

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)**

24. Financial instruments (continued)

Fair values

Recognised financial instruments

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

<i>Group</i>	2004 Carrying amount RM'000	2004 Fair value RM'000	2003 Carrying amount RM'000	2003 Fair value RM'000
Financial liabilities				
Secured term loans:				
USD fixed rate loan	725	725	2,078	2,078
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 non-trade related party 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.

25. Commitments

	Group	
	2004 RM'000	2003 RM'000
Capital commitments:		
Property, plant and equipment		
Contracted but not provided for in the financial statements	21,600	-
	<u> </u>	<u> </u>

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS**

(As extracted from the audited consolidated financial statements of FFB for the FYE 2003)



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**Report of the auditors to the members of
Favelle Favco Cranes Holdings Sdn. Bhd.**

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

We have audited the financial statements set out on pages 269 to 308. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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 2003 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.



KPMG, a partnership established under Malaysian law, is a member of KPMG International, a Swiss association.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
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 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.

A handwritten signature in black ink, appearing to be 'KPMG' or similar, written over the KPMG logo.

KPMG
Firm Number: AF 0758
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Jimmy Leow Min Fong'.

Jimmy Leow Min Fong
Partner
Approval Number: 595/03/04(J/PH)

Kuala Lumpur,

Date: 31 MAR 2004

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Cranes Holdings Sdn. Bhd.

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Balance sheets at 31 December 2003

	Note	Group		Company	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Property, plant and equipment	2	41,489	41,427	5,219	5,288
Investment in subsidiaries	3	-	-	29,027	29,787
Investment in an associate	4	306	303	180	180
Development costs	5	3,688	390	-	-
Other intangible assets	6	4,134	4,386	2,252	2,362
Long term advances due from a subsidiary	7	-	-	39,805	48,834
		<u>49,617</u>	<u>46,506</u>	<u>76,483</u>	<u>86,451</u>
Current assets					
Inventories	8	60,242	67,196	-	-
Trade and other receivables	9	106,031	72,195	30,489	19,322
Tax recoverable		919	656	20	5
Cash and bank balances		10,853	23,557	29	25
		<u>178,045</u>	<u>163,604</u>	<u>30,538</u>	<u>19,352</u>
Current liabilities					
Trade and other payables	10	63,157	61,301	6,034	11,078
Bills payable	11	18,654	16,458	-	-
Bank overdrafts, loans and hire purchase	12	33,332	28,425	14,060	12,920
Provision for warranty costs	20	3,677	4,580	-	-
		<u>118,820</u>	<u>110,764</u>	<u>20,094</u>	<u>23,998</u>
Net current assets/(liabilities)		<u>59,225</u>	<u>52,840</u>	<u>10,444</u>	<u>(4,646)</u>
		<u>108,842</u>	<u>99,346</u>	<u>86,927</u>	<u>81,805</u>

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Balance sheets at 31 December 2003

(continued)

	Note	Group		Company	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Financed by:					
Capital and reserves					
Share capital	13	50,000	50,000	50,000	50,000
Reserves		1,403	(7,434)	(13,588)	(15,368)
Shareholders' fund		<u>51,403</u>	<u>42,566</u>	<u>36,412</u>	<u>34,632</u>
Long term liabilities					
Bank loans and hire purchase	12	7,607	13,546	3,040	5,700
Provision for warranty costs	20	1,722	838	-	-
Deferred taxation	14	635	923	-	-
Long term advances due to holding company	15	47,475	41,473	47,475	41,473
		<u>57,439</u>	<u>56,780</u>	<u>50,515</u>	<u>47,173</u>
		<u>108,842</u>	<u>99,346</u>	<u>86,927</u>	<u>81,805</u>

The financial statements were approved and authorised for issue by the Board of Directors on
31 MAR 2004

The notes set out on pages 277 to 308 form an integral part of, and should be read in conjunction with, these financial statements.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Cranes Holdings Sdn. Bhd.

