1. Summary of significant accounting policies (continued)

(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.

(ii) Defined contribution plans

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

(j) Provision

(i) Provision for warranty costs

A provision for warranties for the construction 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.

(k) Liabilities

Borrowings and trade and other payables are stated at cost.

1. Summary of significant accounting policies (continued)

(l) Amount due from contract customers

Amount due from 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.

(m) Inventories

Crane components, work-in-progress and assembled cranes are stated at the lower of cost and net realisable value. Cost of crane components is 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.

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

(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.

1. Summary of significant accounting policies (continued)

(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. 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.

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 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 has been recognised. The reversal is recognised in the income statement.

(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.

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.

(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.

1. Summary of significant accounting policies (continued)

(s) Foreign currency (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	RM3.80	(2003:	1USD	RM3.80)
1SGD	RM2.32	(2003:	1SGD	RM2.23)
1AUD	RM2.96	(2003:	1AUD	RM2.84)
1DKK	RM0.70	(2003:	1DKK	RM0.64)
1GBP	RM7.31	(2003:	1GBP	RM6.76)
1EURO	RM5.17	(2003:	1EURO	RM4.77)
1THB	RM0.10	(2003:	1THB	RM0.09)
1PESO	RM0.07	(2003:	1PESO	RM0.07)

(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.

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 Directors are of the view that recoverability of the interest income is uncertain, interest is suspended until it is realised on cash basis.

(u) Expenses

(i) Interest expense

All interest 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 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.

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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						
At 1 January 2004	2,363	20,447	39,827	30,605	-	93,242
Additions	-	-	5,818	2,020	1,620	9,458
Disposals	(2,143)	(3,441)	(1,534)	(579)	-	(7,697)
Exchange differences	19	1,156	3,318	1,012	-	5,505
Written off	-	-	-	(95)	-	(95)
At 31 December 2004	239	18,162	47,429	32,963	1,620	100,413
Depreciation and impairment losses						
Accumulated depreciation	-	8,683	21,289	21,245	-	51,217
Accumulated impairment losses	-	-	536	-	-	536
Opening balance	-	8,683	21,825	21,245	-	51,753
Charge for the year	-	539	3,585	2,684	-	6,808
Disposals	-	(382)	(1,454)	(568)	-	(2,404)
Exchange differences	-	718	2,151	927	-	3,796
Written off	-	-	-	(95)	-	(95)
Impairment losses	-	1,494	-	993	-	2,487
Accumulated depreciation	-	9,558	25,571	24,193	-	59,322
Accumulated impairment losses	-	1,494	536	993	-	3,023
Closing balance	-	11,052	26,107	25,186	-	62,345
Net book value						
At 31 December 2004	239	7,110	21,322	7,777	1,620	38,068
At 31 December 2003	2,363	11,764	18,002	9,360	-	41,489
For the year ended 31 December 2003 Depreciation charge	-	638	3,864	2,943	-	7,445
Impairment loss	-	-	-	-	-	-

2. Property, plant and equipment (continued)

Company	Freehold land RM'000	Buildings RM'000	Plant, equipment and motor vehicles RM'000	Total RM'000
Cost				
At 1 January	2,143	3,441	-	5,584
Additions	-	2,989	1,984	4,973
Disposals	(2,143)	(3,441)	-	(5,584)
At 31 December 2004	-	2,989	1,984	4,973
Depreciation and impairment losses				
At 1 January 2004	-	365	-	365
Charge for the year		17	-	17
Disposals	-	(382)	-	(382)
Impairment loss	-	1,494	993	2,487
Accumulated depreciation	-	-	-	-
Accumulated impairment losses	-	1,494	993	2,487
At 31 December 2004	-	1,494	993	2,487
Net book value				
At 31 December 2004	-	1,495	991	2,486
At 31 December 2003	2,143	3,076	-	5,219
Depreciation charge for the year ended 31 December 2003	-	69	-	69

During the year, the Group and the Company disposed of its freehold land and factory to its holding company at a disposal price of RM24,000,000.

Under the Proposed Group Re-organisation Plan, a subsidiary of the Company has transferred its machineries and factory building at net book value of RM4,973,000 to the Company.

Security

The freehold land, buildings, plant and equipment of a subsidiary with total net book value of RM8,231,000 (2003 - RM6,758,000) have been pledged to certain licensed banks as security for term loan facilities granted to the respective subsidiary (Note 12).

