



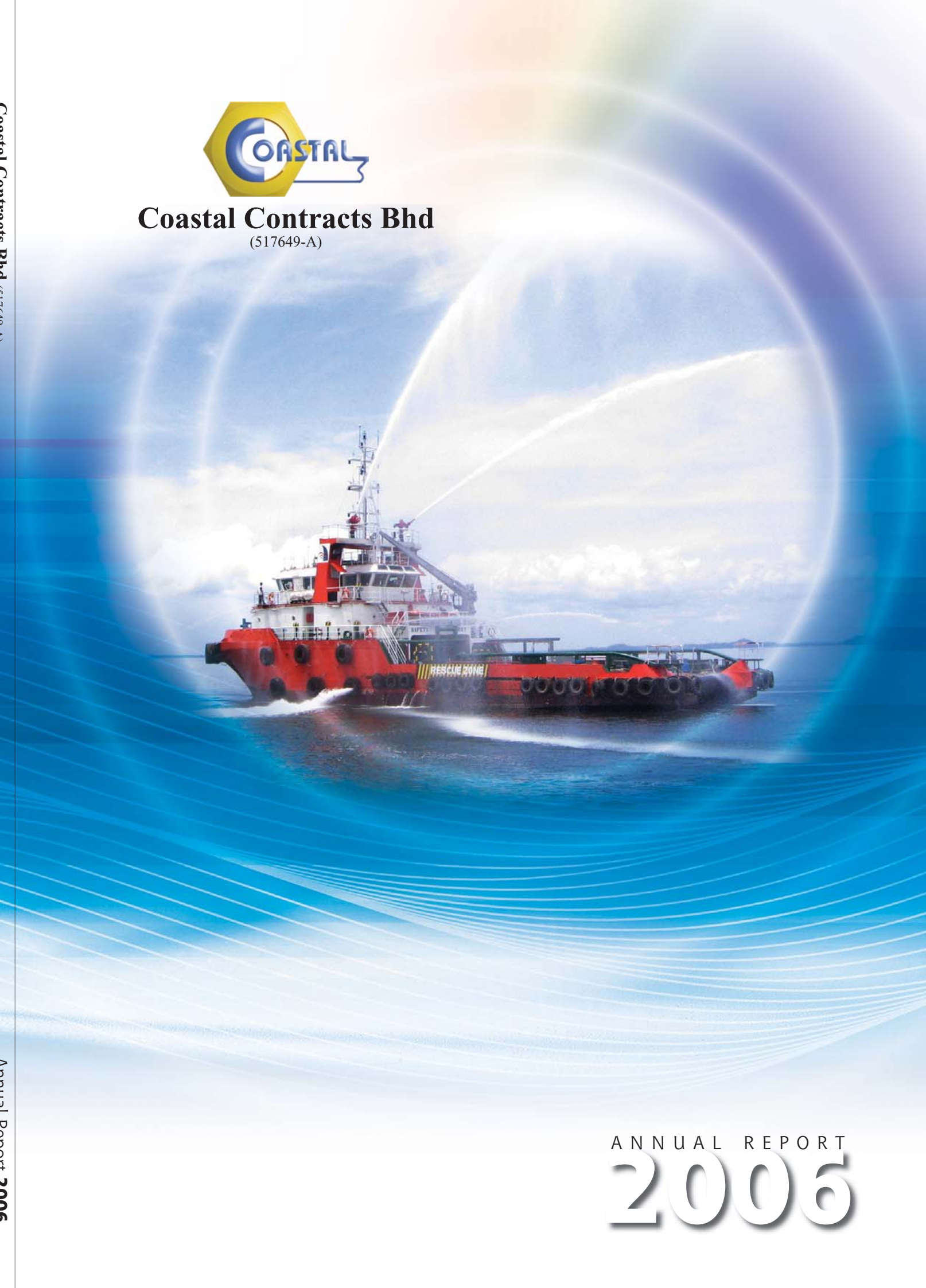
**Coastal Contracts Bhd**  
(517649-A)

[www.coastalcontracts.com](http://www.coastalcontracts.com)



**Coastal Contracts Bhd** (517649-A)

Block G, Lot 3B, Bandar Leila, W.D.T. 259, 90009 Sandakan, Sabah, Malaysia.  
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## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Seventh Annual General Meeting of the Company will be held at the Registered Office, Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 27 June 2007 at 11.00 am to transact the following business:

### AGENDA

#### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon. **(Resolution 1)**
2. To declare a first and final dividend of 1.4% less 27% tax and 8.6% tax exempt in respect of the financial year ended 31 December 2006. **(Resolution 2)**
3. To approve the payment of Directors' fees for the financial year ended 31 December 2006. **(Resolution 3)**
4. To re-elect the following Directors:
  - 4.1 Mr Ng Chin Heng who retires as director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election. **(Resolution 4)**
  - 4.2 Mr Ng Chin Keuan who retires as director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election. **(Resolution 5)**
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. **(Resolution 6)**

#### 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 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 Seventh Annual General Meeting, a first and final dividend of 1.4% less 27% tax and 8.6% tax exempt in respect of the financial year ended 31 December 2006 will be payable on 3 September 2007 to depositors registered in the Records of Depositors at the close of business on 8 August 2007.

A depositor shall qualify for entitlement only in respect of:

1. Securities transferred into the Depositor's Securities Account before 4.00 pm on 8 August 2007 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**  
**Company Secretary**

Kota Kinabalu, Sabah  
Dated: 5 June 2007

**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 appointer 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

Further details of individuals who are standing for re-election as Directors, namely Mr Ng Chin Heng and Mr Ng Chin Kuan, are set out on pages 7 to 8 of this Annual Report whilst the details of their interest in the securities of the Company are disclosed on pages 79 to 80 of this Annual Report.



## 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 3 27212222  
Fax: +60 3 27212530/1

### PRINCIPAL BANKERS

Alliance Bank Malaysia Berhad  
AmInvestment Bank Berhad  
Bank Muamalat Malaysia Berhad  
Bank Pembangunan Malaysia Berhad  
CIMB Bank Berhad  
CIMB Bank (L) Limited  
Hong Leong Bank 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



**NG CHIN HENG***aged 58, 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 2006. 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 4 May 2007, Mr Ng Chin Heng has direct interests of 4.82% and indirect interests of 55.51% 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 68 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

**NG CHIN SHIN***aged 48, 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 over 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 2006. 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 4 May 2007, Mr Ng Chin Shin has direct interests of 1.90% in Coastal Contracts Bhd. He is the brother-in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is the 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 68 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 48, 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 shipyards 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 2006. 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 4 May 2007, Mr Ng Chin Keuan has direct interests of 1.78% in Coastal Contracts Bhd. He is the brother-in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is the 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 68 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

### **KWAN CHEONG KAW @ KUAN YECK CHIEU**

*aged 68, 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 2006. 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 4 May 2007, Mr Kwan Cheong Kaw @ Kuan Yeck Chieu has direct interests of 0.0014% 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 62, 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 2006. 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 4 May 2007, 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 of Coastal Contracts Bhd ("Company"), it is my pleasure to present to you the annual consolidated performance of the Company and its group of subsidiaries ("Coastal Group") for the financial year ("FY") ended 31 December 2006.**



### New Financial Milestones

FY2006 was indeed a remarkable and most inspiring year for Coastal Group. In the FY under review, the Group chalked up revenue of RM159.3 million and net profit of RM34.2 million, up 54% and 113% respectively from FY2005. The significant improvement in net profit had translated into a commendable earnings per share of 10.2 sen, more than doubled the 4.8 sen achieved in the previous year. Coastal Group's balance sheet remained vigorous with positive net assets of RM149.5 million or 44.6 sen per share, having risen over 28% year-on-year against an encouraging backdrop of low gearing. These stellar results were by far the Group's best ever set of figures since its listing on Bursa Malaysia in 2003.

### Revenue and Profit Contributions

Coastal Group's much improved revenue was mainly driven by the exciting Shipbuilding Division, riding high on the oil and gas ("O&G") sector's current bullish wave. The revenue recorded by the Shipbuilding Division has expanded considerably by 63% from RM85.7 million the year before to RM140.0 million. The increase was a reflection of the appealing topline contribution derived from the sales of 3 units of offshore support vessels ("OSVs") during the year, which further underscores that the Group's decision in 2003 to venture into fabrication of higher-value OSVs was certainly incisive and well-timed. Whilst the Chartering Division was expected to relatively yield consistent and reliable revenue contribution as in the past, this year it has managed to notch up a moderate 10% increase to RM19.3 million from RM17.5 million previously. The high utilisation rate and the operational efficiency of Coastal Group's young fleet of vessels working in manifold transportation sectors throughout the year were the reasons behind this solid performance.

In terms of profit contributions, the Shipbuilding Division had accounted for 66% or RM22.6 million of the total net profit of the Group compared to 53% or RM8.4 million in FY2005. This was bolstered by healthy margins driven up by the rapidly growing demand for OSVs as owners and operators worldwide

are scurrying to acquire new vessels to exploit the abundant exploration and production jobs as well as to meet the stringent safety and operational standards of oil companies. Meanwhile, net profit from the Chartering Division has surged to RM11.6 million from RM7.6 million a year earlier at the back of lower operational and docking expenses. Moving forward, it is anticipated that the Shipbuilding Division will sustain its position as the "prime mover" and lead the way to drive growth in Coastal Group's profitability.

### Dividend

Driven by strong financial results, the Company's share price has appreciated from RM0.50 on 31 December 2005 to RM2.43 on the day Coastal Group released its FY2006 audited financial statements, entrenching the Company's shares as one of the top gainers in 2007. The Company is returning value to shareholders not only in the form of capital appreciation but also through higher dividend payments backed by our robust balance sheet. In this regard, the Board had recommended paying a first and final dividend comprising 1.4% less income tax at 27% and 8.6% tax exempt per share in respect of FY2006, subject to the approval of shareholders at the forthcoming Annual General Meeting. The Group is confident that it can continue to maintain a dynamic and healthy balance between paying a rewarding return to its shareholders and driving its resolute commitment to invest in the future growth of its businesses.



### Corporate Developments

On 26 September 2006, the Company had acquired the entire equity interest of Pleasant Engineering Sdn Bhd ("PESB") to shore up the Group's core businesses and boost its prospects in other O&G related growth areas. PESB's land space of more than three-times the size of Coastal Group's existing facilities was an attractive investment proposition poised to propel the Group's future business endeavours, particularly in relation to the fabrication of offshore structures. With the maiden construction of a couple units of OSVs already taking place at the new shipyard, the acquisition of PESB is expected to add value to the overall financial performance of Coastal Group going forward.

## Chairman's Statement (Cont'd)

### Awards and Recognition

The Company was proud to be singled out by Forbes in October 2006 as one of the recipients of **"Asia's 200 Best Under a Billion"** award in recognition of the region's most dynamic publicly traded firms with sales below a billion US Dollars. The Board was elated over this mark of distinction, as the Company was one of only eight Malaysian corporations that made it on the list. Such recognition by Forbes was another feather in the cap for the Company, given that it was also among the top 100 companies named in **"KPMG Shareholder Value Awards 2005"** which was announced barely a month earlier in September 2006. This no-lesser award lauded those public listed companies in Malaysia that have generated exemplary value for their shareholders in 2005, and the Board is delighted to be a part of such flattering compliment.

These latest accolades not only proved that Coastal Group approaches its businesses with vim and vigour, they also reflect the Group's dedication in ensuring shareholders' interests and expectations are put on first priority. Although gratifying in every sense, Coastal Group will not be content to rest on its laurels and will actively strive to deliver higher return to shareholders through stronger earnings growth and business expansion in 2007 as well as in the longer haul.

### The Journey Ahead

The supply of O&G has lagged global demand due to soaring consumption in the US and the emerging economies of Asia, especially China and India. This pattern is set to continue unabated, if not escalate, in the foreseeable future. The continuous high price of crude oil is providing the catalyst for oil companies to accelerate the roll-out of exploration and production projects to feed the insatiable demand for O&G. Reflecting this bullish outlook, the resultant demand for OSVs will continue to gain momentum in the years ahead.

