ANNUAL REPORT
2012

MUHIBBAH ENGINEERING (M) BHD

Company No.: 12737-K

Corporate Information

Board Of Directors

Tuan Haji Mohamed Taib bin Ibrahim
Chairman,
Independent Non-Executive Director

Datuk Zakaria bin Abdul Hamid
Vice Chairman,
Independent Non-Executive Director

Mac Ngan Boon @ Mac Yin Boon
Managing Director

Ooi Sen Eng
Executive Director

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Senior Independent Non-Executive Director

Low Ping Lin
Executive Director

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar
Independent Non-Executive Director

Lim Teik Hin
Non-Independent and Non-Executive Director

Abd Hamid bin Ibrahim
Independent Non-Executive Director

Mac Chung Jin
Alternate Director to Ooi Sen Eng

Audit Committee
Tuan Haji Mohamed Taib bin Ibrahim *(Chairman)*
Datuk Zakaria bin Abdul Hamid
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
Lim Teik Hin

Company Secretaries
Lee Poh Kwee *(MIA 8033)*
Lim Suak Guak *(MIA 19689)*
Catherine Mah Suik Ching *(LS 01302)*

Registered Office
Lot 579 & 586, 2nd Mile, Jalan Batu Tiga Lama
41300 Klang, Selangor Darul Ehsan, Malaysia
Tel: (603) 3342 4323 Fax: (603) 3342 4327

Auditors
Crowe Horwath *(Firm No. AF1018)*
Chartered Accountants
Level 16, Tower C, Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur, Malaysia

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

Share Registrar
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia
Tel : (603) 2264 3883 Fax: (603) 2282 1886

Stock Exchange Listing
Muhibbah Engineering (M) Bhd
Main Market of Bursa Malaysia Securities Berhad
Stock Name: Muhibah
Bursa Stock Code: 5703
Bloomberg Stock Code: MUHI MK
Listing Date: 25 February 1994

Favelle Favco Berhad
Main Market of Bursa Malaysia Securities Berhad
Stock Name: Favco
Bursa Stock Code: 7229
Bloomberg Stock Code: FFB MK
Listing Date: 15 August 2006

Investor Relations
Tel: (603) 3349 5444 Fax: (603) 3344 6302
Email: ir@muhibbah.com.my

Website
www.muhibbah.com
www.favellefavco.com

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LNG Regasification Facilities Project for PETRONAS in Malacca, Malaysia

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Fortieth Annual General Meeting of Muhibbah Engineering (M) Bhd will be held at Kayangan Ballroom, Quality Hotel Shah Alam, Ground Floor, Plaza Perangsang, Persiaran Perbandaran, 40000 Shah Alam, Selangor Darul Ehsan on Friday, 28 June 2013 at 3.45 p.m. for the following purposes :-

Agenda

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of the Directors and Auditors thereon. — **Please refer to Note (a)**

2. To approve the declaration of a First and Final Dividend of 5% per ordinary share of RM0.50 each less 25% income tax in respect of the financial year ended 31 December 2012. — **Resolution 1**

3. To re-elect the following Directors who retire pursuant to Article 79 of the Company's Articles of Association :-

   (i) Abd Hamid bin Ibrahim; and — **Resolution 2**
   (ii) Low Ping Lin. — **Resolution 3**

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

   (i) Tuan Haji Mohamed Taib bin Ibrahim; — **Resolution 4**
   (ii) Ooi Sen Eng; and — **Resolution 5**
   (iii) Lim Teik Hin. — **Resolution 6**

5. To re-appoint Messrs. Crowe Horwath as the Company's Auditors for the ensuing year and to authorise the Directors to fix their remuneration. — **Resolution 7**

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

6. ## Ordinary Resolution
   Continuation of Terms of Office as Independent Director

   "**THAT** pursuant to the Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), approval be and is hereby given to the following Directors, who have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years, to continue to act as Independent Non-Executive Directors of the Company:-

   (i) Tuan Haji Mohamed Taib bin Ibrahim; — **Resolution 8**
   (ii) Datuk Zakaria bin Abdul Hamid; — **Resolution 9**
   (iii) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor; and — **Resolution 10**
   (iv) Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar." — **Resolution 11**

7. ## Ordinary Resolution

Proposed Renewal of Authority for Share Buy-Back **Resolution 12**

"**THAT** subject to the requirements of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), Companies Act, 1965 ("the Act"), and the Articles of Association of the Company, the Company be and is hereby authorised to purchase such number of ordinary shares of RM0.50 each in the Company through Bursa Securities ("Proposed Share Buy-Back"), as may be determined by the Directors of the Company from time to time upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that :-

(i) the aggregate number of ordinary shares purchased and/or held by the Company as treasury shares shall not exceed ten percent (10%) of the issued and paid-up ordinary share capital of the Company at any point in time;

(ii) the funds allocated by the Company for the Proposed Share Buy-Back shall not exceed the aggregate retained profits and share premium accounts of the Company; and

(iii) the authority conferred by this resolution shall continue to be in force until :-

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which this resolution was passed, at which time it shall lapse, unless by ordinary resolution passed at that meeting, the authority is renewed, whether unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by an ordinary resolution passed by the shareholders of the Company in a general meeting,

whichever occurs first.

THAT the Directors of the Company be and are hereby authorised to deal with the shares purchased in the following manner :-

(a) cancel all the shares so purchased; and/or

(b) retain the shares so purchased as treasury shares, for distribution as share dividends to the shareholders and/or resell on the market of Bursa Securities; and/or

(c) retain part thereof as treasury shares and cancel the remainder.

AND THAT the Directors of the Company be and are hereby authorised to give effect to the Proposed Share Buy-Back with full power to assent to any modifications and/or amendments as may be required by the relevant authorities."

Notice of Annual General Meeting (continued)

8. ## Ordinary Resolution

Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature **Resolution 13**

"**THAT** subject to the Main Market Listing Requirements of Bursa Securities, approval be and is hereby given to the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.1.2 of the Circular to Shareholders ("Circular") dated 6 June 2013 ("Proposed Shareholders' Mandate") provided that such transactions are undertaken in the ordinary course of business, at arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the interests of the minority shareholders of the Company.

THAT the Proposed Shareholders' Mandate conferred by this resolution shall continue to be in force until :-

a) the conclusion of the next AGM of the Company at which time it will lapse, unless by a resolution passed at the next AGM, the Proposed Shareholders' Mandate is renewed; or

b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

c) revoked or varied by a resolution passed by the Company's shareholders in a general meeting,

whichever is the earliest.

AND THAT the Directors of the Company be and are hereby authorised to take all steps and to do all such acts and deeds as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate."

9. ## Special Resolution

Proposed Amendments to the Articles of Association of the Company **Resolution 14**

"**THAT** the amendments to the Articles of Association of the Company as set out in Appendix I of the Circular dated 6 June 2013 be and are hereby approved **AND THAT** the Directors of the Company be and are hereby authorised to carry out all the necessary formalities in effecting the amendments to the Articles of Association of the Company, with full power to assent to any condition, modification, variation and/or amendments in any manner as may be required by Bursa Securities."

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

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company pursuant to Article 58(d) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 20 June 2013 and only a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxies to attend and/or vote on his/her behalf.

Notes :-

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

(b) *A member entitled to attend and vote at this meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy and the provision of Section 149(1)(b) of the Act shall not apply to the Company.*

(c) *A member shall not be entitled to appoint more than two (2) proxies to attend, speak and vote at the same meeting and where a member appoints two (2) proxies, such appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.*

(d) *The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.*

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

Explanatory Notes on Special Business

1. **Resolution pertaining to the Continuation of Terms of Office as Independent Director**
For Resolution 8, 9, 10 and 11, in line with the Recommendation 3.1 of the MCCG 2012, the Board had conducted an assessment of independence of the following Directors, who have served as Independent Non-Executive Directors of the Company for a cumulative terms of more than nine (9) years, and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications :-

Tuan Haji Mohamed Taib bin Ibrahim ("Tuan Haji")
Tuan Haji fulfilled the criteria under the definition of Independent Director as stated in the Main Market Listing Requirements of Bursa Securities ("Listing Requirements") in which he could interfere the Management by exercising his independent judgment, objectivity and the ability to act in the best interest of the Company. He has vast experience in wide range of businesses which enables him to provide constructive thoughts and experience to the Company.

Datuk Zakaria bin Abdul Hamid ("Datuk Zakaria")
Datuk Zakaria fulfilled the criteria under the definition of Independent Director as stated in the Listing Requirements in which he could exercise his independent judgment, experience and ability to act in the best interest of the Company. He has vast experience in the government service sectors which enables him to provide constructive thoughts and independent judgment during Board deliberations. He actively participated in Board discussions and facilitated the decision making process of the Board.

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor ("Tan Sri Dato' Seri Ahmad Ramli")
Tan Sri Dato' Seri Ahmad Ramli fulfilled the criteria under the definition of Independent Director as stated in the Listing Requirements in which he could exercise his independent judgment in an unfettered manner, discharge his duties with reasonable care, skill and diligence; bringing independent thoughts and experience to the Board deliberation and decision making judgment which is valuable to the Company.

Notice of Annual General Meeting (continued)

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar ("Dato' Seri Raja Ahmad")
Dato' Seri Raja Ahmad fulfilled the criteria under the definition of Independent Director as stated in the Listing Requirements. He acts as a check and balance and brings an element of objectivity to the Board of Directors. He actively participated in the Board discussion and consistently challenged the Management in an effective and constructive manner.

2. **Resolution pertaining to the Proposed Renewal of Authority for Share Buy-Back**
For Resolution 12, the detailed information on the Proposed Renewal of Authority for Share Buy-Back is set out in the Statement to Shareholders dated 6 June 2013 which is dispatched together with the Company's Annual Report 2012.

3. **Resolution pertaining to the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**
For Resolution 13, the detailed information on the Proposed Shareholders' Mandate is set out in the Circular to Shareholders dated 6 June 2013 which is dispatched together with the Company's Annual Report 2012.

4. **Resolution pertaining to the Proposed Amendments to the Articles of Association**
The Resolution 14, if passed, will streamline the Articles of Association of the Company to be in line with the latest Listing Requirements and MCCG 2012 as set out in the Circular to Shareholders dated 6 June 2013 which is dispatched together with the Company's Annual Report 2012.

Notice of Dividend Entitlement and Payment Date

NOTICE IS HEREBY GIVEN THAT a First and Final Dividend of 5% per ordinary share of RM0.50 each less 25% income tax in respect of the financial year ended 31 December 2012, if approved by the shareholders at the forthcoming Fortieth Annual General Meeting, will be paid on 29 August 2013 to Depositors whose names appear in the Record of Depositors at the close of business on 20 August 2013.

A Depositor shall qualify for entitlement to the dividend only in respect of :-

a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 20 August 2013 in respect of ordinary transfers; and

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

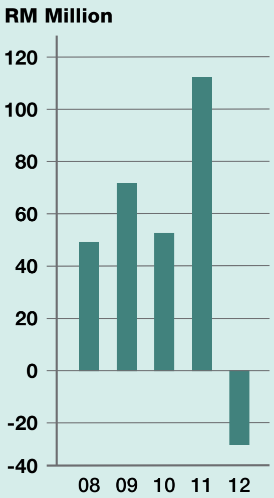
BY ORDER OF THE BOARD

LEE POH KWEE (MIA 8033)
LIM SUAK GUAK (MIA 19689)
CATHERINE MAH SUIK CHING (LS 01302)
Company Secretaries

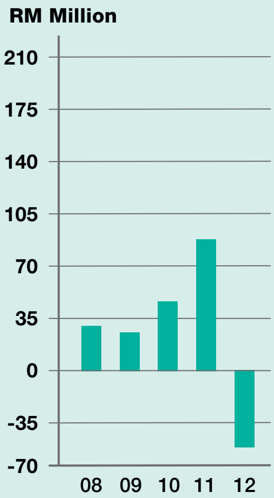
Selangor Darul Ehsan
6 June 2013

Group Financial Highlights

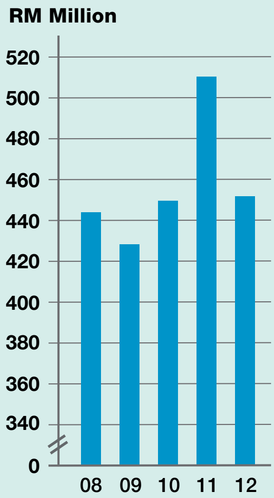
	2008	2009	2010	2011	2012
Turnover (RM'000)	2,033,535	2,252,049	1,768,884	2,026,366	**2,625,525**
Profit Before Tax (RM'000)	44,930	72,484	53,277	111,716	**(34,977)**
Profit After Tax Before Non-controlling Interest (RM'000)	34,871	33,187	46,284	82,532	**(61,083)**
Profit After Tax and Non-controlling Interest (RM'000)	21,800	16,982	32,944	63,772	**(93,241)**
Total Equity Attributable to Owners of the Company (RM'000)	441,418	425,549	451,514	515,393	**454,055**
Share Capital (RM'000)	196,469	198,685	199,196	204,107	**204,124**
Basic Earnings Per Ordinary Share Attributable to Owners of the Company (Sen)	5.64	4.30	8.32	15.85	**(22.94)**
Net Assets Per Ordinary Share Attributable to Owners of the Company (RM)	1.13	1.08	1.14	1.27	**1.12**



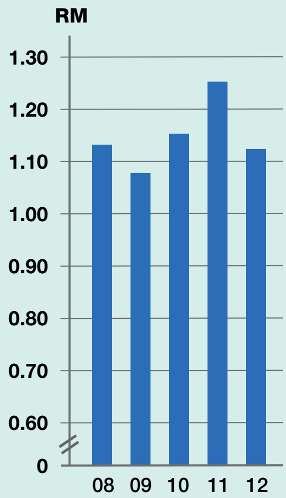
Profit Before Tax



Profit After Tax Before Non-controlling Interest



Total Equity Attributable to Owners of the Company



Net Assets Per Ordinary Share Attributable to Owners of the Company

Chairman's Statement

On behalf of the Board of Directors of Muhibbah Engineering (M) Bhd ("the Board"), I am pleased to present the Annual Report and the audited financial statements of Muhibbah Engineering (M) Bhd ("the Company" or "Muhibbah") and its subsidiary companies ("the Muhibbah Group" or "Group") for the financial year ended 31 December 2012.

Overview

The global economic was affected by financial crisis. Global growth fell from 3.9% in 2011 to 3.2% in 2012. Many developed economies are still recovering from the 2008-2009 economic down turn especially in Europe and the United States of America. The regional markets were not spared from the onslaught of the global economic slowdown. Emerging economies in the Asian region including economic powerhouses such as China and India experienced slower growth, while natural disasters such as floods in Thailand also affected the economic climate.

Despite these external pressures from the global economy, domestic demand remained resilient and the economy posted stronger growth of 5.6% as compared to 5.1% in the previous year. The roll out of the Government Economic Transformation Programme and the 10th Malaysia Plan has not only provided the impetus for domestic demand but also supported growth in the local economy.

Tuan Haji Mohamed Taib bin Ibrahim
(Chairman, Independent Non-Executive Director)

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

For the financial year ended 31 December 2012, the Group reported a record breaking turnover in the Group's 41 years' history of approximately RM2.63 billion, an increase of 29.6% or RM600 million from the previous year (2011: RM2.03 billion).

The Group reported a loss after tax of RM61.1 million in 2012 as compared to a profit after tax of RM82.5 million in the previous year despite the increase in the Group turnover. This is mainly because of the Group has made full provision of the remaining net exposure of debts of approximately RM245 million for Asia Petroleum Hub project during the financial year ended 31 December 2012.

The construction works for Asia Petroleum Hub Sdn Bhd ("APH") came to a halt due to financing suspension by its financier, CIMB Bank Berhad in 2009. The land lease issue between APH and the Federal Government still remains unresolved to date. APH was subsequently wound up pursuant to an order of the High Court of Malaya at Kuala Lumpur under a winding-up petition filed by a creditor of APH in October 2012. In view of the development, the Board decided to make full provision for the remaining net debt exposure of RM245 million certified claims from APH whilst reserving our legal rights to pursue recovery.

If not for this exceptional provision for debts due from APH, the Group would have reported a profit before tax of RM210 million in 2012, representing an increase of RM98.3 million or 88% in comparison to RM111.7 million for the financial year ended 31 December 2011.

This improvement was mainly due to better performances of our crane, shipyard and concession divisions.

Key Financial Highlights

Some key financial highlights for the financial year ended 31 December 2012 are:

- Group's turnover increased to RM2.63 billion (2011: RM2.03 billion);
- Group's profit before interest, amortisation and tax was RM57.2 million (2011: RM 212.11 million);
- Group's net (loss)/profit after tax and non-controlling interests is RM(93.24) million (2011: RM63.77 million);
- Group's basic (loss)/earnings per share was (22.94) sen (2011: 15.85 sen); and
- Group's net assets per share is RM1.12 as at 31 December 2012 as compared to RM1.27 as at 31 December 2011.

Chairman's Statement (continued)

Construction work in progress at the Northport Project, Malaysia

As at 15 May 2013, the Group's total outstanding order book stands at approximately RM2.08 billion, comprising approximately RM1.24 billion, RM645 million and RM196 million for the construction and engineering, the cranes and the shipyard divisions respectively. Approximately 42% of the total outstanding order book is derived from works and supply to the global oil and gas industry.

Dividends

The Board is pleased to recommend a first and final dividend of 5% (2.5 sen) less 25% tax per ordinary share of RM0.50 each (2011: 10% (5.0 sen) less 25% tax per ordinary share of RM0.50 each) in respect of the financial year under review, subject to the approval of the shareholders at the forthcoming Annual General Meeting. The total dividend payable amounts to RM7.621 million (2011: RM15.241 million).

Financial Performance

Review of the performance of each division of the Group for the financial year ended 31 December 2012 and the future prospects of the Group are as follows:-

Construction and Engineering Division

Major projects completed in year 2012 were the works for precasting concrete caissons for the Gorgon LNG Project in Australia and the offshore marine centre in South Avenue 8, Singapore. The Gorgon LNG Project is one of the world's largest natural gas projects and the largest single resource development in the history of Australia.

The catering facility at the Hamad International Airport (formerly known as New Doha International Airport) in Qatar have achieved substantial completion. The final Section 3 of another key project, South Klang Valley Expressway in Malaysia, which covers the rest of the expressway between Teluk Panglima Garang and Pulau Indah, is expected to be opened in the third quarter of 2013.

Our other ongoing contracts include the construction of jetty and ship berth associated with the Wiggins

Island Coal Export Terminal Pty Ltd ("WICET") Project at Gladstone in Queensland, Australia, the development of a multipurpose wharf and associated facilities at Container Terminal 4 for Northport (Malaysia) Bhd and the construction of Government offices at Putrajaya. Our consortium with Perunding Ranhill Worley Sdn Bhd is also in the progress of completing Malaysia's first LNG Regasification Terminal off the coast of Melacca. The terminal is designed to receive, store and vaporize imported LNG with a maximum capacity of 3.8 million tonnes per annum. It would be a gateway for the entry of gas sourced worldwide and marks a new era for Malaysia as PETRONAS ventures into importing LNG.

1

In March 2013, the Company vide Muhibbah-SV-Samjung Joint Venture, a joint venture led by Muhibbah, was awarded a contract by Mass Rapid Transit Corporation Sdn Bhd for the Design, Supply, Installation, Testing and Commissioning of Noise Barriers and Enclosures (Packages V1 to V8) for a total contract sum of approximately RM202 million.

2

As at 15 May 2013, the outstanding secured order book for the construction and engineering division stands at approximately RM1.24 billion.

3

1, 2 & 3 – New Catering Facility Complex in the Hamad International Airport in Qatar

Favelle Favco Tower Crane at Russky Bridge in Vladivostok, Russia

Crane Division

The division received several key orders including an order for a second unit of our flagship PC1000 (a 1,000 tonnes crane). Additionally, we received an order for the Shell Prelude project, which is Shell's first and largest Floating LNG vessel.

Our Danish unit, Kroll Cranes A/S, had a good year bringing three (3) new models to market, being the K365L, K420 and K560. These new models will improve our product line.

We also delivered the first of a new series of fully electric offshore cranes. To date, we have

Favelle Favco Port Crane at Jurong Port, Singapore

Favelle Favco Port Crane at Shipyard Norway, Norway delivered five (5) units with another three (3) units in the pipeline for this series. These projects have reinforced our capability to customise the cranes to clients' requirements.

The global construction sector remained mostly neutral for the year. However, we saw increased activities in China as we remain aggressive in this market.

In 2012, we completed our first year of manufacturing operations in China. It has truly been an interesting year of learning for us. We are learning every day about costs, culture, productivity, supply chains and competitors in China.

As at 15 May 2013, the outstanding secured order book for the crane division stands at approximately RM645 million. Whilst the order book will carry us through 2013, we see mixed signals in the market. The European Credit Crisis and North America's tepid recovery have resulted in a slight dip in order intake in the second half of 2012. We are thus to remain cautious moving forward.

Shipyard Division

During the fourth quarter of 2012, we disposed off two (2) units of anchor handling tug supply vessels (which were completed in year 2011) for an aggregate value of approximately RM240.6 million.

For the first quarter of 2013, we were further awarded a contract by Jasa Merin (Malaysia) Sdn Bhd, a 70% owned subsidiary of Silk Holdings Berhad, for the construction of three (3) units anchor handling tug supply vessels for a total consideration of approximately RM216 million. These vessels are expected to be delivered in 2013/2014.

As at 15 May 2013, the outstanding secured order book for the shipyard division stands at approximately RM196 million.

MV Tanjung Piai 1, Platform Supply Vessel built by Muhibbah Marine Engineering Sdn Bhd

Chairman's Statement (continued)

LNG Regasification Facilities Project for PETRONAS in Malacca, Malaysia

Concessions Division

Cambodia continues to be a destination of choice by both business and leisure travellers from around the world. The passenger arrivals at our Cambodian airports reported a growth rate of 17% in 2012.