2. Property, plant and equipment (continued)

Assets under hire purchase arrangements

Included in property, plant and equipment of the Group are plant, equipment and motor vehicles acquired under hire purchase arrangements with net book value of RM387,000 (2003 - RM267,000).

3. Investments in subsidiaries

	Company	
	2004 RM'000	**2003 RM'000**
Unquoted shares, at cost	56,470	56,470
Less: Allowance for diminution in value	(27,443)	(27,443)
	29,027	29,027

Details of the subsidiaries are shown in Note 22.

4. Investment in an associate

	Group		Company	
	2004 RM'000	**2003 RM'000**	**2004 RM'000**	**2003 RM'000**
Unquoted shares, at cost	180	180	180	180
Share of post-acquisition reserves	134	126	-	-
	314	306	180	180
Represented by:				
Group's share of net assets	314	306		

Details of the associate are set out as follows:

Company	**Principal activities**	**Country of incorporation**	**Effective ownership interest 2004 %**	**Effective ownership interest 2003 %**
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

5. Development costs

	Group 2004 RM'000	Group 2003 RM'000
Cost		
At 1 January	7,836	2,618
Additions	3,017	4,377
Exchange differences	320	841
At 31 December	11,173	7,836
Amortisation		
At 1 January	4,148	2,228
Amortisation charge for the year (Note 16)	1,608	1,053
Exchange differences	263	867
At 31 December	6,019	4,148
Net book value		
At 31 December	5,154	3,688

6. Other intangible assets

Group	Intellectual property RM'000	Goodwill on consolidation RM'000	Goodwill on acquisition of business assets RM'000	Total RM'000
Cost				
At 1 January 2004	2,519	1,143	1,703	5,365
Written off (Note 18)	-	-	(1,703)	(1,703)
At 31 December 2004	2,519	1,143	-	3,662
Amortisation				
At 1 January 2004	1,231	-	-	1,231
Amortisation charge for the year (Note 16)	252	-	-	252
At 31 December 2004	1,483	-	-	1,483

6. Other intangible assets (continued)

Group	Intellectual property RM'000	Goodwill on consolidation RM'000	Goodwill on acquisition of business assets RM'000	Total RM'000
Net book value				
At 31 December 2004	1,036	1,143	-	2,179
At 31 December 2003	1,288	1,143	1,703	4,134
Amortisation charge for the year ended 31 December 2003	252	-	-	252
Company				
Cost				
At 1 January 2004	1,098	-	1,703	2,801
Written off (Note 18)	-	-	(1,703)	(1,703)
At 31 December 2004	1,098	-	-	1,098
Amortisation				
At 1 January 2004	549	-	-	549
Amortisation charge for the year (Note 16)	110	-	-	110
At 31 December 2004	659	-	-	659
Net book value				
At 31 December 2004	439	-	-	439
At 31 December 2003	549	-	1,703	2,252
Amortisation charge for the year ended 31 December 2003	110	-	-	110

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

7. Long term advances due from a subsidiary

	Company	
	2004	**2003**
	RM'000	**RM'000**
Long term advances due from a subsidiary	52,456	58,805
Less: Interest-in-suspense	-	-
Less: Allowance for doubtful debts (Note 18)	(19,000)	(19,000)
	33,456	39,805

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

8. Inventories

	Group	
	2004	**2003**
	RM'000	**RM'000**
At cost:		
Cranes	8,778	15,451
Crane components	25,620	19,170
Work-in-progress	14,964	14,719
	49,362	49,340
At net realisable value:		
Cranes	5,643	7,092
Crane components	2,931	3,810
	57,936	60,242

Security

The inventories of a subsidiary with a total cost and net realisable value of RM1,395,000 (2003 - RM5,426,000) have been pledged to certain licensed banks as security for term loan facilities granted to the respective subsidiary (Note 12).

