



Coastal Contracts Bhd (517649-A)

Annual Report **2005**



Coastal Contracts Bhd (517649-A)

Address:

Block G, Lot 3B, Bandar Leila,

W.D.T. 259, 90009 Sandakan,

Sabah, Malaysia.

Tel: +60-89-616263

Fax: +60-89-616654

Email: marketing@coastalcontracts.com

Website: www.coastalcontracts.com

CONTENTS

- 02 Notice of Annual General Meeting
 - 04 Statement Accompanying Notice of Annual General Meeting
 - 05 Corporate Information
 - 06 Corporate Structure
 - 07 Directors' Profiles
 - 09 Chairman's Statement
 - 11 Audit Committee Report
 - 14 Corporate Governance Statement
 - 19 Statement of Internal Control
 - 20 Statement of Directors' Responsibility for Preparing the Financial Statements
 - 21 Financial Statements
 - 71 List of Properties in the Group
 - 72 Shareholding Statistics
- Form of Proxy



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of the Company will be held at the Registered Office, Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 28 June 2006 at 11.00 am to transact the following business:

A G E N D A

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon.
2. To declare a first and final dividend of 3.9% less 28% tax and 2.1% tax exempt in respect of the financial year ended 31 December 2005.
3. To approve the payment of Directors' fees for the financial year ended 31 December 2005.
4. To re-elect the following Directors:
 - 4.1 Mr Ng Chin Shin who retires as director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election.
 - 4.2 Mr Loh Thian Sang @ Lo Thian Siang who retires as director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election.
5. To re-appoint Messrs Ernst & Young as Auditors of the Company for the ensuing year and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass the following Resolution:

ORDINARY RESOLUTION

Authority to issue shares pursuant to Section 132D of the Companies Act, 1965

" THAT subject always to the Companies Act, 1965, Articles of Association of the Company and approvals from the relevant statutory and regulatory authorities, where such approvals are necessary, full authority be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are empowered to obtain the approvals from Bursa Malaysia Securities Berhad for the listing and quotation of the additional new ordinary shares to be issued and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company. "

7. To transact any other business of the Company of which due notice has been given to the Company.

Resolution 1

Resolution 2

Resolution 3

Resolution 4

Resolution 5

Resolution 6

Resolution 7

Notice of Annual General Meeting (cont'd)

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN THAT, subject to the approval of the shareholders at the Sixth Annual General Meeting, a first and final dividend of 3.9% less 28% tax and 2.1% tax exempt in respect of the financial year ended 31 December 2005 will be payable on 8 September 2006 to depositors registered in the Records of Depositors at the close of business on 11 August 2006.

A depositor shall qualify for entitlement only in respect of:

1. Securities transferred into the Depositor's Securities Account before 4.00 pm on 11 August 2006 in respect of transfers; and
2. Securities 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

Dorothy Luk Wei Kam
MAICSA 7000414
Company Secretary

Kota Kinabalu, Sabah
Dated: 6 June 2006

Notes:

- a) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- b) Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same Meeting, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
- c) The instrument appointing a proxy shall be in writing and in the case of an individual shall be signed by the appointor or by his attorney and in the case of a corporation shall be either under its Common Seal or signed by its attorney or by an officer on behalf of the corporation.
- d) The instrument appointing a proxy shall be deposited at the Registered Office of the Company at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

Explanatory Note on Special Business

Ordinary Resolution - Authority to issue shares pursuant to Section 132D of the Companies Act, 1965

The proposed Ordinary Resolution 7 under item 6 above, if passed, will give power to the Directors to issue ordinary shares in the capital of the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being. This authority unless revoked or varied at a general meeting will expire at the next Annual General Meeting.

Statement Accompanying Notice of Annual General Meeting

1. Names of directors who are standing for re-election are:

- | | |
|------------------------------------|--|
| a) Ng Chin Shin | Retiring pursuant to Article 91 of the Company's Articles of Association |
| b) Loh Thian Sang @ Lo Thian Siang | Retiring pursuant to Article 91 of the Company's Articles of Association |

2. Details of attendance of Directors at Board Meetings:

Five (5) Board Meetings were held during the financial year from 1 January 2005 to 31 December 2005.

Name	Meetings Attended	Maximum Possible Meetings to Attend
1. Ng Chin Heng	5	5
2. Ng Chin Shin	3	5
3. Ng Chin Keuan	4	5
4. Kwan Cheong Kaw @ Kuan Yeek Chieu	5	5
5. Loh Thian Sang @ Lo Thian Siang	5	5

3. Place, date and time of the Sixth Annual General Meeting:

Date	Time	Place
28 June 2006	11.00 am	Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah

4. Further details of individuals who are standing for re-election as Directors:

Please refer to the Directors' Profiles appearing on page 7 to 8.

Corporate Information

BOARD OF DIRECTORS

- Ng Chin Heng Executive Chairman
- Ng Chin Shin Executive Director
- Ng Chin Keuan Executive Director
- Kwan Cheong Kaw @ Kuan Yeek Chieu Senior Independent Non-Executive Director
- Loh Thian Sang @ Lo Thian Siang Independent Non-Executive Director

AUDIT COMMITTEE

- Kwan Cheong Kaw @ Kuan Yeek Chieu Chairman
- Loh Thian Sang @ Lo Thian Siang Member
- Ng Chin Heng Member

NOMINATION COMMITTEE

- Kwan Cheong Kaw @ Kuan Yeek Chieu Chairman
- Loh Thian Sang @ Lo Thian Siang Member
- Ng Chin Heng Member

REMUNERATION COMMITTEE

- Kwan Cheong Kaw @ Kuan Yeek Chieu Chairman
- Loh Thian Sang @ Lo Thian Siang Member
- Ng Chin Heng Member

COMPANY SECRETARY

- Dorothy Luk Wei Kam, MAICSA 7000414

REGISTERED OFFICE

Block G, Lot 3B, Bandar Leila,
W.D.T. No. 259, 90009 Sandakan, Sabah
Tel: +60 89-616263 Fax: +60 89-616654, 616189
Website: <http://www.coastalcontracts.com>

REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 26, Menara Multi Purpose, Capital Square,
No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur
Tel: +60 03 27212222 Fax: +60 03 27212530/1

PRINCIPAL BANKERS

- Alliance Bank Malaysia Berhad
- Bank Muamalat Malaysia Berhad
- Bank Perusahaan Kecil & Sederhana Malaysia Berhad
- Bumiputra-Commerce Bank (Labuan) Limited
- Bumiputra-Commerce Bank Berhad
- Hong Leong Bank Berhad
- Malayan Banking Berhad
- RHB Bank Berhad
- Sabah Development Bank Berhad

AUDITORS

Ernst & Young (AF 0039)
16th Floor, Wisma Khoo Siak Chiew,
Jalan Buli Sim Sim, P.O. Box 648, 90707 Sandakan, Sabah

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad (Main Board)



Corporate Structure



COASTAL CONTRACTS BHD
(517649-A)

100%

Bonafide Shipbuilders & Repairs Sdn Bhd (184278-W)

100%

Seri Modalwan Sdn Bhd (111213-M)

100%

Coastal Transport (Sandakan) Sdn Bhd (28778-D)

100%

Coastway Transport Sdn Bhd (94581-W)

100%

Coastal Offshore (Labuan) Pte Ltd (LL02556)

95%

Pt. Cosarana Marine



Directors' Profiles

The Board currently has five members, comprising three Executive Directors (including the Chairman) and two Independent Non-Executive Directors. A brief description of the background of each Director is presented below:

NG CHIN HENG,
aged 57,
Malaysian,
Executive Chairman

Mr Ng Chin Heng was appointed as Executive Chairman to the Board on 8 August 2000 and serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He is the principal founder of Coastal Group. Soon after completing the Lower Certificate of Education and gaining work experience in various capacities, Mr Ng Chin Heng started his business endeavour in 1977 trading in animal feed, fertilisers and raw rubber. Subsequently, he ventured into vessel chartering business in 1982 when he acquired Coastal Transport (Sandakan) Sdn Bhd, a tug and barge hire company, which then owned and operated 4 small old tankers. He then acquired the technical and management skills in tugboat and barge repairs and fabrications. He further learned and improved the technical and management aspects of shipyard operations by visiting some of the shipyards in Malaysia, Indonesia, Singapore and China.

Mr Ng Chin Heng attended all the five board meetings held during the financial year ended 31 December 2005. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 5 May 2006, Mr Ng Chin Heng has direct interests of 2.41% and indirect interests of 57.34% by virtue of Ivory Asia Sdn Bhd and his wife's shareholdings in Coastal Contracts Bhd. He is the brother of Mr Ng Chin Shin and Mr Ng Chin Keuan, both the Directors of the Company, and the husband of Madam Pang Fong Thau, a substantial shareholder of the Company. Save as disclosed on page 65 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

NG CHIN SHIN,
aged 47,
Malaysian,
Executive Director

Mr Ng Chin Shin was appointed as Executive Director to the Board on 8 August 2000.

Shortly after completing the Lower Certificate of Education, he went on to become a mechanic and welder in 1975 and subsequently a mechanic and construction supervisor. He gained his experience in the shipbuilding industry when he worked for a shipbuilding contractor between 1980 and 1985. With his valuable knowledge, he was invited to join the Group in 1986 and has been involved in the Group for about 20 years. He has been instrumental in shaping and laying the foundations for the Group's products and workmanship quality in vessel manufacturing and repair works. His vast experience and in-depth knowledge in the vessel manufacturing and repair activities will continue to benefit the Group.

Mr Ng Chin Shin attended three of the five board meetings held during the financial year ended 31 December 2005. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 5 May 2006, Mr Ng Chin Shin has direct interests of 1.73% in Coastal Contracts Bhd. He is a brother in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is a brother of Mr Ng Chin Heng and Mr Ng Chin Keuan, Directors of the Company. Mr Ng Chin Heng is also a substantial shareholder of the Company. Save as disclosed on page 65 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

Directors' Profiles (cont'd)

NG CHIN KEUAN,
aged 47,
Malaysian,
Executive Director

Mr Ng Chin Keuan was appointed as Executive Director to the Board on 8 August 2000.

He has a Lower Certificate of Education. He is involved in the affairs of the Group since its early years in 1980s and thus well acquainted with the Group's operations. He gained the knowledge and skills of marine engineering through hands-on management and practical experience. He is principally responsible in supervising the day-to-day operations of the shipyard and also for fleet maintenance and parts procurement. Prior to joining the Group, he was in the trading business with Mr Ng Chin Heng.

Mr Ng Chin Keuan attended four of the five board meetings held during the financial year ended 31 December 2005. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 5 May 2006, Mr Ng Chin Keuan has direct interests of 1.73% and indirect interests of 0.07% by virtue of his wife's shareholdings in Coastal Contracts Bhd. He is a brother in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is a brother of Mr Ng Chin Heng and Mr Ng Chin Shin, Directors of the Company. Mr Ng Chin Heng is also a substantial shareholder of the Company. Save as disclosed on page 65 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

**KWAN CHEONG KAW
@ KUAN YECK CHIEU,**
aged 67,
Malaysian,
Senior Independent
Non-Executive Director

Mr Kwan Cheong Kaw @ Kuan Yeck Chieu was appointed as Independent Non-Executive Director to the Board on 2 December 2002 and was promoted to Senior Independent Non-Executive Director on 28 April 2004. He serves as the Chairman of the Audit Committee, Nomination Committee and Remuneration Committee respectively.

He completed his tertiary education with a Degree in Commerce from the University of New South Wales under the Colombo Scholarship Plan. He started his career as a Division One accountant with the Sabah State Treasury and subsequently gained his practical experience in a firm of chartered accountants. Having gained substantial experience in the private sector, he established his practice in the early 1970s. He is a member of CPA Australia, the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Taxation.

Mr Kwan Cheong Kaw @ Kuan Yeck Chieu attended all the five board meetings held during the financial year ended 31 December 2005. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 5 May 2006, Mr Kwan Cheong Kaw @ Kuan Yeck Chieu has direct interests of 0.01% in Coastal Contracts Bhd. He has no conflict of interest with the Company or the Group and has no family relationship with any Directors and/or substantial shareholders of the Company.

**LOH THIAN SANG
@ LO THIAN SIANG,**
aged 61,
Malaysian,
Independent
Non-Executive Director

Mr Loh Thian Sang @ Lo Thian Siang was appointed as an Independent Non-Executive Director to the Board on 2 December 2002 and serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He has over 36 years of experience in marine administration and operation. He joined the Marine Department in 1964 as signalman a year after leaving secondary school and during his tenure in the organisation advanced himself as a Senior Boarding Officer in 1998. His last post with the Marine Department before retirement was as the acting Assistant Marine Officer from 1997 to 2000.

Mr Loh Thian Sang @ Lo Thian Siang attended all the five board meetings held during the financial year ended 31 December 2005. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 5 May 2006, Mr Loh Thian Sang @ Lo Thian Siang does not have any direct or indirect interest in shares in Coastal Contracts Bhd. He has no conflict of interest with the Company or the Group and has no family relationship with any Directors and/or substantial shareholders of the Company.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report of Coastal Contracts Bhd for the financial year ("FY") ended 31 December 2005.



For the FY under review, Coastal Group has accomplished a commendable performance in the wake of solid demand for vessels from the energy transportation segments as well as the oil and gas ("O&G") support services industries. The favourable conditions of the region's energy and oil transportation markets have led to positive flow-through opportunities for shipbuilders and operators like Coastal Group. In this regard, the sales of vessels broke new ground to carry the Group's revenue over the RM100 million-mark.

Performance during the Year

Reviewing FY2005, I am contented with Coastal Group's accomplishment. Year-on-year, the Group has achieved a 48% leap in total revenue to RM103.2 million from RM69.6 million previously.

