

10. HISTORICAL FINANCIAL INFORMATION

The following sections set out the proforma consolidated financial information of the FFB Group based on the audited consolidated financial statements of FFB for the past three (3) financial years ended 31 December 2005. The proforma consolidated financial information as contained in these proforma consolidated financial statements are presented for illustrative purposes only and on the assumption that the FFB Group's current structure had been in existence throughout the financial years under review.

The proforma consolidated financial information have been properly compiled on the basis consistent with the accounting policies adopted by the FFB Group which are set out in the Section 14 – "Accountants' Report". The financial statements used in the preparation of the proforma consolidated financial statements were prepared in accordance with approved accounting standards in Malaysia. The adjustments, which were dealt with when preparing the proforma consolidated financial statements, have been highlighted and disclosed in Section 10.1 of this Prospectus.

The audited financial statements of the Company and its subsidiaries for the past three (3) financial years ended 31 December 2005 have not been subjected to any auditors' qualification.

10.1 Proforma consolidated income statements

Presented below is a summary of the Group's proforma consolidated income statements for the past three (3) financial years ended 31 December 2005. You should read the information that have been presented below together with Section 12 – "Management discussion and analysis of financial condition and results of operations" and Section 14 – "Accountants' Report".

	<-----FYE----->		
	2003 RM '000	2004 RM '000	2005 RM '000
Revenue	193,507	266,965	335,646
Gross profit	32,454	42,498	50,453
Earnings before exceptional items, interest, depreciation, taxation and amortisation	14,045	15,862	24,817
Exceptional items	-	8,777	(571)
Earnings before interest, depreciation, taxation and amortisation	14,045	24,639	24,246
Interest expense	(3,574)	(3,299)	(5,377)
Interest income	268	203	182
Depreciation charges	(7,445)	(6,808)	(7,832)
Amortisation charges			
- Development costs	(1,053)	(1,608)	(2,011)
- Intellectual property	(252)	(252)	(252)
Preliminary expenses	-	-	-
Share of profit/(loss) of associated companies	4	9	(73)
PBT	1,993	12,884	8,883

10. HISTORICAL FINANCIAL INFORMATION (Cont'd)

	<-----FYE----->		
	2003	2004	2005
Taxation (RM '000)	(372)	432	(1,703)
PAT (RM '000)	1,621	13,316	7,180
Gross profit margin (%)	16.77	15.92	15.03
PBT margin (%)	1.03	4.83	2.65
PAT margin (%)	0.84	4.99	2.14
No. of ordinary shares of RM1.00 in issue during the financial year ('000)	50,000	50,000	50,000
Basic net EPS (sen)	3.24	26.63	14.36
No. of FFB Shares assumed in issue ('000) ⁽³⁾	120,000	120,000	120,000
Basic net EPS (sen)	1.35	11.10	5.98
No. of FFB Shares assumed in issue upon completion of the Flotation Scheme ('000) ⁽⁴⁾	168,000	168,000	168,000
Basic net EPS (sen)	0.96	7.93	4.27
No. of FFB Shares assumed in issue upon completion of the Flotation Scheme and ESOS ('000) ⁽⁵⁾	184,800	184,800	184,800
Diluted net EPS (sen)	0.88	7.21	3.89

Notes:

- (1) *The Group's proforma consolidated financial results were prepared based on the audited consolidated financial statements for the past three (3) financial years from FYE 2003-2005 after making relevant adjustments deemed necessary under the circumstances, the details of which are as set out below.*
- (2) *There is no extraordinary item and minority interests for the financial years under review.*
- (3) *Based on the existing issued and paid-up share capital of 120,000,000 FFB Shares as at the date of this Prospectus.*
- (4) *Based on the issued and paid-up share capital of 168,000,020 FFB Shares immediately after completion of the Flotation Scheme.*
- (5) *Based on the enlarged issued and paid-up share capital of 168,000,020 FFB Shares immediately after completion of the Flotation Scheme and assuming the total number of FFB Shares to be issued pursuant to the ESOS is 16,800,000 FFB Shares (representing 10% of the enlarged issued and paid-up share capital of FFB immediately after the completion of the Flotation Scheme).*

Based on the above, the profits from ordinary activities for the past three (3) financial years ended 31 December 2005 can be summarised as follows:

	<-----FYE----->		
	2003	2004	2005
Earnings before exceptional items	1,993	4,107	9,454
Exceptional items	-	8,777	(571)
PBT	1,993	12,884	8,883

10. HISTORICAL FINANCIAL INFORMATION (Cont'd)

See Section 12.2 – “Review of past operating results” for details of the exceptional items.

Adjustments to the proforma consolidated income statement

Adjustments had been made to exclude the results of a subsidiary previously owned by FFB, Favelle Favco Cranes Corporation, which was incorporated in 2002 and subsequently disposed of in 2003. The effect of the adjustments to the consolidated income statement is as follows:

FYE 2003	As per the audited consolidated income statement RM '000	Proforma RM '000
Revenue	193,510	193,507
Gross profit	32,457	32,454
PBT	1,961	1,993
PAT	1,589	1,621

No adjustments were made to the audited consolidated results of FFB for the FYE 2004 and 2005.

10.2 Proforma consolidated balance sheets

The following table presents the FFB Group's proforma consolidated balance sheets which have been prepared for illustrative purposes only, based on the audited consolidated balance sheets as at 31 December 2005, to show the effects of the Flotation Scheme and ESOS and the use of proceeds arising from the Public Issue on the assumption that the transactions were completed and all Options were exercised on 31 December 2005.

	Audited consolidated balance sheets as at 31 December 2005 RM '000	Proforma 1 After Settlement and Share Split* RM '000	Proforma 2 After Proforma 1 and IPO RM '000	Proforma 3 After Proforma 2 and utilisation of proceeds RM '000	Proforma 4 After Proforma 3 and ESOS RM '000
Property, plant and equipment	61,855	61,855	61,855	61,855	61,855
Investment in associate	312	312	312	312	312
Development costs	6,362	6,362	6,362	6,362	6,362
Deferred expenditure	350	350	350	350	350
Other intangible assets	1,356	1,356	1,356	1,356	1,356
	70,235	70,235	70,235	70,235	70,235
Current assets					
Inventories	72,850	72,850	72,850	72,850	72,850
Trade and other receivables	228,443	223,076	223,076	223,076	223,076
Tax recoverable	1,799	1,799	1,799	1,799	1,799
Cash and bank balances	17,564	17,564	43,964	23,464	32,704
	320,656	315,289	341,689	321,189	330,429

10. HISTORICAL FINANCIAL INFORMATION (Cont'd)

	Audited consolidated balance sheets as at 31 December 2005 RM '000	Proforma 1 After Settlement and Share Split*	Proforma 2 After Proforma 1 and IPO RM '000	Proforma 3 After Proforma 2 and utilisation of proceeds RM '000	Proforma 4 After Proforma 3 and ESOS RM '000
Current liabilities					
Trade and other payables	146,317	134,629	136,629	134,629	134,629
Bills payable	73,302	73,302	73,302	73,302	73,302
Bank overdrafts, loans and hire purchase	44,560	44,560	44,560	34,560	34,560
Provisions	10,406	10,406	10,406	10,406	10,406
	274,585	262,897	264,897	252,897	252,897
Net current assets	46,071	52,392	76,792	68,292	77,532
	116,306	122,627	147,027	138,527	147,767
Financed by:					
Capital and reserves					
Share capital	50,000	60,000	84,000	84,000	92,400
Reserves	20,351	20,351	20,751	20,751	21,591
Shareholders' funds	70,351	80,351	104,751	104,751	113,991
Long term liabilities					
Bank loans and hire purchase	18,983	32,325	32,325	32,325	32,325
Deferred taxation liabilities	1,451	1,451	1,451	1,451	1,451
Long term advances due to holding company	25,521	8,500	8,500	-	-
	45,955	42,276	42,276	33,776	33,776
	116,306	122,627	147,027	138,527	147,767
NTA	62,283	72,283	96,683	96,683	105,923
Number of ordinary shares of RM1.00 each issued ('000)	50,000	-	-	-	-
Number of FFB Shares ('000)	-	120,000	168,000	168,000	184,800
NTA per share (RM)	1.25	0.60	0.58	0.58	0.57

Note:

* The Share Split which was completed on 19 May 2006 has no effect on the proforma consolidated balance sheet as at 31 December 2005. If the Share Split had been completed on 31 December 2005, the NTA per share would be RM0.52.

10. HISTORICAL FINANCIAL INFORMATION *(Cont'd)*

The proforma consolidated balance sheets of the FFB Group are based on the audited financial statements of FFB and its subsidiaries as at 31 December 2005. The accounting policies, basis and assumptions used in the preparation of the proforma consolidated balance sheets are consistent with those previously adopted by the FFB Group in the preparation of its audited financial statements.

The proforma consolidated balance sheets are for illustrative purposes only and incorporates the Flotation Scheme and ESOS as though they were effected on 31 December 2005.

(a) Proforma 1 - After Settlement and Share Split

The Proforma 1 incorporates the Settlement exercise and Share Split as set out in Sections 5.2(a) and 5.2(b), respectively.