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Income statements for the year ended 31 December 2003

	Note	Group		Company	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Revenue					
- contract revenue		143,765	168,374	-	-
- sale of goods		30,288	33,179	-	-
- services rendered		19,457	14,734	104	86
- dividends		-	-	8,021	3,491
		<u>193,510</u>	<u>216,287</u>	<u>8,125</u>	<u>3,577</u>
Cost of sales					
- contract costs		(127,232)	(133,843)	-	-
- sale of goods		(22,498)	(25,739)	-	-
- services rendered		(11,323)	(6,775)	-	-
		<u>(161,053)</u>	<u>(166,357)</u>	<u>-</u>	<u>-</u>
Gross profit		32,457	49,930	8,125	3,577
Distribution costs		(7,313)	(7,967)	-	-
Administrative expenses		(24,770)	(22,642)	(413)	(294)
Other operating expenses					
- Exceptional items	18	-	(20,204)	(9,163)	(33,443)
Other operating income					
- Exceptional items	18	-	20,000	-	20,000
- Others		4,887	31	3,737	1,926
Operating profit/(loss)	16	<u>5,261</u>	<u>19,148</u>	<u>2,286</u>	<u>(8,234)</u>
Interest expense		(3,574)	(4,514)	(509)	(453)
Interest income		270	498	3	3
Share of profit of an associate		4	11	-	-
Profit/(Loss) before tax		<u>1,961</u>	<u>15,143</u>	<u>1,780</u>	<u>(8,684)</u>
Tax expense	19	(372)	(7,820)	-	-
Net profit/(loss) for the year		<u><u>1,589</u></u>	<u><u>7,323</u></u>	<u><u>1,780</u></u>	<u><u>(8,684)</u></u>

The notes set out on pages 277 to 308 form an integral part of, and should be read in conjunction with, these financial statements.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Fayelle Fayco Cranes Holdings Sdn. Bhd.

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

and its subsidiaries

Statements of changes in equity for the year ended 31 December 2003

<i>Group</i>	Reserves						Total RM'000
	Share capital RM'000	Translation reserve RM'000	Reserves arising on consolidation RM'000	Accumulated loss RM'000	Sub-total RM'000		
At 1 January 2002	50,000	1,102	2,145	(21,630)	(18,383)		31,617
Exchange differences on translation of financial statements of foreign entities	-	3,626	-	-	3,626		3,626
Net gain not recognised in the income statement	-	3,626	-	-	3,626		3,626
Net profit for the year	-	-	-	7,323	7,323		7,323
At 31 December 2002/1 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	50,000	11,976	2,145	(12,718)	1,403		51,403

Note 13

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

**Statements of changes in equity for the year ended
31 December 2003**

(continued)

<i>Company</i>	Share capital RM'000	Accumulated loss RM'000	Total RM'000
At 1 January 2002	50,000	(6,684)	43,316
Net profit for the year	-	(8,684)	(8,684)
At 31 December 2002/1 January 2003	50,000	(15,368)	34,632
Net profit for the year	-	1,780	1,780
At 31 December 2003	50,000	(13,588)	36,412

Note 13

The notes set out on pages 277 to 308 form an integral part of, and should be read in conjunction with, these financial statements.

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**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Cranes Holdings Sdn. Bhd.

(Company No. 249243-W)

(Incorporated in Malaysia)

and its subsidiaries

Cash flow statements for the year ended 31 December 2003

	Group		Company	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit/(Loss) before tax	1,961	15,143	1,780	(8,684)
Adjustments for:				
Allowance for diminution in value of investment in a subsidiary	-	-	-	23,443
Allowance for doubtful debt	-	-	9,000	10,000
Amortisation of development costs	1,053	4,130	-	-
Amortisation of intellectual property	252	252	110	109
Depreciation	7,445	6,786	69	69
Development costs written off	-	20,204	-	-
Loss/(Gain) on disposal of property, plant and equipment	6	(60)	-	-
Interest expense	3,574	4,514	509	453
Interest income	(270)	(498)	(3)	(3)
Impairment loss on cranes	-	536	-	-
Unrealised (gain)/loss on foreign exchange	(5,732)	778	(3,534)	(1,385)
Share of profit of an associate (net of tax)	(3)	(13)	-	-
Property, plant and equipment written off	-	15	-	-
Inventory written off	424	-	-	-
Provision for warranty costs	2,744	4,715	-	-
Provision for warranty costs written back	(2,853)	(2,677)	-	-
Gain on waiver of debts by holding company	-	(20,000)	-	(20,000)
Loss on disposal of a subsidiary	-	-	163	-
Operating profit before working capital changes	8,601	33,825	8,094	4,002
Changes in working capital:				
Inventories	6,530	(1,208)	-	-
Trade and other receivables	(28,752)	5,314	(7,633)	5,292
Trade and other payables	4,136	5,342	(5,044)	(157)
Cash (used in)/generated from operations	(9,485)	43,273	(4,583)	9,137
Interest paid	(1,524)	(2,320)	(509)	(453)
Interest received	270	498	3	3
Income taxes paid	(886)	(8,320)	(15)	(42)
Warranties paid	(754)	(951)	-	-
Net cash (used in)/generated from operating activities	(12,379)	32,180	(5,104)	8,645

