YONGNAM HOLDINGS LIMITED

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YONGNAM HOLDINGS LIMITED • ANNUAL REPORT 2005

YHL YONGNAM

annual report 2005

Contents

Corporate Profile

Shaping the city skyline, adding structural and aesthetic value to buildings, laying solid foundations that give people the confidence to build upon – Yongnam aspires to be the name synonymous with such ideals. Steel is increasingly the material of choice for the construction of buildings and temporary support for deep excavations. The advantages of using steel over conventional material such as concrete for building construction are numerous. The higher speed of construction, superior material strength to volume ratio, flexibility in design and aesthetics are just some of the benefits of using steel.

Yongnam excels in adding value to steel. Its steel fabrication experience has spanned more than 30 years. Together with production facilities in Malaysia, the Group has a total production capacity of 45,000 tons of steel fabrication. Its Singapore operations are housed at its mega-site in Tuas. The Group utilizes latest steel technologies to exploit innovative designs and methods. Yongnam's technical and value engineering solutions for steel fabrication and erection have resulted in increased productivity, improved yield and lower costs. Furthermore, our in-house pool of experienced and qualified engineers, technicians, welders, riggers, fitters and detailers are consistently adding value to our clients' project requirements.

Yongnam is an ISO-9001:2000, IQNet qualified company and accredited SI classification from Singapore Structural Steel Society ("SSSS"). Its Quality Management System takes a planned approach towards continuous improvement of our products, processes and services to meet or exceed our customer's expectations at all times.

The most cost-effective methods of design, fabrication and installation are adopted in close consultation with our clients' specific project needs, be it steel structures for buildings or strutting systems for deep excavation support requirements. The end results are steel structures that are meticulously designed, fabricated to exacting standards, and installed in the most safe and efficient manner, to the satisfaction of our clients.

Chairman's Statement

Results for the Group fell short of its forecast for the year ended 31 December 2005. The unexpected delays in the Circle Line and Kallang/Paya Lebar Expressway (KPE) projects hampered the Group's recovery. In our industry, delays in projects often result in margins being compressed due to irrecoverable overheads and escalating costs. The Group's also experienced great difficulty in hiring professionals such as engineers and accountants, as well as skilled labour. Though the Board and management are disappointed by these events, we remain confident that the Group's future prospects are sound.

The Group's results for FY2005 were as follows: Group revenue was $81.4 million (2004: $63.6 million), Gross profit was $15.7 million (2004: $15.5 million), Profit from operating activities was $4.9 million (2004: $10.6 million), Profit before tax was $0.7 million (2004: $7.4 million).

Overall gross profit percentage was adversely affected by change in sales mix arising from higher sales in the lower margins structural steelworks. The margins were also considerably weakened by a number of low margins contracts committed in the past - especially projects in Hong Kong and Malaysia.

Key highlights from the three business segments are as follows:

Structural Steelworks

Revenue for Structural Steelworks saw an increase of 71% from $21.9 million in 2004 to $37.4 million in 2005. Major projects which contributed to revenue were: One Raffles Quay (ORQ), Fusionpolis, Changi T3 Terminal, Tanjung Bin's fabricated steel structure and Viviocity. Except for ORQ and Tanjung Bin, all other projects revenues included steel as raw material in the contract. This resulted in the steep increase in revenue. However, in such cases, margins would not commensurate with the increase in revenue.

The construction of ORQ is nearly completed. The key project for year 2005, Fusionpolis at One-North is progressing well and we expect it to be near completion before 2006 year end. The contract amount for Fusionpolis is the highest for a single project in the history of our Group's structural steel work projects.

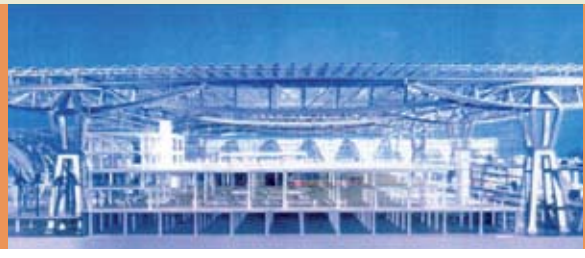
Specialist Civil Engineering

Specialist Civil Engineering business registered revenue of $37.6 million, a decrease of 9% compared to $41.5 million in 2004. Following the collapse of the Nicoll Highway in April 2004, the government had imposed more stringent safety requirements, which caused the delay in the MRT Circle Line and Kallang-Paya Lebar Expressway (KPE) projects.

Currently, about 86% of the C421 KPE work is completed. This contract, commenced in 2002 and scheduled to complete in October 2004, has been delayed. The estimated completion date is now end 2006. Despite constrictions on the Group's cash flows, substantial variation works has been carried out due to the inherent difficulties in executing such work along the Kallang Basin. It is widely acknowledged that C421 KPE is an extremely complex and difficult project. The Group has not cut corners and indeed gone the extra mile to deliver safe and quality workmanship in its execution. In addition to the variation claims, the Group is seeking extension of time prolongation claims from client and owner.

Mechanical Engineering

The revenue for this sector jumped from a modest $0.2 million in 2004 to $6.5 million in 2005. This is mainly contributed by the Tanjung Bin Power plant project in Malaysia, which was secured in 2004 at a very competitive rate. There are risks of cost escalation as productivity rates, particularly pertaining to ESP mechanical erection falls below expectations. We are also incurring additional costs to incorporate various



"Yongnam has entered 2006 with a strong order book and is poised to take advantage of market conditions."

method, design and engineering changes. We have decided not to recognize the expected profits until the variations are approved by clients.

A CHALLENGING YEAR- Despite facing many difficulties in project execution due to an increase in orders received, we expect revenues to continue to grow in FY2006. We have made good progress by improving our forward sales position. Our total order book is currently at a record high of $180 million. We have taken firm action to simplify and strengthen our business structure and performance. We have proven plans in place to execute our projects and overhead cost savings. We expect to reap the benefits of these actions in coming years - in particular, to recover our gross margins.

In the medium term our business structure has retained the ability to grow. Our proprietary modular strutting system continues to grow from strength to strength. The group has captured a large share of the current ongoing works at KPE C421, C423, and C424, and at the Circle Lines C825, C851A, C853A, C854 and C855. Most consultants, contractors and authorities in Singapore have recognized the proven efficiency, safety and cost effectiveness of our strutting system. We will continue to enlarge and capitalize on our market leadership and dominance in the specialist civil engineering market, not only in Singapore but also in the region.