For illustrative purposes, the details of the Settlement exercise included in the proforma consolidated balance sheets were based on the audited results as at 31 December 2005. The net amount owing by the FFB Group to the MEB Group as at 31 December 2005 was approximately RM31.8 million whereby:

- (i) amount owing to MEB of RM10,000,000 was capitalised into 10,000,000 new ordinary shares of RM1.00 each in FFB at par;
- (ii) RM8,500,000 is to be settled from proceeds to be obtained from the Public Issue; and
- (iii) the remaining net amount owing which is to be settled from cash via bank borrowings.

The Share Split was completed on 19 May 2006.

(b) Proforma 2 - After Proforma 1 and IPO

The details of the IPO are set out in Sections 5.2(c), (d) and (e) of this Prospectus.

(c) Proforma 3 - After Proforma 2 and utilisation of proceeds

The details of the utilisation of proceeds are out in Section 2.8 of this Prospectus.

(d) Proforma 4 - After Proforma 3 and ESOS

The details of the ESOS are set out in Section 5.3 of this Prospectus.

Based on the enlarged issued and paid-up share capital of 168,000,020 FFB Shares immediately after completion of the Flotation Scheme, the total number of FFB Shares to be issued pursuant to the ESOS is 16,800,000 FFB Shares, which represents 10% of the enlarged issued and paid-up share capital of FFB immediately after the completion of the Flotation Scheme. As FFB is implementing the ESOS Scheme in conjunction with its IPO, an exercise price of RM0.55 per FFB Share is assumed for the 16,800,000 FFB Shares.

10.3 Consolidated cash flow statement

The consolidated cash flow statement of the FFB Group for the last financial year ended 31 December 2005 is set out below. You should read the information that has been presented below together with Section 12 – “Management discussion and analysis of financial condition and results of operations” and Section 14 – “Accountants’ Report”.

10. HISTORICAL FINANCIAL INFORMATION (Cont'd)

	RM '000
Cash flows from operating activities	
Profit before taxation	8,883
Adjustments for:	
Allowance for doubtful debts	329
Amortisation of development costs	2,011
Amortisation of intellectual property	252
Depreciation	7,832
Loss on disposal of property, plant and equipment	27
Goodwill written off	571
Interest expense	5,377
Interest income	(182)
Unrealised loss on foreign exchange	2,792
Share of loss of associates (net of tax)	73
Addition of provisions	4,498
Reversal of provisions	(2,194)
Operating profit before working capital changes	30,269
Changes in working capital:	
Development costs incurred	(3,496)
Inventories	(15,143)
Trade and other receivables	(63,137)
Trade and other payables	91,747
Cash generated from operations	40,240
Interest paid	(3,666)
Interest received	182
Income taxes paid	(443)
Provisions paid	(3,463)
Net cash generated from operating activities	32,850
Cash flows from investing activities	
Acquisition of associate	(76)
Proceeds from disposal of property, plant and equipment	77
Purchase of property, plant and equipment	(34,710)
Net cash used in investing activities	(34,709)
Cash flows from financing activities	
Advance from ultimate holding company	844
Interest paid	(1,711)
Repayment of hire purchase liabilities	(213)
Repayment of onshore foreign currency loan	(4,560)
Drawdown of term loans	21,120
Repayment of term loans	(4,951)
Repayment of revolving credits	(60)
Net cash generated from financing activities	10,469

10. HISTORICAL FINANCIAL INFORMATION (Cont'd)

	RM '000
Exchange difference on translation of the financial statements of foreign operations	124
Net increase in cash and cash equivalents	8,734
Cash and cash equivalents at beginning of year	(2,853)
Foreign exchange difference on opening balance	(812)
Cash and cash equivalents at end of year	<u>5,069</u>

No proforma adjustments were made to the audited consolidated cash flow statement for the FYE 2005.

10.4 Statement of assets and liabilities

The statement of assets and liabilities of the FFB Group as at 31 December 2005 is set out in Section 15 of this Prospectus.

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11. PROFORMA CONSOLIDATED FINANCIAL INFORMATION AND THE REPORTING ACCOUNTANTS' LETTER THEREON

(Prepared for inclusion in the Prospectus)



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The Board of Directors
Favelle Favco Berhad
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Selangor Darul Ehsan

Date 6 June 2006

Dear Sirs

Favelle Favco Berhad
Reporting accountants' letter on the proforma consolidated financial information

We report on the proforma consolidated financial information of Favelle Favco Berhad and its subsidiaries ("FFB Group") as set out in Paragraph 10.1 to 10.3 of the Prospectus dated 30 June 2006 ("the Prospectus"). The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions as set out on the attachment and after making certain adjustments to show what:

- i) the financial results of FFB Group for the financial years ended 31 December 2003, 2004 and 2005 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the periods being reported on;
- ii) the financial position of FFB Group as of 31 December 2005 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the proceeds of the proposed public issue, proposed utilisation of funds and employees' share option scheme; and
- iii) the cashflows of FFB Group for the year ended 31 December 2005 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial year ended 31 December 2005.

The proforma consolidated financial information, because of its nature, may not give a true picture of FFB Group's actual financial results, financial position and cashflows.

It is the responsibility solely of the Board of Directors of FFB to prepare the proforma consolidated financial information. Our responsibility is to form an opinion on the proforma consolidated financial information and to report our opinion to you based on our work.

11. PROFORMA CONSOLIDATED FINANCIAL INFORMATION AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



*Favelle Favco Berhad
Reporting accountants' letter on the proforma consolidated financial information
6 June 2006*

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of FFB and its subsidiaries for the years ended 31 December 2003, 2004 and 2005 and considering the evidence supporting the adjustments, and discussing the proforma consolidated financial information with the Directors of FFB.

In our opinion,

- i) the proforma consolidated financial information have been properly prepared from the audited financial statements of FFB and its subsidiaries which were prepared in accordance with approved accounting standards in Malaysia;
- ii) such basis is consistent with the accounting policies adopted by FFB Group (as set out in Section 15 of the Prospectus);
- iii) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing the proforma consolidated financial information; and
- iv) the proforma consolidated financial information have been properly prepared on the basis of assumptions stated in the attachment.

Yours faithfully

KPMG
Firm No. AF 0758
Chartered Accountants

Foong Mun Kong
Partner

Approval Number: 2613/12/06(J)

11. PROFORMA CONSOLIDATED FINANCIAL INFORMATION AND THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



**FAVELLE FAVCO BERHAD ("FFB")
AND ITS SUBSIDIARIES ("FFB Group")**

**NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION
FOR YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005**

1. Basis of preparation of proforma consolidated financial information

1.1 The proforma consolidated financial information have been prepared to illustrate what:

- a) the financial results of FFB Group for the financial years ended 31 December 2003, 2004 and 2005 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the periods being reported on;
- b) the financial position of FFB Group as of 31 December 2005 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the proceeds of the proposed public issue, proposed utilisation of funds and employees' share option scheme; and
- c) the cashflows of FFB Group for the year ended 31 December 2005 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial year ended 31 December 2005.

1.2 The proforma consolidated financial information have been prepared based on the audited consolidated financial information of FFB Group for the financial years ended 31 December 2003, 2004 and 2005 and using the bases and the accounting principles consistent with those adopted in the audited consolidated financial information, after giving effect to the proforma adjustments considered appropriate.

1.3 For illustrative purposes, it was assumed that the disposal of Favelle Favco Cranes Corporation (which occurred during the financial year ended 31 December 2003) took place prior to 1 January 2003 in arriving at the proforma consolidated income statement for the year ended 31 December 2003.

1.4 The proforma consolidated financial information have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial position, results of operations and cash flows of the FFB Group.

1.5 The statutory audited financial information of FFB Group for the financial years ended 31 December 2003, 2004 and 2005 were prepared in accordance with approved accounting standards in Malaysia.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

12.1 Analysis of material change in net revenue

The key factors affecting the net revenue include the following:

- (a) the ability of FFB Group to penetrate new markets or secure new customers to increase order book;
- (b) the ability to provide high quality products and services on a timely basis at competitive prices at good profit margin;
- (c) the extent of competition in terms of factors such as price, technical capabilities, quality;
- (d) the ability to provide customised solutions that meet the customers' unique specifications and requirements; and
- (e) the growth of the end user industries namely construction, ports and offshore platforms which determines the future prospects of the heavy-duty crane manufacturing industry.

See Section 3 - "Risk factors", Section 5.7 - "Prospects and future plans", Section 12.2 - "Review of past operating results" and Section 12.4 - "Trend information" for further information on other factors which may affect revenue of the FFB Group.

12.2 Review of past operating results**(a) Review of FYE 2003**

The decrease in sales by approximately 11% during the FYE 2003 was mainly due to uncertainties arising from the war in Iraq. The substantial decrease in PBT by approximately 87% during the FYE 2003 was mainly due to the lower sales and rental income recorded from cranes, provision made by KC in respect of a lawsuit filed against them (which has since been settled) and higher costs incurred for material and components used in constructing cranes. The increase in higher costs for material and components was mainly due to the increase in steel prices which ranged from 13% to 53% in FYE 2003.