As in the past, the Group has been actively managing its fleet by adding in new and higher-capacity vessels while at the same time selling off smaller or older ones to improve operational efficiency and cost effectiveness. Coastal Group will continue to deploy a larger part of its fleet to the medium and long-term

charters to earn recurring income which will help supplement the revenue from the Shipbuilding Division. Coming from a long experience in the marine transportation business, the Group will not come short in capitalising on any positive developments in the region, and the possibilities of hauling in additional contracts for transportation of solid and liquid commodities are just the opportunities Coastal Group is ready to seize on from time to time.

The Board is fairly optimistic about the Group's overall prospects, especially given the increasingly promising growth momentum in the O&G industry which has also brought positive spill-over effects on the marine transportation sector. There are more than enough reasons to expect above-average performances going forward as the market demand for OSVs is anticipated to stay upbeat. The Board's perpetual commitment to operational excellence and innovation up the value chain will ensure that Coastal Group stays relevant to the changing needs of customers and the market. By constantly reviewing and redesigning every aspect of its business operations, coupled with a healthy order book firmly in place and the presence of its strong, experienced management and support team, the Group is primed to achieve its longer-term objectives.

### Appreciation

On behalf of the Board, I would like to express our sincere appreciations to the management and staff of Coastal Group for their commitment, tireless efforts and continuous dedication which had made FY2006 a bumper year. Our gratitude also goes out to the relevant authorities as well as our valuable customers and business partners for their relentless supports throughout the year, without which all the successes of the Group would not have been possible. Last but not least, high regards must go to our exceptional shareholders for their continued confidence and faith in Coastal Group.

**Ng Chin Heng**  
Executive Chairman

Sandakan, Malaysia



## Audit Committee Report for the Financial Year Ended 31 December 2006

The Audit Committee was established on 2 December 2002.

The Audit Committee comprises the following members:-

Name	Designation	Directorship
Kwan Cheong Kaw @ Kuan Yeek Chieu	Chairman	Senior Independent Non-Executive Director
Loh Thian Sang @ Lo Thian 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 principal 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 Audit Committee shall be appointed by the Board from amongst its Directors (except alternate directors) which fulfils the following requirements:

- the audit committee must be composed of no fewer than three (3) members;
- a majority of the audit committee must be independent directors; and
- at least one member of the audit committee:
  - must be a member of the Malaysian Institute of Accountants (MIA); or
  - if he is not a member of the MIA, he must have at least 3 years' working experience and:
    - he must have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act, 1967; or
    - 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 Audit 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 Audit 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 Audit Committee and each of its members at least once every three (3) years.

### Rights

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

- have authority to investigate any matter within its terms of reference;
- have the resources which are required to perform its duties;

**Audit Committee Report** for the Financial Year Ended 31 December 2006 (Cont'd)**Rights (cont'd)**

- 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 Audit Committee, whenever deemed necessary.

**Functions**

The functions of Audit 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 Audit 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 Audit Committee. The Chairman shall convene a meeting whenever any member of the Audit Committee requests for a meeting. Written notice of the meeting together with the agenda shall be given to the members of the Audit Committee and external auditor where applicable.

**Audit Committee Report** for the Financial Year Ended 31 December 2006 (Cont'd)**Meetings and Reporting Procedures (Cont'd)**2) *Quorum*

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

3) *Secretaries*

The Company Secretary shall be the secretary of the Audit 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 2006. These meetings were held at the registered office on 24 February, 20 April, 25 May, 24 August and 23 November 2006. 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%

**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.

**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.

The system of internal controls was satisfactory and has not resulted in any material losses, contingencies and uncertainties that would require disclosures in the Group's Annual Report.

## Statement On Corporate Governance

The Board of Directors is fully committed to maintaining high standards of corporate governance within Coastal Group. Set out below is a statement on how the Group has applied the principles and the extent of its compliance with the best practices as stipulated in the Malaysian Code on Corporate Governance.

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 whilst the remaining three (3) are Executive Directors. The Board views the number and composition of the directors to be appropriate given that its members are drawn from varied backgrounds, bringing in-depth and diversity in experience and perspectives to the Group's business operations. The profile of each Director is presented on pages 7 to 8 of this 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 2006 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 2006, of which were held at the registered office on 24 February, 20 April, 25 May, 24 August and 23 November 2006.

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%

## Statement On Corporate Governance (Cont'd)

### A. DIRECTORS (Cont'd)

#### 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 (1) 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 had undergone 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.

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 (1) meeting during the financial year, which was attended by all the Committee members.

## Statement On Corporate Governance (Cont'd)

### 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 remuneration paid/payable to all the Directors of the Company for the financial year ended 31 December 2006 is as follows:-

Directors' Remuneration	Executive Directors RM'000	Non-executive Directors RM'000
Fee	-	33
Salaries	684	-
Bonuses and allowances	330	4
EPF	122	-
Benefits in kind (based on estimated money value)	32	-
Total	1,168	37

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 2006 fall within the following bands is as follows:

Directors' Remuneration Band RM	Number of Directors	
	Executive Director	Non-Executive Director
50,000 and below	-	2
50,001 to 100,000	-	-
100,001 to 150,000	-	-
150,001 to 200,000	-	-
200,001 to 250,000	-	-
250,001 to 300,000	2	-
300,001 to 350,000	-	-
350,001 to 400,000	-	-
400,001 to 450,000	-	-
450,001 to 500,000	-	-
500,001 to 550,000	-	-
550,001 to 600,000	-	-
600,001 to 650,000	1	-

## Statement On Corporate Governance (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 on internal control is set out on page 19 of this Annual Report.

#### Relationship with Auditors

Key features underlying the relationship of the Audit Committee with its auditors, both external and internal, 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**

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

- **Share Buyback**

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

## Statement On Corporate Governance (Cont'd)

### D. ACCOUNTABILITY AND AUDIT (Cont'd)

#### Additional Compliance Statements (Cont'd)

- **Options, Warrants or Convertible Securities**

During the financial year ended 31 December 2006, a total of 1,084,000 options were exercised pursuant to the Company's Employee Share Option Scheme which was implemented on 18 January 2005.

The Company did not issue any warrants or convertible securities during the financial year under review.

- **American Deposit Receipt ("ADR") or Global Deposit Receipt ("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 RM36,750 and RM4,000 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 shareholdings can be found from pages 79 to 80.

- **List of Properties**

The list of properties for the Group can be found on page 78.

- **Revaluation Policy**

Please refer to accounting policy on property, plant and equipment found on page 39.

- **Recurrent Related Party Transactions**

The details of the related party transactions are set out in Note 68 to the financial statements.

## Statement On Internal Control

### Responsibility

The Board recognises the importance of sound systems of internal control and effective risk management practices in the maintenance of good corporate governance.

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" issued by the Institute of Internal Auditors Malaysia and adopted by Bursa Malaysia Securities Berhad.

In view of the limitations inherent in any system of internal control, the Group's internal control system 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 outsources 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 of the view that the system of internal control that had been implemented within the Group is sound and effective and has not resulted in any material losses and contingencies during the financial year 2006. The internal control procedures will be reviewed continuously in order to improve and strengthen the system to ensure ongoing adequacy, integrity and effectiveness so as to safeguard the Group's assets and shareholders' investment.

## 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 the 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 24 May 2007.

# Financial Statements

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## 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 2006.

### Principal Activities

The principal activities of the Company are investment holding and provision of management services.

The principal activities of the subsidiaries are fabrication and sale of offshore support and marine transportation vessels, provisions of tugboat and barge transportation, provision of ship repairs and maintenance services, provision of bareboat chartering and leasing services, provision of vessel chartering and towing services. Other activities include equipment hiring services, property letting and sub-contract services.

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

### Results

	Group RM	Company RM
Profit for the year	34,206,032	4,125,258
Attributable to:		
Equity holders of the Company	34,218,024	4,125,258
Minority interests	(11,992)	-
	<u>34,206,032</u>	<u>4,125,258</u>

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

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

The amount of dividends paid by the Company since 31 December 2005 were as follows:

	RM
In respect of the financial year ended 31 December 2005:	
First and final dividend declared on 28 June 2006 and paid on 8 September 2006, comprising:	
- 3.9% less 28% taxation	1,875,744
- 2.1% tax exempt	1,402,800
On 334,000,000 ordinary shares	<u>3,278,544</u>

At the forthcoming Annual General Meeting, a first and final dividend comprising 1.4% less 27% taxation and 8.6% tax exempt on 335,084,000 ordinary shares, amounting to a dividend payable of RM6,448,356 (1.92 sen net per ordinary share) in respect of the financial year ended 31 December 2006, 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 equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

## 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 those arising from the share options granted under 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 29 to the financial statements.

### Directors' Interest

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:

Name of the Directors	1.1.2006	Number of Ordinary Shares of RM0.20 Each		
		Acquired	Disposed	31.12.2006
<b>Direct Interest:</b>				
Ng Chin Heng	8,051,400	6,880,000	-	14,931,400
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
<b>Indirect Interest:</b>				
Ng Chin Heng	191,518,600	-	-	191,518,600
Ng Chin Keuan	228,500	5,500	-	234,000

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.

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

Name of the Directors	1.1.2006	Number of Options Over Ordinary Shares of RM0.20 Each		31.12.2006
		Granted	Exercised	
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.

## Directors' Report (Cont'd)

### Issue of Share

During the financial year, the Company increased its issued and paid up ordinary share capital from RM66,800,000 to RM67,016,800 by way of the issuance of 1,084,000 ordinary shares of RM0.20 each for cash pursuant to the Company's Employee Share Options Scheme at an average exercise price of RM0.51 per ordinary share.

The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary shares of the Company.

### 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 other terms of the ESOS are disclosed in Note 26 to the financial statements.

### 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.
- (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.

## Directors' Report (Cont'd)

(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.

### Significant Events

Details of the significant events are disclosed in Note 14 and Note 32 to the financial statements.

### Subsequent Events

Details of the subsequent events are disclosed in Note 33 to the financial statements.

### 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 dated 23 April 2007.

NG CHIN HENG

NG CHIN KEUAN

## Statement by Directors / Statutory Declaration

### 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 77 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 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 dated 23 April 2007.

NG CHIN HENG

NG CHIN KEUAN

### 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 77 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.

We have audited the financial statements set out on pages 28 to 77. 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 for Entities Other Than Private Entities 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 2006 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 by its subsidiaries 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 14 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 subsidiaries 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 subsidiaries 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

Sandakan, Malaysia

**CHONG YEW HOONG**  
1502/04/07 (J)  
Partner

## Income Statements

For the Year Ended 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	3	159,288,103	103,164,608	4,923,206	5,450,000
Cost of sales	4	(115,545,161)	(83,577,609)	-	-
<b>Gross profit</b>		43,742,942	19,586,999	4,923,206	5,450,000
Other income	5	9,653,964	5,238,000	640,657	62,555
Administrative expenses		(6,382,862)	(5,034,798)	(653,505)	(633,623)
Other expenses		(4,567,657)	(579,835)	(1,375)	-
<b>Operating profit</b>		42,446,387	19,210,366	4,908,983	4,878,932
Finance costs	6	(3,913,971)	(2,639,150)	(2,910)	-
<b>Profit before tax</b>	7	38,532,416	16,571,216	4,906,073	4,878,932
Income tax expense	10	(4,326,384)	(563,517)	(780,815)	(1,413,695)
<b>Profit for the year</b>		34,206,032	16,007,699	4,125,258	3,465,237
Attributable to:					
Equity holders of the Company		34,218,024	16,033,219	4,125,258	3,465,237
Minority interests		(11,992)	(25,520)	-	-
		34,206,032	16,007,699	4,125,258	3,465,237
<b>Earnings per share attributable to equity holders of the Company (sen):</b>					
Basic	11(a)	10.24	4.80		
Diluted	11(b)	10.20	4.79		