In the last two years, the Group had been cautious in contract negotiation with regard to the raw material steel prices. It was propitious that we have not been exposed to rapidly rising world steel prices. Where customers preferred to include steel price in the contract, we covered our risks through forward purchases. However, as the construction sector has improved, the Group now faces escalating labour costs associated with the erection of steel.

With every project we complete, new lessons are learned. As a result of an internally driven review, improved risk assessment measures will be applied to determine the viability of complex projects. Particular attention will be given to the customer's preferred procurement route and contract form. Also, the Group will focus on a number of larger structural steel projects such as the Marina Bay Bridge, Bayfront development, the integrated resort projects, Orchard Turn Mega Mall and the fully underground MRT downtown Extension / Coastal highway.

Moving forward, the focus for procuring new work will be on negotiated terms. The Group will also focus on delivering the unexecuted order book contracts on time and within budgets. It will continue to further develop key strategic relationships with subcontractors and to ensure reliable performance project delivery and prompt payment.

Corporate Governance

The Group recently welcomed on Board an additional independent director, Dr. Richard Liew. Following this appointment there will be three independent directors and five executive directors. Independent directors now chair the Audit Committee, the Remuneration Committee and the Nomination Committee. All directors are committed to provide effective governance.

I would like to acknowledge with thanks the dedication shown by the employees of the Group and the support given by our major banker, UOB. With enhancements to our risk management procedures and strong underlying business fundamentals, we are confident the Group can deliver much improved returns to shareholders in the coming year. Yongnam has entered 2006 with a strong order book and is poised to take advantage of market conditions. The Group is confident of meeting the challenges ahead and looks forward to regain the confidence of our shareholders.

Kevin Yap

KEVIN YAP
Executive Chairman

Board of Directors


Kevin Yap Foo Seong


Tan Tin Nam


Seow Soon Yong


Siau Sun King

KEVIN YAP FOO SEONG *Executive Chairman*

Appointed to the Board on 15 October 2002 and was last re-elected on May 2003. He is due for re-election at the forthcoming AGM. Mr. Yap was appointed Executive Chairman in June 2003.

Mr. Yap is a member of the Singapore Institute of Directors and was a Fellow of the Chartered Institute of Management Accountants.

Mr. Yap, 56, has 30 years of experience in manufacturing, oil & gas and logistics industries in public and private companies. Areas of expertise include finance, information technology, business operations management, corporate planning & restructuring and investment evaluation.

He served as Director – Finance of PSA Corporation Limited from 1995 to 1999. His previous senior management roles include Managing Director of Avimo Singapore Limited. He is also a Director of Asiatic Group (Holdings) Limited.

TAN TIN NAM *Executive Director*

Appointed to the Board on 19 October 1994 and was last re-elected on 28 April 2005.

Mr. Tan, 63, is the founder of the Yongnam Group. He has 40 years of experience in the construction industry. Prior to setting up his own business, Yongnam Engineering Works (YNEW) in 1971, Mr. Tan spent 6 years in mechanical engineering and construction companies which provided engineering services to granite quarry plants and shipyards.

With strict discipline, strong commitments to clients in production quality and adherences to schedules and revolutionary engineering techniques, Mr. Tan led the expansion of YNEW into steel fabrication, mechanical & civil engineering for the construction of power plants, industrial plants, public works, building complexes and factories for both public and private institutions. YNEW was converted to Yongnam Engineering & Construction (Pte) Ltd in 1973. The Company, which won many industry acclaims, became an industry pacesetter and contributor to the economic development of Singapore in the 70's and 80's.

SEOW SOON YONG *Chief Executive Officer*

Appointed to the Board as Managing Director and Chief Executive Officer on 19 October 1994, Mr. Seow is a member of the Nominating Committee.

Mr. Seow joined the Company in 1978. Since then, he has diverse experiences within the Yongnam Group as Site Manager, Marketing Manager, Project Director and General Manager. He spearheaded a number of strategic programs that greatly enhanced the Group's business and profitability. He subsequently became the Chief Executive Officer of Yongnam Group in 1994.

Mr. Seow, 51, was instrumental in pioneering the development and production of the in-house Modular Strutting System. He introduced the system to the industry in 1995 and is now accepted as the de facto cost-effective temporary support system for deep excavation works. Mr. Seow, a multilingual, maintains strong working relationships with customers in Asia.

Venturing the Group in the structural steel business and later into the overseas markets, Mr. Seow secured a number of landmark projects notably Ocean Tower, Suntec City, the Brunei Airport Hanger Project, KLIA Satellite Building and most recently the new Bangkok Suvarnabhumi International Airport project.

SIAU SUN KING *Executive Director*

A graduate in Mechanical Engineering from Ngee Ann Polytechnic, Singapore. Appointed to the Board on 19 October 1994 and was last re-elected on 28 April 2005.

Mr. Siau, a founding partner of Yongnam Engineering Works (YNEW), has extensive experience in the mechanical engineering field. He has held diverse responsibilities within the Group including mobilization of manpower, Site Foreman, Project Foreman and Project Director. He is now in charge of the Mechanical Engineering Division of the Group.

Mr. Siau, 58, was actively involved in the erection and commission of the first 2 container quay cranes in PSA in 1972. In 1973, he led the team in the installation and commissioning of the Cable Car System in Sentosa.

The growth in the mechanical engineering business of the Group has been greatly attributable to Mr. Siau's experience in meticulous planning and determination to serve the customers.

SEOW SOON HEE *Executive Director*

A graduate in Bachelor of Arts, Nanyang University, Singapore. Appointed to the Board on 19 October 1994 and was last re-elected on 31 May 2004.

Mr. Seow Soon Hee joined the Group in 1977, working closely with Mr. Siau Sun King in the mechanical engineering business. He has held a diverse role in the Group including a stint in accounting, finance and administration. Mr. Seow, 56, is currently overseeing the Group's operation in Hong Kong and exploring new business opportunities in China.

GOON KOK LOON *Non-Executive & Independent Director*

Appointed to the Board on 15 July 2003 and was last re-elected on 31 May 2004. Mr. Goon is the Chairman of the Audit Committee and member of both the Nominating Committee and Remuneration Committee.

