



PERISAI

Value Creating Technologists...



Annual Report 2006

Perisai Petroleum Teknologi Bhd
632811-X

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NOTICE OF

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fourth Annual General Meeting of PERISAI PETROLEUM TEKNOLOGI BHD. ("Perisai" or the "Company") will be held at Anggerik Room, 4th Floor, Hotel Equatorial Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 27 June 2007 at 10.30 a.m. to transact the following businesses: -

AGENDA**ORDINARY BUSINESS**

- 1 To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon. **(Ordinary Resolution 1)**
- 2 To approve the payment of Directors' fees for financial year ended 31 December 2006. **(Ordinary Resolution 2)**
- 3 To re-elect the following Directors who are retiring in accordance to the Company's Articles of Association and being eligible offer themselves for re-election:

Under Article 93:

 - I. Nagendran A/L C Nadarajah **(Ordinary Resolution 3)**
 - II. Tengku Daud Shaifuddin Bin Tengku Zainudin **(Ordinary Resolution 4)**
- 4 To re-appoint Messrs. Kumpulan Naga as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 5)**

SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions, with or without modifications, as Resolutions of the Company:

- 5 **AUTHORITY UNDER SECTION 132D OF THE COMPANIES ACT, 1965 FOR THE DIRECTORS TO ISSUE SHARES** **(Ordinary Resolution 6)**

"THAT pursuant to Section 132D of the Companies Act, 1965 ("Act") and subject always to the approval of the relevant authorities, if any, the Directors be and are hereby empowered to issue ordinary shares of RM0.10 each in the Company ("Shares") from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of Shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional Shares issued on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") and that such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company."

6 PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR EXISTING RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR ADDITIONAL RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE. (Ordinary Resolution 7)

"THAT, subject always to the provisions of the Act, the Memorandum & Articles of Association of the Company, the Listing Requirements of Bursa Securities for the MESDAQ Market ("Listing Requirements") and the regulations, guidelines and guidance notes issued from time to time by Bursa Securities or any other regulatory authorities, approval be and is hereby given for Perisai and its subsidiaries ("Perisai RRPT Group") to enter into recurrent related party transactions of a revenue or trading nature in the ordinary course of business which are necessary for the day-to-day operations of the Perisai RRPT Group as specified in Part A under Section 2.3 of the Company's Circular to shareholders dated 4 June 2007 ("Circular") on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders and that authority conferred by this resolution shall take effect immediately upon the passing of this resolution and the shareholders' mandate shall continue to be in force until:

- (i) the conclusion of the next AGM of Perisai following this AGM at which the ordinary resolution for the shareholders' mandate was passed, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;
- (ii) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is earlier.

AND THAT, authority be and is hereby given to the Directors of the Company to complete and do all such acts and things (including executing such documents as may be required) to give effect to such transactions as authorised by this ordinary resolution.

AND THAT, as the estimates given on the recurrent related party transactions specified in Part A under Section 2.3 of the Circular are provisional in nature, the Directors and/or any of them be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in Part A under Section 2.4 of the Circular.

7 PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION (Special Resolution 8)

"That approval be and is hereby given for the Company to amend its Articles of Association in the form set out in Part B of the Circular to shareholders dated 4 June, 2007

AND THAT the Directors of the Company and/or anyone of them be authorized with full powers to assent to any conditions, modifications, variations and /or amendments as may be required by Bursa Malaysia Securities Berhad (Bursa Securities) and any other relevant authorities and to do all such acts and things and to take such steps that are necessary or expedient to give effect to the amendments to the Articles of Association of the Company."

- 8 To transact any other business for which due notice has been given

BY ORDER OF THE BOARD

Terwander Singh a/l Badan Singh (MAICSA 0780838)
Company Secretary

Kuala Lumpur
4 June 2007

I. NOTES ON APPOINTMENT OF PROXY:

1. *A member of the Company entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend and vote on his/her behalf.*
2. *A Proxy or attorney or corporate representative need not be a member of the Company and if not a member he/she need not be a qualified legal practitioner, an approved Company Auditor or a person approved by the Registrar.*
3. *A member shall be entitled to appoint more than two (2) proxies to attend and vote at the same meeting.*
4. *Where a member appoints two or more proxies, the appointments shall be invalid unless the proportion of the holding to be represented by each proxy is specified.*
5. *Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.*
7. *The instrument of Proxy, together with the power of attorney (if any) under which it is signed or a certified copy thereof, shall be deposited at the Registered Office of the Company, at Suite 2, Penthouse, Lobby A, Wisma Leopad, No. 9, Jalan Tun Sambanthan, 50470 Kuala Lumpur, not less than forty-eight (48) hours before the time of meeting or any adjournment thereof.*

II. EXPLANATORY NOTES ON SPECIAL BUSINESS:

RESOLUTION 6

Resolution Pursuant to Section 132D of the Companies Act, 1965

The ordinary resolution proposed under Ordinary Resolution 6, if passed, will give the Directors of the Company immediate authority to allot and issue ordinary shares from the unissued share capital of the Company up to an aggregate amount not exceeding 10% of the issued capital of the Company for the time being for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the shareholders of the Company in the general meeting, would expire at the conclusion of the next AGM.

RESOLUTIONS No. 7 and No. 8

The explanatory notes on Resolutions No. 7 and No. 8 are set out in the Circular to Shareholders dated 4 June, 2007 accompanying the Company's Annual Report for the year 2006

STATEMENT ACCOMPANYING

NOTICE OF ANNUAL GENERAL MEETING

1. The Directors who are standing for re-election pursuant to Articles 93 of the Company's Articles of Association are:

Under Article 93:

- (i) Nagendran A/L C. Nadarajah
- (ii) Tengku Daud Shaifuddin Bin Tengku Zainudin

The aforesaid Directors' shareholdings are set out on page 88 of this Annual Report. Further details of the Directors are set out in the Profile of Directors on page 8 to 11 of this Annual Report.

2. Attendance of Board of Directors' Meetings

A total of six (6) Board Meetings were held during the financial year from 1 January 2006 to 31 December 2006. Details of attendance can be found on page 23 of the Annual Report.

3. Place, Date and Time of the Annual General Meeting

The Fourth Annual General Meeting will be held at Anggerik Room, 4th Floor, Hotel Equatorial Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 27 June 2007 at 10.30 a.m.

CORPORATE
INFORMATION**BOARD OF DIRECTORS**

Dato' Dr. Mohamed Ariffin Bin Hj. Aton
(Independent Non-Executive Chairman)

Nagendran A/L C. Nadarajah
(Managing Director)

Yogesvaran A/L T. Arianayagam
(Non-Independent Non-Executive Director)

Chan Feoi Chun
(Independent Non-Executive Director)

Tengku Daud Shaifuddin Bin Tengku Zainudin
(Executive Director)

Mohd. Jeffrey De Jong Bin Abdullah
(Executive Director)

Juhari Bin Husin
(Alternate Director to Tengku Daud Shaifuddin Bin Tengku Zainudin)

AUDIT COMMITTEE

Chan Feoi Chun
~ Chairman

Dato' Dr. Mohamed Ariffin Bin Hj. Aton
~ Member

Yogesvaran A/L T. Arianayagam
~ Member

SECRETARY

Terwander Singh a/l Badan Singh

REGISTERED OFFICE

Suite 2, Penthouse, Lobby A,
Wisma Leopad,
No. 9, Jalan Tun Sambanthan,
50470 Kuala Lumpur.
Tel : 03-22731702
Fax : 03-22601906

PRINCIPAL PLACE OF BUSINESS

Lot No. 9, Jalan P10/15,
Kawasan Perindustrian
MIEL, Fasa 4,
43680 Bandar Baru Bangi,
Selangor Darul Ehsan.
Tel : 03-89261268
Fax : 03-89255268
Website : www.perisai.biz
E-mail : admin@perisai.biz

REGISTRAR

Mega Corporate Services Sdn. Bhd.
Level 15-2 Faber Imperial Court,
Jalan Sultan Ismail,
50250 Kuala Lumpur.
Tel : 03-26924271
Fax : 03-27325388

SOLICITORS

Paul Cheah & Associates
Kamarudin & Partners

PRINCIPAL BANKERS

Malayan Banking Berhad
HSBC Bank Malaysia Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Bhd.

AUDITORS

Kumpulan Naga
Chartered Accountants
Suite 1, 1st Floor Wisma Leopad,
No. 5, Jalan Tun Sambanthan,
50470 Kuala Lumpur.
Tel : 03-22746577
Fax : 03-22731710

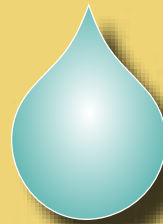
SPONSOR

RHB Investment Bank Berhad
(formerly known as RHB Sakura Merchant Bankers Berhad)
Level 8 Tower Three RHB Centre,
Jalan Tun Razak,
50400 Kuala Lumpur.
Tel : 03-92873888

STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Malaysia Securities Berhad

GROUP
STRUCTURE



Perisai Petroleum Teknologi Bhd
632811-X



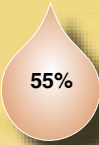
Corro-Shield (SEA) Sdn Bhd
(formerly known as Fibaroll (SEA)
Sdn Bhd 259263-P)



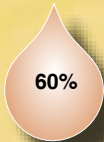
**Bio-X
Technologies
Sdn Bhd**
644538-W



Romilly (M) Sdn Bhd
477626-H



**Allied Marine &
Equipment Sdn
Bhd**
176294-K



**Corro-Shield
(M) Sdn Bhd**
383695-M



**Merit Composites
Sdn Bhd**
624928-P



**Alpha Perisai
Sdn Bhd**
700769-U



**Orinippon Trading
Sdn Bhd**
478158-M



**Perisai Research
Sdn Bhd**
732557-V



Perisai (L) Inc
LL04478



Corro-Pro (L) Inc
LL04771

PROFILE OF DIRECTORS

Dato' Dr. Mohamed Ariffin Bin Hj. Aton

Dato' Dr. Mohamed Ariffin Bin Hj. Aton, aged 62, a Malaysian, was appointed to the Board of PPTB as an Independent Non-Executive Director on 1 June 2004. He attended four (4) of the six (6) Board Meetings held in the financial year under review. He is the Chairman of the Risk Management Committee and a member of the Audit Committee and Nomination Committee. He holds a Doctrate in Chemical Engineering from the University of Leeds. Dato' Dr. Mohamed Ariffin started his professional career as a process engineer with Esso Refinery in Port Dickson in 1970. In November 1975, he joined the academia, as a Lecturer in Chemical Technology, Chemistry Department at Universiti Kebangsaan Malaysia ("UKM"). After numerous appointments he left UKM in 1989 when he was the Dean (Founder) of the Engineering Faculty and professor to join Petronas Research & Scientific Services Sdn. Bhd. ("PRSS") as the Deputy Director Downstream. Upon the corporatisation of PRSS in 1994 he was appointed as the Managing Director/Chief Executive Officer. He was subsequently appointed as the President and Chief Executive Officer of SIRIM Berhad ("SIRIM") in September 1996. He also serves as the Chairman of a number of SIRIM subsidiaries,

namely SIRIM QAS International Sdn Bhd, SIRIM Training Services Sdn Bhd, Sime SIRIM Technologies Sdn Bhd and also the Chairman of MIGHT Technology Nurturing Sdn Bhd.

Dato' Dr. Mohamed Ariffin is the President of the Malaysian Association of Research Scientists (MARS) and he sits in various national committees such as National Council For Scientific Research & Development, Selangor Information Technology Council, Malaysian Scientific & Technology Information Council, Government IT & Internet Committee, Malaysian Nuclear Technology Advisory Board, the Asian Pacific Centre for Transfer of Technology (APCTT) and Malaysian Standards & Accreditation Council. Dato' Dr. Mohamed Ariffin is a Member of the Industrial Advisory Board for University of Nottingham Malaysia Campus as well as a special professor of the University.

He also sits on the Board of Titan Chemicals Corp. Bhd., Sime Engineering Services Bhd and MEMS Technology Berhad, as well as a number of other private limited companies.

Nagendran A/L C. Nadarajah

Nagendran A/L C. Nadarajah, aged 53, a Malaysian, was appointed to the Board of PPTB as an Executive Director on 1 June 2004 and was appointed Managing Director with effect from 5 February 2007. He attended six (6) of the six (6) Board Meetings held in the financial year under review. He is a member of the Nomination Committee. He is a Fellow member of the Chartered Association of Certified Accountants and has a Master in Business Administration, majoring in Finance from the City University, London.

His last position with Perisai was Group Finance Director. He is also responsible for sales and marketing efforts with a specific task of developing the overseas market for the Group's products and solutions. He has worked for over 22 years under various capacities in the oil and gas industry, commerce and educational establishments, mostly in the UK and Africa. Nagendran is also in the Corrosion Control Solution Committee of the R&D team and was involved in the development of the CorroCap™ and Composite Sleeve Repair.

Yogesvaran A/L T. Arianayagam

Yogesvaran A/L T. Arianayagam, aged 55, a Malaysian, was appointed to the Board of PPTB as a Non-Independent Non-Executive Director on 30th October 2003. He attended six (6) of the six (6) Board Meetings held in the financial year under review. He is the Chairman of the Nomination Committee and Remuneration Committee and a member of the Audit Committee. He is a Fellow of the Chartered Institute of Management Accountants, UK (CIMA), a Chartered Accountant with the Malaysian Institute of Accountants and an Associate Member of the British Institute of Management.

He started his professional career in 1974 as a Management Accountant with British Steel Corporation, England. Upon his return to Malaysia in 1976, he joined Aseambankers Malaysia

Berhad and was the Head of the Corporate Finance Division. He left Aseambankers Malaysia Berhad in May 1984 and joined Sampoorna Holdings Berhad as its Chief Executive Officer. In November 1989, he joined Murninvest Sdn Bhd as Managing Director and subsequently in January 2003 he joined Asian Pac Management Sdn Bhd as its Managing Director. A. Yogesvaran brings along 26 years of experience in Corporate Finance, Financial Management and in Mergers and Acquisitions.