9. Trade and other receivables

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Progress billings receivable	13,230	9,325	-	-
Trade receivables	40,156	40,047	-	-
Less: Allowance for doubtful debts	(3,645)	(2,832)	-	-
	36,511	37,215	-	-
Amount due from contract customers	107,139	48,316	-	-
Holding company	1,702	544	-	-
Subsidiaries	-	-	30,388	30,489
Related companies	2,112	5,033	-	-
Associate	229	-		
Affiliated company	-	1,964	-	-
Other receivables, deposits and prepayments	7,297	3,634	170	-
	168,220	106,031	30,558	30,489

Amount due from contract customers

	Group	
	2004	2003
	RM'000	RM'000
Aggregate costs incurred to date	155,127	149,295
Add: Attributable profits less foreseeable losses	48,463	47,748
	203,590	197,043
Less: Progress billings	(111,223)	(151,960)
	92,367	45,083
Amount due to contract customers reclassified (Note 10)	14,772	3,233
	107,139	48,316

9. Trade and other receivables (continued)

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 RM91 (2003 - RM86,632) which bear interest at 5.0% (2003 - 5.0%) per annum.

Included in the amounts due from subsidiaries of the Company are non-trade balances amounting to RM29,730,000 (2003 - RM29,887,000).

Group

Related companies

The amounts due from related companies of the Group are interest free, unsecured with no fixed terms of repayment and include non-trade balances amounting to RM1,996,000 (2003 - RM1,891,000).

Associate

The amount due from an associate of the Group is interest free, unsecured with no fixed term of repayment and include a non-trade balance of RM3,000 (2003 - Nil).

Affiliated company

In previous year, the amount due from an affiliated company of the Group is interest free, unsecured with no fixed terms of repayment and include a non-trade balance amounting to RM834,000.

10. Trade and other payables

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Trade payables	51,455	29,425	-	-
Amount due to contract customers (Note 9)	14,772	3,233	-	-
Holding company	9,412	11,369	-	-
Subsidiary	-	-	6,768	6,006
Related companies	2,984	2,430	-	-
Associate	-	438	-	-
Affiliated company	491	486	-	-
Other payables and accrued expenses	17,065	15,776	19	28
	96,179	63,157	6,787	6,034

10. Trade and other payables (continued)

Subsidiary

The amount due to a subsidiary of the Company is non-trade in nature, unsecured with no fixed term of repayment and bears interest at 9.0% (2003 - 9.0%) per annum.

Holding company

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

The amounts due to holding company of the Group is unsecured, no fixed terms of repayment, interest free and include a non-trade balance of RM9,412,000 (2003 - RM11,008,000).

Related companies

The amounts due to related companies of the Group are interest free, unsecured with no fixed terms of repayment and include non-trade balances amounting to RM113,000 (2003 - RM548,000).

Associate

In previous year, the amount due to an associate of the Group is interest free, unsecured with no fixed term of repayment and include a non-trade balance of RM267,000.

Affiliated company

The amount due to an affiliated company of the Group is interest free, unsecured with no fixed term of repayment and include a non-trade balance of RM491,000 (2003 - RM486,000).

11. Bills payable

Bills payable of a subsidiary represent bankers' acceptances and are supported by a corporate guarantee from the holding company and bear interest at rates ranging from 2.58% to 4.85% (2003 - 3.41% to 5.55%) 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.

12. Bank overdrafts, loans and hire purchase

		Group		Company	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Current:					
Term loans	- secured	5,528	3,810	-	-
	- unsecured	3,040	2,660	3,040	2,660
Bank overdrafts	- secured	2,523	-		
Bank overdrafts	- unsecured	9,457	10,338		
Revolving credits	- unsecured	23,400	16,400	11,400	11,400
Onshore foreign currency loan-unsecured		4,560			
Insurance premium finance-unsecured		1,960	-		
Hire purchase liabilities		188	124	-	-
		50,656	33,332	14,440	14,060
Non-current:					
Term loans	- secured	277	4,422	-	-
	- unsecured	-	3,040	-	3,040
Hire purchase liabilities		228	145	-	-
		505	7,607	-	3,040
		51,161	40,939	14,440	17,100

Terms and debt repayment schedule

Group 2004		Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Term loans	- secured	5,805	5,528	277	-	-
	- unsecured	3,040	3,040	-	-	-
Bank overdrafts	- secured	2,523	2,523	-	-	-
Bank overdrafts	- unsecured	9,457	9,457	-	-	-
Revolving credits	- unsecured	23,400	23,400	-	-	-
Onshore loan	- unsecured	4,560	4,560	-	-	-
Insurance finance	- unsecured	1,960	1,960	-	-	-
Hire purchase liabilities		416	188	144	84	-
		51,161	50,656	421	84	-