Mr. Goon, 64, was Deputy Group President and President (International business Division) of PSA Corporation Limited. He brings with him 37 years of extensive experience in corporate management, operation and administration from his service with PSA.

Mr. Goon is a graduate from University of Liverpool, UK with a 1st Class Honours in Bachelor of Engineering (Electrical) and later attended the Postgraduate Study Program at the Massachusetts Institute of Technology, USA. He received both the Silver and Gold Public Administration Medals from the Singapore Government. He is also on the Board of Singapore Petroleum Company Limited and Venture Corporation Limited.

HENRY LIM GHIM SIEW *Non-Executive & Independent Director*

Appointed to the Board on 15 October 2002 and was last re-elected on 30 May 2003. He is due for re-election at the forthcoming AGM. Mr. Lim is the Chairman of the Nominating Committee and member of both the Remuneration Committee and the Audit Committee.

Mr. Lim, 53, is the owner of the law firm, M/s G. S. Lim & Partners. Mr. Lim obtained his Law degree through the University of London in 1988 and was called to the English Bar in 1990 and the Singapore bar in 1992. He is a member of the Honorable Society of Lincoln's Inn. His firm conducts mainly general litigation work.

He is also the Chairman of a locally based shipping company and a Director of a confectionery company.

RICHARD LIEW JAT YUEN *Non-Executive & Independent Director*

Professor Liew was appointed to the Board on 23 January 2006 as an Independent Director. He is due for re-election at the forthcoming AGM. He is the Chairman of Remuneration Committee and member of the Audit Committee.

He graduated from the National University of Singapore with a Bachelor degree in 1986 and Master of Engineering degrees in 1988 and from Purdue University USA with a PhD in 1992.

Professor Liew is a registered professional Engineer in Singapore, a Chartered Engineer in U.K and member of the Institution of Structural Engineers in U.K. In addition, he is a Chartered member of the Structural Engineering Institute of the America Society of Civil Engineering and a Member-at-large of the Structural Stability Research Council (SSRC) in USA. He is the Chairman of the National Group (Singapore) of International Association for Bridges and Structure Engineering, and the past president of the Singapore Structural Steel Society.

Professor Liew has extensive research and practical experience in structural steel design and has been consulted on numerous steel construction projects in Singapore and the region. An international renowned expert in steel and composite structures and fire safety engineering, Professor Liew provides specialist advices to the design and construction of high-rise and large span steel structural systems and has been involved in several national and international committees on design standards, building product specifications and constructional practices and safety and made significant contributions to numerous guidelines for practice.

Professor Liew is currently the Director of the Structural Engineering programme in the Department of Civil Engineering at the National University of Singapore.


Seow Soon Hee


Goon Kok Loon


Henry Lim Ghim Siew


Richard Liew Jat Yuen

Key Executives

PETER KHOO ENG HOCK Chief Financial Officer

Peter Khoo joined the group as Chief Financial Officer on 1st April 2006. Prior to that he had worked as Group Financial Controller for a number of multi-national organizations in USA and Asia Pacific including NASDAQ listed Digital Video System Inc, and SGX listed Rotary Engineering Limited and Chip Eng Seng Limited. Peter is a member of the Institute of Management Accountant- IMA USA, a fellow of the Association of Chartered Certified Accountants-FCCA UK, a member of the Chartered Institute of Management Accountants (ACMA) UK, and a CPA of the Institute of Certified Public Accountants- ICPAS Singapore. With extensive experience in the area of financial and management control particularly in the construction industry, Peter will be responsible for the group's financial and management accounting and assist the CEO in financial and business strategy matters.

CHELVADURAI HARENDRAN Engineering Advisor

A graduate in Bachelor of Science from University College London, member of the Institution of Civil Engineers, Chartered Engineer in the United Kingdom, Professional Engineer in Singapore.

Mr. Harendran has a total of 33 years of experience in the building and construction industry. He joined Ove Arup & Partner in London as a Design Engineer. On his request, he was transferred to their Singapore office in 1975. He joined Woh Hup Pte Ltd in 1979 as Chief Engineer (Design) to carry out design and construction projects. In 1984, he joined Low Keng Huat (S) Ltd, a major Singapore building contractor, to gain experience in the practical construction of buildings and was their Project Manager on several key projects, including Keppel Distripark, before joining Yongnam in 1997.

SEOW SOON HOCK Production Director

Mr. Seow has been with the Group for more than 20 years. He has comprehensive knowledge in production, production planning and logistic management of all manufactured products of the Group.

He is responsible for all fabrication, scheduling, allocation of resources and progress tracking as well as providing technical assistance and innovative methods to engineering design to ensure a smooth and efficient day-to-day operation. With his extensive experience in various areas, the Group has maximized yield from all factors of production including factory space, raw materials, labour, machinery and equipment.

MICHAEL NALPON Senior Project Manager

MSc. Project Management, BSc. Building from the National University of Singapore, Fellow member of the Institute of Building and member of the Singapore Institute of Surveyors and Valuers.

Mr. Nalpon is responsible for all the Singapore Projects. He has 21 years of experience in the building industry. He started as a Quantity Surveyor with Rider Hunt Levett and Bailey on the Marina Square Project and as Tutor with the National University of Singapore. In 1985, he joined DP Architects Pte Ltd on the Suntec City Project for 8 years during which he was appointed as the General Manager of DP consultants Pte Ltd.

CHEONG HOCK CHOON Senior Project Manager – Hong Kong

Mr. Cheong joined Yongnam in 1978 and has 24 years of experience in steel structure and infrastructure projects. In 1999, he was seconded to Hong Kong to manage our operation in Hong Kong/China. Since then, Hock Choon handled a number of projects in Hong Kong such as Hong Kong Police Headquarters, KCRC East Rail Extension and other Hong Kong infrastructure development projects.

SEOW KHNG CHAI General Manager – Malaysia

Mr. Seow has been with the Group for more than 20 years, started as a Foreman in the Company. With his knowledge in structural steelworks and commissioning machinery, generator and power plant, he was appointed as General Manager of Yongnam subsidiaries in Malaysia.

With his extensive experience in steelworks and mechanical engineering, he was tasked to handle numerous prominent projects in Malaysia. His portfolio projects included Kedah Cement Plant in Langkawi, Langkawi Airport Project, Pasir Gudang CCCP, Johor. In Singapore, he also handled projects such as Jurong Power Station, Senoko Power Plant, Pulau Seraya Power Plant, MRT 203/204/404 Contracts, PSA Container Crane and Senoko Gas Turbine Units 3 & 4.

