

9. FINANCIAL INFORMATION (Cont'd)**VASTALUX ENERGY BERHAD**
(Company No: 789373-V)**NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)****11. DEPOSITS AT LICENSED BANKS**

The weighted average effective interest rate of deposits at the balance sheet date ranged from 3.0% to 3.7% per annum.

The fixed deposits are maintained in designated accounts and can be utilised in accordance to the terms of Sukuk Musyarakah as stated in Note 18.

12. CASH AND BANK BALANCES

Cash and bank balances are maintained in designated accounts and can be utilised in accordance to the terms of Sukuk Musyarakah as stated in Note 18.

13. BANK OVERDRAFTS/ BILLS PAYABLE

The facilities are secured by the following:-

- a) Fixed deposits of the Group;
- b) Legal charge over properties belonging to the Group; and
- c) Joint and several guarantee by the Directors of the Group.

The facilities bear interest at the following rates per annum:-

	As at <u>31.3.2008</u>
Bank overdrafts	9.00%-8.75%
Bills payables	<u>8.00%</u>

14. TRADE PAYABLES

The trade payables include accrued cost amounted to RM34,964,037. The normal trade credit terms granted to the Group ranged from 60 to 90 days.

15. OTHER PAYABLES AND ACCRUALS

	As at <u>31.3.2008</u> RM'000
Other payables	240
Accruals	1,795
	<u>2,035</u>

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9. FINANCIAL INFORMATION (Cont'd)**VASTALUX ENERGY BERHAD**
(Company No: 789373-V)**NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)****16. BONDS**

	As at <u>31.3.2008</u> RM'000
Payable within 1 year	25,000
Payable after 1 year but not later than 5 years	50,000
	<u>75,000</u>
Presented as:-	
Current liabilities	25,000
Non current liabilities	50,000
	<u>75,000</u>

17. OTHER SHORT/LONG TERM BORROWINGS

		Classified as:-		
		Current	Non current	
		<u>liabilities</u>	<u>liabilities</u>	<u>Total</u>
		RM'000	RM'000	RM'000
Finance creditors (i)		509	869	1,378
Term loan (ii)		464	8,262	8,726
		<u>973</u>	<u>9,131</u>	<u>10,104</u>

i) Finance creditors

	As at <u>31.3.2008</u> RM'000
Payable within 1 year	587
Payable after 1 year but not later than 5 years	867
Payable after 5 years	69
	<u>1,523</u>
Interest in suspense	(145)
	<u>1,378</u>

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9. FINANCIAL INFORMATION (Cont'd)**VASTALUX ENERGY BERHAD**
(Company No: 789373-V)**NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)****17. OTHER SHORT/LONG TERM BORROWINGS (CONTINUED)**

ii) Term loans	As at <u>31.3.2008</u> RM'000
Payable within 1 year	464
Payable after 1 year but not later than 5 years	2,940
Payable after 5 years	5,322
	<u>8,726</u>

18. SHARE CAPITAL

	As at <u>31.3.2008</u> RM'000
Authorised ordinary share of RM0.25	<u>100,000</u>
Issued and fully paid-up ordinary share of RM0.25:-	
Subscribers' shares	*
Issued during the year	*
Add: 111,199,996 shares issued for the acquisition of VSB	27,800
	<u>27,800</u>

* Denotes RM0.50

19. RESERVES

	As at <u>31.3.2008</u> RM'000
Audited as at 31 March 2008 (before Acquisition of VSB)	(8)
Acquisition of VSB	4,455
Audited as at 31 March 2008 (After Acquisition of VSB)	<u>4,447</u>

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9. FINANCIAL INFORMATION (Cont'd)**VASTALUX ENERGY BERHAD**
(Company No: 789373-V)**NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)****21. FINANCIAL INSTRUMENTS****Credit risk**

The Group has significant exposure to a few large customers and as such a concentration of credit risks. The potential for default is however expected to be minimal as the customers are of high creditworthiness and of international reputation.

Foreign currency risk

The foreign currency exposure of trade receivables and amount due from customers is as follows:-

	As at <u>31.3.2008</u> RM'000
United States Dollar	<u>5,576</u>

The foreign currency exposure of trade payables is as follows:-

	As at <u>31.3.2008</u> RM'000
United States Dollar	<u>660</u>

Fair values

The carrying amounts of all financial assets and liabilities of the Group at the balance sheet date approximate their fair values.

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9. FINANCIAL INFORMATION (Cont'd)

9.5 CAPITALISATION AND INDEBTEDNESS

The following table sets out the Group's consolidated cash and cash equivalents, capitalization and indebtedness as of 31 March 2008 based on the proforma consolidated balance sheets of the Group as of 31 March 2008, as adjusted to give effect to the Flotation Scheme.

This table should be read in conjunction with the Group's Financial Information as set out in Sections 1.5 and 9.2, the Management's Discussion and Analysis of Financial Condition and Results of Operations as set out in Section 9.6 and the audited financial statements of the Company and the subsidiary companies and related notes thereto.

	Proforma assuming the Listing Scheme had been effected on 31 March 2008 (RM'000)	After the IPO and utilisation of proceeds (RM'000)
Deposits with licensed banks	53,160	53,160
Cash and bank balances	6,156	6,156
Bank overdrafts (secured and guaranteed)	(10,724)	(2,888)
Cash and cash equivalents ^	48,592	56,428
Borrowings: -		
- Short term borrowings	35,668	25,180
- Long term borrowings	59,131	55,954
Total indebtedness	94,799	81,134
Total equity attributable to equity holders	32,247	32,247
Total capitalisation and indebtedness	127,046	113,381

Note: -

^ Including deposits pledged for repayment of bonds within 12 months.

Borrowings consist of the following: -

	Short term (RM'000)	Long term (RM'000)	Total (RM'000)
Proforma assuming the Listing Scheme had been effected on 31 March 2008			
Bills payable (secured and guaranteed)	9,695	-	9,695
Bonds (secured and unguaranteed)	25,000	50,000	75,000
Finance creditor (secured and unguaranteed)	509	869	1,378
Term loans (secured and guaranteed)	464	8,262	8,726
	35,668	59,131	94,799
After the IPO and utilization of proceeds			
Bills payable (secured and guaranteed)	180	-	180
Bonds (secured and unguaranteed)	25,000	50,000	75,000
Term loans (secured and guaranteed)	-	5,954	5,954
	25,180	55,954	81,134

9. FINANCIAL INFORMATION (Cont'd)

9.6 MANAGEMENT DISCUSSION ON AND ANALYSIS OF PROFORMA FINANCIAL PERFORMANCES AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the VEB Group's past financial performances and results of operations should be read in conjunction with the Proforma Consolidated Financial Information and the related notes thereon for each of the three (3) FYE 31 December 2005, 2006 and 2007 and 3-month FPE 31 March 2008, included in Sections 9.1, 9.2, 9.3 and 9.4 herein.

9.6.1 Overview

VEB Group revenue is derived mainly from three of its activities, namely offshore and onshore hook-up and commissioning works ("HUC"), topside major maintenance ("TMM") and minor fabrication.

HUC is a core competency of the VEB Group. The Group is a licensed provider of HUC and VOSSB is the operating entity of the Group that undertakes the HUC works. HUC works primarily involves interconnection and interfacing of various processes and control systems including structures, piping and equipment, and ensuring all the systems are operating effectively, efficiently and safely on the platform. The Group carries out HUC works for the various types of systems on the platform, which include drilling facilities, utility air system, service water system, fire water system, power system, and heat, ventilation, and air conditioning (HVAC) system, safety system, electrical generation and distribution system, fire and gas detection system, fire fighting system, chemical injection system, diesel fuel system, drain and sump system, uninterrupted power supply, material handling system, alarm and shutdown system, lifting equipment and crane, and survival crafts.

The Group is also involved in TMM and is licensed to undertake TMM works. VECSB is the operating company of the Group that undertakes the TMM works. In general, TMM works refer to maintenance, repair and modification work done on platforms including minor facilities upgrade, procurement of materials, assembly and pre-fabrication, load out or sea-fastening, installation, inspection, blasting and painting, and testing of various systems and equipment to meet optimum operational, production and safety requirements. The Group undertakes maintenance activities for structures and facilities such as main deck, helideck, and cellar deck, pipes and valves, top of jacket, electrical system and instruments. Some of the components serviced by the Group include main deck girders, leg transitions to substructures, module trusses and support units, accommodation modules, drilling rigs, bridges, and flare booms and vent stacks.

VEB Group has the in-house capabilities to undertake minor fabrication of structures, skids and modules. It also supports the Group's core business in HUC and TMM. VFSB is a wholly owned company within the Group that undertakes engineering and fabrication activities. Minor fabrication works mainly involve fabricating minor steel structures and piping systems. Various aspects of engineering and minor fabrication works include shop drawing and procurement of raw materials, consumables, parts and components, fabrication, including cutting, rolling, bending, moulding, spinning and hammering of metal products, sub-assembly of fabricated parts and components for piping, structural beams and steel plates, steel process pipes, and other support structures, transportation and delivery, on-site assembly carried out on offshore topsides, by aligning structures and joining them by welding, bolting or riveting, mainly for the minor structures and piping, and installation and commissioning of systems.

9. FINANCIAL INFORMATION (Cont'd)

The Group currently has three (3) fabrication yards located in Terengganu and Labuan and Bintulu where it has obtained ISO accreditation for the construction, fabrication, hook-up and commissioning, and maintenance for petroleum, petrochemicals and natural gas facilities.

In 2004, the VEB Group has been appointed as the main contractor for HUC works under the Umbrella Contract for a 3-year period until 2007. HUC works for Angsi Development in project in 2003 was the first project where the Group acted as main contractor and was the turning point for the Group who previously acted as subcontractor.

In 2005, the Group has secured the contract for the provision of TMM of PCSB offshore and onshore facilities for its Peninsular Malaysia operations for a 5-year period until 2010. Works completed, as a percentage of total estimated contract value, is 9.7% in 2005 and 14.9% in 2006, bringing total completion to 24.6%. Steady rise in exploration & production (E&P) spending since 2003 in existing and new fields has led to the continuous improvement of production capacity at the fields. Therefore, the need for maintenance activities should rise accordingly in order to meet the increasing production capacity.

In the second quarter of 2007, the VEB Group secured a RM34.00 million contract from PETRONAS Methanol (Labuan) Sdn Bhd to undertake procurement, construction and commissioning (PCC) for Labuan Gas Terminal (LGAST) and pipeline project for Gas Receiving Terminal (GRT) 1 and 2, which are located in Labuan, East Malaysia. This was undertaken by the Group's subsidiary, VOSSB, which was incorporated in 2004 and commenced operations in 2007. VOSSB's core business activities are in onshore construction activities.

In October 2007, the VEB Group obtained a letter of award from Murphy for the 'Provision of Minor Engineering and Maintenance Services for Murphy's Shallow Water Production Operations'.

In February 2008, the Group has successfully gained access into Indonesia and secured its first job through its subsidiary company, PTVE for the installation of gas pipeline of EPC Greater Jakarta Distribution Main Line under IFB-2 project, which is owned by PT Perusahaan Gas Negara.

In March 2008, VEB Group received a letter of award from the Malaysian Refining Company Sdn Bhd for the 'Civil Work Package 3' part of the total Melaka Refinery PSR-2 Revamp Project.

In May 2008, the Group secured a contract from PCSB for the 'Provision for Hook-up and Commissioning of PCSB facilities', which expires on 2010.

In line with the Group's emphasis on quality, VSB, a wholly owned subsidiary within the Group, was accredited with ISO 9001:2000 certification in 2007.

Since the commencement of the Group's operations in 1998, the Group has established itself as a reputable provider of offshore supporting services for the oil and gas industry with revenue of RM143.20 million for the FYE 31 December 2007.

9. FINANCIAL INFORMATION (Cont'd)**9.6.2 Segmental Analysis by Activity**

The following table sets out the segmental analysis of the proforma Group revenue and gross profit for the past three (3) FYE 31 December 2005, 2006 and 2007 and FPE 31 March 2008: -

Revenue

	FYE 31 December			FPE 31 March	
	2005 (RM'000)	2006 (RM'000)	2007 (RM'000)	2008 (RM'000)	# 2007 (RM'000)
Hook-up and Commissioning works ("HUC")	29,777	75,998	48,810	15,374	11,848
Topside Major Maintenance works ("TMM")	38,790	59,490	58,010	7,616	15,817
Fabrication works	8,303	7,223	9,708	6,073	762
LGAST works ("LGAST")	-	-	25,037	11,037	-
Others	469	501	1,666	671	378
Proforma Consolidated Revenue	77,339	143,212	143,231	40,771	28,805

Gross Profit

	FYE 31 December			FPE 31 March	
	2005 (RM'000)	2006 (RM'000)	2007 (RM'000)	2008 (RM'000)	# 2007 (RM'000)
Hook-up and Commissioning works ("HUC")	3,831	2,601	6,271	2,378	1,275
Topside Major Maintenance works ("TMM")	8,099	19,724	14,634	2,029	3,783
Fabrication works	830	2,169	3,046	723	76
LGAST works ("LGAST")	-	-	5,258	2,932	-
Others	469	283	1,643	357	(52)
Proforma Consolidated GP	13,229	24,777	30,852	8,419	5,082

Note: -

Unaudited and stated for comparative purpose only.

9. FINANCIAL INFORMATION (Cont'd)

Gross Profit Margin

	FYE 31 December			FPE 31 March	
	2005 (%)	2006 (%)	2007 (%)	2008 (%)	# 2007 (%)
Hook-up and Commissioning works ("HUC")	12.9	3.4	12.8	15.5	10.8
Topside Major Maintenance works ("TMM")	20.9	33.2	25.2	26.6	23.9
Fabrication works	10.0	30.0	31.4	11.9	10.0
LGAST works ("LGAST")	-	-	21.0	26.6	-
Others	100.0	56.5	98.6	53.2	(13.8)
Overall Gross Profit Margin	17.1	17.3	21.5	20.7	17.6

The following table sets out the analysis of the proforma Group operating profit for the past three (3) FYE 31 December 2005, 2006 and 2007 and FPE 31 March 2008: -

	FYE 31 December			FPE 31 March	
	2005 (RM'000)	2006 (RM'000)	2007 (RM'000)	2008 (RM'000)	# 2007 (RM'000)
Revenue	77,339	143,212	143,231	40,771	28,805
Gross profit	13,229	24,777	30,852	8,419	5,082
Profit before depreciation, interest and taxation	7,408	20,927	24,471	7,620	4,054
Depreciation and amortisation	(1,318)	(2,679)	(2,391)	(312)	(223)
Interest expenses	(784)	(5,705)	(6,518)	(1,324)	(1,614)
PBT	5,306	12,543	15,562	5,984	2,217
Taxation	(1,776)	(3,820)	(4,836)	(1,397)	(681)
Proforma Consolidated PAT	3,530	8,723	10,726	4,587	1,536

Note: -

Unaudited and stated for comparative purpose only.

The Group revenue is 100% derived from Malaysia for the past three (3) FYE 31 December 2007 and FPE 31 March 2008.

9. FINANCIAL INFORMATION (Cont'd)**Commentary on Past Operating Results****(i) FYE 31 December 2005**

The Group revenue in FYE 2005 had increased substantially by approximately RM33.38 million or 75.9% from RM43.96 million in FYE 2004 to RM77.34 million in FYE 2005. This was mainly due to a major project secured from PCSB with respect to a TMM contract. However, the Group revenue from HUC activities had declined by approximately RM11.33 million or 27.6% compared with FYE 2004. This was mainly due to the completion of a major HUC project by FYE 2004 amounting to RM33.26 million.

Fabrication works contributed about RM8.30 million or 10.7% of the total Group revenue for FYE 2005. The revenue was mainly derived from the fabrication project from Murphy.

During the FYE 2005, the overall cost for HUC projects increased quite significantly, consequently lowering the gross profit margin for HUC by 5.5% to 12.9% from 18.3% in the previous year. However, the reduction in gross profit margin for HUC was cushioned by the commencement of TMM projects, which registered a gross profit margin of 20.9%. The combination of these factors resulted in the drop of 2% for the overall gross profit margin for the FYE 2005.

The PBT for the FYE 2005 had increased marginally, compared to the increase in revenue, by approximately RM0.97 million or 22.3% to RM5.31 million compared with the previous year, mainly due to the recognition of bad debt amounting to RM2.04 million and depreciation charges of RM1.32 million for new equipment.

(ii) FYE 31 December 2006

The Group revenue in FYE 2006 had increased substantially by approximately RM65.87 million or 85.2% to RM143.21 million compared with the previous year. The higher revenue was mainly attributable to the increase in contribution from HUC and TMM projects by RM46.22 million and RM20.70 million respectively.

The gross profit margin from HUC works during FYE 2006 was affected by higher marine vessel costs. During the FYE 2005, marine vessel costs were 22.6% of HUC's revenue i.e. RM6.73 million. This has increased to RM28.70 million or 37.8% of HUC's revenue. The increase is mainly due to the major portion of the marine vessel costs that were incurred for work at BAK-B, BAK-P and West Lutong platforms.

The gross profit margin from TMM works had increased from 20.9% for the FYE 2005 to 33.2% for the FYE 2006. The increase in margin was resulted from lower cost incurred during the year as much of the necessary start-up expenses of TMM operation were expended in the previous year. In addition, reversal of significant over-provision of cost incurred in the previous year had further increased the gross profit margin for the FYE 2006. The higher TMM's gross profit margin had cushioned the fall in gross profit margin for HUC, resulting in a slight overall gross profit margin improvement of 0.2% as compared to the previous year.

9. FINANCIAL INFORMATION (Cont'd)

The Group PBT for the FYE 2006 had increased by approximately RM7.24 million or 136.4% to RM12.54 million compared with RM5.31 million in FYE 2005. The increase in PBT was partly offset by the substantial increase in financing cost from RM0.78 million in FYE 2005 to RM5.71 million in FYE 2006, coupled with higher depreciation and amortisation charges of RM2.68 million. The higher financing cost was mainly due to the payment of coupon to the holders of the RM100.00 million Sukuk Musyarakah for the year under review.