The interest rates on financing facilities ranged from 3.1% to 9.2% during the financial year with interest expense amounting to approximately RM4 million (FYE 2002: 3.4% to 9.5%; RM5 million).

Due to the depreciation of RM currency against other major currencies such as AUD, SGD, DKK, EUR and sterling pound, the FFB Group recorded an unrealised foreign exchange gain from the retranslation of foreign subsidiaries at balance sheet date which had amounted to approximately RM5.7 million (FYE 2002 : unrealised loss of approximately RM0.8 million). In addition, the FFB Group recorded a realised foreign exchange loss of approximately RM1.1 million from the transaction based on foreign currencies which were conducted during the year (FYE 2002 : realised gain of approximately RM0.4 million).

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

For the FYE 2003, the FFB Group did not have a fixed policy to hedge its sales and purchases in forward contracts. Instead, the FFB Group monitored the exposure to foreign currency risk on an ongoing basis whereby purchases dominated in foreign currency were matched with its revenue stream in the respective foreign currency and respective foreign currency loan, if possible. The FFB Group had various credit facilities in foreign currencies amounting to approximately RM0.9 million (in AUD), RM5 million (in SGD), RM6 million (in DKK) and RM26 million (in USD) as at 31 December 2003.

There was no exceptional or extraordinary item for the financial year under review.

The effective tax rate was lower than the statutory tax rate, which was mainly due to the utilisation of unutilised tax losses brought forward by certain subsidiaries to set-off against their taxable income. In addition, FFM was granted pioneer status under the Promotion of Investments Act, 1986 whereby the entire statutory income of FFM from sales of cranes was exempted from taxation effective from May 2002 to May 2012.

(b) Review of FYE 2004

The increase in revenue by approximately 38% as compared to the FYE 2003 was mainly due to the increase in the sales of offshore cranes recorded by FFM and FFA generated by higher demand from the oil and gas industry. The increases in component and part sales by FFU also contributed to the increase in the revenue of the Group.

Due to the increase in revenue, earnings before exceptional items had improved by approximately 106%. PBT after exceptional items had improved by approximately 546%. The exceptional income was in respect of a gain on disposal of property, plant and equipment amounting to approximately RM19 million. This was substantially offset by the provision of restructuring costs, impairment loss of property, plant and equipment and write-off of goodwill on acquisition of business assets of approximately RM6 million, RM2 million and RM2 million, respectively.

The increase in the steel prices ranged from 6% to 64% in FYE 2004. The interest rates on financing facilities ranged from 2.6% to 9.2% during the financial year with interest expense amounting to approximately RM3 million (FYE 2003: 3.1% to 9.2%; RM4 million).

During the financial year, the depreciation of RM currency against other major currencies such as AUD, SGD, DKK, EUR and sterling pound continued. The FFB Group recorded an unrealised foreign exchange gain from the retranslation of foreign subsidiaries at balance sheet date which had amounted to approximately RM4.3 million (FYE 2003 : unrealised gain of approximately RM5.7 million). In addition, the FFB Group recorded a realised foreign exchange loss of approximately RM2.6 million from the transaction based on foreign currencies which were conducted during the year (FYE 2003 : realised loss of approximately RM1.1 million).

Similarly, for the FYE 2004, the FFB Group did not have a fixed policy to hedge their sales and purchases in forward contracts. The FFB Group had also monitored the exposure to foreign currency risk on an ongoing basis whereby purchases dominated in foreign currency are matched with its revenue stream in the respective foreign currency and respective foreign currency loan, if possible. The FFB Group had various credit facilities in foreign currencies amounting to approximately RM2 million (in AUD), RM5 million (in SGD), RM8 million (in DKK) and RM22 million (in USD) as at 31 December 2004.

There was no extraordinary item for the financial year under review.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The effective tax rate was lower than the statutory tax rate, which was mainly due to the utilisation of unutilised tax losses brought forward and overprovision of taxation in the prior years. In addition, FFM was granted pioneer status under the Promotion of Investments Act, 1986 whereby the entire statutory income of FFM from sales of cranes was exempted from taxation effective from May 2002 to May 2012.

(c) Review of FYE 2005

The increase in revenue by approximately 26% as compared with the revenue for FYE 2004 was mainly due to the increase in sales of offshore cranes recorded by FFM as a result of higher demand from the oil and gas industry. In addition, KC had also recorded an increase in the sales of construction tower cranes.

Due to the increase in revenue, earnings before exceptional items had improved by approximately 130%. Notwithstanding the increase in revenue and earnings before exceptional items, PAT had decreased by approximately 46%. This was also mainly due to exceptional gain on disposal of property, plant and equipment recorded for FYE 2004 as well as increase in taxation expense for FYE 2005. In addition, there was an exceptional expense of goodwill being written off amounting to approximately RM0.6 million.

The increase in steel prices ranged from 53% to 91% in FYE 2005. The interest rates on financing facilities ranged from 2.6% to 9.2% during the financial year with interest expense amounting to approximately RM5 million (FYE 2004: 2.6% to 9.2%; RM3 million).

During the financial year, the fixed exchange rate regime with a peg of RM3.80 : USD1.00 was removed. A floating rate regime was implemented for the foreign currencies instead. The RM currency strengthened against other major currencies such as AUD, SGD, DKK, EUR and sterling pound during the year. The FFB Group recorded an unrealised foreign exchange loss from the retranslation of foreign subsidiaries at balance sheet date which had amounted to approximately RM2.8 million (FYE 2004 : unrealised gain of approximately RM4.3 million). In addition, the FFB Group recorded a realised foreign exchange gain of approximately RM2.0 million from the transaction based on foreign currencies which were conducted during the year (FYE 2004 : realised loss of approximately RM2.6 million).

Similarly, for the FYE 2005, the FFB Group did not have a fixed policy to hedge its sales and purchases in forward contracts. The FFB Group had also monitored the exposure to foreign currency risk on an ongoing basis whereby purchases dominated in foreign currency were matched with its revenue stream in the respective foreign currency and respective foreign currency loan, if possible. The FFB Group had various credit facilities in foreign currencies amounting to approximately RM1.2 million (in AUD), RM5.7 million (in SGD), RM6.5 million (in DKK) and RM12.7 million (in USD) as at 31 December 2005.

There was no extraordinary item for the financial year under review.

The effective tax rate was lower than the statutory tax rate, which was mainly due to the utilisation of unutilised tax losses brought forward by certain subsidiaries to set-off against their taxable income. In addition, FFM was granted pioneer status under the Promotion of Investments Act, 1986 whereby the entire statutory income of FFM from sales of cranes was exempted from taxation effective from May 2002 to May 2012.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

12.3 Segmental analysis

(a) Analysis of revenue by subsidiaries

Revenue	←-----FYE----->		
	2003 RM'000	2004 RM'000	2005 RM'000
FFB	8,125	30	8,901
FFM	75,488	121,977	191,373
KC	42,946	33,260	62,176
FFU	21,257	41,887	21,364
FFS	7,892	46,192	63,982
FFA	84,365	122,079	109,107
	<u>240,073</u>	<u>365,425</u>	<u>456,903</u>
Less: Inter-company elimination	(46,566)	(98,460)	(121,257)
Total	<u>193,507</u>	<u>266,965</u>	<u>335,646</u>

(b) Analysis of PBT by subsidiaries and associated companies

PBT/(LBT)	←-----FYE----->		
	2003 RM'000	2004 RM'000	2005 RM'000
FFB	1,780	13,964	365
FFM	1,668	7,929	14,105
KC	(1,322)	(2,794)	2,946
FFU	(4,654)	(111)	(394)
FFS	(379)	2,234	959
FFA	8,297	(4,446)	(5,706)
FO	4	9	3
FFME	-	-	(76)
	<u>5,394</u>	<u>16,785</u>	<u>12,202</u>
Add/(Less): Inter-company elimination	(3,401)	(3,901)	(3,319)
Total	<u>1,993</u>	<u>12,884</u>	<u>8,883</u>

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12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)
(c) Analysis of revenue by geographical location

Revenue	←-----FYE-----→		
	2003 RM'000	2004 RM'000	2005 RM'000
FFB	-	-	6,500
FFM	57,290	48,104	60,004
Total within Malaysia	57,290	48,104	66,504
FFB	8,125	30	2,401
FFM (excluding Malaysia)	18,198	73,873	131,369
KC	42,946	33,260	62,176
FFU	21,257	41,887	21,364
FFS	7,892	46,192	63,982
FFA	84,365	122,079	109,107
Total outside Malaysia	182,783	317,321	390,399
Less: Inter-company elimination	(46,566)	(98,460)	(121,257)
Total	193,507	266,965	335,646

(d) Analysis of PBT by geographical location

PBT	←-----FYE-----→		
	2003 RM'000	2004 RM'000	2005 RM'000
FFB	-	-	267
FFM	1,240	4,152	6,846
FO	4	9	3
Total within Malaysia	1,244	4,161	7,116
FFB	1,780	13,964	98
FFM (excluding Malaysia)	428	3,777	7,259
KC	(1,322)	(2,794)	2,946
FFU	(4,654)	(111)	(394)
FFS	(379)	2,234	959
FFA	8,297	(4,446)	(5,706)
FFME	-	-	(76)
Total outside Malaysia	4,150	12,624	5,086
Add/Less: Inter-company elimination	(3,401)	(3,901)	(3,319)
Total	1,993	12,884	8,883