The revenue contribution of the Shipbuilding Division was RM85.7 million, a notable increase of 63% from RM52.7 million in the previous year. This increase was a reflection of the strong demand for high-powered tugboats and barges of greater capacity on account of sturdy marine transportation activities in the region. Such achievement was attributable to the Group's sound product quality and reliability as we relentlessly pay close attention to customers' requirements and market changes.

Similar to FY2004, the Chartering Division proved to be a reliable and stable income contributor to the Group. Revenue from this division improved marginally by 4% from RM16.8 million to RM17.5 million. The consistently high average utilisation rate of 85% throughout the year was the main driving force behind the steady performance. Our major clientele comprised service providers for the transportation of raw materials and commodities that are consumed by the manufacturing and heavy industries in the region.

Total net profit for FY2005 has recorded a 16% improvement from RM13.8 million to RM16.0 million. The Shipbuilding Division accounted for 53% or RM8.4 million of the total net profit of the Group, as against 61% or RM8.4 million in FY2004. The indifferent result was down to the recognition of higher operating costs that comprised steel-related products

acquired in the early part of FY2005. Meanwhile, net profit of the Chartering Division was higher at RM7.6 million as compared to RM5.4 million. The Group has disposed of several vessels from its fleet to buyers who were looking for immediate delivery, which garnered a net gain of RM4.2 million (FY2004: RM2.7 million). As in the past, in the place of these disposed vessels, the Group's strategy was to deploy uncommitted newbuildings to the Chartering Division to generate revenue. Besides fully compensating for the capacity void caused by the disposals, these new vessels will also enhance the Group's delivery of service and operational safety, providing the impetus for future earnings growth in the Chartering Division.

Corporate Developments

On 14 June 2005, the Company offered 33,400,000 new ordinary shares in the Company under the Employees' Share Option Scheme at an exercise price of RM0.51 per share to eligible employees and directors of the Company and its subsidiaries. 30,482,000 of the total options offered were accepted and subsequently granted on 14 July 2005. Details of options granted to directors of the Company and its subsidiaries are disclosed on page 24 of this annual report, whilst the terms of share options outstanding as at the end of FY2005 are presented on page 62.

On 27 October 2005, the Company signed a Memorandum of Understanding ("MoU") with Petrosab Logistik Sdn. Bhd. of Yayasan Sabah Group in relation to the proposed joint venture for establishment and development of viable commercial activities within the petrochemical and fabrication engineering sectors as well as provision of other related services to support the upstream and downstream O&G sectors in Malaysia.

On 4 January 2006, the Company signed a MoU with Yayasan Sabah Dua Shipping Sdn. Bhd. in relation to the proposed joint venture for the purpose of owning, operating, and/or managing offshore support vessels intended for the offshore O&G industry in Malaysia.

Chairman's Statement (cont'd)

Dividend

The Board is recommending a final dividend of 3.9% less Malaysian Income Tax at 28% and 2.1% tax exempt in respect of FY2005 for approval of the shareholders at the forthcoming Annual General Meeting. The Company will continue to be proactive in enhancing value for its devoted shareholders by maintaining a consistent dividend pay-out over the future years.

Prospects and Outlook

With surging demand and tight supply pushing crude prices to new highs in recent months, deepwater O&G exploration and production activities by oil majors are likely to pick up steam going forward. This will have tremendous spill-over effects on the offshore support vessels market, prompting a glossy outlook for this sector in the years ahead. Since the beginning of FY2006, the Group has booked the sale of one unit offshore support vessel. Five other firm orders have also been placed with Coastal Group from customers as far away as the Middle East and Western Europe. Three of these vessels are expected to be delivered in FY2006 and the corresponding sales would be booked in the same year.

The recent signings of the two MoUs with Yayasan Sabah Group were further positive breakthrough for Coastal Group. With numerous platforms reported to be installed in Malaysian waters over the next three to five years coupled with the Government's decision to continue growing the country's O&G daily production figure under the Ninth Malaysia Plan, there is a correspondingly greater need for a wider range of support services to facilitate the endeavour. In this regard, Coastal Group's full potential may yet to be realised. Securing any contracts in the O&G-related structural fabrication or the offshore support vessels operation and management sector is expected to be significant as it will mark an important turning point for the future business growth of Coastal Group.



At the chartering front, with heightened efficiency driven up by the division's renewed fleet, the Group will commit a higher ratio of its fleet to the medium and long term charter business with lower portion operating in the spot market. Also, by 2010, Malaysia is expected to consume 20 million tonnes of coal a year, where much of the supplies will be derived from Indonesia and Australia. Given the sound knowledge and extensive experience in the maritime transportation business, Coastal Group is primed to capitalise on any prospects that come its way. Such prospects may even extend to the Shipbuilding Division of the Group.

The Board is positive about the Group's outlook as we have prepared ourselves for the upturn in the O&G industry in the last three years. Cruising ahead, we expect to see better performance. The Board will persevere with its course of focusing on growing the business operations of Coastal Group by offering products and services that cater for the ever-changing and dynamic business environment with the objective of maximising shareholders' value. The Group will continue to make the investment now to ensure its products and services not only meet the requirements of today, but are geared towards meeting the challenges of tomorrow.

Investing in Workforce

At all times, Coastal Group acknowledges the fact that a competent, sophisticated and devoted workforce plays a pivotal role and is a key to success. It is for this reason that the Board will continuously explore ways to fortify the Group's workforce so that they will have the right skills and knowledge to thrust Coastal Group to a higher order, both locally and overseas. The Board will remain committed to uphold the strong culture of hands-on, hard work, perseverance and care for quality in everything we engage in.

Acknowledgement

On behalf of the Board of Directors, I would like to take this opportunity to convey our gratitude to the management and staff of the Group for their exceptional and continuous dedication and contribution throughout the year. It is also our privilege to enjoy the relentless support of the relevant authorities as well as our valuable customers and business partners. To our shareholders, we thank you for your trust and confidence in Coastal Group.

Ng Chin Heng
Executive Chairman

Sandakan, Malaysia

Audit Committee Report for the Financial Year Ended 31 December 2005

The Audit Committee was established on 2 December 2002.

The Audit Committee comprises the following members:-

Name	Designation	Directorship
Kwan Cheong Kaw @ Kuan Yeek Chiew	Chairman	Senior Independent Non-Executive Director
Loh Tian Sang @ Lo Tian Siang	Member	Independent Non-Executive Director
Ng Chin Heng	Member	Executive Chairman

Terms of Reference

The primary objectives of the Audit Committee are to:-

- provide assistance to the Board in fulfilling its fiduciary responsibilities to the accounting and internal control systems, financial reporting and business ethics policies of the Company and all its subsidiaries.
- provide greater emphasis on the audit function by serving as the focal point for communication between non-committee directors, the external auditors, internal auditors and the management and providing a forum for discussion that is independent of the management. It is the Board's principle agent in assuring the independence of the Company's external auditors, the objectivity of the Company's internal auditors, the integrity of the management and the adequacy of disclosure to shareholders.
- undertake all such additional duties as may be deemed appropriate and necessary to assist the Board.

The Committee shall be appointed by the Board from amongst its Directors (except alternate directors) which fulfils the following requirements:

- a) the audit committee must be composed of no fewer than three (3) members;
- b) a majority of the audit committee must be independent directors; and
- c) at least one member of the audit committee:
 - i) must be a member of the Malaysian Institute of Accountants; or
 - ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
 - aa) he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
 - bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

The members of the Committee shall elect a chairman from among their number who shall be an independent director.

The Board shall, within three (3) months of a vacancy occurring in the Committee which result in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

The Board shall review the term of office and performance of the Committee and each of its members at least once every three years.

Rights

The Committee shall, in accordance with the procedures determined by the Board and at the cost of the Company:

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

Audit Committee Report for the Financial Year Ended 31 December 2005 (cont'd)

Functions

The functions of Committee shall include the following:

- 1) review the following and report the same to the Board:
 - a) with the external auditor, the audit plan;
 - b) with the external auditor, his evaluation of the system of internal controls;
 - c) with the external auditor, his audit report;
 - d) the assistance given by the employees of the Company to the external auditor;
 - e) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - f) the internal audit programme, processes, the results of internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:
 - i) changes in or implementation of major accounting policy changes;
 - ii) significant and unusual events; and
 - iii) compliance with accounting standards and other legal requirements;
 - h) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - i) any letter of resignation from the external auditors of the Company; and
 - j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and
- 2) recommend the nomination of a person or persons as external auditors.

Meetings and Reporting Procedures

- 1) *Frequency and Notice of the Meeting*

Meetings of the Committee shall be held not less than four (4) times a year. The external auditors may request a meeting if they consider that one is necessary and shall have the right to appear and be heard at any meeting of the Committee. The Chairman shall convene a meeting whenever any member of the Committee requests for a meeting. Written notice of the meeting together with the agenda shall be given to the members of the Committee and external auditor where applicable.
- 2) *Quorum*

The quorum for a meeting of the Committee shall be two (2) provided always that the majority of the members present must be independent directors.
- 3) *Secretaries*

The Company Secretary shall be the secretary of the Committee and shall maintain minutes of the proceedings of the meetings of the Committee and circulate such minutes to all members of the Board.

Audit Committee Meeting

The Audit Committee held five (5) meetings during the financial year ended 31 December 2005. These meetings were held at the registered office on 25 February, 25 April, 24 May, 29 August and 23 November 2005. Details of the attendance of the meetings by the Committee Members are as follows:-

Name	No of Meetings Attended	% of Meetings Attended
Kwan Cheong Kaw @ Kuan Yeek Chieu	5/5	100%
Loh Thian Sang @ Lo Thian Siang	5/5	100%
Ng Chin Heng	5/5	100%

Audit Committee Report for the Financial Year Ended 31 December 2005 (cont'd)

Activities During The Year

The activities of the Audit Committee in the discharge of its duties and responsibilities for the financial year are summarised as follows:

- i) Reviewing of the external auditors' scope of work and their audit plan.
- ii) Reviewing with the external auditors on the results of their audit, the audit report and internal control recommendations in respect of improvements in internal control procedures noted in the course of their audit.
- iii) Reviewing and approving the internal audit plan presented by the internal auditors.
- iv) Reviewing the annual report and the audited financial statements of the Company and the Group prior to submission to the Board for their consideration and approval. The review was to ensure that the audited financial statements were drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.
- v) Reviewing the Company's compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.
- vi) Reviewing of the quarterly unaudited financial statements and its explanatory notes thereon and recommending to the Board for Directors' approval.
- vii) Reviewing the related party transactions entered into by the Group.
- viii) Reviewing of the Company's status of compliance with the Malaysian Code on Corporate Governance for the purpose of issuing of a Corporate Governance Statement pursuant to the requirement of paragraph 15.26 of the Listing Requirements of Bursa Malaysia Securities Berhad.
- ix) Reviewing the allocation of options pursuant to the Company's Employees' Share Option Scheme ("ESOS").

Statement By Audit Committee On The Company's ESOS

Appendix 9C Part A Item No. 25 of the Listing Requirements requires a statement by the audit committee in relation to the allocation of options pursuant to any share scheme for employees as required under paragraph 8.21A.

The Audit Committee has reviewed and is of the view that the criteria for allocation of the Company's ESOS for the financial year under review:

- a) has been made known to all eligible employees; and
- b) the allocation of the options is made in compliance with the criteria as set out in the By-laws of the Company's ESOS.

Internal Audit Function

The Board has engaged the services of an accounting firm to carry out the internal audit function of the Group, to provide independent assurance and assist the Audit Committee in discharging its duties and responsibilities. The internal audit function includes evaluation of the processes by which significant risks were identified, assessed and managed and thereby ensuring that the instituted operational controls are appropriate and effectively applied.

During the year, the Internal Auditors had carried out evaluation and assessment of the internal controls within the Group's business processes that are essential to the achievement of its business objectives, in order to test the adequacy and effectiveness of the internal controls over the most significant risks. The areas covered by the audit are selected on a rotational basis, with core risk areas being subject to audit more regularly than those outside the defined core risk areas.

Corporate Governance Statement

The Board of Directors fully supports the principle and best practices outlined in the Malaysian Code on Corporate Governance. Set out below is a statement on how the Group has applied the principles and the extent of its compliance with the best practices of the Code.

The Board of Directors plays a primary role in corporate governance by setting out the strategic direction of the Group, establishing goals and monitoring the achievement of the goals. A Strategic Plan has been adopted as one of the key policy in ensuring that the Group crystallises its future plans and provides a clear direction for the Board and Officers of the Group. A structured risk management process has been established to better identify, formalise, monitor within the various operating units and manage the business risks functions affecting the Group. This is elaborated in greater detail in the Statement of Internal Control.

The Executive Directors take the primary responsibility for managing the Group's business and resources. The intimate knowledge of the Executive Directors and their "hands-on" management practices has enabled the Group to have leadership position in its business division.

A. DIRECTORS

Board Composition and Balance

The Board currently comprises five (5) members, of whom two (2) are Independent Non-Executive Directors and three (3) Executive Directors. The Board has within its members drawn from varied backgrounds, bringing in-depth and diversity in experience and perspectives to the Group's business operations. The Directors' profiles are presented on pages 7 to 8 of the Annual Report.

The key functions of the Executive Chairman are to conduct Board meetings and meetings of Shareholders and to ensure that all Directors are properly briefed for a full and constructive part in Board discussions. The Executive Directors are responsible for the day-to-day management of the Group in ensuring that the strategies, policies and matters approved by the Board and/or respective Board Committees are effective. The Executive Directors ensures that there is a balance of power and authority at the head of the Group.