STEPHEN CHA Senior Manager – Engineering Division

A graduate in Bachelor of Engineering from National University of Singapore, member of the Institution of Civil Engineers and Professional Engineers Board of Singapore.

Mr. Cha, a technical inclined person, with more than 12 years of construction industry experience in design, management and business development activities. He joined Deha Engineering Pte Ltd in 1996 as Technical Manager, responsible for providing design, technical marketing and project management support for reinforcement systems. Involved in some major projects such as Tuas Checkpoint Singapore, Paya Lebar Airbase redevelopment and Inchon Airport, South Korea.

He later joined Corus Building Systems Pte Ltd as Regional Manager in 1998 and Samafil International Ag in 2002 as Technical Director. In 2003, he was appointed as General Manager in Fraser Worley Sdn Bhd to setup and manage the Kuala Lumpur branch office with business development responsibilities before joining Yongnam in 2004.

LIM CHEONG GUAN, JOHN Senior Manager, Business Development

A graduated in Business Administration from the Singapore Institute of Management, Diploma in Ship Construction from the Singapore Polytechnic.

Mr. Lim has more than 20 years of experience in the engineering and construction industry with Keppel Group. He was a Project Manager for the Industrial Engineering Division of Keppel Corporation Ltd in 1985, of which the Industrial Engineering Division was the origin of the present Keppel Integrated Engineering Group. He was later appointed as the General Manager of a subsidiary of Keppel Integrated Engineering Group involved in the preparation of structural construction drawing, piping system layout drawings etc.

In 1993, Mr. Lim was appointed as the General Manager of an overseas associate company of the Keppel Integrated Engineering Group located in Bangkok before joining Yongnam. He was responsible for the design and construction of high-rise building, industrial structures, power plants etc.

Corporate Information

BOARD OF DIRECTORS

Kevin Yap Foo Seong (Executive Chairman)
Seow Soon Yong (Managing Director / CEO)
Siau Sun King
Seow Soon Hee
Tan Tin Nam
Goon Kok Loon
Henry Lim Ghim Siew
Richard Liew Jat Yuen

AUDIT COMMITTEE

Goon Kok Loon (Chairman)
Henry Lim Ghim Siew
Richard Liew Jat Yuen

REMUNERATION COMMITTEE

Richard Liew Jat Yuen (Chairman)
Goon Kok Loon
Henry Lim Ghim Siew

NOMINATING COMMITTEE

Henry Lim Ghim Siew (Chairman)
Seow Soon Yong
Goon Kok Loon

COMPANY SECRETARIES

Choong Mee Fong, ACIS
Lathika Devi Amma D/o Pillay, ACIS

REGISTERED OFFICE

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Website : www.yongnam.com.sg

COMPANY REGISTRATION NUMBER

199407612N

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
8 Cross Street
#11-00 PWC Building
Singapore 048424

AUDITORS

Ernst & Young
Certified Public Accountants
10 Collyer Quay
#19-08 Ocean Building
Singapore 049315

AUDIT PARTNER

Yee Woon Yim
(Appointed with effect from
financial year ended 31 December 2003)

PRINCIPAL BANKER

United Overseas Bank Limited
80 Raffles Place
#12-00 UOB Plaza 1
Singapore 048624

Operations Review

STRUCTURAL STEELWORK

2005 has been an eventful and exciting year for Yongnam, as we continue to break new grounds in the construction of extremely challenging structural forms, some of it never seen in the past anywhere in Asia.

Vivocity @ the Harbourfront

One of the most exceptional sculptural buildings springing out from the Singapore skyline in 2005 is the new Vivocity development at the Harbourfront area. The construction of the wavelike roof profile and wall structures at Vivocity is extremely challenging. It demands a level of engineering expertise that only a selected number of construction firms in Asia are able to provide.

Yongnam took on the demanding challenges on the construction of all the steel structures that will give shape to the various waveform roofs and walls on this architecturally innovative project. The production of the momentously complex fabrication drawings is a mammoth task by itself, which requires a colossal level of engineering dexterity and competency. The fit-up, assembly and fabrication of all the curved structures, of which not a single piece is identical to each other is an engineering feat. This can only be described as a milestone in the advancement of steel fabrication skills and expertise in Singapore.

Scheduled for completion in the later part of 2006, we are currently in the process of completing all the fabrication drawings. All shop drawings are targeted to complete by March 2006, with workshop production going on simultaneously. Due to the fast-track nature of the project, fabrication works are carried out round-the-clock concurrently at both our Singapore and Malaysian production workshops. A total of more than 20 panels of complex 3-dimensionally curved wall panels of varying dimensions and shapes connect seamlessly into the curved roof.

The rolling of all the steel columns for the feature-walls into the required curvature is akin to shaping a sculptured piece of art. Never before has a local engineering construction feat come so close to being an artistic achievement. The boundaries between art and engineering have been virtually removed, in this exceptionally fascinating project and we are proud to be part of this accomplishment.

Fusionpolis

Another high profile project worthy of mention in 2005 is the on-going construction of the Fusionpolis at One-North. The contract amount is the highest for a single project in the history of our group's structural steel work projects. Three multi-storey tower blocks consisting of concrete cores with cantilevered steel floors projecting outwards surrounds a spherical steel auditorium in the middle. The entire auditorium is supported on a single steel column. Sky bridges connect the three towers at various heights. The steel floors are supported on steel mega trusses that are subjected to post-tensioned forces on the top chords. Immaculate planning and engineering are carefully executed on this demanding and challenging high-rise construction project.

The total weight of steel tonnage to be fabricated exceeds 14,000 tons on this project. By February 2006, fabrication drawings for about 6,000 tons of steel have been drawn and detailed, with production going-on full steam. Approximately 3,000 tons of steel has been fabricated in the workshop by February 2006. All structural steel fabrication works are targeted to complete by the later part of 2006. From drawings to fabrication and erection works, no effort is spared in ensuring that all the stringent requirements of the building owner are met.