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

## Balance Sheets

As at 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	69,379,229	82,888,664	150,725	-
Investments in subsidiaries	14	-	-	63,510,048	61,394,898
Intangible asset	15	5,884,127	2,402,298	-	-
Trade receivables	17	-	367,052	-	-
		<u>75,263,356</u>	<u>85,658,014</u>	<u>63,660,773</u>	<u>61,394,898</u>
<b>Current assets</b>					
Inventories	16	170,587,905	74,017,092	-	-
Trade and other receivables	17	18,592,147	36,991,047	29,806,068	16,431,356
Tax recoverable		130,833	612,372	7,631	20
Cash and bank balances	18	28,142,556	7,485,516	11,518	6,299
		<u>217,453,441</u>	<u>119,106,027</u>	<u>29,825,217</u>	<u>16,437,675</u>
<b>TOTAL ASSETS</b>		<u>292,716,797</u>	<u>204,764,041</u>	<u>93,485,990</u>	<u>77,832,573</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	19	67,016,800	66,800,000	67,016,800	66,800,000
Share premium	19	10,184,503	9,850,663	10,184,503	9,850,663
Foreign currency translation reserve	20	(2,238,293)	(134,987)	-	-
Retained earnings	21	74,539,020	39,845,670	1,925,731	1,079,017
		<u>149,502,030</u>	<u>116,361,346</u>	<u>79,127,034</u>	<u>77,729,680</u>
<b>Minority interests</b>		-	12,566	-	-
<b>Total equity</b>		<u>149,502,030</u>	<u>116,373,912</u>	<u>79,127,034</u>	<u>77,729,680</u>
<b>Non-current liabilities</b>					
Borrowings	22	4,896,999	6,220,965	100,209	-
Deferred tax liabilities	24	10,031,863	10,493,228	2,651	-
		<u>14,928,862</u>	<u>16,714,193</u>	<u>102,860</u>	<u>-</u>
<b>Current liabilities</b>					
Borrowings	22	26,709,657	51,228,735	32,091	-
Trade and other payables	25	99,034,429	19,908,533	14,224,005	102,893
Current tax payable		2,541,819	538,668	-	-
		<u>128,285,905</u>	<u>71,675,936</u>	<u>14,256,096</u>	<u>102,893</u>
<b>Total liabilities</b>		<u>143,214,767</u>	<u>88,390,129</u>	<u>14,358,956</u>	<u>102,893</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>292,716,797</u>	<u>204,764,041</u>	<u>93,485,990</u>	<u>77,832,573</u>

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

## Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2006

Note	Attributable to Equity Holders of the Company					Total RM	Minority Interests RM	Total Equity RM
	Non-Distributable		Foreign Currency Translation Reserve (Note 20) RM	Distributable Retained Earnings (Note 21) RM				
	Share Capital (Note 19) RM	Share Premium (Note 19) RM						
<b>At 1 January 2005</b>	66,800,000	9,850,663	(36,283)	26,698,211	103,312,591	39,982	103,352,573	
Exchanges differences on translation of financial statement of a foreign entity	-	-	(98,704)	-	(98,704)	(1,896)	(100,600)	
Profit for the year	-	-	-	16,033,219	16,033,219	(25,520)	16,007,699	
Dividends	12	-	-	(2,885,760)	(2,885,760)	-	(2,885,760)	
<b>At 31 December 2005</b>	<b>66,800,000</b>	<b>9,850,663</b>	<b>(134,987)</b>	<b>39,845,670</b>	<b>116,361,346</b>	<b>12,566</b>	<b>116,373,912</b>	
<b>At 1 January 2006</b>								
- As previously stated	66,800,000	9,850,663	(134,987)	39,845,670	116,361,346	12,566	116,373,912	
Effects of adopting FRS 3	2.2(b)(i)	-	-	3,753,870	3,753,870	-	3,753,870	
<b>At 1 January 2006 (Restated)</b>	<b>66,800,000</b>	<b>9,850,663</b>	<b>(134,987)</b>	<b>43,599,540</b>	<b>120,115,216</b>	<b>12,566</b>	<b>120,127,782</b>	
Exchanges differences on translation of financial statement of foreign entities	-	-	(2,144,213)	-	(2,144,213)	471	(2,143,742)	
Disposal of a foreign entity	-	-	40,907	-	40,907	(1,045)	39,862	
Profit for the year	-	-	-	34,218,024	34,218,024	(11,992)	34,206,032	
Dividends	12	-	-	(3,278,544)	(3,278,544)	-	(3,278,544)	
Transaction cost	19	-	(2,200)	-	(2,200)	-	(2,200)	
Issue of ordinary shares pursuant to ESOS	19	216,800	336,040	-	552,840	-	552,840	
<b>At 31 December 2006</b>	<b>67,016,800</b>	<b>10,184,503</b>	<b>(2,238,293)</b>	<b>74,539,020</b>	<b>149,502,030</b>	<b>-</b>	<b>149,502,030</b>	

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

## Company Statement of Changes in Equity

For the Year Ended 31 December 2006

		Non- Distributable	Distributable		
	Note	Share Capital (Note 19) RM	Share Premium (Note 19) RM	Retained Earnings (Note 21) RM	Total RM
<b>At 1 January 2005</b>		66,800,000	9,850,663	499,540	77,150,203
Profit for the year		-	-	3,465,237	3,465,237
Dividends	12	-	-	(2,885,760)	(2,885,760)
<b>At 31 December 2005</b>		<u>66,800,000</u>	<u>9,850,663</u>	<u>1,079,017</u>	<u>77,729,680</u>
<b>At 1 January 2006</b>		66,800,000	9,850,663	1,079,017	77,729,680
Profit for the year		-	-	4,125,258	4,125,258
Dividends	12	-	-	(3,278,544)	(3,278,544)
Transaction cost	19	-	(2,200)	-	(2,200)
Issue of ordinary share pursuant to ESOS	19	216,800	336,040	-	552,840
<b>At 31 December 2006</b>		<u>67,016,800</u>	<u>10,184,503</u>	<u>1,925,731</u>	<u>79,127,034</u>

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

## Cash Flow Statements

For the Year Ended 31 December 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>Cash Flows From Operating Activities</b>					
Profit before tax		38,532,416	16,571,216	4,906,073	4,878,932
Adjustments for:					
Dividend income	3	-	-	(4,473,206)	(5,000,000)
Gain on disposal of plant and equipment	5	(4,536,953)	(4,237,957)	-	-
Interest income	5	(356,668)	(271,738)	(629,688)	(62,555)
Negative goodwill recognised in income statement	5	(189,111)	-	-	-
Unrealised gain on foreign exchange	5	(444,886)	(100,643)	-	-
Finance costs	6	3,913,971	2,639,150	2,910	-
Bad debts written off	7	1,302,112	448,509	-	-
Depreciation of property, plant and equipment	7	5,396,795	5,056,289	19,900	-
Equipment written off	7	1	3,393	-	-
Exchange differences		(2,834,636)	138,377	-	-
Loss on disposal of plant and equipment	7	-	8,400	-	-
Loss on disposal of a subsidiary	7	306,658	-	-	-
Provision for doubtful debts	7	742,690	214,449	-	-
Unrealised loss on foreign exchange	7	1,468,233	325,850	-	-
Operating profit/(loss) before working capital changes		43,300,622	20,795,295	(174,011)	(183,623)
Net change in accounts with subsidiaries		-	-	357,385	(901,324)
Increase in inventories		(96,570,813)	(42,573,830)	-	-
Decrease/(increase) in receivables		14,287,405	14,925,175	(973)	176,783
Increase/(decrease) in payables		76,639,708	3,620,179	(2,796)	68,402
Cash generated from/(used in) operations		37,656,922	(3,233,181)	179,605	(839,762)
Interest income		49,084	87,652	4,392	-
Finance costs paid		(19,491)	(25,594)	-	-
Income tax paid		(2,381,996)	(1,890,744)	(10,875)	(39,546)
Net cash generated from/(used in) operating activities		35,304,519	(5,061,867)	173,122	(879,308)

## Cash Flow Statements

For the Year Ended 31 December 2006 (Cont'd)

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>Cash Flows From Investing Activities</b>					
Disposal of a subsidiary	14	23,034	-	-	-
Acquisition of subsidiary companies	14	(1,989,756)	-	(2,115,150)	-
Net dividend received		-	-	3,698,306	3,600,000
Interest income		307,584	184,086	625,296	62,555
Proceeds from disposal of plant and equipment		19,726,448	14,501,745	-	-
Additions of property, plant and equipment		(1,394,337)	(30,608,386)	(20,625)	-
Net cash generated from/(used in) investing activities		16,672,973	(15,922,555)	2,187,827	3,662,555
<b>Cash Flows From Financing Activities</b>					
Proceeds from issuance of ordinary shares		550,640	-	550,640	-
Dividends paid		(2,885,760)	(2,885,760)	(2,885,760)	(2,885,760)
Proceeds from drawdown of revolving credits		116,400,985	76,115,586	-	-
Proceeds from drawdown of trade loans		13,628,651	-	-	-
Proceeds from drawdown of term loans		-	7,055,498	-	-
Repayment of term loans and Islamic bank loan		(1,811,482)	(4,724,220)	-	-
Repayment of revolving credits		(138,911,210)	(47,530,346)	-	-
Repayment of trade loans		(13,836,343)	(8,228,639)	-	-
Repayment of hire purchase payables		(300,029)	(226,541)	(17,700)	-
Interest paid on term loans and Islamic bank loan		(434,842)	(621,544)	-	-
Interest paid on trade loans		(212,976)	(63,869)	-	-
Interest paid on revolving credits		(3,124,118)	(1,736,585)	-	-
Interest paid on hire purchase		(51,578)	(45,289)	(2,910)	-
Net cash (used in)/generated from financing activities		(30,988,062)	17,108,291	(2,355,730)	(2,885,760)
<b>Net increase/(decrease) in cash and cash equivalents</b>		20,989,430	(3,876,131)	5,219	(102,513)
<b>Effect of foreign exchange rate changes</b>		(330,149)	(37,289)	-	-
<b>Cash and cash equivalents at beginning of year</b>		7,483,275	11,396,695	6,299	108,812
<b>Cash and cash equivalents at end of year</b>	18	28,142,556	7,483,275	11,518	6,299

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

## Notes to the Financial Statements

31 December 2006

### 1. Corporate Information

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 of the Company is located at Block G, Lot 3B, Bandar Leila, W. D. T. 259, 90009 Sandakan, Sabah.

The principal activities of the Company are investment holding and provision of management services. The principal activities of the subsidiaries are fabrication and sale of offshore support and marine transportation vessels, provisions of tugboat and barge transportation, provision of ship repairs and maintenance services, provision of bareboat chartering and leasing services, provision of vessel chartering and towing services. Other activities include equipment hiring services, property letting and sub-contract services. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 April 2007.

### 2. Significant Accounting Policies

#### 2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised Financial Reporting Standards ("FRSs") which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.2.

The financial statements of the Group and of the Company have also been prepared on a historical basis.

The financial statements are presented in Ringgit Malaysia (RM).

#### 2.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The Group and the Company has not early adopted the following new and revised FRSs which become or are expected to become mandatory for future financial periods.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 2. Significant Accounting Policies (Cont'd)

## 2.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 119 <sup>2004</sup>	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 <sup>2004</sup> Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The above FRSs, amendments to FRS and IC Interpretations are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application except for the following:

## (i) FRS 117: Leases

This standard requires the classification of leasehold land as prepaid lease payments. Prepaid lease payments will be initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

## (ii) FRS 124: Related Party Disclosures

This standard will affect the identification of related parties and some other related party disclosures.

## (iii) FRS 139: Financial Instruments: Recognition and measurement

The effective date of FRS 139 has been deferred by MASB. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and other derivative financial instruments. The Company will apply this standard when it becomes effective.

The adoption of FRSs 102, 108, 110, 116, 121, 127, 132 and 133 did not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRS are discussed below.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

##### (a) FRS 2: Share-Based Payment

Prior to 1 January 2006, no compensation expense was recognised in Income Statement for share options granted. The Group and the Company recognised an increase in share capital and share premium when options were exercised. Upon the adoption of FRS 2, the total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period.

The Group has applied FRS 2 in accordance with its transitional provisions which allow this change in accounting policy to be applied to share options that were granted after 31 December 2004 but had not yet vested on 1 January 2006. The application is retrospective and accordingly, has not resulted in any financial impact to the Group as there were no new share options granted by the Group which remain unvested on 1 January 2006.

##### (b) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006.

###### (i) Goodwill

Prior to 1 January 2006, negative goodwill was not amortised. Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions, after reassessment, is now recognised immediately in income statement. In accordance with transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM3,753,870 was derecognised with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.2(d)(i) and Note 2.2(d)(ii) respectively. This change has no impact on the Company's financial statements.