The Board has identified and formally appointed Mr Kwan Cheong Kaw @ Kuan Yeek Chieu as Senior Independent Non-Executive Director as a representative of the Board to whom concerns may be conveyed.

Board Committees

The Board has delegated specific responsibilities to three (3) committees to assist in its functions. These committees, namely, Audit Committee, Nomination Committee and Remuneration Committee, have the authority to examine particular issues according to their respective terms of reference and report back to Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, rests entirely with the Board.

Board Meetings

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when necessary. In intervals between Board meetings, for matters requiring Board decision, Board approvals are sought via Directors' Circular Resolutions (DCR) with sufficient information required to make an informed decision. A summary of the DCR approved will be tabled at the following Board meetings for notation.

The Board had held five (5) meetings during the financial year ended 31 December 2005 where the Board deliberated and considered a variety of matters including the Group's financial results, major investments and strategic decisions and direction of the Group. Where a potential conflict arises in the Group's transactions involving any Director's interest, such Director is required to declare his/her interest and abstain from the decision making process.

Shown below is the number of meetings attended by each Director for the financial year ended 31 December 2005 of which were held at the registered office on 25 February, 25 April, 24 May, 29 August and 23 November 2005.

Corporate Governance Statement (cont'd)

A. DIRECTORS (cont'd)

Name of Director	Designation	No of meetings attended	%
Ng Chin Heng	Executive Chairman	5/5	100%
Ng Chin Shin	Executive Director	3/5	60%
Ng Chin Keuan	Executive Director	4/5	80%
Kwan Cheong Kaw @ Kuan Yeek Chieu	Senior Independent Non-executive Director	5/5	100%
Loh Thian Sang @ Lo Thian Siang	Independent Non-executive Director	5/5	100%

Supply of Information

All Board members are supplied with information in a timely manner. The Board's reports include, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Group and management proposals, which requires the approval of the Board. All directors are entitled to call for additional clarification and information to assist them in matters that required their decision.

All directors have access to the services of the Company Secretary for any information or advice they may require, and if need be, they may take independent advice if necessary at the Company's expense.

Appointments to the Board

The Nomination Committee comprising Mr Kwan Cheong Kaw @ Kuan Yeek Chieu (Chairman), Mr Loh Thian Sang @ Lo Thian Siang (Member) and Mr Ng Chin Heng (Member) is entrusted to formally and transparently review annually the Board structure, size and composition and is responsible for making recommendations for any appointments to the Board. In making these recommendations, the Committee considers the required mix of skills and experience, which the Director(s) brings to the Board. Any new nomination received is put to the full Board for assessment and endorsement.

The Nomination Committee held one meeting during the financial year, which was attended by all the Committee members.

Directors' Training

All the Directors have attended the Mandatory Accreditation Programme ("MAP") conducted by the Research Institute of Investment Analysts Malaysia (RIIAM). All Directors have and will continue to undergo relevant training programmes conducted by approved institutions to keep abreast with new regulatory developments and requirements in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad on the Continuing Education Programme.

The Company Secretary circulates the relevant guidelines on statutory and regulatory requirements from time to time for the Directors' reference and will brief the Board members on these updates as and when required.

Further, all Directors attend other training that may be required to keep abreast with latest changes in laws, regulations and the business environment.

Re-election

In accordance with the Company's Articles of Association, at an annual general meeting of the Company, one-third (1/3) of the Directors for the time being, or if the number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office so that all Directors shall retire from office once at least in every three (3) years. A retiring Director shall be eligible for re-election and shall retain until the close of the meeting at which he retires.

Remuneration Committee

The Remuneration Committee consists of two (2) Independent Non-Executive Directors namely Mr Kwan Cheong Kaw @ Kuan Yeek Chieu (Chairman) and Mr Loh Thian Sang @ Lo Thian Siang (Member) and one (1) Executive Chairman, Mr Ng Chin Heng (Member).

The functions of the Committee include evaluating and making its recommendations on all aspects of the Executive Directors' performance, terms of employment, remuneration package and incentives; and recommending to the Board the Company's framework for retaining and rewarding the Executive Directors.

Corporate Governance Statement (cont'd)

A. DIRECTORS (cont'd)

The Committee shall meet as and when there are matters referred to them for consideration or as necessary.

The Committee has access to professional advice on remuneration matter from within the Group and external specialists of the field.

The Remuneration Committee held one meeting during the financial year, which was attended by all the Committee members.

B. DIRECTORS' REMUNERATION

The Remuneration Committee recommends to the Board the remuneration structure and incentives for each Executive Director. The Committee has the right to obtain independent consultants' advice and information about remuneration practices elsewhere.

The Board as a whole determines and endorses the remuneration of the Directors, after considering the proposals of the Remuneration Committee. Individual Directors concerned shall abstain from discussions and decisions in respect of their own remuneration. The Directors' remuneration shall be determined by an ordinary resolution of the Company pursuant to Article 78 of the Company's Articles of Association.

The Individual Directors' remuneration paid/payable to all the Directors of the Company for the financial year ended 31 December 2005 is as follows:-

Directors' Remuneration	Executive Director RM'000	Non-executive Director RM'000
Fee	-	31
Salaries	533	-
Bonuses & allowance	144	4
EPF	81	-
Benefit in kind (based on estimated money value)	48	-
Total	806	35

The details of the remuneration of each Director are not disclosed as it is private and confidential.

The number of Directors of the Company whose remuneration during the financial year ended 31 December 2005 fall within the following bands is as follows:

Directors' Remuneration Band RM	No. of Directors	
	Executive Director	Non-Executive Director
Below 50,000	-	2
50,000 to 100,000	-	-
100,001 to 150,000	-	-
150,001 to 200,000	2	-
200,001 to 250,000	-	-
250,001 to 300,000	-	-
300,001 to 350,000	-	-
350,001 to 400,000	-	-
400,001 to 450,000	-	-
450,001 to 500,000	1	-

Corporate Governance Statement (cont'd)

C. SHAREHOLDERS

Dialogue between Company and Investors

The Board recognizes the importance of an effective communication channel between the Board, shareholders and the general public. The annual reports, quarterly results, press releases and any announcements on material corporate exercises are the primary modes of disseminating information on the Group's business activities and performance.

The Annual General Meeting (AGM)

The Company's AGM provides an opportunity for direct interaction with shareholders where question and concerns raised would serve as feedback to the Group's business and corporate decisions. The notice of AGM will be published in at least one newspaper of national circulation for a wider dissemination of such notice and to encourage greater shareholders' participation at general meeting.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's performance and prospects in all their reports and announcements to the shareholders, investors, regulatory bodies and the general public. The Board is assisted by the Audit Committee to oversee the Group's financial reporting process and the quality of its financial reporting. The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 26 of this Annual Report.

Internal Control

The Board acknowledges that it is responsible for maintaining a sound system of internal control covering not only financial controls but also operational, compliance as well as risk management. The internal control system is designed to meet the Group's particular needs and to manage the risk to which it is exposed. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement or loss.

The Board's statement of internal control is set out on page 19 of the Annual Report.

Relationship with Auditors

Key features underlying the relationship of the Audit Committee with external auditors are included in the Audit Committee's terms of reference. A summary of the activities of the Audit Committee during the year are set out in the Audit Committee Report on pages 11 to 13 of this Annual Report.

Compliance Statement

Save as disclosed below, the Group had substantially complied with the Best Practices of the Code throughout the year:

- a) Although there is no formal schedule on matters specifically reserved to the Board for decision, it is the practice for the whole Board to deliberate on all significant matters that affect the Group, such matters being those that concern with capital expenditure, announcements to Bursa Malaysia and policy issues; and
- b) The Board has not developed position descriptions for the Board and Management. The Board recognises the importance of proper identification of the roles and responsibility limits of Management and will consider delineating the roles and responsibilities of executive and non-executive directors.

Additional Compliance Statements

● Utilisation of Proceeds

The gross proceeds raised pursuant to the Company's Initial Public Offering have been fully utilised as at 31 December 2004.

● Share Buyback

During the financial year, the Company did not enter into any share buyback transactions.

Corporate Governance Statement (cont'd)

D. ACCOUNTABILITY AND AUDIT (cont'd)

● Options, Warrants or Convertible Securities

On 14 July 2005, 30,482,000 share options were granted at an exercise price of RM0.51 per share to eligible employees and directors of the Company and its subsidiary companies totalling 185 persons. There were no options offered to non-executive directors of the Company.

● American Deposit Receipt ("ADR") or Global Deposit ("GDR") Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

● Imposition of Sanctions/Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies.

● Non-Audit Fees

During the financial year, the non-audit fees paid by the Company to the external auditors for the provision of business risk services and preparation of income tax computation amounted to RM35,000 and RM1,600 respectively.

● Profit Estimate, Forecast or Projection

No profit estimate, forecast or projection was given by the Company during the financial year.

● Profit Guarantee

No profit guarantee was given by the Company during the financial year.

● Material Contracts

During the financial year, there were no material contracts entered by the Company and its subsidiaries involving directors' and substantial shareholders' interests.

● Analysis of shareholdings

Analysis of shareholders can be found from page 72 to 73.

● List of Properties

The list of properties for the Group can be found on page 71.

● Revaluation Policy

Please refer to accounting policy on property, plant and equipment found from page 36 to 37.

● Recurrent Related Party Transactions

The details of the related party transactions are set out in Note 32 to the financial statements.

Statement of Internal Control

Responsibility

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its adequacy and integrity.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, present throughout the financial year under review and up to the date of approval of the Financial Statements and the Annual Report, and is in accordance with the guidance as contained in the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

As with any internal control system, controls can only provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Risk Management Framework and Control Self-Assessment

The Board's primary objective and direction in managing the Group's risks are focused on the achievement of the Group's business objectives. In the previous year, the Internal Auditors had carried out evaluation and assessment of the internal controls within the Group's business processes that are essential to the achievement of its business objectives, in order to test the adequacy and effectiveness of the internal controls over the most significant risks. After the audit, the findings and recommendations for improvement were communicated to the respective management for their response and corrective actions, if necessary, to strengthen the internal control, risk management and governance systems of the Group.

There are continuous efforts to assess the effectiveness of the controls in place to manage these risks as well as the action plans designed to address the weaknesses which are assigned to the risk owners.

The Executive Directors are specifically tasked with the responsibility of monitoring and reviewing strategic and significant operational matters of the Group.

Other Key Elements of Internal Control

Ad hoc and scheduled meetings at operation sites were held to identify, discuss and resolve operational issues. The Board was aware of and involved when necessary in resolving any significant issue identified at those meetings. The Group is structured as such that the heads of each operating unit has clear reporting line. There is also proper segregation of duties to ensure safe custody of the Group's assets.

The Executive Directors are actively involved in the day-to-day operations of the Group. The Executive Directors ensure that all employees have clear understanding of their roles and responsibilities and that the Group's operations are carried out in accordance with standards set and expected by the Board.

The Executive Directors had established a structured and formal employee appraisal system that ensures employees are remunerated based on their performance.

Internal Audit Function

The Group outsource its Internal Audit function to a reputable accounting firm, whose remit is to the Audit Committee. The Internal Auditors had carried out the internal audit covering the period under review and presented their report to the Audit Committee. The Audit Committee had deliberated on the contents of the report and is satisfied that appropriate actions are being taken to address all the weaknesses highlighted.

The Board is pleased to report that there was no significant material internal control weakness noted during the financial year under review.

Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

- Selected suitable accounting policies and applied them consistently;
- Made judgement and estimates that are reasonable and prudent;
- Ensured that all applicable approved accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibilities for taking such steps as are reasonably available to them to safeguard the assets of the Group as well as to prevent and detect fraud and other irregularities.

The above statement of the Directors' responsibilities for preparing the financial statements was made in accordance with a Board resolution dated 25 May 2006.

Financial Statements Contents

- 22 Directors' Report
- 26 Statement by Directors / Statutory Declaration
- 27 Report of the Auditors
- 28 Income Statements
- 29 Balance Sheets
- 31 Consolidated Statement of Changes In Equity
- 32 Company Statement of Changes In Equity
- 33 Cash Flow Statements
- 35 Notes to the Financial Statements

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

Principal Activities

The principal activities of the Company are investment holding and provision of management services. The principal activities of the subsidiaries are stated in Note 15 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

Results	Group RM	Company RM
Profit after taxation	16,007,699	3,465,237
Minority interest	25,520	-
Net profit for the year	<u>16,033,219</u>	<u>3,465,237</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

Since the end of the previous financial year, the Company paid a first and final dividend of 6% less 28% taxation totalling RM2,885,760 in respect of the financial year ended 31 December 2004 on 9 September 2005.

At the forthcoming Annual General Meeting, a first and final gross dividend of 3.9% less 28% taxation, and 2.1% tax exempt in respect of the financial year ended 31 December 2005 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006.

Significant Events

- (a) On 27 October 2005, the Company signed a Memorandum of Understanding ("MOU") with Petrosab Logistik Sdn. Bhd. in relation to the proposed joint venture for establishment and development of viable commercial activities within the petrochemical and fabrication engineering sectors as well as provision of other related services to support the upstream and downstream oil and gas sectors in Malaysia. The MOU is valid for a period of one year from the date of execution of the MOU unless extended by mutual consent of both parties to the MOU or shall expire upon the execution of the Joint Venture Agreement, whichever is earlier.
- (b) On 13 December 2005, the Company aborted the proposed private placement of up to 66,800,000 new ordinary shares of RM0.20 each which was approved by the shareholders on 18 October 2004.
- (c) On 4 January 2006, the Company signed a Memorandum of Understanding ("MOU") with Yayasan Sabah Dua Shipping Sdn. Bhd. in relation to the proposed joint venture for the purpose of owning, operating, and/or managing offshore support vessels intended for the offshore oil and gas industry in Malaysia. The MOU is valid for a period of one year from the date of execution of the MOU unless extended by mutual consent of both parties to the MOU or shall expire upon the execution of the Joint Venture Agreement, whichever is earlier.