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

Group 2003		Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
Term loans	- secured	8,232	3,810	4,422	-	-
	- unsecured	5,700	2,660	3,040	-	-
Bank overdrafts	- unsecured	10,338	10,338	-	-	-
Revolving credits	- unsecured	16,400	16,400	-	-	-
Hire purchase liabilities		269	124	145	-	-
		40,939	33,332	7,607	-	-

Company 2004		Total RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
Term loans	- unsecured	3,040	3,040	-	-
Revolving credits	- unsecured	11,400	11,400	-	-
		14,440	14,440	-	-
2003					
Term loans	- unsecured	5,700	2,660	3,040	-
Revolving credits	- unsecured	11,400	11,400	-	-
		17,100	14,060	3,040	-

Hire purchase liabilities are payable as follows:

Group	Payments 2004 RM'000	Interest 2004 RM'000	Principal 2004 RM'000	Payments 2003 RM'000	Interest 2003 RM'000	Principal 2003 RM'000
Less than one year	224	(36)	188	153	(29)	124
Between one and five years	256	(28)	228	174	(29)	145
	480	(64)	416	327	(58)	269

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

As at the year end, the table below shows the periods in which interest rates are reprice or mature, whichever is earlier.

Group	Total RM'000	Within 1 year RM'000	1-5 years RM'000
2004			
Secured term loans:			
DKK floating rate loan	5,080	5,080	-
USD fixed rate loan	725	448	277
Unsecured USD floating rate term loan	3,040	3,040	-
Unsecured revolving credits in:			
- USD	11,400	11,400	-
- RM	12,000	12,000	-
Secured overdrafts	2,523	2,523	-
Unsecured overdrafts	9,457	9,457	-
Unsecured onshore foreign currency loan	4,560	4,560	-
Unsecured insurance premium finance	1,960	1,960	-
Finance lease liabilities	416	188	228
	51,161	50,656	505
2003			
Secured term loans:			
DKK floating rate loan	6,154	6,154	-
USD fixed rate loan	2,078	1,353	725
Unsecured USD floating rate term loan	5,700	5,700	-
Unsecured revolving credits in:			
- USD	11,400	11,400	-
- RM	5,000	5,000	-
Unsecured overdrafts	10,338	10,338	-
Finance lease liabilities	269	124	145
	40,939	40,069	870

Company	Total RM'000	1 year RM'000
2004		
Unsecured USD floating rate term loan	3,040	3,040
Unsecured USD revolving credits	11,400	11,400
	14,440	14,440
2003		
Unsecured USD floating rate term loan	5,700	5,700
Unsecured USD revolving credits	11,400	11,400
	17,100	17,100

12. 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 guaranteed by the holding company.

The unsecured term loan of a subsidiary is guaranteed by the holding company.

These term loans bear interest at rates ranging from 3.1% to 8.25% (2003 - 3.1% to 8.3%) per annum and are repayable in various instalments at various dates up to ten years.

Bank overdrafts and revolving credits

The bank overdrafts and revolving credits of certain subsidiaries are guaranteed by the holding company and bear interest at rates ranging from 3.1% to 9.2% (2003 - 3.1% to 9.2%) per annum.

The revolving credits of the Company is guaranteed by the holding company, are subject to interest at rates ranging from 3.1% to 3.7% (2003 - 3.1% to 3.5%) per annum and are utilised by a subsidiary. Consequently, the interest expenses are borne by the said subsidiary.

Hire purchase liabilities

Hire purchase liabilities of certain subsidiaries bear interest at rates ranging from 4.25% to 5.9% (2003 - 4.3% to 5.9%) per annum.

13. Share capital

	Group and Company	
	2004	**2003**
	RM'000	**RM'000**
Ordinary shares of RM1 each:		
Authorised		
Opening balance	50,000	50,000
Additions	450,000	-
Closing balance	500,000	50,000
Issued and fully paid	50,000	50,000

14. Deferred tax

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

	Group	
	2004	**2003**
	RM'000	**RM'000**
Deferred tax assets	(620)	-
Deferred tax liabilities	604	635
	(16)	635

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 when the deferred taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting are as follows:

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

	Group	
	2004	**2003**
	RM'000	**RM'000**
Deductible temporary differences	(650)	1,612
Tax value of loss carry forward	634	(977)
	(16)	635

The unrecognised deferred tax assets are as follows:

Deductible temporary differences	(5,422)	(279)
Tax value of loss carry forward	(62,929)	(61,626)
	(68,351)	(61,905)

Deferred tax assets not recognised at tax rates of the Company's subsidiaries ranging from 20% to 34%.