The year 2012 was exciting for Sihanoukville Airport with a growth in arrival of passengers following the launching by Cambodia Angkor Air of three weekly flights between Siem Reap, known as the gateway to Angkor Wat heritage temple and the emerging seaside resort city of Sihanoukville. More hotels are being built in Sihanoukville and we see this as an indication of efforts by the Cambodian Government to promote Sihanoukville as a seaport and seaside tourist destination.

The concessions for the Cambodian airports as well as the road maintenance works for federal roads in the central region and the east coast of Peninsular Malaysia continue to generate recurring cash flow and contribution for the Group.

Corporate Development

During the financial year ended 31 December 2012, we acquired the design, business and assets of CiTECH Energy Recovery Systems UK ("Citech") from Tanjung Citech UK Ltd, a wholly-owned subsidiary of Tanjung Offshore Berhad for a purchase price of Sterling Pounds 460,000. Citech is a manufacturer of a package waste heat recovery systems for the offshore platform oil and gas market.

Future Prospects

The global economic climate will continue to affect markets including those in Asia as fundamental issues such as the USA debt ceiling and fiscal

Teluk Panglima Garang Toll Plaza on the South Klang Valley Expressway ("SKVE"), Malaysia, opened in May 2012

cliff, Eurozone financial crisis. These persistent economic issues will continue to have an impact on the investment environment around the world.

The Malaysian economy is expected to grow steadily at around 5% to 6% in 2013. We expect the growth to be sustained by higher domestic demand, private investment and public spending. This will continue to fuel investment activities driven by capital spending in the domestic industries, the oil and gas sector and the ongoing implementation of infrastructure projects under the Economic Transformation Programme.

The Economic Transformation Programme will create more infrastructure projects in the construction and oil and gas sectors. The Pengerang Integrated Petroleum Complex will create work in the downstream oil and gas sector. PETRONAS is spearheading a RM60 billion investment into downstream activities with Refinery And Petrochemical Integrated Development ("RAPID"). The projects in RAPID will provide opportunities to the Group.

Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Board is committed to the Company's shareholders to ensure that good corporate governance is adopted and practised by the Muhibbah Group.

The application of and compliance with the principles and best practices as set out in the Code on Corporate Governance, including a Statement on Risk Management & Internal Control, have been included in this Annual Report in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad.

Chairman's Statement (continued)

Construction work in progress for the WICET Project in Gladstone, Queensland, Australia

Corporate Social Responsibility ("CSR")

The Group continually implements safety and health systems within the Group in accordance with the requirements of OHSAS 18001:2007 for each and every project undertaken and to ensure compliance with local and international standards.

The Group's operations comply with the environmental laws and regulations governing the industries in which it operates. Other CSR activities of the Group in 2012 include its continual commitment to the preservation of the environment, charitable contributions to the welfare of the needy and the less fortunate, as well as undertaking support causes related to personal training and development of and recreational activities for our employees.

The Group recognises the importance of nurturing talents and apprenticeship programmes. We participated in the Project Change Scholarship established by a local accounting firm, Crowe Horwath. We also sponsored students to pursue degrees in Petroleum Engineering and Civil Engineering at a local university.

Acknowledgement And Appreciation

We would like to extend our thanks and gratitude, as well as our sincere appreciation to all members of the Management and Staff, for their continued commitment and valuable insights to the Board. The achievement is a testimony of determination and dedication that our people have relentlessly pursued throughout the years.

To our esteemed clients, suppliers, business partners, sub-contractors and the regulatory authorities, we express our deepest appreciation for their ongoing support, which have enabled the Group to achieve another successful year.

Again, to our bankers and valued shareholders, we extend our utmost appreciation for your relentless support, undiminished confidence and active participation throughout these years.

Tuan Haji Mohamed Taib bin Ibrahim
Chairman

Core Divisions as at 30 April 2013

MUHIBBAH ENGINEERING (M) BHD
(12737-K)

INFRASTRUCTURE CONSTRUCTION

100%
MEB CONSTRUCTION SDN. BHD.

100%
MUHIBBAH STEEL INDUSTRIES SDN. BHD.

95%
MUHIBBAH MARINE ENGINEERING (DEUTSCHLAND) GmbH

90%
MUHIBBAH PETROCHEMICAL ENGINEERING SDN. BHD.

100%
ELELINK SDN. BHD.

- **60%**
  ITS KONSORTIUM SDN. BHD.

60%
MUHIBBAH ENGINEERING (CAMBODIA) CO. LTD.

50%
FREYSSINET PSC (M) SDN. BHD.

CRANES

61.80%
FAVELLE FAVCO BERHAD

- **100%**
  FAVELLE FAVCO CRANES (M) SDN. BHD.
- **100%**
  FAVELLE FAVCO CRANES PTE. LTD.
- **100%**
  FAVELLE FAVCO CRANES PTY. LIMITED
- **100%**
  FAVELLE FAVCO CRANES (USA), INC.
- **100%**
  KROLL CRANES A/S
- **100%**
  FES EQUIPMENT SERVICES SDN. BHD.
- **100%**
  FAVELLE FAVCO WINCHES PTE. LTD.
- **60%**
  SHANGHAI FAVCO ENGINEERING MACHINERY MANUFACTURING CO. LTD.

SHIPYARD

100%
MUHIBBAH MARINE ENGINEERING SDN. BHD.

CONCESSIONS

70%
MUHIBBAH MASTERON CAMBODIA JV LIMITED

- **30%**
  SOCIETE CONCESSIONAIRE DE l' AEROPORT

21%
ROADCARE (M) SDN. BHD.

Only major active companies are included here

Profile of Directors

Tuan Haji Mohamed Taib bin Ibrahim

Aged 88, Malaysian
(Chairman, Independent Non-Executive Director)

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

Tuan Haji Mohamed Taib bin Ibrahim is the co-founder of Muhibbah Engineering (M) Bhd and has been an Independent Non-Executive Director of the Company since its inception on 4 September 1972. He was later appointed as Chairman of the Company on 22 May 1973, Chairman of the Audit Committee on 31 December 1993 and on 21 February 2002 as Chairman of both the Nominating (up to 28 February 2013) and Remuneration Committees.

He had an illustrious and colourful career when he was attached to the Education Department as organiser of schools. In 1967, he ventured into the private sector and helped set up Federal Flour Mills. His former positions in Federal Flour Mills were Administrative Manager and Alternate Director. He was also the Chairman of Kuantan Flour Mills Bhd in 1984. His foray into the marine industry started in 1969 when he was appointed the first Company Secretary of Malaysian International Shipping Corporation. In 1977, he was nominated to lead Johor-based Malaysian Shipyard and Engineering Bhd as the Company's President and Chief Executive Officer, positions which he relinquished in 1988.

He is also a Director of Favelle Favco Berhad.

Datuk Zakaria bin Abdul Hamid

Aged 69, Malaysian
(Vice Chairman, Independent Non-Executive Director)

Member of the Audit Committee.

Datuk Zakaria bin Abdul Hamid was appointed as Vice Chairman of the Company on 20 February 2002 and a member of the Audit Committee on 28 March 2003. He obtained a Bachelor of Arts with Honours Degree from the University of Malaya in 1969 and later furthered his studies in 1993 at the Royal College of Defence Studies in London. He started work in 1969 in the Government Service and later in the Prime Minister's Department. His last held position was Director General when he retired in early 2002.

He is also a Director of Landmarks Berhad.

Mac Ngan Boon @ Mac Yin Boon

Aged 69, Malaysian
(Managing Director)

Member of the Remuneration Committee.

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

He obtained a Bachelor of Engineering (Civil) Degree from the University of Western Australia in 1967 and is a member of the Institute of Engineers Malaysia since 1978 as well as Professional Engineer (Malaysia) since 1967. He started work as an engineer for a local construction company in 1967.

He is also the Chairman of the Machinery and Equipment Manufacturers Association of Malaysia (MEMA) since 1998.

He is also a Director of Favelle Favco Berhad.

Ooi Sen Eng

Aged 71, Malaysian
(Executive Director)

Member of the Remuneration Committee.

Ooi Sen Eng obtained his Bachelor of Engineering (Civil) Degree from the University of Malaya in 1966. He was admitted as a member of the Professional Engineer (Malaysia) in 1976 and later became a member of the Institute of Engineers Malaysia in 1978. He gained his early marine engineering construction experience from Zublin AG, a German construction company, where he worked for six (6) years until he co-founded Muhibbah Engineering (M) Bhd in 1972. He was appointed as Director on 26 May 1973 and a member of the Remuneration Committee on 21 February 2002.

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor

Aged 69, Malaysian

(Senior Independent Non-Executive Director)

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

Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor was appointed to the Board as an Independent Non-Executive Director on 19 April 2001. He was appointed as a member of the Audit Committee as well as Senior Independent Non-Executive Director on 27 December 2001 in accordance with the Malaysian Code on Corporate Governance, and to whom concerns of the Group may be conveyed. He was further appointed as a member of the Nomination and Remuneration Committees on 21 February 2002. Subsequently he was appointed as Chairman of the Nominating Committee on 28 February 2013.

He had a distinguished career with the Royal Malaysian Navy and retired as the Chief in 1999. He is a graduate of Britannia Royal Naval College Dartmouth, the Indonesia Naval Staff College, the United States Naval War College and United States Naval Post-Graduate School in Monterey. Apart from his Naval Professional Qualification, he also obtained a Master's Degree in Public Administration from Harvard University in 1982.

He is presently also a Director of Favelle Favco Berhad, Affin Islamic Bank Berhad and Boustead Heavy Industries Corporation Bhd.

Low Ping Lin

Aged 59, Malaysian

(Executive Director)

Low Ping Lin has held the position of Executive Director since 28 December 1993. He obtained a Bachelor's Degree in Civil Engineering from the University of Melbourne, Australia in 1976 and is also a member of the Institute of Engineers, Malaysia. Upon graduation, he joined Jabatan Kerja Raya in the Roads Department. He joined Muhibbah Engineering (M) Bhd in 1980 as Project Engineer.

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar

Aged 57, Malaysian

(Independent Non-Executive Director)

Member of the Remuneration Committee and Nominating Committee.

Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar was appointed to the Board of Muhibbah Engineering (M) Bhd on 15 January 2001 and as a member of the Nominating and Remuneration Committees on 21 February 2002.

He has been actively involved in the political scene in Malaysia since 1982. He was the Press Secretary to the Menteri Besar of Perak in 1982 and moved on to be the Political Secretary from 1986 until 1999. He has been the Member of Parliament for the constituency of Larut and Kubu Gajah and State Assemblyman in Perak.

He is also a Director of Ken Holdings Berhad and Majuperak Holdings Berhad.

Lim Teik Hin

Aged 71, Malaysian

(Non-Independent and Non-Executive Director)

Member of the Audit Committee.

Lim Teik Hin was appointed to the Board of Muhibbah Engineering (M) Bhd on 28 March 2003 as a Non-Independent Non-Executive Director. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants and CPA Australia. He graduated with an Accountancy Degree from Perth Technical College in 1966. He started his career with an accounting firm in Australia (L.A.Walker & Sons) and subsequently worked with KPMG (Penang) in Malaysia. He then joined Federal Aluminium (M) Bhd. as an Operations Manager. His last held position was Senior Manager in Muhibbah Engineering (M) Bhd.

He is also a Director of Favelle Favco Berhad.

Profile of Directors (continued)

Abd Hamid bin Ibrahim

Aged 64, Malaysian
(Independent Non-Executive Director)

Abd Hamid bin Ibrahim was appointed to the Board of Muhibbah Engineering (M) Bhd on 18 January 2006 as an Independent Non-Executive Director.

He holds a Master's degree in Petroleum Engineering from Heriot-Watt University, Scotland and a degree in Mining from Camborne School of Mines, UK. He also attended the Advanced Management Program at Wharton School of Management, University of Pennsylvania, USA.

He joined PETRONAS in June 1976 as a Production Engineer in the Production Department and since then had held several managerial positions in the Upstream Sector (including as General Manager, Development Division, PETRONAS Carigali Sdn Bhd) until April 1991. He was the Managing Director/Chief Executive Officer of Ethylene Malaysia Sdn Bhd and Polyethylene Malaysia Sdn Bhd from May 1991 till May 1996, Managing Director/ Chief Executive Officer of Malaysia LNG Sdn Bhd and MLNG Dua Sdn Bhd, and Project Director of MLNG Tiga Sdn Bhd from June 1996 prior to his appointment as Managing Director/Chief Executive Officer of PETRONAS Gas Bhd in September 1999. He was a member of the PETRONAS Management Committee from July 1996 until June 2003. He was newly appointed as an Independent Non-Executive Chairman of Barakah Offshore Petroleum Bhd on 1 February 2013. He is also a Director of Cliq Energy Bhd.

He is the Editor-in-chief of RESOURCE, the quarterly magazine of the Malaysian Petroleum Club since its initial publication in April 1992. In July 2004, he was appointed as the PETRONAS representative to the Board of Trustees of CARIF (Cancer Research Initiatives Foundation). He has been a member of the Executive Committee of the Malaysian Oil & Gas Services Council (MOSGC) since first elected in May 2006, and as an Executive Committee member of PETRONAS Alumni since 2009.

Mac Chung Jin

Aged 39, Malaysian
(Alternate Director to Ooi Sen Eng)

Mac Chung Jin was appointed as an Alternate Director to Mr. Ooi Sen Eng of Muhibbah Engineering (M) Bhd on 2 May 2008. He holds a Bachelor of Civil Engineering Degree from Oxford Brookes University, United Kingdom. He joined Muhibbah Engineering (M) Bhd in 1995 as a Project Engineer and from 1999 has been Head of Business Development, overseeing local and international projects.

Other Information

Additional Information on Directors

1. **Family Relationship with any Director and/or major shareholder of Muhibbah Engineering (M) Bhd**

   None of the Directors have any relationship with each other and/or major shareholders of Muhibbah Engineering (M) Bhd except Mac Chung Jin and Lim Teik Hin. Mac Chung Jin is the son of Mac Ngan Boon @ Mac Yin Boon, the Managing Director and substantial shareholder of Muhibbah Engineering (M) Bhd whereas Lim Teik Hin is the brother-in-law of Mac Ngan Boon @ Mac Yin Boon.

2. **Conflict of Interest**

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

3. **Convictions for Offences within the past 10 years, other than traffic offences**

   None of the Directors have been convicted for offences.

Additional Compliance Information

1. **Utilisation of Proceeds from Corporate Proposals**

   There were no proceeds raised from corporate proposals during the financial year.

2. **Share Buy-Backs**

   The Company did not repurchase any ordinary shares of RM0.50 each of its own shares from the open market of Bursa Malaysia Securities Berhad during the financial year ended 31 December 2012.

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

   (i) Employees' Share Option Scheme

   Details of the employee's share option of the Company are disclosed on page 38 of this Annual report.

   (ii) Warrants

   As at 31 December 2012, none of the options under the Warrants were exercised.

4. **Depository Receipt Programme**

   The Company did not sponsor any depository receipt programme during the financial year.

5. **Imposition of Sanctions and/or Penalties**

   During the financial year under review, there were no material sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

6. **Non-Audit Fees**

   During the financial year ended 31 December 2012, there were no non-audit fees paid to the external auditors.

Other Information (continued)

7. Variation in Results

There were no significant variations between the audited results for the financial year ended 31 December 2012 and the unaudited results previously announced.

8. Profit Estimate, Forecast or Projection

There was no profit estimate, forecast or projection announced by the Company and its subsidiary companies during the financial year ended 31 December 2012.

9. Profit Guarantee

There were no profit guarantee given/received by the Company during the financial year.

10. Material Contracts

Save for the recurrent related party transactions disclosed under item 12, there were no material contracts entered into by the Company and its subsidiaries involving the interests of Directors and major shareholders, either still subsisting as at 31 December 2012 or entered into since the end of the previous financial year ended 31 December 2011.

11. Revaluation Policy on Landed Properties

The Company revalues its land every five (5) years or shorter interval, whichever the fair value of the land is expected to differ materially from the carrying value.

12. Recurrent Related Party Transactions

At the Annual General Meeting held on 28 June 2012, the Company had obtained shareholders' mandate allowing the Group to enter into recurrent related party transactions of a revenue or trading nature as disclosed in the Circular to Shareholders dated 6 June 2012. In accordance with Section 3.1.5 of Practice Note No. 12/2001 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of recurrent related party transactions conducted during the financial year ended 31 December 2012 pursuant to the shareholders' mandate are disclosed as follows :-

Transacting Parties	Related Party	Nature of Transactions	Actual Transactions Value for the Financial Year Ended 31 December 2012 RM'000
MEB Group and FFB Group	Tuan Haji Mohamed Taib bin Ibrahim, Mac Ngan Boon @ Mac Yin Boon, Mac Chung Hui and Mazlan bin Abdul Hamid	Sales of cranes and parts and rental of cranes, plant and equipment by MEB Group to FFB Group; and subcontracting work awarded by FFB Group to MEB Group	10,494
		Purchases and rental of cranes and parts by MEB Group from FFB Group, and the provision of crane maintenance and services by FFB Group to MEB Group	2,748
		# Rental of office building and factory located at 28, Yarrunga Street, Prestons, NSW 2170, Australia by MEB Group to FFB Group, measuring 11.6 acres	2,057
		# Rental of factory and office premises located at Lot 9895, Geran #26559, Kg. Jawa, Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring 5.0 acres	264
		# Rental of open yard located at PN 11185, Lot 104505, Telok Gong, Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring 32,753.44 sq. ft.	NA
		# Rental of office space under Lot 586, 2nd Mile, Jalan Batu Tiga Lama by MEB Group to FFB Group, measuring 4,500 sq. ft.	105
		# Rental of land held under HS(D) 99546 Lot No. 104625 Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring in area approximately 160,000 sq. ft..	1,920
		# Rental of open yard located at Lot 104626 & Lot 129073, Telok Gong, Mukim & District of Klang, State of Selangor by MEB Group to FFB Group, measuring 62,500 sq. ft.	150

Tenancies are for terms not exceeding 3 years with rentals payable on monthly basis.

Abbreviations

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

Statement on Corporate Governance

Introduction

The Board of Directors ("the Board") is committed towards ensuring that good Corporate Governance is observed throughout the Group. Upholding integrity and professionalism in its management of the affairs of the Group, the Board aims to enhance business prosperity and corporate accountability with the ultimate objective of realising long-term shareholders' value and safeguarding interests of other stakeholders.

Board of Directors

Composition and Balance
An experienced Board consisting of members with a wide range business, technical, financial and public service backgrounds to lead and control the Group. This brings insightful depth and diversity to the acute leadership and management of an eminent and evolutionary engineering business.

The Board is well balanced with Executive and Non-Executive Directors. Currently, the Board consists of nine (9) members, comprising five (5) Independent Non-Executive Directors, three (3) Executive Directors and one (1) Non-Independent and Non-Executive Director. As such, more than one third (1/3) of the Board comprises of Independent Non-Executive Directors.

The Board believes that the current composition is appropriate given the nature of business and scale of operations of the Group. Profiles of the Directors are presented on pages 18 to 20 of this Annual Report.

The Executive Directors are generally responsible for making and implementing operational decisions whilst the Non-Executive Directors support the skills and experience of the Executive Directors, contributing to the formulation of policy and decision-making with their knowledge of and experience in other business sectors.

The roles of the Chairman and Managing Director are separated with a clear division of responsibilities between them to ensure balance of power and authority. The Chairman leads the strategic planning at the Board level, while the Managing Director is responsible for the implementation of the policies laid down and executive decision-making. The current Chairman has never held the post of Managing Director of the Company.

The Independent Non-Executive Directors are of the calibre necessary to provide independent judgment on the issues of strategy, performance and resource allocation. They carry sufficient weight in Board decisions to ensure long-term interest of the shareholders, employees, customers and other stakeholders.

An Independent Non-Executive Chairman leads the Board and the Board has also identified Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor as the Senior Independent Non-Executive Director to whom concerns of the Group may be conveyed.

The Board has taken note of Recommendation 2.2 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012") pertaining to the establishment of policy formalising its approach to gender diversity and steps are being taken to review the internal policy to enable this target to be achieved.

Board Meetings
Board meetings are held at regular intervals with additional meetings taking place when necessary. During the year, the Board met four (4) times to review the Group's operations, review and approve the quarterly and annual financial statements and other matters requiring the Board's approval. The Company Secretary records all the deliberations, particularly the issues discussed, in reaching that decision in the minutes of Board meetings. Details of the attendance of the Directors are as follows:

Names of Directors	Attendance at Meetings in 2012
Tuan Haji Mohamed Taib bin Ibrahim	4/4
Datuk Zakaria bin Abdul Hamid	4/4
Mac Ngan Boon @ Mac Yin Boon	4/4
Ooi Sen Eng	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	3/4
Low Ping Lin	4/4
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar	4/4
Lim Teik Hin	4/4
Abd Hamid bin Ibrahim	4/4
Mac Chung Jin (Alternate Director to Ooi Sen Eng)	4/4

Supply of Information

Due notice is given to the Directors prior to each Board meeting. Each Director is provided with the agenda and a full set of Board papers providing details on operational, financial, safety and corporate developments and other relevant documents prior to each Board meeting with the aim of enabling the Directors to make well-informed decisions at the Board meetings. It is the primary responsibility of the Chairman of the Board to organise such information necessary for the Board to deal with the agenda and the Board adopts a formal schedule of matters specifically referred to it for decision.

The appointment of the Company Secretary is based on the capability and proficiency determined by the Board. The Company Secretary is available at all times to provide the Directors with the appropriate advice and services and also to ensure that the relevant procedures and all applicable rules and regulations are complied with. The Articles of Association of the Company permits the removal of Company Secretary by the Board of Directors as a whole.