(iii) FYE 31 December 2007

The Group commenced works on the newly awarded LGAST & Pipeline project, which contributed 17.5% of the total revenue for the FYE 2007. The revenue from HUC however had decreased by RM27.22 million as work orders, e.g Baram Pipeline and Baram South were completed in the previous year making the total revenue during the FYE 2007 to be almost at the same level with that of the previous year.

The margin from HUC has significantly increased in the FYE 2007 from 3.4% in the previous year to 12.8% mainly due to the lower marine spread cost as a result of owning own vessel. The margin from TMM however has reduced by 8.0% as compared to the previous year due to increasing cost of project material and subcontractor charges. Added by the margin from LGAST project of 21.0%, the Group's overall profit margin for the FYE 2007 has improved to 21.5% from 17.3% previously.

Other operating expenses however have increased by RM2.45 million as compared to the FYE 2006. The increase is mainly due to the depreciation of vessel and other newly acquired property, plant and equipment which has increased by RM1.65 million from the previous year as well as the overall increase of other overhead costs.

The improvement in the gross profit margin therefore was negated by the overall increase in total overheads resulting in the net improvement of pre-tax profit margin by 2.1% from the previous year pre-tax profit margin of 8.8%.

(iv) FPE 31 March 2008

For the three (3) months FPE 31 March 2008, the LGAST works activity and the Minor Fabrication works activity (i.e. Minor Engineering and Maintenance Services for Murphy's Shallow Water Production Operations) contributed 40.5% or RM16.53 million to the total revenue for the FPE 31 March 2007. In addition, increase works has raised the revenue for HUC by RM3.53 million as compared to the corresponding FPE 31 March 2007. The reduction in work from TMM however, has reduced by RM8.20 million as compared to the corresponding FPE 31 March 2007. The increase in revenue from the LGAST, Minor fabrication and HUC activities has offset the reduction in revenue from TMM giving net increase of RM11.97 million as compared to the corresponding FPE 31 March 2007.

9. FINANCIAL INFORMATION (Cont'd)

For the three (3) months FPE 31 March 2008, the gross profit margin has marginally increased by 3.0% as compared to the corresponding FPE 31 March 2007. The new projects of LGAST & Pipeline generated gross profit margin of 26.6% representing 7.2% to the increase in the overall gross profit margin. With regards to TMM, although the margin increased by 2.7% as compared to the corresponding FPE 31 March 2007, the decrease in volume has caused the reduction to the overall gross profit margin by 8.1%. Other activities registered minor increase for their gross profit margin. The positive addition of margin from these new services has offset the effect of the decrease in the activities of TMM projects. These combined factors resulted in the increase of gross profit margin from 17.6% to 20.7%. The increase of 7.0% pre-tax profit margin for the three (3) months FPE 31 March 2008 as compared to the corresponding FPE 31 March 2007 is mainly due to the increase in gross profit margin and the reduction in the finance costs. The lower outstanding amount of Sukuk Musyarakah bond after the settlement of the 1st series of RM25.00 million resulted in the reduction of the borrowing cost.

9.6.3 Significant Factors Affecting Net Revenue and Profits of the Group**(i) Crude Oil Prices**

Sustained high market price for hydrocarbons or crude oil is likely to encourage hydrocarbon producers to maintain production at a high level, or even to increase production by developing new fields, including marginal fields. Efforts to maintain and increase production are likely to spur the demand on the application of supporting products and services such as offshore hook-up and commissioning, and topside maintenance services.

Between the FYE 31 March 2003 and 31 March 2008, the level of investment made by PETRONAS and PSC operators in the exploration and production of oil and gas industry in Malaysia increased at an average annual rate of 14.6%. For the FYE 31 March 2008, investment in exploration and production activities registered a growth of 12.0% to RM21.5 billion.

(Source: Independent Assessment by Vital Factor)

(ii) Competition

VEB Group faces competition from other companies in the offshore hook-up and commissioning, and topside maintenance services for the oil and gas industry. Although competition exists in the industry, it is imperfect due to requirements for licensing and registration that partly inhibits free competition. In addition, there are numerous barriers to entry for the provision of offshore hook-up and commissioning, and topside maintenance services including technical skills and knowledge, proven track record and experience in the required areas of expertise, and the capacity to handle larger sized projects.

9. FINANCIAL INFORMATION (Cont'd)

The Directors of the VEB Group are fully aware of the competition that lies ahead. However, the VEB Group, with their reputation of being a dependable and credible service provider, coupled with a proven track record of over 9 years within the industry, is confident that it will be very competitive in the market place.

In addition, the VEB Group has a group of experienced and technically-trained personnel and is continuously enhancing its asset-based services i.e. through owning marine vessels and fabrication yard facilities. These factors form high barriers of entry for new companies to penetrate the industry that the VEB Group is operating in.

The Group also has plans to expand its domestic business base as well as to source for new markets in the Asian region and overseas.

(iii) Changes in Economic Conditions in the Countries in which the Group Operates and Occurrence of Major Events

The Group is currently in the process of incorporating a joint venture company in Vietnam to undertake the offshore and onshore oil and gas supporting services, including fabrication operations, hook-up and commissioning, topside maintenance and underwater structural inspection services. In June 2008, the Group through VSB, entered into a 10 year long-term contract with MacGREGOR Oy ("the Client") and Alpha Co Ltd for the fabrication of steel products, specifically hatch cover.

The State Bank of Vietnam is currently concentrating its effort to evade a prolonged currency crisis by hiking up interest rates as a measure to rein in high inflation, which is one of the main factors contributing to its currency crisis. This has to a large extent mitigated the currency depreciation.

The long-term contract with the Client is denominated in USD and as well as the bulk of the operating costs, which will provide a natural hedging for the foreign exchange rate fluctuations. Furthermore, any escalation in prices of steel that will be used in the fabrication of the hatch cover will be passed on to the client. These factors provide a natural hedging for the foreign exchange rate fluctuations and also insulate the Group from the impact of Vietnam currency crisis.

The hatch cover is targeted for new export markets, including Korea, Japan and Europe.

(iv) Impact of Foreign Exchange/ Interest Rates/ Commodity Prices

VEB Group is affected by the fluctuations in foreign exchange rates through imports of materials such as consumables, parts and components, which are transacted in foreign currency. The Group's purchases of materials and services were imported through purchases from local authorised agents.

However, the Company has minimal purchase of materials, parts and components in foreign currency for the FYE 2007. As such, the Group's exposure to foreign exchange rate fluctuations is minimal. In addition, the Group has contractual arrangement with the clients, which allows claiming on cost plus basis.

9. FINANCIAL INFORMATION (Cont'd)**(v) Taxation**

As at the date of the Prospectus, the Group has fully settled its outstanding tax liabilities amounting to RM4.87 million. Details of the Group tax liabilities are as follows:-

	VSB RM'000	VECSB RM'000	Total RM'000
Tax payable	684.39	3,840.23	4,524.62
Tax penalty:-			
Section 103	205.10	595.24	800.33
Section 107	142.74	-	142.74
Total penalty	347.84	595.24	943.08
Less: Tax waiver	-	(595.24)	(595.24)
Total tax payable	1,032.23	3,840.23	4,872.46
Tax paid	(1032.23)	(3,840.23)	(4,872.46)
	-	-	-

VSB

The penalty under Section 103 was imposed by IRB for year YA 2005 amounting to RM86,625.05 due to the differences in the assessment amount between CP 204 Form and C Form.

Tax penalty under Section 107 was imposed by IRB for YA 2005 and 2006 amounting to RM205,098.37 and RM56,117.71 respectively, due to the delay in collection from clients which affects VSB tax payment.

On 15 February 2008, VSB made an appeal to IRB to waive the said penalty and on 10 April 2008, IRB had declined such appeal. Based on the tax instalment schedule as agreed by IRB on 6 November 2007, VSB had paid a total tax instalment of RM774,000. Thereafter, on 8 August 2008, VSB made an early settlement on the balance of the tax outstanding amounting to RM258,233.63.

VECSB

Tax penalty imposed by IRB under Section 103 for YA 2006 was RM595,225.11. This was due to the non-submission of CP204 Form which has to be submitted no later than 30 November 2005. VECSB commenced as an engineering company on 2 January 2006 via a restructuring exercise. The completion date of the restructuring exercise was well passed the submission deadline, which therefore explains the non-submission of the CP 204 Form.

On 15 February 2008, VECSB made an appeal to IRB to waive the said penalty, which IRB via its letter dated 31 March 2008 approved the appeal. Based on the tax instalment schedule as agreed by IRB on 7 December 2007, VECSB had paid a total tax instalment of RM1,590,000 and full settlement was made by VECSB on 30 April 2008 amounting to RM2,250,226.56.

(vi) Impact of Inflation

There was no material impact of inflation on the Group's historical profits for the past three (3) FYE up to 31 December 2007 and for the three (3) months FPE 31 March 2008.

9. FINANCIAL INFORMATION (Cont'd)

(vii) Exceptional and Extraordinary Items

There were no exceptional and extraordinary items for the past three (3) FYE 31 December 2007 and for the FPE 31 March 2008.

(viii) Government/ Economic/ Fiscal/ Monetary Policies

Risks relating to government, economic, fiscal or monetary policies that could materially affect VEB's operations are set out in Section 3.2 of this Prospectus.

9.6.4 Liquidity and Capital Resources

(i) Working Capital

VEB Group has been financing their operations mainly through internally generated funds and external source of funds, i.e. bank borrowings and shareholder's funds. As at 31 March 2008, the VEB Group has deposits, cash and bank balances of RM23.59 million and total borrowings amounting to RM 105.52 million.

The Directors of the VEB Group are of the opinion that, after taking into account the cash flow forecast/projection, and the net proceeds from the IPO, the Group will have adequate working capital for a period not less than twelve (12) months from the date of issue of this Prospectus.

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9. FINANCIAL INFORMATION (Cont'd)**(ii) Cash Flows**

The proforma consolidated cash flow statement of VEB for the FPE 31 March 2008 has been prepared, solely for illustrative purposes, to show the cash flows of the VEB Group had the VEB Group been in existence since 1 January 2008. The proforma consolidated cash flow statement should be read in conjunction with the basis of preparation of Proforma Consolidated Income Statements as set out in Section 9.1 of this Prospectus.

	FPE 31 March	
	2008	# 2007
	(RM'000)	(RM'000)
Net cash generated/(used) in operating activities	6,278	(3,670)
Net cash used in investing activities	(8,378)	(1,634)
Net cash generated/(used) in financing activities	6,134	(3,099)
Net increase/(decrease) in cash and cash equivalents	4,034	(8,403)
Effect of exchange rate changes	(16)	-
Cash and cash equivalents at beginning of period	19,574	65,037
Cash and cash equivalents at end of the period	<u>23,592</u>	<u>56,634</u>

Note: -

Unaudited and stated for comparative purpose only.

The increase in net cash generated from operating activities is attributed by the effect of higher activities mainly in December 2007 and in January and February 2008 which boosted the net collections in the first quarter of 2008. In addition, the new billings from LGAST project which began in the first quarter of 2008 has further contributed to the total collection by approximately RM3.57 million.

The Group registered higher net cash used in investing activities for the FPE 2008 of RM8.38 million from RM1.63 million in FPE 31 March 2007, an increase of RM6.74 million. During the FPE 31 March 2008, the Group made payment totaling RM8.38 million, of which RM8.20 million was for the land acquisition in Labuan and RM0.18 million was for purchase of property, plant and equipment. While in FPE 31 March 2007, the Group spent only about RM1.63 million for the purchase of property, plant and equipment.

The Group's net cash generated from financing activities reported an increase of RM9.23 million from negative RM3.10 million in the FPE 31 March 2007 to RM6.13 million in the FPE 31 March 2008. The net inflow of RM6.1 million was mainly due to the drawdown of term loan of RM6.00 million to partly finance the purchase of land in Labuan.

The higher cash and cash equivalents at the beginning of the FPE 31 March 2007 was partly due to the proceeds received from the issue of the Sukuk Musyarakah at the end of the year 2005.

9. FINANCIAL INFORMATION (Cont'd)**Cash Flow Positions of the VEB Group for the Past Five (5) Financial Years**

	FYE				
	2003 (RM'000)	2004 (RM'000)	2005* (RM'000)	2006 (RM'000)	2007 (RM'000)
Net cash used in operating activities	6,405	(4,399)	(11,280)	22,848	(12,521)
Net cash used in investing activities	(1,565)	(492)	(28,242)	(15,267)	(10,180)
Net cash generated/(used) in financing activities	78	376	98,532	(2,614)	(22,604)
Net increase/(decrease) in cash and cash equivalents	4,918	(4,515)	59,010	4,967	(45,305)
Effect of exchange rate changes	-	-	-	-	(158)
Cash and cash equivalents at beginning of year	657	5,575	1,060	60,070	65,037
Cash and cash equivalents at end of the year	5,575	1,060	60,070	65,037	19,574

Note:-

* The increase in net cash generated in financing activities was due to the issuance of Sukuk Musyarakah Bond of RM100.00 million.

Reason Attributed to the Negative Cash Flow from Operations

The Group experienced comparatively flat growth for the FYE 2004. However, for the FYE 2005 onwards, the Group undertook many new projects and as a result, it incurred substantial up-front project costs in upgrading of yard facilities and purchase of equipment. Commencement of new projects also involve upstart works in order to customise, comply and established the administration systems and procedures i.e project monitoring system, and billing procedures and to complete the project technical procedures.

Prior to the physical commencement of the works under the new contract, the projects required completion of detailed technical procedures including but not limited to Project Execution plan, Engineering drawing, Site Survey and work Scoping, Job Card Preparation, Workpack compilation, Activity networking and scheduling, Material take-off, Development and approval of Project Inspection Test Plan, QA/QC procedures, development and approval of Project Safety Management System including safety procedures, safety plan and job safety analysis.

The customization and establishment of the administration systems and the completion and approval of the various technical procures mentioned above will take time to complete and as a result there would be a gap of three to five months before the first invoice can be issued to the clients and the first payment received. The subsequent invoices normally can be issued at shorter interval as in the case of the existing contracts as and when the costs are incurred or the milestones are completed.

9. FINANCIAL INFORMATION (Cont'd)

In respect of billings, they are issued to customers when certain milestones of the contracts are reached. However, the milestones cannot be completed due to certain factors, for example weather downtime resulted in work disruption and hence the work has to be rescheduled. In addition, deferment of certain of the clients' programs due to the rescheduling of the driver activity, for example deferment of clients' drilling program, resulted in the delay by VSB to complete the milestones.

Documentations and certification required for invoicing, such as release order (RO), service completion acceptance notice (SCAN) report and factory acceptance test (FAT) certificate also caused delay in invoicing to clients.

For invoicing, each milestone needs to be 100% completed and all supporting documents need to be in place. However, due to the factors mentioned above, the invoices cannot be issued. Therefore, the Group has to incur and pay for project expense in manpower, consumables, vessel charters, project materials, logistic and other related project costs.

All of the above factors resulted in the mismatch of the operating cash outflow and the cash inflow resulting in the Group registering negative net operating cash flows for FYE 2005 and FYE 2007.

On the positive side, having negative net operating cash flows is not entirely bad as the Group is securing new contracts and growing its businesses at a faster rate than expected. The rapid growth and the awards of new maiden projects, i.e. topside major maintenance and LGAST, have to a large extent resulted in the Group registering net operating cash outflows as explained above.

The Group expects to have a more stable cash flow over time, given that the teething issues mentioned above have been ironed out. The IPO proceeds will help to provide operating cash flow buffers and thus smoothing out the fluctuations in cash flow, if any.

Steps Taken / To Be Taken to Address the Negative Cash Flow from Operations

Among the steps taken to improve the operating cash flows positions are: -

- 1) To negotiate with clients for project milestones to enable faster invoicing and hence collections;
- 2) To improve on the completion of the relevant supporting documentation and the necessary procedures for the purpose of invoicing; and
- 3) To negotiate certain pre-agreed milestones, which could not be 100% completed due to factors attributed to weather or to accommodate clients' programs, to allow us to invoice partial completion of the said milestones.

9. FINANCIAL INFORMATION (Cont'd)**(iii) Borrowings**

The Group's financing facilities as of 31 March 2008, all of which are interest-bearing, are as follows: -

	Short term (RM'000)	Long term (RM'000)	Total (RM'000)	%
Bank overdraft	10,824	-	10,724	10.16
Bills payable	9,695	-	9,695	9.19
Bonds	25,000	50,000	75,000	71.07
Finance creditor	509	869	1,378	1.31
Term loans	464	8,262	8,726	8.27
	<u>46,392</u>	<u>59,131</u>	<u>105,523</u>	<u>100.00</u>

As at LPD, the financing arrangement in place is a RM100.00 million nominal value Sukuk Musyarakah issued by VCSB, a wholly owned subsidiary of the Group. This Islamic Bonds was issued in 4 series on 23 December 2005 with a nominal value of RM100.00 million and multiple maturities period ranging from 2 to 5 years. The bonds bear profit rates ranging from 4.75% to 5.75% per annum.

Other financing arrangements are short term borrowings (letter of credit, bankers' acceptances, trust receipts, bank overdrafts), term loan and hire purchase liabilities.

The Directors of VEB represented that there was no default in payment of bank credit facility and no legal action taken by the lenders to recover the amount owed for the past one (1) financial year and subsequent to 31 March 2008 up to the date of this Prospectus. There are also no foreign borrowings in the VEB Group. The Group's proforma net gearing ratio as of 31 March 2008 was 1.86 times.