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

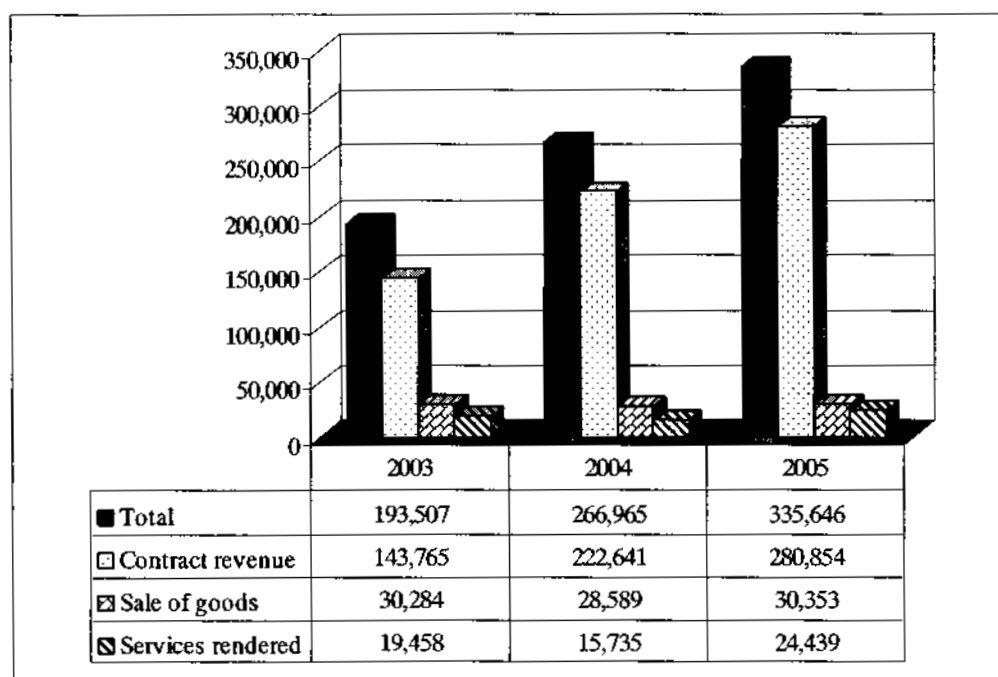
(e) Analysis of revenue by products/services

Revenue	←-----FY----->		
	2003 RM'000	2004 RM'000	2005 RM'000
Offshore cranes	81,819	147,733	168,001
Construction tower cranes	53,242	69,400	109,303
Crawler cranes	8,079	5,508	3,550
Port cranes	625	-	-
Contract revenue	143,765	222,641	280,854
Sale of goods	30,284	28,589	30,353
Services rendered			
Service and repairs	6,142	1,369	7,620
Rental of cranes	13,316	14,366	16,819
Total	193,507	266,965	335,646

12.4 Trend information

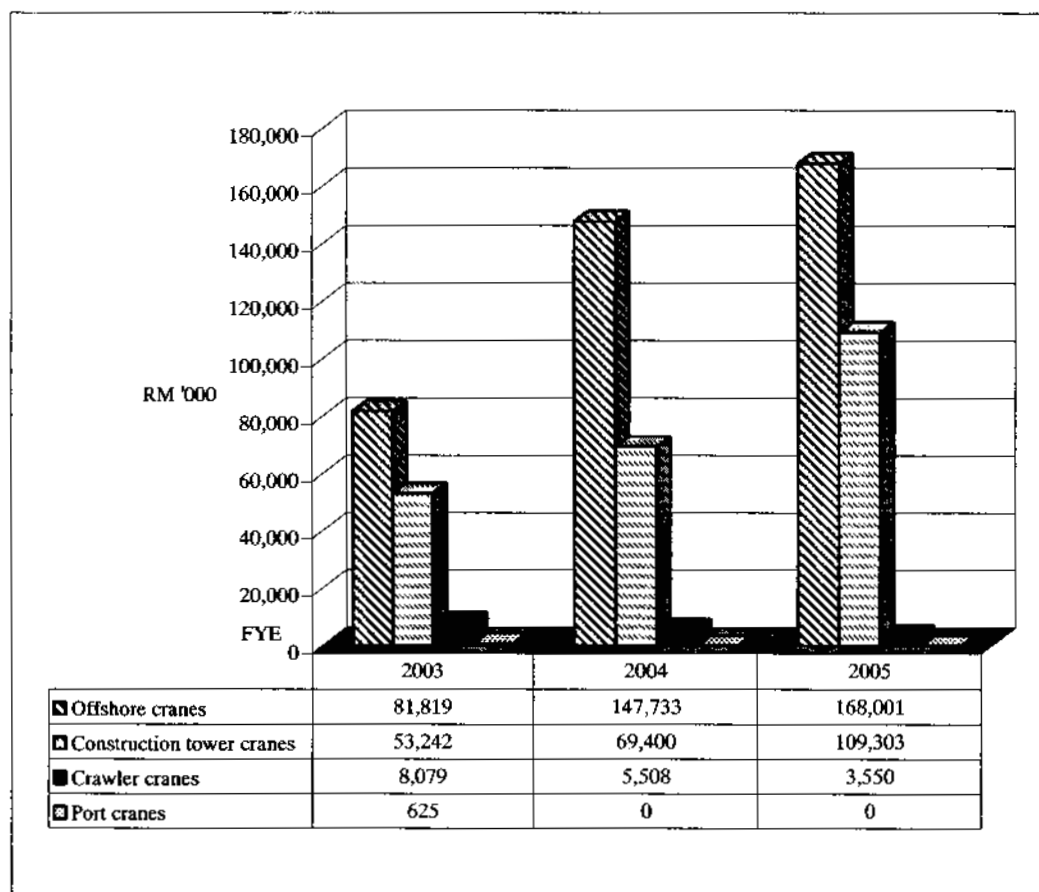
(a) Revenue

The analysis of the revenue of the FFB Group for the past three (3) financial years ended 31 December 2005 is as follows:



12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

As demonstrated above, the audited consolidated revenue of the FFB Group is on an upward trend basis. It can also be demonstrated from the above that the majority of the revenue from the FFB Group is contract revenue from manufacturing of cranes. The analysis of the contract revenue is as follows:



Based on the above, the increase in contract revenue was mainly attributable to increase in sales of offshore followed by construction tower cranes. The increase in contract revenue from manufacture of offshore cranes was mainly due to the increase in oil exploration activities and discovery of new oilfield. The increase in the sales of construction tower cranes was mainly due to better economic sentiment which had encouraged construction activities and building of tall buildings.

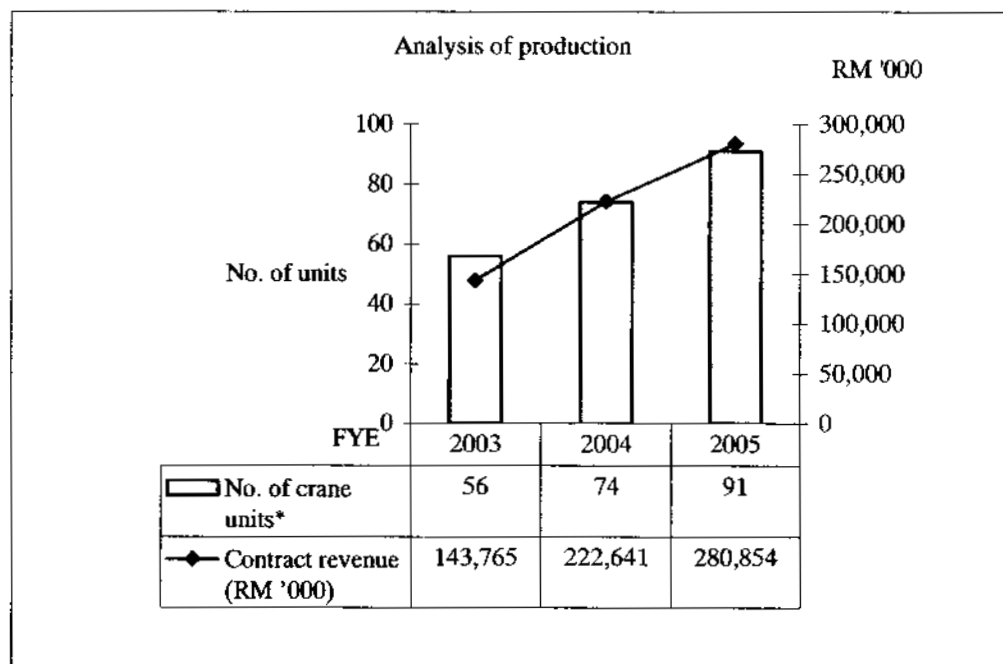
The increase in the audited consolidated revenue was also a result of aggressive marketing efforts undertaken by the FFB Group in the past. The management had persistently identified potential target markets and seek opportunities to expand the business thereon. Sometimes, agents are also engaged in order to provide the FFB Group with locality advantage. The FFB Group also obtained repeat orders from its existing and/or long standing customers, particularly those from the oil and gas industry.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

As at 23 May 2006, the management had identified new markets in countries and regions such as Russia, Brazil and the Middle East. Continuous efforts will be taken in order to penetrate new markets and increase its customer base.