A. Yogesvaran currently sits on the Board of Multi Purpose Insurance Berhad and on the Boards of a number of private limited companies in Malaysia, Singapore, New Zealand and India.

Chan Feoi Chun

Chan Feoi Chun, aged 54, a Malaysian, was appointed to the Board of PPTB as an Independent Non-Executive Director on 6 June 2005. He attended six (6) of the six (6) Board Meetings held in the financial year under review. He is the Chairman of the Audit Committee and a member of the Nomination Committee, Remuneration Committee and Risk Management Committee. He is a Fellow of the Chartered Institute of Management Accountants, UK (CIMA), a Member of the Malaysian Institute of Accountants and a Graduate member of the Institute of Chartered Secretaries and Administrators UK (ICSA). He also holds a Master of Business Studies (Banking & Finance) from University College Dublin, Ireland.

He is currently employed as the Chief Executive Officer of Swiss Garden International Vacation Club Bhd. He held various senior positions in PJD Holdings Berhad Group of Companies. Prior to joining the PJD Group in 1994, he held senior management positions in the financial services Group of MBF Holdings. Mr. Chan who has international working experience in Britain and Thailand brings along 25 years experience in areas of financial management and business re-engineering.

He is the honorary treasurer of CIMA, Malaysia Division and Chairman of the Student Development Committee.

Tengku Daud Shaifuddin Bin Tengku Zainudin

Tengku Daud Shaifuddin Bin Tengku Zainudin, aged 48, a Malaysian, was appointed to the Board of PPTB as an Executive Director on 1 June 2004. He attended five (5) of the six (6) Board Meetings held in the financial year under review. He is a member of the Risk Management Committee. He has more than fifteen years of experience in the Oil and Gas industry with Carigali and PETRONAS Mitco (Japan) Sdn. Bhd. He joined Carigali after graduating from the University of Exeter, England with a Bachelor of Science (Honours) in Physics with Geophysics.

He is currently employed as the Chief Executive Officer of Corro-Shield (M) Sdn. Bhd. which is 60% owned subsidiary of PPTB. He has international working experience in Vietnam, Turkmenistan, France, Taiwan and Syria. He was involved in the seismic operations and

data processing for Carigali in Block PM12, PM6, PM5, Baram Delta, Tembungo, Block 1 and 2 in Vietnam, Tishreen Permit and East Ash Sham Block in Syria. With his in depth experience in offshore oil exploration, he has a good understanding of the corrosion problems encountered by offshore oil and gas structures as well as the practical limitations of various corrosion products and solutions, which enables him to effectively experiment with and evaluate the effectiveness of various corrosion control solutions. He directs the R&D activities of the Group towards the development of "home grown" corrosion control products and solutions that are innovative, effective and price competitive.

He currently sits on the Board of SAAG Consolidated (M) Bhd, as well as a number of other private limited companies.

Mohd. Jeffrey De Jong Bin Abdullah

Mohd. Jeffrey De Jong Bin Abdullah, aged 52, a Dutch citizen, was appointed to the Board of PPTB as an Executive Director on 6 June 2005. He attended four (4) of the six (6) Board Meetings for the financial year under review. He is a member of the Risk Management Committee. He has a Bachelor of Science in Architecture and Master of Science in Building Engineering from University of Technology (Netherlands)

He is currently employed as the Chief Executive Officer of Corro-Shield (SEA) Sdn Bhd (formerly known as Fibaroll (SEA) Sdn Bhd) Prior to this appointment, he spent 10 years as General Manager of Corroless (M) Sdn Bhd which specializes in composite materials. He has 25 years of broad based experience and many years of international exposure in areas of developing methods of repairs, strengthening and protection based on composite technology.

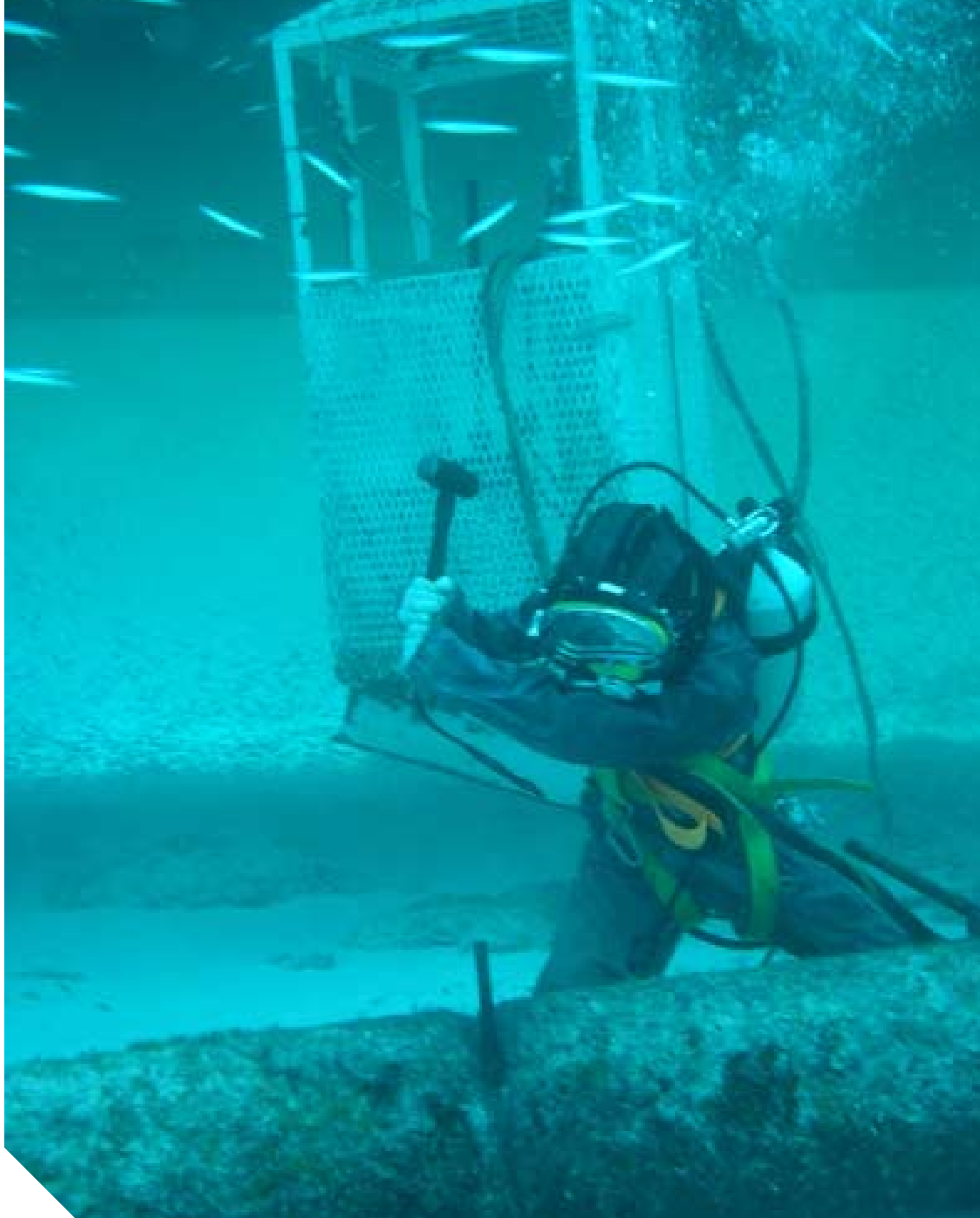
Juhari Bin Husin

Juhari Bin Husin, aged 51, a Malaysian, resigned from the Board of PPTB on 6 June 2005 and was re-appointed as an Alternate Director to Tengku Daud Shaiffudin Bin Tengku Zainudin on the same date. He attended one (1) of the six (6) Board Meetings held in the financial year under review. He has a Bachelor and Master of Science majoring in Mechanical Engineering from the Universities of Surrey (England) and Strathclyde (Scotland) respectively. He is a professional Engineer registered with the Board of Engineers Malaysia, a Fellow of the Institution of Engineers Malaysia and a registered Gas Engineer with the Energy Commission of Malaysia.

He is currently employed as the Chief Executive Officer of Romilly (M) Sdn. Bhd., which is a 100% owned subsidiary of PPTB. He has 20 years of experience in areas related to design, evaluations, technical audits, engineering construction and condition assessments of major mechanical equipment, process plants and pipelines in the oil and gas, petrochemical, power and marine industries. He has extensive hands-on experience at various levels from field supervision through project management and ten years in managerial capacity. He is instrumental in the development and applications of rope access technology in Malaysia.

Note : All Board Members have no family relationship among themselves or with any of the substantial shareholders of the Company except for substantial shareholding of three (3) of the Directors described in page 88 of this report.

All Board Members do not have any conflict of interest with the Company and have never been convicted for any offences other than traffic offences within the past 10 years.





chairman's
statement

On behalf of the Board of Directors for the Perisai Group, I am pleased to present the Annual Report of Perisai Petroleum Teknologi Bhd for the year under review December 31, 2006.



Our consistent strategic focus on core competencies served the Perisai Group well in 2006. Despite the challenging market conditions during the year which proved to be even more difficult than anticipated, the Group registered a comparatively modest turnover.

We continued to focus on on-going strategies to strengthen market share and explore opportunities that are setting the foundation for regional and global growth and expansion for the Group.

Financial Review

For the financial year ended 31 December 2006, the Group registered a turnover of RM 116.3 million, representing a decline of 5.35 per cent as compared to the previous financial year.

The group also recorded a lower net profit of RM 4.5 million as compared to RM 23.2 million in the previous financial year.

The decline was attributed cumulatively to the unplanned but necessary upgrading and major repair works done on two separate vessels. Higher cost of services rendered and finance costs were also key contributors to the decline in profit. In addition to this, the Group's investment in the initial set up and running costs of a third vessel which we acquired, and lower margin projects undertaken had further reduced the net profit.

Earnings per share

As a result of the lower net profit, for the year under review, our earnings per share eased downwards to 2.45 sen from 7.97 sen in 2005.

Operations Review

Since our inception and subsequent listing on Mesdaq, I am proud to say that we have evolved from a predominantly corrosion control company to a leading edge technology company offering a wide range of products and services to the oil and gas industry.

Always mindful of the importance of operational efficiency in business sustainability and survival, the Group streamlined its operations to enhance productivity and competitiveness.

We remained focused in investment in Research and Development initiatives to help propel us to the forefront of developing cutting edge solutions and providing services which will position us as a leader of global and international scale.

Towards this end, Perisai Research Sdn Bhd was incorporated during the year to carry out research and development work for temporary and



permanent composite repairs for leak containment. The Company was also set up to develop and strengthen live risers and pipelines for subsea applications in the oil and gas industry as well as to develop innovative products for corrosion protection coatings.

The Group's track record of success and proprietary technology has enabled us to be strategically positioned to vie for new contracts in the region.

During the year under review, our investment in marketing our products and services in the Asean region and in the Middle East reaped its desired results. We successfully garnered two contracts as a result of our efforts : a Petro Vietnam contract and a contract in Qatar

These contracts augur well for the future earnings of the Group and set the precedent for the Group to expand its reach and sustain its efforts in penetrating new markets globally.



Prospects for the year ahead

The Group has concentrated on executing strategies which will continue to set the direction for 2007 and beyond. In line with this, we have

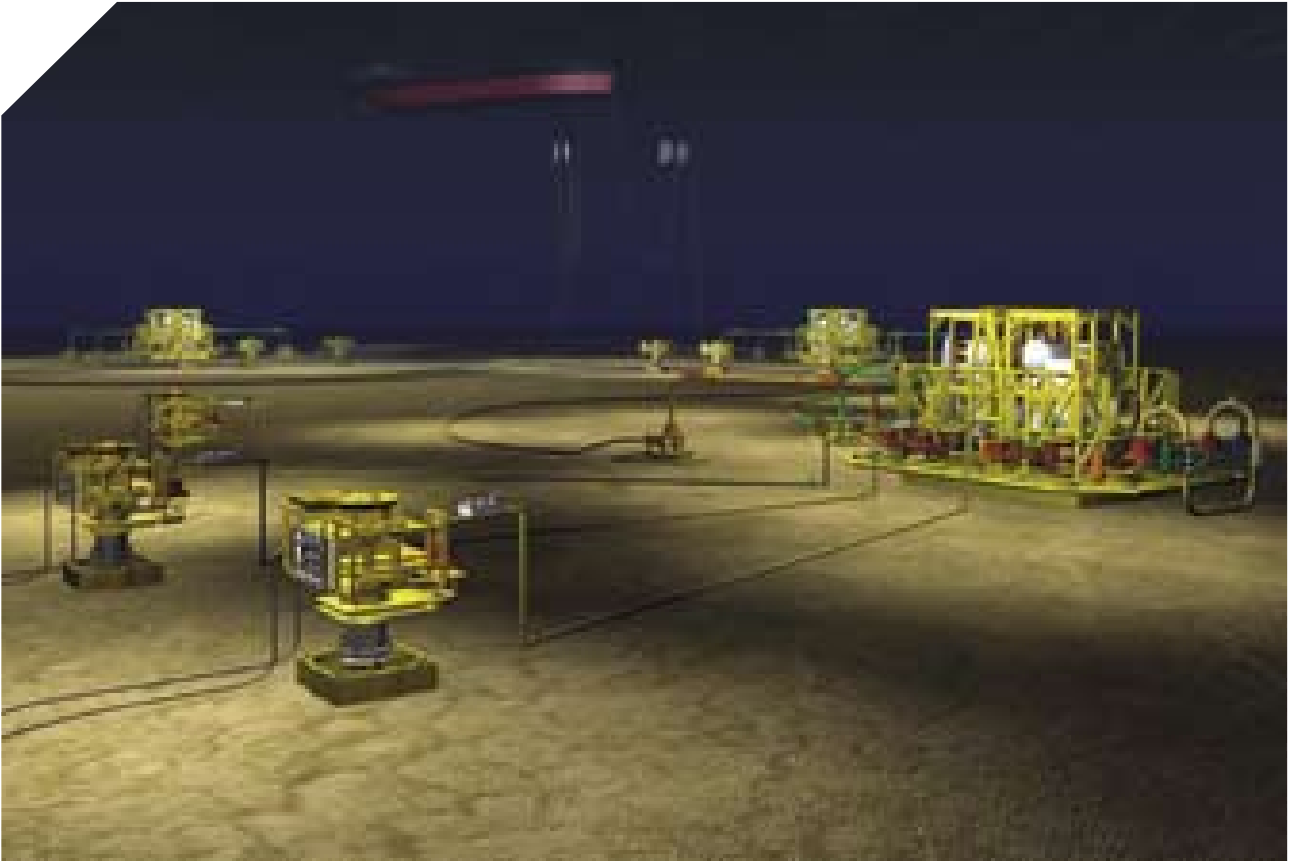
taken tactical steps to carve out a competitive edge that will enable us to solidify our position as leaders in the industry.