Borrowing and Gearing Ratios of the VEB Group for the Past Five (5) Financial Years

	31/12/03 (RM'000)	31/12/04 (RM'000)	* 31/12/05 (RM'000)	31/12/06 (RM'000)	31/12/07 (RM'000)
Secured:					
Bond	-	-	100,000	100,000	75,000
Finance creditors	713	168	121	1,886	1,500
Bank overdraft	113	5,417	638	188	7,835
Term loan	-	-	-	-	2,772
Bills payable	464	1,386	2,305	8,569	9,393
	<u>1,290</u>	<u>6,971</u>	<u>103,064</u>	<u>110,643</u>	<u>96,500</u>
Shareholders' equity	2,161	5,645	9,183	17,914	27,732
Gearing ratio (Gross) (Times) @	0.60	1.23	11.22	6.18	3.48
Gearing ratio (Net) (Times) ^	0.60	1.23	5.02	2.94	2.03

Notes: -

@ Based on all interest bearing debts over shareholders' funds.

^ Based on net borrowings arrived at after deducting the deposits specifically pledged for a long term borrowing i.e. Bonds.

* Increased gearing in FYE 2005 was due to the issuance of Sukuk Musyarakah Bond of RM100.00 million.

9. FINANCIAL INFORMATION (Cont'd)**Steps Taken / To Be Taken to Address the Borrowings and Gearing Ratio**

The Group's gearing position will be greatly reduced under the Listing Scheme as significant portion of the proceeds from the IPO will be used to retire bank borrowings amounting RM21.50 million, which represents about 41% of the IPO proceeds.

As a further step to reduce its gearing, VEB had recently purchased the 2nd series of the Sukuk Musyarakah amounting to RM10.00 million in face value on 23 July 2008. The funding for the purchase of the Sukuk Musyarakah came from the sinking fund of the Sukuk Musyarakah. That particular series of the Sukuk Musyarakah will be cancelled upon the purchase and thus would further improve the Group's level of gearing.

(iv) Key Financial Ratios**Trade Receivables**

	As at 31 December 2005			
	Within credit period		Exceeding credit period	Total
	0-30 days	31-60 days	> 60 days	
Trade Receivables (RM'000)	4,076	6,366	3,280	13,722
% of trade receivables	29.7	46.4	23.9	100.0

	As at 31 December 2006			
	Within credit period		Exceeding credit period	Total
	0-30 days	31-60 days	> 60 days	
Trade Receivables (RM'000)	2,810	-	175	2,985
% of trade receivables	94.1	-	5.9	100.0

	As at 31 December 2007			
	Within credit period		Exceeding credit period	Total
	0-30 days	31-60 days	> 60 days	
Trade Receivables (RM'000)	4,859	1,483	1,400	7,742
% of trade receivables	62.7	19.2	18.1	100.0

9. FINANCIAL INFORMATION (Cont'd)

	As at 31 March 2008			
	Within credit period		Exceeding credit period	Total
	0-30 days	31-60 days	> 60 days	
Trade Receivables (RM'000)	14,338	792	1,277	16,407
% of trade receivables	87.4	4.8	7.8	100.0

As at FYE 31 March 2008, trade receivables stood at RM16.41 million. 7.8% of the trade receivables had exceeded the credit term of 60 days.

The major customers of VSB are Petronas Carigali Sdn Bhd, Carigali-Hess Operating Company Sdn Bhd and Murphy Sarawak Oil Company. As at 30 April 2008, VSB has collected RM14.30 million or 87% from the total receivables balance. The remaining balance of the outstanding amount will be collected in the subsequent period.

In the opinion of Directors, the remaining balance of the outstanding amount will be recovered in the subsequent period.

Trade Payables

	As at 31 March 2008				
	Within credit period			Exceeding credit period	Total
	0-30 days	31-60 days	61-90 days	> 91 days	
Trade Payables ('000)	48,694	3,715	31,104	4	83,517
% of trade payables	58.3	4.4	37.2	0.1	100.00

As at 31 March 2008, the outstanding amount of trade payables amounted to RM83.52 million, ranging from 30 to 90 days. Included in the trade payable within 0-30 days is an accrual amount of RM34.96 million for projects costs. About RM4,000 of the trade payables have exceeded the credit period of 90 days. As at 30 April 2008, approximately RM11.80 million from the outstanding amount has been settled.

VSB is facing a legal action as a result of its disputed claim with a supplier. No provision is made in respect of the contingent liability amounting to RM2.62 million since the Directors are of the opinion that there is a high probability the supplier will fail in their claim against VSB.

Other than legal action taken by a supplier referred to above, the Directors of VEB represented that no amount is in default and no legal or other actions have been taken by the creditors to recover the amount owing to them as at LPD.

9. FINANCIAL INFORMATION (Cont'd)**Trade Payables Balance and Turnover Period for the Past Five (5) Financial Years**

FYE	Within credit period			Exceeded credit period	Total trade payables (RM'000)	Accrued cost (RM'000)	Trade payables turnover period (month)
	0-30 days (RM'000)	31-60 days (RM'000)	61-90 days (RM'000)	> 91 days (RM'000)			
2003	4,378	2,550	4,625	5,730	17,283 *	716	4.08
2004	6,082	3,772	1,432	11,629	22,915 *	3,021	6.81
2005	16,595	13,113	1,231	7,175	38,114 *	14,418	5.71
2006	15,095	9,284	5,808	9,158	39,345 *	10,630	3.92
2007	49,523	1,153	4,427	13,934	69,037 *	29,161	5.79

Note: -

* Including accrued cost.

Reason for High Trade Creditors Turnover Period for the Past Five (5) Financial Years

The credit terms given by the suppliers are usually 3 to 6 months. The trade payable turnover period has fluctuated between 3.92 months to 5.79 months from FYE 2003 to FYE 2007.

During that financial period, the Group renegotiated for longer credit terms due to delay in its invoicing and hence delay in collections from its clients. The delay in the invoicing and collections is caused by: -

- a) Inability to issue invoice due to incomplete milestone as billings are issued to the customer when it reaches certain milestones or stage of completion of the contract. However, the milestones cannot be completed due to certain factors such as weather downtime which resulted in work disruption and hence the work has to be rescheduled and standby due to adverse weather condition has also hampered the effort to achieve the scheduled progress;
- b) Deferment of the HUC program by the client resulted from the rescheduling of the driver activity, for example deferment of the client's drilling program, resulted in delay in the completion of the milestone by VEB;
- c) Incomplete documentation and certification required for invoicing to client such as release order (RO), service completion acceptance notice (SCAN), factory acceptance test (FAT) certificate also caused delay in invoicing to clients; and

9. FINANCIAL INFORMATION (Cont'd)

- d) In the year 2007, VSB has been awarded new project such as Procurement, Construction and Commissioning for LGAST and Pipeline Project and Provision for Minor Engineering and Maintenance Services for Murphy's Shallow Water Production Operations. When the Group undertook new projects and also projects from the clients, they would have to customize, comply and establish the administration systems and procedures i.e. project monitoring system and billing procedures and to complete the project technical procedures.

Prior to the physical commencement of the works under the new contract, the projects required completion of detailed technical procedures including but not limited to Project Execution plan, Engineering drawing, Site Survey and work Scoping, Job Card Preparation, Workpack compilation, Activity networking and scheduling, Material take-off, Development and approval of Project Inspection Test Plan, QA/QC procedures, development and approval of Project Safety Management System including safety procedures, safety plan and job safety analysis.

The customization and establishment of the administration systems and the completion and approval of the various technical procures mentioned above will take time to complete and as a result there would be a gap of three to five months before the first invoice can be issued to the clients and the first payment received. The subsequent invoices normally can be issued at shorter interval as in the case of the existing contracts as and when the costs are incurred or the milestones are completed.

Steps Taken / To Be Taken to Address the High Trade Creditors Turnover Period

Among the steps taken to address the high trade creditors turnover period are: -

- 1) To negotiate with clients for project milestones to enable faster invoicing and hence collections;
- 2) To improve on the completion of the relevant supporting documentation and the necessary procedures for the purpose of invoicing; and
- 3) To negotiate certain pre agreed milestones which could not be 100% completed due to factors attributed to whether or to accommodate for client program, which actually allow us to invoice partial completion of the said milestones.

9. FINANCIAL INFORMATION (Cont'd)

9.7 CONTINGENT LIABILITIES AND MATERIAL COMMITMENT

(i) Contingent Liabilities

Save as disclosed in Section 9.6.4 (iv) "Trade Payables", as at LPD, there are no material contingent liabilities for the Group.

(ii) Material Commitments

As at LPD, there are no material commitments for capital expenditure incurred or known to be incurred by the Group, which may have a substantial impact on the financial position of the Group.

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9. FINANCIAL INFORMATION (Cont'd)**9.8 CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008**

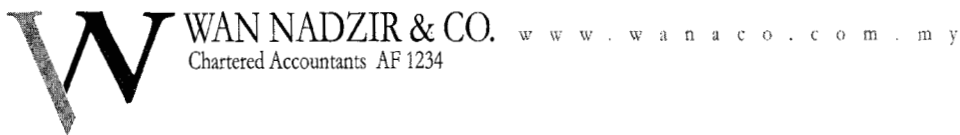
FYE 31 December	Forecast 2008 (RM'000)
Revenue	169,552
Consolidated PBT	22,964
Taxation	(6,672)
Consolidated PAT	16,292
MI	(54)
Consolidated PAT after MI	16,238
Less: Pre-acquisition profit	(3,419)
	<u>12,819</u>
Enlarged issued share capital ('000)	206,240
Gross EPS (sen) ⁽¹⁾	11.1
Net EPS (sen) ⁽²⁾	7.9
Gross PE Multiple (times) ⁽³⁾	6.7
Net PE Multiple (times) ⁽³⁾	9.5

Notes:-

- (1) Based on the consolidated PBT before deducting pre-acquisition profit and based on enlarged share capital.
- (2) Based on the consolidated PAT after MI before deducting pre-acquisition profit and based on enlarged share capital.
- (3) Based on the IPO price of RM0.75 per Share.

The consolidated profit forecast of the VEB Group for the FYE 31 December 2008 has been prepared based on the Directors' assessment of the present economic and operating conditions in the industry that VEB operates in, and a number of fair estimate assumptions regarding future events, at the date the forecast was approved, the Directors expect to take place. These future events may or may not take place. The main assumptions which may impact their achievement are set out in the notes to the consolidated profit forecast.

The forecast is subject to uncertainties and unexpected events, many of which are beyond the control of the VEB Group and its Directors. Furthermore, the events may not occur as anticipated and thus the forecast may differ from actual results, and the variances may be material. Therefore, the Directors cannot and do not guarantee the achievement of the forecast.

9. FINANCIAL INFORMATION (Cont'd)**9.9 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST OF THE VEB GROUP FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008***(Prepared for inclusion in the Prospectus)***REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST
(Prepared for inclusion in the Prospectus)**Date: **29 JUL 2008**

The Board of Directors
Vastalux Energy Berhad
 7th Floor, Tower Block
 Plaza Dwi Tasik
 No. 21, Jalan Sri Permaisuri
 Bandar Sri Permaisuri
 56000 Kuala Lumpur.

Dear Sirs,

**VASTALUX ENERGY BERHAD
REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008**

We have reviewed the consolidated profit forecast of Vastalux Energy Berhad ("VEB") and its subsidiary companies ("VEB Group") for the financial year ending ("FYE") 31 December 2008 as set out in the accompanying statement (which we have stamped for the purpose of identification) in accordance with the Standard on Auditing (ISAE 3400) applicable to the review of forecasts. The forecast has been prepared for submission to the Securities Commission ("SC") in connection with the listing and quotation of VEB on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and should not be relied on for any other purposes.

Our review enabled us to form an opinion as to whether the forecast, in all material respects, is properly prepared based on the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by Vastalux Sdn. Bhd. ("VSB") and its subsidiaries ("VSB Group") in their audited financial statements for the FYE 31 December 2007. The Directors of VEB are solely responsible for the preparation and presentation of the forecast and the assumptions on which the forecast is based.

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

Subject to the matter stated in the preceding paragraphs:-

- (i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and
- (ii) in our opinion, the consolidated profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by the VSB Group in its audited financial statements for the FYE 31 December 2007 and in accordance with the financial reporting standards required to be adopted by the VEB Group.

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 25000 Kuantan,
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 20100 Kuala Terengganu,
 Terengganu Darul Iman.
 Tel: 09-620 3560
 Fax: 09-620 3561

9. FINANCIAL INFORMATION (Cont'd)

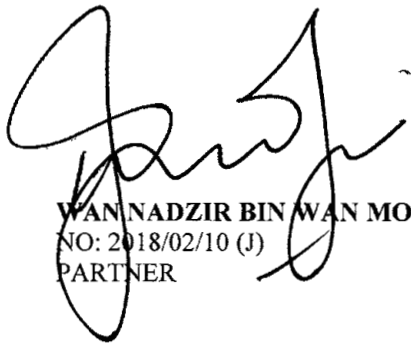
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REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORE CAST
(CONTINUED)
(Prepared for inclusion in the Prospectus)

Yours faithfully,



WAN NADZIR & CO.
NO. AF: 1234
CHARTERED ACCOUNTANTS



WAN NADZIR BIN WAN MOHAMAD
NO: 2018/02/10 (J)
PARTNER

Stamped for the purpose of identification on:
29 JUL 2008
Wan Nadzir & Co.

9. FINANCIAL INFORMATION (Cont'd)

VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES

CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING
31 DECEMBER 2008

The Directors forecast that the Group's result for the FYE 31 December 2008 will be as follows:-

	Forecast 2008 RM'000
Revenue	169,552
Consolidated profit before taxation	22,964
Taxation	(6,672)
Consolidated profit after taxation but before minority interest	16,292
Minority interest	(54)
	16,238
Pre-acquisition profit	(3,419)
Consolidated profit after taxation and minority interest	12,819
Enlarged issued share capital ('000)	206,240
Weighted average number of ordinary shares in issue ('000) ⁽¹⁾	114,004
Net earning per share (sen) ⁽²⁾	
- based on enlarged share capital	7.87
- based on weighted average share capital	14.24
Net PE multiple (times) ⁽³⁾	
- based on enlarged share capital	9.53
- based on weighted average share capital	5.27
Net earning per share (sen) ⁽⁴⁾	
- based on enlarged share capital	6.21
- based on weighted average share capital	11.24

Stamped for the purpose of identification on:

29 JUL 2008

Wan Nadzir & Co.

9. FINANCIAL INFORMATION (Cont'd)

**VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING
31 DECEMBER 2008**

Notes:-

- (1) The weighted average number of shares in issue is calculated based on the assumption that the right issue and the public issue was completed on 30 May 2008 and 11 September 2008 respectively.
- (2) Computed based on the forecast consolidated profit attributable to the shareholders (before pre-acquisition profit) divided by the number of shares.
- (3) The net price earnings multiple are based on the IPO price of RM0.75 per Share over the net earnings per Share (before pre-acquisition profit).
- (4) Computed based on the forecast consolidated profit attributable to the shareholders (after pre-acquisition profit) divided by the number of shares.

There is no diluted earnings per share as there are no potential dilutive ordinary shares.

Stamped for the purpose of identification on:
29 JUL 2008
Wan Nadzir & Co.

9. FINANCIAL INFORMATION (Cont'd)

VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES

CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-

1. VEB

- (a) Approvals from the Securities Commission ("SC") and Ministry of International Trade and Industry ("MITI") on 30 April 2008 and 26 May 2008 respectively have been obtained for the below transactions:-

1.1 Acquisition of VSB

Pursuant to a Sale and Purchase Agreement ("SPA") entered into between VEB and the existing shareholders of Vastalux Sdn. Bhd. ("VSB") dated 20 November 2007 supplemented by the Supplemental Agreement and Letter dated 29 February 2008 and 27 March 2008 respectively, VEB has acquired the entire issued and paid-up share capital of VSB comprising 5,000,000 ordinary shares of the RM1.00 each for a total consideration of RM27,799,999, satisfied entirely by the issuance of 111,199,996 new ordinary shares of RM0.25 each in VEB at an issue price of RM0.25 per share to the vendors of VSB. The Acquisition of VSB was completed on 30 April 2008.

1.2 Rights Issue

Non-renounceable rights issue of 37,808,000 new ordinary shares of RM0.25 each in VEB at an issue price of RM0.25 per Rights Share to the existing shareholders of VEB on the basis of approximately thirty four (34) new Rights Shares for every one hundred (100) Shares held. The subscription of the Rights issue was fully completed on 30 May 2008.

- (b) The following are expected to be completed on 11 September 2008.

1.3 Public Issue

Public Issue of 57,232,000 new ordinary shares of RM0.25 each in VEB ("Public Issue Shares") at initial public offering ("IPO") price of RM0.75 per Public Issue Share to be allocated in the following manner:

- (a) 12,000,000 Public Issue Shares, representing approximately 5.82% of the enlarged issued and paid-up share capital (after the Public Issue) of VEB, will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions;
- (b) 4,240,000 Public Issue Shares, representing approximately 2.06% of the enlarged issued and paid-up share capital (after the Proposed Public Issue) of VEB, will be reserved for the eligible Senior Management, business associates, Directors, and Promoters of the Group; and

Stamped for the purpose of identification on:
29 JUL 2008
Wan Nadzir & Co.

9. FINANCIAL INFORMATION (Cont'd)

**VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)**

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-
(Cont'd)

1. VEB (CONTINUED)

(b) The following are expected to be completed on 11 September 2008 (continued).

1.3 Public Issue (continued)

(c) 40,992,000 Public Issue Shares reserved for private placement to selected investors.

1.4 Offer For Sale

Offer for sale of 26,000,000 VEB shares ("Offer Shares"), representing approximately 12.61% of the enlarged issued and paid-up share capital of VEB, at the issue price of RM0.75 per Offer Share to be allocated to investors.

1.5 Restricted Offer For Sale

Restricted offer for sale of 7,000,000 VEB shares ("Restricted Offer Shares"), representing approximately 3.40% of the enlarged issued and paid-up share capital of VEB, at issue price of RM0.75 per Restricted Offer Share to eligible employees.

1.6 Listing

Listing of and quotation for the entire enlarged issued and paid-up share capital of VEB comprising 206,240,000 ordinary shares of RM0.25 each on the Second Board of Bursa Malaysia Securities Exchange.

Specific Assumptions

(c) The acquisition of VSB will be accounted for using the acquisition method of accounting.