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Cash flow statements for the year ended 31 December 2003
(continued)

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash flows from investing activities				
Investment in subsidiary	-	-	-	(760)
Subscription of additional equity investment in a subsidiary (i)	-	-	-	(6,150)
Repayment from/(Advances to) a subsidiary	-	-	29	(556)
Development costs incurred	(4,377)	(72)	-	-
Proceeds from disposal of property, plant and equipment	1,124	1,756	-	-
Purchase of property, plant and equipment (ii)	(3,573)	(9,471)	-	(1,553)
Proceeds from disposal of a subsidiary (Note 22)	468	-	597	-
Net cash (used in)/generated from investing activities	(6,358)	(7,787)	626	(9,019)
Cash flows from financing activities				
Advance from holding company	6,002	754	6,002	754
Interest paid	(2,050)	(2,194)	-	-
Payment of hire purchase liabilities	(179)	(124)	-	-
Proceeds from term loans	-	1,668	-	-
Repayment of revolving credits	-	(7,572)	-	-
Repayment of term loans	(3,192)	(3,580)	(1,520)	(380)
Net cash generated from/(used in) financing activities	581	(11,048)	4,482	374
Exchange difference on translation of the financial statement of foreign operations	216	(488)	-	-
Net (decrease)/increase in cash and cash equivalents	(17,940)	12,857	4	-
Cash and cash equivalents at beginning of year (iii)	15,502	2,645	25	25
Foreign exchange difference on opening balance	2,953	-	-	-
Cash and cash equivalents at end of year (iii)	515	15,502	29	25

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
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Cash flow statements for the year ended 31 December 2003
(continued)

(i) Subscription of additional equity investment in a subsidiary

In previous year, the Company acquired an additional 3,000,000 ordinary shares of AUD1.00 each of its wholly-owned subsidiary, Favelle Favco Cranes Pty. Limited, for a cash consideration of RM6,150,000.

(ii) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM3,628,000 (2002 - RM9,609,000), of which RM55,000 (2002 - RM138,000) were acquired by means of hire purchases.

(iii) Cash and cash equivalents

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

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash and bank balances	10,853	23,557	29	25
Bank overdrafts (Note 12)	(10,338)	(8,055)	-	-
	<u>515</u>	<u>15,502</u>	<u>29</u>	<u>25</u>

The notes set out on pages 277 to 308 form an integral part of, and should be read in conjunction with, these financial statements.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

Favelle Favco Cranes Holdings Sdn. Bhd.

(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 the Company and are consistent with those adopted in previous years and, the Group and the Company have adopted the following new standards in the current year as follows:

- (i) MASB 25, Income Taxes;
- (ii) MASB 27, Borrowing Costs; and
- (iii) MASB 29, Employee Benefits.

Apart from the inclusion of new policies and extended disclosures where required by MASB 25 and 29, the adoption of these standards has no material impact on the financial statements. For MASB 27, comparative figures have not been restated as the previous accounting policy was in line with the accounting standard.

(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.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
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)

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) 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

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.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 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 (continued)

Depreciation

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

(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 are recognised of ten years, unless the Directors consider that a continuing benefit will not accrue.

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

1. Summary of significant accounting policies (continued)

(f) Intangible assets (continued)

(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.

(h) Trade and other receivables

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

(i) Provision for warranties

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.

(j) Liabilities

Borrowings and trade and other payables are stated at cost.

(k) 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.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
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1. Summary of significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

1. Summary of significant accounting policies (continued)

(n) Impairment (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

(o) 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.