###### (ii) Accounting for acquisitions

Prior to 1 January 2006, the Group did not recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination. Upon the adoption of FRS 3, contingent liabilities are now separately recognised, provided their fair values can be measured reliably. In addition, the Group was previously allowed to recognise restructuring provisions in connection with an acquisition regardless of whether the acquiree had recognised such provisions. Upon the adoption of FRS 3, the Group is now permitted to recognise such provisions only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with FRS 137.

The change did not materially affect the financial statements of the Group and of the Company.

##### (c) FRS 101: Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

These changes in presentation have been applied retrospectively and as disclosed in Note 2.2(d)(iii), certain comparatives have been restated. The change in presentation has no impact on the Company's financial statements and the Group's financial statements for the year ended 31 December 2006.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 2. Significant Accounting Policies (Cont'd)

## 2.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

## (d) Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following tables provide estimates of the extent to which each of the line items in the balance sheet and income statements for the year ended 31 December 2006 is higher or lower than it would have been had the previous policies been applied in the current year.

## (i) Effects on balance sheet as at 31 December 2006

Description of change	<u>Increase</u> FRS 3 Note 2.2(b)(i) RM
<b>Group</b>	
Intangible assets	3,753,870
Retained earnings	3,753,870

## (ii) Effect on income statement for the year ended 31 December 2006

Description of change	<u>Increase</u> FRS 3 Note 2.2(b)(i)
<b>Group</b>	
Other income (RM)	189,111
Profit for the year (RM)	189,111
Earnings per share:	
Basis, for profit for the year (sen)	0.06
Diluted, for profit for the year (sen)	0.06

## (iii) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

Description of change	Previously Stated RM	FRS 101 Note 2.2(c) RM	Restated RM
At 31 December 2005			
<b>Group</b>			
Total equity	116,361,346	12,566	116,373,912

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies

##### (a) Subsidiaries and Basis of Consolidation

###### (i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in income statement.

###### (ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

##### (b) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**2. Significant Accounting Policies (Cont'd)****2.3 Summary of Significant Accounting Policies (Cont'd)****(c) Property, Plant and Equipment, and Depreciation**

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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 13 to the financial statements.

Depreciation of other property, 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

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in income statement.

**(d) 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 in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (e) Impairment of Non-financial Assets

The carrying amounts of assets, other than inventories, deferred tax assets and non-current assets (or disposal groups) held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

##### (f) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the weighted average method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (g) Financial Instruments

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

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) 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.

##### (ii) 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.

##### (iii) Payables

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

##### (iv) Interest-bearing Borrowings

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

##### (v) 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.

##### (h) 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

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (h) 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 2.3(c).

###### (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.

##### (i) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

##### (j) 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. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unutilised 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, unutilised 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.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (j) Income Tax (Cont'd)

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 as income or an expense and included in the income statement for the period, 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 the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

##### (k) Provisions

Provisions 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, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

##### (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

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. 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) Share-based Compensation

The Coastal Contracts Bhd. Employee Share Options Scheme ("ESOS"), an equity-settled, share-based compensation plan, allows the Group's employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (l) Employee Benefits (Cont'd)

##### (iii) Share-based Compensation (Cont'd)

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

##### (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) Sale of offshore support and marine transportation vessels 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(2.3)(d);
- (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 Group's 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) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

##### (ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd.)

#### 2.3 Summary of Significant Accounting Policies (Cont'd)

##### (n) Foreign Currencies (Cont'd)

###### (ii) Foreign Currency Transactions (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in income statement for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in income statement. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in income statement for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in income statement in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in income statement for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

###### (iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

#### 2.4 Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group reviewed the residual values and the estimated useful lives of all property, plant and equipment. The effects of the revisions are immaterial and no adjustment is made. The effects on future periods are dependent on the review of the residual value and remaining useful life of an item of property, plant and equipment in future periods.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 2. Significant Accounting Policies (Cont'd)

#### 2.5 Significant Accounting Estimates

##### Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2006 was RM5,884,127 (2005: RM2,402,298). Further details are disclosed in Note 15.

##### (ii) Depreciation of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be within 5 to 20 years. These are common life expectancies applied in the vessels construction and transportation industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

### 3. Revenue

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sale of offshore support and marine transportation vessels	137,075,336	79,947,635	-	-
Shipbuilding construction contract income	-	2,252,070	-	-
Tugboats and barges hiring income	19,266,712	17,476,075	-	-
Vessel repairs and service income	2,946,055	3,488,828	-	-
Dividend income	-	-	4,473,206	5,000,000
Management fee income	-	-	450,000	450,000
	<u>159,288,103</u>	<u>103,164,608</u>	<u>4,923,206</u>	<u>5,450,000</u>

### 4. Cost of Sales

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cost of inventories sold	105,567,056	70,151,840	-	-
Cost of services rendered	9,978,105	13,425,769	-	-
	<u>115,545,161</u>	<u>83,577,609</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 5. Other Income

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Provision for doubtful debts written back	-	57,234	-	-
Gain on foreign exchange				
- realised	1,170,294	86,426	4,146	-
- unrealised	444,886	100,643	-	-
Gain on disposal of plant and equipment	4,536,953	4,237,957	-	-
Interest income	356,668	271,738	629,688	62,555
Sundry income	2,944,401	463,482	-	-
Negative goodwill recognised in income statement	189,111	-	-	-
Rental income	3,360	3,360	-	-
Equipment hiring income	215	17,160	-	-
Insurance claim received	1,253	-	-	-
Commission received	6,823	-	6,823	-
	<u>9,653,964</u>	<u>5,238,000</u>	<u>640,657</u>	<u>62,555</u>

## 6. Finance Costs

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interests on:-				
Bank overdrafts	14,229	25,594	-	-
Hire purchase	51,578	45,289	2,910	-
Others	5,262	-	-	-
Revolving credits	3,195,084	1,882,769	-	-
Term loans and Islamic bank loan	434,842	621,544	-	-
Trade loans	212,976	63,954	-	-
	<u>3,913,971</u>	<u>2,639,150</u>	<u>2,910</u>	<u>-</u>

## 7. Profit before Tax

The following amounts have been included in arriving at profit before tax:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Employee benefits expenses (Note 8)	7,812,984	6,177,946	362,553	219,394
Non-executive Directors' fees and allowances (Note 9)	37,200	35,400	37,200	35,400
Auditors' remuneration:				
- statutory audits				
- current year	83,859	60,917	20,000	15,000
- underprovision for prior years	-	757	-	-
- other services	2,000	39,000	2,000	39,000
Bad debts written off	1,302,112	448,509	-	-
Depreciation of property, plant and equipment (Note 13)	5,396,795	5,056,289	19,900	-
Equipment hire charges	396,589	1,500,709	-	-
Equipment written off	1	3,393	-	-
Hire of motor vehicles	4,800	4,800	-	-
Launch hired	1,060	-	-	-
Loss on disposal of plant and equipment	-	8,400	-	-
Loss on disposal of a subsidiary	306,658	-	-	-
Loss on foreign exchange				
- realised	1,743,993	247,867	1,375	-
- unrealised	1,468,233	325,850	-	-
Office rental	59,594	34,902	6,000	-
Professional fees charged by an associate of the Company's auditors	16,717	13,057	4,000	1,600
Provision for doubtful debts	742,690	214,449	-	-
Tugboat hired	1,200	10,776	-	-
	<u></u>	<u></u>	<u></u>	<u></u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 8. Employee Benefits Expenses

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Salaries, wages and bonuses	7,230,046	5,740,469	322,276	194,812
Contributions to defined contribution plans	531,791	393,226	38,680	23,421
Social Security Contributions	51,147	44,251	1,597	1,161
	<u>7,812,984</u>	<u>6,177,946</u>	<u>362,553</u>	<u>219,394</u>

Included in employee benefit expenses of the Group are Executive Directors' remuneration amounting to RM1,423,456 (2005: RM920,424) as further disclosed in Note 9.

### 9. Directors' Remuneration

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Directors of the Company</b>				
Executive:				
Salaries and other emoluments	1,135,776	758,136	-	-
Non-Executive:				
Fees and allowances	37,200	35,400	37,200	35,400
<b>Directors of Subsidiaries</b>				
Executive:				
Salaries and other emoluments	287,680	162,288	-	-
<b>Total</b>	<u>1,460,656</u>	<u>955,824</u>	<u>37,200</u>	<u>35,400</u>

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 RM37,800 (2005: RM48,550).

### 10. Income Tax Expense

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current income tax:				
Malaysian income tax	4,825,901	1,678,311	774,649	1,413,480
Labuan offshore business activity	19,998	20,000	-	-
Foreign tax	633	5,685	-	-
	<u>4,846,532</u>	<u>1,703,996</u>	<u>774,649</u>	<u>1,413,480</u>
Underprovision in prior years:				
Malaysian income tax	10,265	118,640	3,515	215
	<u>4,856,797</u>	<u>1,822,636</u>	<u>778,164</u>	<u>1,413,695</u>
Deferred tax (Note 24):				
Relating to origination and reversal of temporary differences	257,099	(1,282,356)	2,739	-
Relating to changes in tax rates	(769,199)	-	(88)	-
(Over)/underprovision in prior years	(18,313)	23,237	-	-
	<u>(530,413)</u>	<u>(1,259,119)</u>	<u>2,651</u>	<u>-</u>
<b>Total income tax expense</b>	<u>4,326,384</u>	<u>563,517</u>	<u>780,815</u>	<u>1,413,695</u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**10. Income Tax Expense (Cont'd)**

Domestic current income tax is calculated at the statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

A reconciliation of income tax expense applicable to profit before tax 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	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit before tax	38,532,416	16,571,216	4,906,073	4,878,932
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	10,789,076	4,639,940	1,373,700	1,366,101
Effect of income subject to tax rate of 20%*	(126,568)	(105,744)	-	-
Effect of changes in tax rates on opening balance of deferred tax	(769,199)	-	(88)	-
Effect of different tax rates in Indonesia and Labuan Offshore	(5,609,357)	(3,434,182)	-	-
Effect on tax exempt profit <sup>#</sup>	-	(688,995)	-	-
Effect of income not subject to tax	(108,955)	(332,793)	(644,972)	(17,515)
Effect of deferred tax assets not recognised on unabsorbed capital allowances	95	-	-	-
Effect of expenses not deductible for tax purposes	159,340	343,414	48,660	64,894
Underprovision of tax expense in prior years	10,265	118,640	3,515	215
(Over)/underprovision of deferred tax in prior years	(18,313)	23,237	-	-
Total income tax expense	4,326,384	563,517	780,815	1,413,695

\* 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 four of the subsidiary companies is 20% as these companies are considered as small and medium scale companies.

# A subsidiary 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	
	2006 RM	2005 RM	2006 RM	2005 RM
Tax savings recognised during the year arising from:				
Utilisation of current year capital allowance	1,220,899	2,555,314	3,867	-
Utilisation of unabsorbed capital allowance brought forward from previous years	60,612	28,243	-	-
Utilisation of unutilised tax losses brought forward from previous years	-	20,790	-	-
Unabsorbed capital allowances carried forward	13,839	-	-	-

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 11. Earnings Per Share

#### (a) Basic

Basic earnings per share amounts are calculated by dividing the Group's profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
Profit attributable to ordinary equity holders of the Company (RM)	34,218,024	16,033,219
Weighted average number of ordinary shares in issue	334,118,148	334,000,000
Basic earnings per share (sen)	<u>10.24</u>	<u>4.80</u>

#### (b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary equity holders of the Company 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.