15. Long term advances due to holding company

These advances from the holding company are non-trade in nature, unsecured, interest free with no fixed term of repayment within the next twelve months.

16. Operating profit before exceptional items

	Group		Company	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Operating profit before exceptional items is arrived at after crediting:				
Allowance for doubtful debts written back	400	179	-	-
Gain on foreign exchange				
- realised	-	-	-	203
- unrealised	4,296	5,732	1,133	3,534
Provision for warranty costs written back	-	109	-	-
Rental income on premises	696	728	30	104
Rental income on cranes	14,365	13,315	-	-
Reversal of write down of inventories	13	-	-	-
and after charging:				
Allowance for doubtful debts	1,131	846	-	-
Allowance for slow moving inventories	662	-	-	-
Audit fees				
- holding company's auditors				
- current	195	211	20	20
- prior year	-	-	-	-
- other auditors	184	195	-	-
Amortisation of development costs (Note 5)	1,608	1,053	-	-
Amortisation of intellectual property (Note 6)	252	252	110	110
Depreciation (Note 2)	6,808	7,445	17	69
Directors'				
- fees	81	62	45	34
- remuneration	385	-	134	-
Loss on foreign exchange:				
- realised	2,640	1,138	553	-

16. Operating profit before exceptional items (continued)

	Group 2004 RM'000	Group 2003 RM'000	Company 2004 RM'000	Company 2003 RM'000
and after charging (continued):				
Loss on disposal of property, plant and equipment	4	6	-	-
Property, plant and equipment written down	2,487	-	2,487	-
Provision for warranty costs	1,369	-	-	-
Rental expense on:				
- cranes	6,352	5,978	-	-
- premises	539	386	-	-
- equipments	801	279	-	-
Inventory written off	1,279	424	-	-
Bad debts written off	1,680	-	-	-
Research and development expenditure not capitalised	179	-	-	-

17. Employee information

	Group 2004 RM'000	Group 2003 RM'000
Staff costs	27,854	28,750

The average number of employees of the Group (including Directors) during the year was 321 (2003 - 292).

18. Exceptional items

	Group 2004 RM'000	Group 2003 RM'000	Company 2004 RM'000	Company 2003 RM'000
Other operating expenses				
- Property, plant and equipment impairment loss (Note 2)	(2,487)	-	(2,487)	-
- Goodwill written off (Note 6)	(1,702)	-	(1,702)	-
- Provision for restructuring	(5,832)	-	(461)	-
- Allowance for doubtful debts	-	-	-	(9,000)
- Loss of disposal of a subsidiary	-	-	-	(163)
	(10,021)	-	(4,650)	(9,163)
Other operating income				
- Gain on disposal of property, plant and equipment	18,798	-	18,798	-

19. Tax expense

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Current tax expense:				
Malaysia - current	900	698	-	-
- prior	(712)	41	-	-
	188	739	-	-
Deferred tax expense				
Originating and reversal of temporary differences	(621)	(368)	-	-
	(433)	371	-	-
Tax expense on share of profit of an associate	1	1	-	-
	(432)	372	-	-

Reconciliation of effective tax expense

	Group 2004 RM'000	Group 2003 RM'000	Company 2004 RM'000	Company 2003 RM'000
Profit before taxation	12,884	1,961	13,964	1,780
Income tax using Malaysian tax rates	3,608	549	3,910	498
Effect of different tax rates in foreign jurisdictions	(290)	(144)	-	-
Non-deductible expenses	3,607	1,106	1,525	2,794
Non-taxable income	(162)	(1,046)	(162)	(1,046)
Tax exempt income	(8,024)	-	(5,273)	(2,246)
Deferred tax assets not recognised during the year	1,451	1,581	-	-
Utilisation of unrecognised deferred tax assets	354	(1,715)		
Effect of changes in tax rates	(54)	-	-	-
Effect of tax losses recognised	(378)			
Others	168	-	-	-
	280	331	-	-
Overprovision/Underprovision in prior years	(712)	41	-	-
Tax (refund)/expense	(432)	372	-	-

