

ANNUAL REPORT
2005



SUMATEC RESOURCES BERHAD
(428355-D)

AN
EXCITING
ERA
AHEAD

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SUMATEC RESOURCES BERHAD (428355-D)
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OUR VISION

SUMATEC intends to gradually and systematically equip itself to be able to provide complete integrated services to the energy related industry encompassing oil and gas exploration development, construction, power generation, marine transportation and other business, achieving the goal of becoming a well diversified conglomerate not only in Malaysia but also regionally and ultimately internationally.

OUR MISSION

We aim to be a progressive and innovative organisation that will optimise resources, provide superior quality products and services for TOTAL Customer Satisfaction, and in doing so generate maximum and consistent returns for our investors.

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AN EXCITING ERA AHEAD

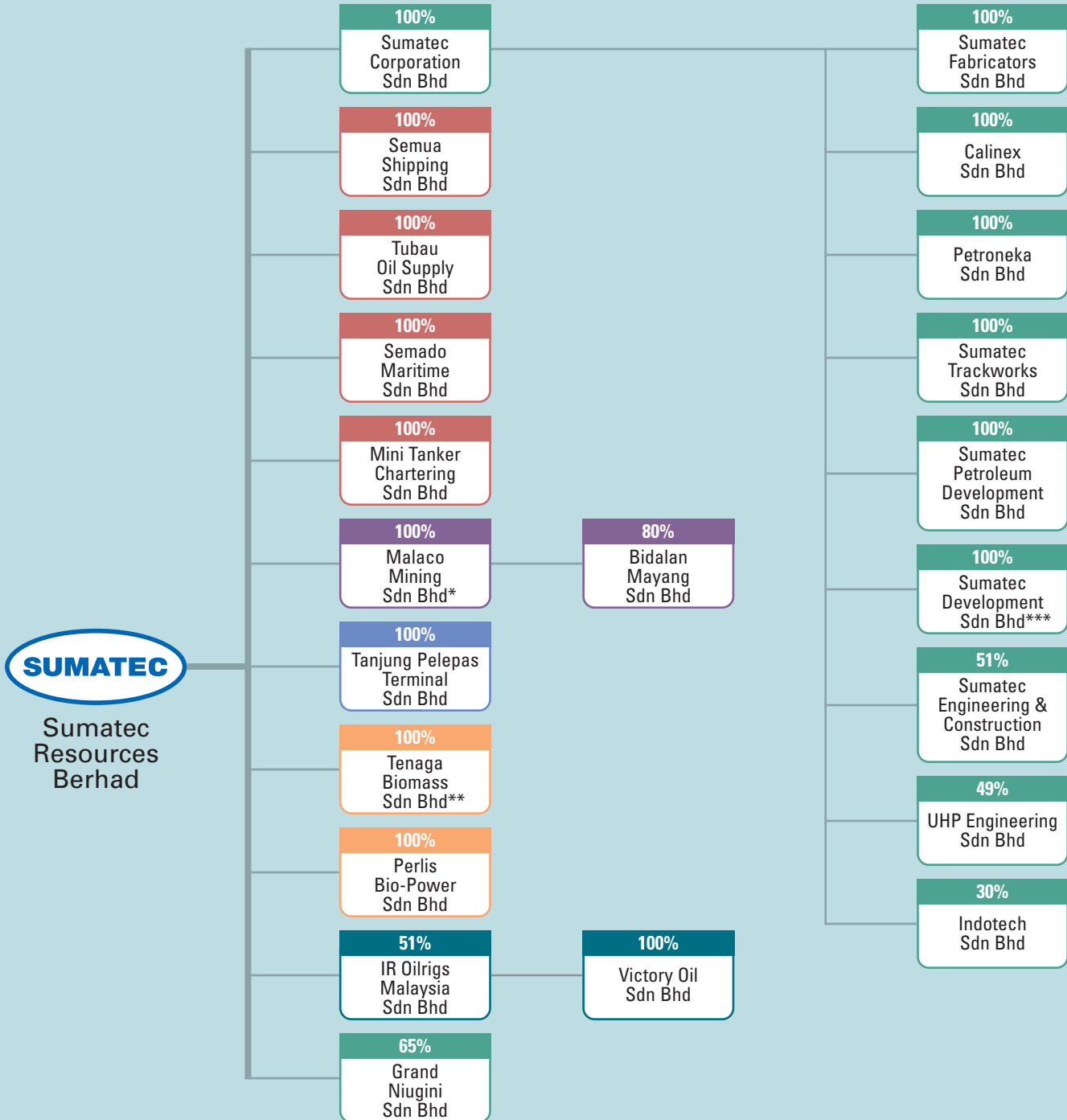
Following the completion of the new acquisitions, Sumatec Group's main business focus is now on three areas namely **Oil and Gas EPCC Services**, **Coastal Marine Oil Transportation** and **Base Metal Mining**.

Sumatec is a well established player in the field of Oil and Gas EPCC with more than 25 years of experience. The venture into oil tanker management business offers the Group synergy as well as the opportunity to ride on the increasing demand for petroleum and chemical products from the oil companies in Malaysia. Meanwhile, base metal prices are on the rising trend due to the depletion of mineral reserve. Therefore, Sumatec's commencement of mining of gold and copper in Malaysia is expected to bring positive returns to the Group.

The future for Sumatec Group looks promising indeed.



GROUP STRUCTURE



- Oil & Gas EPCC
- Coastal Marine Oil Transportation
- Base Metal Mining
- Terminaling
- Biomass & Renewable Energy
- Supply Management of Onshore Oil Rigs

* Formerly known as Indera Kembang Sdn Bhd
 ** Formerly known as Cermat Mayang Sdn Bhd
 *** Formerly known as Sumatec (Sarawak) Sdn Bhd

MAIN BUSINESS DIVISIONS



Oil and Gas EPCC Services

Sumatec is a PKK Class A and CIDB G7 construction company. Over the last 25 years, Sumatec has built up a strong capability in constructing petroleum bulk storage depots, gas terminals, petrochemical plants, waste water treatment facilities, oil & gas pipeline, oil field surface facilities and offshore marine structures and facilities. Sumatec's Total Integrated Project Management System encompasses all crucial areas of design, engineering, procurement, planning, construction, commissioning and warranty maintenance of oil and gas related projects to ensure a smooth project execution.

Coastal Marine Oil Transportation

Recognising the ever increasing demand for petroleum and chemical products from the oil companies in Malaysia, Sumatec has roped in Semua Shipping Group of Companies, a well established shipping group, in its stable. Semua Shipping has a proven track record spanning more than 20 years in the coastal tanker management business and has established excellent business relationship with major oil internationals such as Shell and Esso. Semua Shipping currently operates a fleet of seven (7) oil tankers under the various charter contracts supplying to the petroleum companies. The oil tankers are fully equipped with state-of-the-art ship tracking system like Shiploc and other communicating systems approved by the relevant authorities.



Base Metal Mining

Sumatec's mining operations is vested in Malaco Mining Sdn Bhd, under the leadership of an experienced miner, H. K. Sia who leads a mining team comprising experts from Zambia, Philippines, South Africa and Malaysia. Malaco is engaged in hard rock mining for gold and copper using flotation technology which has a better rate of recovery as compared to alluvial mining. Currently Malaco has mining interests in a copper mine at Mengapur, Pahang, Malaysia and a gold mine at Lubuk Mandi, Terengganu, Malaysia. As mineral is a depleting commodity, base metal prices were on the uptrend. Gold and copper prices had increased substantially over the last five years.

OTHER BUSINESS DIVISIONS

- Terminalling
- Biomass & Renewable Energy
- Supply & Management of Onshore Oil Rigs
- Marginal Oil Fields

CORPORATE INFORMATION



Company Secretaries

Lim Seck Wah (MAICSA 0799845)
M. Chandrasegaran A/L
S. Murugasu (MAICSA 0781031)

Registered Office

Level 15–2, Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 603-2692 4271
Fax: 603-2732 5388
e-mail: info@megacorp.com.my

Share Registrar

Mega Corporate Services Sdn Bhd
Level 15–2, Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 603-2692 4271
Fax: 603-2732 5388
e-mail: info@megacorp.com.my

Auditors

Shamsir Jasani Grant Thornton
Chartered Accountants
Level 11–1, Faber Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur

Solicitors

Raslan-Loong
E H Lim, Lee & Partners
Shook Lin & Bok
William Leong & Co

Principal Bankers

Affin Bank Berhad
Alliance Merchant Bank Berhad
AmBank Berhad
AmMerchant Bank Berhad
Bank Muamalat Malaysia Berhad
Bumiputra-Commerce Bank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
RHB Bank Berhad
RHB Sakura Merchant Bankers Berhad

Stock Exchange Listing

Main Board,
Bursa Malaysia Securities Berhad
Stock Short Name: SUMATEC
Stock Code: 1201

CORPORATE INFORMATION

Board of Directors

- 1 YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum
Sultan Salahuddin Abdul Aziz Shah Alhaj
Independent Non-Executive Chairman
- 2 Wan Kamaruddin bin Wan Abdullah
Executive Vice Chairman
- 3 Chan Yok Peng
Managing Director
- 4 Dzul kifli bin Wari
Executive Director
- 5 Peng Ng Leng @ Peng Eng Leng
Executive Director
- 6 Ismail bin Ibrahim
Independent Non-Executive Director
- 7 Y.Bhg. Dato' Mohd Paudzi bin Ismail
Independent Non-Executive Director

Board Committees

Audit Committee

Ismail bin Ibrahim (*Chairman*)
Y.Bhg. Dato' Mohd Paudzi bin Ismail
Peng Ng Leng @ Peng Eng Leng

Remuneration Committee

Ismail bin Ibrahim (*Chairman*)
Y.Bhg. Dato' Mohd Paudzi bin Ismail
Chan Yok Peng

Nomination Committee

Ismail bin Ibrahim (*Chairman*)
Y.Bhg. Dato' Mohd Paudzi bin Ismail

PROFILE OF DIRECTORS



YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj

Independent Non-Executive Chairman

YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj, aged 51, was appointed to the Board on 15 March 2005 as an Independent Non-Executive Chairman. He holds Diploma in Business Administration from ITM in 1974. He started his career in Charles Bradburne (1930) Sdn Bhd as a broker from 1974 to 1981. He was a director of TTDI Development Sdn Bhd from 1978 to 2000 and a director of Sime-UEP Bhd from 1983 to 1987. Presently, he is a director of Melewar Industrial Group Berhad and a member of the audit committee of Tractors Malaysia Holdings Bhd and Equine Capital Bhd. In 1987, he was appointed as a Chairman of Subang Jaya Medical Centre, a position which he is still holding until now. During the financial year ended 31 December 2005, he attended three (3) out of four (4) Board meetings held.



Wan Kamaruddin bin Wan Abdullah

Executive Vice Chairman

Wan Kamaruddin bin Wan Abdullah, aged 50, was appointed to the Board on 27 August 2003 as an Executive Vice Chairman. He holds a Bachelor of Science degree in Mechanical Engineering from the Brighton Polytechnic (UK). He started his career with Tenaga Nasional Berhad where he worked in the operations and turbine maintenance department. In 1987, he joined Sarawak Shell as a Rotating Equipment Engineer and progressed through a series of positions including Project Engineer, Senior Facilities Engineer and Company Representative on the M3 Integrated Deck fabrication and the Beryl/Helang development projects. In 1996, he was seconded to Shell Malaysia Trading as the Project Manager for the PETRONAS/Shell joint-venture Multi-Product Pipeline and Klang Valley Distribution Project. He has twenty-two (22) years of experience in the operation, maintenance and construction of oil & gas facilities. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.



Chan Yok Peng

Managing Director

Chan Yok Peng, aged 54, was appointed to the Board on 27 August 2003 as the Managing Director. He is a member of the Remuneration Committee. He holds a Bachelor degree in Mechanical Engineering (Honours) from University of Malaya and is registered as a professional Mechanical Engineer with the Board of Engineers, Malaysia. He also holds a Certified Accounting and Finance from the Chartered Association of Certified Accountants (ACCA), United Kingdom. He is a fellow member of the Institute of Engineers, Malaysia. He started his career as a Project Engineer with Jurong Engineering Pte Ltd (Singapore) and later joined FELDA as an Assistant Mill Manager before joining ESSO Production Malaysia Incorporated in 1980. He was involved in the construction of the RM650 million ESSO Terengganu Crude Oil Terminal including the supervision of pipe coating and laying of 123 miles of 24-inch sub-marine pipeline from offshore Tapis Pumping Platform to Kerteh, Terengganu where the Crude Oil Terminal is located. He later joined Tenaga Waja Sdn Bhd, a joint-venture of Wah Chang International of Singapore and Malaysian Bumiputra businessman, before starting his own business via Sumatec Corporation Sdn Bhd in 1985. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.

PROFILE OF DIRECTORS

Dzulkifli bin Wari

Executive Director

Dzulkifli bin Wari, aged 50, was appointed to the Board on 27 August 2003 as an Executive Director. He started his career as a Technical Assistant with Baharuddin Ali Dan BCP, then as a Quantity Surveyor cum Site Supervisor with Siow Cheng Lee Construction Sdn Bhd and with Chip Ngai Construction Sdn Bhd, before joining Sumatec Corporation Sdn Bhd in 1986 as the Chief Quantity Surveyor. He is responsible for overseeing the entire operations of the Contract Service Department. He has more than twenty-five (25) years of hands-on experience in cost estimation and tendering. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.



Peng Ng Leng @ Peng Eng Leng

Executive Director

Peng Ng Leng @ Peng Eng Leng, aged 49, was appointed to the Board on 14 January 2005 as an Executive Director. He is a member of the Audit Committee of the Board. He is currently a Chartered Accountant of The Malaysian Institute of Accountants and a Fellow Member of The Chartered Institute of Management Accountants, United Kingdom. Peng Ng Leng has previously held senior management positions in various Commercial, Construction and Manufacturing Companies within Malaysia and Overseas. He has a total of 20 over years of working experience in Financial and Management Accounting, Auditing, Corporate Banking & Finance and General Management. He has also spent 10 years in Hong Kong/China working for a Multi National Company. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.



Ismail bin Ibrahim

Independent Non-Executive Director

Ismail bin Ibrahim, aged 52, was appointed to the Board on 27 August 2003 as an Independent Non-Executive Director. He is the Chairman of Nomination Committee and Remuneration Committee of the Board. He holds a Bachelor of Science degree in Mechanical Engineering from the University of Southampton, and a Diploma in Mechanical Engineering from Brighton Technical College, both in United Kingdom. He has more than twenty-six (26) years of experience in the field of project development, engineering and management. He started his career with Lembaga Letrik Negara in 1977 as an Assistant Engineer, and subsequently served as a Senior Manager with Time Engineering Berhad, and as a Head of Power Business Department with EPE Power Corporation Berhad. He then moved on to work as an Advisor to the Group CEO on Power Project development for Sime Darby Berhad. Presently, He is an Appointed Director of Kelana Stabil (M) Sdn Bhd involved in development works specialising in power and infrastructure. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.



Y.Bhg. Dato' Mohd Paudzi bin Ismail

Independent Non-Executive Director

Y.Bhg. Dato' Mohd Paudzi bin Ismail, aged 58, was appointed to the Board on 14 January 2005 as an Independent Non-Executive Director. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board. He holds a Masters in Business Administration majoring in Finance from Catholic University of Leuven, Belgium and a Bachelor in Economics Degree from University of Malaya. Dato' Mohd Paudzi was the General Manager of the State Economic Development Corporation Terengganu. During his 34 years tenure with the Corporation, he was exposed to a varied experience in both public and private sections. He has represented the Corporation and the Terengganu State Government as a board member on numerous companies, listed and non-listed, in various sections including plantation, mining, property development and services. He does not hold directorship in any other public companies. During the financial year ended 31 December 2005, he attended four (4) out of four (4) Board meetings held.



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report of Sumatec Resources Berhad ("the Company") and its group of companies ("the Group") for the financial year ended 31 December 2005.

During 2005, the oil and gas markets remain volatile as it continued to be driven by fears of supply interruptions as well as the constrained global refining capacity. We expect prices to remain above the long-run average for some years to come as the oil supply was battered by the hurricanes that damaged oil production facilities and refineries in the US Gulf Coast. Geopolitical tensions in the Middle East and terrorist's activities contributed to fears of interruptions to the supply of crude and refined products. As for the demand for oil, The International Energy Agency forecasts that global daily oil demand will grow to 1.66 million barrels per day in 2006 (2005: 1.2 million barrels). The strong demand from China and India due to increasing motor vehicle populations and their plan to build a strategic petroleum reserve and aggressive forward buying by the airline industry are amongst the factors of increasing demand. We have seen the price of crude oil rise to levels that only two or three years ago would not have seemed at all likely.

At the local front, Petronas is continuously making massive spending in oil and gas sectors where they have committed to spend RM10 billion per annum in exploration and production. Petronas is actively building oil and gas reserves locally and overseas and encourages local companies' participation. In 2005, its total reserve stood at 25.4 billion BOE with 1.1 billion BOE of new discoveries. The new discoveries shall have a positive impact to the downstream companies as there would be demand to increase capacity for existing facilities.

The strength of the oil market, acceleration of oil and gas exploration and increased processing and refining needs and the prospect of sustained demand led growth are expected to generate a number of significant opportunities for the Group.

During 2005, we have successfully completed the acquisition of the shipping group. The shipping group's results are consolidated in the Sumatec Group 2005 results. In the year, we have also ventured into mining, particularly copper and gold mining. Whilst we have incurred increased capital expenditure to buy additional tanker and to purchase plants and equipments for the mining business, we expect the ship and the investment in mining to generate revenues soon. The additional ship is on a long term charter and mining operations will start their activities in 2006.