	<b>2006</b>	<b>2005</b>
Profit attributable to ordinary equity holders of the Company (RM)	34,218,024	16,033,219
Weighted average number of ordinary shares in issue	334,118,148	334,000,000
Effect of dilution in share options	1,513,110	730,233
Adjusted weighted average number of ordinary shares in issue and issuable	<u>335,631,258</u>	<u>334,730,233</u>
Diluted earnings per share (sen)	<u>10.20</u>	<u>4.79</u>

### 12. Dividends

	<b>2006</b>	<b>Dividends in Respect of Year</b>		<b>Dividends Recognised in Year</b>	
	<b>RM</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Recognised during the year:</b>					
First and final dividend for 2004: 6% less 28% taxation on 334,000,000 ordinary shares	-	-	2,885,760	-	2,885,760
First and final dividend declared on 28 June 2006 and paid on 8 September 2006, comprising:					
- 3.9% less 28% taxation	-	1,875,744	-	1,875,744	-
- 2.1% tax exempt	-	1,402,800	-	1,402,800	-
	<u>-</u>	<u>3,278,544</u>	<u>2,885,760</u>	<u>3,278,544</u>	<u>2,885,760</u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 12. Dividends (Cont'd)

	Dividends in Respect of Year			Dividends Recognised in Year	
	2006 RM	2005 RM	2004 RM	2006 RM	2005 RM
<b>Proposed for approval at AGM (not recognised as at 31 December):</b>					
First and final dividend for 2006:					
- 1.4% less 27% taxation	684,912	-	-	-	-
- 8.6% tax exempt	5,763,444	-	-	-	-
On 335,084,000 ordinary shares	6,448,356	-	-	-	-

At the forthcoming Annual General Meeting, a first and final dividend comprising 1.4% less 27% taxation and 8.6% tax exempt on 335,084,000 ordinary shares, amounting to a dividend payable of RM6,448,356 (1.92 sen net per ordinary share) in respect of the financial year ended 31 December 2006, 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 equity as an appropriation of retained earnings in the financial year ending 31 December 2007.

## 13. Property, Plant and Equipment

	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	Construction work-in- progress RM	Total RM
<b>Group</b>							
<b>At 31 December 2006</b>							
<b>Cost</b>							
At 1 January 2006	7,688,632	10,894,192	82,424,279	1,659,436	1,588,681	-	104,255,220
Acquisition of a subsidiary	2,048,896	-	39,115	-	-	3,821,498	5,909,509
Disposal of a subsidiary	-	-	-	(77,926)	(14,557)	-	(92,483)
Additions	7,736	-	652,779	664,635	192,798	600,289	2,118,237
Disposals	-	-	(17,322,469)	(17,000)	(1,527)	-	(17,340,996)
Scrapped	-	-	-	(32,628)	-	-	(32,628)
Exchange differences	-	-	(1,024,761)	1,195	246	-	(1,023,320)
At 31 December 2006	9,745,264	10,894,192	64,768,943	2,197,712	1,765,641	4,421,787	93,793,539
<b>Accumulated depreciation</b>							
At 1 January 2006	2,048,765	2,995,227	14,287,135	923,991	1,111,438	-	21,366,556
Disposal of a subsidiary	-	-	-	(56,420)	(14,527)	-	(70,947)
Depreciation charge for the year	269,797	549,108	4,127,886	282,085	167,919	-	5,396,795
Disposals	-	-	(2,134,351)	(16,999)	(151)	-	(2,151,501)
Scrapped	-	-	-	(32,627)	-	-	(32,627)
Exchange differences	-	-	(94,758)	609	183	-	(93,966)
At 31 December 2006	2,318,562	3,544,335	16,185,912	1,100,639	1,264,862	-	24,414,310
<b>Net carrying amount</b>							
At 31 December 2006	7,426,702	7,349,857	48,583,031	1,097,073	500,779	4,421,787	69,379,229

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 13. Property, Plant and Equipment (Cont'd)

Group	Leasehold Land, Buildings and Workshops RM	Slipway RM	Tugboats, Barges, Heavy Machinery and Equipment RM	Motor Vehicles RM	Telecommunication and Office Equipment, Furniture, Fittings and Renovations RM	Total RM
<b>At 31 December 2005</b>						
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
At 1 January 2005	1,788,760	2,446,119	14,311,784	724,020	954,792	20,225,475
Depreciation 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
<b>Net carrying amount</b>						
At 31 December 2005	5,639,867	7,898,965	68,137,144	735,445	477,243	82,888,664

Leasehold land, buildings and workshops comprise:

Group	Long Leasehold Land RM	Leasehold Buildings RM	Buildings and Workshops RM	Total RM
<b>At 31 December 2006</b>				
<b>Cost</b>				
At 1 January 2006	2,659,604	1,271,167	3,757,861	7,688,632
Acquisition of a subsidiary	2,048,896	-	-	2,048,896
Additions	1,599	-	6,137	7,736
At 31 December 2006	4,710,099	1,271,167	3,763,998	9,745,264
<b>Accumulated depreciation</b>				
At 1 January 2006	-	335,785	1,712,980	2,048,765
Depreciation charge for the year	-	25,426	244,371	269,797
At 31 December 2006	-	361,211	1,957,351	2,318,562
<b>Net carrying amount</b>				
At 31 December 2006	4,710,099	909,956	1,806,647	7,426,702

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 13. Property, Plant and Equipment (Cont'd)

Leasehold land, buildings and workshops comprise: (Cont'd)

	Long Leasehold Land RM	Leasehold Buildings RM	Buildings and Workshops RM	Total RM
<b>Group (Cont'd)</b>				
<b>At 31 December 2005</b>				
<b>Cost</b>				
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
<b>Accumulated depreciation</b>				
At 1 January 2005	-	310,361	1,478,399	1,788,760
Depreciation charge for the year	-	25,424	234,581	260,005
At 31 December 2005	-	335,785	1,712,980	2,048,765
<b>Net carrying amount</b>				
At 31 December 2005	2,659,604	935,382	2,044,881	5,639,867
<b>Company</b>				
<b>Cost</b>				
At 1 January 2006				-
Addition				170,625
At 31 December 2006				170,625
<b>Accumulated depreciation</b>				
At 1 January 2006				-
Depreciation charge for the year				19,900
At 31 December 2006				19,900
<b>Net carrying amount</b>				
At 31 December 2006				150,725

- (a) During the financial year, the Group and the Company acquired property, plant and equipment at an aggregate cost of RM2,118,237 (2005: RM30,990,386) and RM170,625 (2005: Nil) respectively of which RM723,900 (2005: RM382,000) and RM150,000 (2005: Nil) respectively were acquired by means of hire purchase arrangements.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 13. Property, Plant and Equipment (Cont'd)

(b) Net carrying amounts of property, plant and equipment held under hire purchase arrangements are as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Heavy equipment	217,950	202,150	-	-
Motor vehicles	1,086,235	683,600	150,725	-
	<u>1,304,185</u>	<u>885,750</u>	<u>150,725</u>	<u>-</u>

(c) The net carrying amounts of property, plant and equipment pledged for borrowings (Note 22) are as follows:

	Group	
	2006 RM	2005 RM
Long leasehold land and buildings	3,487,606	3,553,958
Slipway	7,349,856	7,898,965
Short leasehold buildings	1,532,315	1,720,219
Tugboats, barges, heavy machinery and equipment	14,897,144	15,617,146
Motor vehicles	666,481	691,434
Telecommunication and office equipments, furniture, fittings and renovation	171,509	205,053
	<u>28,104,911</u>	<u>29,686,775</u>

(d) The financial impact of non-amortisation of the long leasehold land on the financial results as stated in Note 2.3(c) is an increase in amortisation charge for the Group of RM39,330 (2005: RM39,111).

### 14. Investments in Subsidiaries

	Company	
	2006 RM	2005 RM
Unquoted shares in Malaysia - at cost		
At 1 January	61,394,898	61,394,898
Additions	2,115,150	-
At 31 December	<u>63,510,048</u>	<u>61,394,898</u>

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Principal Activities	Equity Interest Held by the Group	
			2006 %	2005 %
Bonafide Shipbuilders & Repairs Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels	100	100

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 14. 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	
			2006 %	2005 %
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
Seri Modalwan Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels, provision of ship repairs and maintenance services and sub-contract services	100	100
Pleasant Engineering Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels and provision of ship repairs and maintenance services	100	-
Coastal Marine Pte Ltd #	Singapore	Provision of vessels chartering and towing services	100	-
Coastal Offshore (Labuan)Pte Ltd	Malaysia	Sale of offshore support and marine transportation vessels, provision of bareboat chartering and leasing services to non-Malaysia residents	100	100
<b>Subsidiary company of Coastal Offshore (Labuan) Pte Ltd</b>				
PT. Cosarana Marine #	Indonesia	Provision of tugboat and barge hiring services	-	95

# Audited by firm of auditors other than Ernst &amp; Young.

## (a) Acquisition of a subsidiary

On 26 September 2006, the Company acquired 100% equity interest in Pleasant Engineering Sdn. Bhd., a company incorporated in Malaysia which is involved in fabrication and sale of offshore support and marine transportation vessels for a total cash consideration of RM2,000,000.

The acquired subsidiary has contributed the following results to the Group:

	RM
Revenue	-
Loss for the year	(10,625)

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 14. Investments in Subsidiaries (Cont'd)

(a) Acquisition of a subsidiary (Cont'd)

If the acquisition had occurred on 1 January 2006, the Group's profit for the year would have been RM34,241,171.

The assets and liabilities arising from the acquisition are as follows:

	Fair value recognised on acquisition RM	Acquiree's carrying amount RM
Property, plant and equipment (Note 13)	5,909,509	5,643,938
Trade and other receivables	305,101	305,101
Cash and bank balances	10,244	10,244
	<hr/>	<hr/>
	6,224,854	5,959,283
	<hr/>	<hr/>
Trade and other payables	(3,953,129)	(3,953,129)
Current tax payable	(13,566)	(13,566)
Deferred taxation (Note 24)	(69,048)	-
	<hr/>	<hr/>
	(4,035,743)	(3,966,695)
	<hr/>	<hr/>
Fair value of net assets	2,189,111	
Negative goodwill on acquisition	(189,111)	
	<hr/>	
Total cost of acquisition	2,000,000	
	<hr/>	

The cash outflow on acquisition is as follows:

	RM
Purchase consideration satisfied by cash	2,000,000
Cash and cash equivalents of subsidiary acquired	(10,244)
	<hr/>
Net cash outflow of the Group	(1,989,756)
	<hr/>

(b) Subscription of shares in a subsidiary company

On 19 June 2006, the Company subscribed 50,000 ordinary shares of Singapore Dollars ("SGD") 1.00 each representing 100% equity interest in Coastal Marine Pte. Ltd., a private company limited by shares and is registered under the Companies Act, (Cap. 50), Singapore for a total cash consideration of SGD50,000 (RM115,150) only.

(c) Disposal of a subsidiary

On 19 December 2006, Coastal Offshore (Labuan) Pte Ltd, a subsidiary of the Company, disposed of its entire 95% equity interest in PT Cosarana Marine for a total cash consideration of USD7,125 (RM26,135).

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 14. Investments in Subsidiaries (Cont'd)

## (c) Disposal of a subsidiary (Cont'd)

The disposal had the following effects on the financial position of the Group as at the end of the year:

	RM
Plant and equipment (Note 13)	21,536
Cash at bank	3,101
Others payables	(70)
Current tax payable	(3,677)
Net assets disposed	20,890
Attributable goodwill (Note 15)	272,041
Minority interest	(1,045)
Transfer from foreign currency translation reserve	40,907
	<u>332,793</u>
Proceeds from disposal to the Group	(26,135)
Loss on disposal to the Group	<u>306,658</u>
Cash inflow arising on disposal	
Cash consideration	26,135
Cash and cash equivalents of subsidiary disposed	(3,101)
Net cash inflow of the Group	<u>23,034</u>

## 15. Intangible Asset

	Goodwill RM	Negative Goodwill RM	Total RM
<b>Group</b>			
At 1 January 2006	6,156,168	(3,753,870)	2,402,298
Effects of adopting FRS 3	-	3,753,870	3,753,870
Derecognised upon disposal of a subsidiary	(272,041)	-	(272,041)
At 31 December 2006	<u>5,884,127</u>	<u>-</u>	<u>5,884,127</u>

## Allocation of goodwill

Goodwill has been allocated to the Group's CGUs identified according to business segment as follows:

	RM
At 31 December 2006	
Vessels manufacturing and repairing services	5,641,469
Vessels chartering and equipment hire	242,658
	<u>5,884,127</u>

The recoverable amount of the vessels manufacturing and repairing services segment is determined based on value-in-use calculation, whilst the recoverable amount of the vessels chartering and equipment hire segment is determined based on fair value less costs to sell.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 15. Intangible Asset (Cont'd)

#### Key assumptions used in value-in-use calculations

The recoverable amount is determined based on value-in-use calculations using cash flow projections based on financial forecast approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the growth rates stated below. The key assumptions used for value-in-use calculations are:-

	<b>Gross Margins</b>	<b>Growth Rates</b>	<b>Discount Rate</b>
	%	%	%
Vessels manufacturing and repairing services	19.0 - 27.0	1.0 - 5.0	10.79

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(i) Budgeted gross margins

The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past four years immediately before the budgeted year increased for expected efficiency improvements.