Other major structural steel projects carried out and on going in 2005 include the building extension works to the Novena Square, the construction of the New Clifford Pier, One Raffles Quay, additional structural steel works at Changi Airport Terminal 3 and the construction of civil defense doors at Serangoon and Bishan. The soon-to-be completion of the landmark tower at One Raffles Quay will yet be another testimonial to our contributions in shaping the Singapore skyline.

SPECIALIST CIVIL ENGINEERING

More stringent design criteria requiring bigger and heavier strutting sections have worked to our advantage where our Yongnam Proprietary Strutting System is better able to meet design and project requirements.

Strutting works creates up-stream contracts for fabrication of strut material to suit project specific requirements and loading conditions. Where our standard size or system does not meet the design requirements custom made members are fabricated and installed. Up-stream works during the contract may require additional temporary support to services, temporary decking for construction working surfaces and modification to steel to suit project requirements.

Expressway Construction

The Kallang Paya Lebar Expressway (KPE) contracts of 421, 423 and 424, with a distance of 7 km, are still on going and as Strutting Material are extracted they are either re-used in the same site or deployed in other sites. Works are going on at a regular pace with the daily challenge to maintain safety and smooth flow of work.

C-421 KPE

This contract has 280m length more to complete out of the 1.5 km stretch from East Coast Expressway (ECP) to National Stadium. The remaining works in progress stretches north of the ECP to the middle of Geylang River. The river crossing works entails cofferdam construction, river diversion, sheet piling from floating pontoons, top-down construction and installation of struts and working in silt and marine clay soil conditions. Our works for the other parts of the expressway tunnel have been completed and follow on works are proceeding by the main contractor.

The contract period ended in October 2004 and the works should be substantially completed by end 2006. This project has been described as one of the toughest projects in the world by visiting experts during the aftermath of the Nicoll highway collapse. We are working in close collaboration with the main contractor SembCorp Engineering and Constructors (SembCorp) to complete this project.

C-423 KPE

70% of the work completed of the 2.9 km stretch with half the length handed over to the main contractor. Remaining works are located in 2 areas, Area 1 from PIE to Aljunied Road, a length of 500m and Area 3 from Merparty Road to Paya Lebar Road a length of about 1.5 km. Areas 2 and 4 are substantially completed. Area 1 remaining works have commenced recently in 4 quarter of 2005 and likely to complete by end of 2006. The woks are in difficult marine clay ground conditions and have to proceed under a temporary canal. Area 3 works entails construction between adjacent housing estates and to keep in operation the Kallang River Canal at all times. To maintain the free flow of the canal at all times the tunnel is constructed in longitudinal sections i.e. half of the length of tunnel at the time.

We anticipate project completion by end 2006. We are working in close collaboration with the main contractor Samsung Corporation Engineering & Construction Group.

C-424 KPE

Eunos Link along Airport Road to Tampines Road, runs along the Paya Lebar Airport Road and construction equipment like cranes with tall boom lengths have to be closely monitored and equipped with special checked flags as signal to aircrafts in the area.

The above three KPE projects have a combined total of about 150,000 tons of sheet piles and struts including walers to install. About 60% has been completed. The Circle Line (CL) projects under construction are CL 825 and CL 853A. The circle line MRT works consist of stations constructed under ground and connected by tunnels. These tunnels are, by and large, constructed by tunnel boring machines and the stations by cut and cover method.

MRT Circle Line (CL)

The CL is an orbital loop of 29 stations around the city that connects and compliments the existing North-South and East-West MRT lines. Currently we are under-taking 12 stations and 2 stretches of cut and cover sections of the CL. This is an increase of 7 stations and 2 cut and cover sections from 2004. The Yongnam proprietary strut system material required to carry out the strutting work has been obtained from our stock in Singapore, our Hong Kong operations and fresh supply from our fabrication facility. All our strut materials are fully deployed.

Stage 1 of the Circle Line
CL 825 - Dhoby Ghaut, Bras Basah, Esplanade and Promenade Stations

We have completed installation work of all stations consisting of Decking for traffic and construction works as well as strutting works. Removal of the decking is in progress following in tandem with the completion of the station and permanent road construction. Additional pedestrian tunnel access to the stations has been awarded to us and this work is now on-going.

In particular the works at the busy Bras Basah and Nicoll Highway junction flanked by Suntec City and Marina Square entails erection of all the traffic decking, road diversion and strutting works. Maintaining smooth flow of traffic is essential and safe conditions at all time.

The main contractor Woh Hup (WH-STEC-AM JV) has awarded us the strutting and fabrication works at CL 855 recently.

Stage 3 of the Circle Line
CL 853A Bishan Station

330m long the installation work is substantially completed and pending extraction of struts as the station works progresses. We have also fabricating and installing the Civil Defense Doors (CD Doors) for this project and the fabrication of the doors are substantially completed pending installation when the site is ready.

This station is nestled into a space flanked by Junction 8 shopping centre, existing Bishan MRT Station, Multi-Storey Car Park and Bus Terminus. Progress has been slow due to concerns arising from the proximity of the adjoining buildings. We anticipate completion by end of 2006.

The main contractor Eng Lim Construction Co (Pte) Ltd awarded an Air Craft Hanger project at Seletar Airport to us, which we completed in early 2005.

Stage 3 of the Circle Line
CL 851A Bartley Station

Awarded to us in February 2005 this 350m long station is built almost entirely under decking where traffic must continue to be allowed to travel. A very short time was given to us to complete the installation work and this has been achieved. Extraction of the struts will take place as the station construction proceeds.

The main contractor Tobishima Corporation is working closely with us to achieve the tight dead lines. Contract works are due to complete by end of 2006.



Stage 3 of the Circle Line
CL 852 Serangoon Station – Civil Defense Blast Doors

The main contractor Woh Hup (WH-STEC-AM JV) is also our main contractor for CL 825 and CL 855 has awarded 2 large CD Doors to us and this is in fabrication stage.

Stage 4 of the Circle Line
CL 854 – Thomson, Bukit Brown & Botanic Gardens Stations

The main contractor Taisei Corporation is also our main contractor for the KPE 424 expressway project. We have developed a close working relationship with Taisei Corporation and taken on the challenge for these 3 stations.

Work commenced at Bukit Brown station first followed by Thomson and more recently Botanic Gardens/Adam station. Bukit Brown station is located off Mount Pleasant Road on Gmykana Road, a low population density area and forested surroundings. Strut loading is substantial due to sloping ground conditions and access to the site by small and narrow roads. Installation works are in progress now.