The Group has registered a profit before tax of RM9.44 million for the financial year ended 31 December 2005 as compared to RM17.62 million registered for the last financial year. The Group's profit after tax for the current financial year decreased to RM7.81 million for the current year from RM11.41 million registered in the last financial year while its revenue decreased to RM137.18 million from RM201.31 million previously. For the financial year ended 31 December 2005, the Group's basics earnings per share stood at 5.39 sen, as compared to 8.66 sen per share registered for the last financial year. As at 31 December 2005, the Group's shareholders' fund stood at RM131.03 million and its net tangible assets stood at 89.64 sen per share.

Corporate Exercise

Acquisition of Shipping Group

On 11 May 2005, Sumatec completed the acquisition of four shipping companies based in Miri, Sarawak. The shipping companies namely Semado Maritime Sdn Bhd, Semua Shipping Sdn Bhd, Tubau Oil Supply Sdn Bhd and Mini Tanker Chartering Sdn Bhd have years of experience in transporting petroleum products such as motor gasoline, diesel and aviation fuels from refineries to oil terminals. The major customers include Shell Trading Sdn Bhd and Exxon Mobil Borneo Sdn Bhd.

During 2005, we have successfully completed the acquisition of the shipping group. The shipping group's results are consolidated in the Sumatec Group 2005 results. In the year, we have also ventured into mining, particularly copper and gold mining. The mining operations will start their activities in 2006.



CHAIRMAN'S STATEMENT

In August 2005, an oil tanker, MT Semua Bersatu was acquired after Semua Shipping Sdn Bhd was awarded a 7-year Consecutive Voyage Charters (CVC) by Shell Malaysia. The shipping group currently have seven oil tankers under CVC or time charter to oil majors for charter periods between one to ten years.

Private Placement

The Group's paid up capital increased by RM13,287,000 to RM146,157,424 with the issuance of 13,287,000 new ordinary shares of RM1.00 each through private placement. The proceeds raised from the private placement are used for additional working capital for the Group.

Proposed Restructuring of Setegap Berhad

On 28 March 2006, Calinex Sdn Bhd, Sumatec (Sarawak) Sdn Bhd and Sumatec Trackworks Sdn Bhd, all of which are subsidiaries of the Company, have entered into a Restructuring Agreement with Setegap Berhad ("Setegap"), a public company listed on the Second Board of the Bursa Malaysia Securities Berhad.

Pursuant to this Restructuring Agreement, Setegap will undertake a capital and debt restructuring exercise which will result in a newly incorporated company ("Newco") assuming the listing status of Setegap and with Calinex Sdn Bhd emerging as the new major shareholder with 52.3% equity interest. As an integral part of the proposals, the Newco will subscribe to new issuance of shares in Sumatec (Sarawak) Sdn Bhd and Sumatec Trackworks Sdn Bhd.

The proposals will allow the Sumatec Group to diversify horizontally and participate in the construction industry vide the equity participation in Newco. The Group is already involved in the international market, particularly in the oil

and gas sector. Having successfully established an international network, the Group realises its shortcoming when it is being invited to tender for infrastructural and civil related work by the oil rich countries. Setegap being an established infrastructural and civil contractor will fit perfectly into the Group's missing link.

The proposals are subject to the approvals by Securities Commission, Foreign Investment Committee and Bursa Malaysia Securities Berhad and are expected to be completed in 2007.

Operational Highlights

Engineering, Procurement, Construction and Commissioning ("EPCC")

Opportunities in the domestic construction sector that we have been long involved with are lessening as we predicted due to stiffer competition from other players. The numbers of tender have reduced and the players in the market have increased. Despite the challenge, we continued to tender for major EPCC work in Malaysia.

We also continue to pursue construction opportunities locally and abroad. During the financial year under review some RM1.0 billion worth of work has been tendered, in Malaysia, South East Asia, Sudan, Turkey, Bangladesh, Middle East, Turkmenistan, South Pacific countries, Senegal and Ghana.

During 2005, the performance of the EPCC business has been affected by the termination of contract by Tentrak Technologies Sdn Bhd ("Tentrak"). The contract was to build a PlasmaArc Industrial Waste Treatment Plant at the Bukit Nanas Waste Management Centre, Negeri Sembilan. Tentrak's contract to Build, Own and Operate (BOO) the waste treatment plant was terminated earlier by their client due to some contractual disputes which has progressed into arbitration.



CHAIRMAN'S STATEMENT



Shipping

The results of the shipping group were incorporated into Sumatec Group effective from May 2005. They have positively contributed to the bottom line of the Group.

In August 2005, the Group, via its wholly owned subsidiary company, Semua Shipping Sdn Bhd had acquired a 5,810 dwt oil tanker from Kuma Shipping Corp., Panama for a total cash consideration of USD9,700,000 (equivalent to RM36,860,000). The acquisition was satisfied entirely by our internal fund and from bank borrowing. The acquisition is in line with the Group's plan to expand further its marine transportation services. The oil tanker which is named as MT Semua Bersatu was acquired to serve a 7-year Consecutive Voyage Charters (CVC) by Shell Malaysia.

Rapid changes in international and local maritime regulations have been closely monitored and vessels are equipped or upgraded accordingly to meet the safety requirement. In June 2005, the shipping group completed the Tanker Management Self Assessment (TMSA) endorsed by Oil Companies International Marine Forum (OCIMF) for compliance to the standard and has been successfully reviewed by the oil major. The shipping group also is in the course to phase out old single-hull oil tanker as it aims to continue its expansion plan by acquiring more double-hull ships to serve the needs of the oil and gas industry. We are targeting to have a 10-ship fleet with a total capacity of 63,000 tonnes by 2007.

Mining

Sumatec started to venture into mining by the formation of Malaco Mining Sdn Bhd ("Malaco") in the middle of 2005. Unlike the alluvial mining which Malaysians are so familiar with, Malaco is to engage in hard rock mining for gold and copper using complex floatation technology.

The Group has secured mining interests of a gold mine at Lubuk Mandi, Terengganu, and a copper mine at Mengapur, Pahang. Civil work for the installation of a 500,000 tpa floatation plant has started at the copper mine and commissioning is expected in third quarter of 2006 to attain a production target of 4,000 tonnes of copper-in-concentrate per year.

The production at the gold mine will be using a combination of floatation technology and a Carbon-in-Leach plant to recover gold. The existing plant is currently being refurbished and upgraded. The mine is expected to pour its first bullion bar in third quarter of 2006.

The decision to venture into mining was made when the price of gold was about USD420 an ounce and copper was USD3,600 a tonne. Since then, the gold price has shot up over 68% to USD700 an ounce while copper is up 116% to USD7,800 per tonne.

Similar to oil and gas, mineral is a depleting commodity. We believe that the high metal prices are driven by consumption causing depletion of mineral reserve. As new mines normally take more than five years of exploration and development to reach production, we do not expect major prices correction within the next five years.

There is a vast opportunity for base metal mining in Malaysia. There had been no major mine development activity after the collapse of tin mining in 1985, much of the Malaysian mineral prospective area is still not fully developed. With the experience gained from the successful implementation of two hard rock mines we have the competitive advantage to tap into this large opportunity.

We have engaged mining and metallurgical experts from Zambia, Philippines, South Africa and Malaysia to ensure our new venture will be a success.

The Group is also prospecting for mining opportunities overseas. In August 2005, we had acquired a 60% interest in a South African company for the prospecting and subsequently mining of iron ore on 2,815.8 hectares of mining land located in Postmansburg, Northern Cape Province, Republic of South Africa. Initial exploration results showed a resource of more than 3 million tonnes of high grade iron ore. We are currently awaiting the issuance of the mining lease for this venture.

Dividends

No dividend payment is proposed for the financial year under review.



CHAIRMAN'S STATEMENT

Future Outlook

The Group will continue to focus on EPCC business, shipping and the newly formed mining business.

The global economy is expected to remain upbeat in 2006. Total global oil demand as a result is projected to grow to 1.66 million barrels per day. The refinery utilisation rates averaged above 90 percent globally; hence, spare capacity is therefore anticipated to remain tight in the next few years. We expect our experience and expertise in EPCC would be very much sought after to meet the demand to increase capacity for their existing facilities in the overseas market, especially the Middle East, Africa, Libya, Vietnam, former Soviet Union (FSU) such as Turkmenistan and Kazakhstan.

As far as the Malaysian construction market is concerned, after two consecutive years of decline, the construction sector is expected to turn around and register a positive growth of 1%, led mainly by the improvement in the civil engineering sub-sector. The civil engineering sub-sector would be supported by higher construction activity in the oil and gas industry as well as in public projects with the commencement of new projects under the Ninth Malaysia Plan. Meanwhile, the residential and non-residential sub-sectors are expected to expand further supported by the attractive financing conditions and brisk business activities. The residential sub-sector is expected to expand at a moderate rate following the strong expansion in the last few years, while the non-residential segment would continue to improve, benefiting from the favourable business environment which has resulted in high occupancy rates of retail and office space. Sumatec is expected to benefit from the construction sector growth and the Ninth Malaysia Plan especially if the proposed restructuring of Setegap Berhad is approved and finalised in the near future.

Over the past years, the shipping group has spent enormous efforts in turning itself into a group which emphasises in quality management. With the implementation of International Safety Management Code (ISM), our shipping group obtained the ISM Document of Compliance (DOC) in March 1998, issued by the Marine Department of Malaysia. It clearly signified that our fleet management is in compliance with the International Marine Organisation's (IMO) requirements for safety management and environment protection. With the conducive investment climate, and the government's support and incentives given to the shipping industry, and with the shipping group's long established good track record, we foresee great opportunities ahead for its growth into regional as well as international markets.

The coastal shipping sector will continue to project a bright future as the demand for more petroleum product will be rising in tandem with the increased population growth as well as the expanding economy of Malaysia. As a result, more coastal oil tankers will be chartered by the oil majors to ship the petroleum product from the refineries to the oil terminals to satisfy the need.

Despite the decline in world use of copper in 2005, refined production of copper was insufficient to meet demand and the production deficit that had developed in the preceding years continued into 2005. Strong demand for copper from the world especially in China, coupled with tight supply has driven the price to 350% up on its price three years ago. China's rapid development in infrastructure and industrial development has consumed about 3.76 million tonnes of copper in 2005, against the total world production of 16.40 million tonnes. Copper is mainly used in construction and electronic industries e.g. electric cables and wires and for the production of pipes/cooling fins used in air-conditioners. With the un-abetting momentum of China's industrial development and India's fast expanding pace of industrialisation taking shape, copper and other base metal price is expected to continue to rise.

The gold price has also soared to a 25-year high when they hit USD710.50 an ounce in May 2006. The price has since then kept on rising. Gold is said to be riding on a wave generated by strong oil prices, the sliding US Dollar and political instability in the Middle East (especially Iran). The World Council attributed the metal's rally to interest from investment fund, which accounted for 73% of gold demand in 2005. Investors view gold as a hedge against inflation and rising crude oil prices, and as a safe-haven in times of geopolitical uncertainty. The huge oil profits made by the oil producing countries are being diverted into buying gold to hedge against the downward slide of the US currency which has long been trusted by these countries.

We believe the future for Sumatec's mining business will be very promising as we are a pioneer in the revival of the mining industry in this country. With the production for both mines scheduled to start in the third quarter of 2006, Sumatec is expected to make good profit in the mining operations in 2006 and the years to come.

Appreciation and Acknowledgement

I would like to thank the Board of Directors and Employees of the Group for their excellent dedication, undivided loyalty and commitment in working towards achieving the Group's goals and objectives. I would also like to take this opportunity to extend our sincere gratitude and thanks to the Group's valued clients and business associates for their unfailing support. To the shareholders of the Company, a note of thanks for your confidence in our Group. We hope to get your continued support in the coming years.

YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum

Sultan Salahuddin Abdul Aziz Shah Alhaj

Chairman

CALENDAR OF EVENTS

• MARCH 2005 •

Bowling Tournament

On 5 March 2005, Sumatec organised an inter-department bowling tournament at the Summit, USJ. Project/Business Development Department emerged as champion.



• JULY 2005 •

Badminton Tournament

A badminton tournament was organised by Sumatec Sports and Recreation Club at Dewan MBSA, Shah Alam on 23 July 2005. A total of 44 employees participated in the tournament.



• SEPTEMBER 2005 •

Team Building Get-Together

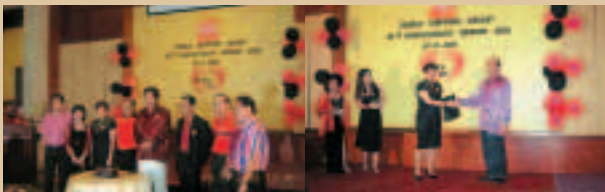
Sumatec Sports and Recreation Club organised a team building get-together from 30 September to 2 October 2005. A total of 52 Sumatec employees participated in the event held at Summerset, Kuala Rompin, Pahang.



• NOVEMBER 2005 •

Semua Shipping 25th Anniversary Dinner

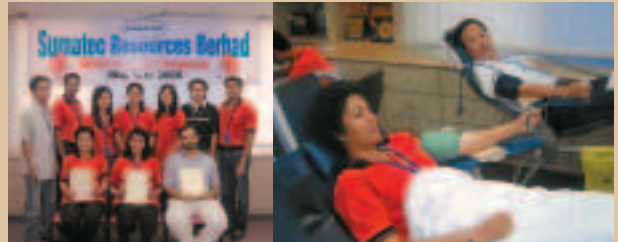
Semua Shipping Sdn Bhd of the Sumatec Group celebrated its 25th Anniversary at Miri Marriott Resort and Spa on 19 November 2005. About 80 staff, family members and invited guests attended the function to mark a special milestone of the company.



• MAY 2005 •

Blood Donation

A total of 33 Sumatec employees participated in a blood donation campaign held at the Head Office on 5 May 2005. Medical staff from Pusat Darah Negara were present to facilitate the blood donation.



• AUGUST 2005 •

Maiden Voyage for M T Semua Bersatu

M T Semua Bersatu, a 5,800-DW Tonne double-hull product tanker had its christening and maiden voyage ceremony on 17 August 2005 at Sabah Shipyard Sdn Bhd. The tanker is the seventh in the fleet of ship presently owned by Semua Shipping Sdn Bhd under the Sumatec Group.



Directors' Birthday Gathering

On 23 August 2005, employees of Sumatec gathered at the Head Office to celebrate the birthdays of Executive Vice Chairman, En. Wan Kamaruddin bin Wan Abdullah and Managing Director, Mr. James Chan Yok Peng. All the Board members were also present at the occasion.



CORPORATE GOVERNANCE STATEMENT

The Board of Directors is committed to ensuring that the highest standards of corporate governance is practiced throughout the Group as a fundamental part of discharging their responsibilities that uphold integrity, transparency, accountability and corporate performance to safeguard and enhance shareholders' investment and value, as well as to protect the interest of other stakeholders.

The Board is fully committed to the maintenance of high standard of corporate governance by supporting and implementing the prescriptions of the principles and best practices set out in Part 1 and Part 2 of the Malaysian Code on Corporate Governance (the "Code"). The Board strives to adopt the substance behind good corporate governance prescriptions and not merely the form. Accordingly, the Board is pleased to set out below the extent to which it has applied and complied with the best practices as set out in the Code unless otherwise stated.

Directors

The Board

An effective Board leads and controls the Group. The Board comprises of members with a mix of industry-specific knowledge, wide business and commercial experience collectively providing strong independent judgements on matters of strategy, performance, resources and business conduct. The Board delegate specific responsibilities to three (3) Committees namely Audit, Nomination and Remuneration Committees. These Committees were formed in order to enhance business and operational efficiency as well as efficacy. These Committees have the authority to examine particular issues and report back to the Board with their recommendations. However, the ultimate responsibility for the final decision on all matters still lies with the Board. The profile of each Director is presented separately on pages 6 to 7 of this Annual Report.

Meetings

It is the commitment of the Board to meet at least four (4) times a year and additional Board Meetings will be held as and when required. For the financial year ended 31 December 2005, the Board held a total of four (4) Board of Directors meetings. Meeting agenda includes the review and approval of quarterly financial results and announcements, budgets, macro strategies and other major matters arising such as acquisitions, disposals, mergers and capital expenditure.

The attendance record of Directors at the Board Meeting held during the financial year ended 31 December 2005 is as follows:

Name of directors	No. of meetings attended/ held during directors' tenure in office	% of attendance
YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj	3/4	75%
Wan Kamaruddin bin Wan Abdullah	4/4	100%
Chan Yok Peng	4/4	100%
Dzulkifli bin Wari	4/4	100%
Ismail bin Ibrahim	4/4	100%
Y.Bhg. Dato' Mohd Paudzi bin Ismail	4/4	100%
Peng Ng Leng @ Peng Eng Leng	4/4	100%

Board balance

The Board presently consists of seven (7) members, comprising an Independent Non-Executive Chairman, an Executive Vice Chairman, a Managing Director, two (2) Executive Directors and two (2) Independent Non-Executive Directors. The Company is in compliance with Paragraph 15.02 of the Bursa Securities Listing Requirements whereby one-third of its Board members are Independent Directors. No individual or group of individual dominates the Board's decision making. All Board members participate fully in decisions on the key issues involving the Group. Besides being responsible for ensuring the Board's effectiveness and conduct, the Chairman is assisted by the Managing Director who are primarily responsible for managing the Group's day-to-day operations, and together with the Independent Non-Executive Directors to ensure that the strategies proposed by the management are fully discussed and examined, and take into account the long term interests of the various stakeholders including shareholders, employees, clients, suppliers and the various communities in which the Group conducts its business.