20. Provisions

	Group		
Group	**Warranties RM'000**	**Restructuring RM'000**	**Total RM'000**
Balance at 1 January	5,399	-	5,399
Provision made during the year	3,016	10,021	13,037
Provision reversed during the year	(1,647)	-	(1,647)
	1,369	10,021	11,390
Provision used during the year	(965)	(4,189)	(5,154)
Exchange differences	181	-	181
Balance at 31 December	5,984	5,832	11,816
Current	5,156	5,832	10,988
Non current	828	-	828
Balance at 31 December	5,984	5,832	11,816

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

21. Related parties

Controlling related party relationships are as follows:

i) The Company's subsidiaries as disclosed in Note 22.

ii) The substantial shareholders of the holding company, Mr Mac Ngan Boon @ Mac Yin Boon.

iii) Its associates and affiliated companies as disclosed in Note 4 and Note 1(d) respectively.

21. Related parties (continued)

Significant transactions with related parties:

	Group		Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Holding company				
Proceeds from disposal of a subsidiary	-	468	-	597
Interest income receivable	(27)	(38)	-	-
Purchase of property, plant and equipment	61	-	-	-
Purchase of goods	-	186	-	-
Rental expense payable	1,341	780	-	-
Rental income receivable	-	(157)	-	-
Sale of goods	(5,229)	(7,535)	-	-
Sale of services	(103)	(280)	-	-
Subsidiaries				
Dividend income receivable	-	-	-	(8,021)
Rental income receivable	-	-	(30)	(104)
Interest expense payable	-	-	576	509
Interest income receivable	-	-	(3)	(3)
Purchase of Property, Plant & equipment	-	-	4,973	-
Related companies				
Sale of goods	(4)	(2,660)	-	-
Sale of services	-	(18)	-	-
Purchase of goods	-	416	-	-
Purchase of services	16	203	-	-
Rental expense payable	-	3	-	-
Subcontract cost payable	559	-	-	-
Deposit of property, plant and equipment	2,400	-	-	-
Significant transactions with other related parties:				
Associate				
Favco Offshores Sdn. Bhd.				
Rental income	(63)	(237)	-	-
Sale of services	(802)	(1,202)	-	-
Purchase of goods	-	134	-	-

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

22. Companies in the Group

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

Company	Principal activities	Country of incorporation	Effective ownership interest 2004 %	Effective ownership interest 2003 %
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 **	Ceased operation	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 *	Dormant	Sweden	100	100
Favelle Favco Cranes (USA), Inc. **	Designing, manufacturing, supply, servicing, trading and renting of cranes	United States of America	100	100

* Subsidiaries audited by overseas offices of KPMG.
** Subsidiary not audited by KPMG.

23. Disposal of a subsidiary

In previous year, the Group and the Company disposed of Favelle Favco Cranes Corporation to its holding company and incurred a loss on disposal of Nil and RM163,000 respectively. Favelle Favco Cranes Corporation contributed a net loss of RM94,000 to the consolidated net profit for the year ended 31 December 2002 and net loss of RM32,000 for the six (6) months ended 30 June 2003.

Effect of disposal

The disposal had the following effect on the Group's assets and liabilities as at 31 December 2003.

	Group	
	2004	**2003**
	RM'000	**RM'000**
Non current assets		
Property, plant and equipment	-	4
Current assets	-	677
Current liabilities	-	(84)
Net assets/consideration received, satisfied in cash	-	597
Cash disposed	-	(129)
Net cash inflow	-	468

24. Financial instruments

Exposure to interest rate, credit and currency risks arise 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.

Interest rate risk

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

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.

24. 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 primarily US dollars, the EURO and DKK Krones.

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 monitored from time to time by management.

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

The range of interest rates as at the year end for term loans, bank overdrafts, revolving credits, bankers acceptances and hire purchase and finance leasing do not differ materially from those disclosed in note 11 and note 12.

The term loans with fixed interest rates are not subject to repricing.

All the borrowings with fluctuating interest rates are subject to market rate changes.

The period in which interest rates are reprice or mature for the above financial instruments are also shown under the respective notes.

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