Thomson station is located off Thomson Road and near to the School of the visually handicapped. Open area with good access available. Installation works are in progress now.

Botanic Gardens Station, off Bukit Timah Road has recently been awarded to us and planning works and preparation of material in progress.

Circle Line Stage 4 & 5
CL 855 – Holland, Buona Vista, & NUH Stations

The main Contractor WH-STEC-AM JV is also our main contractor for CL 825 and CL 852 (CD Doors). Thus far we have been awarded the temporary strutting and decking works of the Cut & Cover (C & C) tunnel section starting north of the AYE Expressway towards Jurong Town Hall flatted factories, Kent Ridge and Holland stations. The C & C is critical, as the both ends of the C&C are the starting points of the tunneling works. The south end is the launching point of the Tunnel Boring Machine (TBM) and the north end is the starting point of the manual tunneling works. The strutting work at the TBM end of the C&C is on schedule and expected to complete by end of March 05.

Situated next to National University Hospital and the first station that the TBMs will pass through, Kent Ridge Station temporary strutting system has been designed with a robust strutting system, and the first station to start with bulk excavation. The first layer of struts is in progress.

Holland Station diaphragm wall and continuous bored piling works (to form under- ground walls on both sides of the station), are in progress, we expect the bulk excavation and temporary strutting works to start sometime in May 2006.

WH-STEC-AM JV has just completed their temporary strutting system design of Buona Vista Station, and we have submitted our temporary strutting and decking work quotation to them. We expect WSA JV to award this parcel to us by March 2006.

MECHANICAL ENGINEERING

Other construction activities involving mechanical and ducting works at the Tanjung Bin 3x700MW Power Plant in Malaysia has been largely completed during 2005. Various works on evaporative coolers and turbines retrofitting in Pulau Seraya have also been carried out during the year.

Refurbishment of Power Plant Turbine Generators at Pulau Seraya

Siemens, who acquired NEI Parsons, (NEI Parsons was a UK base company that has been working with Yongnam since 1988) awarded to Yongnam the refurbishment of 3 units of Turbine Generators at Pulau Seraya. The work entailed dismantling the turbine, clean up, adjustment, alignment and re-assembly. This project was completed on time during the first half of 2005.

Power Station replacement of High Pressure Feed Water Heaters at Pulau Seraya

Each heater is 49 tons in weight, 11m high and 1.2m in diameter. Our scope of work includes dismantling the existing heater and replacing with the new heater and all connections. The works commenced in October 2005 and due to be completed in June 2006.

Upgrading/Replacement of Evaporative Cooler to Power Generator at Pulau Seraya

Yongnam installed year 2000 the Power Generation equipment and now replacing/upgrading the evaporative coolers for Kaefer Raco (A German base company). The works commenced in September 2005 and completed ahead of schedule in December 2005.



Financial Highlights

Revenue

The Group's revenue increased by 28% from $63.6 million in FY2004 to $81.4 million for financial year ended 31 December 2005. Revenue by business activity is as follows:

S$000	2005	2004 Reclassified	% Change
a) Structural Steel	37,393	21,892	+71%
b) Specialist Civil Engineering	37,561	41,488	-9%
c) Mechanical Engineering	6,475	213	NM
Total Revenue	81,429	63,593	+28%

The increase was attributed to:

(a) More than 71% increase in the Structural Steelworks business contributed by structural steelworks for office complexes, One Raffles Quay, Fusionpolis, Vivocity, Changi Airport Terminal 3 and Supreme Court. Revenue in this segment increased from $21.9 million in FY2004 to $37.4 million in FY2005. Most projects secured during the year are higher in contract value because of the inclusion of steel as raw material in the contract;

(b) The Specialist Civil Engineering business was affected by delays in the commencement of the Circle Line projects and slow progress of the Kallang Paya Lebar Expressway (KPE) projects; and

(c) The Mechanical Engineering business segment jumped in revenue from a modest $0.2 million in FY2004 to $6.5 million in FY2005. This was contributed by the Tanjung Bin Power Plant Project, overhaul and retrofitting 3 units of 250 mw NEI Parsons Turbine Generators, and fabrication and erection of evaporative cooler at Pulau Seraya Power Station.

Gross Profit and Gross Profit Margin

The Group attained $15.7 million gross profit in FY2005, an increase of 1% over FY2004 performance. The lower gross profit percentage was attributable mainly to lower margin in the Structural Steel segment from 28% to 13% due to procurement preference by clients to include the purchase of steel in the contract value. The result was also negatively impacted by provision of $1 million due to overall lower expected margin in the C-421 KPE project and losses sustained in Hong Kong's MTRC project. In addition, as the contract for Tanjong Bin Power Plant Project, secured at a very competitive margin, is facing mounting additional cost due to customers' changed requirements, we decided not to recognize profit yet.

Finance Costs

Resulting from the increase in Group's borrowings for new projects financing and higher interest rates, finance cost increased from $3.3 million in FY2004 to $4.2 million in FY2005. Included was a $0.4 million penalty charge relating to mortgage loan for Springleaf Tower from Hong Leong Finance.

Income Taxes

The effective tax rate of the Group after group relief was approximately 13%.

Net Profit after Taxes

Net profit after tax decreased from $7.2 million in FY2004 to $0.6 million in FY2005. If the exceptional items in both years were to be excluded, the net profit after tax would decrease from $0.4 million in FY2004 to $0.2 million in FY2005.

Non-Current Assets

The non-current assets of the Group increased marginally, from $58.7 million as at 31 December 2004 to $59.1 million as at 31 December 2005. The steel assets increased were more than offset by the current year depreciation of property and steel assets.

Current Assets

There was a significant movement at total current assets level from $43.2 million in 2004 to $78.7 million as at 31 December 2005. At the detailed breakdown level,

(a) Steel inventories increased by 90% to $2.0 million;

(b) Work in progress (WIP) increased by 85% to $63.5 million; and

(c) Trade debtors increased by 122% to $9.9 million.

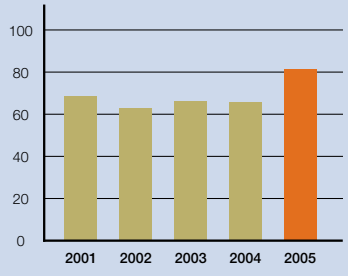
The higher inventories, WIP and trade debtors, as at 31 December 2005, were mainly due to the increase in business activities and delay in the progress claim certification for KPE, Circle Line and Tanjung Bin Power Plant projects.