CORPORATE GOVERNANCE STATEMENT

The Board is assured of a balanced and independent view at all Board deliberations largely due to the presence of its Non-Executive Directors who are independent from Management and major shareholders of the Company. The Independent Directors are also free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Collectively, the Board is constituted of individuals who are committed to business integrity and professionalism in all its activities includes upholding the highest standards of corporate governance and the development of the best practices for the Group. In addition to the role of guidance by the Independent Non-Executive Directors, each Director on the Board is fully aware of their responsibilities and obligations to exercise independent judgement on issues of strategy, resources, performance and standard of conduct.

Supply of information

All Directors are provided with an Agenda with Board papers on a timely basis prior to each Board meeting to enable them to deliberate on an informed basis on the issues to be raised at the meeting. The Board papers includes, inter-alia, review of minutes of meetings of all Committees of the Board; review and approval of quarterly financial results and announcements; strategic, business development and operational issues; regulatory and other administrative matters.

In arriving at any decision on recommendations by the Management, thorough deliberation and discussion by the Board is a prerequisite. Where a potential conflict of interest may arise, it is mandatory practice for the Director concerned to declare his interest and abstain from the decision making. All proceedings of the Board Meetings are minuted and signed by the Chairman of the meeting in accordance with the provision of Section 156 of the Companies Act, 1965. The Board is kept updated on the Company's and Group's activities and its operations on a regular basis.

The Directors have unrestricted access to all information within the Group whether as a full Board or in their individual capacity, in furtherance of their duties. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and the Board may also take independent advice, at the Company's expense, in the furtherance of their duties if so required.

Directors' training

New Board members shall undergo orientation programme where they will be briefed of the Company's and Group's business activities and shall meet with the senior management to enhance their understanding of the operations of the Company and Group. All Directors are encouraged to attend talks, training programmes and seminars to update themselves on new developments in the business environment. During the year, the directors have attended accredited seminars and conferences under Continuing Education Programme (CEP) on certain relevant areas. By year end 2005, all the Directors had attended various accredited courses and trainings through which they accumulated sufficient CEP points within the stipulated timeframes.

Following the amendments to Practice Note No 15/2003 which prescribed that the Board of Directors of all Public Listed Companies shall be responsible for determining the training needs of the Directors with effect from 1 January 2005, the Company has evaluated the training needs of its Directors and has scheduled several training courses and program for them to attend. In addition to the training, the Directors are also briefed at quarterly board meetings by Company staff on any significant changes in laws and regulations that are relevant to the Company's operations. Descriptions on types of training attended by the Directors for the financial year ended 31 December 2005 are as follows:

	Mode of training	No. of day(s) spent
YAM Datuk Seri Tengku Ahmad Shah Alhaj		
Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj		
The Malaysian Private Debt Securities ("PDS") or Bond Market: A Director's Perspective On Efficient And Alternative Financing Sources	Directors' Programme	1
The Obligations Of A Listed Company & Its Directors For Transactions Under The Bursa Malaysia Listing Requirements	Directors' Programme	1
Continuing Education Programme For Directors Of Public Listed Companies	Directors' Programme	2
Chan Yok Peng		
Updates On Regulatory Issues, Risk Management, Culture Of A Performing Company & Directors' Remuneration	Directors' Programme	1
Effective Controlling Of Organisation As Part Of Corporate Governance	Directors' Programme	1

CORPORATE GOVERNANCE STATEMENT

Directors' training (continued)

	Mode of training	No. of day(s) spent
Wan Kamaruddin bin Wan Abdullah		
Updates On Regulatory Issues, Risk Management, Culture Of A Performing Company & Directors' Remuneration	Directors' Programme	1
Dzulkifli bin Wari		
Updates On Regulatory Issues, Risk Management, Culture Of A Performing Company & Directors' Remuneration	Directors' Programme	1
Effective Management Of Company Meetings	Directors' Programme	1
Effective Controlling Of Organisation As Part Of Corporate Governance	Directors' Programme	1
Ismail bin Ibrahim		
Updates On Regulatory Issues, Risk Management, Culture Of A Performing Company & Directors' Remuneration	Directors' Programme	1
Peng Ng Leng @ Peng Eng Leng		
London Stock Exchange	Seminar	1
Asia Business Leader Awards 2005	Conference	1
Budget Tax 2006	Seminar	1
Financing Option For Oil & Gas Services Council	Seminar	1/2
Reforming Corporations To Enhance Competitiveness	Directors' Programme	1
Low Cost, Low Risk Strategies For Business Growth	Directors' Programme	1

Appointments to the board

The Nomination Committee is empowered by the Board to ensure that the Board comprises of persons of the required mix of skills, experiences, quality, and competencies to discharge its duties effectively.

The Nomination Committee also assists the Board in reviewing on an annual basis the appropriate structure, size, and composition as well as in establishing procedures and processes towards an annual assessment of the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director. In addition, the Nomination Committee will deliberate on Board succession plan as and when appropriate.

The Committee considers and evaluates the appointment of new Directors and Directors to Board Committees of the Company and then recommends the candidates to the Board for the appointment. In addition, the Committee also made recommendation to the Board on nomination received from a major shareholder. The Company Secretary will ensure that the appointment is properly made and that legal and regulatory obligations are met.

The members of the Nomination Committee are as follows:

1. En Ismail bin Ibrahim (Chairman) – Independent Non-Executive Director
2. Y.Bhg. Dato' Mohd Paudzi bin Ismail – Independent Non-Executive Director

Re-election

In accordance with the Articles of Association of the Company, all Directors are subject to re-election by the shareholders at the first Annual General Meeting ("AGM"). At least one-third of the existing Directors shall retire by rotation at each AGM and can offer themselves for re-election at the AGM. Directors who are appointed by the Board to fill casual vacancies or as additional Directors during the financial year are subject to re-election by shareholders at the next AGM following their appointment. All Directors shall retire from office at least once in three years, but shall be eligible for re-election.

CORPORATE GOVERNANCE STATEMENT

Directors' Remuneration

The level and make-up of remuneration

The remuneration of the Directors of the Company for the financial period ended 31 December 2005 is set out below:

(i) Aggregate remuneration of Directors with categorisation into appropriate components:

	Executive Directors (RM)	Non-Executive Directors (RM)	Total (RM)
Fees	51,000	80,000	131,000
Salary & other emoluments	—	—	—
Total	51,000	80,000	131,000

(ii) Number of Directors whose remuneration falls into the following bands:

Range of remuneration	Executive Directors	Non-Executive Directors	Total
Below RM50,000	4	3	7
50,000 – 100,000	—	1	1
Total	4	4	8

There is no contract of service between any Directors and the Company or its subsidiary companies.

Procedure

The Remuneration Committee is primarily responsible to recommend to the Board the appropriate remuneration packages necessary to attract, retain and motivate the qualified Executive Directors required to manage the business of the Company and to align the interest of the Directors with those of the shareholders. However, the Board shall review and determine the remuneration packages of Non-Executive Directors. Nevertheless, the final decision on remuneration for Directors is a matter of the Board as a whole, and individual Directors are abstained from deliberations and voting on decision in respect of their individual remuneration.

The members of the Remuneration Committee are listed as follows:

1. En Ismail bin Ibrahim (Chairman) – Independent Non-Executive Director
2. Y.Bhg. Dato' Mohd Paudzi bin Ismail – Independent Non-Executive Director
3. Mr Chan Yok Peng – Managing Director

CORPORATE GOVERNANCE STATEMENT

Shareholders

Dialogue between the Company and investors

The Group values dialogue with investors as a means of effective communication that enables the Board to convey information about the Group's performance, corporate strategy and other matters affecting shareholders' interests. The AGM is the principal forum for dialogue and interaction with shareholders. At the Company's AGM, shareholders have direct access to the Board and are given the opportunity to ask questions during the open questions and answers session prior to moving for tabling of the Company's Audited Financial Statements and Directors' Report for the financial year and other businesses (if applicable). The shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general. The Board is also committed to ensure that shareholders are well informed of major developments of the Company and the Group and the information is also communicated to them through the following channels:

- the Annual Report;
- various disclosures and announcements made to the Bursa Securities including the quarterly results and annual results;
- Press interview;
- Analyst briefing with fund managers and potential investors; and the Company's website at www.sumatec.com through which shareholders and the public in general can gain access to the latest corporate and product information of the Group. Shareholders and prospective investors who wish to contact the Company on any matters relating to the Group can channel their queries via the Group's website or contact the following personnel:

Name	Contact no.	E-mail address
En Wan Kamaruddin bin Wan Abdullah (Executive Vice Chairman)	03-5121 8833	wkabdullah@sumatec.com
Mr Chan Yok Peng (Managing Director)	03-5121 8833	jameschan@sumatec.com

Annual General Meeting

In accordance with the Company's Articles of Association, Notice of AGM and annual reports are sent out to shareholders at least twenty-one (21) days before the date of the meeting. AGM is a crucial mechanism in shareholder communication for the Company. At the AGM, shareholders are encouraged to raise questions pertaining to the business activities of the Group. Directors and senior management staff are available to provide responses to shareholders' questions during these meetings. For the re-election of Directors, the Board will ensure that full information is disclosed through the notice of meeting regarding Directors who are retiring and who are willing to serve if re-elected. Each item of special business included in the notice of meeting will be accompanied by an explanatory statement for the proposed resolution to facilitate full understanding and evaluation of issues involved.

Accountability and Audit

Financial reporting

The Board is aware of its responsibilities to shareholders and the requirement to present a balanced and comprehensive assessment of the Group's financial position, by means of the annual and quarterly reports and other published information. In this regard, the Board is primarily responsible for the preparation of a financial statement to present a true and fair view of the financial state of affairs of the Group.

Before presenting to the Bursa Securities, the quarterly financial results and annual financial statements are reviewed by the Audit Committee and then approved by the Board of Directors to ensure accuracy, adequacy and completeness in reporting. The details of the Company's and the Group's financial positions are included in the Financial Statements section of the Annual Report.

CORPORATE GOVERNANCE STATEMENT

Internal control

The Directors acknowledge their responsibilities for the internal control system in the Company and the Group, encompassing not only financial controls but also controls relating to organisational, operational, compliance and risk management to safeguard shareholders' investment. The Internal Audit Department which reported directly to the Audit Committee conducted periodic internal audit and review on the compliance with the internal control procedures and practices and appraised the effectiveness of the internal control systems within the Group. The system of internal controls involves each key business unit and its Management, including the Board, and is designed to meet the business units' particular needs, and to manage the risks to which they are exposed. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. The concept of reasonable assurance recognises the costing aspect, whereby the cost of control procedures is not to exceed the expected benefits. The Board recognises that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimising and managing them. Ongoing reviews are continuously being carried out to ensure that the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the Company's assets.

Audit Committee

The Audit Committee meets quarterly with senior financial management staff and the external auditors where necessary to review the Company's and the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance. The terms of reference and activities of the Audit Committee during the financial period ended 31 December 2005 are provided separately in the Audit Committee Report of this Annual Report.

Relationship with auditors

The Company's External Auditors, Shamsir Jasani Grant Thornton report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements. In doing so, the Company has established a transparent arrangement with the Auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia. From time to time, the Auditors highlight to the Audit Committee and Board of Directors on matters that require the Board's attention.

Statement on the Extent of Compliance with the Best Practices in Corporate Governance Set Out in Part 2 of the Malaysian Code on Corporate Governance

The Company is committed to achieving high standards of corporate governance throughout the Group and to the highest level of integrity and ethical standards in all its business dealings. The Board considers that it has complied throughout the financial year with the Best Practices as set out in the Code.

Directors' Responsibility Statement on Annual Audited Accounts

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

In preparing those financial statements, the Directors are required to:

- use appropriate accounting policies and consistently apply them;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and to enable them to ensure that the accounts comply with the Companies Act, 1965. The Directors had also ensured that proper internal controls had been implemented. The Directors are satisfied that in preparing the financial statements of the Group for the financial period ended 31 December 2005, the Group has used the appropriate accounting policies and applied them consistently and prudently. The Directors are of the opinion that all relevant approved accounting standards have been followed and confirm that the financial statements have been prepared on a going concern basis. The above Statement has been signed in accordance with a resolution of the Directors dated 26 April 2006.

AUDIT COMMITTEE REPORT

Formation

The Audit Committee was formed by the Board of Directors on 29 August 2003.

Membership

The present members of the Audit Committee and their respective designations are as follows:

Name of member	Designation
En Ismail bin Ibrahim	Chairman/Independent Non-Executive Director
Y.Bhg. Dato' Mohd Paudzi bin Ismail	Member/Independent Non-Executive Director
Peng Ng Leng @ Peng Eng Leng	Member/Executive Director

Terms of Reference

The terms of reference of the Audit Committee had been revised to conform to the Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Securities").

Objectives

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling the following objectives on the Group activities:

- Assess the Group's processes relating to its risks and control environment;
- Oversee financial reporting; and
- Evaluate the internal and external audit processes.

Composition

The Audit Committee shall be appointed by the Board of Directors from among its members and shall consist of no fewer than three (3) members, with a majority of the Committee being Independent Directors and at least one (1) member of the Committee:

- (i) must be a member of the Malaysian Institute of Accountants ("MIA"); or
- (ii) if he is not a member of the MIA, he must have at least three (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 Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board. In the event of any vacancy in the Audit Committee resulting in the number of members being reduced to below three (3), the Board shall fill the vacancy within three (3) months. The Board shall review the term of office and performance of an Audit Committee and each of its members at least once every three (3) years to determine whether such Committee and members have carried out their duties in accordance with their terms of reference.

AUDIT COMMITTEE REPORT

Authority

The Audit Committee shall be granted the authority to investigate any activity of the Company and its subsidiaries within its terms of reference and all employees shall be directed to co-operate as and when required by the Audit Committee. The Committee shall have direct communication channels with the External and Internal Auditors and also be empowered to consult independent experts, where necessary, to assist in executing its duties.

Meetings

The Committee shall meet at least four (4) times a year or more frequently as need arises. Meetings will be attended by the members of the Committee and the Company Secretary who shall act as the Secretary of the Committee. Other Board members, senior management personnel, Internal Auditors, representative of the External Auditors (at least once a year) may also attend the meeting upon invitation by the Committee. A quorum shall be two (2) members, and the majority of members present must be Independent Directors.

Responsibilities and duties of the committee

The duties and responsibilities of the Committee shall include:

1. To review with the External Auditors, the audit report, the audit plan and their evaluation of the system of internal controls of the Group and audit findings;
2. To review the adequacy of the scope, functions and resources on the internal audit functions and that it has the necessary authority to carry out its work;
3. To review the internal audit programmes, processes, the results of the internal audit programmes, processes or investigations undertaken and whether or not appropriate actions are taken on the recommendations of the internal audit function;
4. To review the quarterly results and year end financial statements of the Company, prior to approval by the Board of Directors, focusing particularly on:
 - changes in or implementation of major accounting policy changes;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.
5. To review any related party transactions 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.
6. To recommend the appointment of the External Auditors and in relation thereto, to discuss their audit fees and any questions of resignation or dismissal.
7. To monitor organisational compliance with statutory and Bursa Securities' requirements.
8. To undertake any other functions as may be mutually agreed by the Committee and the Board of Directors.
9. To verify the allocation of options to eligible employees pursuant to the Company's Employee Share Option Scheme at the end of each financial year.

AUDIT COMMITTEE REPORT

Summary of Activities during the Financial Year

During the financial year ended 31 December 2005, four (4) Audit Committee meetings were held. The details of attendance of the Committee members are as follows:

Name of committee member	No. of meetings attended/ held during directors' tenure in office	% of attendance
En Ismail bin Ibrahim	4/4	100%
Y.Bhg. Dato' Mohd Paudzi bin Ismail	4/4	100%
Peng Ng Leng @ Peng Eng Leng	4/4	100%

In line with the terms of reference of the Audit Committee, the following activities were carried out by the Audit Committee during the financial period ended 31 December 2005 in the discharge of its functions and duties:

1. Reviewed the quarterly and year-end financial statements to ensure the Company's compliance with the Listing Requirements of Bursa Securities, MASB and other legal and regulatory requirements before recommending them for the Board's approval.
2. Reviewed the related party transactions and conflict of interest that has arisen within the Company and the Group.
3. Reviewed and assessed the appropriateness of the Group's accounting policies and the adequacy of management reporting requirements.
4. Considered the appointment of the External Auditors and audit fees.
5. Discussed the appointment of an external professional consultancy firm to assist the internal audit function including risk management measures.
6. Reviewed the Company's compliance in particular the quarterly and year end financial statements with the Listing Requirements of the Bursa Securities, MASB and other legal and regulatory requirements.
7. Reviewed the External Auditors' scope of work and audit plans for the period prior to the commencement of audit.
8. Reviewed eleven (11) internal audit reports presented by Internal Audit Department on the weaknesses highlighted and recommendation of subsequent improvements to the existing internal controls.

Internal Audit Functions

The Internal Audit Department, which reports to the Audit Committee assists the Board of Directors in monitoring and managing risks, internal controls and Group's performance. The Internal Audit Department has formulated a one year Audit Plan that focuses on areas that have significant and material impact on the Group. The Internal Audit Department have adopted a risk-based approach towards the planning and conduct of audit which is consistent with the Groups' risk framework and self assessment approach in monitoring its control systems.

During the financial year under review, the Internal Audit Department has conducted eleven (11) audits which were carried out based on risk-based approach. Scopes that were covered during the audit are review of standard operating procedures (SOP), independent review of the various departments, project sites and a subsidiary audit during the financial year.

The results from the audits undertaken are forwarded for comments and proposed remedial actions to management before tabling to the Audit Committee. Where appropriate, the Audit Committee has directed action to be taken by management to rectify and improve the systems of internal controls and procedures based on Internal Audit Department's recommendations for further improvements.