Expansionary and construction efforts in both India and China and the recent developments and trends in the oil and gas industry augurs well for the Group in the future as we plan for entry into these markets. Our work in the Asean

region and in the Middle East is set to contribute positively to our earnings in the coming years.

By providing the highest quality of products and services expeditiously without compromising on health and safety, I believe that we can maintain existing strong working partnerships and relationships with major clients while making inroads to gaining new ones.

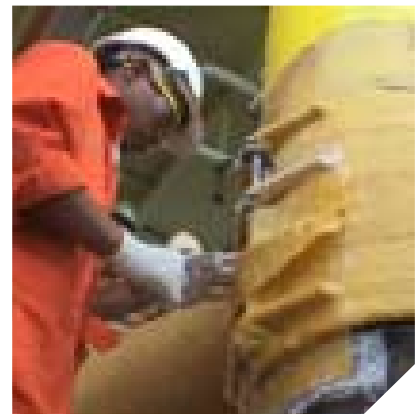




This will be our focus in the year ahead: to aggressively work in promoting the Group's products and services to a broadening marketplace whilst retaining the goals of maximizing shareholder returns.

Appreciation and thanks

On behalf of the Board of Directors, I would like to thank the shareholders for their confidence in Perisai as a commendable investment, our customers for their ongoing business and our employees for their dedication to performance which held our course steady through a difficult year.





I would also like to express my gratitude and appreciation to the various authorities who have guided us through this year. I would also like to thank my fellow Directors on the Board for their valued counsel, guidance and commitment in steering the Group through its endeavours.

Thank You.

Dato' Dr. Mohamed Ariffin

Bin Hj. Aton

Chairman

managing director's **review**

It gives me great pleasure to be given an opportunity to outline the key areas of growth for

Perisai

Petroleum Teknologi Bhd

("Perisai") during the year under the review and the year that is ahead of us.





Our focus

during the financial year under review has been a strategy which I strongly believe has set the direction for Perisai to embark on its next phase of development.

In the last year, the Group integrated its business to stay in line with market evolutions. This was a key driver in our efforts to fine tune our structure to best meet the changing needs of customers.

These efforts have resulted in greater control, reliability and productivity on all fronts. The Group has evolved from a basic technology provider of proprietary corrosion control solutions to providing specialist services in niche areas for marginal field development and deepwater activities.

We have also set the course to gain increased market share due to expansion in the ASEAN region and in the Middle East and have been



recognized as a global player in the oil and gas industry for innovative products and services.

In order to successfully meet the diverse and demanding needs of an increasingly global market environment, the Group is in the process of acquiring specialist marine vessels to strengthen its fleet and to gain a competitive edge.

As part of this process we purchased Allied Shield, multi - support vessel, to enable us to provide new and improved services to our customers.

We strongly believe that these acquisitions will complement our existing competitive position. As there is an increasing demand worldwide for the use of these vessels, there will be no shortage of opportunities for the Group to penetrate new markets, build new relationships and serve existing customers better.

In the coming year, the Group aims to transform itself in to a key provider for marginal field development and deepwater activities and services.

Now that the Group owns a fleet of specialist vessels, we are well placed to provide intervention and installation services to maximize growth, strengthen competitiveness and foster changes we need to achieve growth objectives.

Research indicates that deepwater exploration will prove to be a critical element in oil and gas strategy for at least the next two decades. The total deepwater reserves, known and yet to be discovered, is likely to reach 260 billion barrels or equivalent, of which close to two-thirds or approximately 64 per cent will be oil, while the rest will be gas.



Our growing fleet of specialist vessels will provide us with the necessary expertise to tap into deepwater exploration activities.

As we continue to make new acquisitions in the coming years, I believe that the Group will enhance its appeal in the oil and gas industry and capitalize on the vast opportunities available in the regional and global marketplace.

I look forward to a year that is centered on growth, anchored in decisive leadership within the Group and one that will increase value to our customers and shareholders alike.

Thank you.

Nagendran A/L C. Nadarajah
Managing Director



STATEMENT OF
CORPORATE GOVERNANCE
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Introduction

The Board of Directors of Perisai (“Board”) are committed to ensuring that the highest standards of corporate governance are practiced throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Company. The ensuing paragraphs set out the manner in which the Group has applied the principles set out in the Malaysian Code of Corporate Governance (“Code”) and the extent of its compliance with the best practice of the Code for the year ended 31 December 2006.

Board Meetings

During the financial year under review, the Board met 6 times and the attendance record for each Director is as follows:

	Number of meetings
Dato' Dr. Mohamed Ariffin Bin Hj. Aton (Independent Non-Executive Chairman)	4/6
Chan Feoi Chun (Independent Non-Executive Director)	6/6
Yogesvaran A/L T. Arianayagam (Non-Independent Non-Executive Director)	6/6
Nagendran A/L C. Nadarajah (Managing Director)	6/6
Tengku Daud Shaifuddin Bin Tengku Zainudin (Executive Director)	5/6
Mohd. Jeffrey De Jong Bin Abdullah (Executive Director)	4/6
Juhari Bin Husin (Alternate Director to Tengku Daud Shaifuddin Bin Tengku Zainudin)	1/1
Aloysius Albert Michael (Executive Director resigned on 29 December 2006)	6/6
Abdul Hamid Bin Mohamed Ghows (Executive Director resigned on 31 March 2006)	1/1

The minimum 50% attendance requirement in respect of Board meetings as stipulated by the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) has been complied with.

Board Balance

The Board comprises three (3) Executive Directors and three (3) Non-Executive Directors of whom two (2) are independent. Such a balance is in compliance with paragraph 15.02 of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market (“MMLR”) in respect of the board composition.

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

The Board retains full and effective control over the Group. The Chairman leads strategic planning at the Board level, while the Executive Directors are responsible for the implementation of the policies laid down and executive decision-making. The Board makes key decisions, such as approval of interim and annual reports, acquisitions and disposals, new ventures and investments, material agreements, major capital expenditures and budgets.

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

Supply of Information

All Directors are provided with reports and other relevant information on a timely manner, covering various aspects of the Group’s operations and performance. They are also provided with an agenda and a set of board papers pertaining to agenda items prior to Board meetings for consideration and where appropriate, for decision. This is issued in sufficient time to enable the Directors to consider

the matter to be deliberated and to obtain further explanation, where necessary, in order to be briefed properly before the Meeting. The Board has unrestricted access to all staff for any information pertaining to the Group’s affairs. In addition, the Board has access to the advice and services of the Company Secretary and may seek professional advice from external consultants at the Company’s expense should the need arise.

At the Board meetings, the Management updates the Board on the business and market factors relevant to the Group.

Board Committees

The Board has delegated certain responsibilities to Board Committees which operate within defined terms of reference. The Board Committees include the Audit Committee, Executive Committee, Nomination Committee, Remuneration Committee and Risk Management Committee. The respective Committees report to the Board on matters considered and their recommendation thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

Audit Committee

The Audit Committee was established on 15 June 2004 and the current members are as follows:-

Name of Director	Designation
Chan Feoi Chun (Independent Non-Executive Director)	Chairman
Dato’ Dr. Mohamed Ariffin Bin Hj. Aton (Independent Non-Executive Director)	Member
Yogesvaran A/L T. Arianayagam (Non-Independent Non-Executive Director)	Member

The Board is assisted by an Audit Committee, whose role and functions are as set out in the Audit Committee Report on pages 30 to 32 of this annual report.

Nomination Committee

The Nomination Committee was established on 15 June 2004 and the current members are as follows:-

Name of Director	Designation
Yogesvaran A/L T. Arianayagam (<i>Non-Independent Non-Executive Director</i>)	Chairman
Dato' Dr. Mohamed Ariffin Bin Hj. Aton (<i>Independent Non-Executive Director</i>)	Member
Chan Feoi Chun (<i>Independent Non-Executive Director</i>)	Member
Nagendran A/L C. Nadarajah (<i>Managing Director</i>)	Member

The Nomination Committee's terms of reference are as follows:-

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and that of the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including that of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate and continuous training programme.

Remuneration Committee

The Remuneration Committee was established on 15 June 2004 and the current members are as follows:-

Name of Director	Designation
Yogesvaran A/L T. Arianayagam (<i>Non-Independent Non-Executive Director</i>)	Chairman
Chan Feoi Chun (<i>Independent Non-Executive Director</i>)	Member

The Remuneration Committee's terms of reference are as follows:-

- Recommend to the Board the framework governing the remuneration of the Directors, Chief Executive Officer and key senior management officers.
- Review and recommend to the Board the specific remuneration packages of Executive Directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

Risk Management Committee

The Risk Management Committee was established on 15 June 2004 and the current members are as follows:-

Name of Director	Designation
Dato' Dr. Mohamed Ariffin Bin Hj. Aton (<i>Independent Non-Executive Director</i>)	Chairman
Chan Feoi Chun (<i>Independent Non-Executive Director</i>)	Member
Tengku Daud Shaifuddin Bin Tengku Zainudin (<i>Executive Director</i>)	Member
Mohd. Jeffrey De Jong Bin Abdullah (<i>Executive Director</i>)	Member

In collaboration with other related committees and divisions, the Risk Management Committee assesses risks that can significantly impact the sustainability of the Company; takes preventive measures and responsive actions; and also proposes company-wide risk management policies.

Appointment and Re-election to the Board

Appointments to the Board are made based on the recommendation of the Nomination Committee. In accordance with the Company's Articles of Association, all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election.

Directors' Training

All Directors have attended and completed the Mandatory Accreditation Program (MAP) conducted by Bursa Malaysia Training Sdn Bhd in compliance with the Listing Requirements.

During the year under review, the Directors attended risk management and general management training sessions as prescribed by the Exchange to keep abreast with developments in the market and industry.

Director's Remuneration

The Company's remuneration policy for Directors is adapted to support the Company's overall objective of delivering long-term value to its shareholders. The remuneration packages are intended to encourage the creativity and innovation of its members and to enable the Company to recruit and retain individuals of the required caliber pertinent in achieving the Company's strategic objectives.

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry. Performance is measured against profits and targets set in the Group's annual plan and budget.

For Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by them. The remuneration packages of all executives of the Group

including that of Executive Directors are laid out in the Group's Human Resource Manual, which is reviewed from time to time to be in tandem with market/industry practices.

Details of Remuneration

Details of the number of Executive and Non-Executive Directors in the respective remuneration bands for the financial year ended 31 December 2006 are disclosed in the Statutory Financial Statements as Note 9 of the Notes to the Financial Statements.

Shareholders

Dialogue between the Company and Investors

As part of the Board's responsibility in developing and implementing an investor relations programme, discussions are held between an Executive Director and analysts or investors throughout the year, when necessary.

Presentations based on permissible disclosures are made to explain the Group's performance and development programmes. Price-sensitive information about the Group is, however, not disclosed in these exchanges until after the prescribed announcement to Bursa Malaysia Securities Berhad has been made. In addition, the annual and quarterly reports, together with the Company's earnings announcements and share price information are available on www.bursamalaysia.com.

It is integral to the Group's philosophy that in enhancing corporate governance and encouraging transparency, it practices an open communications policy with its shareholders through the Group's annual report, AGM and Group website www.perisai.biz. This ensures that the shareholders are given accurate and fair representation of the Group's performance and position.

Annual General Meeting

The Company's AGM provides a vital platform for both private and institutional shareholders to share viewpoints and acquire information on issues relevant to the Group. At the AGM, shareholders are encouraged to question the resolutions being proposed or the Group's business

operations in general. The Notice of the AGM and related documents are issued to the shareholders at least twenty one (21) days before the meeting.

To keep the media informed, the Group disseminates copies of the annual report to all relevant press and holds a press conference immediately following the AGM at which time the Managing Director briefs those present about the details of the financial year results.

The Group's website www.perisai.biz provides an alternative communications avenue, targeted at giving information on developments in the Group's business via updates, company news, promotions and news releases to employees, shareholders and members of the public. The website is updated periodically.

Accountability and Audit

Financial Reporting

The Directors are required by the Companies Act, 1965 to ensure that financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group. The Directors consider the presentation of the financial statements and ensure that the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates. The Audit Committee assists by scrutinising the information to be disclosed, to ensure accuracy and adequacy. The Group's financial statements are presented on pages 42 to 86 of this annual report.

Statement of Directors' Responsibility for preparing the Financial Statements

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

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

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

Internal Control

The Directors acknowledge their responsibilities for the internal control system in the Group, covering not only financial controls but also controls relating to operational, compliance and risk management. The system of internal control involves each key business unit and its management, including the Board, and is designed to meet the business units' particular needs, and to manage the risks to which they are exposed. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud. The concept of reasonable assurance recognises the costing aspect, whereby the cost of control procedures is not to exceed the expected benefits. The Board recognises that risks cannot be fully eliminated.

As such, the systems, processes and procedures being put in place are aimed at minimising and managing them. Ongoing reviews are continuously carried out to ensure the effectiveness, adequacy and integrity of the system of internal controls in safeguarding the Group's assets.