(ii) Growth rates

The weighted average growth rates used are consistent with the long-term average growth rate for the industry.

(iii) Discount rate

The discount rate used is pre-tax and reflect specific risks relating to the industry.

(iv) Raw materials price inflation

The basis used to determine the value assigned to the raw materials price inflation is the forecast price indices during the budget year for Malaysia being where raw materials are sourced. Values assigned to key assumptions are consistent with external information sources.

#### Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values materially exceed their recoverable amount.

#### Methodology used to determine the fair value less cost to sell

Fair value less cost to sell is determined using an observable market price of an active market for used vessels adjusted for the incidental costs that would directly attributable to the disposal of such vessels.

### 16. Inventories

	<b>2006</b>	<b>Group</b>
	<b>RM</b>	<b>2005</b>
		<b>RM</b>
<b>At cost -</b>		
Finished goods	58,027,473	11,558,581
Input materials	14,207,516	13,582,573
Work-in-progress	98,324,845	48,460,674
Spare parts	28,071	415,264
	<u>170,587,905</u>	<u>74,017,092</u>

There were no inventories stated at net realisable value as at 31 December 2006 and 2005.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 17. Trade and Other Receivables

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Trade receivables</b>				
Third parties	7,566,606	16,780,249	-	-
Related party	-	153,328	-	-
Less: Provision for doubtful debts				
At 1 January	(584,594)	(2,492,580)	-	-
Bad debts written off against provision for doubtful debts	250,304	1,914,058	-	-
Exchange differences	7,398	136,694	-	-
Doubtful debts written back	-	57,234	-	-
Provision for the year	(740,290)	(200,000)	-	-
At 31 December	(1,067,182)	(584,594)	-	-
Trade receivables, net	6,499,424	16,348,983	-	-
Receivable within 12 months	6,499,424	15,981,931	-	-
Receivable after 12 months	-	367,052	-	-
	6,499,424	16,348,983	-	-
<b>Other receivables</b>				
Amounts due from subsidiaries				
- Interest-bearing advances	-	-	29,787,851	-
- Interest-free advances	-	-	9,419	16,423,531
	-	-	29,797,270	16,423,531
Deposits paid to suppliers and contractors	6,906,484	15,018,371	-	-
Deposits	355,005	340,525	3,400	2,400
Prepayments	285,246	299,946	5,398	5,425
Sundry receivables	4,558,932	5,365,723	-	-
	12,105,667	21,024,565	29,806,068	16,431,356
Less: Provision for doubtful debts				
At 1 January	(15,449)	(1,000)	-	-
Provision for the year	(2,400)	(14,449)	-	-
Bad debts written off against provision for doubtful debts	4,853	-	-	-
Exchange differences	52	-	-	-
At 31 December	(12,944)	(15,449)	-	-
Other receivables, net	12,092,723	21,009,116	29,806,068	16,431,356
Receivable within 12 months	12,092,723	21,009,116	29,806,068	16,431,356
Receivable after 12 months	-	-	-	-
	12,092,723	21,009,116	29,806,068	16,431,356
Receivable within 12 months	18,592,147	36,991,047	29,806,068	16,431,356
Receivable after 12 months	-	367,052	-	-
Trade and other receivables, net	18,592,147	37,358,099	29,806,068	16,431,356

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 17. Trade and Other Receivables (Cont'd)

(a) Credit Risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit, except for a few customers, where payment in advance is normally required. Credit risk is minimised and maintained 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. Trade receivables are non-interest bearing.

(b) Amounts due from subsidiaries

All the amounts are unsecured, have no fixed terms of repayment and are to be settled in cash.

The interest-bearing advances bear interest at rates ranged from 4.70% to 5.70% per annum.

(c) Amount due from a related party

Amount due from a related party represents amount due from a company in which the spouse of a Director of a subsidiary is also a director and has financial interest.

Further details on related party transactions are disclosed in Note 29.

### 18. Cash and Cash Equivalents

	Average maturity of deposits Days	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Cash on hand and at banks		11,562,355	3,332,483	11,518	6,299
Deposit in escrow account		6,709,850	-	-	-
Fixed deposits with licensed banks	5 - 30	9,765,351	-	-	-
Fixed deposits held under lien as security for guarantees issued by the bankers in favour of third parties	365	105,000	100,000	-	-
Fixed deposits held under lien as security for banking facility granted to a subsidiary company	30	-	4,053,033	-	-
Cash and bank balances		<u>28,142,556</u>	<u>7,485,516</u>	<u>11,518</u>	<u>6,299</u>

Deposit in escrow account represents funds placed by a vessel buyer which will be released for use by the Group upon delivery of a vessel.

Other information on financial risks of cash and cash equivalents are disclosed in Note 30.

For the purpose of the cash flow statements, cash and cash equivalents comprise the following as at the balance sheets date:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cash and bank balances	28,142,556	7,485,516	11,518	6,299
Bank overdrafts (Note 22)	-	(2,241)	-	-
Total cash and cash equivalents	<u>28,142,556</u>	<u>7,483,275</u>	<u>11,518</u>	<u>6,299</u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 19. Share Capital and Share Premium

	Number of Ordinary Shares of RM0.20 Each		Amount	
	Share Capital (Issued and Fully Paid)	Share Capital (Issued and Fully Paid) RM	Share Premium RM	Total Share Capital and Share Premium RM
On 1 January 2005/ 31 December 2005	334,000,000	66,800,000	9,850,663	76,650,663
Ordinary shares issued pursuant to ESOS (Note 26)	1,084,000	216,800	336,040	552,840
Transaction costs	-	-	(2,200)	(2,200)
At 31 December 2006	<u>335,084,000</u>	<u>67,016,800</u>	<u>10,184,503</u>	<u>77,201,303</u>

	Number of Ordinary Shares of RM0.20 Each		Amount	
	2006	2005	2006 RM	2005 RM
<b>Authorised</b>				
At 1 January and 31 December	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

During the financial year, the Company increased its issued and paid up ordinary share capital from RM66,800,000 to RM67,016,800 by way of the issuance of 1,084,000 ordinary shares of RM0.20 each for cash pursuant to the Company's Employee Share Options Scheme at an average exercise price of RM0.51 per ordinary share. The share premium of RM336,040 arising from the issuance of ordinary shares and share issue costs of RM2,200 have been included in the share premium account. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

## 20. Foreign Currency Translation Reserve

	Group	
	2006 RM	2005 RM
At 1 January	134,987	36,283
Addition	2,144,213	98,704
Disposal of a foreign entity	(40,907)	-
At 31 December	<u>2,238,293</u>	<u>134,987</u>

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 21. Retained Earnings

As at 31 December 2006, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and balance in tax exempt account to frank payment of dividends amounting to RM1,897,975 out of its retained earnings. If the balance of retained earnings of RM27,756 were to be distributed as dividends prior to there being sufficient tax credit, the Company would have a Section 108 shortfall of approximately RM10,266.

As at 31 December 2006, the Company has tax exempt profits available for distribution of approximately RM382,900 (2005: RM80,000), subject to the agreement of the Inland Revenue Board.

### 22. Borrowings

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Short Term Borrowings</b>				
Secured:				
Bank overdrafts (Note 18)	-	2,241	-	-
Trade loans	-	207,692	-	-
Revolving credits	24,839,740	49,085,240	-	-
Islamic bank loan	12,873	27,411	-	-
Term loans	1,530,746	1,696,569	-	-
Hire purchase payables (Note 23)	326,298	209,582	32,091	-
	<u>26,709,657</u>	<u>51,228,735</u>	<u>32,091</u>	<u>-</u>
<b>Long Term Borrowings</b>				
Secured:				
Islamic bank loan	-	10,322	-	-
Term loans	4,097,417	5,718,216	-	-
Hire purchase payables (Note 23)	799,582	492,427	100,209	-
	<u>4,896,999</u>	<u>6,220,965</u>	<u>100,209</u>	<u>-</u>
<b>Total Borrowings</b>				
Secured:				
Bank overdrafts (Note 18)	-	2,241	-	-
Trade loans	-	207,692	-	-
Revolving credits	24,839,740	49,085,240	-	-
Islamic bank loan	12,873	37,733	-	-
Term loans	5,628,163	7,414,785	-	-
Hire purchase payables (Note 23)	1,125,880	702,009	132,300	-
	<u>31,606,656</u>	<u>57,449,700</u>	<u>132,300</u>	<u>-</u>
Maturity of borrowings (excluding hire purchase):				
Within 1 year	26,383,359	51,019,153	-	-
More than 1 year and less than 2 years	946,474	1,672,609	-	-
More than 2 years and less than 5 years	2,798,782	2,709,753	-	-
5 years or more	352,161	1,346,176	-	-
	<u>30,480,776</u>	<u>56,747,691</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**22. Borrowings (Cont'd)**

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

- (a) legal charges over certain assets of certain subsidiaries as disclosed in Note 13 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 subsidiaries; and
- (e) legal charges over all present and future fixed and floating assets of certain subsidiaries.

Other information on financial risks of borrowings are disclosed in Note 30.

**23. Hire Purchase Payables**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Minimum hire purchase payments:</b>				
Not later than 1 year	377,248	241,224	37,785	-
Later than 1 year and not later than 2 years	369,708	192,812	41,220	-
Later than 2 years and not later than 5 years	448,988	335,341	65,265	-
Later than 5 years	38,322	-	-	-
	<u>1,234,266</u>	<u>769,377</u>	<u>144,270</u>	<u>-</u>
Less: Future finance charges	(108,386)	(67,368)	(11,970)	-
Present value of hire purchase liabilities	<u>1,125,880</u>	<u>702,009</u>	<u>132,300</u>	<u>-</u>
<b>Present value of hire purchase liabilities:</b>				
Not later than 1 year	326,298	209,582	32,091	-
Later than 1 year and not later than 2 years	337,124	172,517	37,348	-
Later than 2 years and not later than 5 years	425,736	319,910	62,861	-
Later than 5 years	36,722	-	-	-
	<u>1,125,880</u>	<u>702,009</u>	<u>132,300</u>	<u>-</u>
<b>Analysed as:</b>				
Due within 12 months (Note 22)	326,298	209,582	32,091	-
Due after 12 months (Note 22)	799,582	492,427	100,209	-
	<u>1,125,880</u>	<u>702,009</u>	<u>132,300</u>	<u>-</u>

Other information on financial risks of hire purchase liabilities are disclosed in Note 30.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 24. Deferred Taxation

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At 1 January	10,493,228	11,752,347	-	-
Acquisition of a subsidiary (Note 14)	69,048	-	-	-
Recognised in income statement (Note 10)	(530,413)	(1,259,119)	2,651	-
At 31 December	10,031,863	10,493,228	2,651	-

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

#### Deferred Tax Liabilities:

##### Group

	Property, Plant and Equipment RM	Trade Receivables RM	Total RM
At 1 January 2006	11,851,570	(97,664)	11,753,906
Acquisition of a subsidiary	69,048	-	69,048
Recognised in income statement	(1,083,102)	(182,964)	(1,266,066)
At 31 December 2006	10,837,516	(280,628)	10,556,888
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	11,851,570	(97,664)	11,753,906

##### Company

At 1 January 2006	-	-	-
Recognised in income statement	2,651	-	2,651
At 31 December 2006	2,651	-	2,651

#### Deferred Tax Assets:

##### Group

	Tax losses and Unabsorbed Capital Allowances RM	Deferred Income RM	Total RM
At 1 January 2006	-	(1,260,678)	(1,260,678)
Recognised in income statement	(3,509)	739,162	735,653
At 31 December 2006	(3,509)	(521,516)	(525,025)
At 1 January 2005	(56,004)	(639,047)	(695,051)
Recognised in income statement	56,004	(621,631)	(565,627)
At 31 December 2005	-	(1,260,678)	(1,260,678)

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**24. Deferred Taxation (Cont'd)**

Deferred tax assets have not been recognised in respect of the unabsorbed capital allowances of one of the subsidiary of RM343 (2005: Nil).