STATEMENT OF INTERNAL CONTROL

The Board of Directors is committed to maintaining a sound system of internal control in the Group to safeguard shareholders' investment and Group's assets. In pursuant to paragraph 15.27(b) of the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements, the Board is pleased to provide the following Statement of Internal Control which outlines the nature and scope of internal control of the Group during the year.

Board Responsibility

The Board acknowledges its overall responsibility of ensuring the adequacy and effectiveness of the internal control system covering not only financial controls but also operational and compliance controls as well as risk management. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objective and it should be noted that any system can only provide reasonable and not absolute assurance against material misstatement, fraud or loss. In pursuing this objective, the Management's role is to ensure the implementation and compliance of those internal controls in its day to day operations.

Risk Management Framework

The Group is establishing a risk management framework through an ongoing process of identifying, evaluating and managing significant risks encountered by the Group in a systematic and structured manner. The Board regularly reviews this process. All business processes have been documented in the Standard Operating Procedures.

Internal Control Structure

The key elements that the Board has established to review the adequacy and integrity of the internal control systems are as follows:

- Weekly management meetings that are attended by Managing Director, Executive Director, Senior Management and Head of Departments to discuss and resolve all relevant operational issues that affect the Group.
- Regular reporting to Audit Committee on audit findings, recommendations and progress of the proposed recommendations.
- Internal policies and procedures that have been documented in the Quality Management System which is compliance with MS ISO 9001: 2000.
- Independent review of the internal control system by the Internal Audit Department with proposed recommendations for further improvements.
- Defined delegation of responsibilities and authorities in the forms of organisation structures and limits of authorities.

Other Risks and Control Processes

The Group also has in place an organisational structure with defined line of responsibilities, delegation of authorities and a process of hierarchical reporting. The existence of Limits of Authority which provides the authority limits of the employees in the approval of various transactions and an Employee Handbook which highlights policies on Group's objectives, terms and conditions of employment, remuneration, training and development, performance review, safety and misconduct which are relevant across the Group's operations. The Executive Directors also report to the Board on significant changes in the business and external environment which affect the Group. The Board is provided with financial information on a quarterly basis which includes key performance and risk indicators and amongst others, the monitoring of results against budget.

Weaknesses in Internal Controls that Result in Material Losses

There were no material losses incurred during the financial year as a result of weaknesses in internal control and the Board and Management continue to take measures to strengthen the control environment within the Group.

ADDITIONAL COMPLIANCE INFORMATION

In conformance with the Bursa Malaysia Securities Berhad (“Bursa Securities”) Listing Requirements, the following information is provided:

Status of Utilisation of Proceeds

No proceeds were raised by the Company from any corporate proposal during the financial year.

Recurrent Related Party Transactions

On 24 June 2005, the Company sought approval from the shareholders for a shareholders’ mandate for Company and its subsidiaries to enter into recurrent transactions in their ordinary course of business, with persons who are considered to be “Related Party” as defined in Chapter 10 of the Bursa Securities Listing Requirements. The breakdown of the aggregate value received/receivable or paid/payable of the recurrent related party transactions made during the financial year is set out below:

1. Provision of engineering consultancy services
 - Innovative Fluid Process Sdn Bhd
2. Provision of human resource support
 - Sumatec Engineering and Construction Sdn Bhd
3. Contracting the services of Sumatec Corp Sdn Bhd, a wholly-owned subsidiary of Sumatec, for engineering, procurement, construction and commissioning-related works
 - Sumatec Engineering and Construction Sdn Bhd

Relationship with related parties

Company	Manner of relationship with the related party	Directors	Major shareholder
Innovative Fluid Process Sdn Bhd	Interested Directors and Indirect Substantial Shareholders	Chan Yok Peng Wan Kamaruddin bin Wan Abdullah	Indirect shareholding via Tekad Mulia
Sumatec Engineering and Construction Sdn Bhd	Persons connected	Johari Shukri bin Jamil Mohd Johari bin Jaafar	Mohd Johari bin Jaafar is a major shareholder with 49% interest in Sumatec Engineering and Construction Sdn Bhd

Share Buybacks

During the financial period, there were no share buybacks by the Company.

Option, Warrants and Convertible Securities

The Employees’ Share Option Scheme (“ESOS”) of up to 15% of the issued and paid-up capital of the Company was launched on 20 October 2005 and to be in force for a period of 5 years. The ESOS may be extended or renewed to an aggregate duration of 10 years. During the financial year under review, no options had been exercised by the employees.

Save for the ESOS, the Company has not issued any warrants or convertibles securities during the financial year.

American Depository Receipt (“ADR”)/Global Depository Receipt (“GDR”)

The Company did not sponsor any ADR or GDR programme during the financial period.

ADDITIONAL COMPLIANCE INFORMATION

Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management staff by the relevant regulatory bodies during the financial period.

Non-Audit Fee

There were no non-audit fees paid to the External Auditors by the Group for the financial period.

Profit Estimates, Forecast or Projections

The audited profit before taxation of the Group for the financial year ended 31 December 2005 compared to the profit forecast as set out in the prospectus of the Group dated 5 April 2005 is summarised below:

	Actual RM'000	Forecast RM'000	Variance RM'000
Profit after taxation and minority interest	7,785	18,269	(10,484)

The shortfall of the profit of RM10.48 million is mainly attributed by the lower turnover from the oil and gas segment of RM91.72 million as compared to the forecast turnover of RM214.87 million.

The main reasons for lower turnover are as follows:

- (a) The termination of the Turnkey EPCC contract by Tentrik Technologies Sdn Bhd ("Tentrik") for the building of a PlasmaArc Industrial Waste Treatment Plant at the Bukit Nanas Waste Management Centre, Negeri Sembilan, Malaysia. Substantial amount of work were forecasted to progress in 2005. However, due to some contractual matters between Tentrik and the project owner, the project did not progress according to plan until its termination in early 2006.
- (b) Some of the tenders submitted for new projects especially for works in Malaysia and overseas have not been successful. This is primarily due to stiff competition from new local competitors who not only entered Malaysia market but also overseas where Sumatec is involved.

Unaudited Results Previously Announced

The results for the financial year ended 31 December 2005 did not differ by 10% or more from the unaudited results for the same period previously announced by the Company on 28 February 2006.

Profit Guarantee

During the financial period, there were no profit guarantees given by the Company.

Material Contracts

There were no material contracts entered by the Company and its subsidiaries involving Directors' and major shareholders' interests during the financial period.

Revaluation of Landed Properties

There was no revaluation of landed properties during the financial year.

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DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company is that of investment holding.

The principal activities of its subsidiary companies are disclosed in Note 10 to the financial statements.

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

Financial Results

	Group RM	Company RM
Profit/(Loss) after taxation	7,809,823	(3,790,141)
Minority interests	(24,156)	—
Profit/(Loss) for the year	7,785,667	(3,790,141)
Accumulated loss brought forward	(22,915,985)	(40,218,192)
Accumulated loss carried forward	(15,130,318)	(44,008,333)

Dividends

There were no dividends proposed, declared or paid by the Company since the end of previous year.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the year.

Shares and Debentures

During the year, the Company increased its:

- authorised share capital from RM150,000,000 to RM300,000,000 through the creation of 150,000,000 ordinary shares of RM1 each; and
- issued and paid-up share capital from RM132,870,424 to RM146,157,424 by way of the issuance of 13,287,000 ordinary shares of RM1 each through a private placement at an issue price of RM1.00 per ordinary share for cash, for working capital purposes.

There were no debentures issued during the year.

Employee Share Option Scheme ("ESOS")

The ESOS is governed by the by-laws which were approved by the shareholders at the Eighth Annual General Meeting held on 24 June 2005. On 20 October 2005, the Company implemented ESOS after approvals were obtained from the relevant authorities and to be in force for a period of 5 years. The ESOS may be extended or renewed to an aggregate duration of 10 years.

The salient features of the new ESOS are as follows:

- The ESOS Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM1.00 each in the Company;
- The eligibility of a Director or employee of the Group to participate in the ESOS shall be at the discretion of the ESOS Committee, who shall take into consideration factors such as year of service and performance track record;
- The total number of shares to be issued under ESOS shall not exceed in aggregate 15% of the issued and fully paid-up share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to Directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up share capital of the Company;

DIRECTORS' REPORT

Employee Share Option Scheme ("ESOS") (continued)

- (d) The option price for each share shall be weighted average of the market price as quoted in the Daily Official List issued by Bursa Malaysia Securities Berhad for the 5 market days immediately preceding the date on which the option is granted less, if the ESOS Committee shall so determine at their discretion from time to time, a discount of not more than 10% or the par value of the shares of the Company of RM1.00;
- (e) The number of outstanding options to subscribe for shares or the option price or both may be adjusted following any issue of additional shares by way of right issues, bonus issues or other capitalisation issue carried out by the Company while an option remain unexercised; and
- (f) The new shares allotted upon any exercise of the option shall rank pari passu in all respects with the existing ordinary shares of the Company except that the new shares so issued will not rank for any rights, dividends, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new ordinary shares.

As at 31 December 2005, the options offered to take up unissued ordinary shares of RM1.00 each and the option prices are as follows:

Year of offer	Expire date	Option price	Number of option over ordinary shares of RM1.00 each				
			At	Granted	Exercised	Lapsed	At
			1.1.2005				31.12.2005
2005	2010	RM1.00	—	11,430,000	—	—	11,430,000

Details of options granted to directors are disclosed in the section of Directors' interest in this report.

Information on the Financial Statements

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that 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 bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

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

- (a) which would render 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;
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

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 year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

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

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the year.

DIRECTORS' REPORT

Other Statutory Information

The Directors state that:

At the date of this report, they are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In their opinion:

- the results of the Group's and of the Company's operations during the year were not substantially affected by any item, transaction or event of a material and unusual nature other than as disclosed in the Notes to the financial statements; and
- there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the year in which this report is made.

Directors

The Directors in office since the date of the last report are:

Y.A.M. Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj

Wan Kamaruddin bin Wan Abdullah

Chan Yok Peng

Dzulkifli bin Wari

Peng Ng Leng @ Peng Eng Leng

Ismail bin Ibrahim

Y.Bhg. Dato' Mohd Paudzi bin Ismail

According to the Register of Directors' Shareholdings, the Directors' beneficial interests in the shares of the Company and its related corporations of those who were Directors at year end are as follows:

	Ordinary shares of RM1 each			As at 31.12.2005
	As at 1.1.2005	Bought	Sold	
Direct interest				
Chan Yok Peng	90,000	—	—	90,000
Deemed interest				
Wan Kamaruddin bin Wan Abdullah*	46,788,267	—	4,550,000	42,238,267
Chan Yok Peng*	46,788,267	—	4,550,000	42,238,267
Dzulkifli bin Wari*	46,788,267	—	4,550,000	42,238,267

* deemed interest by virtue of their shareholdings in Tekad Mulia Sdn Bhd.

	Number of option over ordinary shares of RM1.00 each			At 31.12.2005
	At 1.1.2005	Granted	Exercised	
The Company				
Wan Kamaruddin bin Wan Abdullah	—	1,000,000	—	1,000,000
Chan Yok Peng	—	1,000,000	—	1,000,000
Dzulkifli bin Wari	—	700,000	—	700,000
Peng Ng Leng @ Peng Eng Leng	—	700,000	—	700,000

By virtue of Wan Kamaruddin bin Wan Abdullah, Chan Yok Peng and Dzulkifli bin Wari direct and indirect interest in the Company, they also deemed to have interest in the shares of all the subsidiary companies to the extent the Company has an interest under Section 6A of the Companies Act, 1965.

No other Directors who are in office at the end of the year held any shares or had any direct interest in the shares of the Company and its related corporation during the year.

DIRECTORS' REPORT

Directors' Benefits

During and at the end of the year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of Company to 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 Company's Employees Share Option Scheme.

Since the end of the previous year, no Director has received or become entitled to receive any benefit (except as disclosed in the Notes to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Significant Events during the Year

Significant events during the year are disclosed in Note 37 to the financial statements.

Significant Events Subsequent to Balance Sheet Date

Significant events subsequent to balance sheet date are disclosed in Note 38 to the financial statements.

Auditors

Messrs Shamsir Jasani Grant Thornton have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a Resolution of the Board of Directors dated 26 April 2006.

WAN KAMARUDDIN BIN WAN ABDULLAH

Director

CHAN YOK PENG

Director

Kuala Lumpur
26 April 2006

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 32 to 63 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005, results of the operations and cash flows of the Group and of the Company for the year ended on that date.

Signed on behalf of the Board of Directors in accordance with a Resolution of the Board of Directors dated 26 April 2006.

WAN KAMARUDDIN BIN WAN ABDULLAH

Director

CHAN YOK PENG

Director

Kuala Lumpur

26 April 2006

STATUTORY DECLARATION

I, Peng Ng Leng @ Peng Eng Leng, being the Director primarily responsible for the financial management of Sumatec Resources Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 32 to 63 are 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 at Kuala Lumpur
in the Federal Territory this day
of 26 April 2006

PENG NG LENG @ PENG ENG LENG

Before me:

T. THANDONEE RAJAGOPAL

(No. W288)

Commissioner for Oaths

REPORT OF THE AUDITORS TO THE MEMBERS OF SUMATEC RESOURCES BERHAD

We have audited the financial statements set out on pages 32 to 63 of Sumatec Resources Berhad.

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 these 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 towards any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall financial statements presentation. 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 approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as at 31 December 2005 and of the results and cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in the 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 auditor's reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Malaysia, did not include any comment (or any adverse comment) made under Subsection (3) of Section 174 of the Act.

SHAMSIR JASANI GRANT THORNTON

(No. AF: 0737)

Chartered Accountants

DATO' N.K. JASANI

Chartered Accountant

(No.: 708/03/08(J/PH))

Partner

Kuala Lumpur

26 April 2006

BALANCE SHEETS

AS AT 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
SHARE CAPITAL	5	146,157,424	132,870,424	146,157,424	132,870,424
ACCUMULATED LOSS		(15,130,318)	(22,915,985)	(44,008,333)	(40,218,192)
Total shareholders' equity		131,027,106	109,954,439	102,149,091	92,652,232
MINORITY INTEREST		529,507	504,988	—	—
TERM LOANS	6	178,636,958	53,853,684	100,000,000	50,000,000
FINANCE PAYABLES	7	1,007,934	1,051,285	100,669	117,767
LONG TERM PAYABLE	8	73,700	—	—	—
DEFERRED TAXATION	9	649,377	430,000	—	—
		311,924,582	165,794,396	202,249,760	142,769,999
Represented by:					
INVESTMENT IN SUBSIDIARY COMPANIES	10	—	—	146,576,921	95,153,067
INVESTMENT IN ASSOCIATE COMPANIES	11	1,144,603	1,122,002	—	—
INTEREST IN JOINTLY CONTROLLED ENTITIES	12	(2,488,207)	(2,488,207)	—	—
OTHER INVESTMENTS	13	10,000,004	5,000,004	10,000,000	5,000,000
GOODWILL ON CONSOLIDATION	14	55,396,906	49,608,614	—	—
PROPERTY, PLANT AND EQUIPMENT	15	165,398,790	22,030,163	115,460	145,580
FIXED DEPOSITS WITH LICENSED BANKS	16	13,939,929	7,767,663	—	—
DEVELOPMENT EXPENDITURE	17	82,374	70,603	—	—
MINING EXPENDITURE	18	648,252	—	—	—
CURRENT ASSETS					
Amount due from customers	19	10,481,369	6,859,135	—	—
Trade receivables	20	128,144,525	112,525,902	—	—
Other receivables, deposits and prepayments	21	18,163,853	10,380,134	2,398,862	6,113,997
Amount due from subsidiary companies	22	—	—	79,358,923	37,049,890
Amount due from associate companies	23	753,328	829,740	4,453	—
Tax recoverable		2,097,594	4,004	—	—
Fixed deposits with licensed banks	16	15,165	—	—	—
Cash and bank balances		8,752,764	1,434,905	310,090	32,238
Total current assets		168,408,598	132,033,820	82,072,328	43,196,125
CURRENT LIABILITIES					
Amount due to customers	19	1,366,293	1,563,968	—	—
Trade payables		22,468,970	13,791,204	—	—
Other payables and accruals		3,286,966	1,400,569	1,497,851	708,818
Amount due to a Director	24	104,188	104,188	—	—
Short term borrowings	25	73,380,250	29,448,014	35,017,098	15,955
Taxation		—	3,042,323	—	—
Total current liabilities		100,606,667	49,350,266	36,514,949	724,773
NET CURRENT ASSETS		67,801,931	82,683,554	45,557,379	42,471,352
		311,924,582	165,794,396	202,249,760	142,769,999

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

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
Revenue	26	137,175,406	201,306,492	—	—
Other operating income		953,811	844,342	101,467	165,614
Cost of sales	27	(102,736,012)	(170,589,745)	—	—
Staff costs	28	(8,163,148)	(4,494,675)	(407,451)	(194,978)
Depreciation		(1,848,584)	(1,998,552)	(30,120)	(5,020)
Other operating expenses		(4,135,471)	(4,128,539)	(633,201)	(961,048)
Profit/(Loss) from operations		21,246,002	20,939,323	(969,305)	(995,432)
Finance costs		(11,801,870)	(3,300,335)	(2,820,836)	(858,110)
Share of results of associate		(4,694)	(14,102)	—	—
Profit/(Loss) before taxation	29	9,439,438	17,624,886	(3,790,141)	(1,853,542)
Taxation	30	(1,629,615)	(6,213,000)	—	—
Profit/(Loss) after taxation		7,809,823	11,411,886	(3,790,141)	(1,853,542)
Minority interests		(24,156)	92,403	—	—
Net profit/(loss) for the year		7,785,667	11,504,289	(3,790,141)	(1,853,542)
Basic earnings per share (sen)	31	5.39	8.66		