(b) Production

The analysis of the production of the FFB Group for the past three (3) financial years ended 31 December 2005 is as follows:



Note:

* Based on the number of cranes which had been completed and delivered to the customers and cranes which had been completed by 70% or more as at 31 December, in each of the financial year end. The reason for 70% or more completed cranes being included was due to the number of cranes produced which differs year-on-year due to the size, specifications, customisation features required by each customer and other factors. In addition, the sales value of each crane is accounted for in each financial year based on the percentage of completion method.

Based on the above, the number of cranes produced (in units) increased over the past three (3) financial years ended 31 December 2005. The increase in the number of cranes produced can be mainly attributed to the increase in the secured contracts obtained by the FFB Group.

The cranes manufactured by the FFB Group are cranes of high in value. Thus, the FFB Group will only begin manufacturing a crane when a secured order is obtained.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

(c) Costs and selling prices

The policy of the FFB Group is to obtain the best and/or optimum selling price for its products in order to maximise its profits. However, there are instances whereby some sales incentives are given to new or repeat customers in order to obtain new sales order and new customers, increase its existing customer base and penetrate into new markets. During the FYE 2003, the selling prices of the cranes decreased slightly, which was mainly due to uncertainties arising from war in Iraq.

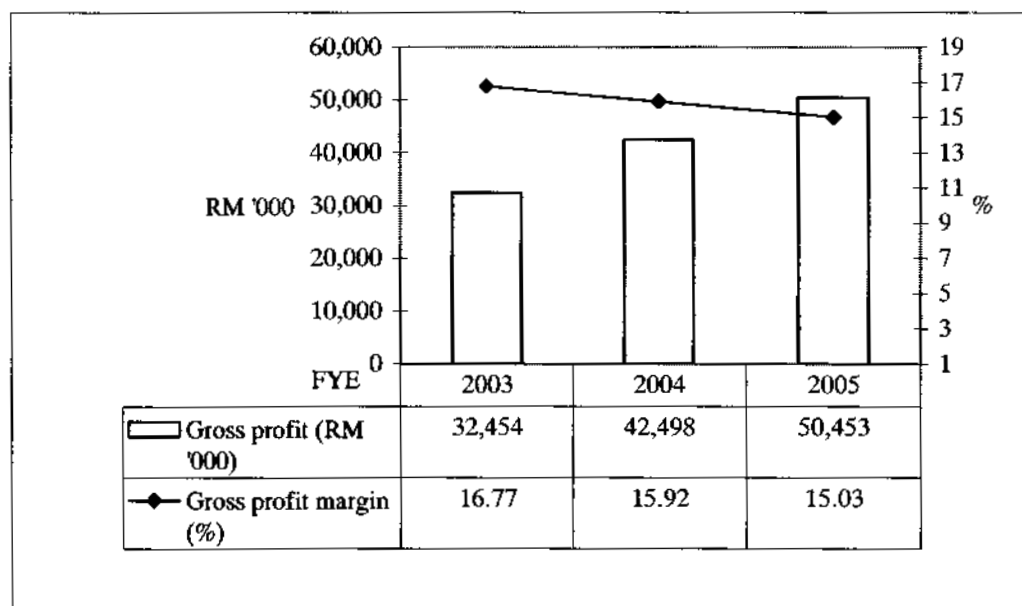
For the past two (2) financial years ended 31 December 2005, the selling prices of the cranes were on an uptrend in order to reflect the increase in steel prices, component prices, exchange rates, labour costs and other factors.

As for the costs prices, the FFB Group strives to produce high quality cranes at the lowest cost possible. As stated above, the costs prices were also on an uptrend basis during the financial years under review.

The selling and cost prices of the customised cranes vary from crane to crane due to factors such as different specifications, size, load factor and technical capabilities. Similarly, the increase in selling and cost prices also differs between cranes.

(d) Gross profit and gross profit margin

The analysis of the gross profit and gross profit margin of the FFB Group for the past three (3) financial years ended 31 December 2005 is as follows:



The increase in the audited consolidated gross profit was mainly due to the increase in audited consolidated revenue for the financial years under review. Despite the increase in the audited consolidated revenue and gross profit, the gross profit margin was on a declining trend. This was mainly due to the following:

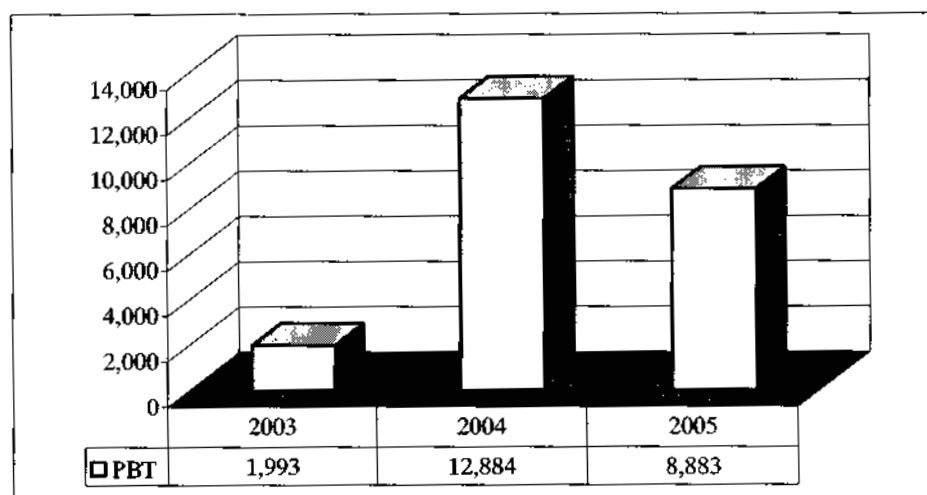
12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

- Intensified sales and marketing efforts (including sales incentives for new and repeat customers) which had resulted in higher costs incurred in order to obtain new sales orders and new customers, increase its existing customer base and penetrate into new markets; and
- Additional costs incurred from the streamlining exercise undertaken by the FFB Group during FYE 2004 and FYE 2005. The streamlining exercise involved, amongst others, the commissioning of a new factory in Senawang, Malaysia, to accommodate more man-hour intensive work compared to the previous production facilities and increase its production capacity. The Senawang factory commenced operations in the 4th quarter of 2004. As part of the streamlining exercise also, they had recruited additional workforce for the Senawang factory. As a result, they had to incur training costs and overlapping labour costs especially during the FYE 2004 and FYE 2005.

See Section 3.1 – “Low pre-tax margin” for further details of the pre-tax margin of the FFB Group.

(e) PBT

The analysis of the PBT of the FFB Group for the past three (3) financial years ended 31 December 2005 is as follows:

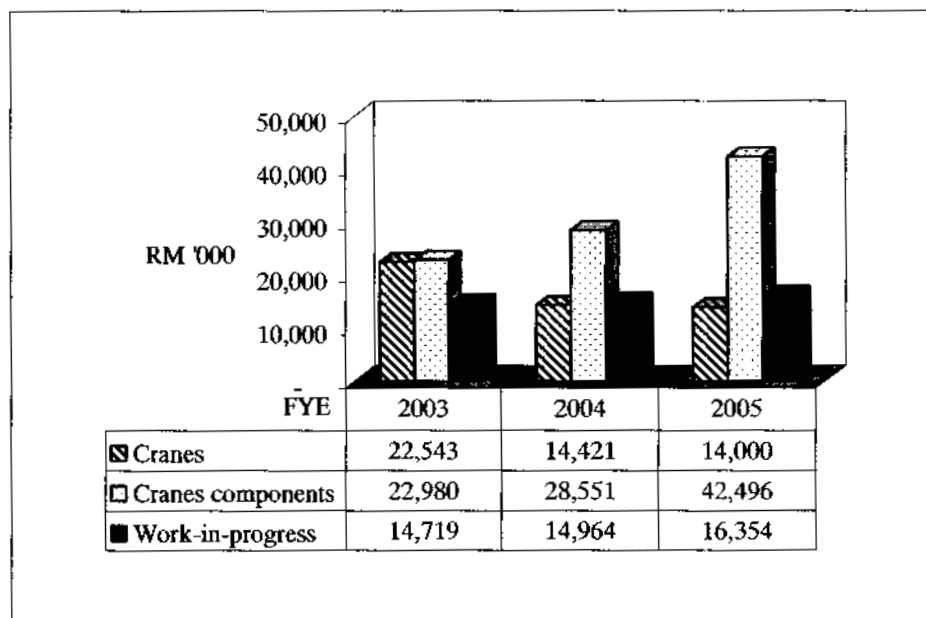


See Section 12.2 – “Review of past operating results” for the detailed commentary of the PBT. It should be noted that the PBT for the FYE 2004 includes an exceptional gain of approximately RM9 million.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

(f) Inventory

The analysis of the inventory of the FFB Group for the past three (3) financial years ended 31 December 2005 is as follows:



Inventory comprises cranes, cranes components and work-in-progress. Cranes components are raw materials such as structural steel, mechanical components, casting materials and electrical components.