In addition, the Directors have authority to access all information within the Company in furtherance of their duties as well as to the advices and services of the Senior Management of the Company. They are also empowered to seek external independent professional advice in connection with their roles as a Director at the Company's expense, to enable them to make well-informed decisions.

Board Committees

The following committees have been established to assist the Board to discharge its duties and responsibilities. The Board has delegated certain powers and duties to these committees, which operate within the defined terms of reference. The final decision on all matters, however, lies with the entire Board.

(i) Audit Committee

The principal objective of the Audit Committee is to assist the Board in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of the Group. This includes reviewing the quarterly financial results and year end financial statements to be disclosed, the scope of works and management letter of the external and internal auditors.

The Audit Committee members consist of all Non-Executive Directors, with a majority being Independent Directors. Tuan Haji Mohamed Taib bin Ibrahim, an Independent Non-Executive Director, is the Chairman of the Audit Committee.

The Audit Committee met four (4) times during the year.

A report detailing the membership, attendance, role and activities of the Audit Committee is presented on pages 30 to 33 of this Annual Report.

Statement on Corporate Governance (continued)

(ii) Nominating Committee

The present members of the Nominating Committee are as follows:

Names of Committee Members	Designation
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Chairman *(Senior Independent Non-Executive Director)*
Tuan Haji Mohamed Taib bin Ibrahim	Member *(Independent Non-Executive Director)*
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar	Member *(Independent Non-Executive Director)*

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

(iii) Remuneration Committee

The present members of the Remuneration Committee are as follows:

Names of Committee Members	Designation
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Independent Non-Executive Director)*
Mac Ngan Boon @ Mac Yin Boon	Member *(Managing Director)*
Ooi Sen Eng	Member *(Executive Director)*
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Senior Independent Non-Executive Director)*
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar	Member *(Independent Non-Executive Director)*

The Remuneration Committee met once during the financial year. In accordance with its terms of reference, the Remuneration Committee reviewed the remuneration packages and benefits of the Executive Directors in accordance with the contribution and level of responsibilities undertaken by the Board to ensure the Company is able to attract high calibre executives to run the Company successfully. Directors do not participate in decisions on their own remuneration. At the same time, the Non-Executive Directors' fees were also reviewed based on their experience and level of responsibilities and recommended for the Board's approval. The individual Non-Executive Directors concerned had abstained from discussion of their own remuneration packages.

Appointment, Re-appointment and Re-election of Directors
In accordance with the Company's Articles of Association, one third (1/3) of the Directors (including the Managing Director) shall retire from office and be eligible for re-election at each Annual General Meeting and all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election. Directors appointed during the year will be subject to retirement and re-election by shareholders at the Annual General Meeting.

Directors who are over seventy (70) years of age are required to submit themselves for re-appointment and re-election annually in accordance with Section 129(2) and Section 129(6) of the Companies Act, 1965.

In line with the MCCG 2012, the tenure of an Independent Director should not exceed the cumulative of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve on the Board subject to Director's re-designation as a Non-Independent Director. However, the Board must justify and seek shareholders' approval in the event it retains a person who has served in that capacity for a period more than nine (9) years as an Independent Director.

As at the date of this statement and up to the forthcoming Annual General Meeting, four (4) of the existing Directors have served the Company as Independent Directors for more than nine (9) years.

Directors' Training
All the Directors of the Company have attended and successfully completed the Mandatory Accreditation Programme conducted by Bursa Malaysia Securities Berhad within the stipulated timeframe under the Listing Requirements.

Regular continuing training programmes, courses and seminars are organised for the Directors to help them keep abreast of latest developments in the industry and advances in Corporate Governance.

During the financial year, all Directors have participated in numerous seminars and training programmes on topics relevant to the enhancement of their roles and responsibilities as Directors of the Company. The seminars and training programmes attended include topics relating to corporate governance, risk management, leadership management, financial, taxation and construction.

It is the practice of the Group, whereby, following the appointment of new Directors to the Board, an induction program is arranged to facilitate their understanding of the nature of the business, current issues within the Company, the corporate strategy, the expectations of the Company concerning input from Directors, the general responsibilities of Directors, operations of the Group as well as the products and services offered by the Group. New Directors are also introduced to senior management personnel and taken on visits to the Group's businesses.

Directors' Remuneration

The details of the remuneration of the Directors of the Company for the financial year under review are as follows:

Group	**Executive Directors RM**	**Non-Executive Directors RM**	**Total RM**
Fees	391,500	474,000	865,500
Remuneration	3,349,895	82,480	3,432,375
	3,741,395	556,480	4,297,875

Statement on Corporate Governance (continued)

Directors' Remuneration (continued)

The number of Directors in each remuneration band for the financial year 2012 is as follows:

Range of Remuneration	Executive Directors	Non-Executive Directors	Total
RM50,001 to RM100,000	-	3	3
RM100,001 to RM150,000	-	3	3
RM600,001 to RM650,000	1	-	1
RM950,001 to RM1,000,000	2	-	2
RM1,150,001 to RM1,200,000	1	-	1
	4	6	10

Shareholders

Investors and Shareholders Relationship
The Board recognises the importance of maintaining effective communication with its investors and shareholders. An Investor Relations and Shareholder Communication Policy have been adopted by the Board to enable the Group and the Company to communicate effectively with its shareholders, existing and potential investors, other stakeholders and public generally.

The Group is involved in investor relations through investors briefing with fund managers, institutional investors and research analysts. Information such as the Group's performance, strategy and major development are presented and explained during these investors briefing.

Apart from the mandatory announcements of the Group's financial results and corporate developments to Bursa Malaysia Securities Berhad, the Group maintains a website (www.muhibbah.com) that allows all shareholders to gain access to information and business activities and recent developments of the Group and for feedback.

Annual General Meeting
The Annual General Meeting is an important forum and primary channel where communications with shareholders can be effectively conducted. Shareholders are encouraged to attend and participate at the meeting by raising questions on resolutions proposed and to enquire on the Company's progress and performance. The Chairman and Directors are in attendance to respond to shareholders' queries during the meeting.

Accountability and Audit

Financial Reporting and Statement of Directors' Responsibility
The Directors are responsible to ensure that the financial statements are drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia.

The Board is responsible for ensuring that the financial statements for each financial year give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the results of operations, changes in equity and cash flows of the Group and the Company for the financial year.

Accountability and Audit (continued)

In preparation of the financial statements, the Board has ensured that:

i) Suitable accounting policies have been adopted and applied consistently;

ii) Judgements and statements made are reasonable and prudent; and

iii) Financial statements have been prepared on a going concern basis.

The Audit Committee assists the Board by overseeing that financial reporting reflects the substance of the business and transactions apart from being compliant with relevant standards and legislation.

The Board is responsible for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure the financial statements comply with the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

Relationship with the Auditors
Through the Audit Committee of the Board, the Group has established a transparent and appropriate relationship with the Group's auditors, both internal and external. Both the internal and external auditors are invited to attend the Audit Committee meetings to facilitate the exchange of views in issues requiring attention. The external auditors are also invited to attend meetings on special matters when necessary. In addition, the Audit Committee also meets the external auditors, without the presence of Executive Board members and management, at least twice a year.

Risk Management Framework and Internal Control
The Board acknowledges their responsibility for the Group's system of internal controls and reviewing its effectiveness regularly via the Internal Audit Department which provides support to the Audit Committee in discharging its duties with respect to the adequacy and integrity of the system of internal controls within the Group.

A Statement on Risk Management & Internal Control outlining the internal controls within the Group is presented on page 34 of this Annual Report.

Recurring Related Party Transactions
The Board, through the Audit Committee, reviews all recurring related party transactions.

All recurring related party transactions entered into by the Group were made in the ordinary course of business and in accordance with the approved shareholders' mandate for recurring related party transactions.

Compliance Statement
The Company has applied the Principles as set out in the Malaysian Code on Corporate Governance 2012 to the extent as set out above.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 15 May 2013.

Audit Committee Report

Membership and Meetings

Details of the membership of the Audit Committee and attendance of meetings are as follows:

Names of Committee Members	Designation	Attendance at Meetings in 2012
Tuan Haji Mohamed Taib bin Ibrahim	Chairman *(Independent Non-Executive Director)*	4/4
Datuk Zakaria bin Abdul Hamid	Member *(Independent Non-Executive Director)*	4/4
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Member *(Senior Independent Non-Executive Director)*	3/4
Lim Teik Hin	Member *(Non-Independent and Non-Executive Director)*	4/4

The Audit Committee comprises of all Non-Executive Directors, with a majority being Independent Directors. Mr. Lim Teik Hin is a member of the Malaysian Institute of Accountants and CPA Australia.

The Audit Committee held four (4) meetings during the financial year ended 31 December 2012. The Group's Chief Financial Officer and the Group's Internal Audit Manager attended all meetings. Other Board members and senior management attended some of the meetings upon invitation by the Chairman of the Audit Committee. The Group's external auditors attended two (2) meetings during the year. The Audit Committee had private discussions with the external auditors in the absence of management twice during the financial year ended 31 December 2012.

The Chairman of the Audit Committee undertakes a continuing process of engagement with the Senior Executives of the Company as well as the external auditors so that the Audit Committee is kept up-to-date with all important issues affecting the Company.

During the year, the Audit Committee members have attended conferences, seminars and training programmes which are relevant to their roles and responsibilities.

Summary of Activities

During the year, the Audit Committee carried out its duties as set out in the terms of reference. These include:

(i) Reviewing the quarterly results and year end financial statements before submission to the Board of Directors for consideration and approval for announcement to Bursa Malaysia Securities Berhad.

(ii) Reviewing with external auditors, the result of the annual audit and the audit report including the Management response to the findings of the external auditors.

(iii) Reviewing the adequacy and relevance of the scope of work and functions of the external auditors and making recommendations to the Board on the appointment of the external auditors and the determination of the audit fees.

(iv) Reviewing with the Internal Audit Department the adequacy and relevance of the scope, function and risk based on audit plan and results of the internal audit processes.

(v) Reviewing and discussing the internal audit status report and considering whether or not appropriate action had been taken on the recommendations of the internal audit function.

(vi) Verifying the allocation of the Employees' Share Option Scheme ("ESOS") to ensure that it is in accordance with criteria set out in the ESOS Bye-Laws of the Company.

Internal Audit Function

The Group has a well-established Internal Audit Department, which reports directly to the Audit Committee and assists the Board in monitoring and managing risks and internal control. The department carries out its duties impartially and independently of the activities reviewed. It has the principal responsibility of carrying out audits on the operations within the Group and provides general assurances to the management and Audit Committee. The internal audit reports highlighting any deficiencies or findings are discussed with management and the relevant action plans are agreed upon and implemented. Significant findings are presented in the Audit Committee Meetings for consideration and reporting to the Board. A follow-up audit review is also conducted to determine whether all audit recommendations are effectively implemented. The total cost incurred for the internal audit function in respect of the financial year amounted to approximately RM166,000.

In addition, the Internal Audit Department also provides the necessary assistance and manpower for any special assignments or investigations requested by the management from time to time, with the approval of the Audit Committee.

The Group has implemented a structured risk assessment and management framework on the operations. The implementation of this framework and monitoring process also forms the basis for continually improving the risk management process in the context of the Group's overall objectives. The Internal Audit Department is continuously facilitating the exercise for all the business units within the Group and advising the Risk Management Committee on the internal controls to better manage the risks identified.

Other main activities performed by the Internal Audit Department are as follows:
- Site visits, inspections and reviews; and
- Assess and advise on the Group's Corporate Governance practices and compliances.

Terms of Reference

Objectives
The principal objective of the Audit Committee is to assist the Board of Directors in carrying out its statutory duties and responsibilities relating to accounting and reporting practices of Muhibbah Engineering (M) Bhd and its subsidiaries.

In addition, the Audit Committee shall:
- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information provided by management is relevant, reliable and timely;
- oversee compliance with laws and regulations and observance of a proper code of conduct; and
- determine the adequacy of the Company's internal control system.

Membership
The Board shall appoint the Audit Committee, comprising of at least three (3) Directors; all of whom shall be Non-Executive Directors, with a majority of them being Independent Directors. The Chairman of the Committee, who is an Independent Director, shall be appointed by the members of the Audit Committee. No alternate Director can be a member of the Audit Committee.

At least one (1) member of the Audit Committee must be a member of the Malaysian Institute of Accountants or have similar qualifications as prescribed in Part I or Part II of the First Schedule of the Accountants Act, 1967 or fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

If a member of the Audit Committee ceases to be a member with the result that the number of members is reduced to two (2), the Board of Directors shall within three (3) months of the event, appoint such number of new members as may be required to fill the vacancy.

Audit Committee Report (continued)

Attendance at meetings
The Audit Committee shall hold at least four (4) regular meetings per year and such additional meeting as the Chairman shall decide in order to fulfil its duties.

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

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

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

Authority
The Audit Committee is authorised by the Board:
- to investigate any matter within its terms of reference;
- to have the resources which are required to perform its duties;
- to have full and unrestricted access to any information pertaining to the Company;
- to have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- to be able to obtain independent professional or other advice; and
- to be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees of the Company, wherever deemed necessary.

Duties
The duties and scope of work of the Audit Committee shall be:

1. To review the following and report the same to the Board of Directors:
   - with the external auditors, the audit plan, their evaluation of the system of internal controls and the audit reports on the financial statements.
   - the assistance given by the employees to the external auditors.
   - the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work.
   - the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function.
   - the quarterly results and year end financial statements before submission to the Board of Directors for approval, focusing particularly on changes in or implementation of major accounting policy, significant and unusual events and compliance with applicable Financial Reporting Standards and other legal requirements.
   - any related party transactions and conflict of interest situations that may arise within the Group or Company including any transaction, procedure or course of conduct that raises questions of management integrity.
   - the appointment of the external auditors and audit fees, and any questions of resignation or dismissal.
2. To recommend the nomination of a person or persons as external auditors.

3. To ensure that the Audit Committee Report is prepared at the end of each financial year for inclusion in the Annual Report of the Company. The Audit Committee Report shall comprise:

   - the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise).

   - a summary of the terms of reference of the Audit Committee, or the key functions, roles and responsibilities of the Audit Committee.

   - the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member.

   - a summary of the activities of the Audit Committee in the discharge of functions and duties for that financial year of the Company.

   - a summary of the activities of the internal audit function or activity.

4. To verify, on a yearly basis, the allocation of options under a share option scheme for employees to ensure compliance with the allocation criteria determined by the Company's share option committee and in accordance with the bye-laws of the relevant option scheme.

5. To promptly report to Bursa Malaysia Securities Berhad any matters reported by the Audit Committee to the Board of Directors which have not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Proceedings of the Audit Committee

Calling of meetings
The members may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, provided that they shall have a minimum of four (4) meetings in a financial year. The Secretary shall on the requisition of a member summon a meeting of the Audit Committee.

Notice of meeting
Notice of a meeting of the Audit Committee shall be given to all the members in writing via facsimile, hand delivery or by courier service. Unless otherwise determined by the Audit Committee from time to time, seven (7) days' notice shall be given, except in the case of an emergency where shorter notice may be given.

Voting and proceeding of meeting
The decision of the Audit Committee shall be by a majority of votes and the determination by a majority of the members shall for all purposes be deemed a determination of the Audit Committee. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.

Circular Resolutions signed by all the members shall be valid and effective as if it had been passed at a meeting of the Audit Committee.

Keeping of minutes
The members shall cause minutes to be made of all meetings of the Audit Committee. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.

Custody, production and inspection of minutes
The minutes of meetings of the Audit Committee shall be kept by the Secretary at the registered office of the Company, and shall be opened to the inspection of any member of the Committee or any member of the Board of Directors.

Review of Audit Committee
The Board shall review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether the Audit Committee and members have carried out their duties in accordance with their terms of reference.

Statement on Risk Management & Internal Control

The Board acknowledges its responsibility for maintaining a sound system of internal control and for reviewing its adequacy and integrity to safeguard shareholders' investment and the Group's assets. The system of internal control covers not only financial controls but operational and compliance controls and risk management.

The key processes of the Group's internal control system include the following:

- Documented delegation of authority limits have been established for all aspects of the businesses. These delegations of responsibilities and authority limits are subject to review when deemed necessary;

- Policies, objectives, quality procedures and environmental procedures for key business processes are formalised and documented in quality and environmental manuals. The Corporate Environment & Quality Assurance Department conducts half yearly Internal Quality Audits and Internal Environmental Audits and checks that operational processes are in accordance with the ISO 9001 : 2000 Quality Management System and ISO 14001 : 2004 Environmental Management System respectively;

- The Internal Audit Department provides the Audit Committee with reviews of processes, risk exposures (through Enterprise Risk Management) and system of internal controls of the Group. The Internal Audit Department carries out audits based on audit plans approved by the Audit Committee;

- Subsequent follow-up reviews on recommendations and outstanding issues are conducted by the Internal Audit Department and reported to the Audit Committee to ensure that recommendations have been implemented and issues resolved accordingly;

- Monthly management accounts and other information (i.e. financial performance) are prepared and submitted to management for review, monitoring and reporting purposes;

- The issuance of a Risk Management Policies and Procedures Manual which outlines the risk management framework for the Group, offers practical guidance to all employees on risk management guidelines and processes;

- Risk management reports are submitted to the Risk Management Units for reporting to the Group Risk Management Committee; and

- A consolidated risk profile of the Group together with a summary of key risks and actions to mitigate these risks is discussed in the Risk Management Committee meetings before being submitted to the Board for consideration; and

- The process of internal control system of the Group is in place for the financial year under review and up to the date of approval of this statement.

The Board is continuing its ongoing process of identifying, assessing and managing key business, operational and financial risks faced by its business units. The Group is progressively developing risk management practice in significant subsidiaries.

The Board has the overall responsibility for the Group's system of internal control, which aims to:

- safeguard shareholders' investments and the Group's assets;
- ensure that proper accounting records are maintained; and
- ensure that the financial information used within the business and for publication is reliable.

The internal control system is also designed to provide reasonable assurance of the effective operations of the Group. The internal control system also takes into consideration compliance with applicable laws and regulations. It is recognised, however, that any system of internal control can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board through the Audit Committee has reviewed the effectiveness of the Group's system of internal control. The Board is of the view that there were no significant breakdown or weakness in the system of internal control of the Group that might have resulted in material losses incurred by the Group for the financial year ended 31 December 2012. The Group continues to take the necessary measures to ensure that the system of internal control and risk management framework are in place and functioning effectively.

Financial Statements

Directors' Report for the year ended 31 December 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2012.

Principal activities

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airport concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 27 to the financial statements. The principal activities of the subsidiaries are stated in Note 5 to the financial statements. There have been no significant change in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
Profit/(loss) attributable to:		
Owners of the Company	(93,241)	(39,408)
Non-controlling interests	32,158	-
Profit for the year	(61,083)	(39,408)

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid a first and final ordinary dividend of 10% (5.00 sen) per ordinary share of RM0.50 each less tax of 25% totalling RM15,241,000 in respect of the financial year ended 31 December 2011.

The first and final dividend recommended by the Directors in respect of the financial year ended 31 December 2012 is 5% (2.50 sen) per ordinary share of RM0.50 each less tax of 25% totalling RM7,621,000 and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

Directors of the Company

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

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

Directors' interests

The direct interests in the shares and employees' share options of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.1.2012	Allotted/ Bought	Sold	At 31.12.2012
Muhibbah Engineering (M) Bhd:				
Tuan Haji Mohamed Taib bin Ibrahim	7,543,392	-	-	7,543,392
Mac Ngan Boon @ Mac Yin Boon	70,641,416	50,000	-	70,691,416
Ooi Sen Eng	13,045,066	-	-	13,045,066
Low Ping Lin	3,050,500	-	-	3,050,500
Mac Chung Jin	5,210,000	-	(50,000)	5,160,000
Datuk Zakaria bin Abdul Hamid	16,000	-	-	16,000
Favelle Favco Berhad (a subsidiary):				
Tuan Haji Mohamed Taib bin Ibrahim	2,845,671	-	-	2,845,671
Mac Ngan Boon @ Mac Yin Boon	8,192,913	-	-	8,192,913
Ooi Sen Eng	1,326,000	-	-	1,326,000
Low Ping Lin	76,000	-	-	76,000
Mac Chung Jin	416,000	300,000	(19,000)	697,000
Lim Teik Hin	100,000	-	-	100,000
Datuk Zakaria bin Abdul Hamid	220,000	-	-	220,000
Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	300,000	-	-	300,000
Abd Hamid bin Ibrahim	95,000	-	-	95,000
Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar	400,000	-	(400,000)	-

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

	Number of options over ordinary shares of RM0.50 each			
	At 1.1.2012	Granted	Exercised	At 31.12.2012
Muhibbah Engineering (M) Bhd:				
Mac Ngan Boon @ Mac Yin Boon	2,780,000	-	-	2,780,000
Ooi Sen Eng	2,500,000	-	-	2,500,000
Low Ping Lin	2,500,000	-	-	2,500,000
Mac Chung Jin (alternate to Ooi Sen Eng)	2,000,000	-	-	2,000,000
Favelle Favco Berhad (a subsidiary):				
Mac Ngan Boon @ Mac Yin Boon	950,000	-	-	950,000

Other than the abovementioned Directors, none of the other Directors holding office at 31 December 2012 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

By virtue of his interests in shares of the Company, Mac Ngan Boon @ Mac Yin Boon's shareholdings of more than 15% is also deemed to have interest in the shares of all the subsidiaries during the financial year to the extent that Muhibbah Engineering (M) Bhd. has an interest.

Directors' Report for the year ended 31 December 2012 (continued)

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements of the Company or the fixed salary of a full time employee of the Company or of related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for any benefits which may be deemed to arise from transaction entered into in the ordinary course of business with companies in which certain directors have substantial financial interest as disclosed in Note 31 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate apart from certain Directors' entitlement to subscribe for new ordinary shares of the Company under the Employees' Share Option Scheme.