Relationship with the Auditors

The Company's external auditors, Kumpulan Naga has continued to report to members of the Company on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements.

In doing so, the Company has established a transparent arrangement with the auditors to meet their professional requirements. The role of the Audit Committee in relation to the external auditors is set out in the Audit Committee Report on pages 30 to 32 of the Annual Report.

Utilisation of Public Issue Proceeds

The proceeds raise during the Public Issue were approved for the following activities and status on the funds utilisations as at 31 March 2007 is summarised as follows:

Utilisation	Approved Utilisation	Amount Utilised	Expected time frame for the full utilisation
	RM ' 000	RM' 000	
Research and Development	8,000	8,000	Fully utilised
Working capital	7,960	7,960	Fully utilised
Listing Expenses	1,200	1,200*	Fully utilised
Total	17,160	17,160	

Note:

* Actual expenses for the listing exercise amounts to RM1,444,010. As allowed in Perisai's Prospectus, the additional RM244,010 has been funded out of the portion allocated for working capital.

Other Information

The following information provided is in respect of the financial year ended 31 December 2006.

Share Buybacks

During the year under review, the Company did not enter into any share buy back transactions.

Options, Warrants or Convertible Bonds

No warrants or convertible securities were issued during the financial year under review.

Sanctions and/or Penalties

There were no sanctions or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year under review.

Non-Audit Fees

The amount of non-audit fees paid and payable to the external auditors by the Group for the financial year ended 31 December 2006 was RM Nil.

Profit Guarantee

No profit guarantee was given by the Company and or its subsidiaries except for Allied Marine & Equipment Sdn.Bhd. and Merit Composites Sdn. Bhd. amounting to RM8.0 million and RM1.7 million respectively.

Material Contracts

During the year under review, there were no material contracts entered into by the Company and its subsidiaries which involved Directors' or major shareholders' interests (not being contracts entered into in the ordinary course of business).

Revaluation Policy

The Group does not have a revaluation policy in respect of the Group's properties.

STATEMENT OF INTERNAL CONTROL

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and Group's assets. The Board of Directors recognizes the importance of sound internal controls and risk management practices and is pleased to provide the following statement which outlines the nature and scope of internal control in the Group.

Responsibility

The Board of Directors is responsible for maintaining a sound system of internal control for the Group and for reviewing its adequacy and integrity. However, due to the limitations inherent in any system of internal control, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee assists the Board in reviewing the adequacy and integrity of the system of internal control in the Group. The Audit Committee assists the Board in reviewing the adequacy and integrity of the system of internal control in the Group. The Audit Committee is assisted by the Internal Auditor, who conducts regular and systematic reviews of the system of internal control of the Group and also the extent of compliance with the Group's operating policies and procedures. The findings are reported directly to the Audit Committee

The membership and terms of reference and activities of the Audit Committee are set out on pages 30 to 32.

Risk Management Framework

The Audit Committee and the management are committed to formalizing a comprehensive Risk Management Framework in accordance with the guidance as contained in the publication – Statement of Internal Control: Guidance for Directors of Public Listed Companies.

During the previous financial year, a Group Risk Management Committee was established to provide guidance on the implementation of risk management processes to ensure all significant, current and potential risks of the business are understood and managed. Also, an independent

consultancy firm was engaged to put in place a structured risk management framework for the Group and reinforce the tone of risk awareness and control consciousness. Continuous efforts will be made to monitor and re-assess the existing risk management framework in regards to maintaining a proper system of managing risks as well as the related control activities.

Other Key Elements of Internal Control

The other key elements of the Group's internal control systems of the Group are as follows:

- The Executive Directors actively participate in the day to day running of the businesses and hold regular dialogues with senior management of the various business unit.
- There are clearly defined delegation of responsibilities and appropriate limits of authority for different processes, decisions and commitments.
- An Executive Committee ("Exco") was established to manage and control the Group's businesses. The Exco monitors the performance of the business units and identify areas requiring follow-up actions. The Exco is further supported by various sub-committees. Matters beyond its limits of authority are referred to the Board for approval.
- The Board of Directors meets at least quarterly to discuss the performance of the Group and other major issues. The Annual Report and the announcements of quarterly results are reviewed by the Audit Committee before the Board's approval and release to the public.
- The Board also reviews and approves the annual budget and business plans of the business units. These plans set out the key business objectives of the respective business units and the major risks and opportunities in the operations and the ensuing action plans.

The Board, with the assistance of the Audit Committee, constantly reviews the adequacy and integrity of the system of internal control and is confident that there were no material losses incurred during the current financial year as a result of weaknesses of internal control.

AUDIT

COMMITTEE REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

The Audit Committee and Internal Audit

The Group has engaged a professional services organisation to provide outsourced Internal Audit services, which provides support to the Audit Committee in discharging its duties with respect to the adequacy and integrity of the system of internal controls within the Group. During the year under review, Internal Audit carried out audits based on the internal audit plan approved by the Audit Committee. The audit findings are deliberated and resolved with management. The Audit Committee, on behalf of the Board, reviews internal control issues identified, and recommendations from reports prepared by the internal and external auditors on a regular basis.

Audit Committee

The Audit Committee was established on 15 June 2004 and the composition and terms of reference of the Audit Committee were adopted by the Board on 25 November, 2004.

Composition and Meetings

The composition of the Audit Committee and their attendance at the 4 meetings held during the year are as follows:-

Name of Director	Attendance
Chan Feoi Chun <i>(Independent Non-Executive Director)</i>	4/4
Dato' Dr. Mohamed Ariffin Bin Hj. Aton <i>(Independent Non-Executive Director)</i>	4/4
Yogesvaran A/L T. Arianayagam <i>(Non Independent Non-Executive Director)</i>	4/4

Terms of Reference**Membership**

The committee shall be appointed by the Board from amongst the Directors of the Company, a majority of whom must be independent.

The Committee shall include at least one Director who is a member of the Malaysian Institute of Accountants or

alternatively, a person who must have at least 3 years working experience and have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967 or is a member of one of the Associations of Accountants specified in Part II of the said Schedule. No alternate Director shall be appointed a member of the Committee.

In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy shall be filled within two (2) months but in any case not later than three (3) months. Therefore a member of the Audit Committee who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement will be appointed before he leaves.

Authority

For the performance of its duties, the Audit Committee shall adopt the same procedures as those adopted by the Board and at the cost of the Group:

1. Have authority to investigate any activity within its terms of reference;
2. Have the resources which are required to perform its duties;
3. Have full and unrestricted access to any employee and information pertaining to the Perisai Group. All documents of the Perisai Group shall be made accessible to the Audit Committee;
4. Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity for the Perisai Group;
5. Have authority to direct the internal audit functions (both corporate, subsidiaries and associates and joint ventures, where applicable) in its activities, including approval of appointments of senior executives and budgets in these functions; and
6. Be able to engage independent professional advisers or other advisers and to secure attendance of outsiders with relevant experience and expertise if it considers this necessary.

Functions & Duties

The Committee shall carry out the following responsibilities:

1. Financial Statements

- Review and recommend acceptance or otherwise of major accounting policies, principles and practices.
- Review the quarterly results and annual financial statements, of the Company and Group, before submission to the Board. The review should focus primarily on:-
 - any changes in or implementation of major accounting policy changes
 - major judgmental areas, significant and unusual events
 - significant adjustments resulting from audit
 - the going concern assumptions
 - compliance with approved accounting standards
 - compliance with stock exchange and legal requirements
 - review with management and the external auditors, the results of the audit and his
 - audit report, including any difficulties encountered.
 - review, with the Group's Counsel, any legal matter that could have a significant impact on the organisation's financial statements.

2. Internal Audit and Control

- Evaluate the process the Group has in place for assessing and continuously improving internal controls.
- Assess the internal process for determining and managing key risks other than those that are dealt with by other specific Board committees.
- Review the scope of internal and external auditors' review of internal control over the Group.
- Review Internal Audit reports (including those of the Group) and management's response and ensure

that appropriate action is taken in respect of these and Audit Committee resolutions.

- Review with the External Auditors, their evaluation of the system of internal control; their reports and management's response and ensure that appropriate action is taken in respect of these reports and Audit Committee resolutions.
- Approve the terms of reference for the internal audit services provided by an outside party and ensure that the internal audit function is adequately resourced and has appropriate standing in the Group. This includes a review of the organisational structure, resource budgets and qualifications of the internal audit function or outside service provider.
- Review and approve Internal Audit plans and the scope of audits and ensure that the Internal Audit Functions has the necessary authority and resources to carry out its work.
- Approve the appointment and removal of an outside provider of internal audit services.
- Review appraisals or assessments of members of the Internal Audit Function.
- Direct any special investigations to be carried out by Internal Audit

3. External Audit

- Review External Audit plans and scope of work before the audit commences.
- Discuss problems and reservations arising out of external audits, including assistance given by the employees and any matters the auditors may wish to discuss, in the absence of management or Executive Directors where necessary.
- Nominate to Board the appointment of the External Auditors and the appropriateness of other non-audit functions the external auditors may carry out for the Group, including external audit fee, and consider any questions of resignation or dismissal, experience, resources and capability of the external auditor.

4. Compliance

- Evaluate management's system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
- Review the findings of any examinations by regulatory authorities.
- Obtain regular updates from management and Group's legal counsel regarding compliance matters.
- Review any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of director or management integrity.
- Where the Audit Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved, resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market, the Audit Committee must promptly report such matters to Bursa Securities.

Summary of Activities

During the current year Audit Committee has :

1. Reviewed and approved the Annual Audit Plan for the financial year 2007 to ensure adequacy scope and coverage over the activities of the Group.
2. Reviewed the quarterly and year end financial statements and ensured that the financial reporting and disclosure requirements of relevant authorities had been complied with, focusing particularly on;
 - changes in or implementation of major accounting policies and practices;
 - the going concern assumption;
 - significant adjustments arising from audit;
 - major judgemental areas;
 - significant and unusual events; and
 - compliance with accounting standards and other legal requirements.

3. Reviewed the related party transactions and conflict of interest situation that may arise within the Company or Group including any transactions, procedures or course of conduct that raised questions of management integrity which incurred during the financial year were done in the ordinary course of business.
4. Reviewed the cash management system for the Group and its treasury functions to ascertain whether the funds are efficiently managed and the controls are in place.

Internal Audit Function

In discharging its duties, the Audit Committee is strongly supported by the Internal Auditor undertaken by the firm engaged to provide outsourced internal audit services to the Group.

The internal audit function is independent of the activities or operations of other operating units. The principal role is to undertake independent, regular and systematic reviews of the systems of internal control so as to provide reasonable assurance that such a system continue to operate satisfactorily and effectively. It is the responsibility of internal audit to provide the Audit Committee with independent and objective reports on the state of internal control or the various operating units within the Group and the extent of compliance of the units with the Group and the extent of compliance of the units with the Group's established policies and procedures as well as relevant statutory requirements.

Further details of the activities of the internal audit function are set out in the Statement on Internal Control.

**Directors' Report
and
Audited Financial
Statements**

31 December 2006



DIRECTORS'
REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and the provision of management, administrative and financial support services to the subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 15 to the financial statements.

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

RESULTS

	Group RM	Company RM
Net profit/(loss) for the year	<u>4,499,391</u>	<u>(837,815)</u>
Attributable to:		
Equity holders of the Company	5,086,702	(837,815)
Minority interests	<u>(587,311)</u>	<u>-</u>
	<u>4,499,391</u>	<u>(837,815)</u>

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

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

**DIRECTORS'
REPORT****DIVIDENDS**

The amount of dividends paid by the Company were as follows:

In respect of the financial year ended 31 December 2005 as reported in the directors' report of that year:

	RM
(a) Interim dividend of 10% less 28% taxation on 208,000,000 ordinary shares of RM0.10 each declared on 25 August 2005 and paid on 14 October 2005.	<u>1,497,600</u>
(b) Final dividend of 10% less 28% taxation on 208,000,000 ordinary shares of RM0.10 each was approved on 27 June 2006 by the shareholders at the Annual General Meeting and paid on 28 August 2006.	<u>1,497,600</u>

DIRECTORS

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

Dato' Dr. Mohamed Ariffin Bin Hj. Aton	
Tengku Daud Shaifuddin Bin Tengku Zainudin	
Nagendran A/L C. Nadarajah	
Mohd. Jeffrey De Jong Bin Abdullah	
Yogesvaran A/L T. Arianayagam	
Chan Feoi Chun	
Juhari Bin Husin	(Alternate Director to Tengku Daud Shaifuddin Bin Tengku Zainudin)
Aloysius Albert Michael	(Resigned on 29 December 2006)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 9 to the financial statements or the fixed salary of a full time employee) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, as required to be disclosed by Section 169(8) of the Companies Act, 1965.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM0.10 Each			At 31.12.2006
	At 1.01.2006	Acquired	Sold	
Yogesvaran A/L T. Arianayagam				
- direct	1,536,092	-	-	1,536,092
Tengku Daud Shaifuddin Bin Tengku Zainudin				
- direct	17,951,480	-	(3,500,000)	14,451,480
- direct - Subsidiary company Corro-Shield (M) Sdn. Bhd. number of ordinary shares of RM1.00 each	240,000	-	-	240,000
- deemed interest #	44,366,998	-	(5,000,000)	39,366,998
Nagendran A/L C. Nadarajah				
- direct	17,706,300	-	-	17,706,300
- deemed interest #	44,366,998	-	(5,000,000)	39,366,998

Deemed interest by virtue of their substantial shareholdings in Maya Terang Sdn. Bhd.

**DIRECTORS'
REPORT****OTHER STATUTORY INFORMATION**

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

PROFIT GUARANTEE

The acquisition of Allied Marine Equipment Sdn. Bhd. and its subsidiaries ("AME Group") is subject to audited consolidated profit after tax and minority interest ("the PATMI") of the AME Group for the years 2005, 2006 and 2007 shall be an amount of Ringgit Malaysia Eight Million (RM8,000,000) a year representing a total cumulative amount of Ringgit Malaysia Twenty Four Million (RM24,000,000).