(p) 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.

(q) 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 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.

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

1. Summary of significant accounting policies (continued)

(q) Income tax (continued)

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. 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.

(r) 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.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. Summary of significant accounting policies (continued)

(r) 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	(2002: 1USD	RM3.80)
1SGD	RM2.23	(2002: 1SGD	RM2.19)
1AUD	RM2.84	(2002: 1AUD	RM2.15)
1DKK	RM0.64	(2002: 1DKK	RM0.54)
1GBP	RM6.76	(2002: 1GBP	RM6.09)
1EURO	RM4.77	(2002: 1EURO	RM3.98)
1THB	RM0.09	(2002: 1THB	RM0.09)
1PESO	RM0.07	(2002: 1PESO	RM0.07)

(s) 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.

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

1. Summary of significant accounting policies (continued)

(s) 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.

(t) 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(p).

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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17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

2. Property, plant and equipment

<i>Group</i>	Freehold land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Total RM'000
<i>Cost</i>					
At 1 January 2003	2,327	18,149	33,689	26,277	80,442
Additions	-	106	1,825	1,697	3,628
Disposals	-	-	(1,847)	(392)	(2,239)
Exchange differences	36	2,192	6,160	3,030	11,418
Disposed of a subsidiary	-	-	-	(7)	(7)
At 31 December 2003	2,363	20,447	39,827	30,605	93,242
<i>Depreciation and impairment losses</i>					
Accumulated depreciation	-	6,845	15,489	16,145	38,479
Accumulated impairment losses	-	-	536	-	536
Opening balance	-	6,845	16,025	16,145	39,015
Charge for the year	-	638	3,864	2,943	7,445
Disposals	-	-	(1,014)	(95)	(1,109)
Exchange differences	-	1,200	2,950	2,255	6,405
Disposed of a subsidiary	-	-	-	(3)	(3)
Accumulated depreciation	-	8,683	21,289	21,245	51,217
Accumulated impairment losses	-	-	536	-	536
Closing balance	-	8,683	21,825	21,245	51,753
<i>Net book value</i>					
At 31 December 2003	2,363	11,764	18,002	9,360	41,489
At 31 December 2002	2,327	11,304	17,664	10,132	41,427
For the year ended 31 December 2002					
Depreciation charge	-	622	3,596	2,568	6,786
Impairment loss	-	-	536	-	536

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

2. Property, plant and equipment (continued)

<i>Company</i>	Freehold land	Building	Total
	RM'000	RM'000	RM'000
Cost			
At 1 January/31 December 2003	2,143	3,441	5,584
Depreciation			
At 1 January 2003	-	296	296
Charge for the year	-	69	69
At 31 December 2003	-	365	365
Net book value			
At 31 December 2003	2,143	3,076	5,219
At 31 December 2002	2,143	3,145	5,288
Depreciation charge for the year ended 31 December 2002	-	69	69

Security

The freehold land, buildings, plant and equipment of a subsidiary with total net book value of RM6,758,000 (2002 - RM5,981,000) have been pledged to certain licensed banks as security for term loan facilities granted to the respective subsidiary (Note 12).

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 RM267,000 (2002 - RM409,000).

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3. Investments in subsidiaries

	Company	
	2003 RM'000	2002 RM'000
Unquoted shares, at cost	56,470	57,230
Less: Allowance for diminution in value	(27,443)	(27,443)
	<u>29,027</u>	<u>29,787</u>

Details of the subsidiaries are shown in Note 22.

4. Investment in an associate

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Unquoted shares, at cost	180	180	180	180
Share of post-acquisition reserves	126	123	-	-
	<u>306</u>	<u>303</u>	<u>180</u>	<u>180</u>
Represented by:				
Group's share of net assets	<u>306</u>	<u>303</u>		

Details of the associate are set out as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest	
			2003 %	2002 %
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

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

5. Development costs

	Group	
	2003 RM'000	2002 RM'000
<i>Cost</i>		
At 1 January	2,618	33,348
Additions	4,377	72
Written off (Note 18)	-	(31,057)
Exchange differences	841	255
	<u>7,836</u>	<u>2,618</u>
<i>Amortisation</i>		
At 1 January	2,228	8,760
Amortisation charge for the year (Note 16)	1,053	4,130
Written off (Note 18)	-	(10,853)
Exchange differences	867	191
	<u>4,148</u>	<u>2,228</u>
<i>Net book value</i>		
At 31 December	<u>3,688</u>	<u>390</u>