Directors' Report (Cont'd)

Directors

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

Ng Chin Heng
Ng Chin Shin
Ng Chin Keuan
Kwan Cheong Kaw @ Kuan Yeek Chieu
Loh Thian Sang @ Lo Thian Siang

Directors' Benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than that arising from share options granted pursuant to the Employee Share Options Scheme ("ESOS").

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 9 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 32 to the financial statements.

Directors' Interests

According to the Register of Directors' Shareholdings, the interests of Directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

The Company	Number of Ordinary Shares of RM0.20 Each			
	1.1.2005	Acquired	Disposed	31.12.2005
Direct Interest:				
Ng Chin Heng	8,051,400	-	-	8,051,400
Ng Chin Keuan	5,778,200	-	-	5,778,200
Ng Chin Shin	5,778,200	-	-	5,778,200
Kwan Cheong Kaw @ Kuan Yeek Chieu	30,000	-	-	30,000
Indirect Interest:				
Ng Chin Heng	191,114,000	404,600	-	191,518,600
Ng Chin Keuan	38,500	190,000	-	228,500

Ng Chin Heng, by virtue of his interests in shares in the Company, is deemed interested in the shares of all the subsidiary companies to the extent the Company has an interest.

Directors' Report (Cont'd)

The interests of directors in options granted to subscribe for ordinary shares in the Company pursuant to the ESOS are as follows:

Name of directors	Number of Options Over Ordinary Shares of RM0.20 Each			
	1.1.2005	Granted	Exercised	31.12.2005
Ng Chin Heng	-	3,000,000	-	3,000,000
Ng Chin Shin	-	2,000,000	-	2,000,000
Ng Chin Keuan	-	2,000,000	-	2,000,000

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

Employee Share Options Scheme ("ESOS")

The Company's ESOS for eligible employees and directors of the Company and its subsidiary companies was approved by the shareholders at the Extraordinary General Meeting held on 18 October 2004. The ESOS became effective on 18 January 2005 when the last requisite approval was obtained and is valid for a period of five years expiring on 17 January 2010.

The salient features and terms of the ESOS are detailed in Note 27 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 2,000,000 ordinary shares of RM0.20 each. The list of employees granted options to subscribe for 2,000,000 or more ordinary shares of RM0.20 each during the financial year is as follows:

Name	Grant date	Expiry date	Exercise price RM	← Number of Options Over Ordinary Shares of RM0.20 Each →		
				Granted	Exercised	31.12.2005
Pang Fong Thau*	14 July 2005	17 January 2010	0.51	2,000,000	-	2,000,000
Ng Chin Kok*	14 July 2005	17 January 2010	0.51	2,000,000	-	2,000,000

Details of options granted to Directors are disclosed in the section on Directors' Interests in this report.

* Directors of subsidiary companies

Other Statutory Information

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

Directors' Report (Cont'd)

Other Statutory Information (Contd.)

- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

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

NG CHIN HENG

Sandakan, Malaysia

NG CHIN KEUAN

Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, NG CHIN HENG and NG CHIN KEUAN, being two of the Directors of COASTAL CONTRACTS BHD., do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 28 to 70 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

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

NG CHIN HENG

NG CHIN KEUAN

Sandakan, Malaysia

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, VOO VUN YAU, being the officer primarily responsible for the financial management of COASTAL CONTRACTS BHD., do solemnly and sincerely declare that the accompanying financial statements set out on pages 28 to 70 are in my opinion 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
VOO VUN YAU at Sandakan
in the State of Sabah on

VOO VUN YAU

Before me -

Report of the Auditors to the Members of

COASTAL CONTRACTS BHD.
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 28 to 70. These financial statements are the responsibility of the Company's Directors.

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

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' report thereon of the subsidiary company of which we have not acted as auditors, as indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.

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

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG

AF: 0039

Chartered Accountants

CHONG YEW HOONG

1502/04/07 (J)

Partner

Sandakan, Malaysia

Income Statements

For the Year Ended 31 December 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
Revenue	6	103,164,608	69,558,210	5,450,000	300,000
Cost of sales and services		(83,577,609)	(50,662,688)	-	-
Gross profit		19,586,999	18,895,522	5,450,000	300,000
Other operating income		5,238,000	3,964,996	62,555	72,214
Other operating expenses		(579,835)	(710,031)	-	-
Administrative expenses		(5,034,798)	(4,277,050)	(633,623)	(334,009)
Profit from operations	7	19,210,366	17,873,437	4,878,932	38,205
Finance costs	10	(2,639,150)	(2,300,762)	-	-
Profit before taxation		16,571,216	15,572,675	4,878,932	38,205
Taxation	11	(563,517)	(1,759,410)	(1,413,695)	(25,250)
Profit after taxation		16,007,699	13,813,265	3,465,237	12,955
Minority interest		25,520	7,748	-	-
Net profit for the year		16,033,219	13,821,013	3,465,237	12,955
Earnings per share (sen):					
- Basic	12(a)	4.80	4.14		
- Diluted	12(b)	4.79	-		
Net dividend per share (sen):	13	0.98	0.86		

The accompanying notes form an integral part of the financial statements.

Balance Sheets

As at 31 December 2005

	Note	2005 RM	Group 2004 RM	2005 RM	Company 2004 RM
Non-Current Assets					
Property, plant and equipment	14	82,888,664	67,424,020	-	-
Investments in subsidiaries	15	-	-	61,394,898	61,394,898
Goodwill on consolidation	16	2,402,298	2,402,298	-	-
Trade receivables	18	367,052	2,198,155	-	-
		<u>85,658,014</u>	<u>72,024,473</u>	<u>61,394,898</u>	<u>61,394,898</u>
Current Assets					
Inventories	17	74,017,092	31,443,262	-	-
Trade receivables	18	15,981,931	15,601,242	-	-
Due from customers on contracts	19	-	4,420,730	-	-
Other receivables	20	21,009,116	30,707,062	7,825	184,608
Amounts due from subsidiaries	21	-	-	16,423,531	15,522,207
Tax recoverable		612,372	101,367	20	-
Fixed deposits with licensed banks	22	4,153,033	100,000	-	-
Cash and bank balances		3,332,483	12,188,057	6,299	108,812
		<u>119,106,027</u>	<u>94,561,720</u>	<u>16,437,675</u>	<u>15,815,627</u>
Current Liabilities					
Trade payables	23	4,973,683	4,364,198	-	-
Other payables	24	14,934,850	11,525,821	102,893	34,491
Borrowings	25	51,228,735	26,095,429	-	-
Provision for taxation		538,668	95,771	-	25,831
		<u>71,675,936</u>	<u>42,081,219</u>	<u>102,893</u>	<u>60,322</u>
Net Current Assets		<u>47,430,091</u>	<u>52,480,501</u>	<u>16,334,782</u>	<u>15,755,305</u>
		<u>133,088,105</u>	<u>124,504,974</u>	<u>77,729,680</u>	<u>77,150,203</u>

Balance Sheets (Cont'd)

As at 31 December 2005

	Note	2005 RM	Group 2004 RM	2005 RM	Company 2004 RM
Financed By:					
Share capital	27	66,800,000	66,800,000	66,800,000	66,800,000
Reserves	28	49,561,346	36,512,591	10,929,680	10,350,203
		<u>116,361,346</u>	<u>103,312,591</u>	<u>77,729,680</u>	<u>77,150,203</u>
Shareholders' equity		116,361,346	103,312,591	77,729,680	77,150,203
Minority interest		12,566	39,982	-	-
		<u>116,373,912</u>	<u>103,352,573</u>	<u>77,729,680</u>	<u>77,150,203</u>
Deferred tax	29	10,493,228	11,752,347	-	-
Borrowings	25	6,220,965	9,400,054	-	-
		<u>16,714,193</u>	<u>21,152,401</u>	<u>-</u>	<u>-</u>
Non-current liabilities		16,714,193	21,152,401	-	-
		<u>133,088,105</u>	<u>124,504,974</u>	<u>77,729,680</u>	<u>77,150,203</u>
Net Assets Per Share		<u>0.35</u>	<u>0.31</u>	<u>0.23</u>	<u>0.23</u>

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

	Note	← Non-Distributable →			Distributable	Total RM
		Share Capital RM	Share Premium RM	Currency Translation Reserve RM	Retained Profits RM	
At 1 January 2004		66,800,000	9,850,663	48,144	16,724,878	93,423,685
Exchanges differences on translation of financial statement of a foreign entity		-	-	(84,427)	-	(84,427)
Net profit for the year		-	-	-	13,821,013	13,821,013
Dividends		-	-	-	(3,847,680)	(3,847,680)
At 31 December 2004		66,800,000	9,850,663	(36,283)	26,698,211	103,312,591
Exchanges differences on translation of financial statement of a foreign entity		-	-	(98,704)	-	(98,704)
Net profit for the year		-	-	-	16,033,219	16,033,219
Dividends	13	-	-	-	(2,885,760)	(2,885,760)
At 31 December 2005		66,800,000	9,850,663	(134,987)	39,845,670	116,361,346

The accompanying notes form an integral part of the financial statements.

Company Statement of Changes in Equity

For the Year Ended 31 December 2005

	Note	Share Capital RM	Non- Distributable Share Premium RM	Distributable Retained Profits RM	Total RM
At 1 January 2004		66,800,000	9,850,663	4,334,265	80,984,928
Net profit for the year		-	-	12,955	12,955
Dividends		-	-	(3,847,680)	(3,847,680)
At 31 December 2004		66,800,000	9,850,663	499,540	77,150,203
Net profit for the year		-	-	3,465,237	3,465,237
Dividends	13	-	-	(2,885,760)	(2,885,760)
At 31 December 2005		66,800,000	9,850,663	1,079,017	77,729,680

The accompanying notes form an integral part of the financial statements.

Cash Flow Statements

For the Year Ended 31 December 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash Flows From Operating Activities				
Profit before taxation	16,571,216	15,572,675	4,878,932	38,205
Adjustments for:				
Dividend income	-	-	(5,000,000)	-
Bad debts written off	448,509	-	-	-
Depreciation of property, plant and equipment	5,056,289	4,860,565	-	-
Equipment written off	3,393	501	-	-
Exchange differences	138,377	(88,510)	-	-
Finance costs	2,639,150	2,300,762	-	-
Gain on disposal of plant and equipment	(4,237,957)	(2,703,503)	-	-
Interest income	(271,738)	(128,125)	(62,555)	(72,214)
Loss on disposal of plant and equipment	8,400	-	-	-
Provision for doubtful debts	214,449	778,750	-	-
Unrealised loss on foreign exchange	325,850	531,126	-	-
Unrealised gain on foreign exchange	(100,643)	(144,436)	-	-
Operating profit/(loss) before working capital changes	20,795,295	20,979,805	(183,623)	(34,009)
Net change in accounts with subsidiaries	-	-	(901,324)	1,695,666
Increase in inventories	(42,573,830)	(17,008,146)	-	-
Decrease/(increase) in receivables	14,925,175	(14,595,599)	176,783	(182,208)
Increase/(decrease) in payables	3,620,179	8,543,359	68,402	(120,339)
Cash (used in)/generated from operations	(3,233,181)	(2,080,581)	(839,762)	1,359,110
Interest income	87,652	-	-	-
Finance costs paid	(25,594)	(2,201,921)	-	-
Income tax paid	(1,890,744)	(649,939)	(39,546)	(10,443)
Income tax refund	-	74,013	-	-
Net cash (used in)/generated from operating activities	(5,061,867)	(4,858,428)	(879,308)	1,348,667
Cash Flows From Investing Activities				
Net dividend received	-	-	3,600,000	-
Interest income	184,086	128,125	62,555	72,214
Proceeds from disposal of equipment	14,501,745	7,937,293	-	-
Additions of property, plant and equipment (Note 14)	(30,608,386)	(9,200,196)	-	-
Net cash (used in)/generated from investing activities	(15,922,555)	(1,134,778)	3,662,555	72,214

Cash Flow Statements (Cont'd)

For the Year Ended 31 December 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash Flows From Financing Activities				
Dividends paid	(2,885,760)	(3,847,680)	(2,885,760)	(3,847,680)
Proceeds from drawdown of revolving credits	76,115,586	37,349,333	-	-
Proceeds from drawdown of trade loans	(8,228,639)	31,280,014	-	-
Proceeds from drawdown of term loans	7,055,498	3,001,068	-	-
Repayment of term loans	(4,724,220)	(5,398,710)	-	-
Repayment of revolving credits	(47,530,346)	(21,905,333)	-	-
Repayment of trade loans	-	(31,172,867)	-	-
Repayment of hire purchase payables	(226,541)	(115,118)	-	-
Interest paid on term loans	(621,544)	-	-	-
Interest paid on trade loans	(63,869)	-	-	-
Interest paid on revolving credits	(1,736,585)	-	-	-
Interest paid on hire purchase	(45,289)	-	-	-
Net cash generated from/(used in) financing activities	17,108,291	9,190,707	(2,885,760)	(3,847,680)
Net (decrease)/increase in cash and cash equivalents	(3,876,131)	3,197,501	(102,513)	(2,426,799)
Effect of exchange rate changes	(37,289)	(360)	-	-
Cash and cash equivalents at beginning of year	11,396,695	8,199,554	108,812	2,535,611
Cash and cash equivalents at end of year (Note 30)	7,483,275	11,396,695	6,299	108,812

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2005

1. Corporate Information

The principal activities of the Company are investment holding and provision of management services. The principal activities of the subsidiaries are stated in Note 15 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad.