The analysis of the inventory turnover is as follows:

	←-----FYE-----→		
	2003	2004	2005
Purchases (RM '000)	111,474	166,206	260,127
Inventory (RM '000)	60,242	57,936	72,850
Inventory turnover (days)	197	127	102

Despite the increase in purchases and inventory over the financial periods under review, the inventory turnover has improved. This was mainly due to improvement in the purchase planning that has been undertaken by the FFB Group.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

(g) Order book

As at 31 March 2006, the total secured crane order book outstanding is approximately RM216.4 million, including RM58.0 million which was secured during the three months ended 31 March 2006.

Save as disclosed in Sections 3, 12.1 and 12.4 of this Prospectus, there is no known trend, demand, commitment, event or uncertainty that:

- have had, or that the FFB Group reasonably expects to have, a material favourable or unfavourable impact on the financial performance, position and operations of the FFB Group; and
- would cause the historical financial statements to be not necessarily indicative of future financial information.

See Section 13.4 for further details of the sensitivity analysis.

12.5 Liquidity and capital resources

(a) Material sources of liquidity

The principal sources of liquidity are cash generated from the operations of the FFB Group and various credit facilities from financial institutions. As at 31 December 2005, the FFB Group has cash and cash equivalents of approximately RM5.1 million. In addition, the total maximum limit of credit facilities obtained by the FFB Group amount to RM179.6 million as at 31 December 2005, of which RM136.8 million has been utilised as at the same date.

Furthermore, the FFB Group had recorded a net increase in cash and cash equivalents of approximately RM8.7 million for the FYE 2005. The details of the key liquidity ratios as at 31 December 2005 are as follows:

	FYE 2005
All interest bearing borrowings (RM '000)	136,845
Shareholders' funds (RM '000)	70,351
Gearing ratio (times) **	1.95
Current assets (RM '000)	320,656
Current assets excluding stocks (RM '000)	247,806
Current liabilities (RM '000)	274,585
Current ratio (times) @	1.17
Quick ratio (times) ^	0.90

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Notes:

- # *Gearing ratio is computed based on all interest bearing borrowings over the shareholders' funds.*
 * *As set out in Section 10.2 – "Proforma consolidated balance sheets", the gearing ratio is 1.34 times subsequent to the completion of the Flotation Scheme.*
 @ *Based on current assets over current liabilities*
 ^ *Based on current assets excluding stocks over current liabilities*

Based on the above and after taking into account their operations, the level of cash and cash equivalents, the banking facilities available and the proceeds to be raised from the Public Issue, the Board is of the opinion that the working capital available to the FFB Group will be sufficient for a period of twelve (12) months from the date of this Prospectus.

(b) Material sources and amount of cash flows

The key financial information as extracted from the consolidated cash flows statements for the FYE 2005 are as follows:

	FYE 2005 RM '000
Net cash generated from operating activities	32,850
Net cash used in investing activities	(34,709)
Net cash generated from financing activities	10,469
Exchange difference on translation of the financial statements of foreign operations	124
Net increase in cash and cash equivalents	<u>8,734</u>
Cash and cash equivalents at beginning of year	(2,853)
Foreign exchange difference on opening balance	(812)
Cash and cash equivalents at end of year	<u>5,069</u>

As demonstrated above, the principal source of the net increase in cash and cash equivalents for the FYE 2005 was net cash generated from operating activities. The FFB Group had also obtained net cash flow from their financing activities during the year.

The main contributor to the net cash generated from operating activities of approximately RM32.9 million was payment from the trade and other receivables amounting to approximately RM63.1 million whilst the payment to the trade and other payables was approximately RM91.7 million.

The main contributor to the net cash generated from financing activities of approximately RM10.5 million was drawdown of term loans amounting to approximately RM21.1 million. Approximately RM9.8 million of the borrowings was repaid during the FYE 2005.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The net cash used in investing activities amounted to approximately RM34.7 million whereby most of the cash was used to purchase property, plant and equipment.

(c) Borrowings

As at 31 December 2005, the total outstanding bank borrowings of the Group (all of which are interest bearing) amount to approximately RM136.8 million. The details of the Group's outstanding bank borrowings are as follows:

	Foreign currency (‘000)	Exchange Rate ⁽¹⁾	RM equivalent (‘000)
<i>Long-term borrowings</i>			
AUD	98	2.7680	271
SGD	69	2.2703	157
RM	-	-	18,555
Total long-term borrowings			<u>18,983</u>
<i>Short-term borrowings</i>			
USD	3,370	3.7800	12,739
AUD	338	2.7680	935
DKK	10,849	0.6003	6,513
SGD	2,424	2.2703	5,503
RM			92,172
Total short-term borrowings			<u>117,862</u>
Total borrowings			<u>136,845</u>

Note:

⁽¹⁾ Being exchange rate as at 31 December 2005, based on the exchange rate of RM for each unit of foreign currency

As at 23 May 2006 and as far as the Board is aware, there has not been any default on payments of interest and/or principal sums in respect of any borrowings for the past one (1) FYE 2005 and in the subsequent financial period thereof.

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12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

12.6 Other key financial ratios

The details of the other key financial ratios based on the proforma consolidated income statements are as follows:

	←-----FYE-----→		
	2003	2004	2005
Revenue (RM '000)	193,507	266,965	335,646
Trade receivables (RM '000) *	46,540	49,741	67,061
Receivable turnover (days) #	88	68	73
Purchases (RM '000)	111,474	166,206	260,127
Trade payables (RM '000)	29,425	51,455	88,927
Payable turnover (days) @	96	113	125

Notes:

* *Includes progress billings and trade debtors receivables less allowance for doubtful debts, and excludes amount due from contract customers. The amount due from contract customers refers to progressive manufacturing works done on cranes, which has been recognised as revenue based on the percentage of completion method. However, these revenue were accounted for as amount due from contract customers and not trade receivables as the work done could not be billed to the customers yet.*

The average credit period granted to the customers is 90 days.

@ *The average credit period granted to the FFB Group by their suppliers is 60 days.*

Based on the above, it can be demonstrated that the receivable turnover has decreased from 88 days in the FYE 2003 to 68 days in the FYE 2004. However, the receivable turnover has increased slightly to 73 days in the FYE 2005. Furthermore, payable turnover has increased over the financial years under review.

12.7 Financial instruments

In addition to the hedging methods as described in Section 12.2, the FFB Group had used the foreign currencies denominated credit facilities of MEB for the past three (3) financial years ended 31 December 2005 in order to receive or pay for foreign currencies transactions.

12.8 Material capital commitment

As at 23 May 2006, there is no material capital commitment incurred or known to be incurred by the FFB Group that may have a substantial impact on the financial position of the Group.

12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

12.9 Contingent liabilities

As at 23 May 2006, the Board is not aware of any material contingent liabilities, which have become enforceable or is likely to become enforceable, which in the opinion of the Board, could substantially affect the ability of the FFB Group to meet their obligations when they fall due.

12.10 Material litigation, claims or arbitration

As at 23 May 2006, save as disclosed in Section 25.4, no company within the FFB Group is engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which has a material effect on the financial position of the FFB or any of its subsidiary companies and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of FFB or any of its subsidiary companies.

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13. FUTURE FINANCIAL INFORMATION

13.1 Consolidated profit forecast

The Directors forecast that the consolidated PAT of the FFB Group for the FYE 2006 is as follows:

	RM '000
Revenue	349,490
PBT	10,156
Taxation	(556)
PAT ⁽¹⁾	9,600
Based on weighted average number of shares in issue upon completion of the Flotation Scheme	
No. of weighted average FFB Shares in issue ('000)	134,279
Basic net EPS (sen)	7.15
Net PE Multiple based on the IPO Price (times)	7.69
Based on issued and paid-up share capital upon completion of the Flotation Scheme	
No. of Shares assumed in issue ('000) ⁽²⁾	168,000
Basic net EPS (sen)	5.71
Net PE Multiple based on the IPO Price (times)	9.63
Based on the enlarged issued and paid-up share capital upon completion of the Flotation Scheme and ESOS	
No. of FFB Shares assumed in issue ('000) ⁽³⁾	184,800
Diluted net EPS (sen)	5.19
Net PE Multiple based on the IPO Price (times)	10.60

Notes:

1. *There is no minority interest forecasted for the FYE 2006.*
2. *Based on the issued and paid-up share capital of 168,000,020 FFB Shares immediately after completion of the Flotation Scheme.*
3. *Based on the enlarged issued and paid-up share capital of 168,000,020 FFB Shares immediately after completion of the Flotation Scheme and assuming the total number of FFB Shares to be issued pursuant to the ESOS is 16,800,000 FFB Shares, (representing 10% of the enlarged issued and paid-up share capital of FFB immediately after the completion of the Flotation Scheme).*

The consolidated profit forecast of FFB Group for the FYE 2006 has been prepared based on the Board's assessment of the present economic and operating conditions and the Board's best estimate regarding future events and actions which, at the date of the forecast was prepared, the Board expect to take place. These future events and actions may or may not occur. These bases and assumptions cover future periods for which there are inherent risks and therefore, should be treated with caution.