The AME Group did not achieve the PATMI under the profit guarantee for the financial year ended 31 December 2006.

The Company reserves its rights to call upon the profit guarantee as provided for under the terms of the acquisition.

SIGNIFICANT EVENTS

In addition to the significant events disclosed elsewhere in this report, other significant events are disclosed in Note 15(b) to the financial statements.

AUDITORS

The auditors, Kumpulan Naga, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors

TENGGU DAUD SHAFUDDIN BIN TENGGU ZAINUDIN

NAGENDRAN A/L C. NADARAJAH

Kuala Lumpur, Malaysia

Date : 28 March 2007

STATEMENT BY

DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, **TENGGU DAUD SHAFUDDIN BIN TENGGU ZAINUDIN and NAGENDRAN A/L C. NADARAJAH**, being two of the directors of **PERISAI PETROLEUM TEKNOLOGI BHD.**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 42 to 86 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

TENGGU DAUD SHAFUDDIN BIN TENGGU ZAINUDIN**NAGENDRAN A/L C. NADARAJAH**

Kuala Lumpur, Malaysia

Date : 28 March 2007

STATUTORY

DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **NAGENDRAN A/L C. NADARAJAH**, being the Director primarily responsible for the financial management of **PERISAI PETROLEUM TEKNOLOGI BHD.**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 42 to 86 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed

NAGENDRAN A/L C. NADARAJAH,

at Kuala Lumpur in the Federal

Territory on 28 March 2007

NAGENDRAN A/L C. NADARAJAH

Before me,

M. NAMASIVAYAM P.P.N (NO. W299)

Commissioner for Oaths

Kuala Lumpur, Malaysia.

REPORT OF

THE AUDITORS

TO THE MEMBERS OF PERISAI PETROLEUM TEKNOLOGI BHD.

We have audited the accompanying financial statements set out on pages 42 to 86. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 15(a) the financial statements, being financial statements that have been included in the consolidated financial statements.

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

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

Kumpulan Naga
A.F. No. 0024
Chartered Accountants (M)

T. Nagarajan C.A.(M), FCCA,
FTII, AICMA
No: 824/04/08 (J)

Kuala Lumpur, Malaysia.
Date : 28 March 2007

INCOME

STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	3	116,317,344	122,892,382	2,100,000	6,700,000
Cost of sales	4	(97,489,748)	(77,174,511)	-	-
Gross profit		18,827,596	45,717,871	2,100,000	6,700,000
Other income	5	683,551	504,066	18,603	167,656
Administrative expenses		(10,174,471)	(11,458,871)	(1,440,327)	(1,874,840)
Selling and marketing expenses		(96,210)	(63,301)	-	-
Operating profit		9,240,466	34,699,765	678,276	4,992,816
Finance costs	6	(3,331,444)	(2,128,504)	(1,827,965)	(902,092)
Share of loss of an associated company		-	(17,238)	-	-
Profit/(Loss) before tax	7	5,909,022	32,554,023	(1,149,689)	4,090,724
Income tax expense	10	(1,409,631)	(9,329,827)	311,874	(1,161,676)
Net profit/(loss) for the year		4,499,391	23,224,196	(837,815)	2,929,048
Attributable to:					
Equity holders of the Company		5,086,702	16,575,322	(837,815)	2,929,048
Minority interests		(587,311)	6,648,874	-	-
		4,499,391	23,224,196	(837,815)	2,929,048
Earning per share attributable to equity holders of the Company (sen)					
- Basic	11	2.45	7.97		

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

BALANCE

SHEETS

AS AT 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
ASSETS					
Non-current assets					
Property, plant and equipment	13	69,843,950	47,926,334	15,015	4,032
Intangible assets	14	31,232,706	29,941,740	-	-
Investment in subsidiaries	15	-	-	49,627,698	49,023,700
Other investment	16	3,000,000	3,000,000	-	-
Deferred tax asset	24	2,350,519	-	311,124	-
		<u>106,427,175</u>	<u>80,868,074</u>	<u>49,953,837</u>	<u>49,027,732</u>
Current assets					
Inventories	17	3,176,681	5,346,112	-	-
Trade and other receivables	18	52,352,162	54,144,622	334,432	1,590,932
Amount due from subsidiaries	19	-	-	27,524,239	9,902,805
Cash and bank balances	20	10,176,314	16,374,828	2,135,292	1,496,574
		<u>65,705,157</u>	<u>75,865,562</u>	<u>29,993,963</u>	<u>12,990,311</u>
TOTAL ASSETS		<u>172,132,332</u>	<u>156,733,636</u>	<u>79,947,800</u>	<u>62,018,043</u>
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	25	20,800,000	20,800,000	20,800,000	20,800,000
Share premium		10,516,989	10,516,989	10,516,989	10,516,989
Other reserve	26	23,947	-	-	-
Retained earnings		23,203,652	19,596,238	(705,654)	1,629,761
		<u>54,544,588</u>	<u>50,913,227</u>	<u>30,611,335</u>	<u>32,946,750</u>
Minority interests		21,077,371	21,466,994	-	-
Total equity		<u>75,621,959</u>	<u>72,380,221</u>	<u>30,611,335</u>	<u>32,946,750</u>
Non-current liabilities					
Borrowings	21	6,313,922	11,871,785	-	-
Hire purchase payables	22	313,950	764,453	-	-
Deferred tax liabilities	24	3,772,199	3,261,087	-	750
		<u>10,400,071</u>	<u>15,897,325</u>	<u>-</u>	<u>750</u>

BALANCE
SHEETS AS AT 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
EQUITY AND LIABILITIES					
Current liabilities					
Borrowings	21	51,295,869	37,179,878	46,600,986	26,730,000
Hire purchase payables	22	89,815	174,305	-	-
Trade and other payables	23	32,767,737	28,756,148	2,735,479	2,340,543
Taxation		1,956,881	2,345,759		
		86,110,302	68,456,090	49,336,465	29,070,543
Total liabilities		96,510,373	84,353,415	49,336,465	29,071,293
TOTAL EQUITY AND LIABILITIES		172,132,332	156,733,636	79,947,800	62,018,043

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

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2006

Group	Note	Attributable to Equity Holders of the Company						Minority Interest RM	Total Equity RM
		Share Capital RM	Share Premium RM	Other Reserves RM	Retained Earnings RM	Total RM			
At 1 January 2005		20,800,000	10,516,989	-	4,518,516	35,835,505	4,514,362	40,349,867	
Acquisition of subsidiaries		-	-	-	-	-	10,303,758	10,303,758	
Net profit for the year		-	-	-	16,575,322	16,575,322	6,648,874	23,224,196	
Dividend paid	12	-	-	-	(1,497,600)	(1,497,600)	-	(1,497,600)	
At 31 December 2005		<u>20,800,000</u>	<u>10,516,989</u>	<u>-</u>	<u>19,596,238</u>	<u>50,913,227</u>	<u>21,466,994</u>	<u>72,380,221</u>	
At 1 January 2006		20,800,000	10,516,989	-	19,596,238	50,913,227	21,466,994	72,380,221	
Effect of adopting FRS 121	2.3(c)(i)	-	-	23,947	-	23,947	-	23,947	
Dilution arising from additional shares issued		-	-	-	18,312	18,312	197,688	216,000	
Net profit for the year		-	-	-	5,086,702	5,086,702	(587,311)	4,499,391	
Dividend paid	12	-	-	-	(1,497,600)	(1,497,600)	-	(1,497,600)	
At 31 December 2006		<u>20,800,000</u>	<u>10,516,989</u>	<u>23,947</u>	<u>23,203,652</u>	<u>54,544,588</u>	<u>21,077,371</u>	<u>75,621,959</u>	

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

COMPANY STATEMENTS

OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	← Non distributable →		Distributable	Total RM
		Share Capital RM	Share Premium RM	Retained Earnings RM	
Company		(Note 25)			
At 1 January 2005		20,800,000	10,516,989	198,313	31,515,302
Net profit for the year		-	-	2,929,048	2,929,048
Dividend paid	12	-	-	(1,497,600)	(1,497,600)
At 31 December 2005		<u>20,800,000</u>	<u>10,516,989</u>	<u>1,629,761</u>	<u>32,946,750</u>
At 1 January 2006		20,800,000	10,516,989	1,629,761	32,946,750
Net loss for the year		-	-	(837,815)	(837,815)
Dividend paid	12	-	-	(1,497,600)	(1,497,600)
At 31 December 2006		<u>20,800,000</u>	<u>10,516,989</u>	<u>(705,654)</u>	<u>30,611,335</u>

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

CASH FLOW

STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Cash Flows From Operating Activities					
Profit/(Loss) before tax		5,909,022	32,554,023	(1,149,689)	4,090,724
Adjustment for:					
Depreciation of property, plant and equipment	7	5,569,627	4,386,664	1,775	15,845
(Gain)/loss on disposal of property, plant and equipment	5	(247,017)	(75,488)	-	10,221
Property, plant and equipment written off	7	-	15,166	-	-
Amortisation of intangible assets	7	-	1,012,830	-	-
Loss on disposal of an associated company		-	85,150	-	-
Share of loss of an associated company		-	17,238	-	-
Exchange reserve arising due to retranslation of financial statements in foreign currency		23,947	-	-	-
Interest expense	6	3,158,150	2,119,474	1,827,965	902,092
Interest income	5	(282,575)	(209,178)	(18,603)	(118,656)
Operating profit before working capital changes		14,131,154	39,905,879	661,448	4,900,226
Decrease in inventories		2,169,431	2,647,700	-	-
Decrease/(Increase) in trade and other receivables		1,792,460	(9,688,654)	(16,364,934)	(7,778,513)
Increase in trade and other payables		4,011,589	332,464	394,936	2,199,765
Cash generated from/(used in) operations		22,104,634	33,197,389	(15,308,550)	(678,522)
Interest paid		(3,158,150)	(2,119,474)	(1,827,965)	(902,092)
Interest received		282,575	209,178	18,603	118,656
Taxes paid		(3,637,916)	(7,482,382)	-	(1,247,003)
Net cash generated from/(used in) operating activities		15,591,143	23,804,711	(17,117,912)	(2,708,961)

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

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Cash Flows From Investing Activities					
Purchase of property, plant & equipment		(27,975,955)	(24,193,291)	(12,758)	(5,549)
Proceeds from disposal of property, plant and equipment		735,729	819,128	-	63,000
Acquisition of subsidiaries		-	(41,153,149)	-	-
Investment in subsidiaries		-	-	(603,998)	(34,019,902)
Proceeds from disposal of an associated company		-	1,500,000	-	1,500,000
Development expenditure		(1,290,966)	(6,787,327)	-	-
Net cash used in investing activities		(28,531,192)	(69,814,639)	(616,756)	(32,462,451)
Cash Flows From Financing Activities					
Hire purchase payables		(534,993)	(760,416)	-	(68,885)
Placement of fixed deposits		42,747	(3,260,880)	(1,652,708)	-
Term loans		14,961,279	39,151,157	19,870,986	26,730,000
Minority shareholders		216,000	-	-	-
Dividend paid		(1,497,600)	(1,497,600)	(1,497,600)	(1,497,600)
Net cash generated from financing activities		13,187,433	33,632,261	16,720,678	25,163,515
Net increase/(decrease) in cash and cash equivalents		247,384	(12,377,667)	(1,013,990)	(10,007,897)
Cash and cash equivalents at beginning of year		3,075,584	15,453,251	1,496,574	11,504,471
Cash and cash equivalents at end of year	20	3,322,968	3,075,584	482,584	1,496,574

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

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2006

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the MESDAQ Market of Bursa Malaysia Securities. The registered office of the Company is located at Suite 2, Penthouse, Lobby A, Wisma Leopad, No. 9, Jalan Tun Sambanthan, 50470 Kuala Lumpur.

The principal activities of the Company are that of investment holding and the provision of management, administrative and financial support services to the subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 15.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 March 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

The financial statements of the Group and of the Company have also been prepared on a historical basis, except for freehold land included within property, plant and equipment that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia.

2.2 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(a) Subsidiaries and Basis of Consolidation (Cont'd)****(ii) Basis of consolidation**

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

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

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

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

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

(b) Property, Plant and Equipment and Depreciation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

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

Freehold land is stated at cost or revaluation as applicable, which is the fair value less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold land is amortised over the period of leases ranging from 55 - 99 years.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Marine vessel	15 years
Building	2%
Furniture and fittings	10%
Office equipment	10%
Motor vehicles	20%
Air conditioner	10%
Renovation	10%
Tools and equipment	20%
Computer and software	33.33%
Moulds	20%
Diving equipment and machinery	20%
Plant and machinery	10%

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(c) Impairment of Non-Financial Assets**

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(d) Inventories

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

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

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

(e) Financial Instruments

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

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

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank and deposits at call which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

(ii) Other Non-Current Investments

Non-current investments other than investments in subsidiaries are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

(iii) Trade Receivables

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

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(e) Financial Instruments (Cont'd)****(iv) Trade Payables**

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

(v) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(vi) Equity Instruments

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

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

(vii) Derivative Financial Instruments

Derivative financial instruments are not recognised in the financial statements.

(f) Leases**(i) Classification**

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership.

(ii) Finance leases - the Group as lessee

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(f) Leases (Cont'd)

(ii) Finance leases - the Group as lessee (Cont'd)

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(b).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(g) Borrowing Costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Income Tax

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

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(h) Income Tax (Cont'd)**

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest is the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(i) Employee Benefits**(i) Short Term Benefits**

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

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(i) Employee Benefits (Cont'd)

(iii) Termination Benefits

Termination benefits are payable when employment is terminate before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(j) Intangible Assets

(i) Goodwill

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

(ii) Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(j) Intangible Assets (Cont'd)****(ii) Other Intangible Assets (Cont'd)****Research and development costs**

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

(k) Provision

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Provision for restructuring costs is recognised when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. Costs relating to ongoing activities are not provided for.