Issue of shares and debentures

The movement of share capital is disclosed in Note 15 to the financial statements.

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

Treasury shares

The treasury shares are disclosed in Note 16 to the financial statements.

Options granted over unissued shares

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

The Company operates an Employees' Share Option Scheme ("ESOS Scheme") that was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 28 June 2011. The main features of the ESOS, details of share options offered and exercised during the financial year are disclosed in Note 25.

The Company has been granted exemption pursuant to Section 169(11) of the Companies Act, 1965 by the Companies Commission of Malaysia from having to disclose the names of option holders, other than Directors, who have been granted options representing 1,000,000 ordinary shares of RM0.50 each and below under the ESOS Scheme. The option holders who have been granted options representing more than 1,000,000 ordinary shares of RM0.50 each are as follows:-

	Number of options over ordinary shares of RM0.50 each			
	Balance at 1.1.2012	Granted	Exercised	Balance at 31.12.2012
Chong Lai Keong	1,500,000	-	-	1,500,000
Lee Poh Kwee	2,000,000	-	-	2,000,000
Tan Bin Tat	1,500,000	-	-	1,500,000
Tan Chin Guan	1,500,000	-	-	1,500,000
Ooi Kien Chuan	1,000,000	-	-	1,000,000

Other statutory information

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

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

ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of allowance for impairment losses on receivables in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs Crowe Horwath, have indicated their willingness to accept re-appointment.

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

....	....
Mac Ngan Boon @ Mac Yin Boon	**Low Ping Lin**

Klang,

Date: 25 April 2013

Statements of Financial Position as at 31 December 2012

		Group			Company		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets							
Property, plant and equipment	3	718,477	764,381	623,099	156,459	239,975	148,011
Investment properties	4	497	516	532	1,485	20,010	20,196
Investment in subsidiaries	5	-	-	-	243,282	196,162	196,522
Investment in associates	6	171,331	141,853	135,817	8,424	8,424	8,424
Receivables, deposits and prepayments	7	-	-	-	10,000	10,000	10,000
Goodwill on consolidation	8	-	-	14,400	-	-	-
Deferred tax assets	9	2,391	2,391	2,660	-	-	-
Other non-current assets	10	15,472	17,807	27,754	9	9	9
Total non-current assets		908,168	926,948	804,262	419,659	474,580	383,162
Receivables, deposits and prepayments	7	917,718	891,074	896,562	775,297	890,943	1,001,740
Amount due from contract customers	11	456,683	536,876	583,071	240,252	330,470	237,157
Inventories	12	208,595	202,965	179,118	-	-	-
Current tax assets		4,837	1,381	3,374	-	498	693
Derivative assets	13	1,186	6,438	41,312	-	3,449	31,401
Cash and cash equivalents	14	336,743	323,241	201,106	46,444	75,502	23,073
Total current assets		1,925,762	1,961,975	1,904,543	1,061,993	1,300,862	1,294,064
Total assets		2,833,930	2,888,923	2,708,805	1,481,652	1,775,442	1,677,226

		Group			Company		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Equity							
Share capital	15	204,124	204,107	199,196	204,124	204,107	199,196
Reserves	16	249,931	311,286	252,318	54,297	101,706	89,099
Total equity attributable to owners of the Company		454,055	515,393	451,514	258,421	305,813	288,295
Non-controlling interests		166,353	124,583	107,551	-	-	-
Total equity		620,408	639,976	559,065	258,421	305,813	288,295
Liabilities							
Loans and borrowings	17	154,404	234,264	264,154	95,742	161,242	171,377
Payables and accruals	18	14,017	14,970	15,324	-	-	-
Deferred tax liabilities	9	46,006	46,492	48,240	8,516	8,516	8,516
Total non-current liabilities		214,427	295,726	327,718	104,258	169,758	179,893
Payables and accruals	18	607,746	739,558	807,191	240,308	471,357	521,149
Amount due to contract customers	11	416,920	289,936	278,022	82,682	78,054	52,868
Bills payable	19	686,843	698,705	540,596	553,962	577,693	501,516
Derivative liabilities	13	73	-	3,509	73	-	-
Loans and borrowings	17	272,360	215,523	182,069	230,989	172,767	132,948
Current tax liabilities		15,153	9,499	10,635	10,959	-	557
Total current liabilities		1,999,095	1,953,221	1,822,022	1,118,973	1,299,871	1,209,038
Total liabilities		2,213,522	2,248,947	2,149,740	1,223,231	1,469,629	1,388,931
Total equity and liabilities		2,833,930	2,888,923	2,708,805	1,481,652	1,775,442	1,677,226

The notes on pages 50 to 122 are an integral part of these financial statements.

Statements of Comprehensive Income for the year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Revenue	20	2,625,525	2,026,366	1,265,177	1,178,063
Cost of sales		(2,354,013)	(1,823,366)	(1,076,858)	(1,113,626)
Gross profit		271,512	203,000	188,319	64,437
Other income		11,370	18,842	67,105	5,671
Distribution costs		(15,957)	(14,259)	(2,161)	(1,592)
Administrative expenses		(91,707)	(92,686)	(18,115)	(15,171)
Other expenses		(245,037)	(14,400)	(243,865)	2,824
Results from operating activities		(69,819)	100,497	(8,717)	56,169
Interest income		11,746	11,185	3,615	3,245
Finance costs		(21,126)	(28,333)	(21,394)	(36,162)
Operating (loss)/profit	21	(79,199)	83,349	(26,496)	23,252
Share of profit after tax and minority interest of equity accounted associates		44,222	28,367	-	-
(Loss)/profit before tax		(34,977)	111,716	(26,496)	23,252
Income tax expenses	23	(26,106)	(29,184)	(12,912)	(2,192)
(Loss)/profit for the year		(61,083)	82,532	(39,408)	21,060
Other comprehensive income					
Foreign currency translation differences for foreign operations		(5,114)	3,283	-	-
Movement in revaluation of property, plant and equipment, net of tax		56,239	-	-	-
Other comprehensive income for the year		51,125	3,283	-	-
Total comprehensive (expenses)/ income for the year		(9,958)	85,815	(39,408)	21,060

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
(Loss)/profit attributable to:					
Owners of the Company		(93,241)	63,772	(39,408)	21,060
Non-controlling interests		32,158	18,760	-	-
(Loss)/profit for the year		(61,083)	82,532	(39,408)	21,060
Total comprehensive (expenses)/ income attributable to:					
Owners of the Company		(47,132)	67,112	(39,408)	21,060
Non-controlling interests		37,174	18,703	-	-
Total comprehensive (expenses)/ income for the year		(9,958)	85,815	(39,408)	21,060
Earnings per ordinary share (sen)					
- Basic	24	(22.94)	15.85		
- Diluted	24	(22.58)	15.41		

The notes on pages 50 to 122 are an integral part of these financial statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

/---------------------------------------Attributable to owners of the Company------------- -------------------------/
/--Non-distributable--/ Distributable

Group	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Warrant reserve RM'000	Revaluation reserve RM'000	Capital reserve RM'000	Share options reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2011		199,196	(5,561)	3,884	2,280	116,718	1,612	4,356	-	129,029	451,514	107,551	559,065
Other comprehensive income:													
- Foreign currency translation differences for foreign operations		-	-	-	-	-	-	-	3,340	-	3,340	(57)	3,283
Profit for the year		-	-	-	-	-	-	-	-	63,772	63,772	18,760	82,532
Total comprehensive income		-	-	-	-	-	-	-	3,340	63,772	67,112	18,703	85,815
Share-based payment	25	-	-	-	-	-	-	2,424	-	-	2,424	246	2,670
Share option exercised	15	4,911	-	98	-	-	-	-	-	-	5,009	1,297	6,306
Share option forfeited		-	-	-	-	-	-	(1,605)	-	1,605	-	-	-
Transfer to share premium for share option exercised		-	-	2,148	-	-	-	(2,148)	-	-	-	-	-
Transfer to capital redemption reserve pursuant to redemption of preference shares		-	-	-	-	-	625	-	-	(625)	-	-	-
Acquisition of subsidiary		-	-	-	-	-	-	-	-	-	-	3,576	3,576
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	-	(1,572)	(1,572)
Premium on redemption of preference shares of subsidiary		-	-	-	-	-	-	-	-	-	-	(429)	(429)
Dilution of interest in subsidiary		-	-	-	-	-	-	-	-	-	-	372	372
Dividend to owners of the Company	26	-	-	-	-	-	-	-	-	(10,666)	(10,666)	-	(10,666)
Dividends to non-controlling interest		-	-	-	-	-	-	-	-	-	-	(5,161)	(5,161)
Total transactions with owners		4,911	-	2,246	-	-	625	(1,329)	-	(9,686)	(3,233)	(1,671)	(4,904)
At 31 December 2011		204,107	(5,561)	6,130	2,280	116,718	2,237	3,027	3,340	183,115	515,393	124,583	639,976

/---Note 16---/

Consolidated Statement of Changes in Equity for the year ended 31 December 2012 (continued)

		/------Attributable to owners of the Company------/											
		/------Non-distributable------/							Distributable				
Group	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Warrant reserve RM'000	Revaluation reserve RM'000	Capital reserve RM'000	Share options reserve RM'000	Translation reserve RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2012		204,107	(5,561)	6,130	2,280	116,718	2,237	3,027	3,340	183,115	515,393	124,583	639,976
Rectification of brought forward share option forfeited		-	-	-	-	-	-	(604)	-	604	-	-	-
At 1 January 2012, restated		204,107	(5,561)	6,130	2,280	116,718	2,237	2,423	3,340	183,719	515,393	124,583	639,976
Other comprehensive income:													
- Foreign currency translation differences for foreign operations		-	-	-	-	-	-	-	(4,804)	-	(4,804)	(310)	(5,114)
- Movement in revaluation of property, plant and equipment, net of tax		-	-	-	-	50,913	-	-	-	-	50,913	5,326	56,239
(Loss)/ profit for the year		-	-	-	-	-	-	-	-	(93,241)	(93,241)	32,158	(61,083)
Total comprehensive (expenses)/ income		-	-	-	-	50,913	-	-	(4,804)	(93,241)	(47,132)	37,174	(9,958)
Share-based payment	25	-	-	-	-	-	-	8,421	-	-	8,421	735	9,156
Share option exercised	15	17	-	13	-	-	-	-	-	-	30	924	954
Transfer to share premium for share option exercised		-	-	312	-	-	-	(312)	-	-	-	-	-
Capitalisation of retained earnings pursuant of bonus issued by subsidiary		-	-	-	-	-	3,000	-	-	(3,000)	-	-	-
Issued of shares to non-controlling interest		-	-	-	-	-	-	-	-	-	-	1,746	1,746
Dilution of interest in subsidiary		-	-	-	-	-	-	-	-	(7,416)	(7,416)	7,416	-
Dividend to owners of the Company	26	-	-	-	-	-	-	-	-	(15,241)	(15,241)	-	(15,241)
Dividends to non-controlling interest		-	-	-	-	-	-	-	-	-	-	(6,225)	(6,225)
Total transactions with owners		17	-	325	-	-	3,000	8,109	-	(25,657)	(14,206)	4,596	(9,610)
At 31 December 2012		204,124	(5,561)	6,455	2,280	167,631	5,237	10,532	(1,464)	64,821	454,055	166,353	620,408
		/------Note 16------/											

The notes on pages 50 to 122 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2012

		/----Non-distributable----					----/	Distributable	
Company	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Warrant reserve RM'000	Revaluation reserve RM'000	Share options reserve RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2011		199,196	(5,561)	3,235	2,280	26,310	3,209	59,626	288,295
Profit for the year/Total comprehensive income		-	-	-	-	-	-	21,060	21,060
Share-based payment	25	-	-	-	-	-	2,115	-	2,115
Share option exercised	15	4,911	-	98	-	-	-	-	5,009
Transfer to share premium for share option exercised		-	-	1,898	-	-	(1,898)	-	-
Share options forfeited		-	-	-	-	-	(1,311)	1,311	-
Dividend to owners of the Company	26	-	-	-	-	-	-	(10,666)	(10,666)
Total transactions with owners		4,911	-	1,996	-	-	(1,094)	(9,355)	(3,542)
At 31 December 2011/1 January 2012		204,107	(5,561)	5,231	2,280	26,310	2,115	71,331	305,813
Loss for the year/Total comprehensive income		-	-	-	-	-	-	(39,408)	(39,408)
Share-based payment	25	-	-	-	-	-	7,227	-	7,227
Share option exercised	15	17	-	13	-	-	-	-	30
Transfer to share premium for share option exercised		-	-	13	-	-	(13)	-	-
Dividend to owners of the Company	26	-	-	-	-	-	-	(15,241)	(15,241)
Total transactions with owners		17	-	26	-	-	7,214	(15,241)	(7,984)
At 31 December 2012		204,124	(5,561)	5,257	2,280	26,310	9,329	16,682	258,421
		/----Note 16----							----/

The note on pages 50 to 122 are an integral part of these financial statements.

Statements of Cash Flows for the year ended 31 December 2012

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from operating activities					
(Loss)/profit before tax		(34,977)	111,716	(26,496)	23,252
Adjustments for:					
Amortisation of development costs		2,220	1,471	-	-
Amortisation of intellectual property		217	-	-	-
Amortisation of land held for development		-	35	-	-
Bad debts written off		5,203	325	-	-
Bad debts recovered		-	(256)	-	-
Depreciation of investment properties		19	16	51	186
Depreciation of property, plant and equipment		45,482	39,731	16,085	20,876
Dividend income		-	-	(197,587)	(84,904)
Development costs written off		-	7,819	-	-
Finance costs		43,221	46,102	32,239	44,467
Gain on disposal of property, plant and equipment		(2,128)	(1,024)	(64,477)	(405)
Impairment loss on development costs		-	7,805	-	-
Impairment loss on goodwill		-	14,400	-	-
Interest income		(11,746)	(11,185)	(5,352)	(9,302)
Net fair value adjustment on derivative instruments		5,325	31,365	3,522	27,952
Net impairment loss on investment in subsidiary		-	-	971	(4,319)
Net impairment loss on receivables		238,459	6,668	242,894	1,494
Net provision for warranties		31,786	(3,482)	-	(3,752)
Premium on redemption of preference shares of subsidiary		-	(429)	-	(875)
Property, plant and equipment written off		93	579	-	-
Reversal of impairment loss on other investment		(2)	(22)	-	-
Reversal of impairment loss on development cost		(138)	-	-	-
Share-based payments		9,156	2,670	7,227	2,115
Share of profit of associates		(44,222)	(28,367)	-	-
Write-down of inventories		1,533	4,982	-	-
Operating profit before changes in working capital		289,501	230,919	9,077	16,785

Statements of Cash Flows for the year ended 31 December 2012 (continued)

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating profit before changes in working capital (continued)		289,501	230,919	9,077	16,785
Receivables, deposits and prepayments		(288,459)	3,842	(172,540)	95,906
Inventories		(7,163)	(28,829)	-	-
Payables and accruals		(62,653)	(64,580)	(129,203)	(48,080)
Amount due to/(from) contract customers		250,261	58,109	137,930	(68,127)
Cash generated from/(used in) operations		181,487	199,461	(154,736)	(3,516)
Income taxes paid		(24,437)	(29,934)	(1,455)	(2,554)
Income taxes refund		69	131	-	-
Net cash generated from/(used in) operating activities		157,119	169,658	(156,191)	(6,070)
Cash flows from investing activities					
Additions to development expenditure		(1,261)	(6,269)	-	-
Acquisition of non-controlling interest, net of cash acquired		-	(1,572)	-	(1,572)
Acquisition of subsidiary, net cash inflow		-	3,576	-	-
Dividend received from:					
- subsidiaries		-	-	188,054	71,171
- associates		19,625	23,741	9,533	13,733
Investment in associates		(8,389)	(223)	-	-
Interest received		5,846	4,438	3,615	3,245
Proceeds from disposal of property, plant and equipment		9,953	14,111	6,958	1,109
Proceeds from redemption of preference shares		-	-	-	7,125
Purchase of property, plant and equipment		(72,320)	(191,822)	(10,940)	(113,544)
Purchase of other non-current assets		(1,800)	(500)	-	-
Net cash (used in)/generated from investing activities		(48,346)	(154,520)	197,220	(18,733)

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from financing activities					
Dividend paid to owners of the Company		(15,241)	(10,666)	(15,241)	(10,666)
Dividend paid to non-controlling interest		(6,225)	(5,161)	-	-
Interest paid		(44,380)	(43,469)	(23,867)	(22,970)
Proceeds from exercise of share option		30	5,009	30	5,009
Proceeds from issuance of shares to non-controlling interests of a subsidiary		2,670	1,297	-	-
Net drawdown of loans and borrowings		(43,936)	163,030	(41,975)	104,513
Net cash (used in)/generated from financing activities		(107,082)	110,040	(81,053)	75,886
Exchange differences on translation of the financial statements of foreign operations		2,760	(1,686)	-	-
Net increase/(decrease) in cash and cash equivalents		4,451	123,492	(40,024)	51,083
Cash and cash equivalents at beginning of year		315,834	192,342	73,979	22,896
Cash and cash equivalents at end of year	(i)	320,285	315,834	33,955	73,979

(i) Cash and cash equivalents

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

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash and bank balances	14	233,911	225,008	37,376	64,533
Deposits placed with licensed banks	14	102,832	98,233	9,068	10,969
Bank overdrafts	17	(16,458)	(7,407)	(12,489)	(1,523)
		320,285	315,834	33,955	73,979

The notes on pages 50 to 122 are an integral part of these financial statements.

Notes to the Financial Statements

Muhibbah Engineering (M) Bhd. is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is Lot 586, 2nd Mile, Jalan Batu Tiga Lama, 41300 Klang, Selangor Darul Ehsan, Malaysia.

The consolidated financial statements as at and for the year ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled operations. The financial statements of the Company as at and for the year ended 31 December 2012 do not include other entities.

The Company is principally engaged in the provision of oil and gas, marine, infrastructure, civil and structural engineering contract works. The subsidiaries are involved in design, manufacture, commission, repair, maintenance and customisation of cranes, offshore supply vessels and anchor handling tugboats for oil and gas industry. The associates are mainly involved in international airports concessions in Cambodia and road maintenance concessions in Malaysia. The main business segments of the Group are stated in Note 27 to the financial statements. The principal activities of its subsidiaries are as stated in Note 5.

The financial statements were authorised for issue by the Board of Directors on 25 April 2013.

1. Basis of preparation

(a) Statement of compliance

These financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

In the previous year, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRSs"). The financial impact on transition to MFRSs are disclosed in Note 32.

The Group and the Company have not applied the following accounting standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and the Company.

MFRSs, Interpretations	***Effective date***
• MFRS 7 Disclosure- *offsetting Financial Assets and Financial Liabilities*	1 January 2013
• MFRS 9 *Financial Instruments*	1 January 2015
• MFRS 10 *Consolidated Financial Statements*	1 January 2013
• MFRS 11 *Joint Arrangements*	1 January 2013
• MFRs 12 *Disclosure of Interests in Other Entities*	1 January 2013
• MFRS 13 *Fair Value Measurement*	1 January 2013
• Amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income*	1 July 2012
• Amendment to MFRS 116 *Property, Plant and Equipment*	1 January 2013
• MFRS 119 *Employee Benefits (revised)*	1 January 2013
• MFRS 127 *Separate Financial Statements*	1 January 2013
• MFRS 128 *Investments in Associates and Joint Ventures*	1 January 2013
• Amendment to MFRS 132 *Financial Instrument: Presentation*	1 January 2013
• Amendment to MFRS 134 *Interim Financial Reporting*	1 January 2013
• IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

The Group and the Company plan to apply the abovementioned standards from the annual period beginning 1 January 2013 except for MFRS 9.

The initial application of a standard which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

1. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented is in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in comformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation of uncertainty and critical judgements in applying accounting policies that have significant effects on the amounts recognised in the financial statements other than:

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

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment losses.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations

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

Acquisitions on or after 1 January 2011
For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

Acquisitions before 1 January 2011
As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRSs, i.e. 1 January 2011. Goodwill arising from acquisitions before 1 January 2011 has been carried forward from the previous FRS framework as at the date of transition.

(iii) Acquisitions of non-controlling interests

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

(iv) Loss of control

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

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

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

(vi) Jointly-controlled operations and assets

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(vii) Non-controlling interests

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

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

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(viii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising from retranslation are recognised in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 which are treated as assets and liabilities of the Company. The income and expenses of foreign operations in functional currencies other than RM are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the accumulative amount in the FCTR related to that foreign operation is reclassified to profit and loss as part of the profit or loss on disposal.

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

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

2. Significant accounting policies (continued)

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or financial liability is recognised in the statements of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument. A finance instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Derecognition

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

The Group and the Company adopted the policy to revalue their freehold land and leasehold land every 5 years or at shorter intervals whenever the fair values of the freehold land and leasehold land are expected to differ materially from their carrying values.

Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under the revaluation reserve. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in profit or loss.

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

With effect from 1 January 2008, the usage method of depreciation was implemented for certain plant and equipment. This method was adopted to better reflect the consumption pattern of the expected economic benefits of the plant and equipment. Under the usage method, depreciation is determined based on the number of days the plant and equipment are used over the projected useful lives of the assets.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives are as follows:

Drydock and slipway	45 years
Cranes	10 - 15 years
Plant and equipment	3 - 20 years
Motor vehicles	5 years

Buildings are depreciated on a straight-line basis over the shorter of 50 years or the lease period.

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period.

(e) Leased assets

Finance lease

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

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

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

(f) Investment properties

Investment properties carried at cost

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

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in accounting policy Note 2(d).

Where the fair value of the investment property under construction is not reliably determined, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Transfers between investment property and property, plant and equipment do not change the carrying amount and the cost of the property transferred.