The registered office and the principal place of business of the Company are located at Block G, Lot 3B, Bandar Leila, W. D. T. 259, 90009 Sandakan, Sabah.

The number of employees in the Group and in the Company at the end of the financial year were 443 (2004: 391) and 5 (2004: 3) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 April 2006.

2. Significant Accounting Policies

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention.

The financial statements of the Group and of the Company comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiaries are measured at their fair values at the date of acquisition. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(c) Investments in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

(d) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's interest in the fair value of the identifiable net assets at the date of acquisition.

Goodwill is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o).

Goodwill is not amortised.

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which are not identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

(e) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(o).

Long leasehold land held on long-term leases (with remaining lease period of over 50 years) is not amortised. The non-amortisation of the long leasehold land has no material effect on the financial statements. The effect on the non-amortisation of the leasehold land is disclosed under Note 14 to the financial statements.

Depreciation of other plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life. The estimated useful lives are as follows:

Leasehold buildings	50 years
Buildings and workshops	10 - 15 years
Heavy machinery and equipment	5 - 18 years
Motor vehicles	5 years
Renovation	5 - 10 years
Slipway	20 years
Telecommunications and office equipment, furniture and fittings	5 - 10 years
Tugboats and barges	11 - 15 years

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(e) Property, Plant and Equipment, and Depreciation (Cont'd)

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(f) Construction Contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period which they are incurred.

When the total of costs incurred on construction contracts plus, recognised profits (less recognised losses), exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow moving inventories, where applicable.

Cost is determined on a weighted average basis. The costs of raw materials, stores and spares comprise the original cost of purchase plus the cost of bringing the inventories to their present location and condition. The cost of finished goods consists of direct materials, direct labour, direct charges and variable production overheads.

Work-in-progress comprises cost of materials, direct labour and overheads of unsold tugboats and barges and repairs and maintenance services in progress, and are stated at cost. Full provision is made for estimated losses where applicable.

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.

(h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank balances, bank overdrafts, demand deposits and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. They also include borrowings which are not subject to a term facility and are integral to the cash management function of the Group and of the Company.

(i) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(i) Leases (Cont'd)

(i) Finance Leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(e).

(ii) Operating Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

(j) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(k) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(l) Employee Benefits

(i) Short term benefits

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

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

(iii) Equity Compensation Benefits

The Company's Employee Share Options Scheme allows the Group's employees to acquire shares of the Company. When the options are exercised, equity is increased by the amount of the proceeds received.

(m) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenue of the Group derived from:

- (i) Sales of tugboats and barges are recognised upon delivery of the vessels to customers during the year;
- (ii) Provision of vessel repairs and maintenance services and sub-contract services are recognised upon rendering of services;
- (iii) Provision of tugboats, barges and equipment hiring income are recognised upon rendering of services;
- (iv) Ship building contract income is recognised on stage of completion method as described in Note 2(f).
- (v) Interest is recognised on a time proportion basis that reflects the effective yield on the assets; and
- (vi) Dividend income is recognised when the shareholders' right to receive payment is established.

Transactions between companies within the Group are excluded in determining the revenue of the Group.

(n) Foreign Currencies

(i) Foreign currency transactions

Foreign currency transactions are recorded in Ringgit Malaysia at the rates of exchange approximating those ruling at transaction dates. Foreign currency assets and liabilities are reported at the rates ruling at balance sheet date. All gains or losses on exchange are dealt with through the income statement.

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(n) Foreign Currencies (Cont'd)

(ii) Foreign entities

Financial statements of foreign consolidated subsidiary companies are translated into Ringgit Malaysia at the rates of exchange which approximate those prevailing at balance sheet date except for share capital, which is recorded at historical rates, while income statements are translated at average rates for the year. Exchange differences are transferred directly to the Currency Translation Reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the date of transaction.

The principal exchange rates used for each respective unit of foreign currency ruling at balance sheet date are as follows:

	2005 RM	2004 RM
United States Dollars	3.7800	3.8000
Singapore Dollars	2.2714	2.3258
Indonesian Rupiah (RP100)	0.0385	0.0408
Australian Dollars	2.7724	2.9589
Euro	4.4867	5.1729

(o) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately.

(p) Segment Information

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting segment information is in respect of business segment as the Group's risk and rates of return are affected predominantly by differences in the products it produces, while the secondary information is reported geographically.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise finance costs and corporate administration expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

(q) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Notes to the Financial Statements (Cont'd)

31 December 2005

2. Significant Accounting Policies (Cont'd)

(q) Financial Instruments (Cont'd)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iii) Interest-bearing Borrowings

Interest-bearing bank overdrafts and other facilities are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or for sale.

All other borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

3. Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the Group's business operations whilst managing its input material price, interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board of Directors and the Group's policy is not to engage in speculative transactions.

(a) Price Risk

The Group's earnings are affected by changes in the prices of its input materials and manufactured products.

Notes to the Financial Statements (Cont'd)

31 December 2005

3. Financial Risk Management Objectives and Policies (Cont'd)

(b) Interest Rate Risk

The Group's borrowings comprise a mixture of fixed and floating interest-bearing debts. The Group manages its interest exposure by maintaining a prudent mix of fixed and floating rate borrowings. This strategy allows it to gain access to cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

(c) Foreign Exchange Risk

The Group operates in Indonesia and Malaysia, and is exposed to various currencies, mainly Indonesian Rupiah, Euro, Australian Dollars, United States Dollars and Singapore Dollars. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

The Group minimises its exposure to foreign exchange risks by transacting with its business partners in Ringgit Malaysia, United States Dollars or other foreign currencies, namely Singapore Dollars, Australian Dollars and Euro which have relative strength with Ringgit Malaysia.

For those transactions in other currencies than those mentioned above, the Group will closely monitor the movement of these foreign currencies and would take appropriate action to minimise the adverse impact to the Group.

The financial assets and financial liabilities of the Group companies that are not denominated in their functional currencies are as follows:

Functional Currency of the Group

	At 31 December 2005			At 31 December 2004		
	Ringgit Malaysia RM	Indonesian Rupiah RM	Total RM	Ringgit Malaysia RM	Indonesian Rupiah RM	Total RM
Cash and Bank Balances						
Australian Dollars	13	-	13	13	-	13
Indonesian Rupiah	693,376	-	693,376	1,171,353	-	1,171,353
Singapore Dollars	7,729	37,762	45,491	7,947	38,000	45,947
United States Dollars	1,159,329	421,122	1,580,451	1,135,828	8,165,892	9,301,720
	<u>1,860,447</u>	<u>458,884</u>	<u>2,319,331</u>	<u>2,315,141</u>	<u>8,203,892</u>	<u>10,519,033</u>
Trade Receivables						
Indonesian Rupiah	1,262,595	-	1,262,595	2,271,954	-	2,271,954
Singapore Dollars	317,935	-	317,935	344,623	-	344,623
United States Dollars	4,974,289	3,926,006	8,900,295	5,138,863	4,301,325	9,440,188
	<u>6,554,819</u>	<u>3,926,006</u>	<u>10,480,825</u>	<u>7,755,440</u>	<u>4,301,325</u>	<u>12,056,765</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

3. Financial Risk Management Objectives and Policies (Cont'd)

(c) Foreign Exchange Risk (Cont'd)

	Functional Currency of the Group					
	At 31 December 2005			At 31 December 2004		
	Ringgit Malaysia RM	Indonesian Rupiah RM	Total RM	Ringgit Malaysia RM	Indonesian Rupiah RM	Total RM
Other Receivables						
Australian Dollars	27,724	-	27,724	-	-	-
Indonesian Rupiah	174,165	-	174,165	167,912	-	167,912
Ringgit Malaysia	-	47,110	47,110	-	25,896	25,896
Singapore Dollars	136,282	16,689	152,971	787,187	16,777	803,964
United States Dollars	5,101,368	8,997,504	14,098,872	5,986,915	16,202,892	22,189,807
	<u>5,439,539</u>	<u>9,061,303</u>	<u>14,500,842</u>	<u>6,942,014</u>	<u>16,245,565</u>	<u>23,187,579</u>
Trade Payables						
Indonesian Rupiah	39	-	39	41	-	41
Singapore Dollars	640,898	130,667	771,565	619,520	-	619,520
United States Dollars	205,777	1,799,378	2,005,155	914,486	-	914,486
	<u>846,714</u>	<u>1,930,045</u>	<u>2,776,759</u>	<u>1,534,047</u>	<u>-</u>	<u>1,534,047</u>
Other Payables						
Euro	-	-	-	11,667	-	11,667
Indonesian Rupiah	20,618	-	20,618	10,583	-	10,583
Ringgit Malaysia	-	45,851	45,851	-	201	201
Singapore Dollars	341	-	341	349	-	349
United States Dollars	5,095,935	4,962,078	10,058,013	1,160,619	7,012,543	8,173,162
	<u>5,116,894</u>	<u>5,007,929</u>	<u>10,124,823</u>	<u>1,183,218</u>	<u>7,012,744</u>	<u>8,195,962</u>
Fixed Deposits with Licensed Bank						
United States Dollars	-	4,053,033	4,053,033	-	-	-

Notes to the Financial Statements (Cont'd)

31 December 2005

3. Financial Risk Management Objectives and Policies (Cont'd)

(d) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

(e) Credit Risk

Credit risk is minimised and monitored by limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis by the Board of Directors.

4. Significant Events

- (a) On 27 October 2005, the Company signed a Memorandum of Understanding ("MOU") with Petrosab Logistik Sdn. Bhd. in relation to the proposed joint venture for establishment and development of viable commercial activities within the petrochemical and fabrication engineering sectors as well as provision of other related services to support the upstream and downstream oil and gas sectors in Malaysia. The MOU is valid for a period of one year from the date of execution of the MOU unless extended by mutual consent of both parties to the MOU or shall expire upon the execution of the Joint Venture Agreement, whichever is earlier.
- (b) On 13 December 2005, the Company aborted the proposed private placement of up to 66,800,000 new ordinary shares of RM0.20 each which was approved by the shareholders on 18 October 2004.

5. Subsequent Event

On 4 January 2006, the Company signed a Memorandum of Understanding ("MOU") with Yayasan Sabah Dua Shipping Sdn. Bhd. in relation to the proposed joint venture for the purpose of owning, operating, and/or managing offshore support vessels intended for the offshore oil and gas industry in Malaysia. The MOU is valid for a period of one year from the date of execution of the MOU unless extended by mutual consent of both parties to the MOU or shall expire upon the execution of the Joint Venture Agreement, whichever is earlier.

6. Revenue

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Sale of tugboats and barges	79,947,635	35,827,569	-	-
Shipbuilding construction contract income	2,252,070	14,429,930	-	-
Tugboats and barges hiring income	17,476,075	16,827,076	-	-
Vessel repairs and service income	3,488,828	2,473,635	-	-
Dividend income	-	-	5,000,000	-
Management fee income	-	-	450,000	300,000
	<u>103,164,608</u>	<u>69,558,210</u>	<u>5,450,000</u>	<u>300,000</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

7. Profit from Operations

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
This is stated after charging/ (crediting):				
Staff costs (Note 8)	6,177,946	5,352,687	219,394	118,400
Non-executive directors' fees and allowances (Note 9)	35,400	27,600	35,400	27,600
Auditors' remuneration				
- statutory audit				
- current year	60,917	55,621	15,000	15,000
- underprovision for prior years	757	-	-	-
- other services	39,000	35,000	39,000	35,000
Bad debts written off	448,509	-	-	-
Depreciation of property, plant and equipment (Note 14)	5,056,289	4,860,565	-	-
Equipment hire charges	1,500,709	570,691	-	-
Equipment written off	3,393	501	-	-
Hire of motor vehicles	4,800	4,800	-	-
Launch hired	-	1,676	-	-
Loss on disposal of plant and equipment	8,400	-	-	-
Loss on foreign exchange				
- realised	247,867	311,569	-	-
- unrealised	325,850	531,126	-	-
Office rental	34,902	30,617	-	-
Professional fees charged by an associate of the Company's auditors	13,057	12,560	1,600	1,500
Provision for doubtful debts	214,449	778,750	-	-
Tugboat hired	10,776	2,998	-	-
Equipment hiring income	(17,160)	(25,600)	-	-
Gain on disposal of plant and equipment	(4,237,957)	(2,703,503)	-	-
Gain on foreign exchange				
- realised	(88,708)	(57,467)	-	-
- unrealised	(100,643)	(144,436)	-	-
Interest income	(271,738)	(128,125)	(62,555)	(72,214)
Provision for doubtful debts written back	(57,234)	-	-	-
Rental income	(3,360)	(3,090)	-	-

Notes to the Financial Statements (Cont'd)

31 December 2005

8. Staff Costs

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Salaries, wages and bonuses	5,740,469	4,980,494	194,812	105,346
Employees' Provident Fund contributions	393,226	337,225	23,421	12,644
SOSCO contributions	44,251	34,968	1,161	410
Total staff costs	6,177,946	5,352,687	219,394	118,400

Included in staff costs of the Group are Executive Directors' remuneration amounting to RM920,424 (2004: RM749,728) as further disclosed in Note 9.

9. Directors' Remuneration

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Directors of the Company				
Executive:				
Salaries and other emoluments	758,136	604,530	-	-
Non-Executive:				
Fees and allowances	35,400	27,600	35,400	27,600
Directors of Subsidiaries				
Executive:				
Salaries and other emoluments	162,288	145,198	-	-
Total	955,824	777,328	35,400	27,600

The estimated monetary value of benefits-in-kind provided to the directors of the Group by way of usage of the Group's assets and the provision of other benefits amounted to RM48,550 (2004: RM14,775).