(l) Foreign Currencies**(i) Functional and Presentation Currency**

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(i) Foreign Currencies (Cont'd)

(ii) Foreign Currency Transactions

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

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

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

(iii) Offshore Entities

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

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

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(m) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of Goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Revenue from Services

Revenue from the diving services for marine industry are recognised by reference to the stage of completion at the balance sheet date. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(v) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(vi) Management Fees

Management fees are recognised when services are rendered

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs

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

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

The Group has not early adopted the deferred FRS 117 Leases, FRS 124 Related Party Disclosures and FRS 139 - Financial Instruments: Recognition and Measurement.

The adoption of revised FRS 102, 108, 110, 116, 127, 132, 133, 136 and 138 does not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are discussed below:

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

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

(i) Goodwill

Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life which range from 15 to 20 years and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating unit in which the goodwill is attached to. The adoption of FRS 3 and the revised FRS 136 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

NOTES TO
THE FINANCIAL STATEMENTS**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs (Cont'd)****(a) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets (Cont'd)****(i) Goodwill**

In accordance with the transitional provisions of FRS 3, the Group has applied the revised accounting policy for goodwill prospectively from 1 January 2006. The transitional provisions of FRS 3 also required the Group to eliminate the carrying amount of the accumulated amortisation at 1 January 2006 amounting to RM1,003,237 against the carrying amount of goodwill. The net carrying amount of goodwill as at 1 January 2006 of RM22,466,586 ceased to be amortised thereafter.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. This change has no impact on the Company's financial statements.

(ii) Other intangible assets

Prior to 1 January 2006, all intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortisation and impairment losses. Upon the adoption of FRS 138, the useful lives of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Accordingly, brands are considered to have indefinite life. In accordance with the transitional provisions of FRS 138, the change in the useful life assessment from finite to indefinite is made on a prospective basis. The net carrying amount of brands as at 1 January 2006 of RM586,823 ceased to be amortised. Development costs are to be amortised upon commencement of the commercial production of the product to which it relates on a straight line basis over the period of its expected benefits, but not exceeding 5 years.

Because the revised accounting policy for brands has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. This change has no impact on the Company's financial statements.

(b) FRS 101: Presentation of Financial Statements**(i) Other presentation**

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs (Cont'd)

(c) FRS 121: The Effects of Changes in Foreign Exchange Rates

(i) Exchange differences on a monetary item that forms part of the Group's or the Company's net investment in a foreign operation

Prior to 1 January 2006, exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, were recognised in equity in the consolidated financial statements. Under the revised FRS 121, such exchange differences are now recognised in profit or loss.

In addition, prior to 1 January 2006, exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, regardless of the currency of the monetary item, were recognised in equity in the Company's separate financial statements. Under the revised FRS 121, such exchange differences are now recognised in profit or loss.

(d) Restatement of comparatives

Group	Previously Stated RM	FRS 101 Note 2.3(b)(i) RM	Total RM
Total equity	50,913,227	21,466,994	72,380,221

2.4 Significant Accounting Estimates and Judgements

Key Sources of Estimation Uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised tax losses and capital allowances of the Group and the Company was RM 8,394,710 (2005: RM Nil) and RM1,111,157 (2005: RM Nil) respectively.

NOTES TO
THE FINANCIAL STATEMENTS**3. REVENUE**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Rendering of services	116,317,344	122,892,382	-	-
Dividend income from - subsidiaries	-	-	-	4,600,000
Management fees from - subsidiaries	-	-	2,100,000	2,100,000
	<u>116,317,344</u>	<u>122,892,382</u>	<u>2,100,000</u>	<u>6,700,000</u>

4. COST OF SALES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Cost of services rendered	<u>(97,489,748)</u>	<u>(77,174,511)</u>	-	-

5. OTHER INCOME

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest income	282,575	209,178	18,603	118,656
Gain on disposal of Property, plant and equipment	247,017	75,488	-	-
Dividend income	150,000	150,000	-	-
Others	3,959	69,400	-	49,000
	<u>683,551</u>	<u>504,066</u>	<u>18,603</u>	<u>167,656</u>

6. FINANCE COSTS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest expense on:				
Bank overdraft	434,838	356,652	-	-
Term loans	2,666,929	1,688,660	1,827,965	898,274
Hire purchase and finance lease liabilities	56,383	74,162	-	3,818
Others	173,294	9,030	-	-
	<u>3,331,444</u>	<u>2,128,504</u>	<u>1,827,965</u>	<u>902,092</u>

7. PROFIT/(LOSS) BEFORE TAXATION

The following amounts have been included at arriving at profit/(loss) before taxation:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Employee benefits expenses (Note 8)	10,744,991	10,145,364	935,797	1,107,355
Non-executive directors' remuneration and emoluments (Note 9)	93,500	109,000	93,500	109,000
Auditors' remuneration:				
- statutory	135,610	132,500	18,000	15,000
- Overprovision in prior years	(16,540)	(3,550)	(2,400)	-
Depreciation of property, plant and equipment (Note 12)				
- included in cost of sales	4,471,218	3,564,563	-	-
- included in administrative expenses	1,098,409	822,101	1,775	15,845
Amortisation of intangible assets	-	1,012,830	-	-
Property, plant and equipment written off	-	15,166	-	-
Operating leases:				
- minimum lease payments for land and buildings	38,500	147,320	-	-
- minimum lease payments for plant and machineries				
- included in cost of sales	13,998,577	2,676,150	-	-
- included in administrative expenses	-	708,316	-	-
Net foreign exchange losses/(gain)	29,827	9,314	12,311	(568)

NOTES TO
THE FINANCIAL STATEMENTS**8. EMPLOYEE BENEFITS EXPENSES**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Wages and salaries				
- included in cost of sales	5,992,976	4,478,761	-	-
- included in administrative expenses	2,452,394	2,584,478	353,176	404,664
Directors' remuneration and emoluments (Note 9)	1,748,576	2,096,773	537,112	656,415
Contributions to defined contribution plan and social security contribution	532,426	637,281	45,509	46,276
Other benefits	18,619	348,071	-	-
	<u>10,744,991</u>	<u>10,145,364</u>	<u>935,797</u>	<u>1,107,355</u>

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration and emoluments amounting to RM1,748,576 (2005: RM2,096,773) and RM537,112 (2005: RM656,415) respectively as further disclosed in Note 9.

9. DIRECTORS' REMUNERATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Executive directors' remuneration (Note 8):				
Fees and emoluments	1,748,576	1,890,569	537,112	652,415
Other emoluments	-	206,204	-	4,000
	<u>1,748,576</u>	<u>2,096,773</u>	<u>537,112</u>	<u>656,415</u>
Non-executive directors' remuneration (Note 7):				
Fees	90,000	105,000	90,000	105,000
Other emoluments	3,500	4,000	3,500	4,000
	<u>93,500</u>	<u>109,000</u>	<u>93,500</u>	<u>109,000</u>
Total directors' remuneration and emoluments	<u>1,842,076</u>	<u>2,205,773</u>	<u>630,612</u>	<u>765,415</u>

The number of directors of the Company and Subsidiary Companies whose total remuneration during the year fell within the following bands is analysed below:

	Number of Directors Company		Number of Directors Subsidiaries	
	2006	2005	2006	2005
Executive directors:				
RM Nil*	1	2	-	-
RM1 - RM100,000	-	1	4	5
RM100,001 - RM250,000	2	3	5	4
RM250,001 - RM350,000	-	-	-	1
Non-Executive directors:				
RM1 - RM100,000	3	5	-	-

* Remuneration paid by subsidiary companies

NOTES TO
THE FINANCIAL STATEMENTS**10. INCOME TAX EXPENSE**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current income tax:				
Malaysian income tax	3,099,363	6,972,842	-	1,161,676
Under/(Over) provision in prior years:				
Malaysian income tax	149,675	(219,431)	-	-
	<u>3,249,038</u>	<u>6,753,411</u>	<u>-</u>	<u>1,161,676</u>
Deferred tax (Note 24):				
Relating to origination and reversal of temporary differences	(1,839,407)	2,576,416	(311,874)	-
	<u>1,409,631</u>	<u>9,329,827</u>	<u>(311,874)</u>	<u>1,161,676</u>

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

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit/(loss) before taxation	5,909,022	32,554,023	(1,149,689)	4,090,724
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	1,654,526	9,115,126	(321,913)	1,145,403
Expenses not deductible for tax purpose	217,822	676,291	10,039	16,273
Income not subject to tax purpose	(105,610)	(42,159)	-	-
Effect of changes in tax rates	(133,671)	(200,000)	-	-
Different tax rates in other countries	(371,506)	-	-	-
(Over) provision of deferred tax in prior years	(1,605)	-	-	-
Under/(Over) provision of income tax in prior years	149,675	(219,431)	-	-
Income tax expense for the year	<u>1,409,631</u>	<u>9,329,827</u>	<u>(311,874)</u>	<u>1,161,676</u>

11. EARNINGS PER SHARE

Basic

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

	Group	
	2006 RM	2005 RM
Profit attributable to ordinary equity holders of the Company	5,086,702	16,575,322
	2006 '000	2005 '000
Number of ordinary shares in issue	208,000	208,000
	Group	
	2006	2005
Basic earning per share (sen)	2.45	7.97

12. DIVIDENDS

	Dividends in respect of Year		Dividends Recognised in Year	
	2006 RM	2005 RM	2006 RM	2005 RM
Interim dividend for 2005: 10% less 28% taxation, on 208,000,000 ordinary shares of RM0.10 each	-	1,497,600	-	1,497,600
Final dividend for 2005: 10% less 28% taxation, on 208,000,000 ordinary shares of RM0.10 each	-	1,497,600	1,497,600	-
	-	2,995,200	1,497,600	1,497,600

NOTES TO
THE FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

Group	Motor vehicles RM	Office equipment, furniture and fittings RM	Renovation, air conditioners and site equipments RM	Plant and machineries and diving equipments RM	Tools and equipment and moulds RM	Computers RM	Marine vessels and equipment RM	Freehold land and building RM	Leasehold land and building RM	Total RM
Cost										
At 1 January 2006	1,825,008	1,352,213	1,171,202	8,799,066	3,284,433	753,560	30,676,750	5,223,376	5,307,370	58,372,978
Additions	133,241	171,777	245,757	626,229	1,261,967	180,288	25,356,696	-	-	27,975,955
Disposals	(967,940)	(799)	-	-	(5,000)	-	-	-	-	(973,739)
At 31 December 2006	990,309	1,523,191	1,416,959	9,425,295	4,521,400	933,848	56,033,446	5,223,376	5,307,370	85,375,194
Accumulated Depreciation										
At 1 January 2006	904,199	573,587	404,767	4,349,766	1,622,202	443,961	1,948,941	39,409	159,812	10,446,644
Depreciation charge for the year	229,129	169,140	198,954	1,685,774	613,580	164,633	2,431,045	13,136	64,236	5,569,627
Disposals	(482,397)	(213)	-	-	(2,417)	-	-	-	-	(485,027)
At 31 December 2006	650,931	742,514	603,721	6,035,540	2,233,365	608,594	4,379,986	52,545	224,048	15,531,244
Net Carrying Amount										
At 31 December 2006	339,378	780,677	813,238	3,389,755	2,288,035	325,254	51,653,460	5,170,831	5,083,322	69,843,950

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Motor vehicles RM	Office equipment, furniture and fittings RM	Renovation, air conditioners and site equipments RM	Plant and machineries and diving equipments RM	Tools and equipment and moulds RM	Computers RM	Marine vessels and equipment RM	Freehold land and building RM	Leasehold land and building RM	Total RM
Cost										
At 1 January 2005	1,614,647	532,417	397,325	825,944	2,106,767	262,829	-	-	1,540,000	7,279,929
At the date of acquisition										
of subsidiaries	1,402,082	744,077	624,027	7,066,535	-	253,258	11,328,556	5,223,376	1,615,545	28,257,456
Additions	86,613	83,265	221,668	906,587	1,157,666	237,473	19,348,194	-	2,151,825	24,193,291
Disposals	(1,278,334)	(7,546)	(71,818)	-	-	-	-	-	-	(1,357,698)
At 31 December 2005	1,825,008	1,352,213	1,171,202	8,799,066	3,264,433	753,560	30,676,750	5,223,376	5,307,370	58,372,978
Accumulated Depreciation										
At 1 January 2005	760,227	211,315	80,159	100,992	1,197,823	230,542	-	-	52,690	2,633,748
At the date of acquisition										
of subsidiaries	428,812	205,361	138,082	2,693,343	-	91,012	377,619	26,273	64,622	4,025,124
Depreciation charge for the year	311,872	157,784	187,833	1,555,431	424,379	122,407	1,571,322	13,136	42,500	4,386,664
Disposals	(596,712)	(873)	(1,307)	-	-	-	-	-	-	(598,892)
At 31 December 2005	904,199	573,587	404,767	4,349,766	1,622,202	443,961	1,948,941	39,409	159,812	10,446,644
Net Carrying Amount										
At 31 December 2005	920,809	778,626	766,435	4,449,300	1,642,231	309,599	28,727,809	5,183,967	5,147,558	47,926,334

NOTES TO
THE FINANCIAL STATEMENTS**13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Renovation RM	Furniture and fittings RM	Computer hardware RM	Total RM
Company				
Cost				
At 1 January 2006	-	749	4,800	5,549
Additions	10,998	1,760	-	12,758
At 31 December 2006	10,998	2,509	4,800	18,307
Accumulated Depreciation				
At 1 January 2006	-	54	1,463	1,517
Depreciation charge for the year	92	87	1,596	1,775
At 31 December 2006	92	141	3,059	3,292
Net Carrying Amount				
At 31 December 2006	10,906	2,368	1,741	15,015
	Motor vehicle RM	Furniture and fittings RM	Computer hardware RM	Total RM
Company				
Cost				
At 1 January 2005	95,509	-	-	95,509
Additions	-	749	4,800	5,549
Disposal	(95,509)	-	-	(95,509)
At 31 December 2005	-	749	4,800	5,549
Accumulated Depreciation				
At 1 January 2005	7,960	-	-	7,960
Depreciation charge for the year	14,328	54	1,463	15,845
Disposal	(22,288)	-	-	(22,288)
At 31 December 2005	-	54	1,463	1,517
Net Carrying Amount				
At 31 December 2005	-	695	3,337	4,032