All significant inter-company transactions are eliminated on consolidation and consolidated financial statements reflect internal transaction only.

(d) Statutory income tax rate applicable will be at 26%.

(e) The Public Issue is assumed to be completed and the proceeds from the Public issue will be received by the third quarter of 2008. The estimated listing expenses of RM2,559,464 to be incurred in respect of the Public Issue will be set off against the share premium account.

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9. FINANCIAL INFORMATION (Cont'd)

VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES

CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-
 (Cont'd)

1. **VEB (CONTINUED)****Specific Assumptions (Cont'd)**

- (f) The proceeds from the right issue and public issue will be received in the financial year ending 31 December 2008 and will be utilized in accordance with the proposed utilization of proceeds as follows:-

	RM'000
Capital expenditure of the VEB Group	
• Development and construction of fabrication yard and yard facilities	3,000
• Finance/Part finance the acquisition of marine vessel(s)	10,000
Working capital of the VEB Group	
• Expansion of business and markets	10,000
• Existing operations	5,316
• Retirement/Repayment of existing loans and borrowings (Note 1 (g))	21,501
Estimated listing expenses	2,559
	52,376
	52,376

- (g) The retirement/repayment of existing borrowings of the VEB Group is as follows:-

	RM'000
Bank overdrafts	7,836
Bills payable	9,393
Term loans	2,772
Finance creditors	1,500
	21,501
	21,501

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9. FINANCIAL INFORMATION (Cont'd)

VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES

CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-
(Cont'd)

2. VSB GROUP**Specific Assumptions**

- (a) The following targeted consolidated revenue and gross profit ("GP") will be achieved:-

Activity:-	2008	
	Revenue RM'000	GP RM'000
TMM	63,000	16,371
HUC	70,131	12,075
Fabrication works	21,200	5,204
LGAST and pipeline works	11,158	1,873
Provision of workboat	2,863	1,207
Others	1,200	642
Total	169,552	37,372

The overall GP margin is expected to be at 22.04% (2007: 21.54%), an increase by 0.50%. The GP margin for HUC works is forecasted to be 17.22% representing an improvement of 4.37% as compared to the previous year due to the lower marine spread cost as a result of full internal utilisation days of the Company's own vessel. This however will be offset with the decreasing GP margin for LGAST and pipeline works by 4.21% as compared to the previous year due to additional 4 month extension to complete the works. The GP margin for fabrication works is expected to reduce to 24.55% which is a reduction of 6.83% from the previous year. This reduction resulted from lower GP margin for fabrication work orders in 2008 as compared to the previous year. Net increase in the overall GP margin is expected to be influenced by the sales mix as a result of a higher volume of HUC activity which offset the effect of the reduced GP margin from other activities.

- (b) The forecasted operating revenue is based on the forecast of the directors after taking into consideration of the present and expected condition of chargeable rates applicable to the existing and expected offshore maintenance contracts, scope of services, volume of offshore maintenance work orders, average prices of materials and consumables, sub-contract charges, cost of hiring workboats, marine crew costs, labour costs and overhead.
- (c) There will be no material changes to the operating costs which are dependent on the average prices of materials and consumables, sub-contract charges, cost of hiring workboats, marine crew costs, labour costs and overhead of which will adversely affect the gross profit margin of the Group.

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9. FINANCIAL INFORMATION (Cont'd)**VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES****CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)**

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-
(Cont'd)

2. VSB GROUP (CONTINUED)**Specific Assumptions (Cont'd)**

- (d) Completion of projects will be as scheduled.
- (e) The VSB Group's yard capacity will be able to cater for the expected increase in contracts secured from customers. There will be no new expansion plans other than as planned.
- (f) Engineering services, fabrication or construction works will commence and completed as scheduled.
- (g) The collection from trade customers of 30 to 90 days from the months of sales will be received as scheduled.
- (h) Operating costs will be incurred with no material cost overruns and with no significant liquidated damages for delay.
- (i) There will be no shortages or major disruption in the supply of materials and consumables, manpower, equipments and vessels that will delay the scheduled of maintenance works.
- (j) The payments to trade suppliers of 60 to 90 days from the month of purchase will be paid as scheduled.
- (k) Total staff costs are forecasted to be approximately RM1.25 million per month whilst the directors' remuneration is approximately RM71,000 per month.
- (l) The forecasted capital expenditure of approximately RM77.47 million will be incurred as scheduled. VSB Group will be able to obtain the financing facility for purchase of a marine vessel and land lease at the forecasted interest rates of between 8.0% and 9.0% per annum.
- (m) Total depreciation charge of property, plant and equipment is expected to be approximately RM5.11 million with no material changes to the existing depreciation rates adopted by the VSB Group.
- (n) Statutory income tax rate applicable will be at 26%.

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29 JUL 2008
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9. FINANCIAL INFORMATION (Cont'd)

**VASTALUX ENERGY BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008 (CONTINUED)**

The principal bases and assumptions made in the preparation of the profit forecast are set out as below:-
(Cont'd)

General assumptions

- (a) There will be no significant changes in the current principal activities, composition and structure of the VEB Group other than as planned.
- (b) There will be no significant changes in the prevailing economic and political conditions that will adversely affect that activities and performance of the VEB Group.
- (c) There will be no material changes to present legislation or Government regulations, rates and bases of taxes and duties affecting the VEB Group's activities.
- (d) There will be no significant changes in the prevailing inflation and exchange rates of foreign currencies.
- (e) There will be no industrial disputes or any other abnormal factors or changes that will significantly affect the VEB Group's operations at their forecast levels or disrupt their planned operations.
- (f) There will be no significant changes in the existing senior management and existing accounting, management and operational policies which will adversely affect the VEB Group.
- (g) The capital expenditure program will be implemented and incurred on schedule and there will be no material acquisitions or disposals of property, plant and equipment other than those planned.
- (h) There will be no material contingent liabilities and litigations which are likely to give rise to any proceedings which might materially affect the VEB Group's assets, financial position and operations and t he profit forecast.
- (i) There will be no major incidence of bad and doubtful debts.
- (j) There will be no major legal proceedings or claims against the VEB Group which will adversely affect the activities or performance or give rise to any liabilities which will materially affect the financial position or business of the VEB Group.
- (k) There will be no material disposal of property, plant and equipment or investment in the forecast year.
- (l) The VEB Group will not be liable for liquidated ascertained damages and material defect liability claims.

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29 JUL 2008
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9. FINANCIAL INFORMATION (Cont'd)

9.10 DIRECTORS' ANALYSIS AND COMMENTS ON THE PROFIT FORECAST

For the FYE 2008, the Group revenue is expected to increase by approximately 17.3% from RM143.23 million to RM169.55 million which is mainly attributable to the continuing high level of activities in the oil and gas industry. In tandem, profit attributable to the equity holders of the Company for FYE 2008 is expected to increase by 52.1% from RM10.71 million to RM16.29 million. Including the pre-acquisition profit, the Group's profit attributable to the equity holders of the Company for FYE 2008 would grow by 51.6% from RM10.71 million in the FYE 2007 to RM16.24 million.

The Board confirms that the consolidated profit forecast of the Group and the underlying bases and assumptions stated therein have been reviewed by the Directors.

After due and careful enquiry, and having taken into account the contracts secured and potential contracts to be secured, current prospects, new discoveries and accelerated development in the oil and gas industry, the Group's plans to expand its business activities in the domestic market and also venture overseas, the Directors are of the opinion that the consolidated profit forecast is achievable under the prevailing business and economic environment.

The Directors are also of the opinion that the Group will continue to be liquid and have sufficient funds for its working capital and investment requirements.

Nevertheless, these bases and assumptions cover future periods for which there are inherent risks, and therefore, should be treated with caution. These bases and assumptions are subject to uncertainties and contingencies, which are often outside the control of the Group. Therefore, certain assumptions used in the preparations of the consolidated profit forecast may differ significantly from the actual situation after the date of this profit forecast of 29 July 2008.

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9. FINANCIAL INFORMATION (Cont'd)**9.11 DIVIDEND FORECAST AND POLICY**

The following is the dividend forecast for the FYE 2008: -

FYE 31 December	Forecast 2008 (RM'000)
Consolidated PBT	22,964
Less : Taxation	(6,672)
Consolidated PAT	16,292
Less : MI	(54)
Consolidated PAT after MI	16,238
Less : Pre-acquisition Profit	(3,419)
Less : Proposed Final Dividend	(3,846)
Retained Profits	8,973
0	
Gross dividend per share (sen)	⁽¹⁾ 2.5
Gross dividend yield (%) ⁽²⁾	3.4
Gross dividend cover (times)	2.5
Net dividend per share (sen)	⁽¹⁾ 1.9
Net dividend yield (%) ⁽²⁾	2.5
Net dividend cover (times)	3.3

Notes: -

- (1) Based on the enlarged share capital.
- (2) Based on the IPO price of RM0.75 per Share.

Declarations of dividends are at the discretion of the Board and prevailing economic and market conditions. Going forward, it will be the policy of the Company to distribute gross dividends of 30% of the Group's annual profit attributable to the equity holders of the Company. However, in recommending dividends to be declared, the Board will take into account amongst others, the following factors: -

- the availability of adequate distributable reserves and cash flows of the Company;
- the availability of sufficient tax credits under Section 108 of the Malaysian Income Tax Act, 1967 to enable the Company to distribute dividends to the shareholders without incurring any tax liability; and
- the operating cash flow requirements, financing commitments and expansion plans of the Group.

9. FINANCIAL INFORMATION (Cont'd)**9.12 SENSITIVITY ANALYSIS**

The following sensitivity analysis is prepared by the management of the VEB Group and has not been independently verified by the Reporting Accountants. It is based on the forecast assumptions as set out in Section 9.8 above and assuming all factors remaining unchanged except for the 5% and 10% upward or downward variations in the turnover and the cost of sales. Notwithstanding the impacts of the variations in the turnover and cost of sales as outlined here, there may exist other factors which have not been taken into account, while variations may have a significant effect, either positively or negatively, on the financials of the Group. The sensitivity analysis is as follows: -

9.12.1 Variation in Revenue**Forecast for the FYE 31 December 2008**

	Revenue (RM'000)	Cost of Sales (RM'000)	Gross Profit (RM'000)	PBT (RM'000)	GP Margin (%)
As Forecasted	169,552	132,179	37,373	22,964	22.0
Up to 10%	186,507	132,179	54,328	39,919	29.1
Up to 5%	178,030	132,179	45,851	31,442	25.8
Down 5%	161,074	132,179	28,895	14,487	17.9
Down 10%	152,597	132,179	20,418	6,009	13.4

The sensitivity analysis on turnover is prepared based on the assumption that all other things remain unchanged except for the 5% and 10% upward and downward variation in the revenue.

9.12.2 Variation in Cost of Sales**Forecast for the FYE 31 December 2008**

	Revenue (RM'000)	Cost of Sales (RM'000)	Gross Profit (RM'000)	PBT (RM'000)	GP Margin (%)
As Forecasted	169,552	132,179	37,373	22,964	22.0
Up to 10%	169,552	142,125	27,427	13,019	16.2
Up to 5%	169,552	137,152	32,400	20,357	19.1
Down 5%	169,552	127,206	42,346	27,937	25.0
Down 10%	169,552	122,234	47,319	32,910	27.9

The sensitivity analysis on cost of sales is prepared based on the assumption that all other things remain unchanged except for the 5% and 10% upward and downward variation in the cost of sales.

The analysis does not show the changes in the level of PAT since taxation is considered to be a non-operating variable.

9. FINANCIAL INFORMATION (Cont'd)

9.13 TREND INFORMATION

As at LPD, to the best of the VEB Group's knowledge and belief, VEB's conditions and operations have not been and are not expected to be affected by any of the following: -

- (a) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on the VEB Group's financial performance, position and operations other than those discussed in this section and Section 3 and Section 4.5 of this Prospectus;
- (b) Material commitment for capital expenditure save as disclosed in Section 9.7 of this Prospectus;
- (c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the VEB Group save as disclosed in this section and in Section 3 of this Prospectus;
- (d) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in the VEB Group's revenue save for those that had been disclosed in this section and future plans, strategies and prospects as set out in Section 4.8 of this Prospectus; and
- (e) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make the VEB Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and in Section 3 of this Prospectus.

The Group's business and financial prospects including significant trends in revenue and costs are discussed in Section 4.8 of this Prospectus and Sections 9.6.3 and 9.10 of this Prospectus. Further discussion of the overview of the oil and gas industry, its prospects and outlook are elaborated in Sections 4.5 of this Prospectus.

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10. ACCOUNTANTS' REPORT*(Prepared for inclusion in the Prospectus)***WAN NADZIR & CO.**
Chartered Accountants AF 1234

www.wannadco.com.my

Date: **29 JUL 2008**

The Board of Directors
Vastalux Energy Berhad
7th Floor, Tower Block
Plaza Dwi Tasik
No. 21, Jalan Sri Permaisuri
Bandar Sri Permaisuri
56000 Cheras, Kuala Lumpur

Dear Sirs,

**VASTALUX ENERGY BERHAD ("VEB" OR "THE COMPANY") AND ITS SUBSIDIARIES ("VEB GROUP")
ACCOUNTANTS' REPORT****1. INTRODUCTION**

This report has been prepared by Wan Nadzir & Co., a firm of approved company auditors, for inclusion in the Prospectus of VEB issued in connection with the listing of and quotation for the entire enlarge issued and paid-up share capital of VEB on the Second Board of Bursa Malaysia Securities Berhad ("Securities Exchange").

2. LISTING SCHEME

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the Securities Exchange, the Company undertook the following flotation exercise:-

(i) Acquisition of Vastalux Sdn. Bhd.

Pursuant to a Sale and Purchase Agreement ("SPA") entered into between VEB and the existing shareholders of Vastalux Sdn. Bhd. ("VSB") dated 20 November 2007 supplemented by the Supplemental Agreement and Letter dated 29 February 2008 and 27 March 2008 respectively, VEB has acquired the entire issued and paid-up share capital of VSB comprising 5,000,000 ordinary shares of the RM1.00 each for a total consideration of RM27,799,999, satisfied entirely by the issuance of 111,199,996 new ordinary shares of RM0.25 each in VEB at an issue price of RM0.25 per share to the vendors of VSB. The Acquisition of VSB was completed on 30 April 2008.

(ii) Rights Issue

Non-renounceable rights issue of 37,808,000 new ordinary shares of RM0.25 each in VEB at an issue price of RM0.25 per Rights Share to the existing shareholders of VEB on the basis of approximately thirty four (34) new Rights Shares for every one hundred (100) Shares held. The subscription of the Rights issue was fully completed on 30 May 2008.

(iii) Public Issue

Public Issue of 57,232,000 new ordinary shares of RM0.25 each in VEB ("Public Issue Shares") at initial public offering ("IPO") price of RM0.75 per Public Issue Share to be allocated in the following manner:

- (a) 12,000,000 Public Issue Shares, representing approximately 5.82% of the enlarged issued and paid-up share capital (after the Proposed Public Issue) of VEB, will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions;

10. ACCOUNTANTS' REPORT (Cont'd)**2. LISTING SCHEME (CONTINUED)****(iii) Public Issue (Con't)**

(b) 4,240,000 Public Issue Shares, representing approximately 2.06% of the enlarged issued and paid-up share capital (after the Proposed Public Issue) of VEB, will be reserved for the eligible Senior Management, business associates, Directors, and Promoters of the Group; and

(c) 40,992,000 Public Issue Shares reserved for private placement to selected investors.

(iv) Offer For Sale

Offer for sale of 26,000,000 VEB shares ("Offer Shares"), representing approximately 12.61% of the enlarged issued and paid-up share capital of VEB, at the issue price of RM0.75 per Offer Share to be allocated to investors.

(v) Restricted Offer For Sale

Restricted offer for sale of 7,000,000 VEB shares ("Restricted Offer Shares"), representing approximately 3.40% of the enlarged issued and paid-up share capital of VEB, at issue price of RM0.75 per Restricted Offer Share to eligible employees.

(vi) Listing

Listing of and quotation for the entire enlarged issued and paid-up share capital of VEB comprising 206,240,000 ordinary shares of RM0.25 each on the Second Board of Bursa Malaysia Securities Exchange.

The above scheme was approved by the Securities Commission ("SC") and Ministry of International Trade and Industry ("MITI") on 30 April 2008 and 26 May 2008 respectively.

3. GENERAL INFORMATION**3.1 Background**

VEB was incorporated in Malaysia under the Companies Act, 1965 on 22 September 2007 as a public limited company.

The principal activity of the Company is investment holding.