The availability of the unabsorbed capital allowances for offsetting against future taxable profits of the respective subsidiary is subject to no substantial changes in shareholdings of that subsidiary under Schedule 3, Paragraphs 75A and 75B of Income Tax Act, 1967.

**25. Trade and Other Payables**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Trade payables</b>				
Third parties	3,070,455	4,973,683	-	-
A partnership in which the Directors of the Company are also partners	130,200	-	-	-
	<u>3,200,655</u>	<u>4,973,683</u>	<u>-</u>	<u>-</u>
<b>Other payables</b>				
Amounts due to subsidiaries	-	-	13,731,124	-
Accruals	2,320,115	1,374,386	50,900	65,236
Amounts payable to vessel suppliers	-	4,562,460	-	-
Deposits received from vessel buyers	91,067,874	7,682,550	-	-
Deposits received from vessel charterers	-	283,315	-	-
Rental deposits	560	560	-	-
Sundry payables	2,388,174	1,031,579	441,981	37,657
A company in which a director is the spouse of a person connected with the Directors of the Company	57,051	-	-	-
	<u>95,833,774</u>	<u>14,934,850</u>	<u>14,224,005</u>	<u>102,893</u>
	<u>99,034,429</u>	<u>19,908,533</u>	<u>14,224,005</u>	<u>102,893</u>

**(a) Trade payables**

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 days to 90 days.

**(b) Amounts due to related parties**

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

Further details on related party transactions are disclosed in Note 29.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 26. Employee Benefits

#### 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.
- (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 (iii) 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.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**26. Employee Benefits (Cont'd)**

The salient features of the ESOS are as follows: (Cont'd)

- (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.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movement in share options during the year:

	Outstanding at 1 January '000	Number of Share Options				Outstanding at 31 December '000	Exercisable at 31 December '000
		← Granted '000	Movements During the Year Exercised '000	Forfeited '000	→ Expired '000		
<b>2006</b>							
2005 Options	29,949	-	(1,084)	(552)	-	28,313	28,313
<b>2005</b>							
2005 Options	-	30,482	-	(533)	-	29,949	29,949
<b>WAEP</b>	0.51	0.51	0.51	0.51	-	0.51	0.51

- (i) Details of share options outstanding at the end of the year:

	WAEP RM	Exercised Period
<b>2006</b>		
2005 Options	0.51	14.07.2005 – 17.01.2010
<b>2005</b>		
2005 Options	0.51	14.07.2005 – 17.01.2010

- (ii) Share options exercised during the year

As disclosed in Note 19, options exercised during the financial year resulted in the issuance of 1,084,000 ordinary shares at an average price of RM0.51 each. The related weighted average share price at the date of exercise was RM0.64.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 27. Capital Commitments

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Capital expenditure:				
Approved and contracted for:				
Property, plant and equipment	526,408	-	-	-

### 28. Contingent Liabilities

	Company	
	2006 RM	2005 RM
Unsecured		
Corporate guarantees given to banks to secure credit facilities granted to subsidiary companies	119,870,000	104,449,000

### 29. Significant Related Party Transactions

Group	2006	2005
	RM	RM
Purchase of fuel and oil from Syarikat Guan Huat Trading*	1,535,522	892,413
Hiring of motor vehicle from Top Pride Sdn. Bhd.*	4,800	4,800
Rental of premises paid to Top Pride Sdn. Bhd.*	21,600	2,700
Barge hiring income charged to PT. Prima Armada Nusantara**	41,897	505,676
Agency service fees charged by PT. Prima Armada Nusantara **	55,022	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.

Information regarding outstanding balances arising from related party transactions as at 31 December 2006 are disclosed in Note 17 and 25 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

31 December 2006 (Cont'd)

## 30. Financial Instruments

## (a) 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.

## (b) Price Risk

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

## (c) 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.

The following tables set out the carrying amounts, the effective interest rates (EIR) as at the balance sheet date and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	Note	EIR %	Within 1 Year RM	1 - 2 RM	2 - 3 RM	3 - 4 RM	4 - 5 RM	More Than 5 Years RM	Total RM
<b>At 31 December 2006</b>									
<b>Group</b>									
<b>Fixed rate</b>									
Cash and bank balances	18	2.40 - 10.39	9,870,351	-	-	-	-	-	9,870,351
Hire purchase liabilities	23	4.71 - 8.07	326,298	337,124	292,922	102,142	30,672	36,722	1,125,880
Islamic bank loan	22	10.50	12,873	-	-	-	-	-	12,873
Term loans	22	6.00 - 6.50	1,265,476	817,668	873,146	931,622	994,014	352,161	5,234,087
Revolving credits	22	5.40 - 8.00	24,839,740	-	-	-	-	-	24,839,740
<b>Floating rate</b>									
Term loan	22	8.25	265,270	128,806	-	-	-	-	394,076
<b>Company</b>									
<b>Fixed rate</b>									
Hire purchase liabilities	23	4.71	32,091	37,348	39,170	23,691	-	-	132,300
Amount due from a subsidiary	17	4.70 - 5.70	29,787,851	-	-	-	-	-	29,787,851

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 30. Financial Instruments (Cont'd)

#### (c) Interest Rate Risk (Cont'd)

	Note	EIR %	Within 1 Year RM	1 - 2 RM	2 - 3 RM	3 - 4 RM	4 - 5 RM	More Than 5 Years RM	Total RM
<b>At 31 December 2005</b>									
<b>Group</b>									
<b>Fixed rate</b>									
Cash and bank balances	18	3.70 - 4.25	4,153,033	-	-	-	-	-	4,153,033
Hire purchase liabilities	23	4.76 - 8.96	209,582	172,517	165,743	147,047	7,120	-	702,009
Islamic bank loan	22	10.50	27,411	10,322	-	-	-	-	37,733
Term loans	22	6.00 - 6.50	1,431,300	1,397,017	817,668	873,146	931,622	1,346,176	6,796,929
Revolving credits	22	4.80 - 7.50	49,085,240	-	-	-	-	-	49,085,240
<b>Floating rate</b>									
Bank overdraft	22	8.75	2,241	-	-	-	-	-	2,241
Term loan	22	7.75	265,269	265,270	87,317	-	-	-	617,856
Trade loan	22	7.50	207,692	-	-	-	-	-	207,692

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months except for term loans and floating rate loans which are repriced annually. Interest on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

#### (d) Foreign Exchange Risk

The Group operates in Indonesia, Malaysia and Singapore, 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.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 30. Financial Instruments (Cont'd)

## (d) Foreign Exchange Risk (Cont'd)

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 2006				At 31 December 2005		
	Ringgit Malaysia RM	United States Dollars RM	Singapore Dollars RM	Total RM	Ringgit Malaysia RM	United States Dollars RM	Total RM
<b>Cash and Bank Balances</b>							
United States Dollars	3,139,128	-	1,876,821	5,015,949	1,159,329	-	1,159,329
Renminbi	-	6,954	-	6,954	-	-	-
Ringgit Malaysia	-	247,774	-	247,774	-	-	-
Australian Dollars	13	-	-	13	13	-	13
Indonesian Rupiah	1,363,606	97,632	-	1,461,238	693,376	138,250	831,626
Singapore Dollars	4,520	-	-	4,520	7,729	37,762	45,491
	<u>4,507,267</u>	<u>352,360</u>	<u>1,876,821</u>	<u>6,736,448</u>	<u>1,860,447</u>	<u>176,012</u>	<u>2,036,459</u>
<b>Trade Receivables</b>							
United States Dollars	305,139	-	-	305,139	4,974,289	-	4,974,289
Indonesian Rupiah	414,252	164,045	-	578,297	1,262,595	74,326	1,336,921
Singapore Dollars	-	-	-	-	317,935	-	317,935
	<u>719,391</u>	<u>164,045</u>	<u>-</u>	<u>883,436</u>	<u>6,554,819</u>	<u>74,326</u>	<u>6,629,145</u>
<b>Other Receivables</b>							
United States Dollars	720,055	-	1,608,246	2,328,301	5,101,368	-	5,101,368
Euro	438,276	5,491	-	443,767	-	-	-
Renminbi	-	1,642	-	1,642	-	-	-
Australian Dollars	-	-	-	-	27,724	-	27,724
Indonesian Rupiah	189,027	10,015	-	199,042	174,165	-	174,165
Ringgit Malaysia	-	56,797	-	56,797	-	47,110	47,110
Singapore Dollars	340,953	301,046	-	641,999	136,282	16,689	152,971
	<u>1,688,311</u>	<u>374,991</u>	<u>1,608,246</u>	<u>3,671,548</u>	<u>5,439,539</u>	<u>63,799</u>	<u>5,503,338</u>
<b>Trade Payables</b>							
United States Dollars	36,066	-	-	36,066	205,777	-	205,777
Euro	16,612	-	-	16,612	-	-	-
Indonesian Rupiah	39	-	-	39	39	-	39
Singapore Dollars	448,432	-	-	448,432	640,898	130,667	771,565
	<u>501,149</u>	<u>-</u>	<u>-</u>	<u>501,149</u>	<u>846,714</u>	<u>130,667</u>	<u>977,381</u>
<b>Other Payables</b>							
United States Dollars	6,310,576	-	1,437,350	7,747,926	5,095,935	-	5,095,935
Renminbi	-	20,984	-	20,984	-	-	-
Euro	-	21,814	-	21,814	-	-	-
Indonesian Rupiah	107,487	922	-	108,409	20,618	-	20,618
Ringgit Malaysia	-	49,840	3,370,684	3,420,524	-	45,851	45,851
Singapore Dollars	345	-	-	345	341	-	341
	<u>6,418,408</u>	<u>93,560</u>	<u>4,808,034</u>	<u>11,320,002</u>	<u>5,116,894</u>	<u>45,851</u>	<u>5,162,745</u>
<b>Fixed Deposits with Licensed Bank</b>							
Indonesian Rupiah	-	247,590	-	247,590	-	-	-

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 30. Financial Instruments (Cont'd)

#### (e) 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.

#### (f) 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.

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.

As at balance sheet date, apart from deposits paid to 2 (2005: 1) contractors representing 62% (2005: 53%) of total net other receivables, the Group has no significant concentration of credit risk.

#### (g) Fair Values

There is no disclosure of fair value for investments in subsidiaries and leases as these are excluded from FRS 132 - Financial Instruments: Disclosure and Presentation.

The carrying amounts of financial assets and liabilities of the Group and of the Company at the balance sheet date approximated their fair value.

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

Borrowings:

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

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:

	Note	2006		2005	
		Nominal Amount RM	Fair Value RM	Nominal Amount RM	Fair Value RM
Contingent Liabilities	28	119,870,000	30,566,254	104,449,000	57,392,234

## Notes to the Financial Statements

31 December 2006 (Cont'd)

**31. Segmental Information**

## (a) Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

## (b) The Business Segment

The Group's operations comprise the following business Segments:

Vessels manufacturing and repairing services	-	Fabrication and sale of offshore support and 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.

## (c) Geographical segments

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. The Group's two Business segments operate in three main geographical areas:

(i) Malaysia	-	the operations in this area are principally fabrication and sale of offshore support and marine transportation vessels, provisions of tugboat and barge transportation, provision of ship repairs and maintenance services, equipment hiring services, provision of vessel chartering and related services.
(ii) Indonesia	-	the operations in this area are principally provision of vessel chartering and related services.
(iii) Singapore	-	the operations in this area are principally provision of vessels chartering and towing services.