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

- (a) Net carrying amounts of property, plant and equipment held under hire purchase and finance lease arrangements is as follows:

	Group	
	2006 RM	2005 RM
Motor vehicle	339,378	894,430

- (b) The net carrying amounts of property, plant and equipment pledged as securities for borrowings Note 21 are as follows:

	Group	
	2006 RM	2005 RM
Leasehold lands and buildings	3,657,792	3,686,593
Freehold land and building	4,842,560	4,848,560
Marine Vessels	40,093,675	18,249,411
	<u>48,594,027</u>	<u>26,784,564</u>

14. INTANGIBLE ASSETS

	Goodwill RM	Development costs RM	Patent rights RM	Total RM
Group				
Cost				
At 1 January 2005	2,761,902	101,004	1,110,483	3,973,389
Additions	-	6,787,327	-	6,787,327
Acquisition of subsidiary	20,707,921	-	-	20,707,921
At 31 December 2005 and 1 January 2006	23,469,823	6,888,331	1,110,483	31,468,637
Effects of adopting FRS 3 (Note 2.3(a)(i)&(ii))	(1,003,237)	-	(523,660)	(1,526,897)
Additions	-	1,290,966	-	1,290,966
At 31 December 2006	<u>22,466,586</u>	<u>8,179,297</u>	<u>586,823</u>	<u>31,232,706</u>

NOTES TO
THE FINANCIAL STATEMENTS**14. INTANGIBLE ASSETS (CONT'D)**

	Goodwill RM	Development costs RM	Patent rights RM	Total RM
Group (cont'd)				
Accumulated amortisation				
At 1 January 2005	64,444	-	449,623	514,067
Amortisation (Note 7)	938,793	-	74,037	1,012,830
At 31 December 2005 and 1 January 2006	1,003,237	-	523,660	1,526,897
Effects of adopting FRS 3 (Note 2.3(a)(i)&(ii))	(1,003,237)	-	(523,660)	(1,526,897)
At 31 December 2006	-	-	-	-
Net carrying amount				
At 31 December 2005	22,466,586	6,888,331	586,823	29,941,740
At 31 December 2006	22,466,586	8,179,297	586,823	31,232,706

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares, at cost	49,627,698	49,023,700

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

(a) Subsidiaries

Details of subsidiaries are as follows:

Name of subsidiaries	Country of Incorporation	Equity Interest		Principal Activities
		2006 %	2005 %	
Corro-Shield (M) Sdn. Bhd. *	Malaysia	60	60	Manufacturing, supplying, commissioning and installation of corrosion control products and related services, primarily for the oil and gas industry.
Romilly (M) Sdn. Bhd. *	Malaysia	100	100	Inspection and maintenance of plant and machinery used for the oil and gas industry.
Corro-Shield (SEA) Sdn. Bhd. * [Formerly known as Fibaroll (SEA) Sdn. Bhd.]	Malaysia	100	100	Trading and application of specialist composites materials primarily for the oil and gas industry.
Perisai (L) Inc. **	Malaysia	100	100	Dormant
Merit Composite Sdn. Bhd. *	Malaysia	100	100	Research, development, design, application and construction of composite materials and structural strengthening for marine and oil and gas industry.
Bio-X Technologies Sdn. Bhd. *	Malaysia	51	51	Supply and provision of bio-remediation products, equipment and services primarily for the oil and gas industry.
Alpha Perisai Sdn. Bhd. *	Malaysia	70	100	Design, fabrication and installation of relocatable incremental modular field development structure for topside and subsea application.
Perisai Research Sdn. Bhd. *	Malaysia	100	-	To carry out research and development activities.
Corro-Pro (L) Inc. **	Malaysia	100	100	Provision of vessel hiring services.

NOTES TO
THE FINANCIAL STATEMENTS**15. INVESTMENTS IN SUBSIDIARIES (CONT'D)****(a) Subsidiaries (Cont'd)**

Name of subsidiaries	Country of Incorporation	Equity Interest		Principal Activities
		2006 %	2005 %	
Orinippon Trading Sdn. Bhd. *	Malaysia	100	100	Design and engineering and patent holder.
<u>Subsidiary of Orinippon Trading Sdn. Bhd.</u>				
Impact Surge Sdn. Bhd. *	Malaysia	100	100	Dormant
Allied Marine And Equipment Sdn. Bhd. *	Malaysia	55	55	Provision of offshore diving and vessel hiring services primarily for the oil and gas industry.
<u>Subsidiary of Allied Marine And Equipment Sdn. Bhd.</u>				
AME Marine Services Sdn. Bhd. *	Malaysia	100	100	Vessel hiring services primarily for the oil and gas industry.
Allied Marine Robotics Sdn. Bhd.*	Malaysia	100	100	Dealers in underwater and diving equipment.
Maju Hydro Sdn. Bhd. *	Malaysia	51	51	Providing surveys related to offshore and marine industries.

* Audited by Kumpulan Naga

** Audited by firms other than Kumpulan Naga

(b) Changes In The Composition Of The Group

- (i) On 5 January 2006, Alpha Perisai Sdn. Bhd., a subsidiary company of the Company had increased its issued and paid-up share capital from RM2 to RM720,000 by the issuance of 719,998 ordinary shares of RM1.00 each. The increase has resulted in the equity interest of the Company reducing from 100% to 70%.
- (ii) On 5 May 2006, Perisai Research Sdn. Bhd., was incorporated as a new wholly-owned subsidiary of the Company with a paid-up share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each.

16. OTHER INVESTMENT

	Group	
	2006 RM	2005 RM
Cumulative Redeemable 5% Preference Shares - 789,474 shares of USD 1/= fully paid	3,000,000	3,000,000

17. INVENTORIES

	Group	
	2006 RM	2005 RM
Cost		
Raw materials	598,668	248,297
Work-in-progress	839,683	4,230,881
Finished goods	1,738,330	866,934
	<u>3,176,681</u>	<u>5,346,112</u>

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current				
Trade receivables				
Third parties	43,405,547	45,159,450	-	-
Retentions sums	2,103,746	3,058,407	-	-
	<u>45,509,293</u>	<u>48,217,857</u>	-	-
Other receivables				
Deposits	190,652	75,050	8,600	5,100
Prepayments	254,174	936,571	-	-
Other receivables	6,398,043	4,915,144	325,832	1,585,832
	<u>6,842,869</u>	<u>5,926,765</u>	<u>334,432</u>	<u>1,590,932</u>
Total	<u>52,352,162</u>	<u>54,144,622</u>	<u>334,432</u>	<u>1,590,932</u>

Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months for major customers.

NOTES TO
THE FINANCIAL STATEMENTS**19. AMOUNT DUE FROM SUBSIDIARIES**

	Company	
	2006	2005
	RM	RM
Due from subsidiaries	27,524,239	9,902,805

Amount due from subsidiaries are unsecured, interest free and have no fixed terms of repayments.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Cash on hand and at banks	4,292,242	2,248,009	482,584	496,574
Deposits with licensed banks	5,884,072	14,126,819	1,652,708	1,000,000
Cash and bank balances	<u>10,176,314</u>	<u>16,374,828</u>	<u>2,135,292</u>	<u>1,496,574</u>

Deposits with licensed financial institutions of the Group and of the Company amounting to RM5,884,072 (2005: RM5,926,819) and RM1,652,708 (2005: RM Nil) respectively are pledged as securities for borrowings as disclosed in Note 21.

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

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Cash and bank balances	4,292,242	2,248,009	482,584	496,574
Short term deposits with licensed banks	-	8,200,000	-	1,000,000
Bank overdrafts	(969,274)	(7,372,425)	-	-
Total cash and cash equivalents	<u>3,322,968</u>	<u>3,075,584</u>	<u>482,584</u>	<u>1,496,574</u>

21. BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Short term borrowings				
Secured:				
Bank overdrafts	969,274	7,372,425	-	-
Term loans	50,326,595	29,807,453	46,600,986	26,730,000
	<u>51,295,869</u>	<u>37,179,878</u>	<u>46,600,986</u>	<u>26,730,000</u>
Long term borrowings				
Secured:				
Term loans	<u>6,313,922</u>	<u>11,871,785</u>	-	-
Total borrowings				
Bank overdrafts	969,274	7,372,425	-	-
Term loans	56,640,517	41,679,238	46,600,986	26,730,000
	<u>57,609,791</u>	<u>49,051,663</u>	<u>46,600,986</u>	<u>26,730,000</u>

(a) Bank Overdrafts

The bank overdrafts of the subsidiary company are subject to interest at rates ranging from 1.25% to 1.5% (2005: 1.25% to 1.5%) per annum above the bank based lending rates and are secured by leasehold land and building belonging to the subsidiary company as disclosed in Note 13 and jointly and severally guaranteed by certain directors of the subsidiary companies.

(b) Term Loans

The term loan of the Group and of the Company are subject to interest at rates ranging from 0.75% to 1.5% (2005: 0.75% to 1.5%) per annum above the bank based lending rates and 1.25% (2005: 1.25%) per annum above the bank's cost of funds respectively.

The term loans of the Group and the Company are secured by the following:-

- (i) First and second legal charge over the freehold and leasehold factory lands and building and marine vessel belonging to the subsidiary companies as disclosed in Note 13;
- (ii) First party pledge over the fixed deposit of the Group and of the Company as disclosed in Note 20;
- (iii) First ranking legal charge over the 55% ordinary shares of RM1.00 each in the subsidiary company;

NOTES TO
THE FINANCIAL STATEMENTS**21. BORROWINGS (CONT'D)****(b) Term Loans (Cont'd)**

(iv) Corporate guarantees by the Company and certain subsidiaries; and

(v) Jointly and severally guaranteed by certain directors of the Company and the subsidiary company.

22. HIRE PURCHASE PAYABLES

	Group	
	2006 RM	2005 RM
Payable not later than one year	89,815	174,305
Payable later than one year but not later than five years	313,950	764,453

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Current				
Trade payables				
Third parties	24,363,989	21,590,750	-	-
Other payables				
Accruals	521,634	714,715	-	-
Other payables	7,882,114	6,450,683	2,735,479	2,340,543
	8,403,748	7,165,398	2,735,479	2,340,543
	32,767,737	28,756,148	2,735,479	2,340,543

Trade payables

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

24. DEFERRED TAXATION

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At 1 January	3,261,087	136,939	750	750
Acquisition of subsidiaries		547,732	-	-
Recognised in income statement (Note 10)	(1,839,407)	2,576,416	(311,874)	-
At 31 December	1,421,680	3,261,087	311,124	750
Presented after appropriate offsetting as follows				
Deferred tax assets	(2,350,519)	-	(311,124)	-
Deferred tax liabilities	3,772,199	3,261,087	-	2,512,585
	1,421,680	3,261,087	(311,124)	2,512,585

Deferred Tax Liabilities of the Group

	Property, plant and equipment RM	Total RM
At 1 January 2006	3,261,087	3,261,087
Recognised in the income statement	511,112	511,112
At 31 December 2006	3,772,199	3,772,199
At 1 January 2005	136,939	136,939
Acquisition of subsidiaries	547,732	547,732
Recognised in the income statement	2,576,416	2,576,416
At 31 December 2005	3,261,087	3,261,087

Deferred Tax Assets of the Group

	Unused Tax Losses RM	Total RM
At 1 January 2006	-	-
Recognised in the income statement	(2,350,519)	(2,350,519)
At 31 December 2006	(2,350,519)	(2,350,519)

The availability of the unused tax losses for offsetting against future taxable profits of the respective subsidiaries are subject to no substantial changes in shareholdings of those subsidiaries and the Company under Section 44(5A) and (5B) of Income Tax Act, 1967.

NOTES TO
THE FINANCIAL STATEMENTS**24. DEFERRED TAXATION (CONT'D)****Deferred Tax Assets of the Company:**

	Unused Tax Losses RM	Total RM
At 1 January 2006	-	-
Recognised in the income statement	(311,124)	(311,124)
At 31 December 2006	<u>(311,124)</u>	<u>(311,124)</u>

25. SHARE CAPITAL

	Number of ordinary shares of RM0.10 each		Amount	
	2006 '000	2005 '000	2006 '000 RM	2005 '000 RM
Authorised share capital				
At 1 January	500,000	500,000	50,000	50,000
Created during the year	-	-	-	-
At 31 December	<u>500,000</u>	<u>500,000</u>	<u>50,000</u>	<u>50,000</u>
Issued and paid-up share capital				
At 1 January	208,000	208,000	20,800	20,800
Issued during the year	-	-	-	-
At 31 December	<u>208,000</u>	<u>208,000</u>	<u>20,800</u>	<u>20,800</u>

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

26. OTHER RESERVE (CONT'D)

	Note	Foreign currency translation reserve RM	Total RM
At 1 January 2006	-	-	
Effects of adopting: FRS 121	2.3 (c)(i)	23,947	23,947
At 31 December 2006		<u>23,947</u>	<u>23,947</u>

The nature and purpose of the reserve is as follows:

Foreign currency translation reserve

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

27. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	2006 RM	2005 RM
Company		
Subsidiary companies		
Dividend income	-	4,600,000
Management fee	<u>2,100,000</u>	<u>2,100,00</u>

The directors are of the opinion that all the transactions above were entered into in the normal course of business and were established on terms and conditions that were not materially different from those obtainable in transactions with unrelated parties.

NOTES TO
THE FINANCIAL STATEMENTS**28. FINANCIAL INSTRUMENTS****(a) Financial Risk Management Objectives and Policies**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risks (both fair value and cash flow), foreign currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

(b) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

(c) Foreign Currency Risk

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars (USD). Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

(d) Liquidity Risk

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

28. FINANCIAL INSTRUMENTS (CONT'D)**(e) Credit Risk**

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial assets.