3.2 Share capital

The changes in the Company's authorised share capital since its date of incorporation are as follows:-

Date of creation	No. of ordinary shares	Par value RM	Share type	Cumulative total RM
22 September 2007	400,000	0.25	Ordinary	100,000
14 November 2007	399,600,000	0.25	Ordinary	100,000,000

10. ACCOUNTANTS' REPORT (Cont'd)**3. GENERAL INFORMATION (CONTINUED)****3.2 Share capital (Continued)**

The changes in the Company's issued and fully paid-up share capital since its date of incorporation are as follows:-

Date of allotment	No. of ordinary shares	Par value RM	Consideration	Cumulative total RM
22 September 2007	2	0.25	Subscribers' shares	0.50
22 October 2007	2	0.25	Cash	1.00
30 April 2008	111,199,996	0.25	Acquisition of VSB	27,800,000

3.3 Background information of subsidiaries

The subsidiaries (including sub-subsidiaries) of the Company are as follows:-

Name of company	Date and place of incorporation	Authorised share capital (RM unless otherwise stated)	Issued and paid-up capital (RM unless otherwise stated)	Effective equity interest (%)	Principal activities
Vastalux Sdn. Bhd. ("VSB")	23.8.1995 Malaysia	5,000,000	5,000,000	100	Investment holding and the provision of offshore and onshore hook-up and commissioning, offshore topside and onshore facilities maintenance services, offshore and onshore minor fabrication works and charter of marine vessel
<u>Subsidiaries of VSB:-</u>					
Vastalux Capital Sdn. Bhd. ("VCSB")	22.9.2005 Malaysia	100,000	2	100	Entity for fund raising activities
Vastalux Offshore Services Sdn. Bhd. ("VSSB") (Formerly known as Liputan Baiduri Sdn. Bhd.)	18.8.2005 Malaysia	100,000	2	100	Provision of offshore and onshore hook-up and commissioning services

10. ACCOUNTANTS' REPORT (Cont'd)**3. GENERAL INFORMATION (CONTINUED)****3.3 Background information of subsidiaries (Continued)**

Name of company	Date and place of incorporation	Authorised share capital (RM unless otherwise stated)	Issued and paid-up capital (RM unless otherwise stated)	Effective equity interest (%)	Principal activities
<u>Subsidiaries of VSB:-</u>					
Vastalux Onshore Services Sdn. Bhd. ("VOSSB") (Formerly known as Vastalux Offshore Solutions Sdn. Bhd.)	6.5.2004 Malaysia	100,000	2	100	Onshore construction of oil and gas plants
Vastalux E&C Sdn. Bhd. ("VECSB")	2.8.2001 Malaysia	100,000	2	100	Provision of offshore topside and onshore facilities maintenance services
Vastalux Fabricators Sdn. Bhd. ("VFSB")	8.4.2004 Malaysia	500,000	500,000	100	Minor fabrication works
Vastalux Marine Sdn. Bhd. ("VMSB") (Formerly known as Amber Mission Sdn. Bhd.)	6.9.2005 Malaysia	100,000	2	100	Intended for charter of marine vessel
Merak Utama Sdn. Bhd. ("MUSB")	11.9.2006 Malaysia	100,000	100,000	75	Underwater structural inspection services
PT Vastalux Energy ("PTVE")	10.10.2007 Indonesia	USD1,000,000	USD1,000,000	80	Provision of offshore and onshore oil and gas supporting services in Indonesia
V-Factor Sdn. Bhd. ("V-FACSB")	7.7.2008 Malaysia	100,000	100,000	100	Currently dormant. For future holding of vessel operations licenses to secured from Petronas

For the financial period up to 31 March 2008, other than VCSB, PTVE and V-FACSB, the active subsidiaries functioned as sub-contractors to VSB. All the revenues of such subsidiaries were derived from inter-company transactions.

10. ACCOUNTANTS' REPORT (Cont'd)**3. GENERAL INFORMATION (CONTINUED)****3.3 Background information of subsidiaries (Continued)**

The changes in the authorised share capital and issued and fully paid-up share capital of VSB since the date of incorporation are as follows:-

Authorised share capital

Date of allotment	No. of shares	Par value RM	Cumulative total RM
23.08.1995	100,000	1.00	100,000
17.06.1998	400,000	1.00	500,000
31.10.2001	500,000	1.00	1,000,000
04.10.2004	4,000,000	1.00	5,000,000

Issued and fully paid-up share capital

Date of allotment	No. of shares	Par value RM	Consideration	Cumulative total RM
29.08.1995	2	1.00	Cash	2
11.06.1998	1,000	1.00	Cash	1,002
17.06.1999	42,000	1.00	Cash	43,002
21.06.1999	14,825	1.00	Cash	57,827
09.09.1999	53,000	1.00	Cash	110,827
23.05.2001	389,173	1.00	Cash	500,000
31.10.2001	500,000	1.00	Cash	1,000,000
04.10.2004	2,000,000	1.00	Bonus Issues	3,000,000
13.05.2005	2,000,000	1.00	Bonus Issues	5,000,000

4. FINANCIAL STATEMENTS AND AUDITORS**4.1 Auditors****i) VEB**

The financial statements of VEB for the financial period ended 31 December 2007 and 31 March 2008 were audited by us and were not subject to any qualification.

10. ACCOUNTANTS' REPORT (Cont'd)**4. FINANCIAL STATEMENTS AND AUDITORS (CONTINUED)****4.1 Auditors (Continued)****ii) VSB AND OTHER SUBSIDIARIES**

The financial statements of VSB for the financial years ended 31 December 2005, 31 December 2006 and 31 December 2007 and the three (3) months ended 31 March 2008 were audited by us.

The financial statements of all the other subsidiaries were audited by us except for PTVE which is audited by another firm of accountants, Messrs S. Mannan, Sofwan, Adnan & Rekan and V-FACSB as it was incorporated on 7 July 2008 and no audited financial statements are available.

All the financial statements referred to above were reported without any qualifications.

The current financial year end of all company in the VEB Group is 31 December.

4.2 Accounting policies and standards

The accounting policies adopted in the preparation of this report are set out in Notes 7 and are consistent with the accounting policies adopted by VEB and its subsidiaries in their latest audited financial statements. The financial information presented in this report is based on the audited financial statements of VSB which comply with applicable approved accounting standards in Malaysia for the relevant financial years under review.

Commencing 1 January 2007, VSB adopted all the new and revised Financial Reporting Standards ("FRS") issued by MASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised FRS has no material effect on the financial statements of VSB.

4.3 Dividends

Except as set out below, no dividend has been paid or declared by VEB and its subsidiaries during the financial years/ period covered by this report.

<u>Company</u>	<u>Financial year</u>	<u>Dividend per share</u>	<u>Tax rate</u> %	<u>Net dividend</u> <u>paid</u>
VSB	31 December 2007	RM0.20	27	RM730,000

4.4 Audited financial statements

The acquisition of VSB by VEB was only completed subsequent to the financial period ended 31 March 2008. Accordingly, the consolidated audited financial statements of VEB were not prepared as at 31 December 2007 and 31 March 2008. The summarised audited financial statements of VEB and VSB are shown in Notes 5 and 6 respectively.

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10. ACCOUNTANTS' REPORT (Cont'd)



5. SUMMARISED FINANCIAL STATEMENTS OF VEB

5.1 Summarised results

	22/9/2007 to 31/12/2007 RM'000	1/1/2008 to 31/3/2008 RM'000
Revenue	-	-
Administrative expenses	(7)	(1)
Loss before taxation	(7)	(1)
Taxation	-	-
Net loss for the period	(7)	(1)

5.2 Summarised balance sheet

	31/12/07 RM'000	31/3/08 RM'000
CURRENT ASSETS		
Cash in hand	*	*
CURRENT LIABILITIES		
Other payables	7	8
	7	8
NET CURRENT LIABILITIES	(7)	(8)
	(7)	(8)
SHAREHOLDERS' EQUITY		
Share capital	*	*
Accumulated losses	(7)	(8)
	(7)	(8)

* Denotes RM1

10. ACCOUNTANTS' REPORT (Cont'd)**5. SUMMARISED FINANCIAL STATEMENTS OF VEB (CONTINUED)****5.3 Statement of changes in equity**

	<u>Share capital</u> RM'000	<u>Accumulated losses</u> RM'000	<u>Total</u> RM'000
At 22 September 2007 (date of incorporation)	^	-	^
Issue of shares	^	-	^
Net loss for the period	-	(7)	(7)
At 31 December 2007	*	(7)	(7)
Net loss for the period	-	(1)	(1)
At 31 March 2008	*	(8)	(8)

* Denotes RM1

^ Denotes RM0.50

5.4 Statement of Cash Flows

	22/9/2007 to 31/12/2007 RM'000	1/1/2008 to 31/3/2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(7)	(1)
Changes in payables	7	(1)
Net cash generated from operating activities	-	-
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	*	-
Net cash generated from financing activities	*	-
Net increase in cash and cash equivalents	*	-
Cash and cash equivalents at beginning of period	-	*
Cash and cash equivalents at end of period	*	*

10. ACCOUNTANTS' REPORT (Cont'd)



6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP

6.1 Consolidated income statements

	Note	Year ended 31 December			Three (3) months ended	
		2005 RM'000	2006 RM'000	2007 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Revenue	9.1	77,339	143,212	143,231	40,771	28,805
Cost of sales	9.2	(64,110)	(118,435)	(112,379)	(32,352)	(23,723)
Gross profit		13,229	24,777	30,852	8,419	5,082
Profit before depreciation, amortisation, interest and taxation		7,408	20,927	24,471	7,620	4,054
Depreciation		(1,318)	(2,427)	(1,985)	(211)	(168)
Amortisation		-	(252)	(406)	(101)	(55)
Interest expenses		(784)	(5,705)	(6,518)	(1,324)	(1,614)
Profit before taxation	9.3	5,306	12,543	15,562	5,984	2,217
Taxation	9.4	(1,776)	(3,820)	(4,836)	(1,397)	(681)
Profit after taxation		3,530	8,723	10,726	4,587	1,536
Minority interest		7	9	(20)	(8)	6
Net profit for the year/period		3,537	8,732	10,706	4,579	1,542
Effective tax rate (%)		33.61	29.77	30.69	25.85	29.21
Gross profit margin (%)		17.11	17.30	21.54	20.65	17.65
Pre-tax profit margin (%)		6.86	8.76	10.86	14.68	7.70
Interest coverage ratio (times)		7.77	3.20	3.39	5.52	2.37
Gross dividend rate (%)		N/A	N/A	20.00	N/A	7.00
After tax return on shareholders' fund (%)		38.52	48.74	38.60	14.20	8.00
Weighted average number of ordinary shares in issue (shares) ('000)		4,277	5,000	5,000	5,000	5,000
Gross earnings per share (RM) ^		1.24	2.51	3.11	1.20	0.44
Net earnings per share (RM) ^		0.83	1.75	2.14	0.92	0.31

^ Based on weighted average number of ordinary shares in issue.

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP****6.1 Consolidated income statements (Continued)**

Notes:-

(a) REVENUE

Revenue of the VSB Group are principally from HUC work, TMM work, minor fabrication work, underwater structural inspection, offshore manpower supply, tool, material and equipment supply.

The Group commenced its TMM works during the financial year ended ("FYE") 2005 which contributed RM38.79 million or 50.2% of the total revenue for the year. Fabrication work awarded by Murphy amounted to RM8.87 million has also contributed to the revenue. Revenue from HUC however decreased by approximately RM11.33 million or 27.6% compared to the previous year which mainly due to the completion of a certain major HUC project. These are the main reason for the overall increase by RM33.38 million or 75.9% of the total revenue for the FYE 2005 as compared to the FYE 2004.

The significant increase in the total revenue for the FYE 2006 as compared to the FYE 2005 was mainly due to the increase in income generated from the Group's two (2) continuous major projects (i.e. Umbrella project for HUC works and TMM works of PCSB offshore facilities) which have increased by RM46.22 and RM20.70 million respectively. The issuance of RM100.00 million bonds of which the proceeds was available right from the beginning of the year provided the Group with the necessary working capital to take up higher volume of works.

The Group commenced works on the newly awarded LGAST & Pipeline project which contributed 17.5% of the total revenue for the FYE 2007. The revenue from HUC however had decreased by RM27.22 million as work orders e.g Baram Pipeline and Baram South were completed in the previous year making the total revenue during the FYE 2007 to be almost at the same level with that of the previous year.

For the three (3) months financial period ended ("FPE") 31 March 2008, the Onshore activity (i.e. LGAST & Pipeline project) and the Minor Fabrication works activity (i.e. Minor Engineering and Maintenance Services for Murphy's Shallow Water Production Operations) contributed 40.5% or RM16.53 million to the total revenue for the FPE 31 March 2007. In addition, increase works has raised the revenue for HUC by RM3.53 million as compared to the corresponding FPE 31 March 2007. The reduction in work from TMM however, has reduced by RM8.20 million as compared to the corresponding FPE 31 March 2007. The increase in revenue from the Onshore, Minor fabrication and HUC activities has offset the reduction in revenue from TMM giving net increase of RM11.97 million as compared to the corresponding FPE 31 March 2007.

(b) PROFIT

During the FYE 2005, the overall costs for HUC projects increased quite significantly resulting the gross profit margin for HUC to reduce by 5.5% from 18.3% in the previous year. However, the reduction in gross profit margin for HUC was cushioned by the commencement of TMM projects that registered gross profit margin of 20.9%. The combination of these factors resulted in the reduction of 2.3% for the overall gross profit margin as compared to the FYE 2004. Despite the increase in revenue, pre-tax profit margin had decreased marginally by 3.0% due to the reduction in gross profit margin.

The reduction in pre-tax profit margin for the FYE 2005 was also due to the following reasons:-

- (i) An increase in other operating expenses as a result of recognition of bad debts amounting to RM2.04 million during the year. These debts were in respect to the Group's previous role as sub-contractors.
- (ii) A higher depreciation charges due to acquisition of new property, plant and equipment amounted to RM1.32 million as compared to RM0.74 million in the FYE 2004.

10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP****6.1 Consolidated income statements (Continued)**

Notes (continued):-

(b) PROFIT (CONTINUED)

The margin from HUC works during the FYE 2006 was affected by higher marine vessel cost. During the FYE 2005, marine vessel cost was 22.6% of HUC revenue i.e. RM6.73 million. This has increased to RM28.70 million or 37.8% of HUC revenue. The increase is mainly due to marine vessel cost incurred for works at Baram South (BAK-B and BAKB-B) and West Lutong Platforms. The margin from TMM work increased from 20.9% for the FYE 2005 to 33.2% for the FYE 2006 due to lower cost incurred during the year as much of the necessary start up expenses was expended in the previous year. In addition, reversal of significant over-provision of cost incurred in the previous year had further increased the margin for the FYE 2006. These factors resulted in minor increase for overall gross profit margin of 0.2% for the FYE 2006 as compared to the previous year. While the revenue has increased significantly, the percentage of overall overhead expenses (excluding finance cost) over the revenue has reduced from 9.7% in the FYE 2005 to 6.3% for the FYE 2006. The net interest expenses that arose from the Group's bonds issue has partially offset the positive reduction of overhead percentage resulted in the improvement of pre-tax profit margin for the FYE 2006 by 1.9% as compared to the previous year.

The margin from HUC has significantly increased in the FYE 2007 from 3.4% in the previous year to 12.9% mainly due to the lower marine spread cost as a result of owning own vessel. The margin from TMM however reduced by 8.0% as compared to the previous year due to increasing cost of project material and subcontractor charges. Added by the margin from LGAST project of 21.0%, the Group's overall profit margin for the FYE 2007 improved to 21.5% from 17.3% previously. Other operating expenses however increased by RM2.45 million as compared to the FYE 2006. The increase is mainly due to the depreciation of vessel and other newly acquired property, plant and equipment which increased by RM1.65 million from the previous year as well as the overall increase of other overheads. The improvement in the gross profit margin therefore was negated by the overall increase in total overheads resulting in the net improvement of pre-tax profit margin by 2.1% from the previous year pre-tax profit margin of 8.8%.

For the three (3) months FPE 31 March 2008, the gross profit margin has marginally increased by 3.0% as compared to the corresponding FPE 31 March 2007. The Onshore works of the new projects of LGAST & Pipeline generated gross profit margin of 26.6% representing 7.2% to the increase in the overall gross profit margin. With regards to TMM, although the margin increased by 2.7% as compared to the corresponding FPE 31 March 2007, the decrease in volume has caused the reduction to the overall gross profit margin by 8.1%. Other activities registered minor increase for their gross profit margin. The positive addition of margin from these new services has offset the effect of the decrease in the activities of TMM projects. These combined factors resulted in the increase of gross profit margin from 17.6% to 20.6%. The increase of 7.0% pre-tax profit margin for the three (3) months FPE 31 March 2008 as compared to the corresponding FPE 31 March 2007 is mainly due to the increase in gross profit margin and the reduction in the finance costs. The lower outstanding amount of Sukuk Musyarakah bond after the settlement of the 1st series of RM25 million resulted in the reduction of the borrowing expenses.

10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****6.2 Consolidated balance sheets**

	Note	As at			
		31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	9.5	4,213	19,342	24,532	23,384
Prepaid land lease	9.6	-	-	1,455	10,857
Goodwill on consolidation		-	-	55	55
Deferred expenditure	9.7	1,104	1,476	1,093	952
Deposits	9.8	-	-	1,202	-
Deferred tax assets	9.9	-	774	901	28
		<u>5,317</u>	<u>21,592</u>	<u>29,238</u>	<u>35,276</u>
CURRENT ASSETS					
Trade and other receivables	9.10	67,407	65,542	121,302	135,013
Tax recoverable		-	-	-	320
Deposits at licensed banks	9.11	60,645	69,534	51,325	53,160
Cash and bank balances	9.12	25,063	20,691	1,084	6,156
Total current assets		<u>153,115</u>	<u>155,767</u>	<u>173,711</u>	<u>194,649</u>
CURRENT LIABILITIES					
Bank overdraft	9.13	638	188	7,835	10,724
Bills payable	9.13	2,305	8,569	9,393	9,695
Trade and other payables	9.14	43,541	42,266	70,353	85,544
Bonds	9.15	-	25,000	25,000	25,000
Other short term borrowings	9.16	71	460	657	973
Provision for taxation		2,410	6,077	6,601	5,063
Total current liabilities		<u>48,965</u>	<u>82,560</u>	<u>119,839</u>	<u>136,999</u>
NET CURRENT ASSETS					
		<u>104,150</u>	<u>73,207</u>	<u>53,872</u>	<u>57,650</u>
		<u>109,467</u>	<u>94,799</u>	<u>83,110</u>	<u>92,926</u>

10. ACCOUNTANTS' REPORT (Cont'd)



6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)

6.2 Consolidated balance sheets (Continued)

	Note	As at			
		31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
EQUITY					
Share capital	9.17	5,000	5,000	5,000	5,000
Other reserve	9.18	-	-	(158)	(214)
Retained earnings		4,182	12,914	22,890	27,469
Equity attributable to shareholders of the Company		9,182	17,914	27,732	32,255
Minority interest		8	209	645	653
Total equity		9,190	18,123	28,377	32,908
NON-CURRENT LIABILITIES					
Bonds	9.15	100,000	75,000	50,000	50,000
Other long term borrowings	9.16	50	1,426	3,615	9,131
Deferred tax liabilities	9.9	227	250	1,118	887
		109,467	94,799	83,110	92,926
Number of ordinary shares of RM1 each in issue ('000)		5,000	5,000	5,000	5,000
Net tangible assets ("NTA") (RM)		9,182	17,914	27,677	32,200
NTA per ordinary share (RM)		1.84	3.58	5.54	6.44
Gearing ratio (times)					
- Gearing ratio (Gross) @		11.22	6.18	3.48	3.27
- Gearing ratio (Net) *		5.02	2.94	2.03	1.86

@ Based on all interest bearing debts over shareholders' funds.