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

2. Significant accounting policies (continued)

(g) Intangible assets

(i) Goodwill

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

Goodwill with indefinite useful lives are not amortised but are tested for impairment annually and whether there is an indication that they may be impaired.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use or sell the assets.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Intellectual property

Intellectual property consists of rights to trade name, know how and industrial property rights and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Other than goodwill, other intangible assets are amortised from the date that they are available for use. Amortisation is recognised to profit or loss on a straight-line basis over the estimated useful lives of intangible assets of 5 to 10 years.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work in progress, assembled cranes, manufactured inventories and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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

Amount due from contract customers represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. For qualifying contracts, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

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

(j) Cash and cash equivalents

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

(k) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the assets's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

2. Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of non-financial assets (except for inventories, amount due from contract customers, deferred tax asset, assets arising from employee benefits, investment property measured in fair value and non-current assets classified as held for sale are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Equity instruments

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

(i) Issue expenses

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

2. Significant accounting policies (continued)

(l) Equity instruments (continued)

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Preference share capital

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

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

(iv) Repurchase of share capital

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

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

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

(m) Bonds

The Redeemable Islamic bonds with detachable provisional rights to allotment of warrants are issued in the form of Sukuk Mudharabah in accordance with the Syariah principles of Mudharabah. The Islamic bonds are based on the Master Mudharabah (Profit Sharing) Agreement ("MAA") entered into between the Company (Mudharib) and Trustee on behalf of the investor (rabb al-mal). The investors provide the required capital to the Company under the principle of Mudharabah Mutlaqah or unrestricted Mudharabah for the relevant investment period, subject to specified terms and conditions, where absolute entrepreneurial authority was granted to the Company to manage the investment capital in Shariah compliant, general business activities of the Company.

The proceeds from the issue of Warrants, net of issue costs, will be credited to a warrants reserve account which is non-distributable. Warrants reserve will be transferred to the share premium accounts upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants on the expiry date of the exercise period will be transferred to retained earnings. Further details of the Islamic bonds in issue are disclosed in Note 17 to the financial statements.

2. Significant accounting policies (continued)

(n) Loans and borrowings

Loans and borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and redemption value is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

(o) Employee benefits

(i) Short term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contributions to the Employees Provident Fund are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The grant date fair value of share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the adwards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(p) Provisions

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

(i) Warranties

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

(ii) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

(q) Revenue

(i) Construction contracts

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

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Goods sold and services rendered

Revenue from sale of goods, trading of crane inventories and crane components and marine supplies is measured at the fair value of the consideration received or receivable and is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from ship repair and other services rendered, which are of short term nature, is recognised in the profit or loss upon the completion of the repairs or services. Where the outcome of the transactions cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Rental income

Rental income from investment property is recognised in profit or loss as it accrues over the term of the lease.

Revenue from rental of cranes and vessels is recognised in profit or loss as it accrues.

(iv) Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established.

(r) Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

2. Significant accounting policies (continued)

(s) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(t) Income tax

Income tax expense comprises current and deferred tax. Income tax expense and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

2. Significant accounting policies (continued)

(u) Earnings per share

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

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for own shares held .

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

(v) Operating segments

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

3. Property, plant and equipment

Group	Land RM'000	Buildings RM'000	Drydock and slipway RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/ Valuation							
At 1 January 2011	225,421	173,607	45,917	121,191	417,992	767	984,895
Additions	179	2,031	-	18,171	168,593	2,848	191,822
Disposals	-	-	-	(5,495)	(16,812)	(141)	(22,448)
Written off	-	-	-	(511)	(6,987)	-	(7,498)
Exchange differences	401	283	-	448	3,381	2	4,515
Reclassification	-	-	(549)	-	142	(142)	(549)
At 31 December 2011/ 1 January 2012	226,001	175,921	45,368	133,804	566,309	3,334	1,150,737
Change in fair value	58,906	-	-	-	-	-	58,906
Addition	2,297	3,068	-	16,717	44,690	5,548	72,320
Disposals	(1,544)	-	-	(12,610)	(132,944)	-	(147,098)
Written off	-	-	-	-	(355)	(12)	(367)
Reclassification	-	99	-	-	5,721	(5,641)	179
Exchange differences	(1,484)	(514)	-	(811)	(4,630)	(5)	(7,444)
At 31 December 2012	284,176	178,574	45,368	137,100	478,791	3,224	1,127,233
Representing items at:							
Cost	2,456	178,574	45,368	137,100	478,791	3,224	845,513
Valuation	281,720	-	-	-	-	-	281,720
	284,176	178,574	45,368	137,100	478,791	3,224	1,127,233
Accumulated depreciation and impairment losses							
At 1 January 2011	3,123	46,863	12,055	41,700	258,055	-	361,796
Depreciation for the year	1,699	4,040	1,019	4,532	28,441	-	39,731
Disposals	-	-	-	(2,673)	(6,688)	-	(9,361)
Written off	-	-	-	(225)	(6,694)	-	(6,919)
Exchange differences	-	183	-	211	1,264	-	1,658
Reclassification	-	(549)	-	-	-	-	(549)
Accumulated depreciation	4,822	34,309	13,074	43,009	272,938	-	368,152
Accumulated impairment loss	-	16,228	-	536	1,440	-	18,204
At 31 December 2011/ 1 January 2012	4,822	50,537	13,074	43,545	274,378	-	386,356
Depreciation for the year	1,685	2,606	1,019	5,601	34,571	-	45,482
Disposals	-	-	-	(8,430)	(11,727)	-	(20,157)
Written off	-	-	-	-	(274)	-	(274)
Exchange differences	-	(345)	-	(546)	(1,801)	-	(2,692)
Reclassification	-	15	-	-	26	-	41
Accumulated depreciation	6,507	36,585	14,093	39,634	293,733	-	390,552
Accumulated impairment loss	-	16,228	-	536	1,440	-	18,204
At 31 December 2012	6,507	52,813	14,093	40,170	295,173	-	408,756
Carrying amounts							
At 1 January 2011	222,298	126,744	33,862	79,491	159,937	767	623,099
At 31 December 2011/ 1 January 2012	221,179	125,384	32,294	90,259	291,931	3,334	764,381
At 31 December 2012	277,669	125,761	31,275	96,930	183,618	3,224	718,477

Notes to the Financial Statements (continued)

3. Property, plant and equipment (continued)

Company	Land RM'000	Buildings RM'000	Cranes RM'000	Plant, equipment and motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost/ Valuation						
At 1 January 2011	43,554	2,402	29,801	142,711	-	218,468
Additions	-	-	3,964	106,857	2,723	113,544
Disposals	-	-	(380)	(3,055)	-	(3,435)
At 31 December 2011/ 1 January 2012	43,554	2,402	33,385	246,513	2,723	328,577
Change in fair value	-	-	-	-	-	-
Addition	-	-	-	7,362	3,578	10,940
Disposals	-	-	(10,274)	(78,996)	-	(89,270)
Reclassification	-	-	-	5,591	(5,591)	-
At 31 December 2012	43,554	2,402	23,111	180,470	710	250,247
Accumulated depreciation						
At 1 January 2011	856	157	9,084	60,360	-	70,457
Depreciation for the year	438	48	3,319	17,071	-	20,876
Disposals	-	-	(296)	(2,435)	-	(2,731)
At 31 December 2011/ 1 January 2012	1,294	205	12,107	74,996	-	88,602
Depreciation for the year	438	48	1,397	14,202	-	16,085
Disposals	-	-	(4,840)	(6,059)	-	(10,899)
At 31 December 2012	1,732	253	8,664	83,139	-	93,788
Carrying amounts						
At 1 January 2011	42,698	2,245	20,717	82,351	-	148,011
At 31 December 2011/ 1 January 2012	42,260	2,197	21,278	171,517	2,723	239,975
At 31 December 2012	41,822	2,149	14,447	97,331	710	156,459

Depreciation charge for the year is allocated as follows:

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating expenses	21	26,307	13,872	1,037	953
Contract costs	11	19,175	25,859	15,048	19,923
		45,482	39,731	16,085	20,876

3. Property, plant and equipment (continued)

Security

The freehold land, buildings, certain item of plant and equipment and certain long term leasehold land of the Group and of the Company with a total carrying amount of RM269,631,000 (2011 - RM265,280,000) and RM2,657,000 (2011 - RM2,685,000) respectively, have been pledged to certain licensed banks as security for term loan facilities granted to the Group and Company (Note 17).

Assets under hire purchase

Included in property, plant and equipment of the Group are plant, equipment and motor vehicles acquired under hire purchase arrangements with a carrying amount of RM106,000 (2011 - RM438,000).

Property, plant and equipment under the revaluation model

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

Had the freehold land and leasehold land been carried under the cost model, the net book value of the Group's freehold land would have been RM32,225,000 (2011 – RM32,019,000) and Group and Company's leasehold land would have been RM28,386,000 (2011 - RM30,071,000) and RM8,398,000 (2011 – RM8,492,000) respectively.

Land

Included in the carrying amounts of land are:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Freehold land	130,965	72,790	51	51
Long term leasehold land	146,704	148,389	41,771	42,209
	277,669	221,179	41,822	42,260

Notes to the Financial Statements (continued)

4. Investment properties

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cost				
At 1 January	1,058	1,058	26,769	26,769
Disposal	-	-	(24,082)	-
At 31 December	1,058	1,058	2,687	26,769
Accumulated depreciation and impairment loss				
At 1 January	542	526	6,759	6,573
Depreciation for the year	19	16	51	186
Disposal	-	-	(5,608)	-
At 31 December	561	542	1,202	6,759
Carrying amounts				
At 31 December	497	516	1,485	20,010
Included in the above are:				
Freehold land	158	158	159	12,942
Buildings	339	358	1,326	7,068
	497	516	1,485	20,010

Investment properties of the Group comprise a number of commercial properties that are leased to third parties. Certain investment properties of the Company were leased to companies within the Group for their respective own use and accordingly classified as property, plant and equipment in the consolidated statement of financial position.

Market value

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Market value of investment properties - aggregated basis	1,668	1,651	9,496	50,652

The market value of the investment properties of the Group and of the Company was derived at by reference to market indication of transaction prices for similar properties within the same/adjacent location.

The Directors estimated the fair values of the Group's investment properties without involvement of independent valuers.

5. Investments in subsidiaries

		Company	
		2012 RM'000	2011 RM'000
Ordinary shares			
Quoted shares - in Malaysia		98,663	50,572
Unquoted shares - at cost		208,495	208,496
Cumulative redeemable convertible preference shares, at cost	(a)	1,800	1,800
		308,958	260,868
Less: Impairment losses		(65,676)	(64,706)
		243,282	196,162
Market value			
Quoted shares in Malaysia		216,548	121,466

(a) The cumulative redeemable convertible preference shares are held in a subsidiary and shall be redeemable at any time after 30 June 2009, at the discretion of the directors of the subsidiary

Notes to the Financial Statements (continued)

5. Investments in subsidiaries (continued)

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

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	2011 %
Cranes segment				
Favelle Favco Berhad	Investment holding	Malaysia	61.91	55.57
Favelle Favco Cranes (M) Sdn. Bhd.	Manufacturing of cranes	Malaysia	61.91	55.57
Favelle Favco Cranes Pte. Ltd.*	Trading of cranes, spare parts and services	Singapore	61.91	55.57
Favelle Favco Cranes (USA), Inc*	Manufacturing of cranes	United States of America	61.91	55.57
Favelle Favco Cranes Pty Limited* and its subsidiaries:	Manufacturing of cranes	Australia	61.91	55.57
FF Management Pty. Limited*	Management services	Australia	61.91	55.57
Milperra Blasting and Coating Pty. Limited*	Dormant	Australia	61.91	55.57
Kroll Cranes A/S*	Manufacturing of cranes	Denmark	61.91	55.57
Favelle Favco Cranes International Ltd.	Dormant	Labuan	61.91	55.57
FES Equipment Services Sdn. Bhd.	Hiring and repair of cranes	Malaysia	61.91	55.57
Favelle Favco Winches Pte. Ltd.*	Design, fabrication, trading, service and rental of winches, hydraulic system and material handling equipment.	Singapore	61.91	55.57
Favelle Favco Management Services Sdn Bhd*	Dormant	Malaysia	61.91	55.57
Shanghai Favco Engineering Machinery Manufacturing Co. Ltd*	Manufacturing of cranes	China	37.15	33.34

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	2011 %
Marine shipbuilding and ship repair segment				
Muhibbah Marine Engineering Sdn. Bhd. and its subsidiary:	Ship building, renting of ship, providing ship repair services, trading of marine supplies and provision of other engineering works	Malaysia	100	100
Energy Ocean Ltd.	Trading of motor vessels, spare parts and other services	Labuan	100	100
Infrastructure construction segment				
Juara Lagi Sdn. Bhd.	Vessel chartering services	Malaysia	100	100
Elelink Sdn. Bhd. and its subsidiary:*	Investment holding	Malaysia	100	100
ITS Konsortium Sdn. Bhd.	Commissioning of intelligent transport system solution	Malaysia	60	60
Muhibbah Petrochemical Engineering Sdn. Bhd. and its subsidiary:#	Oil, gas, petrochemical engineering and related works	Malaysia	90	90
Eaststar Ltd.	Leasing of plant and machinery	Labuan	90	90
Muhibbah Engineering (Singapore) Pte. Ltd*#	Civil and structural engineering contract works	Singapore	100	100
MEB Construction Sdn. Bhd.#	Civil and structural engineering contract works	Malaysia	100	100
Muhibbah Steel Industries Sdn. Bhd.*	Structural steel fabrication and related works	Malaysia	100	100
Muhibbah Airline Support Industries Sdn. Bhd.	Manufacturing and services for airline support equipment	Malaysia	100	100
Muhibbah Marine Engineering (Deutschland) GmbH*	Constructing and leasing of marine plants	Germany	95	95

Notes to the Financial Statements (continued)

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	2011 %
Infrastructure construction segment (continued)				
Muhibbah Masteron Cambodia JV Limited	Investment holding and civil and structural engineering contract works	Cambodia	70	70
Ann Bee (M) Sdn. Bhd.*	Manufacture of aluminium foils and carbonless papers	Malaysia	100	100
MEB Marketing Sdn. Bhd.*	Distribution and marketing of construction materials	Malaysia	100	100
Aspect Saga Sdn. Bhd.*	Investment holding company	Malaysia	100	100
Muhibbah Reefers Sdn. Bhd.*	Manufacturing of containers and refrigerator containers	Malaysia	100	100
Khas Jejaka Sdn. Bhd.*	Investment holding	Malaysia	100	100
Muhibbah International Labuan Ltd.	Offshore leasing and International trade business	Labuan	100	100
Muhibbah Offshore Services Ltd	Leasing of plants	Labuan	95	95
Muhibbah Engineering (Cambodia) Co. Ltd#	Construction, quarry and trading business	Cambodia	60	60
Muhibbah-LTAT JV Sdn. Bhd.	Civil, marine and structural engineering contract works	Malaysia	51	51
Citech Energy Recovery System Malaysia Sdn. Bhd.* (formerly known as Solid Reserve Sdn.Bhd.)	Manufacture of waste heat recovery units for the oil and gas industry.	Malaysia	100	100
Konsortium Muhibbah Eng-LTAT Sdn. Bhd.	Dormant	Malaysia	100	100
Sun Vibrant Sdn. Bhd.*	Dormant	Malaysia	51	51
Besimega Sdn. Bhd.*	Dormant	Malaysia	100	100
Karisma Duta Sdn. Bhd.*	Dormant	Malaysia	100	100

5. Investments in subsidiaries (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	2011 %
Infrastructure construction segment (continued)				
CB International Engineering Sdn Bhd	Rental of investment properties and related services and provision of vessel chartering services	Malaysia	100	100
MEB Equipment Sdn Bhd*#	Dormant	Malaysia	100	100
Advance Vision Ltd.#	Dormant	Labuan	100	100
Cambodia Land Ltd.#	Dormant	Labuan	100	100
Delta Field Ltd.#	Dormant	Labuan	100	100
Muhibbah Yangon Limited*	Dormant	Union of Myanmar	100	100
Muhibbah Construction Pty. Ltd.*	Marine and port construction work	Australia	100	100
Muhibbah Engineering (Philippines) Corporation*	Dormant	Philippines	99.99	99.99
Concession segment				
Muhibbah Airport Services (Labuan) Ltd.	Investment holding	Labuan	70	70

* Subsidiaries not audited by Messrs. Crowe Horwath

\# The auditors' reports on the audited financial statements of the subsidiaries contained an emphasis on the reliance of these subsidiaries on the continuing financial support from the Company and/or bankers in order to continue operating as going concerns.

(a) The Group's effective interest in Favelle Favco Berhad ("FFB") was accreted from 55.57% to 61.91%, pursuant to the allotment of new shares by FFB as consideration for the sale proceeds of a crane fabrication yard comprising freehold industry land, buildings and improvements located in Australia on 19 November 2012.

Notes to the Financial Statements (continued)

6. Investments in associates

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Unquoted shares				
- At cost	82,676	74,289	8,501	8,501
- Share of post-acquisition reserves	88,883	67,792	-	-
	171,559	142,081	8,501	8,501
Less: Impairment loss	(228)	(228)	(77)	(77)
	171,331	141,853	8,424	8,424
Summary financial information of associates:				
Total assets (100%)	1,156,878	1,030,684		
Total liabilities (100%)	503,651	509,314		
Revenue (100%)	800,130	643,794		
Profit for the year (100%)	198,941	120,270		

Details of the associates are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	Effective ownership interest 2011 %
Concession segment				
Roadcare (M) Sdn. Bhd.*	Operation and maintenance of roadways and bridges	Malaysia	21	21
Societe Concessionaire de l' Aeroport *#	Operator and concessionaire of airports in Cambodia	Cambodia	21	21
Cambodia Airport Management Services Ltd *#	Provision of airport management services	Cambodia	21	21
Infrastructure construction segment				
Freyssinet PSC (M) Sdn. Bhd.*	Civil engineering and construction works	Malaysia	50	50
Inno Marine Services Sdn. Bhd.*#	Marine leasing activities	Malaysia	37.5	37.5
Muhibbah Emirates Contracting L.L.C*#	Dormant	United Arab Emirates	49	49

6. Investments in associates (continued)

Company	Principal activities	Country of incorporation	Effective ownership interest 2012 %	2011 %
Infrastructure construction segment (continued)				
MEB (Thailand) Co Ltd.*	Dormant	Thailand	40	40
International Deepwater Services Ltd#	Dormant	Labuan	-	50
IDS Darul Ehsan Sdn Bhd*	Dormant	Malaysia	50	50
IDS Cahaya Sdn Bhd*#	Investment holding	Malaysia	50	50
IDS Cahaya Ltd#	Offshore leasing business	Labuan	50	50
IDS Darussalam Sdn Bhd*#	Ship management services	Malaysia	50	50
IDS Offshore Sdn Bhd*#	Ship management services	Malaysia	50	50
Cranes segment				
Favco Offshores Sdn Bhd#	Manufacture, supply, servicing and renting of cranes	Malaysia	18.57	16.67
Favelle Favco Machinery and Equipment L.L.C*#	Trading and rental of construction equipment	United Arab Emirates	30.34	27.23
Favco Equipment (Shanghai) Co. Ltd.*#	Supply, renting and servicing of lifting equipment and spare parts	China	30.95	27.79

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

The investment in Muhibbah Emirates Contracting L.L.C. has been equity accounted for based on the unaudited financial statements of the associate for the year ended 31 December 2012.

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

Notes to the Financial Statements (continued)

7. Receivables, deposits and prepayments

		Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Non-current					
Non-trade					
Amount due from a subsidiary	7.2	-	-	10,000	10,000
		-	-	10,000	10,000
Current					
Trade					
Trade receivables	7.3	389,553	147,713	-	-
Progress billings receivable	7.1/7.3	875,075	661,968	728,864	594,842
Amounts due from subsidiaries	7.4	-	-	102,159	181,381
Amounts due from associates	7.5	11,197	13,782	-	-
Amounts due from joint venture		4,950	-	-	-
		1,280,775	823,463	831,023	776,223
Less: Allowance for impairment loss		(453,603)	(27,944)	(470,688)	(40,821)
		827,172	795,519	360,335	735,402
Non-trade					
Amounts due from subsidiaries	7.4	-	-	288,670	135,057
Amounts due from associates	7.5	26,205	34,162	5,354	7,112
Other receivables		70,010	63,040	134,986	21,008
		96,215	97,202	429,010	163,177
Less: Allowance for impairment loss		(15,573)	(8,720)	(15,715)	(8,490)
		80,642	88,482	413,295	154,687
Deposits		3,329	2,688	1,667	854
Prepayments		6,575	4,385	-	-
		90,546	95,555	414,962	155,541
		917,718	891,074	775,297	890,943

7. Receivables, deposits and prepayments (continued)

7.1 Included in progress billings receivables are certified progress claims and related charges pertaining to works performed by the Company for the engineering, construction, installation, commissioning and completion of a bunkering facility for a project known as the Asia Petroleum Hub ("APH") amounting to RM432 million. These certified and claims and related charges have been recognised by the project owner. The APH project is located at Tanjung Bin, Johor and was approved by the Malaysian Government. The project has stalled due to financing difficulties encountered by the project owner.

During the year, the Group and Company have made full impairment on the remaining debt exposure from the APH project amounting to RM245 million.

7.2 The long term advance due from a subsidiary is non trade in nature, interest free, unsecured and is not expected to be repayable within the next twelve months.

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Australian Dollar	61,921	34,545	-	-
Euro	2,929	598	-	-
Qatari Riyal	94,121	114,576	105,272	114,576
Singapore Dollar	38,692	12,251	-	-
Chinese Renminbi	64,513	7,280	-	-
Danish Krone	33,313	6,500	-	-
US Dollar	52,329	58,124	1,888	1,949

Also included in trade receivables and progress billings receivable of the Group and of the Company are retention sums of RM92,260,000 (2011 - RM84,105,000) and RM90,932,000 (2011 - RM81,918,000) respectively.