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital RM	Accumulated loss RM	Total RM
Group			
Balance at 1 January 2004	132,870,424	(34,420,274)	98,450,150
Net profit for the year	—	11,504,289	11,504,289
Balance at 31 December 2004	132,870,424	(22,915,985)	109,954,439
Issuance of shares	13,287,000	—	13,287,000
Net profit for the year	—	7,785,667	7,785,667
Balance at 31 December 2005	146,157,424	(15,130,318)	131,027,106
Company			
Balance at 1 January 2004	132,870,424	(38,364,650)	94,505,774
Net loss for the year	—	(1,853,542)	(1,853,542)
Balance at 31 December 2004	132,870,424	(40,218,192)	92,652,232
Issuance of shares	13,287,000	—	13,287,000
Net loss for the year	—	(3,790,141)	(3,790,141)
Balance at 31 December 2005	146,157,424	(44,008,333)	102,149,091

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before taxation	9,439,438	17,624,886	(3,790,141)	(1,853,542)
Adjustments for:				
Depreciation	10,263,577	1,998,552	30,120	5,020
Interest expenses	11,440,859	3,101,462	2,820,277	857,440
Interest income	(361,262)	(276,321)	(48,219)	(165,614)
Property, plant and equipment written off	68,594	—	—	—
Provision for doubtful debt no longer required	(288,431)	—	—	—
Share of results in associate	4,694	14,102	—	—
(Gain)/Loss on disposal of property, plant and equipment	(211,832)	1,686	—	—
Gain on dilution of interest in subsidiary companies	—	(224,484)	—	—
Operating profit/(loss) before working capital changes	30,355,637	22,239,883	(987,963)	(1,156,696)
Subsidiary companies	—	—	(42,309,033)	(37,519,268)
Associate companies	364,843	(5,344)	(4,453)	—
Payables	(10,174,664)	(7,932,681)	789,033	667,235
Receivables	(798,229)	(46,020,553)	3,715,135	(1,110,997)
Customers	(3,819,909)	1,695,755	—	—
Cash generated from/(used in) operations	15,927,678	(30,022,940)	(38,797,281)	(39,119,726)
Interest paid	(11,440,859)	(3,101,462)	(2,820,277)	(857,440)
Interest received	361,262	209,670	48,219	165,614
Tax paid	(6,770,690)	(6,872,231)	—	—
Net cash used in operating activities	(1,922,609)	(39,786,963)	(41,569,339)	(39,811,552)
CASH FLOWS FROM INVESTING ACTIVITIES				
Mining expenditure	(648,252)	—	—	—
Acquisition of unquoted bonds	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Development expenditure incurred	(11,771)	(70,603)	—	—
Acquisition of associate companies	—	(3)	—	—
Purchase of property, plant and equipment (Note A)	(43,699,980)	(374,693)	—	(15,600)
Proceed from disposal of property, plant and equipment	881,502	30,239	—	—
Net cash used in acquisition				
of subsidiary companies (Note 35)	(53,948,259)	(60,717)	(51,423,854)	(153,067)
Proceed from subscription of shares				
in subsidiary company by minority interest	—	730,135	—	—
Disposal of subsidiary company, net of cash disposed	—	(2,495)	—	—
Deposit paid for acquisition of subsidiary companies	—	(5,000,000)	—	(5,000,000)
Placement of fixed deposits	(6,172,266)	(4,493,518)	—	—
Net cash used in investing activities	(108,599,026)	(14,241,655)	(56,423,854)	(10,168,667)

CASH FLOW STATEMENTS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceed from issuance of shares	13,287,000	—	13,287,000	—
Repayment of borrowings	(3,307,611)	(3,329,171)	—	—
Drawdown of term loans	118,000,000	53,000,000	85,000,000	50,000,000
Repayment of term loan	(9,358,636)	—	—	—
Repayment of finance payables	(505,528)	(1,662,846)	(15,955)	(1,278)
Net cash generated from financing activities	118,115,225	48,007,983	98,271,045	49,998,722
CASH AND CASH EQUIVALENTS				
Net changes	7,593,590	(6,020,635)	277,852	18,503
At beginning of year	(3,216,129)	2,804,506	32,238	13,735
At end of year (Note B)	4,377,461	(3,216,129)	310,090	32,238

Notes to the Cash Flow Statements:

A. Purchase of property, plant and equipment

During the year, the Group and the Company acquired property, plant and equipment costing RM44,204,980 and Nil (2004: RM887,693 and RM150,600) of which RM505,000 and Nil (2004: RM513,000 and RM315,000) were acquired by means of hire purchase. Cash payment of RM43,699,980 (2004: RM374,693) were made to purchase the property, plant and equipment including loan interest capitalised amounting to RM199,040 (2004: Nil).

B. Cash and cash equivalents comprise of:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash and bank balances	8,752,764	1,434,905	310,090	32,238
Fixed deposits with licensed banks	15,165	—	—	—
Bank overdrafts	(4,390,468)	(4,651,034)	—	—
	4,377,461	(3,216,129)	310,090	32,238

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

1. Basis of Preparation of the Financial Statements

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

2. Financial Risk Management Policies

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

(a) Credit risk

The exposure to credit risk is monitored by management on an ongoing basis. Credit evaluations are only required to be performed when deemed necessary by the Directors. Fixed deposits are only placed with licensed financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(b) Interest rate risk

In the current low interest rate scenario, the Group and the Company borrow for operations at variable rates using its overdraft facility and various trade financing facilities and uses fixed rates finance lease and hire purchase to finance capital expenditure.

Deposits with licensed financial institutions are placed with varying maturity dates and rates.

(c) Foreign currency risk

The Company is exposed to foreign currency risk as a result of its normal trading activities, where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Company's policy is to minimise the exposure of foreign currency risk by monitoring and approving requisitions which involve foreign currencies.

(d) Liquidity and cash flow risks

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

3. Significant Accounting Policies

(a) Accounting convention

The financial statements of the Group and of the Company have been prepared under the historical cost convention except for the revaluation of certain land and buildings, unless otherwise indicated in the other significant accounting policies.

(b) Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiary companies made up to the end of the year except for Innovative Fluid Process Sdn Bhd has not been consolidated as the control is intended to be temporary, the Directors are of the opinion that theirs results are immaterial to the Group. The subsidiary companies are consolidated on an acquisition method.

Under the acquisition method the results of subsidiary companies acquired or disposed during the year are included in the consolidated income statements from the date of their acquisition or up to the date of disposal.

At the date of acquisition, the fair values of the subsidiary companies' net assets are reflected in the Group's financial statements. The difference between the acquisition price and the fair value of the net assets of the subsidiary companies at the date of acquisition is included in the consolidated balance sheets as goodwill or reserve arising on consolidation.

Goodwill on consolidation is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (u).

Inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (continued)

(c) Subsidiary companies

A subsidiary company is defined as a company in which the parent company holds directly or indirectly more than 50% of the equity share capital and has control over the financial and operating policies.

Investment in subsidiary companies, which is eliminated on consolidation, is stated at cost in the Company's financial statements. Impairment loss is made when the Directors are of the opinion that there is impairment in the value of the investments.

(d) Investments

Long term investments, other than in subsidiary companies, associate companies and jointly controlled entities, are stated at cost. A provision is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

Long term investments in subsidiary companies, associate companies and jointly controlled entities are stated at cost less any impairment loss, where applicable.

(e) Associate companies

Associate companies are those companies in which the Group holds a long term equity interest of between 20% and 50% and is in a position to exercise significant influence over its financial and operating policies through management participation.

Investment in associate companies are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (u).

The Group's share of profits less losses and taxation of associate companies is included in the consolidated income statements in place of dividends received and the Group's share of post-acquisition retained profits/accumulated losses is added to/deducted from the cost of investments in the consolidated balance sheet.

These amounts are based on the latest audited financial statements or management financial statements of the companies concerned.

(f) Jointly controlled entities

A joint venture is a contractual agreement whereby the Group and other parties have joint control over an economic entity.

The Group's interests in jointly controlled entities are accounted for in the Group financial statements by the equity method of accounting.

Unrealised profits or losses arising from transactions between the Group and its jointly controlled entities are recognised only to the extent of that portion of the gain or loss which is attributable to the interests of the other ventures. Unrealised losses are recognised in full when the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (continued)

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3 (u).

The Group revalues its properties comprising land and building every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statements.

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

Freehold land is not depreciated. Depreciation of other property, plant and equipment is provided on the straight line method to write off the cost of each property, plant and equipment over its estimated useful life at the following annual rates:

Long term leasehold land	Over 80 years
Short term leasehold land	2%
Buildings	2% – 4%
Oil tanker	5% – 10%
Dry-docking expenditure	40%
Launch boat	10%
Plant and machinery	20%
Office equipment, furniture and fittings	10% – 20%
Renovation	10% – 20%
Computer equipment and software	20%
Motor vehicles	10% – 20%

(h) Development expenditure

Development expenditure comprise all costs that are directly attributable to the intended property development project which will be charged to the property development account upon inception of the intended project. Should the project aborted, the related expenditure will be charged to income statements in the financial year in which such decision is made.

(i) Mining expenditure

All cost incurred in connection with the exploration and development of the proposed mining sites are capitalised until either production commences or it is considered that the mine would not be economically viable. In the event of production commencing, the capitalised cost are amortised over the expected life of the ore reserves on a unit of production basis, other pre-trading expenses are written off as incurred. Where a project is abandoned or is considered to be of no further interest, the related cost are written off.

(j) Foreign currency transactions and translations

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the rates of exchange approximating those ruling at that date. Gains or losses on foreign exchange are taken up in the income statements.

The exchange rates ruling at balance sheet date used are as follows:

	2005 RM	2004 RM
Singapore Dollars	2.27	2.32
US Dollars	3.78	3.80

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (continued)

(k) Income tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

(l) Receivables

Known bad debts are written off and specific provision is made for debts which are considered doubtful of collection.

(m) Property, plant and equipment acquired under finance lease and hire purchase arrangements

The cost of property, plant and equipment acquired under finance lease or hire purchase arrangements are capitalised. The depreciation policy on these property, plant and equipment is similar to that of the Group's property, plant and equipment depreciation policy. Outstanding obligation due under the finance lease or hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. Finance charges on finance lease and hire purchase agreements are allocated to the income statements over the period of the respective agreements.

(n) Revenue

(i) Revenue on construction project works is recognised based on the percentage of completion method in cases when the outcome of the project can be reliably estimated.

Where the outcome of a construction project cannot be estimated reliably:

- (aa) revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and
- (bb) contract costs will be recognised as an expense in the year in which they are incurred.

'Percentage of completion' is determined by reference to the proportion of total certified progress billing at the balance sheet date to the total contract sum. Provision is made for all foreseeable losses.

(ii) Revenue from shipping is recognised as follows:

- (aa) Freight receivable for oil loaded onto the oil tankers up to the balance sheet date and their relevant discharging costs are accrued in the income statement.
- (bb) Revenue from oil tanker employed under time or voyage charter are recognised on accrual basis.

(iii) Dividend income is recognised when the shareholders' right to receive payment is established.

(o) Amount due from/(to) customers

Amount due from/(to) customers is the net amount of cost incurred for construction in-progress plus attributable profit less progress billings and anticipated losses, if any. Contract costs incurred to date include:

- (i) Costs directly related to the contract;
- (ii) Costs attributable to contract activity in general and can be allocated to the contract; and
- (iii) Other costs specifically chargeable to the customer under the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (continued)

(p) Provision for liabilities

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

(q) Cash and cash equivalents

Cash comprises of cash and bank balances, bank overdraft and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(r) 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 of sale, are capitalised as a component of the cost of those assets. Such capitalisation ceases when substantially all activities necessary to prepare the assets for their intended use or sale are complete.

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

(s) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans such as Employees Provident Fund ("EPF") are recognised as an expense in the income statements as incurred.

(iii) Equity compensation benefits

The Employees Share Option Scheme ("ESOS") allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(t) Financial instruments

Financial instruments carried on the balance sheets include cash and bank balances, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

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

NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies (continued)

(u) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash generating unit.

An impairment loss is charged to the income statements immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statements immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statements, a reversal of that impairment loss is recognised as income in the income statements.

(v) Segmental results

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and property, plant and equipment, net of provision and accumulated depreciation and amortisation. While most such assets can be directly attributed to the segments on a reasonable basis. Segment assets and liabilities do not include income tax assets, income tax liabilities and deferred income taxes.

(w) Intersegment transfers

Segment revenues, expenses and result include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length transactions. These transfers are eliminated on consolidation.

4. Principal Activities and General Information

The principal activity of the Company is that of investment holding.

The principal activities of its subsidiary companies are disclosed in Note 10 to the financial statements.

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Level 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur. The principal place of business of the Company is located at Lot PT 33638, Batu 7, Jalan Bukit Kemuning, Section 32, 40460 Shah Alam, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a Resolution of the Directors on 26 April 2006.

NOTES TO THE FINANCIAL STATEMENTS

5. Share Capital

	Group and Company	
	2005	2004
	RM	RM
Authorised:		
Ordinary shares of RM1 each		
At beginning of the year	150,000,000	150,000,000
Created during the year	150,000,000	—
At end of the year	300,000,000	150,000,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of the year	132,870,424	132,870,424
Private placement	13,287,000	—
At end of the year	146,157,424	132,870,424

6. Term Loans

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Unsecured:				
Term loan 1	50,000,000	50,000,000	50,000,000	50,000,000
Term loan 2	50,000,000	—	50,000,000	—
	100,000,000	50,000,000	100,000,000	50,000,000
Secured:				
Term loan 3	35,000,000	—	35,000,000	—
Term loan 4	4,034,742	5,195,032	—	—
Term loan 5	267,621	1,805,450	—	—
Term loan 6	33,000,000	—	—	—
Term loan 7	293,993	—	—	—
Term loan 8	11,605,000	—	—	—
Term loan 9	16,500,520	—	—	—
Term loan 10	26,642,247	—	—	—
Term loan 11	1,893,224	—	—	—
	229,237,347	57,000,482	135,000,000	50,000,000
Repayable within 12 months (included under short term borrowings in Note 25)	(50,600,389)	(3,146,798)	(35,000,000)	—
	178,636,958	53,853,684	100,000,000	50,000,000

NOTES TO THE FINANCIAL STATEMENTS

6. Term Loans (continued)

Group

Secured

The term loans granted to the subsidiary companies by the financial institutions are secured by ways of:

- (a) first fixed legal charge over the subsidiary company's landed properties;
- (b) legal mortgage over the subsidiary company's oil tankers;
- (c) assignment of contract payment of the subsidiary companies; and
- (d) corporate guarantee from the Company.

Term loan 4 is repayable over 84 equal monthly instalment of RM126,893 commencing one (1) month after full disbursement.

Term loan 5 is repayable over 24 monthly instalment of RM135,340 commencing one (1) month after full disbursement.

Term loan 6 is payable over 84 monthly instalment of RM487,049 after full disbursement.

Term loan 7 is repayable over 120 monthly instalment of RM6,054 commencing one (1) month after full disbursement.

Term loan 8 is repayable over 120 monthly instalment of RM175,833 commencing one (1) month after full disbursement.

Term loan 9 is repayable over 108 monthly instalment of RM308,872 for the first and second year, RM319,525 for the third to fifth year and RM324,162 for the sixth year onwards after full disbursement.

Term loan 10 is repayable over 84 monthly instalment of RM475,182 for the first and second year, RM484,479 for the third to fifth year and RM489,389 for the sixth year onwards after full disbursement.

Term loan 11 is repayable over 36 monthly instalment of RM138,171 commencing one (1) month after full disbursement.

The interest rates for the year ranged between 6.50% and 8.00% (2004: 7.50% and 7.75%) per annum.

Company

Unsecured

Term loan 1 and 2 are payable in full at the end of period of 5 years.

The term loans are obtained at interest rates ranging between 7.10% and 7.50% (2004: 6.60%).

Secured

Term loan 3 is secured by certain unquoted shares of the Company (Note 10).

Term loan 3 is payable in full on 11 May 2006.

The term loan is obtained at interest rate of 1.75% per annum above the bank's cost of funds (2004: Nil).

NOTES TO THE FINANCIAL STATEMENTS

7. Finance Payables

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Payable within 1 year	556,955	522,585	23,340	23,340
Payable after 1 year but not later than 5 years	1,026,531	1,109,767	93,360	93,360
Payable more than 5 years	64,139	44,705	21,365	44,705
	1,647,625	1,677,057	138,065	161,405
Less: Interest in suspense	(158,554)	(191,457)	(20,298)	(27,683)
	1,489,071	1,485,600	117,767	133,722
Present value of hire purchase				
— within 1 year	481,137	434,315	17,098	15,955
— after 1 year but not later than 5 years	945,397	1,008,772	79,828	75,254
— more than 5 years	62,537	42,513	20,841	42,513
	1,489,071	1,485,600	117,767	133,722

The amount payable within 1 year is included under short term borrowings (Note 25).

8. Long Term Payable

Group

The long term payable represents liquidated damages payable to the customer arising from non performance by a subsidiary company in accordance with a contract entered into between the subsidiary company and the customer. The total amount of RM548,000 will be repayable by 36 equal installments of RM15,300 commencing 1 April 2004. the amount of RM183,600 payable within next twelve months is included in other payables.