* Based on net borrowings arrived at after deducting the deposits specifically pledged for a long term borrowing i.e. Bonds.

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10. ACCOUNTANTS' REPORT (Cont'd)



6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)

6.3 Consolidated statement of changes in equity

	Attributable to Equity Holders of the Company					
	Distributable:-				Minority interest	Total equity
	Share capital	Other reserve	Retained earnings	Total		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2005	3,000	-	2,645	5,645	-	5,645
Bonus issue	2,000	-	(2,000)	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	15	15
Net profit for the year	-	-	3,537	3,537	(7)	3,530
At 31 December 2005	5,000	-	4,182	9,182	8	9,190
Acquisition of additional interest in a subsidiary	-	-	-	-	210	210
Net profit for the year	-	-	8,732	8,732	(9)	8,723
At 31 December 2006	5,000	-	12,914	17,914	209	18,123
Acquisition of subsidiary	-	-	-	-	681	681
Disposal of subsidiary	-	-	-	-	(225)	(225)
Foreign currency translation	-	(158)	-	(158)	(40)	(198)
Net profit for the year	-	-	10,706	10,706	20	10,726
Dividend paid	-	-	(730)	(730)	-	(730)
At 31 December 2007	5,000	(158)	22,890	27,732	645	28,377
Foreign currency translation	-	(56)	-	(56)	-	(56)
Net profit for the period	-	-	4,579	4,579	8	4,587
At 31 March 2008	5,000	(214)	27,469	32,255	653	32,908

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10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****6.4 Consolidated cash flow statements**

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation	5,306	12,543	15,562	5,984	2,217
Adjustments for:-					
Bad debts written off	2,036	-	108	-	-
Depreciation and amortisation	1,319	2,679	4,481	1,466	684
Foreign exchange gain/(loss)-Unrealised	-	-	2	(39)	-
Gain/(Loss) on disposal of property, plant and equipment	127	(6)	-	-	-
Gain on disposal of subsidiary	-	-	(95)	-	-
Impairment of goodwill	9	-	-	-	-
Net interest expenses	589	2,854	4,215	823	921
Operating profit before changes in working capital	9,386	18,070	24,273	8,234	3,822
Changes in working capital:-					
Amount due from customers Receivables, deposits and prepayments	53,229	(8,616)	(48,882)	(4,938)	(340)
Payables and accruals	(93,516)	10,482	(6,986)	(8,854)	(7,110)
Cash generated from/(used in) operations	21,849	7,507	28,085	14,749	2,314
Deferred expenditure	(9,052)	27,443	(3,510)	9,191	(1,314)
Payment for deposits	(1,104)	(624)	(23)	-	-
Net interest paid	-	-	(1,202)	-	-
Tax paid	(474)	(2,854)	(4,215)	(823)	(921)
Net cash generated from/(used in) operating activities	(650)	(1,117)	(3,571)	(2,090)	(1,435)
Net cash generated from/(used in) operating activities	(11,280)	22,848	(12,521)	6,278	(3,670)

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****6.4 Consolidated cash flow statements (Continued)**

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(3,257)	(15,507)	(9,181)	(178)	(1,634)
Deposits placement at licensed banks	(25,000)	-	-	(8,200)	-
Payment for land lease	-	-	(1,455)	-	-
Proceeds from shares subscription of minorities of subsidiary	15	210	641	-	-
Cash flow on acquisition of subsidiary	-	-	(55)	-	-
Disposal of subsidiary	-	-	(130)	-	-
Proceeds from disposal of property, plant and equipment	-	30	-	-	-
Net cash used in investing activities	(28,242)	(15,267)	(10,180)	(8,378)	(1,634)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from bonds issue	100,000	-	-	-	-
Proceeds from other borrowings	-	-	3,648	6,301	-
Payment of dividend	-	-	(730)	-	(252)
Repayment of bonds	-	-	(25,000)	-	-
Repayment of other borrowings	(1,468)	(2,614)	(522)	(167)	(2,847)
Net cash generated from/(used in) financing activities	98,532	(2,614)	(22,604)	6,134	(3,099)
Net increase/(decrease) in cash and cash equivalents	59,010	4,967	(45,305)	4,034	(8,403)
Effects of exchange rate changes	-	-	(158)	(16)	-
Cash and cash equivalents:					
At beginning of year	1,060	60,070	65,037	19,574	65,037
At end of year	60,070	65,037	19,574	23,592	56,634

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

10. ACCOUNTANTS' REPORT (Cont'd)**6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****6.4 Consolidated cash flow statements (Continued)**

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
CASH AND CASH EQUIVALENTS:-					
Deposits with licensed banks	60,645	69,534	51,325	53,160	74,012
Cash and bank balances	25,063	20,691	1,084	6,156	11,783
	<u>85,708</u>	<u>90,225</u>	<u>52,409</u>	<u>59,316</u>	<u>85,795</u>
Less:					
Bank overdrafts	(638)	(188)	(7,835)	(10,724)	(4,161)
Portion of deposits for repayment of bonds within 12 months	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>
	<u>60,070</u>	<u>65,037</u>	<u>19,574</u>	<u>23,592</u>	<u>56,634</u>

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

Notes:-

The Group experienced comparatively flat growth for the FYE 2004. However, for the FYE 2005 onwards the Group undertook many new projects and as a result, it incurred substantial up-front project costs in upgrading of yard facilities and purchase of equipment. Commencement of new projects also involve upstart works in order to customize, comply and establish the administration systems and procedures i.e project monitoring system, and billing procedures and to complete the project technical procedures.

Prior to the physical commencement of the works under the new contract, the projects required completion of detail technical procedures including but not limited to the project execution plan, engineering drawing, site survey and work scoping, job card preparation, workpack compilation, activity networking and scheduling, material take-off, development and approval of project inspection test plan, QA/QC procedures, development and approval of project safety management system including safety procedures, safety plan and job safety analysis.

The customization and establishment of the administration systems and the completion and approval of the various technical procedures mentioned above will take time to complete and resulting in a gap of three to five months before the first invoice can be issued to the clients and the first payment received. The subsequent invoices normally can be issued at shorter interval as in the case of the existing contracts as and when the costs are incurred or the milestones are completed.

In respect of billings, they are issued to customers when certain milestones of the contracts are reached. However, the milestone cannot be completed due to certain factors for example, weather downtime resulting in work disruption and hence the work has to be rescheduled. In addition, deferment of certain part of the client's programs due to the rescheduling of the driver activity, for example, deferment of clients and drilling programs would delay the completion of the milestones.

10. ACCOUNTANTS' REPORT (Cont'd)



6. SUMMARISED FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)

6.4 Consolidated cash flow statements (Continued)

Notes (Continued):-

Documentations and certification required for invoicing such as release order (RO), service completion acceptance notice (SCAN) report, factory acceptance test (FAT) certificate also caused delay in invoicing to clients.

For invoicing, each milestone needs to be 100% completed and all supporting documents are in place. However, due to the factors mentioned above, the invoices cannot be issued but the Group has to incur and pay before hand for project expenses in manpower, consumables, vessel charters, project materials, logistic and other related project costs.

All the above factors resulted in the mismatch of the operating cash outflow and inflow resulting in the Group registering negative net operating cash flows for the FYE 2005 and FYE 2007.

On the positive side, in this case, having negative net operating cash flows are not entirely bad since it shows that the Group is securing new contracts and growing its businesses at a faster rate than expected. The rapid growth and the awards of new maiden projects, i.e topside major maintenance and LGAST, have, to a large extent resulted in the Group registering net operating cash outflows as explained above.

As indicated by the positive net operating cash flow of RM9.19 million for the first quarter of the FYE 2008, the Group expects to have a more stable cash flow over time, given that the teething issues have been ironed out. The IPO proceeds will help to provide operating cash flow buffers and thus smoothing out the fluctuations in cash flow, if any.

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10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP****7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Basis of preparation and accounting convention**

The financial statements of the Group have been prepared in accordance with the applicable Approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board.

The adoption of the relevant new or revised Financial Reporting Standards ("FRS"), that are effective for the financial period beginning on or after 1 January 2008 and have been applied in preparing these financial statements are as follows:-

FRSs	Effective date
FRS 107, Cash Flow Statements	1 July 2007
FRS 111, Construction Contracts	1 July 2007
FRS 112, Income Taxes	1 July 2007
FRS 118, Revenue	1 July 2007
Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
FRS 137, Provisions, Contingent Liabilities and Contingent Assets	1 July 2007

Standards effective for the financial period beginning on or after 1 January 2008 but not relevant for the Groups' operations are as follows:-

FRSs	Effective date
FRS 120, Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134, Interim Financial Reporting	1 July 2007

The adoption of the above FRSs does not have significant financial impact on the Group except as disclosed in the Notes to the financial statements.

b) Basis of consolidation**Subsidiaries**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

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

Intragroup transactions, balances and any unrealized income and expenses arising from intragroup transaction, are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****b) Basis of consolidation (Continued)**

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortized balance of goodwill and exchange differences which were not previously recognized in the consolidated income statement.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and the liabilities of the acquiree. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated income statements.

c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 7(i).

d) Property, plant and equipment

Property, plant and equipment except for mould, dies and jigs included under plant and machinery, held by the Group are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight line basis to write off the cost of each asset over their estimated useful lives at the following annual rates:

Plant and machinery	20%
Computers	20%
Furniture and fittings and signboard	10%
Office equipment	10%
Motor vehicles	20%
Renovation	20%
Telecommunication equipment	20%
Vessel and equipment on vessel	10% - 33.3%

e) Amount due from customers

Where the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is determined by survey of work done. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable will be recoverable. Contract costs are recognised as expenses in the year in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When costs incurred on construction contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is shown as amount due from customers. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****f) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

g) Trade and other receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts at the financial year end. Bad debts are written off during the financial year in which they are identified.

h) Lease and hire purchase

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risk of ownership are classified as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments at the date of inception. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease year.

Property, plant and equipment acquired under finance lease contracts is depreciated over the useful life of the asset in accordance with the policy set out in Note 7(d). If there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases are leases of assets under which all risks and benefits of ownership are effectively retained by lessor. Payments made under operating leases are charged to the income statement on a straight line basis over the year of the lease.

Prepaid lease payments are leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payments made on entering into or acquiring a leasehold land are accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

i) 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 its 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.

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 statement immediately.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****j) Trade and other payables**

Trade payables are stated at the fair value of the consideration to be paid in the future for good and services received.

k) Income tax

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 amounts in the financial statements. In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred tax is measured at the tax rates are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognized in the income statement, except when it arises from a transaction which is recognizes direct to 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. 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.

l) Deferred expenditures

Deferred expenditures are accounted for as follows:-

- i) Cost for issuance of Sukuk Musyarakah of a subsidiary is amortised evenly throughout the Sukuk Musyarakah's tenure.
- ii) All expenditure in connection to the dry-docking of the vessel is capitalised as dry-docking expenditure and is amortised over the dry-docking cycle of 3 years. The amortisation commences when the vessel is ready for its intended use.

m) Revenue recognition

- i) Revenue from construction contract

Revenue from construction contracts is accounted for by the stage of completion method as described in Note 7(e).

- ii) Charter Hire of Vessel

Charter hire of vessel is recognised when the services are rendered and is computed at the contracted daily rate. In the event invoices are yet to be issued at year end, the revenue is accrued to the extent of the services rendered at the balance sheet date.

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****n) Foreign Currencies****i) Foreign currency translation**

Transactions in foreign currencies during the financial year are converted into Ringgit Malaysia at the rates of exchange ruling on the transaction dates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Monetary assets and liabilities in foreign currency at the balance sheet date are translated into Ringgit Malaysia at rates of exchange approximately those ruling on that date. Non-monetary assets and liabilities in foreign currency at the balance sheet date are translated into Ringgit Malaysia at rates of exchange approximating those ruling on that date of the transactions. Exchange gains or losses are dealt with in the income statements.

ii) Foreign operations

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

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

8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date, and reported amounts of income and expenses during the financial year.

Although these estimates are based on management's best knowledge of current events and actions, historical experiences and various other factors, including expectations for future events that are believed to be reasonable under the circumstances, actual results may ultimately differ from these estimates.

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

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

i) Construction contracts

The Group recognised revenue based on percentage of completion method. The stage of completion is measured by reference to the contract construction costs incurred to date to the estimated total of costs. Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total revenue and contract costs, as well as the recoverability of the construction contracts activities. Total revenue also includes an estimation of the recoverable variation works that are recoverable from the customers. In making the judgement, the Group relied on past experience and work of in-house specialists.

10. ACCOUNTANTS' REPORT (Cont'd)



8. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

ii) Income tax

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognizes tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

iii) Depreciation of vessels and equipment of vessel

The cost of vessel and equipment on vessel are depreciated on straight-line basis over the assets' useful life. Management estimates the useful lives of the Group's vessel to 10 years and equipment on vessel to be between 3 to 5 years. These are common life expectancies applied in the shipping industry. Changes in the expected level of usage could impact the economic useful lives and residual values of these assets, therefore future depreciation charges could be revised.

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10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.1 REVENUE**

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Contract income from oil and gas activities	77,339	143,212	141,703	40,271	28,805
Charter hire of vessel	-	-	1,528	500	-
	<u>77,339</u>	<u>143,212</u>	<u>143,231</u>	<u>40,771</u>	<u>28,805</u>

9.2 COST OF SALES

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Contract cost from oil and gas activities	64,110	118,435	108,058	32,108	23,723
Charter hire of vessel	-	-	4,321	244	-
	<u>64,110</u>	<u>118,435</u>	<u>112,379</u>	<u>32,352</u>	<u>23,723</u>

9.3 PROFIT BEFORE TAXATION

	Year ended 31 December			Three (3) months ended	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Auditors' remuneration					
- Statutory audit	32	77	89	-	-
- Non-statutory audit	-	-	40	43	-
Bad debts expenses	2,036	-	-	-	64
Directors' fees	205	206	287	125	-
Directors' other emoluments	91	-	576	-	336
Interest expenses	784	5,705	6,518	1,324	1,614
Interest income	(195)	(2,392)	(2,303)	(501)	693
Impairment of goodwill	9	-	-	-	-
	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.3 PROFIT BEFORE TAXATION (CONTINUED)**

	← Year ended 31 December →			← Three (3) months ended →	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Depreciation and amortisation	1,318	2,679	2,391	312	223
Foreign exchange gain-Unrealised	39	144	39	144	-
Loss/(Gain) on disposal of property, plant and equipment	126	(6)	-	-	-
Rental of equipment	105	109	97	9	20
Rental of premises	1,228	266	392	122	72
Rental income	(126)	-	(60)	(30)	-
Staff costs (excluding Directors' remuneration)	1,819	2,555	2,905	847	636

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

9.4 TAXATION**(a) Component of the tax expense:**

	← Year ended 31 December →			← Three (3) months ended →	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Current tax expense					
- Current year	1,615	4,485	4,035	1,665	631
- Prior year	(7)	86	60	(910)	-
	1,608	4,571	4,095	755	631
Deferred tax expense					
Relating to (reversal)/ origination of temporary differences in prior years	168	(751)	741	(118)	17
Over provision in prior year/period	-	-	-	760	33
	168	(751)	741	642	50
Total tax expenses	1,776	3,820	4,836	1,397	681

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.4 TAXATION (CONTINUED)****(b) Reconciliation of taxation at statutory tax rate to effective tax rate**

	← Year ended 31 December →			← Three (3) months ended →	
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000	# 31/3/07 RM'000
Profit before taxation	5,306	12,543	15,562	5,984	2,217
<i>Tax rate</i>	28%	28%	27%	26%	27%
Income tax	1,485	3,512	4,202	1,556	599
Tax effects in respect of :-					
Non deductible expenses	298	313	623	151	69
Deferred tax benefit not recognized	-	-	-	1	(7)
Change in tax rate	-	-	(7)	(35)	11
Different tax rates in other country	-	-	-	(2)	-
Income subject to tax rate of 20%	-	(91)	(147)	(124)	(24)
	1,783	3,734	4,671	1,547	648
(Over)/Underprovision in respect of previous year:-					
Income tax	(7)	86	60	(910)	-
Deferred taxation	-	-	105	760	33
Tax expense	1,776	3,820	4,836	1,397	681

The three (3) months financial period ended 31 March 2007 was unaudited and stated for comparative purpose.

9.5 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Net book value
	RM'000	RM'000	RM'000
31.12.2005			
Plant and machinery	4,302	1,207	3,095
Computers	546	268	278
Furniture and fittings and signboard	253	66	187
Office equipment	161	44	117
Motor vehicles	525	407	118
Renovation	843	456	387
Telecommunication equipment	104	73	31
	6,734	2,521	4,213

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	RM'000	RM'000	RM'000
<u>31.12.2006</u>			
Plant and machinery	9,196	3,047	6,149
Computers	709	410	299
Furniture and fittings and signboard	261	92	169
Office equipment	187	62	125
Motor vehicles	1,005	567	438
Renovation	843	625	218
Telecommunication equipment	161	105	56
Vessel	11,888	-	11,888
	<u>24,250</u>	<u>4,908</u>	<u>19,342</u>
<u>31.12.2007</u>			
Plant and machinery	10,447	5,136	5,311
Computers	1,030	614	416
Furniture and fittings and signboard	383	129	254
Office equipment	310	94	216
Motor vehicles	1,100	787	313
Renovation	1,346	886	460
Telecommunication equipment	244	154	90
Vessel	16,225	1,182	15,043
Land and buildings	2,429	-	2,429
	<u>33,514</u>	<u>8,982</u>	<u>24,532</u>
<u>31.3.2008</u>			
Plant and machinery	10,457	5,659	4,798
Computers	1,071	668	403
Furniture and fittings and signboard	385	139	246
Office equipment	332	102	230
Motor vehicles	1,100	842	258
Renovation	1,408	956	452
Telecommunication equipment	244	166	78
Vessel	16,265	1,775	14,490
Land and buildings	2,429	-	2,429
	<u>33,691</u>	<u>10,307</u>	<u>23,384</u>

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.6 PREPAID LAND LEASE**

The land is charged as securities for banking facilities as referred to Note 9.13 and Note 9.16 (b)

9.7 DEFERRED EXPENDITURE

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
At beginning of year	-	1,104	1,476	1,093
Incurred during the year	1,104	624	23	-
Less: Amortisation	-	(252)	(406)	(141)
At 31 December/ 31 March	<u>1,104</u>	<u>1,476</u>	<u>1,093</u>	<u>952</u>

9.8 DEPOSITS

Deposits relate to acquisition of properties.