Notes to the Financial Statements (Cont'd)

31 December 2005

10. Finance Costs

	Group	
	2005 RM	2004 RM
Interests on:-		
Bank overdrafts	25,594	41,430
Hire purchase	45,289	22,424
Others	-	24
Revolving credits	1,882,769	793,518
Term loans	621,544	1,037,687
Trade loans	63,954	405,679
	<u>2,639,150</u>	<u>2,300,762</u>

11. Taxation

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Income tax:				
On results for the year	1,678,311	465,165	1,413,480	25,831
Real Property Gains Tax	-	658	-	-
Labuan offshore business activity	20,000	20,000	-	-
Foreign tax	5,685	6,710	-	-
	<u>1,703,996</u>	<u>492,533</u>	<u>1,413,480</u>	<u>25,831</u>
Under/(over)provided in prior years:				
Malaysian income tax	118,640	3,924	215	(581)
	<u>1,822,636</u>	<u>496,457</u>	<u>1,413,695</u>	<u>25,250</u>
Deferred tax (Note 29):				
Relating to origination and reversal of temporary differences	(1,282,356)	1,373,025	-	-
Under/(over)provided in prior years	23,237	(110,072)	-	-
	<u>(1,259,119)</u>	<u>1,262,953</u>	<u>-</u>	<u>-</u>
Tax expense for the year	<u>563,517</u>	<u>1,759,410</u>	<u>1,413,695</u>	<u>25,250</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

11. Taxation (Cont'd)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Profit before taxation	<u>16,571,216</u>	<u>15,572,675</u>	<u>4,878,932</u>	<u>38,205</u>
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	4,639,940	4,360,349	1,366,101	10,697
Effect of income subject to tax rate of 20%*	(105,744)	(42,748)	-	-
Effect of different tax rates in Indonesia and Labuan Offshore	(3,434,182)	(1,451,580)	-	-
Effect on tax exempt profit#	(688,995)	(1,257,391)	-	-
Effect of income not subject to tax	(332,793)	(542,229)	(17,515)	-
Effect of expenses not deductible for tax purposes	343,414	798,499	64,894	15,134
Under/(over)provision of tax expense in prior years	118,640	3,924	215	(581)
Malaysian Real Property Gains Tax	-	658	-	-
Under/(over)provision of deferred tax in prior years	23,237	(110,072)	-	-
Tax expense for the year	<u>563,517</u>	<u>1,759,410</u>	<u>1,413,695</u>	<u>25,250</u>

* Pursuant to Paragraph 2A, Schedule 1, Part 1 of the Income Tax Act, 1967, the income tax rate applicable to the first RM500,000 of the chargeable income of three of the subsidiary companies is 20% as these companies are considered as small and medium scale companies.

One of its subsidiary companies had been granted pioneer status under the Promotion of Investments Act, 1986 which exempts 85% of its statutory income from shipbuilding activity for a period of 5 years from 1 April 2000 to 31 March 2005.

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Tax losses are analysed as follows:				
Unutilised tax losses carried forward	<u>-</u>	<u>74,250</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

11. Taxation (Cont'd)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Tax savings recognised during the year arising from:				
Utilisation of current year capital allowance	2,555,314	3,000,431	-	-
Utilisation of unabsorbed capital allowance brought forward from previous years	28,243	583,471	-	-
Utilisation of unutilised tax losses brought forward from previous years	20,790	-	-	-
Unabsorbed capital allowances carried forward	-	125,765	-	-

12. Earnings Per Share

(a) Basic

Basic earnings per share are calculated by dividing the Group's net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2005 RM	2004 RM
Net profit for the year (RM)	16,033,219	13,821,013
Weighted average number of ordinary shares in issue	334,000,000	334,000,000
Basic earnings per share (sen)	4.80	4.14

(b) Diluted

For the purpose of calculating diluted earnings per share, the net profit for the year and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, namely share options granted to employees.

Net profit for the year (RM)	2005 16,033,219
------------------------------	--------------------

Notes to the Financial Statements (Cont'd)

31 December 2005

12. Earnings Per Share (Cont'd)

(b) Diluted (Cont'd)

	2005
Weighted average number of ordinary shares in issue	334,000,000
Effect of dilution in share options	<u>730,233</u>
Adjusted weighted average number of ordinary shares in issue and issuable	<u>334,730,233</u>
 Diluted earnings per share (sen)	 <u>4.79</u>

Comparative diluted earnings per share has not been presented as there were no potential ordinary shares outstanding during the previous financial year.

13. Dividends

	Amount		Net Dividends Per Ordinary Share	
	2005 RM	2004 RM	2005 Sen	2004 Sen
In respect of financial year ended				
- 31 December 2004				
First and final dividend of 6% less 28% taxation, paid on 9 September 2005	-	2,885,760	-	0.86
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At the forthcoming Annual General Meeting, a first and final gross dividend of 3.9% less 28% taxation, and 2.1% tax exempt in respect of the financial year ended 31 December 2005 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006.

Notes to the Financial Statements (Cont'd)

31 December 2005

14. Property, Plant and Equipment - Group

	Leasehold Land, Buildings and Workshops RM	Slipway RM	Tugboats, Barges, Heavy Machinery and Equipment RM	Motor Vehicles RM	Telecom- munication and Office Equipment, Furniture, Fittings and Renovations RM	Total RM
Cost						
At 1 January 2005	7,597,342	10,894,192	66,454,145	1,235,257	1,468,559	87,649,495
Additions	91,290	-	30,311,766	458,880	128,450	30,990,386
Disposals	-	-	(14,096,180)	-	(1,302)	(14,097,482)
Scrapped	-	-	-	(32,141)	(6,170)	(38,311)
Exchange differences	-	-	(245,452)	(2,560)	(856)	(248,868)
At 31 December 2005	7,688,632	10,894,192	82,424,279	1,659,436	1,588,681	104,255,220
Accumulated Depreciation						
At 1 January 2005	1,788,760	2,446,119	14,311,784	724,020	954,792	20,225,475
Charge for the year	260,005	549,108	3,851,901	234,467	160,808	5,056,289
Disposals	-	-	(3,824,589)	-	(705)	(3,825,294)
Scrapped	-	-	-	(32,140)	(2,778)	(34,918)
Exchange differences	-	-	(51,961)	(2,356)	(679)	(54,996)
At 31 December 2005	2,048,765	2,995,227	14,287,135	923,991	1,111,438	21,366,556
Net Book Value						
At 31 December 2005	5,639,867	7,898,965	68,137,144	735,445	477,243	82,888,664
At 31 December 2004	5,808,582	8,448,073	52,142,361	511,237	513,767	67,424,020
Depreciation charge for 2004						
	266,608	536,167	3,817,888	91,209	148,693	4,860,565

Notes to the Financial Statements (Cont'd)

31 December 2005

14. Property, Plant and Equipment - Group (Cont'd)

Leasehold land, buildings and workshops comprise:

	Long Leasehold Land RM	Leasehold Buildings RM	Buildings and Workshops RM	Total RM
Cost				
At 1 January 2005	2,659,604	1,271,167	3,666,571	7,597,342
Additions	-	-	91,290	91,290
At 31 December 2005	2,659,604	1,271,167	3,757,861	7,688,632
Accumulated Depreciation				
At 1 January 2005	-	310,361	1,478,399	1,788,760
Charge for the year	-	25,424	234,581	260,005
At 31 December 2005	-	335,785	1,712,980	2,048,765
Net Book Value				
At 31 December 2005	2,659,604	935,382	2,044,881	5,639,867
At 31 December 2004	2,659,604	960,806	2,188,172	5,808,582
Depreciation charge for 2004	-	25,424	241,184	266,608

- (a) During the financial year, the Group acquired property, plant and equipment at aggregate costs of RM30,990,386 (2004: RM9,722,196) of which RM382,000 (2004: RM522,000) was acquired by means of hire purchase arrangements.
- (b) Net book values of property, plant and equipment held under hire purchase arrangements are as follows:

	Group	
	2005 RM	2004 RM
Heavy equipment	202,150	228,350
Motor vehicles	683,600	449,107
	<u>885,750</u>	<u>677,457</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

14. Property, Plant and Equipment - Group (Cont'd)

(c) The net book values of property, plant and equipment pledged for borrowings (Note 25) are as follows:

	Group	
	2005 RM	2004 RM
Long leasehold land and buildings	3,553,958	3,536,851
Slipway	7,898,965	8,448,073
Short leasehold buildings	1,720,219	2,084,232
Tugboats, barges, heavy machinery and equipment	15,617,146	24,609,019
Motor vehicles	691,434	482,483
Telecommunication and office equipments, furniture, fittings and renovation	205,053	203,067
	29,686,775	39,363,725

(d) The financial impact of non-amortisation of the long leasehold land on the financial results as stated in Note 2(e) is a decrease in amortisation charge for the Group of RM39,111 (2004: RM38,365).

15. Investments in Subsidiaries

	Company	
	2005 RM	2004 RM
Unquoted shares in Malaysia - at cost	61,394,898	61,394,898

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Principal Activities	Equity Interest Held by the Group	
			2005 %	2004 %
Bonafide Shipbuilders & Repairs Sdn. Bhd.	Malaysia	Fabrication and sale of marine transportation vessels	100	100
Coastal Transport (Sandakan) Sdn. Bhd.	Malaysia	Provision of tugboat and barge transportation, equipment hiring services and property letting	100	100
Coastway Transport Sdn. Bhd.	Malaysia	Provision of vessel chartering and related services	100	100

Notes to the Financial Statements (Cont'd)

31 December 2005

15. Investments in Subsidiaries (Cont'd)

Details of the subsidiaries are as follows: (Cont'd)

Name of Subsidiaries	Country of Incorporation	Principal Activities	Equity Interest Held by the Group	
			2005 %	2004 %
Seri Modalwan Sdn. Bhd.	Malaysia	Fabrication and sale of marine transportation vessels, provision of ship repairs and maintenance services and sub-contract services	100	100
Coastal Offshore (Labuan) Pte Ltd	Malaysia	Sale of marine transportation vessels, provision of bareboat chartering and leasing services to non-Malaysia residents	100	100
Subsidiary company of Coastal Offshore (Labuan) Pte Ltd				
PT. Cosarana Marine #	Indonesia	Provision of tugboat and barge hiring services	95	95

Audited by firm of auditors other than Ernst & Young.

16. Goodwill on Consolidation

	Goodwill RM	Negative Goodwill RM	Total RM
Group			
At beginning and end of year	6,156,168	(3,753,870)	2,402,298

Notes to the Financial Statements (Cont'd)

31 December 2005

17. Inventories

	2005 RM	Group 2004 RM
At cost -		
Finished goods	11,558,581	864,767
Input materials	13,582,573	8,070,638
Work-in-progress	48,460,674	22,453,765
Spare parts	415,264	54,092
	<u>74,017,092</u>	<u>31,443,262</u>

There were no inventories stated at net realisable value as at 31 December 2005 and 2004.

18. Trade Receivables

	2005 RM	Group 2004 RM
Trade receivables	16,933,577	20,291,977
Less: Provision for doubtful debts		
At beginning of year	(2,492,580)	(3,060,618)
Bad debts written off against provision for doubtful debts	1,914,058	1,305,884
Exchange differences	136,694	40,904
Doubtful debts written back	57,234	-
Provision for the year	(200,000)	(778,750)
At end of year	<u>(584,594)</u>	<u>(2,492,580)</u>
	<u>16,348,983</u>	<u>17,799,397</u>
Receivable within 12 months	15,981,931	15,601,242
Receivable after 12 months	367,052	2,198,155
	<u>16,348,983</u>	<u>17,799,397</u>

Included in trade receivables is an amount of RM153,328 (2004: RM62,727) due from a company in which the spouse of a director of one of the subsidiary companies is also a director and has financial interest.

The Group's normal trade credit term ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

Notes to the Financial Statements (Cont'd)

31 December 2005

19. Due from Customers on Contracts

	2005 RM	Group 2004 RM
Shipbuilding construction contract costs incurred to date	-	11,416,312
Attributable profits	-	3,013,618
	-	14,429,930
Less: Progress billings	-	(10,009,200)
Due from customers on contracts	-	4,420,730

The costs incurred to-date on construction contracts include the following charges made during the financial year:

	2005 RM	Group 2004 RM
Depreciation of property, plant and equipment	-	46,816
Loss on foreign exchange	-	32,076
- Realised	-	4,967
- Unrealised	-	-

20. Other Receivables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Deposits paid to suppliers and contractors	15,018,371	20,303,486	-	-
Deposits	340,525	330,174	2,400	2,400
Prepayments	299,946	398,157	5,425	8,993
Sundry receivables	5,365,723	9,676,245	-	173,215
	21,024,565	30,708,062	7,825	184,608
Less: Provision for doubtful debts				
At beginning of year	(1,000)	(1,000)	-	-
Provision for the year	(14,449)	-	-	-
At end of year	(15,449)	(1,000)	-	-
	21,009,116	30,707,062	7,825	184,608

As at balance sheet date, apart from deposits paid to 1 (2004: 1) contractor representing 53% (2004: 32%) of total net other receivables, the Group has no significant concentration of credit risk.

Notes to the Financial Statements (Cont'd)

31 December 2005

21. Amounts Due from Subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

22. Fixed Deposits with Licensed Banks

	Average maturity of deposits Days	2005 RM	Group 2004 RM
Fixed deposits held under lien as security for guarantees issued by the bankers in favour of third parties	365	100,000	100,000
Fixed deposits held under lien as security for banking facility granted to a subsidiary company	30	4,053,033	-
		<u>4,153,033</u>	<u>100,000</u>

The effective interest rates of deposits at the balance sheet date ranged from 3.7% to 4.25% (2004: 3.7%) per annum.