6. Other intangible assets

<i>Group</i>	Intellectual property RM'000	Goodwill on consolidation RM'000	Goodwill on acquisition of business assets RM'000	Total RM'000
<i>Cost</i>				
At 1 January/31 December 2003	2,519	1,143	1,703	5,365
<i>Amortisation</i>				
At 1 January 2003	979	-	-	979
Amortisation charge for the year (Note 16)	252	-	-	252
At 31 December 2003	<u>1,231</u>	<u>-</u>	<u>-</u>	<u>1,231</u>

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

6. Other intangible assets (continued)

<i>Group</i>	Intellectual property RM'000	Goodwill on consolidation RM'000	Goodwill on acquisition of business assets RM'000	Total RM'000
<i>Net book value</i>				
At 31 December 2003	1,288	1,143	1,703	4,134
At 31 December 2002	1,540	1,143	1,703	4,386
Amortisation charge for the year ended 31 December 2002	252	-	-	252
<i>Company</i>				
<i>Cost</i>				
At 1 January/31 December 2003	1,098	-	1,703	2,801
<i>Amortisation</i>				
At 1 January 2003	439	-	-	439
Amortisation charge for the year (Note 16)	110	-	-	110
At 31 December 2003	549	-	-	549
<i>Net book value</i>				
At 31 December 2003	549	-	1,703	2,252
At 31 December 2002	659	-	1,703	2,362
Amortisation charge for the year ended 31 December 2002	109	-	-	109

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

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

7. Long term advances due from a subsidiary

	Company	
	2003	2002
	RM'000	RM'000
Long term advances due from a subsidiary	58,805	60,101
Less: Interest-in-suspense	-	(1,267)
Less: Allowance for doubtful debts (Note 18)	(19,000)	(10,000)
	39,805	48,834
	39,805	48,834

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	
	2003	2002
	RM'000	RM'000
At cost:		
Cranes	15,451	21,514
Crane components	19,170	22,928
Work-in-progress	14,719	11,798
	49,340	56,240
At net realisable value:		
Cranes	7,092	8,413
Crane components	3,810	2,543
	60,242	67,196
	60,242	67,196

Security

The inventories of a subsidiary with a total cost and net realisable value of RM5,426,000 (2002 - RM6,227,000) have been pledged to certain licensed banks as security for term loan facilities granted to the respective subsidiary (Note 12).

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

9. Trade and other receivables

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Progress billings receivable	9,325	13,110	-	-
Trade receivables	40,047	32,868	-	-
Less: Allowance for doubtful debts	(2,832)	(2,165)	-	-
	37,215	30,703	-	-
Amount due from contract customers	48,316	21,444	-	-
Holding company	544	335	-	-
Subsidiaries	-	-	30,489	19,237
Related companies	5,033	1,614	-	-
Affiliated company	1,964	1,862	-	-
Other receivables, deposits and prepayments	3,634	3,127	-	85
	<u>106,031</u>	<u>72,195</u>	<u>30,489</u>	<u>19,322</u>

Amount due from contract customers

	Group	
	2003 RM'000	2002 RM'000
Aggregate costs incurred to date	149,295	42,986
Add: Attributable profits less foreseeable losses	47,748	14,164
	197,043	57,150
Less: Progress billings	(151,960)	(37,339)
	45,083	19,811
Amount due to contract customers reclassified (Note 10)	3,233	1,633
	<u>48,316</u>	<u>21,444</u>

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 RM86,632 (2002 - RM83,198) which bear interest at 5.0% (2002 - 5.0%) per annum.

Included in the amounts due from subsidiaries of the Company are non-trade balances amounting to RM29,887,000. (2002 - RM18,872,000).

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 RM1,891,000 (2002 - RM995,000).

Affiliated company

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 (2002 - RM313,000).