9.9 DEFERRED TAX (ASSETS)/LIABILITIES

Presented after appropriate offsetting as follows:-

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	-	(774)	(901)	(28)
Deferred tax liabilities	227	250	1,118	887
At 31 December/ 31 March	<u>227</u>	<u>(524)</u>	<u>217</u>	<u>859</u>

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

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
<u>Deferred tax assets</u>				
Business losses	-	(718)	(731)	(28)
Capital allowances	-	(56)	(170)	-
At 31 December/ 31 March	<u>-</u>	<u>(774)</u>	<u>(901)</u>	<u>(28)</u>
<u>Deferred tax liabilities</u>				
Property, plant and equipment	227	118	992	799
Deferred expenditure	-	132	126	88
At 31 December/ 31 March	<u>227</u>	<u>250</u>	<u>1,118</u>	<u>887</u>

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.10 TRADE AND OTHER RECEIVABLES**

	← As at →			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Trade receivables (Note 9.10 (a))	13,722	2,985	7,742	16,407
Amount due from customers (Note 9.10 (c))	53,394	62,010	110,892	115,830
Other receivables				
Other receivables	80	316	1,690	1,909
Deposits	211	230	303	304
Prepayments	-	1	675	563
	291	547	2,668	2,776
	67,407	65,542	121,302	135,013

(a) Trade Receivables

As at	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Trade receivables	13,722	2,985	7,742	16,407
Provision for doubtful debts	-	-	-	-
Total net trade receivables	13,722	2,985	7,742	16,407
Revenue	77,339	143,212	143,231	40,771
% of trade receivables to revenue	17.74	2.08	5.41	* 10.06
Trade receivables turnover period (month) ^	1.67	0.70	0.45	* 0.89

^ Based on average trade receivables over revenue

* Annualised

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.10 TRADE AND OTHER RECEIVABLES (CONTINUED)****(b) Trade receivables detailed ageing report as of 31 March 2008**

	Within credit period					Total (RM'000)
	0 -30 days	31 -60 days	61 -90 days	90 -120 days	>120 days	
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	
Trade receivables	14,338	792	1,203	-	74	16,407
Provision for doubtful debts	-	-	-	-	-	-
Total net trade receivables	14,338	792	1,203	-	74	16,407
% of total trade receivables	87.4%	4.8%	7.3%	0.0%	0.5%	100%
Retention sum *	-	-	-	513	-	513

* This relates to the retention sum for Petronas Methanol Labuan Sdn Bhd project for the Procurement, Construction and Commissioning for LGAST and Pipeline Project. The retention sum will be released within 30 days following the end of the defects Liability Period. Defect liability period shall be twelve (12) calendar months from issuance of the Notice of Initial Acceptance (not later than 19 May 2008).

(c) Amount due from customers

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Cost incurred to date	84,455	130,367	302,657	320,482
Add: Attributable profits	7,729	21,237	53,384	61,711
	92,184	151,604	356,041	382,193
Less: Progress billings	(38,790)	(89,594)	(245,149)	(266,363)
Amount due from customers	53,394	62,010	110,892	115,830
Retention sums on contracts, included within trade receivables (Note 9.10 (b))	-	-	513	513

9.11 DEPOSITS AT LICENSED BANKS

The weighted average effective interest rate of deposits at the balance sheet date ranged from 3.0% to 3.7% per annum.

The fixed deposits are maintained in designated accounts and can be utilised in accordance to the term of Sukuk Musyarakah as referred to Note 9.15

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.12 CASH AND BANK BALANCES**

Cash and bank balances are maintained in designated accounts and can be utilised in accordance to the terms of Sukuk Musyarakah as referred to Note 9.15

9.13 BANK OVERDRAFT AND BILLS PAYABLE

Bank overdrafts and bills payable facility of the Group are secured as follows:-

- Fixed deposits of the Group;
- Legal charges over properties belonging to the Group; and
- Joint and several guarantee by the Directors of the Group.

The facilities bear interest at the following rates per annum:-

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
Bank overdrafts	8.90%	8.75%	8.75%	9.00%-8.75%
Bills payable	8.90%	8.00%	8.00%	8.00%

9.14 TRADE AND OTHER PAYABLES

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Trade payables (Note 9.14 (a))	38,114	39,345	69,037	83,517
Other payables				
Other payables	195	1,505	549	408
Accruals	5,232	1,416	767	1,619
	5,427	2,921	1,316	2,027
	43,541	42,266	70,353	85,544

(a) Trade Payables

As at	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Trade payables	38,114	39,345	69,037	83,517
Cost of sales	64,110	118,435	112,379	32,352
% of trade payables to cost of sales	59.45	33.22	61.43	* 64.54
Trade payables turnover period (month) ^	5.71	3.92	5.79	* 7.07

^ Based on average of trade payables over cost of sales

* Annualised

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.14 TRADE AND OTHER PAYABLES (CONTINUED)****(b) Trade payables detailed ageing report as of 31 March 2008**

	Within credit period			Exceeded credit period	Total RM'000
	0-30 days RM'000	31-60 days RM'000	61-90 days RM'000	> 91 days RM'000	
Trade payables	* 48,694	3,715	31,104	4	83,517
% of total trade payables	58.3%	4.4%	37.2%	0.1%	100%

* Including accrued cost amounted to RM34,964,037.

9.15 BONDS

On 23 December 2005, a subsidiary, VCSB issued RM100 million nominal value Sukuk Musyarakah bonds for the Company's additional working capital purpose.

Issued in 4 series, the principal terms of the Sukuk Musyarakah are as follows:-

- a) Tenure – multiple maturities ranging from 2 years to 5 years
- b) Coupon/profit evaluation rate – from 4.75% to 5.75% per annum
- c) The bond is secured as follows:-
 - i) Memorandum of charge over the Proceeds Account (under the name of the holding company) and Designated Accounts pertaining to the issuance of Sukuk Musyarakah.
 - ii) Mortgage in respect of a vessel owned by the Company or a related company.

The maturity of Sukuk Musyarakah is as follows:-

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Payable within 1 year	-	25,000	25,000	25,000
Payable after 1 year but not later than 5 years	100,000	75,000	50,000	50,000
	<u>100,000</u>	<u>100,000</u>	<u>75,000</u>	<u>75,000</u>
Presented as:-				
Current liabilities	-	25,000	25,000	25,000
Non current liabilities	100,000	75,000	50,000	50,000
	<u>100,000</u>	<u>100,000</u>	<u>75,000</u>	<u>75,000</u>

The weighted average effective interest rate at the balance sheet date for the Sukuk Musyarakah is 5.35% per annum.

10. ACCOUNTANTS' REPORT (Cont'd)



NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)

9.16 OTHER SHORT/LONG TERM BORROWINGS

	← As at →			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
<u>Current liabilities</u>				
Finance creditors	71	460	463	509
Term loans	-	-	194	464
	71	460	657	973
<u>Non current liabilities</u>				
Finance creditors	50	1,426	1,037	869
Term loans	-	-	2,578	8,262
	50	1,426	3,615	9,131

(a) Finance creditors

	← As at →			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Payable within 1 year	79	584	547	587
Payable after 1 year but not later than 5 years	55	1,452	957	867
Payable after 5 years	-	133	167	69
	134	2,169	1,671	1,523
Interest in suspense	(13)	(283)	(171)	(145)
	121	1,886	1,500	1,378
Presented as:-				
Current liabilities	71	460	463	509
Non current liabilities	50	1,426	1,037	869
	121	1,886	1,500	1,378

10. ACCOUNTANTS' REPORT (Cont'd)



NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)

9.16 OTHER SHORT/LONG TERM BORROWINGS (CONTINUED)

(b) Term loans

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Payable within 1 year	-	-	194	464
Payable after 1 year but not later than 5 years	-	-	1,006	2,940
Payable after 5 years	-	-	1,572	5,322
	-	-	2,772	8,726
Presented as:-				
Current liabilities	-	-	194	464
Non current liabilities	-	-	2,578	8,262
	-	-	2,772	8,726

9.17 SHARE CAPITAL

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
Authorised:-				
Ordinary shares of RM1 each	5,000	5,000	5,000	5,000
Issued and fully paid-up:-				
Ordinary shares of RM1 each				
At beginning of year/period	3,000	5,000	5,000	5,000
Bonus issue	2,000	-	-	-
At 31 December/ 31 March	5,000	5,000	5,000	5,000

9.18 OTHER RESERVE

	As at			
	31/12/05 RM'000	31/12/06 RM'000	31/12/07 RM'000	31/3/08 RM'000
<u>Foreign currency translation</u>				
At beginning of year/period	-	-	-	(158)
Incurred during the year/period	-	-	(158)	(56)
At 31 December/ 31 March	-	-	(158)	(214)

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.18 OTHER RESERVE (CONTINUED)**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of a foreign operation whose functional currency is different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operation, where the monetary items is denominated in either the functional currency of the reporting entity or the foreign operation.

9.19 COMMITMENT

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
Approved and contracted for:-				
Commitment to purchase a piece of land	-	-	9,000	-

9.20 CONTINGENT LIABILITIES

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
Being claim from a third party in dispute #	-	2,624	2,624	2,624

The abovementioned claim is being handled by the Group's solitors and based on the facts and merits of the abovementioned suits, it is the Directors' opinion that the Group has sufficient grounds to resist the Plaintiff's claim since the Plaintiff failed to furnish the supporting documents for their claims despite repeated requests by the Defendant.

9.21 SIGNIFICANT RELATED PARTY DISCLOSURE

	As at			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
<i>Significant transactions in which a Director has interest:-</i>				
Rental income	-	-	60,000	30,000
<i>Transaction with a company in which a director's immediate family member has interest:-</i>				
Provision of logistic services	3	18	7	-

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES TO THE FINANCIAL STATEMENTS OF VSB GROUP (CONTINUED)****9.22 FINANCIAL INSTRUMENTS****Credit risk**

The Group has significant exposure to a few large customers and as such a concentration of credit risks. The potential for default is however expected to be minimal as the customers are of high creditworthiness and of international reputation.

Foreign currency risk

The foreign currency exposure of trade receivables and amount due from customers is as follows:

	← As at →			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
United States Dollar	215	3,091	5,126	5,576

The foreign currency exposure of trade payables is as follows:

	← As at →			
	31/12/05	31/12/06	31/12/07	31/3/08
	RM'000	RM'000	RM'000	RM'000
United States Dollar	-	5	-	660

Fair values

The carrying amounts of all financial assets and liabilities of the Group at the balance sheet date approximate their fair values.

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10. ACCOUNTANTS' REPORT (Cont'd)



10. RESTATEMENTS TO THE AUDITED FINANCIAL STATEMENTS

No restatement has been made to the audited financial statements of VSB Group in the preparation of this report.


11. SUBSEQUENT EVENTS

Saved for the listing scheme as disclosed in Section 2, no events have occurred subsequent to 31 March 2008 that would require adjustments to, or disclosure in this report, which will affect materially the contents of this report.

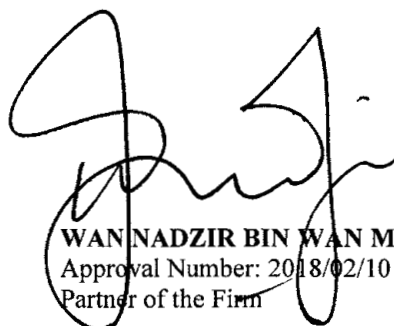
12. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 March 2008.

Yours faithfully,



WAN NADZIR & CO.
Firm Number: AF 1234
Chartered Accountants



WAN NADZIR BIN WAN MOHAMAD
Approval Number: 2018/02/10 (J)
Partner of the Firm

10. ACCOUNTANTS' REPORT (Cont'd)

WAN NADZIR & CO.
Chartered Accountants AF 1234

www.wannazir.com.my

APPENDIX I**AUDITORS' REPORT**

To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

We have audited the financial statements set out on pages 10 to 32 of Vastalux Sdn. Bhd.

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

In our opinion:-

- a) the financial statements have been prepared 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 the Company as at 31 December 2005 and of the results and cash flows of the Group and the Company for the financial year then ended; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements

and

- b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

10. ACCOUNTANTS' REPORT (Cont'd)



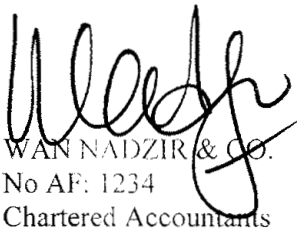
AUDITORS' REPORT (CONTINUED)

To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

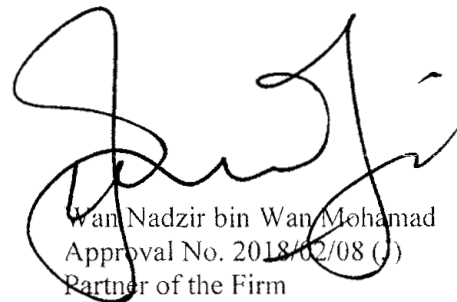
The financial statements of the previous year were audited by another auditor whose report dated 13 June 2005 gave an unqualified opinion.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the 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 company incorporated in Malaysia, did not include any comment (or any adverse comment) made under Subsection (3) of Section 174 of the Acts.

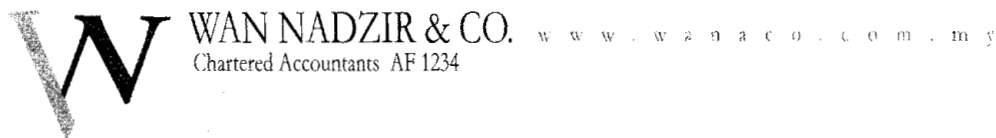


WAN NADZIR & CO.
No AF: 1234
Chartered Accountants



Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/08 (J)
Partner of the Firm

Shah Alam
Dated: 07 JUN 2006

10. ACCOUNTANTS' REPORT (Cont'd)**AUDITORS' REPORT****APPENDIX II**

To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

We have audited the financial statements set out on pages 9 to 36 of Vastalux Sdn. Bhd.

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 Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 prepared 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 the Company as at 31 December 2006 and of the results and cash flows of the Group and the Company for the financial year then ended; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements
- and
- b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

10. ACCOUNTANTS' REPORT (Cont'd)

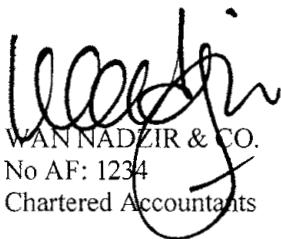


AUDITORS' REPORT (CONTINUED)

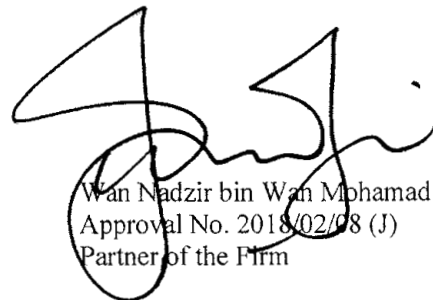
To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the 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 did not include any comment required to be made under Subsection (3) of Section 174 of the Act.



WAN NADZIR & CO.
No AF: 1234
Chartered Accountants



Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/08 (J)
Partner of the Firm

Shah Alam

Dated: 30 MAR 2007

10. ACCOUNTANTS' REPORT (Cont'd)

WAN NADZIR & CO.
Chartered Accountants AF 1234

www.wannadzir.com.my

APPENDIX III**AUDITORS' REPORT**

To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

We have audited the financial statements set out on pages 9 to 45 of Vastalux Sdn. Bhd.

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 Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 prepared 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 the Company as at 31 December 2007 and of the results and cash flows of the Group and the Company for the financial year then ended; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements

and

- b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

10. ACCOUNTANTS' REPORT (Cont'd)

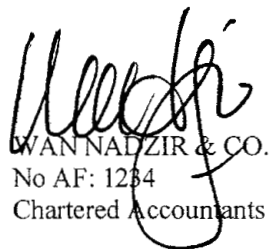


AUDITORS' REPORT (CONTINUED)

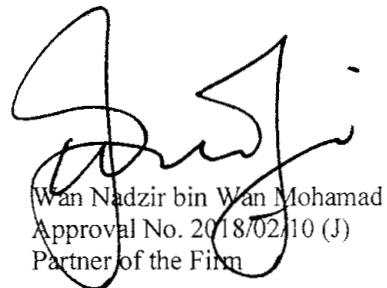
To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

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

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



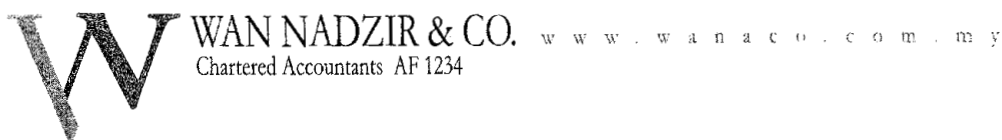
WAN NADZIR & CO.
No AF: 1284
Chartered Accountants



Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/10 (J)
Partner of the Firm

Shah Alam

Dated: 28 FEB 2008

10. ACCOUNTANTS' REPORT (Cont'd)**AUDITORS' REPORT****APPENDIX IV**

To the Members of Vastalux Sdn. Bhd. (Company No: 356570 - K)

We have audited the financial statements set out on pages 7 to 45 of Vastalux Sdn. Bhd. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit.