7.4 The amounts due from subsidiaries of the Company are unsecured with no fixed terms of repayment and are interest free, other than an amount due from a subsidiary of RM49,631,000 (2011 - RM49,631,000) which is subject to interest of 5% (2011 - 5.0%) per annum.

7.5 The amounts due from associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment. Included in amounts due from associates of the Group and of the Company are retention sums of Nil (2011 - Nil).

Notes to the Financial Statements (continued)

8. Goodwill on consolidation

	Group	
Carrying amounts	**2012 RM'000**	**2011 RM'000**
At 1 January	-	14,400
Impairment losses	-	(14,400)
At 31 December	-	-

Impairment testing for goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount for the above was based on its value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets and were based on the following key assumptions:

a) cash flows were projected based on actual operating results;

b) the subsidiary will continue its operations indefinitely;

c) the projected gross margin reflects the average historical gross margin, adjusted for projected market and economic conditions;

d) the subsidiary will generate cash flow from the sale of a piece of land. Should the sale be aborted, the cash flows to be generated from the use of the land will exceed the projected sale value; and

e) the post-tax discount rate used is 7%.

9. Deferred tax (assets) and liabilities

Recognised deferred tax (assets) and liabilities

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

	Assets		Liabilities		Net	
Group	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment	6	8	50,734	47,511	50,740	47,519
Tax loss carry forward	(29)	(31)	-	-	(29)	(31)
Unabsorbed capital allowances	-	-	(1,792)	-	(1,792)	-
Other items	(6,202)	(5,190)	898	1,803	(5,304)	(3,387)
Tax (assets)/ liabilities	(6,225)	(5,213)	49,840	49,314	43,615	44,101
Set off of tax	3,834	2,822	(3,834)	(2,822)	-	-
Net tax (assets)/ liabilities	(2,391)	(2,391)	46,006	46,492	43,615	44,101

	Assets		Liabilities		Net	
Group	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment	-	-	8,516	8,516	8,516	8,516
Net tax (assets)/ liabilities	-	-	8,516	8,516	8,516	8,516

Unrecognised deferred tax assets

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment	(9,072)	(106,988)	(3,577)	(97,824)
Other temporary differences	159,503	135,202	88,023	112,345
Unabsorbed capital allowances	44,034	49,935	35,200	41,489
Tax losses carry-forwards	551,058	302,408	356,481	143,018
	745,523	380,557	476,127	199,028

Notes to the Financial Statements (continued)

9. Deferred tax (assets) and liabilities (continued)

Unrecognised deferred tax assets (continued)

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movement in temporary differences during the year

	Property plant and equipment RM'000	Tax losses carry forward RM'000	Unabsorbed capital allowances RM'000	Other items RM'000	Total RM'000
Group					
As at 1 January 2011	62,004	(5,016)	-	(11,408)	45,580
Recognised in profit or loss (Note 23)	(2,605)	2	-	1,088	(1,515)
Reclassification	(11,880)	4,983	-	6,897	-
Exchange Differences	-	-	-	36	36
As at 31 December 2011/ 1 January 2012	47,519	(31)	-	(3,387)	44,101
Recognised in profit or loss (Note 23)	3,289	2	(1,792)	(1,958)	(459)
Exchange Differences	(68)	-	-	41	(27)
As at 31 December 2012	50,740	(29)	(1,792)	(5,304)	43,615
Company					
As at 1 January 2011	8,516	-	-	-	8,516
Recognised in profit or loss (Note 23)	-	-	-	-	-
As at 31 December 2011/ 31 December 2012	8,516	-	-	-	8,516

10. Other non-current assets

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Other investments	604	602	9	9
Development costs	5,769	6,347	-	-
Intellectual property	1,583	-	-	-
Land held for development	7,516	10,858	-	-
	15,472	17,807	9	9

10. Other non-current assets

	Land held for development Group		Development costs Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cost				
At 1 January	12,208	13,724	21,819	27,711
Additions	1	-	1,679	6,269
Disposal	(419)	-	-	-
Written off	(1,308)	(1,773)	(2,173)	(12,397)
Change in fair value	(2,667)	-	-	-
Reclassification	-	-	(179)	-
Exchange difference	(299)	257	(330)	236
At 31 December	7,516	12,208	20,816	21,819
Accumulated impairment/amortisation				
At 1 January	1,350	1,285	15,472	12,476
Amortisation charge for the year	-	35	2,220	1,471
Written off	(1,308)	-	(2,173)	(6,351)
Impairment loss	-	-	-	7,805
Reversal of impairment loss	-	-	(138)	-
Reclassification	-	-	(41)	-
Exchange difference	(42)	30	(293)	71
At 31 December	-	1,350	15,047	15,472
Carrying amounts				
At 1 January	10,858	12,439	6,347	15,235
At 31 December	7,516	10,858	5,769	6,347

Development costs represent internally generated development expenditure by subsidiaries on new or substantially improved major crane projects. It is reasonably anticipated that the development expenditure will be recovered through future commercial activity. The remaining amortisation period of development expenditure at the end of the financial year ranged from 1 year to 2 years (2011 - 1 year to 3 years).

Title

The long term leasehold land in a foreign subsidiary is registered in the name of its director cum minority shareholder who holds the property in trust for the foreign subsidiary.

10. Other non-current assets (continued)

	Intellectual property Group	
	2012 RM'000	2011 RM'000
Cost		
At 1 January	2,519	2,519
Additions	1,800	-
	4,319	2,519
Accumulated impairment/amortisation		
At 1 January	2,519	2,519
Amortisation charge for the year	217	-
	2,736	2,519
Carrying amounts		
At 1 January	-	-
At 31 December	1,583	-

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

11. Amounts due from/to contract customers

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Aggregate costs incurred to date	7,666,686	5,675,809	3,961,128	2,997,143
Add: Attributable profits less foreseeable losses	160,493	203,994	47,258	63,444
	7,827,179	5,879,803	4,008,386	3,060,587
Less: Progress billings	(7,787,416)	(5,632,863)	(3,850,816)	(2,808,171)
	39,763	246,940	157,570	252,416
Represented by:				
Amount due from contract customers	456,683	536,876	240,252	330,470
Amount due to contract customers	(416,920)	(289,936)	(82,682)	(78,054)
	39,763	246,940	157,570	252,416

11. Amounts due from/to contract customers (continued)

Additions to aggregate costs incurred during the year include:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Depreciation of property, plant and equipment	19,175	25,859	15,048	19,923
Finance costs	22,095	17,769	10,845	8,305
Rental expense	210,409	81,127	210,085	105,697
Share-based payments	3,337	969	3,337	969

The amount due from contract customers include an interim amount of RM219 million (2011 – RM318 million) for a substantially completed project. The Company has consulted and engaged an experienced claim consultant to assist the Company to obtain approval for additional claims from the customer. The claim consultant is of the opinion that there are valid grounds for the claims which, inter alia represents works performed in addition to the original scope of the contract and claims that can be recovered in accordance with the law and the terms of the contact and should be approved by the customer.

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

12. Inventories

	Group	
	2012 RM'000	2011 RM'000
At cost:		
Cranes	469	3,276
Raw materials	13,340	12,353
Crane components	101,613	86,426
Work-in-progress	63,524	64,489
Manufactured and trading inventories	3,943	3,498
	182,889	170,042
At net realisable value:		
Cranes	16,232	22,303
Crane components	9,439	10,585
Raw materials	35	35
	208,595	202,965

13. Derivative assets/(liabilities)

Group	2012 Contract/ Notional amount RM'000	2012 Derivative assets RM'000	2012 Derivative liabilities RM'000	2011 Contract/ Notional amount RM'000	2011 Derivative assets RM'000	2011 Derivative liabilities RM'000
Forward foreign currency contracts	362,356	1,186	(73)	518,873	6,438	-

Company	2012 Contract/ Notional amount RM'000	2012 Derivative assets RM'000	2012 Derivative liabilities RM'000	2011 Contract/ Notional amount RM'000	2011 Derivative assets RM'000	2011 Derivative liabilities RM'000
Forward foreign currency contracts	84,172	-	(73)	186,212	3,449	-

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

14. Cash and cash equivalents

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash and bank balances	233,911	225,008	37,376	64,533
Deposits placed with licensed banks	102,832	98,233	9,068	10,969
	336,743	323,241	46,444	75,502

15. Share capital

	Group and Company			
	Number of shares 2012 '000	Number of shares 2011 '000	Amount 2012 RM'000	Amount 2011 RM'000
Ordinary shares of RM0.50 each				
Authorised:				
At 1 January/31 December	1,000,000	1,000,000	500,000	500,000

15. Share capital (continued)

		Group and Company			
		Number of shares		Amount	
		2012 '000	2011 '000	2012 RM'000	2011 RM'000
Issued and fully paid:					
At 1 January		408,213	398,392	204,107	199,196
Exercise of ESOS	(i)	35	9,821	17	4,911
At 31 December		408,248	408,213	204,124	204,107

(i) During the financial year, a total of 35,000 (2011 - 9,821,000) new ordinary shares of RM0.50 (2011 - RM0.50) each were issued at RM0.88 (2011 - RM0.51) for cash pursuant to the employees' share options scheme ("ESOS") of the Company. The premium arising from the exercise of ESOS of RM13,300 (2011 - RM98,215) has been credited to the share premium account. The details of options granted under the Company's ESOS, which remain outstanding at 31 December 2012, are disclosed in Note 25.

16. Capital and reserves

Treasury shares

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

The number of treasury shares held is 1,783,000 (2011 - 1,783,000). None of the treasury shares held was sold or cancelled during the financial year ended 31 December 2012.

Share premium

The share premium of the Group and of the Company represents premium arising from the issuance of ordinary shares of the Company at an issue price above par value and the transfer of option reserve to share premium when the share options are exercised.

The share premium may be applied only for the purposes as specified in the Companies Act, 1965.

Revaluation reserve

Revaluation reserve of the Group relates to the revaluation of freehold land of the Company and certain subsidiaries, and the revaluation of an investment in a subsidiary by the Company in 1982.

Capital reserve

The capital reserve of the Group represents reserve arising from the redemption of preference shares issued by a subsidiary, and the capitalisation of distributable reserve for issuance of bonus shares by subsidiaries in previous years.

16. Capital and reserves (continued)

Share option reserve

The share option reserve of the Group and of the Company comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

Translation reserve

The translation reserve of the Group and of the Company comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Warrant reserve

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

Section 108 credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained earnings at 31 December 2012 if paid out as dividends.

The Finance Act 2007 introduced a single tier company income tax system with effect from the year of assessment 2008. As such, the Section 108 tax credit will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

17. Loans and borrowings

The note provides information about the contractual terms of the Group's and the Company's interest bearing loans and borrowings. For more information about the Group's and Company's exposure to interest rate risk, see Note 29.

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Non-current				
Secured				
Term loans	58,633	72,773	-	-
Hire purchase payables	29	249	-	-
Unsecured				
Term loans	25,742	31,242	25,742	31,242
Bonds	70,000	130,000	70,000	130,000
	154,404	234,264	95,742	161,242

17. Loans and borrowings (continued)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current				
Secured				
Term loans	14,244	19,272	-	-
Hire purchase payables	212	243	-	-
	14,456	19,515	-	-
Unsecured				
Term loans	5,500	10,244	5,500	10,244
Bank overdrafts	16,458	7,407	12,489	1,523
Bond	60,000	-	60,000	-
Revolving credits	173,187	175,788	153,000	161,000
Insurance premium finance	2,759	2,569	-	-
	272,360	215,523	230,989	172,767
	426,764	449,787	326,731	334,009

Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2012						
Term loans						
- secured	2013 – 2020	72,877	14,244	11,592	30,011	17,030
- unsecured	2018	31,242	5,500	5,500	16,500	3,742
Bank overdrafts						
- unsecured	-	16,458	16,458	-	-	-
Revolving credits						
- unsecured	-	173,187	173,187	-	-	-
Bonds						
- unsecured	2013 – 2015	130,000	60,000	-	70,000	-
Insurance premium finance						
- unsecured	-	2,759	2,759	-	-	-
Hire purchase payables	2013 - 2015	241	212	15	14	-
		426,764	272,360	17,107	116,525	20,772

17. Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2011						
Term loans						
- secured	2013 – 2020	92,045	19,272	14,139	32,123	26,511
- unsecured	2018	41,486	10,244	5,500	16,500	9,242
Bank overdrafts						
- unsecured	-	7,407	7,407	-	-	-
Revolving credits						
- unsecured	-	175,788	175,788	-	-	-
Bonds						
- unsecured	2013 – 2015	130,000	-	60,000	70,000	-
Insurance premium finance						
- unsecured	-	2,569	2,569	-	-	-
Hire purchase payables	2013	492	243	237	12	-
		449,787	215,523	79,876	118,635	35,753

Company	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2012						
Term loans						
- unsecured	2018	31,242	5,500	5,500	16,500	3,742
Bank overdrafts						
- unsecured	-	12,489	12,489	-	-	-
Revolving credits						
- unsecured	-	153,000	153,000	-	-	-
Bonds						
- unsecured	2013 - 2015	130,000	60,000	-	70,000	-
		326,731	230,989	5,500	86,500	3,742

17. Loans and borrowings (continued)

Terms and debt repayment schedule (continued)

Company	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	3 - 5 years RM'000	Over 5 years RM'000
2011						
Term loans						
- unsecured	2018	41,486	10,244	5,500	16,500	9,242
Bank overdrafts						
- unsecured	-	1,523	1,523	-	-	-
Revolving credits						
- unsecured	-	161,000	161,000	-	-	-
Bonds						
- unsecured	2013 - 2015	130,000	-	60,000	70,000	-
		334,009	172,767	65,500	86,500	9,242

Hire purchase payables are payable as follows:

Group	Gross 2012 RM'000	Interest 2012 RM'000	Principal 2012 RM'000	Gross 2011 RM'000	Interest 2011 RM'000	Principal 2011 RM'000
Less than one year	217	(5)	212	271	(28)	243
Between one and five year	31	(2)	29	267	(18)	249
	248	(7)	241	538	(46)	492

Term loans

The secured term loans of the subsidiaries are charged against long term leasehold land, freehold land, buildings and certain plant and equipment of subsidiaries; and a piece of long term leasehold land of the Company (Note 3).

Notes to the Financial Statements (continued)

18. Payables and accruals

		Group		Company	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Non-current					
Non-trade					
Advances from minority shareholders	(i)	14,017	14,970	-	-
Current					
Trade					
Trade payables	(ii)	506,085	668,873	183,469	333,705
Amounts due to subsidiaries	(iii)	-	-	39,917	121,248
Amounts due to associates	(iv)	102	1,581	13	1,480
		506,187	670,454	223,399	456,433
Non-trade					
Amounts due to subsidiaries	(iii)	-	-	7,473	5,917
Amounts due to associates	(iv)	1,136	719	-	-
Provision for warranty costs	(v)	40,173	9,577	776	776
Other payables		26,995	18,160	2,307	2,320
Accrued expenses		33,255	40,648	6,353	5,911
		101,559	69,104	16,909	14,924
Total		607,746	739,558	240,308	471,357

(i) The advances from minority shareholders of a subsidiary of RM14,017,000 (2011 - RM14,970,000) are interest free, unsecured and are not expected to be repayable within the next twelve months.

(ii) Included in trade payables of the Group and of the Company are advances received from contract customers amounting to RM2,802,207 (2011 - RM32,640,102).

18. Payables and accruals (continued)

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Australian Dollar	67,450	57,123	22	-
Danish Krone	20,789	9,746	-	2
Euro	10,542	11,045	-	5
Qatari Riyal	71,400	154,639	71,400	154,639
Singapore Dollar	18,607	27,471	3,468	502
US Dollar	40,985	66,542	6,954	30,548
Sterling Pound	416	-	46	-
Norwegian Krone	121	141	-	-
Japanese Yen	89	99	-	-
Philippine Peso	127	-	-	-
UAE Dirham	-	9	-	9
Chinese Renminbi	26,985	22,809	-	-

(iii) The amounts due to subsidiaries of the Company are interest free, unsecured and have no fixed terms of repayment.

(iv) The amounts due to associates of the Group and of the Company are interest free, unsecured and have no fixed terms of repayment.

(v) Provision for warranty costs is made based on historical warranty data and a weighting of all possible outcomes against the associated probability of further costs being incurred on the completed projects where defect liability periods have commenced.

19. Bills payable

Bills payable of the Company are supported by a negative pledge executed by the Company and the bills payable of the subsidiaries are guaranteed by the Company. All bills payable of the Group and of the Company are unsecured and payable within a year and not subject to repricing before maturity.

20. Revenue

	Group		Company	
Revenue	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Contract revenue	2,502,057	1,876,839	1,063,068	1,087,683
Sale of goods	78,232	107,688	-	-
Services rendered	45,236	41,839	4,522	5,476
Dividend income	-	-	197,587	84,904
	2,625,525	2,026,366	1,265,177	1,178,063

Notes to the Financial Statements (continued)

21. Operating (loss)/profit

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating (loss)/profit is arrived at after charging:				
Amortisation of development costs	2,220	1,471	-	-
Amortisation of intellectual property	217	-	-	-
Amortisation of land held for development	-	35	-	-
Audit fee – statutory:				
- Holding company's auditors				
- Statutory audit	418	330	140	128
- Others	20	20	10	10
- Other auditors	554	655	31	32
Bad debts written off	5,203	325	-	-
Cost of construction	2,354,013	1,823,366	1,076,858	1,113,626
Depreciation of investment properties	19	16	51	186
Depreciation of property, plant and equipment				
- operating expenses	26,307	13,872	1,037	953
- contract costs	19,175	25,859	15,048	19,923
	45,482	39,731	16,085	20,876
Development costs written off	-	7,819	-	-
Finance costs				
- borrowings	22,285	25,700	13,022	14,665
- interest expenses arising on financial assets/(liabilities) measured under MFRS139	(1,159)	2,633	8,372	21,497
	21,126	28,333	21,394	36,162
- contract costs	22,095	17,769	10,845	8,305
	43,221	46,102	32,239	44,467
Impairment loss on development costs	-	7,805	-	-
Impairment loss on goodwill	-	14,400	-	-
Net fair value adjustment on derivative instruments	5,325	31,365	3,522	27,952
Net impairment loss on investment in subsidiaries	-	-	971	1,931
Net impairment loss on receivables	238,459	6,668	242,894	1,494
Personnel expenses (including key management personnel)				
- contribution to Employee Provident Fund	10,603	9,195	1,171	1,064
- wages, salaries and others	110,777	101,959	10,159	9,404
Property, plant and equipment written off	93	579	-	-
Rental expenses on:				
- premises	3,331	3,115	4,710	3,395
- equipment	215,961	81,910	206,724	103,434
Share-based payments	9,156	2,670	7,227	2,115
Write-down of inventories	1,533	4,982	-	-

21. Operating (loss)/profit (continued)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
and after crediting:				
Bad debts recovered	-	256	-	-
Gain on disposal of property, plant and equipment	2,128	1,024	64,477	405
Gross dividend	20,958	23,741	197,587	84,904
Interest income	5,846	4,438	3,615	3,245
Interest income arising on financial assets/ (liabilities) measured under MFRS139	5,900	6,747	1,737	6,057
Net gain/(loss) on foreign exchange				
- operating expenses	1,888	14,533	(361)	3,491
- contract costs	11,809	35,280	11,809	35,280
	13,697	49,813	11,448	38,771
Rental income on:				
- premises	523	653	2,120	771
- equipment	18,993	15,673	87	161
Reversal of impairment loss on development cost	138	-	-	-
Reversal of impairment loss on investment in subsidiaries	-	-	-	6,250
Reversal of impairment loss on other investment	2	22	-	-
Premium on redemption of preference shares of subsidiary	-	429	-	875

22. Key management personnel compensation

The key management personnel compensations are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors of the Company				
- Fees	866	869	480	480
- Remuneration	3,432	2,977	3,242	2,788
	4,298	3,846	3,722	3,268

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

Notes to the Financial Statements (continued)

23. Income tax expense

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current tax expense				
Malaysia - current	11,746	30,770	1,363	2,284
- (over)/underprovision in prior year	(1,512)	(1,882)	(423)	(92)
	10,234	28,888	940	2,192
Foreign - current	4,238	3,099	-	-
- (over)/underprovision in prior year	(114)	(1,288)	-	-
	4,124	1,811	-	-
Deferred tax expense (Note 9)				
Origination/(reversal) of temporary differences	1,132	397	-	-
(Over)/underprovision in prior years	(1,591)	(1,912)	-	-
	(459)	(1,515)	-	-
Others				
Withholding tax	235	-	-	-
Capital gains tax	11,972	-	11,972	-
	12,207	-	11,972	-
Total income tax expense	26,106	29,184	12,912	2,192
Reconciliation of tax expense				
(Loss)/profit before tax	(34,977)	111,716	(26,496)	23,252
Income tax using Malaysian tax rate at 25% (2011 - 25%)	(8,744)	27,929	(6,624)	5,813
Effect of different tax rates in foreign jurisdictions	(11,889)	6,116	-	-
Effect of deferred tax benefits not recognised	63,700	(1,730)	49,089	(4,695)
Non-deductible expenses	21,504	27,495	12,500	13,598
Non-taxable income	(42,433)	(10,200)	(74,024)	(3,091)
Tax incentives	(5,781)	(5,220)	-	-
Tax exempt income	(19,661)	(31,001)	-	(19,893)
Non-deductible losses from foreign projects	20,422	19,422	20,422	10,552
Capital gains tax	11,972	-	11,972	-
Withholding tax	235	-	-	-
Others	(2)	1,455	-	-
	29,323	34,266	13,335	2,284
(Over)/Underprovision in prior years				
- current tax expense	(1,626)	(3,170)	(423)	(92)
- deferred tax expense	(1,591)	(1,912)	-	-
Total income tax expense	26,106	29,184	12,912	2,192

23. Income tax expense (continued)

The corporate tax rates are 25% for the year of assessment 2011, 25% for year of assessment 2012 and subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

A subsidiary which is principally engaged in the designing, manufacturing, supply, servicing, trading and renting of cranes was granted tax exemption of 100% on cranes sales under Section 127, Income Tax Act, 1967 for a period of 10 years with effect from 1 June 2002.

24. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2012 RM'000	2011 RM'000
(Loss)/profit attributable to owners of the Company	(93,241)	63,772

	Group	
	2012	2011
In thousands of shares		
Number of ordinary shares in issue at 1 January	406,430	396,609
Effect of shares issued under ESOS	8	5,705
Total weighted average number of ordinary shares in issue	406,438	402,314

	Group	
	2012	2011
Basic earnings per share (sen)	(22.94)	15.85

Notes to the Financial Statements (continued)

24. Earnings per share (continued)

Diluted earnings per share

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

The calculation of diluted earnings per share for the year ended 31 December 2012 was based on profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding on the assumption that all the dilutive potential ordinary shares are fully converted, as follows:

	Group	
	2012 RM'000	2011 RM'000
Profit attributable to owners of the Company	(93,241)	63,772

	Group	
	2012	2011
In thousands of shares		
Weighted average number of ordinary shares	406,438	402,314
Effect of dilution arising from conversion of all:		
-employee share options	6,422	3,425
-warrants	-	8,029
Adjusted weighted average number of ordinary shares at 31 December	412,860	413,768

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period that the share options were outstanding.

	Group	
	2012	2011
Diluted earnings per share (sen)	(22.58)	15.41

25. Employee benefits

Share-based payments

On 28 June 2011, the Company established an employees' share option scheme ("ESOS Scheme") to the eligible employees including Directors of the Company and its subsidiaries.

The main features of the New ESOS Scheme are as follows:

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

(ii) Save for Directors, the eligible employees are those confirmed full time employees of the Group and who have served for a continuous period of at least 1 year;

(iii) A grantee shall be allowed to exercise the options granted to him/her subject to the following percentage limits based on his/her respective entitlement granted at the discretion of the ESOS Committee:

		Year option is granted				
		Year 1	Year 2	Year 3	Year 4	Year 5
Cumulative % of	Year 1	-	-	-	-	-
options exercisable	Year 2	33.33%	-	-	-	-
during the	Year 3	66.67%	33.33%	-	-	-
option period	Year 4	100%	66.67%	66.67%	-	-
in:	Year 5	100%	100%	100%	100%	100%

(iv) The exercise price shall be based on the weighted average market price of the shares of the Company for the 5 market days immediately preceding the offer date subject to a discount of not more than 10% or at the par value of the shares of the Company, whichever is higher;

The following options were granted under the ESOS schemes:

Grant date	Number of Option '000	At 1.1.2012 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2012 '000	Expiry date
29.9.2011	38,170	37,856	-	(35)	(851)	36,970	2.8.2016

Subsidiary

Grant date	Exercise price RM	At 1.1.2012 '000	Granted '000	Exercised '000	Forfeited '000	At 31.12.2012 '000	Expiry date
28.9.2011	0.80	10,015	-	(1,155)	(363)	8,497	27.9.2016
28.9.2012	0.80	-	434	-	-	434	27.9.2016
		10,015	434	(1,155)	(363)	8,931	

Notes to the Financial Statements (continued)

25. Employee benefits (continued)

Details relating to options exercised during the year

	Company	
	2012 RM'000	2011 RM'000
Ordinary share capital at par	17	4,911
Share premium	13	98
Proceeds received from exercise of share options	30	5,009

	Company		Subsidiary	
	2012 RM	2011 RM	2012 RM	2011 RM
Average share price for the year	1.07	1.36	1.53	1.18

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Expense recognised as share-based payments	9,156	2,670	7,227	2,115

25. Employee benefits (continued)

Fair value of share options and assumptions

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black Scholes model, with the following inputs:

	Company		Subsidiary	
	2012	2011	2012	2011
Fair value at grant date (RM)				
- Granted in 2011	0.40-0.50	0.40-0.50	0.34-0.42	0.34-0.42
- Granted in 2012	-	-	0.49-0.67	-
Weighted average share price (RM)				
- Granted in 2011	0.96	0.96	0.88	0.88
- Granted in 2012	-	-	1.74	-
Exercise price (RM)				
- Granted in 2011	0.88	0.88	0.80	0.80
- Granted in 2012	-	-	1.57	-
Expected volatility (%)	51.64	38.40-51.64	38.01-45.20	31.99-59.24
Expected option life (years)	4	5	4	5
Risk free interest rate (%) (based on Malaysia government bonds)				
- Granted in 2011	3.24-3.41	3.24-3.41	3.23-3.41	3.23-3.41
- Granted in 2012	-	-	3.06-3.24	-
Expected staff turnover (%)	12.00	5.00-12.00	10.00	5.00-15.00

The expected volatility reflects the assumption that the historical volatility is indicative of future trends and not necessarily be the actual outcome. The expected option life is based on historical data, which may also not necessarily be indicative of exercise patterns that may occur.

Notes to the Financial Statements (continued)

26. Dividend

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

Ordinary dividend	Per share Sen	Total amount RM'000	Date of payment
2012			
Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2011	5.00	15,241	10 August 2012
2011			
Final per ordinary share of RM0.50 each less 25% tax - for the year ended 31 December 2010	3.50	10,666	3 August 2011

Proposed final dividend for the year ended 31 December 2012

The Directors have recommended a first and final dividend of 5% (2.50 sen) less 25% tax per ordinary share of RM0.50 each totaling RM7,621,223 in respect of the financial year ended 31 December 2012, which will be paid after the financial year end subject to the approval of the shareholders at the forthcoming Annual General Meeting, based on the issued and paid-up share capital (excluding treasury shares) of 406,465,250 ordinary shares of RM0.50 each as at 31 December 2012. The proposed final dividend has not been accounted for in the financial statements of the Group and of the Company as at 31 December 2012.

Dividend per ordinary share

The calculation of dividend per ordinary share is based on the proposed gross final dividend for the financial year ended 31 December 2012 of RM10,161,631 (2011 - RM20,321,513) on the issued and paid-up share capital (excluding treasury shares) of 406,465,250 ordinary shares of RM0.50 each (2011 - 406,430,250 ordinary shares of RM0.50 each) as at 31 December 2012.

27. Operating segments

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purposes, the Group is organised into business units based on their products and services provided.

The Group comprises the following main business segments:

Infrastructure construction	Construction of petroleum hub and bunkering facilities, oil and gas terminals, liquefied natural gas jetty works, marine ports, bridges and dams, airport terminals runway and facility support buildings, heavy concrete foundations and other similar construction works
Cranes	Design, manufacture, supply, trading, leasing and service provider of offshore oil and gas pedestal cranes, tower cranes, shipyard cranes and other heavy lifting equipment cranes
Marine ship building and ship repair	Design, engineering, building and service provider of anchor handling tug boats, supply vessels, accommodation ships and marine vessels for the offshore oil and gas exploration and production works
Concession	Privatisation of international airports in Cambodia and road maintenance works in the central region of Peninsular Malaysia

Segment assets and segment liabilities

The Group Executive Committee reviews the segments' operating performance on segment net assets basis. Hence the segment assets and segment liabilities is presented on the same basis.

27. Segmental information (continued)

Business segments

	Infrastructure construction		Cranes		Marine ship building and ship repair		Concession		Eliminations		Consolidated	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Segment profit	48,162[(i)]	49,231	66,158	52,485	60,026	82,248	36,978	22,904	(246,301)	(95,152)	(34,977)	111,716
Included in the measure of segment profit are:												
Revenue from external customers	1,669,228[(i)]	1,182,911	695,678	479,987	260,619	363,468	-	-	-	-	2,625,525	2,026,366
Inter-segment revenue	737,870	721,144	1,069	2,366	20,313	153,707	736	667	(759,988)	(877,884)	-	-
Interest income	12,204	40,293	7,854	2,092	2,798	1,442	-	-	(11,110)	(32,642)	11,746	11,185
Finance costs	(30,095)	(53,780)	(3,440)	(6,199)	(1,351)	(6,437)	(447)	(479)	14,207	38,562	(21,126)	(28,333)
Share of results of associates	7,878	6,000	(526)	(379)	-	-	36,870	22,746	-	-	44,222	28,367
Impairment loss on goodwill	-	(14,400)	-	-	-	-	-	-	-	-	-	(14,400)
Net segment assets	344,723	390,086	346,788	241,001	89,881	161,391	121,098	102,902	(282,082)	(255,404)	620,408	639,976

(i) Included in segment revenue and segment profit of the infrastructure construction are revenue of RM 62 million and profit of RM67 million on disposal of vessels respectively.

27. Segmental information (continued)

Geographical segments

The infrastructure construction segment is operating mainly in Malaysia, Qatar, Singapore and Cambodia. The cranes segment is managed on a worldwide basis with its head office in Malaysia. The cranes segment has manufacturing plants in Malaysia, Australia, United States of America and Denmark. The marine ship building and ship repair segment operates in Malaysia. The airport concession segment is managed in Cambodia and the road maintenance concession works are carried out in the central region of Peninsular Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of the respective principal operations.

	Inside Malaysia		Outside Malaysia		Eliminations		Consolidated	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Geographical information								
Revenue	2,335,486	1,986,155	1,050,027	918,095	(759,988)	(877,884)	2,625,525	2,026,366
Total assets	2,765,650	2,803,400	1,063,696	1,038,925	(995,416)	(953,402)	2,833,930	2,888,923

28. Capital commitments

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

29. Financial instruments

29.1 Categories of financial instruments

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

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

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

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
Group			
2012			
Financial assets			
Receivables, deposits and prepayments	917,718	917,718	-
Derivative assets	1,186	-	1,186
Cash and cash equivalents	336,743	336,743	-
	1,255,647	1,254,461	1,186

Notes to the Financial Statements (continued)

29. Financial instruments (continued)

29.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
Group			
2012			
Financial liabilities			
Loan and borrowings	(426,764)	(426,764)	-
Payables and accruals	(621,763)	(621,763)	-
Bills payable	(686,843)	(686,843)	-
Derivative liabilities	(73)	-	(73)
	(1,735,443)	(1,735,370)	(73)
2011			
Financial assets			
Receivables, deposits and prepayments	891,074	891,074	-
Derivative assets	6,438	-	6,438
Cash and cash equivalents	323,241	323,241	-
	1,220,753	1,214,315	6,438
Financial liabilities			
Loan and borrowings	(449,787)	(449,787)	-
Payables and accruals	(754,528)	(754,528)	-
Bills payable	(698,705)	(698,705)	-
	(1,903,020)	(1,903,020)	-
Company			
2012			
Financial assets			
Receivables, deposits and prepayments	785,297	785,297	-
Cash and cash equivalents	46,444	46,444	-
	831,741	831,741	-
Financial liabilities			
Loan and borrowings	(326,731)	(326,731)	-
Payables and accruals	(240,308)	(240,308)	-
Bills payable	(553,962)	(553,962)	-
Derivative liabilities	(73)	-	(73)
	(1,121,074)	(1,121,001)	(73)
2011			
Financial assets			
Receivables, deposits and prepayments	900,943	900,943	-
Derivative assets	3,449	-	3,449
Cash and cash equivalents	75,502	75,502	-
	979,894	976,445	3,449

29. Financial instruments (continued)

29.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL - HFT RM'000
Company			
2011			
Financial liabilities			
Loan and borrowings	(334,009)	(334,009)	-
Payables and accruals	(471,357)	(471,357)	-
Bills payable	(577,693)	(577,693)	-
	(1,383,059)	(1,383,059)	-

29.2 Financial risk management objectives and policies

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

29.3 Credit risk

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

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

At the end of the reporting period, there were no significant concentrations of credit risk other than the amount due from a progress billings receivable of Nil (2011: RM395 million) as mentioned in Note 7 to the financial statements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Asia	610,646	627,292	266,215	629,885
Europe	48,846	15,666	-	-
America	25,830	31,110	-	-
Middle East	101,730	118,900	94,120	105,468
Africa	-	2,551	-	49
Australia	40,120	-	-	-
	827,172	795,519	360,335	735,402

Notes to the Financial Statements (continued)

29. Financial instruments (continued)

29.3 Credit risk (continued)

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

Group	Gross RM'000	Impairment RM'000	Net RM'000
2012			
Not past due	537,732	-	537,732
Past due 0 – 90 days	144,970	-	144,970
Past due 91 – 180 days	51,791	-	51,791
Past due more than 180 days	546,282	(453,603)	92,679
	1,280,775	(453,603)	827,172

	Gross RM'000	Impairment RM'000	Net RM'000
2011			
Not past due	312,343	-	312,343
Past due 0 – 90 days	82,072	-	82,072
Past due 91 – 180 days	22,789	-	22,789
Past due more than 180 days	406,259	(27,944)	378,315
	823,463	(27,944)	795,519

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

	Group	
	2012 RM'000	2011 RM'000
At 1 January	27,944	20,756
Impairment loss recognised	246,192	19,971
Reversal of impairment loss	(14,592)	(12,813)
Reclassification	194,198	-
Exchange difference	(139)	30
At 31 December	453,603	27,944

29. Financial instruments (continued)

29.3 Credit risk (continued)

Company	Gross RM'000	Impairment RM'000	Net RM'000
2012			
Not past due	238,574	-	238,574
Past due 0 – 90 days	34,949	-	34,949
Past due 91 – 180 days	47,499	-	47,499
Past due more than 180 days	510,001	(470,688)	39,313
	831,023	(470,688)	360,335

	Gross RM'000	Impairment RM'000	Net RM'000
2011			
Not past due	292,848	-	292,848
Past due 0 – 90 days	46,137	-	46,137
Past due 91 – 180 days	12,492	-	12,492
Past due more than 180 days	424,746	(40,821)	383,925
	776,223	(40,821)	735,402

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

	Company	
	2012 RM'000	2011 RM'000
At 1 January	40,821	39,005
Impairment loss recognised	243,856	12,882
Reversal of impairment loss	(8,187)	(11,066)
Reclassification	194,198	-
At 31 December	470,688	40,821

The Group's trade receivables as at 31 December 2012 with total carrying amount of RM827,172,000 (2011 – RM795,519,000) have been provided for impairment (net of provision for impairment). For those trade receivables that are not provided for impairment, the Group is satisfied that recovery of the amounts is possible.

Notes to the Financial Statements (continued)

29. Financial instruments (continued)

29.4 Liquidity risk

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

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

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

Group 2012	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
Secured borrowings						
- Term loans	4.7 – 6.2	72,877	75,337	15,030	43,106	17,201
- Hire purchase payables	4.3 – 7.2	241	244	215	29	-
Unsecured borrowings						
- Term loans	4.3 – 4.4	31,242	35,202	6,763	24,635	3,804
- Bank overdrafts	6.5 – 8.5	16,458	16,525	16,525	-	-
- Revolving credits	2.7 – 5.9	173,187	173,212	173,212	-	-
- Bonds	4.2 – 4.7	130,000	138,517	64,130	74,387	-
- Insurance premium finance	2.95	2,759	2,775	2,775	-	-
Unsecured bills payable	3.0 – 5.5	686,843	686,843	686,843	-	-
Unsecured payables and accruals	-	581,590	581,590	567,573	-	14,017
		1,695,197	1,710,245	1,533,066	142,157	35,022

2011	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
Secured borrowings						
- Term loans	4.4 – 5.8	92,045	95,459	20,252	48,321	26,886
- Hire purchase payables	4.3 – 7.2	492	530	266	264	-
Unsecured borrowings						
- Term loans	3.1 – 3.4	41,486	47,003	11,801	19,564	15,638
- Bank overdrafts	6.3 – 8.5	7,407	7,417	7,417	-	-
- Revolving credits	2.5 – 5.9	175,788	175,810	175,810	-	-
- Bonds	4.2 – 4.7	130,000	151,105	5,810	145,295	-
- Insurance premium finance	2.95	2,569	2,628	2,628	-	-
Unsecured bills payable	3.0 – 5.5	698,705	698,705	698,705	-	-
Unsecured payables and accruals	-	744,951	744,951	729,981	-	14,970
		1,893,443	1,923,608	1,652,670	213,444	57,494

29. Financial instruments (continued)

29.4 Liquidity risk (continued)

Company 2012	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
Unsecured borrowings						
- Term loans	4.3 - 4.4	31,242	35,202	6,763	24,635	3,804
- Bank overdrafts	6.6	12,489	12,556	12,556	-	-
- Revolving credits	4.2 – 5.9	153,000	153,000	153,000	-	-
- Bonds	4.2 – 4.7	130,000	138,517	64,130	74,387	-
Unsecured bills payable	3.4 – 4.4	553,962	553,962	553,962	-	-
Unsecured payables and accruals	-	183,469	183,469	183,469	-	-
		1,064,162	1,076,706	973,880	99,022	3,804

2011	Effective interest rate %	Carrying amount RM'000	Contractual cash flows RM'000	Less than 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000
Unsecured borrowings						
- Term loans	2.4 - 4.4	41,486	47,003	11,801	19,564	15,638
- Bank overdrafts	6.6	1,523	1,533	1,533	-	-
- Revolving credits	3.5 – 5.8	161,000	161,000	161,000	-	-
- Bonds	4.2 – 4.7	130,000	151,105	5,810	145,295	-
Unsecured bills payable	3.1 – 4.4	577,693	577,693	577,693	-	-
Unsecured payables and accruals	-	333,705	333,705	333,705	-	-
		1,245,407	1,272,039	1,091,542	164,859	15,638

29.5 Interest rate risk

The Group's interest rate risk arises from its interest bearing financial instruments that could impact fair value and future cash-flows due to fluctuation in market interest rates. The Group and the Company borrow to fund the acquisition of property, plant and equipment and for working capital purposes from banks and financial institutions, and have fixed deposits placed with licensed banks. Interest rate exposure is managed through the use of fixed and floating rate debts.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the end of the reporting period and the periods in which they mature, or if earlier, reprice.

Notes to the Financial Statements (continued)

29. Financial instruments (continued)

29.5 Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

Group	2012 Effective interest rate %	2012 Total RM'000	2012 Less than 1 year RM'000	2011 Effective interest rate %	2011 Total RM'000	2011 Less than 1 year RM'000
Financial assets						
Deposits placed with licensed banks	0.6 - 5.9	102,832	102,832	0.6 – 5.9	98,233	98,233
Financial liabilities						
Secured borrowings						
- Term loans	4.7 – 6.2	72,877	72,877	4.4 - 5.8	92,045	92,045
- Hire purchase payables	4.3 – 7.2	241	241	4.3 – 7.2	492	492
Unsecured borrowings						
- Term loans	4.3 – 4.4	31,242	31,242	3.1 – 3.4	41,486	41,486
- Bank overdrafts	6.5 – 8.5	16,458	16,458	6.3 – 8.5	7,407	7,407
- Revolving credits	2.7 – 5.9	173,187	173,187	2.5 – 5.9	175,788	175,788
- Bonds	4.2 – 4.7	130,000	130,000	4.2 – 4.7	130,000	130,000
- Insurance premium finance	2.95	2,759	2,759	2.95	2,569	2,569
Unsecured bills payable	3.0 – 5.5	686,843	686,843	3.0 – 5.5	698,705	698,705
		1,113,607	1,113,607		1,148,492	1,148,492

Company	2012 Effective interest rate %	2012 Total RM'000	2012 Less than 1 year RM'000	2011 Effective interest rate %	2011 Total RM'000	2011 Less than 1 year RM'000
Financial assets						
Deposits placed with licensed banks	2.5 – 2.8	9,068	9,068	2.8 - 3.1	10,969	10,969
Financial liabilities						
Unsecured borrowings						
- Term loans	4.3 – 4.4	31,242	31,242	2.4 – 4.4	41,486	41,486
- Bank overdrafts	6.6	12,489	12,489	6.6	1,523	1,523
- Revolving credits	4.2 – 5.9	153,000	153,000	3.5 – 5.8	161,000	161,000
- Bonds	4.2 – 4.7	130,000	130,000	4.2 – 4.7	130,000	130,000
Unsecured bills payable	3.4 – 4.4	553,962	553,962	3.1 – 4.4	577,693	577,693
		880,693	880,693		911,702	911,702

29. Financial instruments (continued)

29.5 Interest rate risk (continued)

Interest rate risk sensitivity analysis

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

Cash flow sensitivity analysis for variable rate instruments
If interest rates as at the end of the reporting period increase by 100 basis points (bp) with all other variables being held constant, the Group and Company's profit after taxation would have decreased by RM5,428,000 (2011- RM5,253,000) and RM4,239,000 (2011- RM3,807,000) . A 100 bp decrease would have had an equal but opposite effect on the profit after taxation.

29.6 Foreign currency risk

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

The Group and the Company hold derivative financial instruments to hedge their foreign currency risk exposures. The exposure to foreign currency risk of the Group and of the Company is monitored by the management from time to time.

The foreign exchange contracts are used as hedges to manage the operational exposures to foreign currency risks. The exposure to foreign currency risk of the Group and of the Company is also mitigated by natural hedging via borrowings and payment of operational costs and expenses in the same currency of the major receivables.