10. Trade and other payables

	Group		Company	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Trade payables	29,425	24,708	-	-
Amount due to contract customers (Note 9)	3,233	1,633	-	-
Holding company	11,369	20,805	-	5,619
Subsidiary	-	-	6,006	5,432
Related companies	2,430	2,391	-	-
Associate	438	680	-	-
Affiliated company	486	437	-	-
Other payables and accrued expenses	15,776	10,647	28	27
	<u>63,157</u>	<u>61,301</u>	<u>6,034</u>	<u>11,078</u>

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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% (2002 - 9.0%) per annum.

Holding company

The holding company is Muhibbah Engineering (M) Bhd., a company incorporated in Malaysia and listed on the Malaysia Securities Exchange 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 RM11,008,000 (2002 - Group and Company of RM20,208,000 and RM5,619,000 respectively).

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 RM548,000 (2002 - RM794,000).

Associate

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 (2002 - RM1,038,000).

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 RM486,000 (2002 - RM437,000).

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 3.41% to 5.55% (2002 - 3.38% to 5.45%) 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.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

12. Bank overdrafts, loans and hire purchase

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Current:				
Term loans - secured	3,810	2,328	-	-
- unsecured	2,660	1,520	2,660	1,520
Bank overdrafts - unsecured	10,338	8,055	-	-
Revolving credits - unsecured	16,400	16,400	11,400	11,400
Hire purchase liabilities	124	122	-	-
	<u>33,332</u>	<u>28,425</u>	<u>14,060</u>	<u>12,920</u>
Non-current:				
Term loans - secured	4,422	7,575	-	-
- unsecured	3,040	5,700	3,040	5,700
Hire purchase liabilities	145	271	-	-
	<u>7,607</u>	<u>13,546</u>	<u>3,040</u>	<u>5,700</u>
	<u>40,939</u>	<u>41,971</u>	<u>17,100</u>	<u>18,620</u>

Terms and debt repayment schedule

Group	Total	Under	1 - 2	2 - 5	Over 5
	RM'000	1 year	years	years	years
2003	RM'000	RM'000	RM'000	RM'000	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	-	-
	<u>40,939</u>	<u>33,332</u>	<u>7,607</u>	<u>-</u>	<u>-</u>

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

12. 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
2002			RM'000	RM'000	RM'000	RM'000
Term loans	- secured	9,903	2,328	2,511	5,064	-
	- unsecured	7,220	1,520	2,660	3,040	-
Bank overdrafts	- unsecured	8,055	8,055	-	-	-
Revolving credits	- unsecured	16,400	16,400	-	-	-
Hire purchase liabilities		393	122	127	124	20
		<u>41,971</u>	<u>28,425</u>	<u>5,298</u>	<u>8,228</u>	<u>20</u>

<i>Company</i>		Total	Under	1 - 2	2 - 5
		RM'000	1 year	years	years
2003			RM'000	RM'000	RM'000
Term loans	- unsecured	5,700	2,660	3,040	-
Revolving credits	- unsecured	11,400	11,400	-	-
		<u>17,100</u>	<u>14,060</u>	<u>3,040</u>	<u>-</u>
2002					
Term loans	- unsecured	7,220	1,520	2,660	3,040
Revolving credits	- unsecured	11,400	11,400	-	-
		<u>18,620</u>	<u>12,920</u>	<u>2,660</u>	<u>3,040</u>

Hire purchase liabilities are payable as follows:

<i>Group</i>	Payments	Interest	Principal	Payments	Interest	Principal
	2003	2003	2003	2002	2002	2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Less than one year	153	(29)	124	148	(26)	122
Between one and five years	174	(29)	145	324	(53)	271
	<u>327</u>	<u>(58)</u>	<u>269</u>	<u>472</u>	<u>(79)</u>	<u>393</u>

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

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

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

<i>Group</i>	Total RM'000	Within 1 year RM'000	1-5 years RM'000	After 5 years RM'000
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	-
	<u>40,939</u>			
2002				
Secured term loans:				
DKK floating rate loan	6,308	6,308	-	-
USD fixed rate loan	3,595	1,167	2,428	-
Unsecured USD floating rate term loan	7,220	7,220	-	-
Unsecured revolving credits in:				
- USD	11,400	11,400	-	-
- RM	5,000	5,000	-	-
Unsecured overdrafts	8,055	8,055	-	-
Finance lease liabilities	393	122	251	20
	<u>41,971</u>			
Company				
	Total RM'000	Within 1 year RM'000		
2003				
Unsecured USD floating rate term loan	5,700	5,700		
Unsecured USD revolving credits	11,400	11,400		
	<u>17,100</u>			
2002				
Unsecured USD floating rate term loan	7,220	7,220		
Unsecured USD revolving credits	11,400	11,400		
	<u>18,620</u>			

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 8.3% (2002 - 3.5% 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% (2002 - 3.5% to 8.3%) 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 3.5% (2002 - 3.5% to 4.1%) 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 4.3% to 5.9% (2002 - 6.5% to 9.5%) per annum.