23. Trade Payables

The normal trade credit terms granted to the Group range from 30 days to 90 days.

24. Other Payables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Accruals	1,374,386	2,451,667	65,236	20,796
Amount payable to vessel suppliers	4,562,460	-	-	-
Deposits received from vessel buyers	7,682,550	8,393,820	-	-
Deposits received from vessel charterers	283,315	-	-	-
Rental deposits	560	560	-	-
Sundry payables	1,031,579	679,774	37,657	13,695
	<u>14,934,850</u>	<u>11,525,821</u>	<u>102,893</u>	<u>34,491</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

25. Borrowings

	Group	
	2005 RM	2004 RM
Short Term Borrowings		
Secured:		
Bank overdrafts (Note 30)	2,241	891,362
Trade loans	207,692	1,380,833
Revolving credits	49,085,240	20,500,000
Islamic bank loan	27,411	23,088
Term loans	1,696,569	3,136,582
Hire purchase payables (Note 26)	209,582	163,564
	<u>51,228,735</u>	<u>26,095,429</u>
Long Term Borrowings		
Secured:		
Islamic bank loan	10,322	39,736
Term loans	5,718,216	8,977,332
Hire purchase payables (Note 26)	492,427	382,986
	<u>6,220,965</u>	<u>9,400,054</u>
Total Borrowings		
Secured:		
Bank overdrafts (Note 30)	2,241	891,362
Trade loans	207,692	1,380,833
Revolving credits	49,085,240	20,500,000
Islamic bank loan	37,733	62,824
Term loans	7,414,785	12,113,914
Hire purchase payables (Note 26)	702,009	546,550
	<u>57,449,700</u>	<u>35,495,483</u>
Maturity of borrowings (excluding hire purchase):		
Within 1 year	51,019,153	25,931,865
More than 1 year and less than 2 years	1,672,609	2,460,335
More than 2 years and less than 5 years	2,709,753	3,988,782
5 years or more	1,346,176	2,567,951
	<u>56,747,691</u>	<u>34,948,933</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

25. Borrowings (Cont'd)

The weighted average effective interest rates or profit rate at the balance sheet date for borrowings, excluding hire purchase payables, were as follows:

	Group	
	2005 %	2004 %
Bank overdrafts	8.75	7.32
Trade loans	7.50	7.92
Revolving credits	6.00	4.78
Islamic bank loan	10.50	10.50
Term loans	6.51	6.64

Borrowings, excluding hire purchase payables, are secured by the following:

- (a) legal charges over certain assets of certain subsidiary companies as disclosed in Note 14 to the financial statements;
- (b) third party legal charges over the leasehold buildings of a company in which certain Directors of the Company are also directors and have financial interests;
- (c) guarantees given by certain Directors of the Company and a director of certain subsidiary companies;
- (d) corporate guarantees issued by the Company and certain subsidiary companies; and
- (e) legal charges over all present and future fixed and floating assets of certain subsidiary companies.

26. Hire Purchase Payables

	Group	
	2005 RM	2004 RM
Minimum hire purchase payments:		
Not later than 1 year	241,224	193,004
Later than 1 year and not later than 2 years	192,812	155,232
Later than 2 years and not later than 5 years	335,341	263,030
	<u>769,377</u>	<u>611,266</u>
Less: Future finance charges	(67,368)	(64,716)
	<u>702,009</u>	<u>546,550</u>
Present value of hire purchase liabilities:		
Not later than 1 year	209,582	163,564
Later than 1 year and not later than 2 years	172,517	137,265
Later than 2 years and not later than 5 years	319,910	245,721
	<u>702,009</u>	<u>546,550</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

26. Hire Purchase Payables (Cont'd)

	Group	
	2005 RM	2004 RM
Analysed as:		
Due within 12 months (Note 25)	209,582	163,564
Due after 12 months (Note 25)	492,427	382,986
	702,009	546,550

The hire purchase liabilities bore interest at the balance sheet date of 4.76% - 8.96% (2004: 5.19% - 8.96%) per annum.

27. Share Capital

	Number of Ordinary Shares of RM0.20 Each		Amount	
	2005	2004	2005 RM	2004 RM
Authorised				
At beginning of year	2,500,000,000	500,000,000	500,000,000	500,000,000
Sub-division of shares	-	2,000,000,000	-	-
	2,500,000,000	2,500,000,000	500,000,000	500,000,000
At end of year	2,500,000,000	2,500,000,000	500,000,000	500,000,000
Issued and fully paid				
At beginning of year	334,000,000	66,800,000	66,800,000	66,800,000
Sub-division of shares	-	267,200,000	-	-
	334,000,000	334,000,000	66,800,000	66,800,000
At end of year	334,000,000	334,000,000	66,800,000	66,800,000

Employee Share Options Scheme ("ESOS")

The Company's ESOS for eligible employees and directors of the Company and its subsidiary companies which was approved by the shareholders at the Extraordinary General Meeting held on 18 October 2004 became effective on 18 January 2005 when the last of the requisite approvals was obtained and is valid for a period of five years expiring on 17 January 2010.

The salient features of the ESOS are as follows:

- (a) the maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company at any point in time during the duration of the ESOS, or such percentage that may be permitted by the relevant regulatory authorities during the duration of the ESOS.

Notes to the Financial Statements (Cont'd)

31 December 2005

27. Share Capital (Cont'd)

Employee Share Options Scheme ("ESOS") (Cont'd)

- (b) the aggregate maximum number of shares that may be offered and allocated to the various grades of eligible employees shall be subject to the following:
- (i) not more than fifty percent (50%) of the new shares available under the ESOS should be allocated, in aggregate, to the directors and senior management of the Group; and
 - (ii) not more than ten percent (10%) of the new shares available under the ESOS should be allocated to any individual director or employee who, either singly or collectively through persons connected with the eligible employees, holds twenty percent (20%) or more in the issued and paid-up capital of the Company.
- (c) any director or employee of the Company and its subsidiaries, who fulfills the following conditions shall be eligible to participate in the ESOS if the director or employee, as the case may be:
- (i) is at least eighteen years of age on the date of offer; and
 - (ii) is a natural person who is a Malaysian citizen who is confirmed as at the date of offer and must have served the Group on a full-time basis for a continuous period of six months or such other period as may be determined by the Option Committee; or
 - (iii) is serving under an employment or service contract, the employee shall have served the Company on a full time basis for a continuous period of six months or such other period as may be determined by the Option Committee, as at the date of offer under the contract and renewal thereof; or
 - (iv) is employed by a subsidiary (other than a subsidiary which is dormant) of the Company, the employee's period of employment in the Group, for purposes of determining the minimum continuous service as stipulated in paragraph above, shall be deemed to commence from the date on which such company becomes a subsidiary of the Group; or
 - (v) is a Director of a company within the Group who has held office for at least one year in the Group and whose entitlement under the ESOS is approved by shareholders of the Company in general meeting (for Directors of the Company only), and who is not prohibited or disallowed by the relevant authorities from participating in the ESOS; or
 - (vi) is a foreign employee, in addition to the conditions stipulated in paragraphs (i) to (iv) above, the employee's contribution must be deemed by the Option Committee to be vital to the Group. In the case of a foreign director, he must have held office for a period of at least one year.
- (d) a director in a non-executive capacity who is eligible pursuant to By-Law 5.1, must not sell, transfer or assign the shares obtained through the exercise of the options granted pursuant to the ESOS within one year from the date of offer of the options.
- (e) The ESOS shall be in force for a period of five years from the effective date. The date of expiry of the ESOS shall be at the end of the five years from the effective date. However, on or before the expiry thereof, the Option Committee may extend the duration or tenure of the ESOS beyond five years from the effective date with the approval of the relevant authorities and shareholders of the Company and without contravening any applicable laws prevailing at the time of such extension subject to a maximum duration of ten years.
- (f) The new shares to be allotted and issued upon any exercise of the options shall, upon allotment and issue, rank pari passu in all respects with the existing issued and fully paid-up ordinary shares of the Company save and except that the new shares will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new shares and shall be subject to the provisions of the Articles of Association of the Company.

Notes to the Financial Statements (Cont'd)

31 December 2005

27. Share Capital (Cont'd)

The terms of share options outstanding as at the end of the financial year are as follows:

Grant date	Expiry date	Exercise price RM	Number of Share Options			31.12.2005
			Granted	Exercised	Terminated	
14 July 2005	17 January 2010	0.51	30,482,000	-	(533,000)	29,949,000

Number of share options vested which represents the balance of employees' share option entitlements exercisable as at the end of the financial year:

	2005	2004
At beginning of year	-	-
At end of year	29,949,000	-

There were no share options being exercised by the grantees during the financial year.

28. Reserves

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
(a) Non-distributable:				
Share premium	9,850,663	9,850,663	9,850,663	9,850,663
Currency translation reserve	(134,987)	(36,283)	-	-
	<u>9,715,676</u>	<u>9,814,380</u>	<u>9,850,663</u>	<u>9,850,663</u>
(b) Distributable:				
Retained profits	39,845,670	26,698,211	1,079,017	499,540
	<u>49,561,346</u>	<u>36,512,591</u>	<u>10,929,680</u>	<u>10,350,203</u>

As at 31 December 2005, the Company has tax exempt profits available for distribution of approximately RM80,000 (2004: RM80,000), subject to the agreement of the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax-exempt income account balance to frank the payment of dividends out of its entire retained profits as at 31 December 2005.

Notes to the Financial Statements (Cont'd)

31 December 2005

29. Deferred Tax

	Group	
	2005 RM	2004 RM
At beginning of year	11,752,347	10,489,394
Recognised in income statement (Note 11)	(1,259,119)	1,262,953
At end of year	<u>10,493,228</u>	<u>11,752,347</u>
Presented after offsetting:		
Deferred tax assets	(1,260,678)	(695,051)
Deferred tax liabilities	11,753,906	12,447,398
	<u>10,493,228</u>	<u>11,752,347</u>

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities of the Group:

	Property, Plant and Equipment RM	Trade Receivables RM	Total RM
At 1 January 2005	13,086,903	(639,505)	12,447,398
Recognised in income statement	(1,235,333)	541,841	(693,492)
At 31 December 2005	<u>11,851,570</u>	<u>(97,664)</u>	<u>11,753,906</u>
At 1 January 2004	12,137,841	(776,772)	11,361,069
Recognised in income statement	949,062	137,267	1,086,329
At 31 December 2004	<u>13,086,903</u>	<u>(639,505)</u>	<u>12,447,398</u>

Deferred Tax Assets of the Group:

	Tax Losses and Unabsorbed Capital Allowances RM	Deferred Income RM	Total RM
At 1 January 2005	(56,004)	(639,047)	(695,051)
Recognised in income statement	56,004	(621,631)	(565,627)
At 31 December 2005	<u>-</u>	<u>(1,260,678)</u>	<u>(1,260,678)</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

29. Deferred Tax (Cont'd)

Deferred Tax Assets of the Group: (Cont'd)

	Tax losses and Unabsorbed Capital Allowances RM	Deferred Income RM	Total RM
At 1 January 2004	(515,724)	(355,951)	(871,675)
Recognised in income statement	459,720	(283,096)	176,624
At 31 December 2004	<u>(56,004)</u>	<u>(639,047)</u>	<u>(695,051)</u>

30. Cash and Cash Equivalents

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Fixed deposits pledged	4,153,033	100,000	-	-
Cash and bank balances	3,332,483	12,188,057	6,299	108,812
Bank overdrafts (Note 25)	<u>(2,241)</u>	<u>(891,362)</u>	<u>-</u>	<u>-</u>
	<u>7,483,275</u>	<u>11,396,695</u>	<u>6,299</u>	<u>108,812</u>

Fixed deposits of the Group amounting to RM4,153,033 (2004: RM100,000) are pledged to banks as securities for banking facilities granted to a subsidiary company and issuance of bank guarantees in favour of several third parties.

31. Contingent Liabilities

	Company	
	2005 RM	2004 RM
Unsecured		
Corporate guarantees given to banks to secure credit facilities granted to subsidiary companies	<u>104,449,000</u>	<u>81,447,000</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

32. Significant Related Party Transactions

Group

	2005 RM	2004 RM
Purchase of fuel and oil from Syarikat Guan Huat Trading*	892,413	696,627
Hiring of motor vehicle from Top Pride Sdn. Bhd.*	4,800	4,800
Rent of premises Top Pride Sdn. Bhd.*	2,700	-
Barge hiring income - PT. Prima Armada Nusantara**	505,676	62,727
Agency service fees - PT. Prima Armada Nusantara **	13,634	-

* A partnership/company in which Ng Chin Heng, Pang Fong Thau, Ng Chin Keuan, Ng Chin Kok and Ng Chin Shin have financial interests.

** A company in which the spouse of Ng Chin Kok has financial interests.

Company

	2005 RM	2004 RM
Dividends received from a subsidiary company - Bonafile Shipbuilders & Repairs Sdn. Bhd.	5,000,000	-
Management fee income from subsidiary companies - Bonafile Shipbuilders & Repairs Sdn. Bhd.	174,000	116,000
- Coastal Transport (Sandakan) Sdn. Bhd.	204,000	136,000
- Seri Modalwan Sdn. Bhd.	72,000	48,000
Interest income from a subsidiary company - Coastal Offshore (Labuan) Pte Ltd	62,555	-

All non-trade transactions have been fully settled as at 31 December 2005. The outstanding balance of trade transactions is disclosed in Note 18 to the financial statements.

The Directors are of the opinion that the above transactions were entered into in the normal course of business and have been established on terms and conditions that are mutually agreed between the respective parties.