(f) Fair Values

The fair values of financial assets and liabilities are approximate to the amounts recorded in the balance sheet due to relatively short term maturity of these financial instruments.

29 SEGMENTAL INFORMATION

	Revenue RM	Results RM	Total Assets RM	Total Liabilities RM
2006				
Analysis by geographical location				
Local	86,344,023	(6,085,960)	169,132,332	96,510,373
Overseas	29,973,321	11,311,431	3,000,000	-
	<u>116,317,344</u>	<u>5,225,471</u>	<u>172,132,332</u>	<u>96,510,373</u>
Other operating income				
Local	-	533,551	-	-
Overseas	-	150,000	-	-
	<u>116,317,344</u>	<u>5,909,022</u>	<u>172,132,332</u>	<u>96,510,373</u>
Income tax expense	-	(1,409,631)	-	-
	<u>116,317,344</u>	<u>4,499,391</u>	<u>172,132,332</u>	<u>96,510,373</u>

NOTES TO
THE FINANCIAL STATEMENTS**29 SEGMENTAL INFORMATION (CONT'D)**

	Revenue RM	Results RM	Total Assets RM	Total Liabilities RM
<u>2005</u>				
Analysis by geographical location				
Local	120,582,002	31,397,872	153,733,636	83,353,415
Overseas	2,310,380	669,323	3,000,000	-
	<u>122,892,382</u>	<u>32,067,195</u>	<u>156,733,636</u>	<u>83,353,415</u>
Other operating income				
Local	-	354,066	-	-
Overseas	-	150,000	-	-
	<u>122,892,382</u>	<u>32,571,261</u>	<u>156,733,636</u>	<u>83,353,415</u>
Group's share of loss of an associated company				
	-	(17,238)	-	-
	<u>122,892,382</u>	<u>32,554,023</u>	<u>156,733,636</u>	<u>83,353,415</u>
Income tax expense				
	-	(9,329,827)	-	-
	<u>122,892,382</u>	<u>23,224,196</u>	<u>156,733,636</u>	<u>83,353,415</u>

LIST OF
PROPERTIES

Location	Approximate Age of Building	Land / Built-up Area and Tenure	Description	Net Book Value (RM)	Year of Acquisition
Lot No. 9, Jalan P10/I5, Kawasan Perindustrian MIEL, Fasa 4, Seksyen 10, 43680 Bandar Baru Bangi, Selangor.	8 yrs	1,730 sq metres. Leasehold land and building expiring at 9 December 2098	Office and Factory	1,434,619	2003
Lot No.8, Jalan 9/1, Taman IKS, Seksyen 9, 43650 Bandar Baru Bangi, Selangor Darul Ehsan.	N/A	3,794.50 sq metres. Leasehold land expiring at 2105	Leasehold Land	1,074,649	2004
Lot No.1, Jalan 9/3, Taman IKS, Seksyen 9, 43650 Bandar Baru Bangi, Selangor Darul Ehsan.	N/A	3,794.50 sq metres. Leasehold land expiring at 2105	Leasehold Land	1,077,176	2004
No.23 Jalan Industri Batu Caves 1/6, Taman Perindustrian Batu Caves, 68100 Selangor Darul Ehsan.	6 yrs	2,240 sq feet. Leasehold land and building expiring at 2093	Leasehold Land & Building	1,518,613	2000
Lot No. 21766, Taman Perindustrian Batu Caves, 68100 Selangor Darul Ehsan.	N/A	39,936 sq feet.	Freehold Land	4,566,560	2004
PT. No: 28815 Mukim Batu, Daerah Gombak, Lot 6370, Type: KT-1B, Bukit, Sentosa Industrial Park, 48200 Bukit Serendah, Ulu Selangor, Selangor Darul Ehsan.	4 yrs	337.50 sq metres.	Freehold Industrial shoplot	276,000	2002
C-7-5 Megan Phileo Promenade, 189, Jalan Tun Razak, 50400 Kuala Lumpur.	4 yrs	1,200 sq feet.	Freehold Building	328,271	2002

ANALYSIS OF
SHAREHOLDINGS
as at 14 May 2007

Authorised Share Capital	:	RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each
Issued and paid-up Share Capital	:	RM20,800,000 comprising 208,000,000 ordinary shares of RM0.10 each
Class of Shares	:	Ordinary Shares of RM0.10 each
Voting Rights	:	1 vote per ordinary share

Distribution of Shareholdings

Size of Holdings	No of Shareholders	% of Shareholders	No of Shares	% of Shares
Less than 100 shares	10	0.95	348	0.0002
100 to 1000 shares	207	19.60	183,972	0.0884
1,001 to 10,000 shares	559	52.94	2,704,500	1.3002
10,001 to 100,000 shares	188	17.80	6,123,933	2.9442
100,001 to less than 5% of Issued Share	88	8.33	134,030,238	64.4376
5% and above of Issued Shares	4	0.38	64,957,009	31.2294
Total	1,056	100.00	208,000,000	100.00

Substantial Shareholders

Name	Direct		Indirect	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Maya Terang Sdn Bhd	29,366,998	14.12	-	-
Nagendran A/L C.Nadarajah	20,706,300	9.95	29,366,998 ⁽¹⁾	14.12 ⁽¹⁾
Tengku Daud Shaifuddin Bin Tengku Zainudin	14,451,480	6.95	29,366,998 ⁽¹⁾	14.12 ⁽¹⁾
Tinggi Tiasa Sdn Bhd	11,740,000	5.64	-	-
Juhari Bin Husin	4,301,500	2.07	11,740,000 ⁽²⁾	5.64 ⁽²⁾
Zamri Bin Zakaria	209,100	0.10	11,740,000 ⁽²⁾	5.64 ⁽²⁾
Lembaga Tabung Haji	11,195,200	5.38	-	-

Directors' Shareholdings

Name	Direct		Indirect	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Nagendran A/L C.Nadarajah	20,706,300	9.95	29,366,998 ⁽¹⁾	14.12 ⁽¹⁾
Tengku Daud Shaifuddin Bin Tengku Zainudin	14,451,480	6.95	29,366,998 ⁽¹⁾	14.12 ⁽¹⁾
Juhari Bin Husin	4,301,500	2.07	11,740,000 ⁽²⁾	5.64 ⁽²⁾
Yogesvaran A/L T. Arianayagam	1,536,092	0.74	-	-

Notes :

- (1) Deemed interest by virtue of their shareholdings in Maya Terang Sdn. Bhd. pursuant to Section 6A(4) of the Companies Act, 1965.
- (2) Deemed interest by virtue of their shareholdings in Tinggi Tiasa Sdn. Bhd. pursuant to Section 6A(4) of the Companies Act, 1965.

THIRTY LARGEST
SHAREHOLDERS

NO	NAME	SHAREHOLDINGS	%
1	MAYA TERANG SDN. BHD.	29,366,998	14.1187
2	AIBB NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR NAGENDRAN A/L C. NADARAJAH	13,450,011	6.4664
3	TINGGI TIASA SDN. BHD.	11,740,000	5.6442
4	LEMBAGA TABUNG HAJI	10,400,000	5.0000
5	KOPERASI PERMODALAN FELDA BERHAD	10,000,000	4.8077
6	HDM NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DEVARAJAH A/L NAVARATNAM (M1O)	8,922,800	4.2898
7	ECM LIBRA AVENUE NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR SIVANANTHAN A/L NATARAJA	7,640,900	3.6735
8	TENGGU DAUD SHAIFUDDIN BIN TENGGU ZAINUDIN	7,234,287	3.4780
9	AMMB NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR HLG PENNY STOCK FUND	6,008,100	2.8885
10	AMBANK (M) BERHAD PLEDGED SECURITIES ACCOUNT FOR KHO POH ENG (SMART)	5,119,400	2.4613
11	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PHEIM ASSET MANAGEMENT SDN BHD FOR EMPLOYEES PROVIDENT FUND	5,000,000	2.4038
12	KENANGA NOMINEES (TEMPATAN) SDN BHD KENANGA CAPITAL SDN BHD FOR TENGGU DAUD SHAIFUDDIN BIN TENGGU ZAINUDIN	5,000,000	2.4038
13	NAGENDRAN A/L C. NADARAJAH	4,893,189	2.3525
14	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR HWANG-DBS SELECT SMALL CAPS FUND (4579)	4,304,900	2.0697
15	BEH ENG PAR	4,266,000	2.0510
16	KHO POH ENG	4,160,000	2.0000

THIRTY LARGEST
SHAREHOLDERS

NO	NAME	SHAREHOLDINGS	%
17	JUHARI BIN HUSIN	3,683,300	1.7708
18	TIONG YOUNG KONG	3,280,000	1.5769
19	AMANAH RAYA NOMINEES (TEMPATAN) SDN BHD PUBLIC ISLAMIC OPPORTUNITIES FUND	3,051,700	1.4672
20	VIGNESWARAN A/L C.NADARAJAH	2,766,032	1.3298
21	HDM NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR RENATA ANITA DE RAJ (M1O)	2,700,000	1.2981
22	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD ALLIANCE INVESTMENT MANAGEMENT BERHAD FOR EMPLOYEES PROVIDENT FUND	2,512,500	1.2079
23	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR MORGAN STANLEY & CO. INCORPORATED	2,447,000	1.1764
24	NAGENDRAN A/L C.NADARAJAH	2,363,100	1.1361
25	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TENGKU DAUD SHAIFUDDIN BIN TENGKU ZAINUDIN	2,217,193	1.0660
26	LEE SOON SOO	2,000,000	0.9615
27	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR THE HWANG-DBS SELECT OPPORTUNITY FUND (3969)	1,882,400	0.9050
28	HSBC NOMINEES (ASING) SDN BHD TNTC FOR DBS MALAYSIA EQUITY FUND	1,700,000	0.8173
29	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (MALAYSIA) TRUSTEE BERHAD FOR AMANAH SAHAM SARAWAK	1,622,600	0.7801
30	UOBM NOMINEES (TEMPATAN) SDN BHD UNITED OVERSEAS BANK NOMINEES (PTE) LTD FOR YOGESVARAN A/L T. ARIANAYAGAM	1,536,082	0.7385
TOTAL		171,268,492	82.3405

FORM OF
PROXY

I/WeNRIC No/Company No.....

(FULL NAME IN BLOCK LETTERS AS PER IDENTITY CARD)

of.....

(ADDRESS)

telephone no. being a member/members of Perisai Petroleum Teknologi Bhd.("the Company"), hereby appoint

.....

(FULL NAME IN BLOCK LETTERS AS PER IDENTITY CARD)

of.....

(ADDRESS)

and/or.....

(FULL NAME IN BLOCK LETTERS AS PER IDENTITY CARD)

of

(ADDRESS)

or failing him/her, THE CHAIRMAN OF THE MEETING as my/our proxy/proxies to vote for me/us and on my/our behalf at the Fourth Annual General Meeting of the Company to be held at Anggerik Room, 4th Floor, Hotel Equatorial Kuala Lumpur on Wednesday, 27th June 2007 at 10.30a.m. and at any adjournment thereof. I/We indicate with an "X" in the appropriate spaces below as to how I/we wish my/our vote to be cast:

		For	Against
Ordinary Resolution 1	Adoption of Audited Financial Statements and Reports for the financial year ended 31/12/2006.		
Ordinary Resolution 2	Payment of Directors' Fees.		
Ordinary Resolution 3	Re-election of Nagendran A/L C. Nadarajah		
Ordinary Resolution 4	Re-election of Tengku Daud Shaifuddin Bin Tengku Zainudin		
Ordinary Resolution 5	Re-appointment of Auditors.		
Ordinary Resolution 6	Authority under Section S132D of the Companies Act, 1965.		
Ordinary Resolution 7	Proposed Renewal of Shareholders' Mandate for existing RRPT and New Shareholders' Mandate for additional RRPT.		
Special Resolution 8	Proposed amendments to Articles of Association of the Company		

Subject to the abovestated voting instructions, my/our proxy may vote or abstain from voting on any resolution as *he/*she/*they may think fit.

<p>If appointment of proxy is under hand</p> <p>.....</p> <p>Signed by *individual member/ *officer or attorney of member/ *authorised nominee of (beneficial owner)</p>	<p>No of shares held :.....</p> <p>Securities Account No :</p> <p>Date :</p>	<p>The proportions of my/our holding to be represented by my/our proxies are as follows:</p> <p>First Proxy No of shares : Percentage : %</p>
<p>If appointment of proxy is under seal Seal</p> <p>The common seal of was hereto affixed in accordance with its Articles of Association in the presence of :-</p> <p>.....</p> <p>Director Director/Secretary</p> <p>In its capacity as *member/* attorney of member/ * authorised nominee of (beneficial owner)</p>		<p>Second Proxy No of shares : Percentage : %</p> <p>No of shares held :</p> <p>Securities Account No :</p> <p>Date :</p>

Notes to Form of Proxy

1. A member of the Company entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend and vote on his/her behalf.
2. A proxy or attorney or corporate representative need not be a member of the Company and if not a Member he/she need not be a qualified legal practitioner, an approved Company Auditor or a person approved by the Registrar.
3. A member shall be entitled to appoint more than two(2) proxies to attend and vote at the same meeting.
4. Where a member appoints two or more proxies, the appointments shall be invalid unless the proportion of the holding to be represented by each proxy is specified.
5. Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
7. The instrument of proxy, together with the power of attorney(if any) under which it is signed or a certified copy thereof, shall be deposited at the Registered Office of the Company at Suite 2, Penthouse, Lobby A, Wisma Leopad, No.9, Jalan Tun Sambanthan, 50470 Kuala Lumpur, not less than forty eight(48) hours before the time of meeting or any adjournment thereof.
8. Ordinary resolution No.6, if passed, will give the Directors of the Company immediate authority to allot and issue ordinary shares from the unissued share capital of the Company up to an aggregate amount not exceeding 10 percent of the issued share capital of the Company for the time being. This authority unless revoked or varied at a General Meeting will expire at the next Annual General Meeting.