9. Deferred Taxation

	Group	
	2005 RM	2004 RM
At beginning of year	430,000	430,000
Addition through acquisition of a subsidiary company	224,539	—
Transfer to income statement (Note 30)	(5,162)	—
At end of year	649,377	430,000

The balance in the deferred taxation is made up of temporary differences arising from:

	Group	
	2005 RM	2004 RM
Capital allowances in excess of depreciation	234,000	234,000
Revaluation surplus of property, plant and equipment	415,377	196,000
	649,377	430,000

NOTES TO THE FINANCIAL STATEMENTS

10. Investment in Subsidiary Companies

	Company	
	2005 RM	2004 RM
Unquoted shares, at cost	146,576,921	95,153,067

A list of subsidiary companies is as follows:

Name of company	% Effective interest		Principal activities	Country of incorporation
	2005 %	2004 %		
(a) Subsidiary company				
Sumatec Corporation Sdn Bhd	100	100	Engineering and contracting	Malaysia
Semua Shipping Sdn Bhd	100	—	Engaged in the business of shipping and the provision of related services	Malaysia
Semado Maritime Sdn Bhd	100	—	Engaged in the business of shipping and the provision of related services	Malaysia
Mini Tankers Chartering Sdn Bhd	100	—	Renting of industrial building	Malaysia
Malaco Mining Sdn Bhd (formerly known as Indera Kembang Sdn Bhd)	100	100	Mining and exploration	Malaysia
Tubau Oil Supply Sdn Bhd	100	—	Dormant	Malaysia
Grand Niugini Sdn Bhd	65	65	Dormant	Malaysia
IR OilRigs Malaysia Sdn Bhd	51	51	Dormant	Malaysia
Tenaga Biomass Sdn Bhd (formerly known as Cermat Mayang Sdn Bhd)	100	—	Dormant	Malaysia
Tanjung Pelepas Terminal Sdn Bhd	100	—	Dormant	Malaysia
Perlis Bio-Power Sdn Bhd	80	—	Dormant	Malaysia
(b) Held by Sumatec Corporation Sdn Bhd				
Calinex Sdn Bhd	100	100	Dormant	Malaysia
Petoreka Sdn Bhd	100	100	Dormant	Malaysia
Sumatec Fabricators Sdn Bhd	100	100	Dormant	Malaysia
Sumatec Trackworks Sdn Bhd	100	100	Dormant	Malaysia
Sumatec Petroleum Development Sdn Bhd	100	100	Dormant	Malaysia
Sumatec Engineering & Construction Sdn Bhd	51	51	Engineering and contracting	Malaysia
Sumatec (Sarawak) Sdn Bhd*	100	—	Dormant	Malaysia
Innovative Fluid Process Sdn Bhd®	51	51	Dormant	Malaysia

NOTES TO THE FINANCIAL STATEMENTS

10. Investment in Subsidiary Companies (continued)

A list of subsidiary companies is as follows: (continued)

Name of company	% Effective interest		Principal activities	Country of incorporation
	2005 %	2004 %		
(c) Held by IR OilRigs Malaysia Sdn Bhd				
Victory Oil Sdn Bhd	100	100	Dormant	Malaysia
(d) Held by Malaco Mining Sdn Bhd				
Bidalan Mayang Sdn Bhd	80	—	Gold mining and exploration	Malaysia

* The Company has increased its interest in Sumatec (Sarawak) Sdn Bhd from 30% to 100%. Accordingly, such investment has been transferred from investment in associate company at its carrying amount.

@ The result of the subsidiary company has not been consolidated in the financial statement this year as the control is intended to be temporary. The Group intends to dispose the subsidiary company in the near future and the Directors are of the opinion that its results are immaterial to the Group.

The unquoted shares at cost of investment of RM51,243,852 are pledged to a licensed bank as securities for borrowing (Note 6).

11. Investment in Associate Companies

	Group	
	2005 RM	2004 RM
Unquoted shares, at cost	405,051	405,054
Less: Impairment losses	(158,126)	(158,126)
	246,925	246,928
Reclassified to other investments	—	(3)
Transfer from subsidiary company	—	(26,827)
Transfer to subsidiary company	27,295	—
Share of post acquisition results	870,383	901,904
	1,144,603	1,122,002
Represented by:		
Share of net assets	1,144,603	1,122,002

NOTES TO THE FINANCIAL STATEMENTS

11. Investment in Associate Companies (continued)

A list of associate companies is as follows:

Name of company	% Effective interest		Principal activities	Country of incorporation
	2005 %	2004 %		
ESE (Cambodia) Pte Ltd#	50	50	Dormant	Republic of Cambodia
UHP Engineering Sdn Bhd	49	49	Trade and contractor in the field of ultra high purity fluid distribution piping system	Malaysia
Indotech Sdn Bhd	30	30	Dormant	Malaysia
Sumatec (Middle East) LLC#	49	49	Dormant	United Arab Emirates
Vertirex Development Sdn Bhd	50	50	Dormant	Malaysia
Sumatec (Sarawak) Sdn Bhd	—	30	Dormant	Malaysia
Adinin Sumatec JV Sdn Bhd#	50	50	Dormant	Brunei

Not audited by Shamsir Jasani Grant Thornton.

12. Interest in Jointly Controlled Entities

	Group	
	2005 RM	2004 RM
Amount due from joint ventures	4,079,109	4,079,109
Amount due to joint ventures	(1,093,058)	(1,093,058)
Share of results of joint ventures	(5,474,258)	(5,474,258)
	(2,488,207)	(2,488,207)

The Group's interest in the assets and liabilities of jointly controlled entities are as follows:

	2005 RM	2004 RM
Long-term assets	24,683	24,683
Current assets	23,560,582	23,560,582
Current liabilities	(26,073,472)	(26,073,472)
	(2,488,207)	(2,488,207)

NOTES TO THE FINANCIAL STATEMENTS

12. Interest in Jointly Controlled Entities (continued)

Details of jointly controlled entities are as follows:

Name of company	Principal activities	Proportion of ownership interest	
		2005 %	2004 %
Sumatec-Nam Fatt	Completed contract works for Aromatics Project in Kertih	50	50
Sumatec-Detra Bina	Completed contract works for Kertih Vinyl Chloride Monomer Project	60	60
Sumatec-Nam Fatt	Completed contract works for Klang Valley Distribution Terminal Project ("KVDT")	49	49
Sumatec-Nam Fatt	Completed contract works for Onshore Gas Terminal Project ("OGT")	49	49
Sumatec-Astel Peiniger	Contract works for MLNG Rejuvenation and MLNG/ MLNG Dua Revamp Project	60	60

13. Other Investments

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
At cost:				
Unquoted shares	228,004	228,004	—	—
Unquoted bonds	10,000,000	5,000,000	10,000,000	5,000,000
	10,228,004	5,228,004	10,000,000	5,000,000
Less: Provision for diminution in value	(228,000)	(228,000)	—	—
	10,000,004	5,000,004	10,000,000	5,000,000

14. Goodwill on Consolidation

	Group	
	2005 RM	2004 RM
At beginning of year	49,608,614	49,485,707
Arising from acquisition of subsidiary companies	5,788,292	122,907
At end of year	55,396,906	49,608,614

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment

Group	Freehold land and building* RM	Long term leasehold land* RM	Short term leasehold land* RM	Buildings*		Construction in progress RM	Oil tankers and launch boat RM		Plant and machinery RM	Office equipment, furniture and fittings RM		Renovation RM	Computer equipment and software RM	Motor vehicles RM	Total 2005 RM	Total 2004 RM
				RM	RM		RM	RM		RM	RM					
Cost or valuation																
At beginning of year	15,725,000	960,000	—	—	930,000	—	—	7,453,061	2,167,992	432,788	1,582,774	4,374,531	33,626,146	32,834,818		
Additions through acquisition of subsidiary company	—	—	500,000	—	1,502,900	—	147,369,751	—	349,661	1,600	—	201,000	149,924,912	41,249		
Additions	—	—	—	—	233,754	43,047,015	20,000	273,241	52,725	91,390	486,855	44,204,980	887,693			
Disposals	—	—	—	—	(700,000)	—	(660)	(198,098)	—	—	—	(898,778)	(137,614)			
Written off	—	—	—	—	—	—	(26,557)	—	(105,519)	—	—	(132,076)	—			
At end of year	15,725,000	960,000	500,000	233,754	1,732,900	190,416,766	7,473,061	2,763,657	487,113	1,568,645	4,864,288	226,725,184	33,626,146	33,626,146		
Accumulated depreciation																
At beginning of year	142,000	25,264	—	—	37,200	—	5,541,758	1,616,240	281,286	1,112,516	2,839,719	11,595,983	9,701,875			
Additions through acquisition of subsidiary company	—	—	48,203	—	346,729	—	39,098,857	—	192,319	333	—	72,983	39,759,424	1,245		
Charge for the year	71,000	12,632	6,666	—	47,016	—	8,370,195	757,146	182,178	28,401	154,428	633,915	10,263,577	1,998,552		
Disposal	—	—	—	—	(30,333)	—	(679)	—	—	—	—	(198,096)	(229,108)	(105,689)		
Written off	—	—	—	—	—	—	(11,233)	—	(52,249)	—	—	(63,482)	—			
At end of year	213,000	37,896	54,869	400,612	47,469,052	6,298,904	1,978,825	310,020	1,214,695	3,348,521	61,326,394	11,595,983	11,595,983			
Net book value																
2005	15,512,000	922,104	445,131	1,332,288	1,174,157	142,947,714	1,174,157	784,832	177,093	353,950	1,515,767	165,398,790	165,398,790			
2004	15,583,000	934,736	—	892,800	—	—	1,911,303	551,752	151,502	470,258	1,534,812	—	22,030,163			
Depreciation charge for year ended 31 December 2004	71,000	12,632	—	18,600	—	—	896,888	166,103	24,329	199,350	609,650	—	1,998,552			

* At valuation

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment (continued)

Company	Motor vehicle RM	Total 2005 RM	Total 2004 RM
Cost			
At beginning of year	150,600	150,600	—
Additions	—	—	150,600
At end of year	150,600	150,600	150,600
Accumulated depreciation			
At beginning of year	5,020	5,020	—
Charge for the year	30,120	30,120	5,020
At end of year	35,140	35,140	5,020
Net book value			
2005	115,460	115,460	—
2004	145,580	—	145,580
Depreciation charge for the year ended 31 December 2004	5,020	—	5,020

Group

- (i) Freehold land and building, leasehold land and buildings are stated at Directors' valuation based on professional valuations conducted by independent professional valuer Citi Valuers & Consultants Sdn Bhd, Colliers Jordan Lee & Jaafar (JH) Sdn Bhd and JS Valuer Property Consultants (Miri) Sdn Bhd, using the open market value basis conducted in May 2001, August 2002 and January 2004 respectively.
- (ii) Net book value of certain land and buildings of the subsidiary companies amounting to RM17,995,323 (2004: RM17,189,737) are charged to banks as security for borrowings.
- (iii) Net book value of oil tankers of the subsidiary companies amounting to RM142,944,536 are charged to banks as security for borrowings.
- (iv) The carrying amount of freehold land and building, long term leasehold land and buildings of the subsidiary company had the assets been carried at cost less accumulated depreciation are as follows:

	Group	
	2005 RM	2004 RM
Freehold land and building	7,914,086	7,997,479
Long term leasehold land	156,076	158,448
Short-term leasehold land	140,206	—
Buildings	985,882	580,749
	9,196,250	8,736,676

- (v) Net book value of motor vehicles which are held in trust by a Director of the Company and a director of an associate company amounted to RM29,142 (2004: RM41,632) each.
- (vi) Net book value of assets acquired under hire purchase and finance lease amounted to RM1,414,321 (2004: RM1,495,278).
- (vii) Depreciation amounting to RM8,414,993 has been charged to shipping direct cost.

Company

Net book value of assets acquired under hire purchase and finance lease amounted to RM115,460 (2004: RM145,580).

NOTES TO THE FINANCIAL STATEMENTS

16. Fixed Deposits with Licensed Banks

Group

Fixed deposits of RM13,939,929 (2004: RM7,767,663) have been pledged to licensed banks for banking facilities granted to the subsidiary company.

Certain fixed deposits are held in trust by a Director of the Company is amounting to RM576,164 (2004: RM417,164).

17. Development Expenditure

	Group	
	2005 RM	2004 RM
At beginning of year	70,603	—
Incurred during the year	11,771	70,603
At end of year	82,374	70,603

18. Mining Expenditure

	Group	
	2005 RM	2004 RM
Mining expenditure, at cost	648,252	—

The mining expenditure represents mining rights paid for a proposed mining site and related exploration expenditure.

19. Amount Due from/(to) Customers

	Group	
	2005 RM	2004 RM
Aggregate cost incurred to date	274,431,819	262,382,697
Add: Attributable profits	56,349,563	51,971,586
	330,781,382	314,354,283
Less: Progress billings	(321,666,306)	(309,059,116)
	9,115,076	5,295,167
Amount due from customers	10,481,369	6,859,135
Amount due to customers	(1,366,293)	(1,563,968)
	9,115,076	5,295,167
Additions to aggregate costs incurred during the year include:		
Interest expenses	653,697	770,297
Hire of equipment	440,069	2,675,386
Rental of premises	170,668	305,447
Rental of vehicles	29,608	108,122
Staff costs (Note 28)	4,560,152	7,929,240
	5,854,194	11,788,492

NOTES TO THE FINANCIAL STATEMENTS

20. Trade Receivables

	Group	
	2005 RM	2004 RM
Trade receivables	115,562,333	104,535,421
Retention sum	12,820,013	8,228,302
	128,382,346	112,763,723
Less: Provision for doubtful debts	(237,821)	(237,821)
	128,144,525	112,525,902

21. Other Receivables, Deposits and Prepayments

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Other receivables, deposits and prepayments	18,695,573	10,911,854	2,398,862	6,113,997
Less: Provision for doubtful debts	(531,720)	(531,720)	—	—
	18,163,853	10,380,134	2,398,862	6,113,997

The following were included in the other receivables, deposits and prepayments:

- (a) a deposit of RM300,000 and Nil (2004: Nil and RM5,000,000) paid to third parties by the Group and the Company respectively in connection with the proposed acquisition of subsidiary companies; and
- (b) advance payment made to third parties by a subsidiary company for acquisition of property, plant and equipments in relation to the mining activities RM7,447,451 (2004: Nil).

22. Amount Due from Subsidiary Companies

Company

The amount due from subsidiary companies is unsecured, interest free and has no fixed term of repayment.

23. Amount Due from Associate Companies

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Amount due from associate Companies	2,170,204	2,535,047	4,453	—
Less: Provision for doubtful Debts	(1,416,876)	(1,705,307)	—	—
	753,328	829,740	4,453	—

The amount due from associate companies is unsecured, interest free and has no fixed term of repayment.

24. Amount Due to a Director

Group

The amount due to a Director is unsecured, interest free and has no fixed term of repayment.

NOTES TO THE FINANCIAL STATEMENTS

25. Short Term Borrowings

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Secured:				
Bank overdrafts	4,390,468	4,651,034	—	—
Finance payables (Note 7)	481,137	434,315	17,098	15,955
Term loans (Note 6)	50,600,389	3,146,798	35,000,000	—
Bankers' acceptances	16,003,000	17,593,055	—	—
Revolving credits	1,621,738	3,523,569	—	—
Trust receipts	283,518	99,243	—	—
	73,380,250	29,448,014	35,017,098	15,955

The secured short term borrowings for the Group are secured against first fixed legal charge over the subsidiary company's landed properties, legal mortgage over the subsidiary company's oil tankers, assignment of contract payment of the subsidiary companies, pledge of fixed deposits and corporate guarantee from the Company.

Interest rates for the year ranged between 3.00% and 8.00% (2004: 2.60% and 7.75%) per annum.

26. Revenue

	Group	
	2005 RM	2004 RM
Contract income	91,718,014	201,306,492
Shipping income	45,457,392	—
	137,175,406	201,306,492

27. Cost of Sales

	Group	
	2005 RM	2004 RM
Construction cost	72,735,921	170,589,745
Shipping direct cost	30,000,091	—
	102,736,012	170,589,745

28. Staff Costs

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Staff costs (including Directors' remuneration)				
— charged to income statements	8,163,148	4,494,675	407,451	194,978
— included in contract costs (Note 19)	4,560,152	7,929,240	—	—
— included in shipping direct cost	2,801,159	—	—	—
	15,524,459	12,423,915	407,451	194,978

The number of employees of the Group and of the Company at the end of the year were 319 and 2 (2004: 334 and 3).

NOTES TO THE FINANCIAL STATEMENTS

29. Profit/(Loss) before Taxation

Profit/(Loss) before taxation has been determined after charging/(crediting) amongst other items the following:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Charging:				
Auditors' remuneration				
— current year	72,300	39,500	12,000	10,000
— overprovision in prior year	(500)	—	—	—
Depreciation	10,263,577	1,998,552	30,120	5,020
Directors' fees	241,700	106,500	131,000	72,000
Directors' remuneration	1,301,345	770,078	—	—
Interest expenses	11,440,859	3,101,462	2,820,836	857,440
Property, plant and equipment written off	68,594	—	—	—
Rental of motor vehicles	34,645	7,377	—	—
Rental of premises	189,272	48,850	—	—
Loss on foreign exchange				
— realised	236,365	12,278	—	—
Crediting:				
Gain on disposal of property, plant and equipment	211,832	—	—	—
Interest income				
— fixed deposits	308,014	276,321	48,219	165,614
— bonds	53,248	—	53,248	—
Rental income	447,450	192,480	—	—
Gain on dilution of interest in subsidiary companies	—	224,484	—	—
Provision for doubtful debt no longer required	288,431	—	—	—

The estimated monetary value of benefits provided to the Directors of the Group and of the Company during the year is amounted to RM29,800 (2004: RM24,500).

30. Taxation

	Group	
	2005 RM	2004 RM
Current year's provision	1,909,495	6,213,000
Overprovision in prior years	(274,718)	—
Transferred from deferred taxation (Note 9)	(5,162)	—
	1,629,615	6,213,000

There is no provision for taxation for the Company and a reconciliation of the statutory income tax rate to the effective income tax rate of the Company has not been presented as the Company has no chargeable income.