13. Share capital

	Group and Company	
	2003	2002
	RM'000	RM'000
Ordinary shares of RM1 each:		
Authorised	50,000	50,000
	=====	=====
Issued and fully paid	50,000	50,000
	=====	=====

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
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STATEMENTS (Cont'd)**

14. Deferred tax

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

	Group	
	2003	2002
	RM'000	RM'000
Deferred tax liabilities	635	923
	<u>635</u>	<u>923</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 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	
	2003	2002
	RM'000	RM'000
Deductible temporary differences	1,612	1,692
Tax value of loss carry forward	(977)	(769)
	<u>635</u>	<u>923</u>

The unrecognised deferred tax assets are as follows:

	Group	
	2003	2002
	RM'000	RM'000
Deductible temporary differences	(3,449)	(4,918)
Tax value of loss carry forward	(20,841)	(19,506)
	<u>(24,290)</u>	<u>(24,424)</u>

Deferred tax assets not recognised at tax rates of the Company's subsidiaries ranging from 28% to 34%.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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/(loss) before exception items

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Operating profit/(loss) before exceptional items is arrived at after crediting:				
Allowance for doubtful debts written back	179	114	-	-
Gain on disposal of property, plant and equipment	-	60	-	-
Gain on foreign exchange				
- realised	-	405	203	541
- unrealised	5,732	-	3,534	1,385
Provision for warranty costs written back	109	-	-	-
Rental income on premises	728	520	104	86
Rental income on cranes	13,315	11,416	-	-
Reversal of write down of inventories	-	353	-	-
and after charging:				
Allowance for doubtful debts	846	941	-	-
Audit fees				
- holding company's auditors				
- current	211	352	20	20
- prior year	-	(58)	-	-
- other auditors	195	85	-	-
Amortisation of development costs (Note 5)	1,053	4,130	-	-
Amortisation of intellectual property (Note 6)	252	252	110	109
Depreciation (Note 2)	7,445	6,786	69	69
Directors' fees	62	24	34	-
Impairment loss on cranes	-	536	-	-
Loss on foreign exchange:				
- realised	1,138	-	-	-
- unrealised	-	778	-	-

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

16. Operating profit/(loss) before exceptional items (continued)

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
and after charging (continued):				
Loss on disposal of property, plant and equipment	6	-	-	-
Property, plant and equipment written off	-	15	-	-
Provision for warranty costs	-	2,038	-	-
Rental expense on:				
- cranes	5,978	5,274	-	-
- premises	386	485	-	-
- equipments	279	108	-	-
Inventory written off	424	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

17. Employee information

	Group	
	2003 RM'000	2002 RM'000
Staff costs	28,750	24,568
	<u> </u>	<u> </u>

The average number of employees of the Group (including Directors) during the year was 292 (2002 - 271).

18. Exceptional items

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Other operating expenses				
- Allowance for diminution in value of investment in a subsidiary (Note 3)	-	-	-	(23,443)
- Development cost written off (Note 5)	-	(20,204)	-	-
- Allowance for doubtful debts (Note 7)	-	-	(9,000)	(10,000)
- Loss of disposal of a subsidiary	-	-	(163)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	(20,204)	(9,163)	(33,443)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other operating income				
- Gain on waiver of debts by holding company	-	20,000	-	20,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