## (d) Allocation basis and transfer pricing

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 comprise mainly corporate assets, liabilities and expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 31. Segmental Information (Cont'd)

2006

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Elimination RM	Consolidated RM
<b>Revenue</b>				
External sales	140,021,391	19,266,712	-	159,288,103
Inter-segment sales	1,752,900	119,100	(1,872,000)	-
	<u>141,774,291</u>	<u>19,385,812</u>	<u>(1,872,000)</u>	<u>159,288,103</u>
<b>Results</b>				
Segment results	30,198,886	12,339,633		42,538,519
Unallocated corporate expenses				(448,800)
Interest income				356,668
Finance costs				(3,913,971)
				<u>38,532,416</u>
Income tax expense				(4,326,384)
				<u>34,206,032</u>
Profit before tax				11,992
Minority interest				
				<u>34,218,024</u>
<b>Segment assets and liabilities</b>				
Segment assets	232,396,885	60,018,038		292,414,923
Unallocated corporate assets				301,874
				<u>292,716,797</u>
Consolidated total assets				
Segment liabilities	92,352,042	6,189,504		98,541,546
Unallocated corporate liabilities				44,673,221
				<u>143,214,767</u>
Consolidated total liabilities				
<b>Other information</b>				
Capital expenditure	1,471,492	476,120		1,947,612
Depreciation	1,390,120	3,986,775		5,376,895
Non-cash expense other than depreciation	47,492	3,772,202		3,819,694

## Notes to the Financial Statements

31 December 2006 (Cont'd)

## 31. Segmental Information (Cont'd)

2005

	Vessels manufacturing and repairing services RM	Vessels chartering and equipment hire RM	Elimination RM	Consolidated RM
<b>Revenue</b>				
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>
<b>Results</b>				
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>
Income tax expense				(563,517)
Profit before tax				16,007,699
Minority interest				25,520
Profit for the year				<u>16,033,219</u>
<b>Segment assets and liabilities</b>				
Segment assets	121,805,367	82,332,178		204,137,545
Unallocated corporate assets				626,496
Consolidated total assets				<u>204,764,041</u>
Segment liabilities	10,140,698	9,664,942		19,805,640
Unallocated corporate liabilities				68,584,489
Consolidated total liabilities				<u>88,390,129</u>
<b>Other information</b>				
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	81,002	911,199		992,201

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 31. Segmental Information (Cont'd)

#### (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
<b>2006</b>			
Malaysia	72,453,384	120,040,387	1,917,226
Indonesia	86,834,719	170,497,717	30,386
Singapore	-	1,876,819	-
	<hr/> 159,288,103	<hr/> 292,414,923	<hr/> 1,947,612
<b>2005</b>			
Malaysia	35,816,119	114,842,857	13,939,575
Indonesia	67,348,489	89,294,688	17,050,811
	<hr/> 103,164,608	<hr/> 204,137,545	<hr/> 30,990,386

### 32. Significant Events

- (a) On 19 June 2006, the Company subscribed 50,000 ordinary shares of Singapore Dollar 1.00 each in Coastal Marine Pte Ltd. resulting the latter becoming a wholly-owned foreign subsidiary of the Company.
- (b) On 26 September 2006, the Company acquired the entire equity interest of Pleasant Engineering Sdn. Bhd., for a total cash consideration of RM2,000,000 resulting in the latter becoming a wholly-owned subsidiary of the Company.
- (c) On 19 October 2006, the Company has mutually extended the term of the Memorandum of Understanding ("MOU") with Petrosab Logistik Sdn. Bhd. which was signed on 27 October 2005 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 for a further period of one year commencing 27 October 2006.
- (d) On 19 December 2006, Coastal Offshore (Labuan) Pte Ltd, a subsidiary of the Company, disposed of its entire 95% equity interest in PT Cosarana Marine for a total cash consideration of USD7,125 (RM26,135).

## Notes to the Financial Statements

31 December 2006 (Cont'd)

### 33. Subsequent Events

- (a) On 9 January 2007, a subsidiary of the Company, Pleasant Engineering Sdn. Bhd. obtained banking facilities totalling RM30,000,000 from AmBank (M) Berhad, comprising of RM1,000,000 overdraft facility for working capital purpose, RM5,000,000 term loan facility to part finance the construction/development costs of buildings and related structures for a new shipyard located at Sungai Seguntor and RM24,000,000 revolving credits to finance the working capital requirements for importation and purchase of materials/goods.
- (b) On 19 March 2007, the MOU signed between Yayasan Sabah Dua Shipping Sdn. Bhd. and the Company has been terminated through mutual consent pertaining 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.
- (c) On 26 March 2007, a subsidiary of the Company, Coastal Offshore (Labuan) Pte Ltd obtained a banking facility of USD 17,505,000 from Standard Chartered Bank, Offshore Labuan for issuance of six standby letter of credit favoring Maridive & Oil Services S.A.E. and Maridive Offshore Projects S.A.E. Egypt as a guarantee for advance payments received for construction of six units offshore support vessels.
- (d) On 18 April 2007, a subsidiary of the Company, Coastal Offshore (Labuan) Pte Ltd has granted the approval from CIMB Bank (L) Limited to increase the banking facilities from USD9,000,000, comprising revolving credit, letter of credit, standby letter of credit and bank guarantee to USD19,000,000 for ordinary course of business purpose.

## List of Properties in the Group

Property / Location address	Age of buildings	Tenure/ Expiry date	Description/ Existing use	Land Area/ Built-up area	Date of purchase	Valuation date	Net book value (31.12.2006) (RM)
CL 075512168 Off Mile 9, Sungai Seguntor, Labuk Road, Sandakan, Sabah	2 to 19 years	99 years / 31.12.2073	Vessel dockyard facility	17.66 acres/ 76,348.43 sq ft	24.04.1990	11.05.2001	7,104,510
1/50 undivided share of TL077508886 Lot 4A, 4th Floor, Wisma Wemin Mile 1 1/2, Leila Road, Sandakan, Sabah	20 years since 1987	999 years / 15.12.2910	1 unit residential flat	1.027 acres / 900 sq ft	14.12.1995	11.05.2001	23,350
1/2 undivided share of TL077534313 Lot 3A, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	23 years since 1984	999 years / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	06.08.1997	11.05.2001	198,860
1/2 undivided share of TL077534313 Lot No. 3B, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	23 years since 1984	999 years / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	06.08.1988	11.05.2001	100,336
1/2 undivided share of TL077534304 Lot 4A, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	23 years since 1984	999 years / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	20.04.1991	11.05.2001	104,023
4/11 undivided share of CL075212421 Lot No. 2 & 3, Mile 3, Labuk Road, Sandakan, Sabah.	38 years since 1969	999 years / 08.01.2882	2 units warehouse building	1.093 acres / 4,000 sq ft	01.06.1984	11.05.2001	387,902
CL 075360673 CL 075360664 CL 075360655 CL 075366022 CL 075366013 CL 075366004 CL 075448930 CL 075448921 Mile 8, Jalan Datuk Tay, Off Jalan Lintas Sibuga, Sandakan, Sabah.	N/A ↓	99 years / 31.12.2073 31.12.2073 31.12.2073 31.12.2073 31.12.2078 31.12.2078 31.12.2088 31.12.2088	Vessel dockyard facility ↓	2.07 acres 1.80 acres 1.99 acres 6.30 acres 12.83 acres 11.38 acres 8.00 acres 8.00 acres	24.07.2004 ↓	22.03.2006 ↓	65,879 57,417 63,372 230,457 405,837 358,680 339,236 262,445

## Analysis of Shareholdings

as at 4 May 2007

<b>Authorised Share Capital</b>	RM500,000,000
<b>Issued and Paid-up Share Capital</b>	RM 69,424,000
<b>Type of Shares</b>	Ordinary Shares of RM0.20 each
<b>Voting Rights</b>	One vote per ordinary share

### Analysis of Shareholdings

Size of Holdings	No. of holders	No. of Shares	%
Less than 100	2	100	0.00
100 to 1,000	592	274,000	0.08
1,001 to 10,000	915	4,465,000	1.28
10,001 to 100,000	337	11,755,600	3.39
100,001 to less than 5% of issued shares	116	124,406,700	35.84
5% and above of issued shares	6	206,218,600	59.41
<b>Total</b>	<b>1,968</b>	<b>347,120,000</b>	<b>100.00</b>

### List of Thirty Largest Securities Accounts Holders

No.	Name	No. of Shares	%
1.	IVORY ASIA SDN BHD	63,559,995	18.31
2.	IVORY ASIA SDN BHD	50,000,000	14.40
3.	RICKOH CORPORATION SDN BHD	26,000,000	7.49
4.	PANG FONG THAU	23,750,000	6.84
5.	PANG FONG THAU	23,700,000	6.83
6.	PANG FONG THAU	19,208,605	5.53
7.	PANG FONG THAU	10,000,000	2.88
8.	HSBC NOMINEES (ASING) SDN BHD JP MORGAN WHITEFRIARS INC	8,804,400	2.54
9.	NG CHIN HENG	8,680,000	2.50
10.	ONG SENG HENG	6,609,500	1.90
11.	NG CHIN SHIN	6,578,200	1.90
12.	NG CHIN KOK	6,178,200	1.78
13.	NG CHIN KEUAN	5,778,200	1.66
14.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR MORGAN STANLEY & CO. INTERNATIONAL PLC	4,910,000	1.41
15.	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ONG SIEW ENG @ ONG CHAI	2,856,000	0.82
16.	NG CHIN HENG	2,800,000	0.81
17.	NG CHIN HENG	2,750,000	0.79
18.	MAYBAN NOMINEES (TEMPATAN) SDN BHD MALAYSIAN TRUSTEES BERHAD FOR MAYBAN SMALLCAP TRUST FUND (240165)	2,547,600	0.73
19.	NG CHIN HENG	2,501,400	0.72
20.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR PANG FONG THAU (PB)	2,500,000	0.72
21.	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD ( PAR 1)	2,444,000	0.70

## Analysis of Shareholdings

as at 4 May 2007 (Cont'd)

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

No.	Name	No. of Shares	%
22.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR TING SIEW PIN (CEB)	2,219,200	0.64
23.	UNIVERSAL TRUSTEE (MALAYSIA) BERHAD SBB EMERGING COMPANIES GROWTH FUND	2,081,000	0.60
24.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR OSK-UOB SMALL CAP OPPORTUNITY UNIT TRUST (3548)	1,936,300	0.56
25.	AMMB NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR SBB DANA AL-IHSAN (5-2-7)	1,849,200	0.53
26.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR SUSY DING (471873)	1,822,800	0.53
27.	RUBY TECHNIQUE SDN BHD	1,738,900	0.50
28.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD ALLIANCE CAPITAL ASSET MANAGEMENT SDN BHD FOR EMPLOYEES PROVIDENT FUND	1,637,000	0.47
29.	BHLB TRUSTEE BERHAD PRUGROWTH FUND	1,529,400	0.44
30.	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG FOR EB ASIA ABSOLUTE RETURN MASTER FUND LIMITED	1,500,000	0.43

### Substantial Shareholders

No.	Name	No. of Shares held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	IVORY ASIA SDN BHD	113,559,995	-	32.71	-
2.	PANG FONG THAU	79,158,605	*130,291,395	22.80	37.53
3.	RICKOH CORPORATION SDN. BHD.	26,000,000	-	7.49	-
4.	NG CHIN HENG	16,731,400	**192,718,600	4.82	55.51
5.	DATO' KOH KIN LIP	1,171,000	*** 26,000,000	0.34	7.49

### Directors' Shareholdings

No.	Name	No. of Shares held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	NG CHIN HENG	16,731,400	**192,718,600	4.82	55.51
2.	NG CHIN SHIN	6,578,200	-	1.90	-
3.	NG CHIN KEUAN	6,178,200	-	1.78	-
4.	KWAN CHEONG KAW @ KUAN YEEK CHIEU	5,000	-	0.00	-
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 through Rickoh Corporation Sdn Bhd.



**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 Seventh Annual General Meeting of the Company, to be held at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 27 June 2007 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 2006 together with the Reports of the Directors and Auditors thereon.		
2.	To declare a first and final dividend of 1.4% less 27% tax and 8.6% tax exempt in respect of the financial year ended 31 December 2006.		
3.	To approve the payment of Directors' fees for the financial year ended 31 December 2006.		
4.	To re-elect Mr Ng Chin Heng as Director.		
5.	To re-elect Mr Ng Chin Keuan 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 ..... 2007

.....  
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 appointer 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.

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STAMP



**Coastal Contracts Berhad**

(Company No. 517649-A)

Block G, Lot 3B, Bandar Leila  
W.D.T. 259, 90009 Sandakan, Sabah

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