A forecast by its nature is subject to business, economic and competitive uncertainties and unexpected events, many of which are beyond the control of the FFB Group and its Directors, and assumptions with respect to future business decisions, which are subject to change. In addition, events and circumstances often do not occur as anticipated and therefore, actual results are likely to differ from the forecast whereby the differences may be material. Therefore, certain assumptions used in the preparation of the consolidated profit forecast may differ significantly from the actual situation after the date of this profit forecast.

13. FUTURE FINANCIAL INFORMATION *(Cont'd)*

See Section 13.6 for the detailed bases and assumptions upon which the consolidated profit forecast has been made.

13.2 Board's analysis and comments on the consolidated profit forecast

The Board has reviewed the consolidated profit forecast of FFB Group and the bases and assumptions used in arriving at the consolidated profit forecast of the FFB Group for the FYE 2006. Accordingly, the Board confirms that the consolidated profit forecast for the FYE 2006 and the underlying bases and assumption is reasonable. The Board is of the opinion that the consolidated profit forecast for the FYE 2006 is achievable under the prevailing business and economic environment after having taken into account the following:

- prospects and outlook of the crane manufacturing industry as set out in Section 4.4 of this Prospectus;
- prospects of the global and Malaysian economy (including oil and gas industry) as set out in Sections 4.1 and 4.2 of this Prospectus;
- future plans and strategies to be adopted by FFB Group as set out in Section 5.7 of this Prospectus;
- most significant recent trend information as set out in Section 12.4 of this Prospectus;
- level of order book as set out in Section 12.4(g); and
- its forecasted level of gearing, liquidity and working capital requirements.

In addition to the above, the consolidated profit forecast for the FYE 2006 has been prepared on the basis consistent with the accounting principles adopted and disclosed in the audited consolidated financial statements for the FYE 2005.

The Board forecasts a consolidated revenue of approximately RM349.5 million for the FYE 2006, an increase of approximately RM13.8 million or 4.1% as compared to the audited consolidated revenue of approximately RM335.6 million for FYE 2005. This is mainly attributed to the expected increase in sale of offshore cranes to customers operating in the oil and gas industry.

The Board forecasts a consolidated PAT of approximately RM9.6 million for the FYE 2006, an increase by approximately RM2.4 million or 33.7% as compared to the audited consolidated PAT of approximately RM7.2 million for FYE 2005. This is mainly attributed to higher revenues expected to be recorded as a result of the expected increase in sale of offshore cranes to companies operating in the oil and gas industry.

13.3 Dividend forecast

It is the policy of the Board to recommend dividends in the future to allow the shareholders of FFB to participate in the profits of the FFB Group as well as to provide adequate reserves and funds for the future growth of the FFB Group.

The ability of FFB to declare dividends or make other distributions in the future is subject to the Group having profits and excess funds which are not required to be retained to fund the Group's operations, other obligations or business plans and restrictions contained in loan agreements. As FFB is an investment holding company, the ability of the Company to declare dividends is also dependent upon receipt of funds and dividend income from its subsidiary companies.

Upon the recommendation by the Board, the level of dividend payments, if any, will take into consideration the following factors including:

- The level of cash, reserves and return on equity;
- The level of indebtedness and ability to service debts;

13. FUTURE FINANCIAL INFORMATION (Cont'd)

- The required and expected interest expense, working capital, cash flows, profits and retained profits;
- The expected results of operations and financial condition;
- The projected level of capital expenditure and other investment plans;
- Availability of Section 108 taxation credits;
- Exempt income accounts available to distribute dividends in a tax efficient manner; or
- Other factors deemed relevant by the Directors.

Furthermore, future dividend payments will be waived in the event that:

- FFB has insufficient reserves to declare dividends;
- The FFB Group is in a loss position for the relevant financial year;
- Insufficient cash flow for the dividend payments; or
- Other factors deemed relevant by the Directors.

Subject to the factors outlined above, the intended appropriation of the forecast consolidated PAT for the FYE 2006 would be as follows:

Tax exempt dividend per FFB Share (sen) ¹	1.71
Dividend yield (%) ²	3.11
Dividend cover (times) ³	3.34

Notes:

1. *Based on the enlarged issued and paid-up share capital of 168,000,020 Shares upon completion of the Flotation Scheme.*
2. *Based on the IPO Price.*
3. *Computed based on the consolidated PAT attributable to shareholders over the tax exempt dividend.*

Notwithstanding the above, the Board has the full discretion not to propose any future dividend payments as and when deemed necessary, if it is in the best interests of the FFB Group.

Similarly, the dividend policy of FFS, FFA, KC and FFU are to recommend dividends in the future to allow FFB to participate in their profits as well as to provide adequate reserves and funds for their future growth. For the latest FYE 2005, KC had declared a gross dividend rate of 20% and paid approximately RM2.5 million to FFB. FFB forecasts to receive dividend income of approximately RM5 million from all its subsidiaries including RM2.0 million to be received from its foreign subsidiaries in respect of the FYE 2006.

The future dividend policy of FFS, FFA, KC and FFU will take into consideration of various factors including:

- Restrictions contained in loan agreements;
- The level of cash, reserves and return on equity;
- The level of indebtedness and ability to service debts;
- The required and expected interest expense, working capital, cash flows, profits and retained profits;
- The expected results of operations and financial condition;
- The projected level of capital expenditure and other investment plans;
- The respective taxation laws in their country of residency;

13. FUTURE FINANCIAL INFORMATION (Cont'd)

- The respective laws, regulations, guidelines with regard to repatriation of profits in their country of residency; or
- Other factors deemed relevant by the Directors.

13.4 Sensitivity analysis

The consolidated profit forecast is based on a number of estimates and assumptions that are subject to business, economic, competition, uncertainties and contingencies, many of which are beyond the control of the FFB Group and its Directors and upon assumptions with respect to future business decisions, which are subject to change.

The following sensitivity analysis had been prepared by the management of the FFB Group and had been reviewed by the Board. The sensitivity analysis is prepared based on the forecast assumptions as set out in Section 13.6 and assuming all other variables remain unchanged except for the 5% and 10% upward and downward variations on the key variables which are sales value, selling prices and cost of goods sold. Notwithstanding the impacts of the variations in these variables to the consolidated forecast revenue and PAT for the FYE 2006, there may exist other factors which have not been taken into account, whose variations, may have a significant effect, either positively or negatively, on the financials of the FFB Group.

In addition, care should be taken in interpreting these sensitivities. The changes in the key variables set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. In practice, changes in variables may offset each other or may be additive or have an impact on other variables. Nevertheless, the Board intends to respond to any adverse change by taking action to minimise the net effect on the results of FFB Group.

The following scenarios illustrate the impact of changes on the key variables to the financial forecast of the FFB Group for the FYE 2006:

(a) Variation in sales value

FYE 2006	Revenue RM '000	Percentage of change %	PAT RM '000	Percentage of change %
Sales value increase by:				
5.0%	366,964	105	13,867	44
10.0%	384,439	110	17,827	86
Base case	349,490		9,600	
Sales value decrease by:				
5.0%	332,015	95	5,845	(39)
10.0%	314,541	90	1,619	(83)

13. FUTURE FINANCIAL INFORMATION (Cont'd)**(b) Variation in selling price**

FYE 2006	Revenue RM '000	Percentage of change %	PAT RM '000	Percentage of change %
Selling price increase by:				
5.0%	366,964	105	25,502	166
10.0%	384,439	110	41,096	328
Base case	349,490		9,600	
Selling price decrease by:				
5.0%	332,015	95	(7,070)	(26)
10.0%	314,541	90	(24,557)	(156)

(c) Variation in cost of goods sold

FYE 2006	Cost of goods sold RM '000	Percentage of change %	PAT RM '000	Percentage of change %
Cost of goods sold increase by:				
5.0%	276,782	105	(2,826)	(129)
10.0%	289,962	110	(15,785)	(264)
Base case	263,602		9,600	
Cost of goods sold decrease by:				
5.0%	250,421	95	21,542	124
10.0%	237,241	90	33,176	246

13.5 Breakeven analysis

The consolidated profit forecast is based on a number of forecast and assumptions that are subject to business, economic, competition, uncertainties and contingencies, many of which are beyond the control of the FFB Group and its Directors and upon assumptions with respect to future business decisions, which are subject to change.

The following breakeven analysis had been prepared by the management of the FFB Group and had been reviewed by the Board. The breakeven analysis, with the breakeven point being PAT, is prepared based on the forecast assumptions as set out in Section 13.6 and assuming all other variables remain unchanged except for the variations on the key variables which are sales value, selling prices and cost of goods sold. Notwithstanding this breakeven analysis, there may exist other factors which have not been taken into account, whose variations, may have a significant effect, either positively or negatively, on the financials of the FFB Group.