Current Liabilities and Non-Current Liabilities

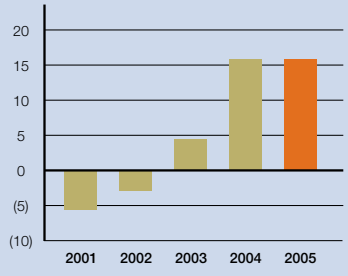
The bank has agreed to restructure the Short Term Revolving Loan (STRL) to Revolving Term Loan with fixed tenure and repayment terms. As a result, Group total current liabilities decreased from $93.0 million to $83.9 million. This restructured loan has a repayment schedule of $0.3 million plus interest per month.

The Group's total borrowings, including bank loans and credit facilities, and hire purchase creditors, were $82.3 million as at 31 December 2005, compared to $70.0 million as at 31 December 2004.

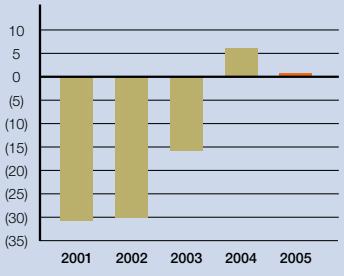
Turnover S$ Million



Gross Profit/(Loss) S$ Million



Profit/(Loss) After Tax S$ Million



Financial Contents

Corporate Governance

The Group is committed to maintaining a high standard of corporate governance, and has adopted and complied, wherever feasible with the Singapore Code of Corporate Governance. This Report describes Yongnam's corporate governance processes and activities in 2005 with specific reference to the Principles of the Code.

Board's conduct of its affairs & Independence of the Board (Principle 1, 2 & 3)

The Board's key responsibilities include providing leadership and guidance to management on corporate strategy and business directions, evaluation of internal controls, risk management, financial reporting and compliances. The Board is aided in its tasks by Board Committees which have been established to focus on the key areas of oversight.

For the financial year, the Board comprises seven directors – two independent, four executive and one non-independent non-executive. On 23 January 2006, Dr. Liew Jat Yuen, Richard, a third independent director was appointed and Mr. Tan Tin Nam was re-designated as an executive director. This resulted in the Board composition of eight directors of which three are independent directors and five are executive directors. All Board members have extensive business, financial, legal and management experiences.

Mr. Kevin Yap is the Executive Chairman of the Company. Mr. Seow Soon Yong, the Managing Director, has the executive responsibility for the day-to-day operations of the Group while the responsibilities of the Executive Chairman, among other things, include:

- lead the Board to ensure its effectiveness on all aspects of its role and sets its agenda;
- ensure that the Board receive accurate, timely and clear information;
- ensure effective communication with shareholders;
- encourage constructive relations between the Board and management;
- facilitate the effective contribution of non-executive directors in particular;
- encourage constructive relations between executive directors and non-executive directors; and
- promote high standards of corporate governance.

The Board held a total of three meetings during the year, two of which, in accordance with its planning cycle, were for the approval of the FY2005 results and release of the half and full year results. The attendance of the directors at meetings of the Board and Board committees, as well as the frequency of such meetings for FY2005, is disclosed as follows:

	Board	Audit Committee	Nominating Committee	Remuneration Committee
No. of meetings	3	3	2	1
No. of meetings attended by respective directors				
Executive Directors:				
Yap Foo Seong, Kevin (Executive Chairman)	3	3	2	1
Seow Soon Yong (Managing Director)	3	3	2	1
Siau Sun King	3	2	1	1
Seow Soon Hee	3	2	1	1
Non-Executive				
Tan Tin Nam#	3	3	1	1
Independent Directors:				
Goon Kok Loon	3	3	2	1
Lim Ghim Siew, Henry	3	3	2	1
Liew Jat Yuen, Richard (Appointed on 23 January 2006)	NA	NA	NA	NA

Re-designated as an Executive Director on 23 January 2006.

Corporate Governance

Board Membership & Board Performance (Principle 4 & 5):

The Nominating Committee (the "NC") comprises the following directors:

Mr. Lim Ghim Siew, Henry (Chairman)
Mr. Goon Kok Loon
Mr. Seow Soon Yong

The NC's principal functions are to identify and select new directors and to review all nominations for the re-appointment of directors. The other key responsibilities of the NC are:

- to determine annually the independence of each director;
- to decide on the ability and adequacy of directors with multiple board representations to carry out their duties; and
- to propose, for Board's approval, objective performance criteria to evaluate the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Company's Articles of Association requires one third of directors (other than the managing director) to retire and subject themselves for re-election by shareholders at every AGM ("one-third rotation rule"). In other words, no director save for the Managing Director, stays in office for more than three years without being re-elected by shareholders. In addition, a newly appointed director will submit himself for retirement and re-election at the AGM immediately following his appointment. Thereafter, he is subject to the one-third rotation rule. In addition to that, the appointment of all the Executive Directors including the Managing Director, is in accordance with a Service Agreement entered into between the respective individual with the Company. Under the terms of the said agreement, the Company or the relevant executives may terminate the respective director's services by giving 6 months notice in writing or 6 months' salary in lieu of notice.

To ensure that the Directors are competent in carrying out their expected roles and responsibilities, newly appointed directors are given briefings by the Chairman, on the strategies of the company and its key subsidiaries. The Directors will also, where necessary, receive appropriate training and orientation from time to time on other matters which would help them in the discharge of their duties as Director of the Board or as member of the Board Committee.

The management has put forward three candidates for the NC's consideration on the appointment of a third independent director. They have been interviewed by both Mr. Yap Foo Seong and Mr. Seow Soon Yong. The NC deliberated on the matter and considered at length the qualifications and backgrounds of each of the candidates. After due consideration, the NC unanimously agreed that Dr. Liew Jat Yuen, Richard's qualification, teaching areas, research interests and professional activities would be most relevant to the Company's business and due recommendation was made to the Board. The Board accepted the NC's recommendation and appointed Dr. Liew Jat Yuen as an independent director on 23 January 2006. The NC noted that the Board currently consisted of eight members, out of which three are Independent Directors. This complies with the Guidelines of the Code of Corporate Governance and the requirements of the Listing Manual. The NC held two meetings during the year 2005. The NC had conducted an appraisal of each individual director and evaluated their performance as members of the Board. The NC reviewed the composition of the Board and concluded that the Board has an adequate mix of competency to discharge its duties and responsibilities.