19. Tax expense

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Current tax expense:				
Malaysia - current	698	860	-	-
- prior	41	134	-	-
	739	994	-	-
Overseas - current	-	5,531	-	-
- prior	-	(88)	-	-
	-	5,443	-	-
Deferred tax expense				
Originating and reversal of temporary differences	(368)	1,385	-	-
	371	7,822	-	-
Tax (refund)/expense on share of profit of an associate	1	(2)	-	-
	372	7,820	-	-
Reconciliation of effective tax expense				
Profit/(Loss) before taxation	1,961	15,143	1,780	(8,684)
Income tax using Malaysian tax rates	549	4,240	498	(2,432)
Effect of different tax rates in foreign jurisdictions	(144)	(1,400)	-	-
Non-deductible expenses	1,106	718	2,794	9,548
Non-taxable income	(1,046)	(6,139)	(1,046)	(6,139)
Tax exempt income	-	(585)	(2,246)	(977)
Deferred tax assets not recognised during the year	1,581	10,940	-	-
Utilisation of unrecognised deferred tax assets	(1,715)	-	-	-
	331	7,774	-	-
Underprovision in prior years	41	46	-	-
	372	7,820	-	-

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

20. Provision for warranty costs

	Group	
	2003 RM'000	2002 RM'000
Balance at 1 January	5,418	4,065
Provision made during the year	2,744	4,715
Provision reversed during the year	(2,853)	(2,677)
	(109)	2,038
Provision used during the year	(754)	(951)
Exchange differences	844	266
Balance at 31 December	5,399	5,418
Current	3,677	4,580
Non-current	1,722	838
	5,399	5,418

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.

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

21. Related parties (continued)

Significant transactions with related parties:

	Group		Company	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Holding company				
Proceeds from disposal of a subsidiary	468	-	597	-
Gain on waiver of debts by holding company	-	(20,000)	-	(20,000)
Interest income receivable	(38)	(20)	-	-
Purchase of property, plant and equipment	-	4	-	-
Purchase of goods	186	913	-	-
Rental expense payable	780	1,138	-	-
Rental income receivable	(157)	(212)	-	-
Sale of goods	(7,535)	(991)	-	-
Sale of services	(280)	(350)	-	-
Subsidiaries				
Dividend income receivable	-	-	(8,021)	(3,491)
Rental income receivable	-	-	(104)	(86)
Interest expense payable	-	-	509	453
Interest income receivable	-	-	(3)	(3)
Related companies				
Purchase of property, plant and equipment	-	318	-	-
Sale of goods	(2,660)	-	-	-
Sale of services	(18)	(24)	-	-
Purchase of goods	416	1,021	-	-
Purchase of services	203	104	-	-
Rental expense payable	3	-	-	-
<i>Significant transactions with other related parties:</i>				
Associate				
Favco Offshores Sdn. Bhd.				
Rental income	(237)	(111)	-	-
Sale of services	(1,202)	(952)	-	-
Purchase of services	-	13	-	-
Purchase of goods	134	-	-	-
Affiliated company				
Favelle Favco Cranes (Thailand) Co., Ltd.				
Purchase of goods	-	43	-	-

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

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

22. Companies in the Group

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

Company	Principal activities	Country of incorporation	Effective ownership interest	
			2003 %	2002 %
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
Favelle Favco Cranes Corporation **	Manufacturing, supply, servicing, trading and renting of cranes	Phillipines	-	99.99

* Subsidiaries audited by overseas offices of KPMG.

** Subsidiary not audited by KPMG.

17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

23. Disposal of a subsidiary

During the financial 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 2003 RM'000
Non current assets	
Property, plant and equipment	4
Current assets	677
Current liabilities	(84)
	<hr/>
Net assets/consideration received, satisfied in cash	597
Cash disposed	(129)
	<hr/>
Net cash inflow	468
	<hr/> <hr/>

24. Financial instruments

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

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.

17. **REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)**

22. 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 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 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 repriced or mature for the above financial instruments are also shown under the respective notes.

Fair values

Recognised financial instruments

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

<i>Group</i>	2003 Carrying amount RM'000	2003 Fair value RM'000	2002 Carrying amount RM'000	2002 Fair value RM'000
Financial liabilities				
Secured term loans:				
USD fixed rate loan	2,078	2,078	3,595	3,595

**17. REPORT OF THE AUDITORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003
AND THE NOTES AND SCHEDULES RELATING TO THE CONSOLIDATED FINANCIAL
STATEMENTS (Cont'd)**

22. Financial instruments (continued)

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 non-trade related party 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.

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