NOTES TO THE FINANCIAL STATEMENTS

30. Taxation (continued)

A reconciliation of income tax expense on profit before taxation for the Group with the applicable statutory income tax rate is as follows:

	Group	
	2005 RM	2004 RM
Profit before taxation	9,439,438	17,624,886
Income tax @ 28%	2,643,043	4,934,968
Tax effects in respect of:		
Non-allowable expenses	1,939,782	1,285,420
Income not subject to tax	(2,699,548)	—
Deferred tax not recognised in the financial statements	21,056	(7,388)
Current year tax expenses	1,904,333	6,213,000
Over provision in prior years	(274,718)	—
Total tax expenses	1,629,615	6,213,000

As at 31 December 2005, the Group has tax exempt income accounts amounting to RM110,996,000 (2004: RM32,376,000) from which tax exempt dividends can be declared.

However, the above amounts are subject to the approval of Inland Revenue Board.

31. Earnings Per Share

Group

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the Group's profit for the year of RM7,785,667 (2004: RM11,504,289) by the weighted average number of ordinary shares in issue during the year of 144,496,549 (2004: 132,870,424).

(b) Diluted earnings per share

For the share option granted to the employees, a calculation is done to determine the number of shares that could have been acquired at market price (determined based on the average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the weighted average number of ordinary shares outstanding for the purpose of computing the diluted earnings per share. No adjustment is made to net profit attributable to shareholders for the diluted earnings per share calculation.

There is no diluted earnings per share is presented as the effect is anti-dilutive.

32. Capital Commitment

Capital expenditure in respect of the following has not been provided for in the financial statements:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Authorised and contracted for:				
Acquisition of investments	300,000	45,000,000	—	45,000,000
Purchase of property, plant and equipments	1,666,000	—	—	—
	1,966,000	45,000,000	—	45,000,000

NOTES TO THE FINANCIAL STATEMENTS

33. Contingent Liabilities

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Unsecured:				
Corporate guarantee granted to subsidiary companies	—	—	291,866,255	104,659,395
Being claims from third parties in dispute (#)	3,355,567	837,648	—	—
	3,355,567	837,648	291,866,255	104,659,395

The abovementioned claims have been handled by the Company's solicitors and based on the facts and merits of the abovementioned suits, it is the Directors' opinion that the Company has sufficient grounds to resist the Plaintiff's claim.

34. Financial Instruments

(a) Interest rate risk

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:

	Less than 1 year RM	1 to 5 years RM	More than 5 years RM	Total RM	Effective interest rate during the year %
2005					
Group					
Financial assets					
Fixed deposits with licensed banks	15,165	13,939,929	—	13,955,094	2.10–3.70
Financial liabilities					
Term loans	50,600,389	178,636,958	—	229,237,347	6.29–8.00
Bank overdrafts	4,390,468	—	—	4,390,468	7.50–8.00
Revolving credits	1,621,738	—	—	1,621,738	5.45–5.75
Bankers' acceptances	16,003,000	—	—	16,003,000	3.00–3.20
Trust receipts	283,518	—	—	283,518	7.00–7.50
Finance payables	481,137	945,397	62,537	1,489,071	2.40–6.90
Company					
Financial liabilities					
Term loans	35,000,000	100,000,000	—	135,000,000	6.60–8.00
Finance payables	17,098	79,828	20,841	117,767	3.00
2004					
Group					
Financial assets					
Fixed deposits with licensed banks	—	7,767,663	—	7,767,663	2.60–3.70
Financial liabilities					
Term loans	3,146,798	53,853,684	—	57,000,482	7.50–7.75
Bank overdrafts	4,651,034	—	—	4,651,034	7.50–7.55
Revolving credits	3,523,569	—	—	3,523,569	5.45–5.75
Bankers' acceptances	17,593,055	—	—	17,593,055	3.09–5.90
Trust receipts	99,243	—	—	99,243	7.00–7.50
Finance payables	434,315	1,008,772	42,513	1,485,600	3.25–6.90
Company					
Financial liabilities					
Term loans	—	50,000,000	—	50,000,000	6.60
Finance payables	15,955	75,254	42,513	133,722	3.00

NOTES TO THE FINANCIAL STATEMENTS

34. Financial Instruments (continued)

(b) Credit risk

The maximum credit risk associated with recognised financial assets is the carrying amounts shown in the balance sheet.

The Group has no significant concentration of credit risk with any single counterparty.

As at 31 December 2005, the Group had no significant credit risk associated with its exposure to potential counterparty failure to settle outstanding.

(c) Fair values

The carrying amounts of financial assets and liabilities of the Group at the balance sheet date approximated their fair values except as set out below:

2005	Group	
	Carrying amount RM	Fair value RM
Financial assets		
Unquoted shares	4	*
Unquoted bonds	10,000,000	*

* For investments in unquoted shares and bonds the Directors are of the view that estimates of fair values could not be made without incurring excessive costs and hence was not practical to determine such fair values with sufficient reliability. Therefore, such investments in the balance sheet are carried at cost less provision for diminution in value based on the Directors' assessments.

35. Summary Effect of Acquisition of Subsidiary Companies

Group

2005

During the year, the Group acquired Semua Shipping Sdn Bhd, Semado Maritime Sdn Bhd, Mini Tankers Chartering Sdn Bhd, Tubau Oil Supply Sdn Bhd, Tenaga Biomass Sdn Bhd, Tanjung Pelepas Terminal Sdn Bhd, Bidalan Mayang Sdn Bhd and Perlis Bio-Power Sdn Bhd and the effects of the acquisitions are as follows:

(a) The effect of the acquisition of the above subsidiary companies that taken place during the year on the financial results of the Group was as follows:

	2005 RM
Revenue	45,457,392
Other operating income	(264,529)
Cost of sales	(30,000,091)
Staff costs	(2,028,342)
Depreciation	(66,186)
Other operating expenses	(682,326)
Profit from operations	12,415,918
Finance costs	(3,735,532)
Profit before taxation	8,680,386
Taxation	467
Increase in Group's net profit	8,680,853

NOTES TO THE FINANCIAL STATEMENTS

35. Summary Effect of Acquisition of Subsidiary Companies (continued)

- (b) The effect of the acquisition of the above subsidiary companies that taken place during the year on the financial position of the Group was as follows:

	2005 RM
Property, plant and equipment	145,062,982
Fixed deposits with licensed banks	15,165
Trade receivables	6,943,072
Other receivables, deposits and prepayments	3,682,539
Amount due from related companies	11,817,305
Mining expenditure	475,808
Cash and bank balances	4,196,442
Trade payables	(6,342,973)
Other payables and accruals	(1,861,239)
Amount due to ultimate holding company	(235,834)
Amount due to holding company	(4,795,959)
Amount due to related company	(12,090,056)
Finance payables	(153,868)
Bank overdraft	(1,471,861)
Term loan	(89,934,986)
Deferred taxation	(219,377)
	55,087,160
Less: Inter company balances elimination	5,304,544
Increase on Group's net assets	60,391,704

- (c) The details of net assets acquired, goodwill and cash flow as at the date of acquisition arising from the acquisition of the above subsidiary companies that taken place during the year were as follows:

	2005 RM
Property, plant and equipment	110,165,488
Fixed deposits with licensed banks	13,379
Trade receivables	11,079,977
Other receivables, deposits and prepayments	11,524,136
Cash and bank balances	690,074
Deferred taxation	(224,538)
Trade payables	(7,927,032)
Other payables and accruals	(12,885,493)
Finance payables	(4,000)
Term loan	(63,595,501)
Bank overdraft	(2,427,852)
Minority interest	(365)
Total net assets	46,408,273
Add: Amount accounted for as associate company	27,295
Net assets acquired	46,435,568
Add: Goodwill	5,788,292
Purchase consideration	52,223,860
Add: Cash and bank balances acquired	1,724,399
Net cash used in acquisition of subsidiary companies	53,948,259

NOTES TO THE FINANCIAL STATEMENTS

35. Summary Effect of Acquisition of Subsidiary Companies (continued)

2004

In previous year, the Group acquired two dormant subsidiary companies namely Grand Niugini Sdn Bhd and Indera Kembang Sdn Bhd (now known as Malaco Mining Sdn Bhd).

The acquisitions of the abovementioned subsidiary companies do not have material effect on the financial position and results of the Group.

36. Segmental Reporting

Group 2005	Engineering and construction RM	Shipping RM	Others RM	Eliminations RM	Consolidated RM
Revenue					
External	91,718,014	45,457,392	—	—	135,175,406
Result					
Segment result	9,274,953	12,467,912	(1,146,556)	—	20,596,309
Interest income	258,009	1,786	101,467	—	361,262
Profit from operations					20,957,571
Finance cost	(5,245,502)	(3,735,532)	(2,820,836)	—	(11,801,870)
Provision for doubtful debts no longer required	288,431	—	—	—	288,431
Share of results of associate companies	(4,694)	—	—	—	(4,694)
Profit before taxation					9,439,438
Taxation					(1,629,615)
Profit after taxation					7,809,823
Minority interest					(24,156)
Net profit for the year					7,785,667
Assets and liabilities					
Segment assets	175,705,718	158,588,704	199,510,499	(177,424,568)	356,380,353
Investment in associate companies	1,144,603	—	—	—	1,144,603
Investment in jointly controlled entities	(2,488,207)	—	—	—	(2,488,207)
Tax recoverable	2,097,594	—	—	—	2,097,594
Unallocated corporate assets	—	—	—	—	55,396,906
Consolidated total assets					412,531,249
Segment liabilities	113,200,927	103,131,457	47,965,195	(83,972,320)	180,325,259
Deferred taxation	339,349	219,377	—	90,651	649,377
Unallocated corporate liabilities	—	—	—	—	100,000,000
Consolidated total liabilities					280,974,636
Other information					
Capital expenditure	820,277	43,378,674	6,029	—	44,204,980
Depreciation	1,752,278	8,481,179	30,120	—	10,263,577
Non cash expenses other than depreciation					
Property, plant and equipment written off	68,594	—	—	—	68,594

NOTES TO THE FINANCIAL STATEMENTS

36. Segmental Reporting (continued)

2004

No segment reporting is prepared in previous year as the principal activities of the Group are predominantly carried out in Malaysia and are engaged in a single business segment.

37. Significant Events during the Year

- (a) On 27 February 2004, the Company has proposed a private placement of up to 10% of the issued and fully paid-up share capital comprising 132,870,424 ordinary shares of RM1.00 each. The number of new shares to be issued pursuant to the Proposed Private Placement is up to 13,287,042 shares ("Placement Shares") at an issue price of not be lower than the par value of the Company's shares of RM1.00.

The proceeds from the Proposed Private Placement will be utilised mainly to reduce the Group's borrowings and finance the working capital requirements of the Group and to defray the expenses relating to the Proposed Private Placement.

The Company has obtained approval for the Proposed Private Placement from the Securities Commission ("SC") via its letter dated 13 May 2004 together with the term and conditions contained therein. Further to this, SC also has approved the extension of time of six (6) months from 13 November 2004 until 12 May 2005 for the implementation of private placement.

On 29 December 2004, the Company has announced that the issue price for the Placement Shares to be issued pursuant to the Private Placement has been fixed by the Board of Directors of the Company at RM1.00 per Placement Share, representing a discount of approximately 10.91% over the five (5) day weighted average market price of Sumatec Shares up to and including 28 December 2004 of RM1.1224.

On 21 February 2005, the Company had increased its paid-up capital from RM132,870,424 to RM146,157,424 through the allotment of the private placement shares of 13,287,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per share fully paid. Subsequently, the private placement shares has granted listing and quoted on the Main Board of Bursa Malaysia Securities Berhad on 25 February 2005.

- (b) On 1 July 2004, the Company has entered into a Conditional Share Purchase Agreement ("Conditional SPA") with the respective Vendors of Semado Maritime Sdn Bhd; Semua Shipping Sdn Bhd; Tubau Oil Supply Sdn Bhd; and Mini Tanker Chartering Sdn Bhd (collectively known as "Acquiree Companies"), to acquire 100% equity interest in the Acquiree Companies for a total cash consideration of RM50.0 million. The Company has also on even date entered into a Stakeholder Agreement with the Vendors, whereby the Vendors have severally agreed to guarantee and undertake to the Company that the aggregate profit after tax of the Acquiree Companies for the financial year ending 31 December 2004 shall be at least equal to RM9.0 million subject to the terms and conditions therein.

The total cash consideration of RM50.0 million for the Proposed Acquisitions shall be financed by a combination of internal generated funds and the proceeds to be raised from the Proposed Renounceable Rights Issue of up to 36,539,367 new ordinary shares of RM1.00 each ("Right Shares") together with up to 18,269,683 Detachable Free Warrants ("New Warrant") on the basis of two (2) Rights Shares with one (1) New Warrant for every eight (8) existing shares held.

On 30 December 2004, the Company and Acquiree Companies have mutually agreed to extend the Approval Period from 31 December 2004 to 31 March 2005.

The Securities Commission ("SC") and Unit Pematuhan Ekuiti, Jabatan Pengambilalihan dan Percantuman of the SC have approved the Company's application in relation to the Proposed Acquisitions and the Proposed Right Issue with Warrants via its letter dated 3 March 2005.

The shareholders of the Company have approved the abovementioned Proposals at an extraordinary general meeting held on 20 April 2005.

The above proposed acquisition has completed with the full payment of the balance of the purchase consideration of RM45.0 million to the vendors on 11 May 2005 via a term loan obtained from a licensed bank. The term loan is to be repaid by the proceeds from the Proposed Right Issue with Warrants.

During the year, SC had approved the Company's application for an extension of time of six (6) months until 2 March 2006 to implement the Proposed Right Issue with Warrants and application for extension were submitted to SC on 14 February 2006 for a further extension of six (6) months, i.e. 2 September 2006.

NOTES TO THE FINANCIAL STATEMENTS

37. Significant Events during the Year (continued)

- (c) On 18 January 2005, the Company has acquired 2 ordinary share of RM1 each representing entire equity interest of Tenaga Biomass Sdn Bhd (formerly known as Cermat Mayang Sdn Bhd) for a total cash consideration of RM2.
- (d) On 21 February 2005, the Company has acquired 100,000 ordinary shares of RM1.00 each which representing entire equity interest in Tanjung Pelepas Terminal Sdn Bhd ("TPT") for a cash consideration of RM100,000.
- (e) On 25 February 2005, the Company announced that its wholly-owned subsidiary company, SCSB, was awarded a RM7.0 million EPCC (Engineering, Procurement, Construction and Commissioning) contract by Petronas Ammonia Syngas Plant to construct extension facilities for the existing Petronas Ammonia Syngas Plant.
- (f) On 1 April 2005, the subsidiary company of the Company, SECSB and its consortium partner, JCC (Malaysia) Sdn Bhd ("JCC") have been jointly awarded a EPCC (Engineering, Procurement, Construction and Commissioning) contract of USD26.0 million or equivalent to approximately RM98.8 million, by Kemaman Bitumen Company Sdn Bhd to construct a asphalt refinery facilities at Kemaman, Terengganu.
- (g) On 29 April 2005, the Company entered into a Subscription & Shareholders Agreement with the existing shareholders of Perlis Bio-Power Sdn Bhd to acquire 80,000 ordinary shares of RM1.00 each representing 80% of its equity interest at a total consideration of RM80,000.

The remaining 19,999 ordinary shares and 1 ordinary share are held by Raja Nor Mazli binti Raja Tun Mohar and Dato' Mastika Junaidah binti Husin respectively.

The above acquisition is completed on 18 August 2005.

- (h) On 10 May 2005, a wholly-owned subsidiary company namely, Sumatec Petroleum Development Sdn Bhd entered into a Heads of Agreement to acquire 65% equity interest of P.T. Petro Java Energy, a company incorporated in Indonesia. The acquisition is yet to be finalised.
- (i) On 1 June 2005, the Company's wholly-owned subsidiary company, Sumatec Corporation Sdn Bhd acquired an additional 7 ordinary shares of RM1 each representing 70% equity interest of Sumatec (Sarawak) Sdn Bhd at a total cash consideration of RM7. Since then, Sumatec (Sarawak) Sdn Bhd becomes a wholly-owned subsidiary company of Sumatec Corporation Sdn Bhd.
- (j) On 8 June 2005, the Company's wholly-owned subsidiary company, namely Semua Shipping Sdn Bhd entered into a Memorandum of Agreement to acquired an oil tanker from Kuma Shipping Corporation, Panama for a total cash consideration of USD9.7 million which equivalent to RM36.86 million.

The above acquisition completed on 1 August 2005.

- (k) On 5 July 2005, the Company's wholly-owned subsidiary company, namely Malaco Mining Sdn Bhd (formerly known as Indera Kembang Sdn Bhd), entered into a Sale and Purchase Agreement to acquire 290,000 ordinary shares of RM1 each representing 58% of the equity interest in Cemat Aman Sdn Bhd, a company incorporated in Malaysia with an authorised share capital of RM1 million dividend into 1 million ordinary shares of RM1 each of which RM500,000 is issued and fully paid, for a total cash consideration of RM600,000. Upon execution of the Sale and Purchase Agreement, the subsidiary company has paid a deposit of RM300,000 to the vendor.

As of the date of this report, the aforesaid acquisition is yet to be finalised.