13. FUTURE FINANCIAL INFORMATION (Cont'd)

In addition, care should be taken in interpreting this breakeven analysis. The changes in the key variables set out in the breakeven analysis are not intended to be indicative of the complete range of variations that may be experienced. In practice, changes in variables may offset each other or may be additive or have an impact on other variables. Nevertheless, the Board intends to respond to any adverse change by taking action to minimise the net effect on the results of FFB Group.

The breakeven percentage of variations to the sales value, selling prices and cost of goods sold for the Group's operations based on the consolidated profit forecast for the FYE 2006 are as follows:

Variation to:	Breakeven % of variation FYE 2006
Decrease in sales value	By 11.2%
Decrease in selling prices	By 2.7%
Increase in cost of goods sold	By 3.6%

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13. FUTURE FINANCIAL INFORMATION *(Cont'd)*

13.6 Reporting Accountants' letter on the consolidated profit forecast

(Prepared for inclusion in the Prospectus)



KPMG (Firm No. AF 0758)
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The Board of Directors
Favelle Favco Berhad
Lot 586, 2nd Mile
Jalan Batu Tiga Lama
41300 Klang
Selangor Darul Ehsan

6 June 2006

Dear Sirs

Reporting accountants' letter on the consolidated profit forecast for the financial year ending 31 December 2006

We have reviewed the consolidated profit forecast of Favelle Favco Berhad ("FFB") and its subsidiaries ("FFB Group") for the financial year ending 31 December 2006 as set out in the accompanying statement (which we have stamped for the purpose of identification) in accordance with the Standard on Auditing (ISA 810) applicable to the review of forecasts. The consolidated profit forecast has been prepared for inclusion in the Prospectus dated 30 June 2006 in connection with the proposed flotation of FFB shares ("proposed flotation scheme") on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and should not be relied on for any other purposes.

Our review has been undertaken to enable us to form an opinion as to whether the consolidated profit forecast is, in all material respects, properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by FFB Group in its audited financial statements for the financial year ended 31 December 2005 and in accordance with the financial reporting standards required to be adopted by the FFB Group effective 1 January 2006 (by the Malaysian Accounting Standards Board). The Directors of FFB are solely responsible for the preparation and presentation of the consolidated profit forecast and the assumptions on which the consolidated profit forecast is based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

13. FUTURE FINANCIAL INFORMATION (Cont'd)



Favelle Favco Berhad
Reporting accountants' letter on the consolidated profit forecast
for the year ending 31 December 2006
6 June 2006

Subject to the matter stated in the preceding paragraph:-

- (i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and
- (ii) in our opinion, the consolidated profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited financial statements for the financial year ended 31 December 2005 and in accordance with the financial reporting standards required to be adopted by the FFB Group effective 1 January 2006 (by the Malaysian Accounting Standards Board).

Yours faithfully

KPMG
Firm No. AF 0758
Chartered Accountants

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

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13. FUTURE FINANCIAL INFORMATION (Cont'd)

APPENDIX I

**FAVELLE FAVCO BERHAD ("FFB")
AND ITS SUBSIDIARIES ("FFB GROUP")**

**CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING
31 DECEMBER 2006**

At the time of preparing this consolidated profit forecast, the Directors forecast that the consolidated profit after taxation of the FFB Group for the financial year ending 31 December 2006 will be as follows:

	2006 RM'000
Consolidated profit after taxation	9,600
*Weighted average number of ordinary shares of RM0.50 each in issue ('000)	134,279
Based on the weighted average number of shares in issue	
- Basic net earnings per share (sen)	7.15
Based on the enlarged number of shares in issue	
- Basic net earnings per share (sen)	5.71

*The weighted average number of ordinary shares is computed based on the assumption that the share settlement and share split (completed on 19 May 2006) and the public issue will be completed by mid August 2006.

i) Share settlement

Amount owing to Muhibbah Engineering (M) Bhd ("MEB") of RM10.0 million shall be capitalised into 10,000,000 new ordinary shares of RM1.00 each in FFB at par (completed on 19 May 2006).

ii) Share split

The share split involves a change in the par value of FFB's current ordinary shares from RM1.00 each to RM0.50 each, by way of sub-division of the par value for each existing ordinary share of RM1.00 each in FFB into two (2) ordinary shares of RM0.50 each.

iii) Public issue

FFB to issue 48,000,020 new shares at an issue price of RM0.55 per share after the completion of the settlement and share split, in the following manner:

- (a) Renounceable restricted issue of up to 30,587,520 shares to shareholders of MEB on the basis of one (1) new FFB share for every five (5) existing MEB shares held as at the entitlement date ("Restricted Issue Shares");



13. FUTURE FINANCIAL INFORMATION (Cont'd)

APPENDIX I

- (b) Special issue of up to 6,086,300 shares to be placed to Bumiputra investors and approved by the Ministry of International Trade and Industry (“Special Issue Shares”); and
- (c) Pink form issue of 13,000,000 pink form shares to be reserved for the application by the Directors and eligible employees of MEB, FFB Group and persons who have contributed to the success of the FFB Group.

The total number of the Restricted Issue Shares (described in (a) above) and the Special Issue Shares (described in (b) above) to be issued to Bumiputra investors shall be fixed at 35,000,020 new FFB shares. Hence, the actual number of Restricted Issue Shares and Special Issue Shares to be issued represent the balancing figure after taking into consideration the actual number of Restricted Issue Shares under (a) to be issued to the shareholders of MEB as at the entitlement date.

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13. FUTURE FINANCIAL INFORMATION (Cont'd)

APPENDIX 2

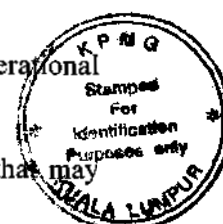
**FAVELLE FAVCO BERHAD ("FFB")
AND ITS SUBSIDIARIES ("FFB GROUP")**

**CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING
31 DECEMBER 2006**

The principal bases and assumptions upon which the consolidated profit forecast has been made are as follows:

General assumptions

1. There will be no significant changes in the current principal activities of the FFB Group. The FFB Group will be able to maintain its current customers base, secure additional new customers and achieve the market share in Malaysia and overseas market as anticipated.
2. There will be no significant changes to the prevailing economic and political conditions in Malaysia, Singapore, USA, Australia, Denmark and elsewhere that will have direct or indirect effects on the FFB Group.
3. There will be no major breakdown or disruption in the FFB Group's operations including those arising from the restructuring and relocation of the FFB Group's manufacturing facilities.
4. There will be no abnormal factors both domestic and overseas, which will adversely affect the operations of the FFB Group or the markets in which it operates.
5. There will be no material changes to present legislation or Government regulations, rates and bases of taxes and duties affecting the FFB Group's activities.
6. There will be no significant changes in the prevailing inflation and exchange rates of foreign currencies.
7. There will be no major industrial disputes or any other abnormal factors that will significantly affect the FFB Group's operations or sales at their forecast levels or disrupt their planned operations.
8. There will be no significant change in technology applicable to the FFB Group's business that would render its business solutions obsolete or affect their marketability.
9. FFB Group will continue to invest in research and development ("R&D") to develop new products as well as upgrade and enhance its existing products and services. 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 over five to eight years.
10. There will be no significant changes in the existing senior management and operational policies, which will adversely affect the FFB Group.
11. There will be no unforeseen changes involving key customers and suppliers that may adversely affect the operations of the FFB Group.



13. FUTURE FINANCIAL INFORMATION (Cont'd)**APPENDIX 2**

12. The capital expenditure program will be implemented and incurred on schedule and there will be no material acquisitions or disposals of property, plant and equipment other than those planned.
13. There will be no material acquisitions or disposals or material changes in the proposed FFB Group structure.
14. There will be no significant changes in administration and overhead expenses in the FFB Group.

Revenue assumptions

1. The FFB Group will complete the projects in accordance with the budgeted timeline. In addition, the seasonal trend of the sales of cranes, crane components and parts will continue as forecast.
2. The FFB Group will continue to receive the support of, and maintain its relationship with its customers. The revenue of the FFB Group will be achieved based on the demand and selling prices as assumed in the forecast. There will be no major changes in the mix of the FFB Group's products and customer base.

Costs assumptions

1. There will be no unfavourable circumstances that would render it necessary to provide for Liquidated Ascertained Damages ("LAD") and material defect liability claims.
2. There will be no significant changes in the prevailing cost of raw materials, labour and overheads which will adversely affect the profitability of the FFB Group.
3. There will be no major fluctuation in contract costs (including administrative and other operating costs). Any increase in contract costs will be compensated through an equivalent increase in contract value.

Financing assumption

1. The existing financing facilities will remain available to the FFB Group and at the prevailing interest rates.

Tax assumptions

1. The income of Favelle Favco Cranes (M) Sdn. Bhd. from the manufacturing and selling of tower cranes, offshore pedestal cranes, portal or wharf cranes and crawler cranes will be fully exempted from Malaysian income tax under the Promotion of Investment Act 1986 effective from May 2002 to May 2012.