Notes to the Financial Statements (Cont'd)

31 December 2005

33. Fair Values

There is no disclosure of fair value for investments in subsidiaries and leases as these are excluded from MASB 24 - *Financial Instruments: Disclosure and Presentation*.

It is not practicable to estimate the fair values of amounts due from subsidiary companies due principally to a lack of fixed repayment terms entered into by the parties involved.

The nominal amount and fair value of financial instruments not recognised in the balance sheet of the Company as at the end of the financial year are:

		2005		2004	
	Note	Nominal Amount RM	Fair Value RM	Nominal Amount RM	Fair Value RM
Contingent Liabilities	31	<u>104,449,000</u>	<u>57,392,234</u>	<u>81,447,000</u>	<u>32,530,174</u>

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

- (i) Cash and Cash Equivalents, Trade and Other Receivables/Payables and Short Term Borrowings

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

- (ii) Borrowings

The fair value of borrowings is estimated to approximate the carrying amounts.

34. Segmental Information

- (i) *The Business Segment*

The Group's operations comprise the following business Segments:

Vessels manufacturing and repairing services	-	Fabrication and sale of marine transportation vessels and provision of ship repairs and maintenance services.
Vessels chartering and equipment hire	-	Provision of vessels transportation and equipment hiring services.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions mutually agreed between the relevant parties.

Notes to the Financial Statements (Cont'd)

31 December 2005

34. Segmental Information (Cont'd)

(i) <i>The Business Segment (Cont'd)</i>	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Elimination RM	Consolidated RM
2005				
Revenue				
External sales	85,688,533	17,476,075	-	103,164,608
Inter-segment sales	7,429,350	317,366	(7,746,716)	-
	<u>93,117,883</u>	<u>17,793,441</u>	<u>(7,746,716)</u>	<u>103,164,608</u>
Results				
Segment results	9,706,287	9,865,964		19,572,251
Unallocated corporate expenses				(633,623)
Interest income				271,738
Finance costs				(2,639,150)
				<u>16,571,216</u>
Taxation				(563,517)
				<u>16,007,699</u>
Gain from ordinary activities				25,520
Minority interest				
				<u>16,033,219</u>
Net profit for the financial year				<u>16,033,219</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

34. Segmental Information (Cont'd)

(i) *The Business Segment (Cont'd)*

2005

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Consolidated RM
Segment assets and liabilities			
Segment assets	121,805,367	82,332,178	204,137,545
Unallocated corporate assets			<u>626,496</u>
Consolidated total assets			<u>204,764,041</u>
Segment liabilities	10,140,698	9,664,942	19,805,640
Unallocated corporate liabilities			<u>68,584,489</u>
Consolidated total liabilities			<u>88,390,129</u>
Other information			
Capital expenditure	680,412	30,309,974	30,990,386
Depreciation	1,350,371	3,705,918	5,056,289
Non-cash expense other than depreciation	<u>81,002</u>	<u>911,199</u>	<u>992,201</u>

2004

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Elimination RM	Consolidated RM
Revenue				
External sales	52,731,134	16,827,076	-	69,558,210
Inter-segment sales	<u>7,113,135</u>	<u>286,303</u>	<u>(7,399,438)</u>	<u>-</u>
	<u>59,844,269</u>	<u>17,113,379</u>	<u>(7,399,438)</u>	<u>69,558,210</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

34. Segmental Information (Cont'd)

(i) *The Business Segment (Cont'd)*

2004

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Elimination RM	Consolidated RM
Results				
Segment results	10,151,100	7,928,221	-	18,079,321
Unallocated corporate expenses				(334,009)
Interest income				128,125
Finance costs				(2,300,762)
				<u>15,572,675</u>
Taxation				(1,759,410)
				<u>13,813,265</u>
Gain from ordinary activities				7,748
Minority interest				
Net profit for the financial year				<u>13,821,013</u>

2004

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Consolidated RM
Segment assets and liabilities			
Segment assets	97,619,086	68,572,320	166,191,406
Unallocated corporate assets			394,787
Consolidated total assets			<u>166,586,193</u>

Notes to the Financial Statements (Cont'd)

31 December 2005

34. Segmental Information (Cont'd)

(i) The Business Segment (Cont'd)

2004

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Consolidated RM
Segment liabilities	13,195,174	2,660,354	15,855,528
Unallocated corporate liabilities			47,378,092
Consolidated total liabilities			63,233,620

Other information

Capital expenditure	1,353,181	8,369,015	9,722,196
Depreciation	1,182,721	3,677,844	4,860,565
Non-cash expense other than depreciation	23,407	1,286,970	1,310,377

(ii) Geographical Segments

In determining the geographical segments of the Group, revenue is based on the geographical location of production or service facilities. Total assets and capital expenditure are based on the geographical location of assets.

	Revenue RM	Segment assets RM	Capital expenditure RM
2005			
Malaysia	35,816,119	114,842,857	13,939,575
Indonesia	67,348,489	89,294,688	17,050,811
	103,164,608	204,137,545	30,990,386
2004			
Malaysia	40,589,844	104,957,147	6,361,836
Indonesia	28,968,366	61,234,259	3,360,360
	69,558,210	166,191,406	9,722,196

List of Properties in the Group

Property / Location address	Age of buildings	Tenure/ Expiry date	Description/ existing use	Land Area/ Built-up area	Purchase price (RM)/ Date of purchase	Market Value / Valuation date (RM)	Net book value (31/12/2005) (RM)
CL 075512168 Off Mile 9, Sungai Seguntor Labuk Road, WDT 259, 90009 Sandakan, Sabah	1 to 18 years	99 years / 31 December 2073	Vessel dockyard facility	17.66 acres / 76,348.43 sq ft	11,296,433 / 24 April 1990	11,223,000 / 11 May 2001	7,668,304
1/50 undivided share of TL077508886 Lot 4A, 4th Floor, Wisma Wemin, Mile 1 1/2, Leila Road, Sandakan, Sabah	19 years since 1987	999 years / 15 December 2910	1 unit residential flat	1.027 acres / 900 sq ft	29,250 / 14 December 1995	35,000 / 11 May 2001	23,963
1/2 undivided share of TL077534313 Lot 3A , Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	22 years since 1984	999 years / 5 Feb 2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	167,180 / 6 August 1997	200,000 / 11 May 2001	203,740
1/2 undivided share of TL077534313 Lot No. 3B, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	22 years since 1984	999 years / 5 Feb 2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	167,188 / 6 August 1988	200,000 / 11 May 2001	103,376
1/2 undivided share of TL077534304 Lot 4A, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	22 years since 1984	999 years / 5 Feb 2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	167,188 / 20 April 1991	200,000 / 11 May 2001	107,082
4/11 undivided share of CL075212421 Lot No. 2 & 3, Mile 3, Labuk Road, Sandakan, Sabah	37 years since 1969	999 years / 8 Jan 2882	2 units warehouse building	1.093 acres / 4,000 sq ft	334,375 / 1 June 1984	400,000 / 11 May 2001	399,657

Shareholding Statistics

Statistics on Ordinary Shareholdings as at 5 May 2006

Authorised Share Capital	RM500,000,000
Issued and Paid-up Share Capital	RM 66,800,000
Type of Shares	Ordinary Shares of RM0.20 each
Voting Rights	One vote per ordinary share

Analysis of Shareholdings

Size of Holdings	No. of holders	No. of Shares	%
Less than 100	0	0	0.00
100 to 1,000	394	78,300	0.02
1,001 to 10,000	671	3,888,100	1.16
10,001 to 100,000	247	8,064,900	2.42
100,001 to less than 5% of issued shares	93	142,950,100	42.80
5% and above of issued shares	5	179,018,600	53.60
Total	1,410	334,000,000	100.00

List of Thirty Largest Securities Accounts Holders

No	Name	No. of Shares	%
1.	IVORY ASIA SDN BHD	63,559,995	19.03
2.	IVORY ASIA SDN BHD	50,000,000	14.97
3.	PANG FONG THAU	23,750,000	7.11
4.	PANG FONG THAU	22,500,000	6.74
5.	PANG FONG THAU	19,208,605	5.75
6.	RICKOH CORPORATION SDN BHD	14,318,900	4.29
7.	ONG SENG HENG	10,171,300	3.05
8.	PANG FONG THAU	10,000,000	2.99
9.	ALLIANZ LIFE INSURANCE MALAYSIA BERHAD	6,569,800	1.97
10.	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	6,403,000	1.92
11.	BHLB TRUSTEE BERHAD PRUGROWTH FUND	6,210,900	1.86
12.	NG CHIN KEUAN	5,778,200	1.73
13.	NG CHIN SHIN	5,778,200	1.73
14.	NG CHIN KOK	5,778,200	1.73
15.	MAYBAN NOMINEES (TEMPATAN) SDN BHD MAYBAN TRUSTEES BERHAD FOR BALANCED RETURNS FUND (N14011980060)	5,000,000	1.50
16.	MAYBAN NOMINEES (TEMPATAN) SDN BHD MALAYSIAN TRUSTEES BERHAD FOR MAYBAN SMALLCAP TRUST FUND (240165)	4,544,000	1.36
17.	ALLIANZ GENERAL INSURANCE MALAYSIA BERHAD	4,437,600	1.33
18.	ALLIANZ LIFE INSURANCE MALAYSIA BERHAD	3,727,800	1.12
19.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR OSK-UOB SMALL CAP OPPORTUNITY UNIT TRUST (3548)	3,366,500	1.01
20.	MAYBAN NOMINEES (TEMPATAN) SDN BHD MAYBAN TRUSTEES BERHAD FOR FUTURE GOALS FUND (N14011980050)	3,071,800	0.92

Shareholding Statistics (Cont'd)

List of Thirty Largest Securities Accounts Holders (Cont'd)

No	Name	No. of Shares	%
21	MAYBAN NOMINEES (TEMPATAN) SDN BHD MAYBAN TRUSTEES BERHAD FOR HIDDEN TREASURES FUND (240218)	3,000,000	0.90
22	NG CHIN HENG	2,800,000	0.84
23	NG CHIN HENG	2,750,000	0.82
24	BHLB TRUSTEE BERHAD PRUSMALL-CAP FUND	2,546,300	0.76
25	NG CHIN HENG	2,501,400	0.75
26	TEE AH LING	2,500,000	0.75
27	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR PANG FONG THAU (PB)	2,500,000	0.75
28	MAYBAN NOMINEES (TEMPATAN) SDN BHD AVENUE INVEST BERHAD FOR POS MALAYSIA BERHAD (E00180-220026)	2,048,000	0.61
29	RUBY TECHNIQUE SDN BHD	2,021,000	0.61
30	ALLIANZ LIFE INSURANCE MALAYSIA BERHAD	1,595,800	0.48

Substantial Shareholders

No.	Name	No. of Shares held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	IVORY ASIA SDN BHD	113,559,995	-	34.00	-
2.	PANG FONG THAU	77,958,605	*121,611,395	23.34	36.41
3.	NG CHIN HENG	8,051,400	**191,518,600	2.41	57.34

Directors' Shareholdings

No.	Name	No. of Shares held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	NG CHIN HENG	8,051,400	**191,518,600	2.41	57.34
2.	NG CHIN SHIN	5,778,200	-	1.73	-
3.	NG CHIN KEUAN	5,778,200	***228,500	1.73	0.07
4.	KWAN CHEONG KAW @ KUAN YEEK CHIEU	30,000	-	0.01	-
5.	LOH THIAN SANG @ LO THIAN SIANG	-	-	-	-

- * Deemed interests by virtue of shareholdings of husband, Mr. Ng Chin Heng and Ivory Asia Sdn Bhd in the Company.
 ** Deemed interests by virtue of shareholdings of wife, Madam Pang Fong Thau and Ivory Asia Sdn Bhd in the Company.
 *** Deemed interests by virtue of shareholdings of wife, Madam Chin Nyuk Oi in the Company.

This page has been left blank intentionally.



COASTAL CONTRACTS BHD
(Company No. 517649-A)
(Incorporated in Malaysia)

No. of ordinary shares held

FORM OF PROXY

I/We, _____
of _____
being a member/members of COASTAL CONTRACTS BHD, hereby appoint

_____ of _____
or failing him the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Sixth Annual General Meeting of the Company, to be held at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 28 June 2006 at 11.00 am or any adjournment thereof.

I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereinunder indicated.

No.	Resolutions	For	Against
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon.		
2.	To declare a first and final dividend of 3.9% less 28% tax and 2.1% tax exempt in respect of the financial year ended 31 December 2005.		
3.	To approve the payment of Directors' fees for the financial year ended 31 December 2005.		
4.	To re-elect Mr Ng Chin Shin as Director.		
5.	To re-elect Mr Loh Thian Sang @ Lo Thian Siang as Director.		
6.	To re-appoint Messrs Ernst & Young as Auditors of the Company for the ensuing year and to authorise the directors to fix their remuneration.		
7.	Authority to issue shares pursuant to Section 132D of the Companies Act, 1965		

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If this form of proxy is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit).

Dated this _____ day of _____ 2006

Signature/common seal of Member(s)

Notes:

- a) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- b) Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same Meeting, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
- c) The instrument appointing a proxy shall be in writing and in the case of an individual shall be signed by the appointor or by his attorney and in the case of a corporation shall be either under its Common Seal or signed by its attorney or by an officer on behalf of the corporation.
- d) The instrument appointing a proxy shall be deposited at the Registered Office of the Company at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

FOLD THIS FLAP FOR SEALING

FOLD HERE



Coastal Contracts Berhad (Company No. 517649-A)
Block G, Lot 3B, Bandar Leila
W.D.T. 259, 90009 Sandakan, Sabah

FOLD HERE