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

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

29. Financial instruments (continued)

29.6 Foreign currency risk (continued)

Group 2011	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
Financial assets	154,291	7,648	71,940	16,172	29,201
Financial liabilities	(120,857)	(18,027)	(68,044)	(22,809)	(27,860)
Net financial assets/(liabilities)	33,434	(10,379)	3,896	(6,637)	1,341
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	(33,180)	(3,011)	8,837	(8,892)	9,211
Less: Forward foreign currency contracts (contracted notional principal)	(263,227)	(46,847)	-	-	(162,500)
Net currency exposure	(262,973)	(60,237)	12,733	(15,529)	(151,948)

Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:

Effects on profit after taxation

Group	USD RM'000	Euro RM'000	AUD RM'000	RMB RM'000	SGD RM'000
2012					
- strengthened by 5%	(7,547)	(1,284)	(728)	1,142	(3,526)
- weakened by 5%	7,547	1,284	728	(1,142)	3,526
2011					
- strengthened by 5%	(9,861)	(2,259)	477	(582)	(5,698)
- weakened by 5%	9,861	2,259	(477)	582	5,698

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

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

29. Financial instruments (continued)

29.6 Foreign currency risk (continued)

Company 2011	USD RM'000	Euro RM'000	AUD RM'000	SGD RM'000	QAR RM'000
Financial assets	38,495	2	695	1,543	149,739
Financial liabilities	(57,435)	(193)	(2,394)	(5,009)	(154,639)
Net financial assets/(liabilities)	(18,940)	(191)	(1,699)	(3,466)	(4,900)
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	-	-	-	-	(4,900)
Less: Forward foreign currency contracts (contracted notional principal)	(94,558)	(41,290)	-	-	-
Net currency exposure	(113,498)	(41,481)	(1,699)	(3,466)	-

Sensitivity analysis to a reasonably possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:

Effects on profit after taxation

Company	USD RM'000	Euro RM'000	AUD RM'000	SGD RM'000	QAR RM'000
2012					
- strengthened by 5%	(2,309)	(155)	(19)	(413)	-
- weakened by 5%	2,309	155	19	413	-
2011					
- strengthened by 5%	(4,256)	(1,556)	(64)	(130)	-
- weakened by 5%	4,256	1,556	64	130	-

29.7 Fair values

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

Company	2012 Carrying amount RM'000	2012 Fair value RM'000	2011 Carrying amount RM'000	2011 Fair value RM'000
Financial assets				
Quoted shares - long-term	98,663	216,548	50,572	121,466

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

29. Financial instruments (continued)

29.7 Fair values (continued)

Fair value hierarchy

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

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

Group 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Forward exchange contracts	1,186	-	-	1,186
Financial liabilities				
Forward exchange contracts	(73)	-	-	(73)

2011	RM'000	RM'000	RM'000	RM'000
Financial assets				
Forward exchange contracts	6,438	-	-	6,438
Financial liabilities				
Forward exchange contracts	-	-	-	-

Company 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Forward exchange contracts	-	-	-	-
Financial liabilities				
Forward exchange contracts	-	(73)	-	(73)

2011	RM'000	RM'000	RM'000	RM'000
Financial assets				
Forward exchange contracts	3,449	-	-	3,449
Financial liabilities				
Forward exchange contracts	-	-	-	-

30. Contingent liabilities - unsecured

	Company	
Corporate guarantees	2012 RM'000	2011 RM'000
Corporate guarantees to licensed banks for credit facilities granted to subsidiaries	151,842	169,047

In the ordinary course of business, the Group and the Company also issue bank and performance guarantees to customers who awarded contracts to the Group.

Continuing financial support

The Company has undertaken to provide continuing financial support to certain subsidiaries to enable them to meet their financial obligations as and when they fall due (Note 5).

Contingent liabilities –litigation (Group)

a) Litigation against the Company, its subsidiary Favelle Favco Berhad ("FFB") and FFB's subsidiary Favelle Favco Cranes (USA) Inc. ("FFCUSA") in the Supreme Court of the State of New York

A composition of personal injury actions, wrongful death actions, property damages actions, subrogation actions and lien actions ("the Suit") related to the collapse of a Favelle Favco crane on 15th March 2008 in the City of New York has been filed against the Company, FFB and FFCUSA.

The Suit relates to an incident involving the collapse of a Favelle Favco crane said to be caused by rigging activity carried out by a third party. The U.S. Occupational Safety & Health Administration ("OSHA") found that slings (independent of the crane per se) used during the rigging activity tore open causing the said incident. The Company's, FFB's and FFCUSA's inclusion in the Suit is purported simply to be by reason that the crane was a Favelle Favco crane.

The Suit remains ongoing and the Company's, FFB's and FFCUSA's management are of the opinion that it is premature to assess the outcome of the actions at this point in time.

b) Litigation against a subsidiary, Favelle Favco Cranes (USA) Inc. in the Supreme Court of the State of New York, County of New York

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

The case is currently in its discovery phase and it is too early to determine whether or not Mr. Paranella's claims have any merit.

30. Contingent liabilities – unsecured (continued)

Contingent liabilities –litigation (Group) (continued)

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

QSA filed a Statement of Claim on 8 December 2010 in Singapore against the Company for alleged breach of a bareboat charter party contract entered into between the two parties for the charter of a barge by the Company from QSA (disponent owner of the said barge). The Company lodged a Statement of Defence on 4 March 2011. The claim in total is equivalent to approximately RM7.50 million. No hearing dates for the arbitration have been fixed. The Company's solicitors are of the view that the Company has a good defence to the claim. Further to the arbitration proceedings in Singapore, the Company had been named as a third party by the owners of the said barge in the High Court of Malaya at Shah Alam for a similar claim in which such claim against the Company has been dismissed with costs.

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

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

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

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

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

The suit remains ongoing and the lawyers are of the opinion that the Company has a reasonably fair chance in pursuing its claim against ZAQ.

f) United Engineers Malaysia Bhd ("UEM") v. MEB

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

The arbitration proceedings on the challenge to jurisdiction remain ongoing and the lawyers are of the opinion that it is premature to assess the outcome of the claim.

31. Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiaries (see Note 5) and its associates (see Note 6).

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

	Company	
	2012 RM'000	2011 RM'000
Significant transactions with subsidiaries:		
Gross dividend income receivable	(188,054)	(71,171)
Interest income receivable	(2,747)	(2,530)
Progress billings receivable	(1,973)	-
Purchase of materials and services	383,962	515,516
Rental expense	38,159	35,243
Purchase of property, plant and equipment	8,094	80,030
Rental income receivable	(2,071)	(721)
Sale of property, plant and equipment	(52,101)	(234)

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Significant transactions with associates:				
Gross dividend income receivable	(20,958)	(25,074)	(9,533)	(13,733)
Progress billing receivable	-	(7)	-	-
Technical assistance fee receivable	(4,522)	(5,475)	(4,522)	(5,475)
Purchase of materials, and services	25	66	3,035	6,487
Sale of goods	(9,297)	(14,743)	-	-

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

There are no significant allowance for impairment loss on receivables as at 31 December 2012 in respect of the above significant related party balances.

31. Related parties (continued)

The outstanding net amounts due from/(to) subsidiaries and associates and joint ventures as at 31 December 2012 are disclosed in Note 7 and Note 18 respectively.

The allowance for impairment loss on receivables in respect of the above significant related party transactions with subsidiaries and associates for the financial year ended 31 December 2012 amounted to RM27,997,000 (2011 - RM28,318,000) and RM3,383,000 (2011 - RM3,338,000) respectively.

32. Explanation of transition to MFRS

As stated in Note 1 (a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Group and of the Company for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

The transition to MFRSs does not have financial impact to the separate financial statements of the Company.

In preparing the opening consolidated statement of financial position at 1 January 2011, the Group and the Company have adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the Group's and the Company's financial position is set out as follows:

a) Foreign currency translation reserve

Under FRSs, the Group and the Company recognised foreign currency translation differences in other comprehensive income and accumulated the amount in the foreign currency translation reserve in equity.

Upon transition to MFRSs, the Group and the Company have elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

32. Explanation of transition to MFRS (continued)

a) Foreign currency translation reserve (continued)

Reconciliation of equity as at 1.1.2011

	FRSs as at 1.1.2011 RM'000	Effect of transition to MFRSs RM'000	MFRSs as at 1.1.2011 RM'000
Group			
Equity			
Translation reserve	(1,266)	1,266	-
Retained earnings	130,295	(1,266)	129,029
Company			
Equity			
Translation reserve	304	(304)	-
Retained earnings	59,322	304	59,626

Reconciliation of equity as at 31.12.2011

	FRSs as at 31.12.2011 RM'000	Effect of transition to MFRSs RM'000	MFRSs as at 31.1.12.2011 RM'000
Group			
Equity			
Translation reserve	2,074	1,266	3,340
Retained earnings	184,381	(1,266)	183,115
Company			
Equity			
Translation reserve	304	(304)	-
Retained earnings	71,027	304	71,331

Notes to the Financial Statements (continued)

33. Realised and unrealised profits/losses

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total retained profits/(accumulated losses) of Muhibbah Engineering (M) Bhd and its subsidiaries:				
- Realised	112,489	164,908	35,409	86,689
- Unrealised	(51,889)	(18,710)	(18,727)	(15,358)
Total retained profits/(accumulated losses)	60,600	146,198	16,682	71,331
from associated companies:				
- Realised	105,407	81,285	-	-
- Unrealised	(84)	(561)	-	-
Less: Consolidated adjustments	(101,102)	(43,807)	-	-
Total retained profits	64,821	183,115	16,682	71,331

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 40 to 121 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in note 33 on page 122 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

....
Mac Ngan Boon @ Mac Yin Boon
Klang,
Date: 25 April 2013

....
Low Ping Lin

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, Lee Poh Kwee, the officer primarily responsible for the financial management of Muhibbah Engineering (M) Bhd., do solemnly and sincerely declare that the financial statements set out on pages 40 to 122 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Klang on 25 April 2013.

....
Lee Poh Kwee

Before me:

Tee Hsiao Mei
Pesuruhjaya Sumpah Malaysia
(No. B272)

Independent Auditors' Report to the members of Muhibbah Engineering (M) Bhd.

Report on the Financial Statements

We have audited the financial statements of Muhibbah Engineering (M) Bhd., which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 121.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 11 to the financial statements, the amount due from contract customers include an interim amount of RM219 million for a substantially completed project. The Company has consulted and engaged an experienced claim consultant to assist the Company to obtain approval for additional claims from the customer. The claim consultant is of the opinion that there are valid grounds for the claims which, inter alia represents works performed in addition to the original scope of the contract and claims that can be recovered in accordance to the law and the terms of the contract and should therefore be approved by the customer. The directors are of the opinion that the claims are recoverable in due course.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:-

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 5 to the financial statements.

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

(d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 33 on page 122 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

1. As stated in Note 32 to the financial statements, Muhibbah Engineering (M) Bhd adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.

2. This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Crowe Horwath
Firm Number: AF 1018
Chartered Accountants

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

Kuala Lumpur,

Date: 25 April 2013

Top 10 Properties List as at 31 December 2012

No.	Location	Description of Property	Year of Revaluation	Tenure	Land Area	Age of Building	Carrying Value RM'000
1	HS(D) 99546, Lot 104625, Telok Gong, Mukim of Klang, District of Klang, Selangor	Office building and factory	2010	Leasehold expiring 2103	148,400 sq. m.	6 years	112,062
2	Hakmilik 75336, Lot 104505, Mukim of Klang, District of Klang, Selangor	4 storey office building, factory and warehouse	2010	Leasehold expiring 2106	86,937 sq. m.	16 years	70,689
3	28, Yarrunga Street, Prestons, NSW 2170, Australia	Office building and factory	2012	Freehold	11.6 acres	44 years	47,139
4	Geran # 51011, Lot 31814 & Geran # 51020, Lot 31792, Mukim of Senawang, Seremban, Negeri Sembilan	Factory building with office block	2012	Freehold	68,846 sq. m.	8 years	31,839
5	Geran Mukim 17872, Lot 69222, Mukim Kapar, District of Klang, Selangor	Office building and factory	2012	Freehold	18,207 sq. m.	31 years	26,206
6	HS(D) 99547, Lot 104626, Telok Gong, Mukim of Klang, District of Klang, Selangor	Factory and workshop	2010	Leasehold expiring 2103	52,490 sq. m.	3 years	23,021
7	Geran # 26559, Lot 9895, Kg. Jawa, Mukim of Klang, District of Klang, Selangor	Office building and factory	2012	Freehold	5.0 acres	21 years	18,185
8	Ream, Sihanoukville, Cambodia	Vacant land	2012	Leasehold expiring 2105	23.97 hectare	NA	17,179
9	7 AL, Nordkranvej, 2 3540, Lynge DK Denmark	Factory building with office block	2012	Freehold	59,525 sq. m.	43 years	12,862
10	Hakmilik 6322, Lot 129073, Telok Gong, Mukim Klang, District of Klang Selangor	Vacant land	2010	Leasehold expiring 2104	30,889 sq. m.	NA	12,377

Analysis of Shareholdings & Warrantholdings as at 30 April 2013

A. Share Capital

Authorised share	:	RM500,000,000
Issued and fully paid-up capital	:	408,852,250 shares
Class of shares	:	Ordinary shares of RM0.50 each
Voting rights	:	One vote per ordinary share

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Issued Capital*
1 – 99	76	0.863	2,283	0.001
100 – 1,000	994	11.284	865,045	0.212
1,001 –10,000	5,416	61.482	27,656,128	6.794
10,001 –100,000	2,033	23.079	64,745,378	15.905
100,001 – 20,353,461	288	3.269	220,838,416	54.251
20,353,462 and above	2	0.023	92,962,000	22.837
Total	8,809	100.000	407,069,250	100.000

Note:
* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2013.*

Directors' Shareholdings as per Register of Directors' Shareholdings as at 30 April 2013

Name	Direct Interest	%*	Deemed Interest	%*
Tuan Haji Mohamed Taib bin Ibrahim	7,543,392	1.853	153,750 (a)	0.038
Mac Ngan Boon @ Mac Yin Boon	70,691,416 (b)	17.366	24,822,500 (a)	6.098
Ooi Sen Eng	13,045,066 (c)	3.205	-	-
Low Ping Lin	3,050,500	0.749	-	-
Lim Teik Hin	-	-	50,000 (d)	0.012
Mac Chung Jin	5,160,000 (c)	1.268	50,000 (d)	0.012

Notes:-

(a) Deemed interested by virtue of the shares held by spouse and children pursuant to Section 134(12)(c) of the Companies Act, 1965.

(b) Certain shares are registered under EB Nominees (Tempatan) Sendirian Berhad, Maybank Securities Nominees (Tempatan) Sdn Bhd and RHB Capital Nominees (Tempatan) Sdn Bhd.

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

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

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2013.*

Analysis of Shareholdings & Warrantholdings as at 30 April 2013 (continued)

Shares in related corporation
There is no change in the deemed interest of directors in related companies as disclosed in the Directors' Report for the year ended 31 December 2012 on page 37 of this Annual Report.

Options in Company
There is no change in the employee share options held by the Directors in the Company as disclosed in Directors' Report for the year ended 31 December 2012 on page 37 of this Annual Report.

Substantial Shareholders as per Register of Substantial Shareholders as at 30 April 2013

Name	Direct Interest	%*	Deemed Interest	%*
Mac Ngan Boon @ Mac Yin Boon	70,691,416 (a)	17.366	-	-
Lembaga Tabung Haji	40,112,000 (b)	9.854	-	-

Notes:-

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

(b) Based on the notice of interest of substantial shareholders pursuant to Section 69 of the Companies Act, which had been received by the Company.

* *Excluding a total of 1,783,000 shares purchased by the Company and retained as treasury shares as at 30 April 2013.*

List of 30 Largest Shareholders as at 30 April 2013

No.	Name	No. of Shares Held	% of Issued Capital*
1	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Ngan Boon @ Mac Yin Boon	52,850,000	12.983
2	Lembaga Tabung Haji	40,112,000	9.854
3	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	12,800,000	3.144
4	Maybank Securities Nominees (Tempatan) Sdn Bhd Chew Keng Siew	10,000,000	2.457
5	Maybank Securities Nominees (Tempatan) Sdn Bhd Ooi Sen Eng	10,000,000	2.457
6	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Noriyati binti Hassan	10,000,000	2.457
7	Universal Trustee (Malaysia) Berhad CIMB Islamic Small Cap Fund	7,222,500	1.774
8	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (U.S.A.)	6,736,800	1.655
9	Mohamed Taib bin Ibrahim	6,349,642	1.560
10	Citigroup Nominees (Asing) Sdn Bhd CBNY For Dimensional Emerging Markets Value Fund	5,487,300	1.348
11	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	5,242,650	1.288
12	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Hui	5,000,000	1.228
13	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad For CIMB-Principal Small Cap Fund	4,988,400	1.225
14	EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account For Mac Ngan Boon @ Mac Yin Boon	4,650,000	1.142
15	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Jin	4,250,000	1.044
16	UOBM Nominees (Asing) Sdn Bhd Banque De Luxembourg For Reyl (Lux) Global Funds Emerging Markets Equities	4,193,700	1.030
17	Cartaban Nominees (Asing) Sdn Bhd BBH (Lux) SCA For Fidelity Funds Pacific	4,099,900	1.007

Analysis of Shareholdings & Warrantholdings as at 30 April 2013 (continued)

List of 30 Largest Shareholders as at 30 April 2013 (continued)

No.	Name	No. of Shares Held	% of Issued Capital*
18	Maybank Securities Nominees (Tempatan) Sdn Bhd Mac Chung Lynn	4,000,000	0.983
19	Low Ping Lin	3,050,500	0.749
20	Ooi Sen Eng	3,045,066	0.748
21	Cartaban Nominees (Asing) Sdn Bhd SSBT Fund SD4N For Government Of The Province Of Alberta	2,929,200	0.720
22	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Norges Bk Lend)	2,581,500	0.634
23	Othman bin Chut	2,288,312	0.562
24	HSBC Nominees (Asing) Sdn Bhd Exempt An For JPMorgan Chase Bank, National Association (Stich Shell Pen)	2,215,258	0.544
25	HSBC Nominees (Asing) Sdn Bhd BBH And Co Boston For Gravity Equity Fund	2,207,400	0.542
26	Citigroup Nominees (Tempatan) Sdn Bhd Exempt An For American International Assurance Berhad	2,059,600	0.506
27	Citigroup Nominees (Asing) Sdn Bhd CBNY For DFA Emerging Markets Small Cap Series	1,955,650	0.480
28	Citigroup Nominees (Asing) Sdn Bhd CBNY For Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	1,924,500	0.473
29	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lee Poh Kwee	1,850,000	0.454
30	HSBC Nominees (Asing) Sdn Bhd TNTC For LSV Emerging Markets Small Cap Equity Fund, LP	1,632,300	0.401
		225,722,178	55.449

B. Warrant 2010/2015

Outstanding Warrant	:	38,000,000
Issued Price	:	RM0.06 each
Exercise Price	:	RM1.07 each
Expiry Date	:	26 April 2015
Voting rights	:	One vote for each Warrant held

Size of Holdings	No. of Warrant Holders	% of Warrant Holders	No. of Outstanding Warrant	% of Outstanding Warrant
1 – 99	-	-	-	-
100 – 1,000	-	-	-	-
1,001 –10,000	-	-	-	-
10,001 –100,000	-	-	-	-
100,001 – 1,900,000	-	-	-	-
1,900,001 and above	3	100.000	38,000,000	100.000
Total	3	100.000	38,000,000	100.000

List of Warrants Holders as at 30 April 2013

No.	Name	No. of Warrant Held	% of Warrant Held
1	Universal Capital Resources Sdn Bhd	18,000,000	47.368
2	Transasia Assets Sdn Bhd	10,000,000	26.316
3	Harmony Effective Sdn Bhd	10,000,000	26.316
	Total	38,000,000	100.000

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MUHIBBAH ENGINEERING (M) BHD
(12737-K)

Number of Shares Held

Proxy Form

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

of ____

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

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

of ____

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

of ____

OR failing whom, the Chairman of the Meeting as *my/*our proxy to vote for *me/*us and on *my/*our behalf at the Fortieth Annual General Meeting of the Company which is to be held at Kayangan Ballroom, Quality Hotel Shah Alam, Ground Floor, Plaza Perangsang, Persiaran Perbandaran, 40000 Shah Alam, Selangor Darul Ehsan on Friday, 28 June 2013 at 3.45 p.m. and at any adjournment thereof.

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

Proxy 1	%
Proxy 2	%
	100%

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

Resolution No.	Ordinary Business :	For	Against
1.	To approve the declaration of a First and Final Dividend of 5% per ordinary share of RM0.50 each less 25% income tax.		
2.	To re-elect Abd Hamid bin Ibrahim as Director.		
3.	To re-elect Low Ping Lin as Director.		
4.	To re-appoint Tuan Haji Mohamed Taib bin Ibrahim as Director.		
5.	To re-appoint Ooi Sen Eng as Director.		
6.	To re-appoint Lim Teik Hin as Director.		
7.	To re-appoint Messrs. Crowe Horwath as the Company's Auditors and to authorise the Directors to fix their remuneration.		
	Special Business :		
8.	To retain Tuan Haji Mohamed Taib bin Ibrahim as an Independent Non-Executive Director.		
9.	To retain Datuk Zakaria bin Abdul Hamid as an Independent Non-Executive Director.		
10.	To retain Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor as an Independent Non-Executive Director.		
11.	To retain Dato' Seri Raja Ahmad Zainuddin bin Raja Haji Omar as an Independent Non-Executive Director.		
12.	To approve the Proposed Renewal of Authority for Share Buy-Back.		
13.	To approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
14.	To approve the Proposed Amendments to the Articles of Association.		

Please indicate with (X) on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/her discretion.

Dated this .... day of 2013

[* Delete if not applicable]

....

[Signature/Common Seal of Shareholder(s)]

Notes:

(a) A member entitled to attend and vote at this meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company. There shall be no restriction as to the qualification of the proxy and the provision of Section 149(1)(b) of the Act shall not apply to the Company.

(b) A member shall not be entitled to appoint more than two (2) proxies to attend, speak and vote at the same meeting and where a member appoints two (2) proxies, such appointment shall be invalid unless he/she specifies the proportion of his/her shareholdings to be represented by each proxy. Each proxy appointed, shall represent a minimum of one hundred (100) shares.

(c) The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or if the appointor is a corporation, either under its Common Seal or under the hand of an officer or attorney duly authorised.

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

Affix
Stamp
Here

Muhibbah Engineering (M) Bhd (12737-K)

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