- (l) On 7 September 2005, the Company's wholly-owned subsidiary company, namely Malaco Mining Sdn Bhd (formerly known as Indera Kembang Sdn Bhd), acquired 800 ordinary shares of RM1 each representing 80% equity interest in Bidalan Mayang Sdn Bhd, a company incorporated in Malaysia with an authorised share capital of RM100,000 dividend into 100,000 ordinary shares of RM1 each, of which RM1,000 is issued and fully paid, for a total purchase consideration of RM800,000.
- (m) On 8 September 2005, the Company entered into a Sale and Purchase Agreement to acquire the following companies:
 - (i) 5,100 ordinary shares of HK\$1.00 each representing 51% equity interest in IR Oilrigs International Limited, a company incorporated in Hong Kong for a total cash consideration of RM400,000;
 - (ii) 5,100 shares of HK\$1.00 each representing 51% equity interest in IR Oilrigs Middle East Limited, a company incorporated in Hong Kong for a total consideration of HK\$5,100.

As of the date of this report, the aforesaid acquisitions are yet to be finalised.

NOTES TO THE FINANCIAL STATEMENTS

38. Significant Events Subsequent to Balance Sheet Date

- (a) On 26 January 2006, the Company's Turnkey EPCC contract awarded by Tentrak Technologies Sdn Bhd ("Tentrak") for the building of PlasmaArc Industrial Waste Treatment Plant at the Bukit Nanas Waste Management Centre, Negeri Sembilan for Kualiti Alam Sdn Bhd ("Kualiti Alam") has been terminated.

The termination of the contract is following to the termination of the BOO Contract between Tentrak and Kualiti Alam on 4 January 2005.

Tentrak has subsequently issued a Notice of Arbitration dated 5 May 2005 against Kualiti Alam claiming unlawful termination of contract with a claim for damages approximately RM70 million. In contra, the Company's claim approximately RM36 million against Tentrak for early termination of contract is being pursued through the arbitration against Kualiti Alam.

- (b) On 24 March 2006, the Company's wholly-owned subsidiary company, namely Calinex Sdn Bhd increased its paid-up capital from RM150,000 to RM216,000. The additional 66,000 ordinary shares of RM1 each allotted to Abdul Azim bin Mohd Zabidi and Mohamed Ali bin Mohamed Salim were 22,000 and 44,000 ordinary shares respectively, representing 10.2% and 20.3% equity interest of Calinex Sdn Bhd.

Following to the increase in the paid-up capital, equity participation of the Company in Calinex Sdn Bhd has reduced from 100% to 69.5%.

- (c) On 28 March 2006, the Company's wholly-owned subsidiary companies namely Calinex Sdn Bhd ("Calinex"), Sumatec (Sarawak) Sdn Bhd ("SSSB") and Sumatec Trackwards Sdn Bhd ("STSB") has entered into a Restructuring Agreement with Setegap Berhad ("Setegap"), a public company listed on the Second Board of the Bursa Malaysia Securities Berhad. Pursuant to this Restructuring Agreement, the aforesaid companies agreed to implement a Proposed Corporate Restructuring Scheme that consists of the followings:

- (i) Proposed capital reduction and consolidation of Setegap's present issued and paid-up share capital of RM49,704,667 to RM9,940,933 comprising ordinary shares of RM1.00 each pursuant to Section 64(1)(b) of the Companies Act, 1965;
- (ii) Proposed share exchange wherein the existing shareholders of Setegap will exchange all of their shares in Setegap pursuant to (i) above, for new ordinary shares of RM1.00 each in NEWCO ("NEWCO Shares");
- (iii) Proposed settlement of debts owing to unsecured trade creditors and secured financial institutions ("Secured Lenders") partly vide the issuance of 57,000,000 new NEWCO Shares and partly from the proceeds of disposal of certain assets of Setegap;
- (iv) Proposed transfer of Listing Status from Setegap to NEWCO upon completion of the capital and debt restructuring exercise;
- (v) Proposed put and call arrangement between Calinex and the Secured Lenders for a total of 35,000,000 NEWCO Shares. Pursuant to the exercise of the aforementioned put and call option, Calinex will hold approximately 52.3% of the enlarged issued and paid-up share capital of NEWCO and thus triggering the obligation to undertake a mandatory general offer for the remaining NEWCO Shares not already held by Calinex pursuant to the Malaysian Code of Take-over and Mergers, 1988; and
- (vi) Proposed subscription of new shares in SSSB and STSB by NEWCO for 99,990 and 99,998 new ordinary shares of RM1.00 each respectively, at an issue price of RM1.00 per share. Upon the completion of the Proposed Subscription of New Shares in SSSB and STSB, NEWCO will hold approximately 99.99% equity interest in the aforesaid companies.

LIST OF PROPERTIES

AS AT 31 DECEMBER 2005

Location	Description (existing use)	Tenure	Land area	Approximate age of building	Net book value as at 31.12.05 (RM'000)	Date of last revaluation
Sumatec Corporation Sdn Bhd						
1. Lot 13713 Title No. PM 254 Mukim of Sungai Buloh District of Petaling Selangor	Residential land (vacant)	Leasehold 99 years expiring on 01.02.2079	2,792 sq meters	N/A	922	28.12.2002
2. Lot 3788 Certificate of Title No. 16946 Mukim & District of Klang Selangor	Industrial land (vacant)	Freehold	4.047 ha	N/A	8,625	28.12.2002
3. Parcel No. A4/2-47 & A4/2-48 (C) 2nd Floor, Block A4 Lot No. PT 9332 Title No. HS (D) 41817 Mukim and District of Klang Selangor	2 units of apartment (occupied by employees)	Leasehold 99 years (strata title not issued)	Parcel A4/2-47 (82.43 sq meters)	6 years	216	28.12.2002
4. Lot PT 33638 Title No. H.S (M) 20708 Mukim and District of Klang Selangor	Industrial land erected upon with a 4-storey office building and a single-storey detached factory with an annex double-storey office block (office cum workshop)	Freehold	Parcel A4/2-48 (C) (86.17 sq meters) 9,855 sq meters	7 years	6,887	28.12.2002

SHAREHOLDINGS ANALYSIS

AS AT 5 MAY 2006

Authorised share capital	RM300,000,000
Issued and fully paid-up capital	RM146,157,424
Class of shares	Ordinary shares of RM1.00 each
Voting rights	One vote per ordinary share

Size of shareholdings	No. of shareholders	% of shareholders	No. of shares	% of shareholdings
<100	18	0.18	526	0.00
100 – 1,000	3,888	39.87	2,316,171	1.58
1,001 – 10,000	4,572	46.89	20,413,040	13.97
10,001 – 100,000	1,166	11.96	34,796,600	23.81
100,001 – < 5% of issued shares	106	1.09	46,392,820	31.74
5% and above of issued shares	1	0.01	42,238,267	28.90
	9,751	100.00	146,157,424	100.00

Substantial Shareholders

Name	Direct interest	No. of shares held	
		%	Deemed interest
Tekad Mulia Sdn Bhd	42,238,267	28.90	—
Wan Kamaruddin bin Wan Abdullah	10,000	—	42,238,267*
Chan Yok Peng	—	—	42,238,267*
Dzulkifli bin Wari	—	—	42,238,267*

* Deemed interest by virtue of their substantial shareholdings in Tekad Mulia Sdn Bhd

Directors' Shareholdings

Name	Direct interest	No. of shares held	
		%	Deemed interest
YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj	—	—	—
Y.Bhg. Dato' Mohd Paudzi bin Ismail	—	—	—
Wan Kamaruddin bin Wan Abdullah	10,000	—	42,238,267*
Chan Yok Peng	—	—	42,238,267*
Dzulkifli bin Wari	—	—	42,238,267*
Peng Ng Leng @ Peng Eng Leng	—	—	—
Ismail bin Ibrahim	—	—	—

* Deemed interest by virtue of their substantial shareholdings in Tekad Mulia Sdn Bhd

Directors' Options Under Employee Share Option Scheme as at 5 May 2006

Name	Number of options offered	Number of options exercised	Option price
YAM Datuk Seri Tengku Ahmad Shah Alhaj Ibni Almarhum Sultan Salahuddin Abdul Aziz Shah Alhaj	—	—	—
Y.Bhg. Dato' Mohd Paudzi bin Ismail	—	—	—
Wan Kamaruddin bin Wan Abdullah	1,000,000	—	RM1.00
Chan Yok Peng	1,000,000	—	RM1.00
Dzulkifli bin Wari	700,000	—	RM1.00
Peng Ng Leng @ Peng Eng Leng	700,000	—	RM1.00
Ismail bin Ibrahim	—	—	—

SHAREHOLDINGS ANALYSIS

30 Largest Shareholders as at 5 May 2006

No.	Shareholders	Shareholding	%
1.	Tekad Mulia Sdn Bhd	42,238,267	28.90
2.	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd for OSK-UOB Small Cap Opportunity Unit Trust</i>	5,343,700	3.66
3.	BimSec Nominees (Tempatan) Sdn Bhd <i>Yayasan Pahang</i>	3,173,505	2.17
4.	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd for OSK-UOB Kidsave Trust</i>	2,768,000	1.89
5.	RHB Nominees (Tempatan) Sdn Bhd <i>RHB Asset Management Sdn Bhd for Kumpulan Wang Simpanan Pekerja</i>	2,386,400	1.63
6.	Ng Huat Tian	2,200,823	1.51
7.	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Investment Management Sdn Bhd for Kumpulan Wang Simpanan Pekerja</i>	1,588,400	1.09
8.	Citigroup Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Loh Kim Kiong</i>	1,565,000	1.07
9.	Go Poi Hong	1,468,000	1.00
10.	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (Malaysia) Trustee Berhad for Amanah Saham Sarawak</i>	1,008,000	0.69
11.	Ng Siok Meng	1,000,000	0.69
12.	Chye Chin Mooi	1,000,000	0.69
13.	Citigroup Nominees (Asing) Sdn Bhd <i>CBNY for DFA Emerging Markets Fund</i>	921,700	0.63
14.	Ong Loo Choon	822,000	0.56
15.	Teo Kin Swee	816,800	0.56
16.	Lim Cher Seng	720,000	0.49
17.	Ng Huat Chai	500,000	0.34
18.	Employees Provident Fund Board	482,000	0.33
19.	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd for OSK-UOB Smart Treasure Fund</i>	469,000	0.32
20.	Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Tan Pek Hooi</i>	460,000	0.31

SHAREHOLDINGS ANALYSIS

30 Largest Shareholders as at 5 May 2006 (continued)

No.	Shareholders	Shareholding	%
21.	Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Lian Man Hoong</i>	434,500	0.30
22.	Affin Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Lee Lai Seong</i>	426,400	0.29
23.	Tang Kam Kew	400,000	0.27
24.	HSBC Nominees (Asing) Sdn Bhd <i>HPBS SG for Info New Assets Limited</i>	400,000	0.27
25.	Alliancegroup Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Koay Chee Hong</i>	373,600	0.26
26.	San Ah Kan @ Chin Chong Wu	370,000	0.25
27.	Keoy Hun Eng	370,000	0.25
28.	Sia Yiok Seh	360,000	0.25
29.	HSBC Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Arthur Varkey Samuel</i>	350,000	0.24
30.	Citigroup Nominees (Asing) Sdn Bhd <i>CBNY for DFA Emerging Markets Small Cap Series</i>	345,800	0.24
		74,761,895	51.15

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Ninth Annual General Meeting ("AGM") of the Company will be held at Anggerik Room, Level 4, Equatorial Hotel, 50250 Kuala Lumpur on Wednesday, 21 June 2006 at 3.00 p.m. for the following purposes:

Agenda

1. To receive the Audited Financial Statements of the Company and its group for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon.

Resolution 1 2. To approve the payment of Directors' fees for the financial year ended 31 December 2005.

3. To re-elect the following Directors retiring in accordance with Article 87.1 of the Company's Articles of Association and being eligible, offer themselves for re-election:

Resolution 2 (i) Chan Yok Peng

Resolution 3 (ii) Dzulkifli Bin Wari

Resolution 4 4. To re-appoint Messrs Shamsir Jasani Grant Thornton as Auditors of the Company and to authorise the Board of Directors to fix their remuneration.

As Special Business

To consider, and if thought fit, to pass the following Ordinary Resolutions:

5. **ORDINARY RESOLUTION**

Resolution 5 **AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965**

"THAT pursuant to Section 132D of the Companies Act, 1965 and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company from time to time and 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 issued pursuant to this resolution does not exceed ten (10) per cent of the issued share capital of the Company for the time being excluding the number of ordinary shares arising from the exercise of Employees' Share Option Scheme (ESOS) AND THAT the Directors be and are also hereby empowered to obtain the approval from the Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so issued AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

NOTICE OF ANNUAL GENERAL MEETING

6. ORDINARY RESOLUTION

- Resolution 6** **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED-PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE WITH SUMATEC ENGINEERING & CONSTRUCTION SDN BHD ("PROPOSED RENEWAL")**
- Resolution 7** **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED-PARTY TRANSACTIONS ("RRPTs") OF A REVENUE OR TRADING NATURE WITH BIDALAN MAYANG SDN BHD ("PROPOSED SHAREHOLDERS' MANDATE")**
- Resolution 8** **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED-PARTY TRANSACTIONS ("RRPTs") OF A REVENUE OR TRADING NATURE WITH CERMAT AMAN SDN BHD ("PROPOSED SHAREHOLDERS' MANDATE")**

"THAT approval be and is hereby given to the Sumatec Group to enter into the RRPTs of a revenue or trading nature as set out in Section 2 of the Circular to Shareholders dated 30 May 2006 which are necessary for the day-to-day operations of the Sumatec Group provided that such RRPTs are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public and not detrimental to the minority shareholders and such approval shall continue to be in force until:

- (a) the conclusion of the next AGM of the Company, at which time the Proposed Renewal will lapse, unless by a resolution passed at an AGM, the authority is renewed;
- (b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders of Sumatec in general meeting, whichever is the earlier.

AND THAT the Directors be and are hereby authorised to do all such acts and things and execute all necessary documents to give full effect to the Proposed Shareholders' mandate with full power to assent to or make any modifications, variations and/or amendments as may be required by the relevant authority."

7. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

By Order of the Board

LIM SECK WAH (MAICSA NO. 0799845)

M. CHANDRASEGARAN A/L S. MURUGASU (MAICSA NO. 0781031)

Company Secretaries

Kuala Lumpur
30 May 2006

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at a meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and that where a member appoints more than one proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
2. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be either given under the corporation's seal or under the hand of an officer or attorney of the corporation duly authorised.
4. The instrument appointing the proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Registered Office of the Company at Level 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.

5. Explanatory note on Special Business:

Ordinary Resolution 5

The effect of the resolution under item 5 of the agenda, if passed, will give the flexibility and authority to the Directors of the Company, from the date of the above AGM, to issue and allot shares in the Company up to and not exceeding in total 10% of the issued and paid-up share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

Ordinary Resolution 6

The effect of the resolution under item 6 of the agenda, if passed, will renew the general mandate for the Sumatec Group to enter into specified recurrent related party transactions of a revenue or trading nature with specified related parties as stated in Section 2 of the Circular to shareholders dated 30 May 2006 and the approval shall continue to be in force until the conclusion of the next AGM of the Company or revoked or varied by resolution passed in general meeting.

Ordinary Resolution 7 & 8

The effect of the resolution under item 7 of the agenda, if passed, will give Sumatec Group the authority to enter into specified recurrent related party transactions of a revenue or trading nature from the date of the forthcoming Ninth AGM until the next AGM following the forthcoming Ninth AGM. Details of the categories of the recurrent related party transactions of a revenue or trading nature proposed to be entered into with the related parties are set out in Section 2 of the Circular to shareholders dated 30 May 2006.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. Directors Who Are Standing for Re-election at the 9th Annual General Meeting of the Company

Pursuant to Article 87.1 of the Company's Articles of Association

- Chan Yok Peng
- Dzulkifli Bin Wari

Further details of the above Directors are set out in the Profile of Directors on pages 6 and 7 of this Annual Report. The Statement of Directors' shareholdings is set out on page 65 of this Annual Report.

2. Details of Attendance of Directors at Board Meetings

There were four (4) Board of Directors' Meetings held during the financial year ended 31 December 2005. Details of attendance of the Directors are set out in the Corporate Governance Statement appearing on page 13 of this Annual Report.

3. Place, Date and Time of 9th Annual General Meeting

The Ninth Annual General Meeting of the Company will be held at Anggerik Room, Level 4, Equatorial Hotel, 50250 Kuala Lumpur on Wednesday, 21 June 2006 at 3.00 p.m.



I/We _____ I/C No./Co. No./CDS A/C No. _____
(Full name in block letters)

of _____
(Full address)

being a member/members of SUMATEC RESOURCES BERHAD hereby appoint the following person(s):

Name of proxy, NRIC no. & address

No. of shares to be represented by proxy

1. _____

2. _____

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Ninth Annual General Meeting of the Company to be held at Anggerik Room, Level 4, Equatorial Hotel, 50250 Kuala Lumpur on Wednesday, 21 June 2006 at 3.00 p.m. My/our proxy/proxies is to vote as indicated below:

	FIRST PROXY		SECOND PROXY	
	FOR	AGAINST	FOR	AGAINST
Ordinary Resolution 1				
Ordinary Resolution 2				
Ordinary Resolution 3				
Ordinary Resolution 4				
Ordinary Resolution 5				
Ordinary Resolution 6				
Ordinary Resolution 7				
Ordinary Resolution 8				

(Please indicate with a "✓" or "X" in the space provided how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion).

Dated this _____ day of _____ 2006

No. of ordinary shares held

Signature/Common Seal

Notes:

1. A member entitled to attend and vote at a meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and that where a member appoints more than one proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
2. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be either given under the corporation's seal or under the hand of an officer or attorney of the corporation duly authorised.
4. The instrument appointing the proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Registered Office of the Company at Level 15-2, Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.



To:

Sumatec Resources Berhad (428355-D)

Level 15-2, Faber Imperial Court

Jalan Sultan Ismail

50250 Kuala Lumpur