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

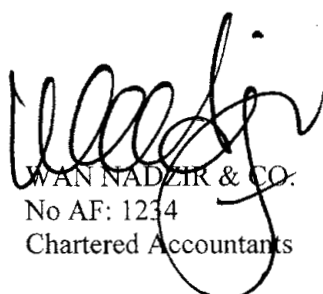
- a) the financial statements are properly drawn up in accordance with applicable Approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the Group and the Company as at 31 March 2008 and of the results and cash flows for the financial period from 1 January 2008 to 31 March 2008;

and

- b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries have been properly kept in accordance with the provisions of the Act.

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

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



WAN NADZIR & CO.
No AF: 1234
Chartered Accountants



Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/10 (J)
Partner of the Firm

Shah Alam

Dated: **25 JUN 2008**

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55100 Kuala Lumpur.
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Fax: 03-4270 2526

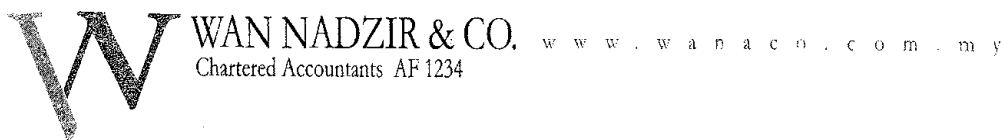
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Fax: 05-311 2237

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Pahang Darul Makmur.
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Fax: 09-516 3804

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Seksyen 48, Jalan Bayam,
15200 Kota Bharu,
Kelantan Darul Naim.
Tel: 09-747 3511 / 09-747 3512
Fax: 09-747 3518

Kuala Terengganu
No. 21C, Tingkat 1,
Jalan Tok Lam,
20100 Kuala Terengganu,
Terengganu Darul Iman.
Tel: 09-620 3560
Fax: 09-620 3561

10. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX V

AUDITORS' REPORT

To the Members of Vastalux Energy Berhad (Company No: 789373-V)

We have audited the financial statements set out on pages 9 to 17. 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.

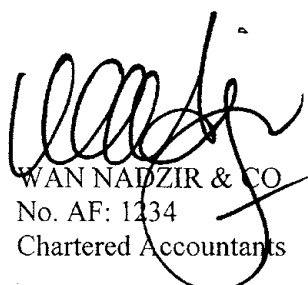
We conducted our audit in accordance with Approved Auditing Standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 prepared in accordance with the provisions of the Companies Act, 1965 and applicable Approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
 - i) the state of affairs of the Company as at 31 December 2007 and of the results and cash flows for the financial period from 22 September 2007 (date of incorporation) to 31 December 2007; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements

and

- b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

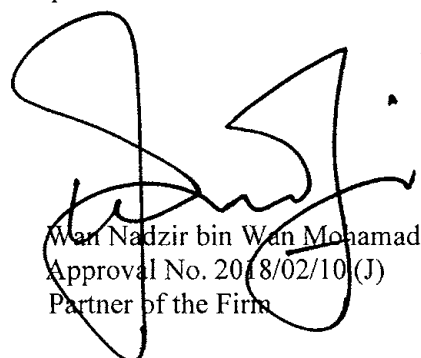


WAN NADZIR & CO
No. AF: 1234
Chartered Accountants

Shah Alam

Dated:

20 MAY 2008



Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/10 (J)
Partner of the Firm

Shah Alam
No. 1C, 3rd Floor, Block 1,
Worldwide Business Park,
Jalan Tinju 13/50, Section 13,
40675 Shah Alam,
Selangor Darul Ehsan.
Tel: 03-5511 7512
Fax: 03-5512 7513

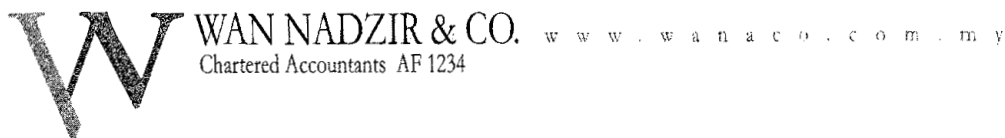
Kuala Lumpur
E-2, 2nd Floor, Excello Business Park,
Jalan Ampang Putra,
Taman Ampang Hill,
55100 Kuala Lumpur.
Tel: 03-4270 5754
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88, Jalan Lapangan Terbang
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31350 Ipoh,
Perak Darul Ridzuan.
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Fax: 05-311 2237

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824, Tingkat 2 Jalan Tun Ismail 1,
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Pahang Darul Makmur.
Tel: 09-516 3803
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Seksyen 48, Jalan Bayam,
15200 Kota Bharu,
Kelantan Darul Naim.
Tel: 09-747 3511 / 09-747 3512
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No. 21C, Tingkat 1,
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Terengganu Darul Iman.
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Fax: 09-620 3561

10. ACCOUNTANTS' REPORT (Cont'd)**APPENDIX VI****AUDITORS' REPORT**

To the Members of Vastalux Energy Berhad (Company No: 789373-V)

We have audited the financial statements set out on pages 7 to 15. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit.

We conducted our audit in accordance with Approved Auditing Standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 are properly drawn up in accordance with applicable Approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Company as at 31 March 2008 and of the results and cash flows for the financial period from 1 January 2008 to 31 March 2008; and
- b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

WAN NADZIR & CO.
No. AF : 1234
Chartered Accountants

Wan Nadzir bin Wan Mohamad
Approval No. 2018/02/10 (J)
Partner of the Firm

Shah Alam

Dated: **25 JUN 2008**

Shah Alam
No. 1C, 3rd Floor, Block 1,
Worldwide Business Park,
Jalan Tinju 13/50, Section 13,
40675 Shah Alam,
Selangor Darul Ehsan.
Tel: 03-5511 7512
Fax: 03-5512 7513

Kuala Lumpur
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Taman Ampang Hill,
55100 Kuala Lumpur.
Tel: 03-4270 5754
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Off Jalan Raja Dr. Nazrin Shah,
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Perak Darul Ridzuan.
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Pahang Darul Makmur.
Tel: 09-516 3803
Fax: 09-516 3804

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Lot 1001-E, Tingkat 1,
Seksyen 48, Jalan Bayam,
15200 Kota Bharu,
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Fax: 09-747 3518

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No. 21C, Tingkat 1,
Jalan Tok Lam,
20100 Kuala Terengganu,
Terengganu Darul Iman.
Tel: 09-620 3560
Fax: 09-620 3561

11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORTS

(Prepared for inclusion in the Prospectus)



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

29 July 2008

The Board of Directors
Vastalux Energy Berhad
Level 7, Tower Block
Plaza Dwi Tasik
No 21 Jalan Sri Permaisuri
Bandar Sri Permaisuri
56000 Cheras
Kuala Lumpur

Dear Sirs

Independent Assessment of the Offshore Supporting Services for the Oil and Gas Industry, focusing on Offshore Hook-up and Commissioning, and Topsides Maintenance

The following is a summary of the independent assessment of the Offshore Supporting Services for the Oil and Gas Industry, focusing on Offshore Hook-up and Commissioning, and Topsides Maintenance in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Vastalux Energy Berhad (herein together with all its subsidiaries will be referred as Vastalux Group or the Group) in relation to its listing on the Second Board of the Bursa Malaysia Securities Berhad.

1. BACKGROUND

- The principal business activities of Vastalux Group is in the provision of Offshore and Onshore Supporting Services for the Upstream and Downstream sectors in the Oil and Gas Industry covering the following areas:
 - Provision of Offshore Hook-up and Commissioning;
 - Provision of Offshore Topsides Maintenance Services;
 - Minor Fabrication Works;
 - Underwater Structural Inspection Services;
 - Onshore Construction of Oil and Gas Plants.
- For the financial year ended 31 December 2007, Vastalux Group's revenue amounted to RM143.2 million.
- Offshore Hook-up and Commissioning and Topsides Maintenance Services accounted for 74.6% of Vastalux Group's business for the financial year ended 31 December 2007. As such, the report will cover Offshore Hook-up and Commissioning and Topsides Maintenance sectors, which is part of the Offshore Supporting Services Industry under the broad umbrella of the Oil and Gas Industry.

Vital Factor Consulting Sdn Bhd
(Company No.: 266797-T)

75C & 77C Jalan SS22/19
Damansara Jaya
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11. EXECUTIVE SUMMARY OF THE INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORTS (Cont'd)

(Prepared for inclusion in the Prospectus)



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2. INDUSTRY STRUCTURE

2.1 Offshore Supporting Services Industry Structure

- The Offshore Supporting Services for the Oil and Gas Industry can be further segmented as follows:

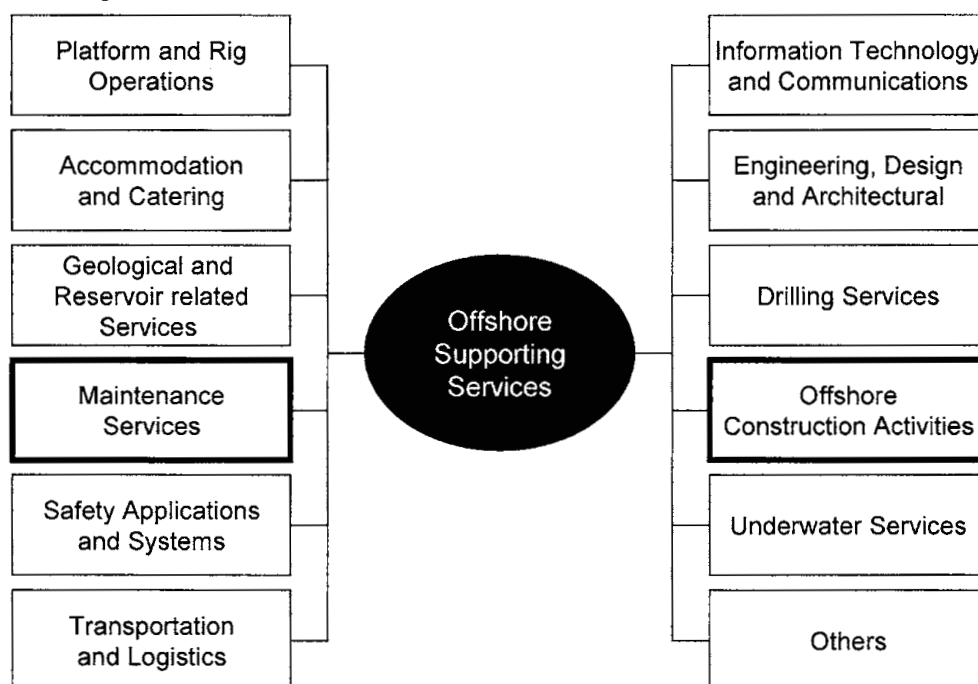


Figure 1 Structure of Offshore Supporting Services for the Oil and Gas Industry

- Offshore Supporting Services involve the provision of various forms of services to support to the Oil and Gas Industry from exploration and production of hydrocarbon fluids to the transportation of hydrocarbon using vessels or offshore pipelines.
- Vastalux Group is principally involved in the provision of Offshore Hook-up and Commissioning and Topside Maintenance Services, which are classified under Offshore Construction and Offshore Maintenance Services respectively.
- Offshore Maintenance Services** comprised various different types of maintenance works for offshore structures and facilities. Some of the examples of Offshore Maintenance Services include mechanical maintenance such as **piping/structural fabrication and welding services, topside structural maintenance**, rotating and stationery equipment, storage tanks, hoses, single buoy mooring systems, and electrical maintenance (such as industrial facilities and equipment), instrument maintenance on pneumatic or hydraulic instrument systems, fire detection system, and other types of maintenance (such as grit blasting, materials preservation, repairing of lifting equipment and others).

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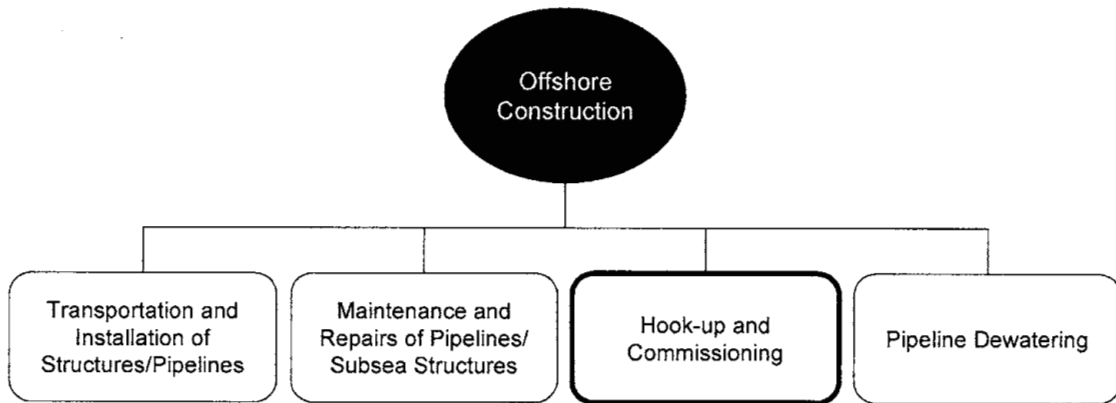



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- **Offshore Construction activities** include installation of structures and pipeline, maintenance and repairing of pipelines and sub-sea structure, hook-up and commissioning, and pipeline dewatering.

2.2 Offshore Construction

- The Offshore Construction activities undertaken in Malaysia can be further classified into the following:



 Vastalux Group's core business

Source: PETRONAS

Figure 2 Offshore Construction Activities

- There are four main categories of Offshore Construction activities undertaken in Malaysia Offshore Oil and Gas Industry:
 - Transportation and Installation of Structures/Pipelines
 - Maintenance and Repairs of Pipelines/Subsea Structures
 - **Hook-up and Commissioning**
 - Pipeline Dewatering.
- Provision of Offshore Hook-up and Commissioning is one of the core business activities of Vastalux Group.

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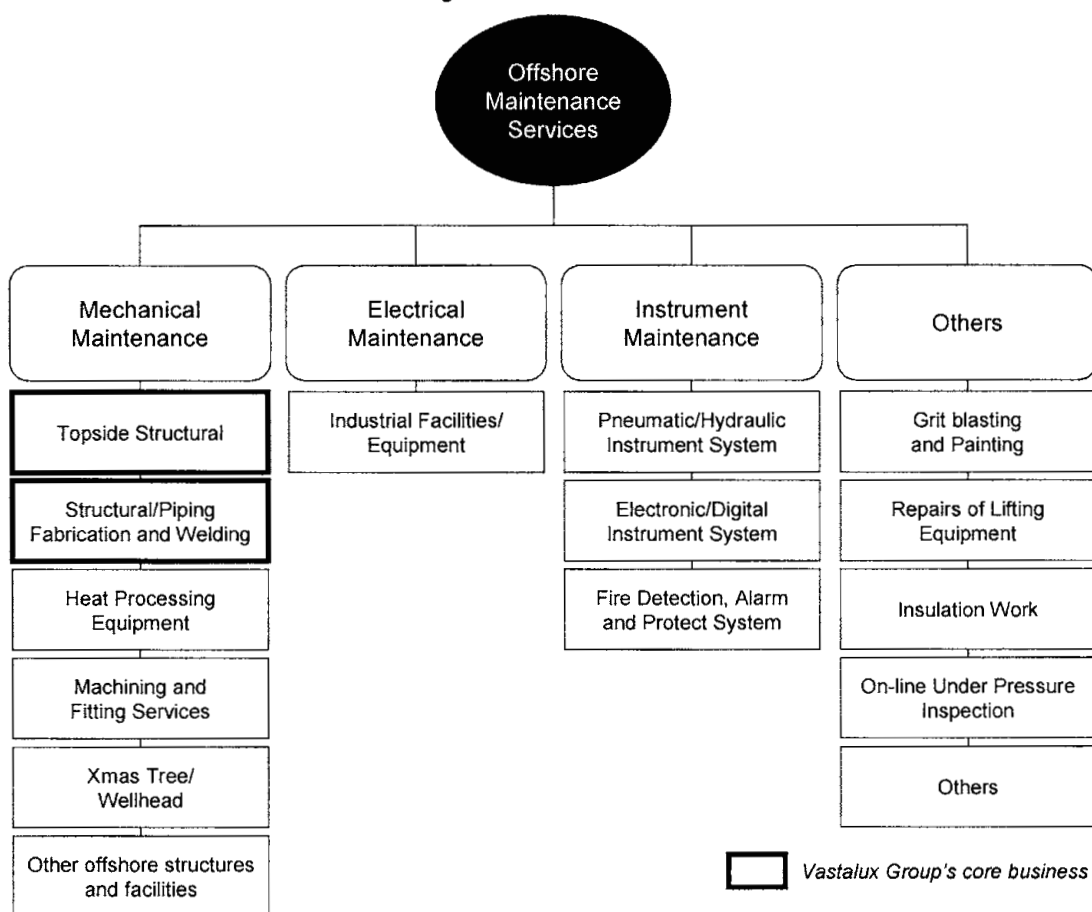
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2.3 Offshore Maintenance Services

- Some of major Offshore Maintenance activities undertaken for offshore structures and facilities in Oil and Gas Industry Malaysia can be further classified into the following:



Source: PETRONAS

Figure 3 Segmentation of Offshore Maintenance Services

- Some of the main types of Offshore Maintenance Services that are provided to support Malaysia's Oil and Gas Industry are as follows:
 - Mechanical Maintenance
 - Topside Structural
 - Structural/piping fabrication and welding
 - Maintenance on heat processing equipment
 - Machining and fitting services
 - Maintenance on Xmas tree/wellhead
 - Maintenance on other offshore structures and facilities (such as rotating and stationery equipment, valves, single buoy mooring systems, hoses, columns, pressure vessels, reactor and drum, surface preparation and maintenance of all nuts and bolts, pipe flanges, and others)