Corporate Governance

Access to Information (Principle 6 & 10):

The Board receives periodic updates and financial information on affairs and issues that require the Board's decision as well as on-going reports relating to operational and financial performance of the Group and the Company. The Board also has separate and independent access to the senior management and the Company Secretary at all times. The Company Secretary attends all Board meetings and is responsible to ensure that board procedures are followed. The Board also has access to independent professional advice where appropriate.

The Board accepts that it is accountable to the shareholders and adopted best practices to maintain shareholders' confidence and trust. Shareholders are required to approve directors' fees, re-appointment of directors and also the appointment and re-appointment of auditors.

Remuneration Policies, Level and Mix of Remuneration and Disclosure (Principle 7, 8 and 9):

During the financial year, the Remuneration Committee (the "RC") comprises the following directors:

Mr. Goon Kok Loon (Chairman)
Mr. Yap Foo Seong
Mr. Lim Ghim Siew, Henry

In line with the recommendation of the Code of Corporate Governance 2005, the RC was reconstituted on 23 January 2006 to comprise entirely of non-executive and independent directors. Dr. Liew Jat Yuen, Richard was elected as the Chairman of the RC in place of Mr. Goon Kok Loon. Mr. Goon however remained as a member of the RC whilst Mr. Yap Foo Seong, an executive director duly stepped down as a member of the RC. With the reconstitution, the current members of the RC are:

Dr. Liew Jat Yuen, Richard (Chairman)
Mr. Goon Kok Loon
Mr. Lim Ghim Siew, Henry

The RC has access to the Group Human Resource Manager when clarifications and advice are needed. The key responsibilities of the RC are:

- to review and recommend to the Board in consultation with the Chairman of the Board, a framework of remuneration and to determine the specific remuneration packages and terms of employment for each of the executive directors and senior executives of the Group including those employees related to the executive directors and controlling shareholders of the Group;
- to recommend to the Board in consultation with the Chairman of the Board, the Employees' Share Option Schemes or any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith; and
- to carry out its duties in the manner that it deems expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

During the financial year, none of the non-executive directors are on service contracts or have consultancies with the Company, except for Mr. Tan Tin Nam who advises the Group on certain group matters on a regular basis. The other non-executive directors are paid directors' fees, which comprise basic fees and additional fees, for serving on Board Committees. Payment of these fees is subject to shareholders' approval.

Corporate Governance

During the year, the RC held one meeting to review the compensation structure of the executive directors and senior executives. A breakdown showing the level and mix of the remuneration of the directors and the top five key executives is as follows:

	Fees	Salary	Bonus	Others	Total
Remuneration Band ($250,000 - $499,999)					
Seow Soon Yong	-	88%	8%	4%	100%
Remuneration Band (below $250,000)					
Yap Foo Seong	-	89%	8%	3%	100%
Siau Sun King	-	92%	7%	1%	100%
Seow Soon Hee	-	91%	8%	1%	100%
Tan Tin Nam	-	92%	7%	1%	100%
Goon Kok Loon	100%	-	-	-	100%
Lim Ghim Siew, Henry	100%	-	-	-	100%
Harendran Chelvadurai	-	73%	6%	21%	100%
Seow Soon Hock [(1)]	-	86%	8%	6%	100%
Cheong Hock Choon	-	89%	6%	5%	100%
Michael Nalpon	-	94%	6%	-	100%
See Khing Lim	-	91%	8%	1%	100%

(1) Brother of Messrs Seow Soon Yong, Seow Soon Hee and Siau Sun King

Apart from (1), there are three other immediate family members of executive directors employed by the Group, none of whose remuneration exceeded $150,000 during the year.

Audit Committee, Internal Control and Internal Audit (Principle 11, 12 and 13):

The Audit Committee ("AC") comprises three members, namely Mr. Goon Kok Loon (Chairman), Mr. Lim Ghim Siew, Henry and Dr. Liew Jat Yuen, Richard. Dr. Liew Jat Yuen, Richard replaced Mr. Tan Tin Nam (who was re-designated as executive director on 23 January 2006) as member of the AC on 23 January 2006. With the change, the AC now comprises entirely of non-executive and independent directors

The members of the AC have had many years of experience in senior management positions in the financial and industrial sectors. They have sufficient financial management expertise and experience to discharge the AC's functions.

The AC performs the functions specified in the Act, the Listing Manual of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Best Practices Guide. It meets with the external auditors, reviews the audit plans, the results of their examination and findings and their evaluation of the system of internal controls. The AC also reviews all the non-audit services provided by the external auditors to ensure that such services will not affect the independence of the external auditors together with their appointment and re-appointment.

In addition, the AC reviews the half-yearly and annual financial statements and all interested party transactions.

Corporate Governance

The AC also met up with the external auditors without the presence of management on the conclusion of the AC meeting to review the full year financial results for the period ended 31 December 2005.

The Company does not have an internal audit function at this time. The CFO together with the CEO oversee this function. After the restructuring of the Group and when the Group is stabilized, the Company would consider establishing an independent internal audit function.

Risk Identification and Management

The construction industry is operating in challenging conditions and is dependent on the economic performance of the country, its neighbours and the surrounding countries.

The Group embarks upon projects with durations of three years or more and run the risk of cost overruns, delays, disputes in claims and variation orders.

Cost of raw materials, in particular steel, which the Group specializes in, are subject to fluctuations due to worldwide demands. An increase in the price of steel will directly impact the bottom line.

As the Group explores into the neighbouring countries, foreign exchange fluctuations becomes a factor affecting profitability. Price of steel is usually denominated in US dollars and any increase in the US currency will impact the Group negatively.

The Group's customers are mainly construction and engineering companies who are the main contractors of projects. In the event of an economic slowdown, cash flow problems experienced by main contractors cascades down to the Group and its suppliers.

The construction industry continues to be dependent on foreign labour, both skilled and unskilled, due to the shortage of local workers. The Group's core business, which is the fabrication and erection of prefabricated structural steel components, require skilled labour which is in short supply.

Communication with Shareholders (Principles 14)
Greater Shareholders Participation (Principle 15)

The Company and the Group strive for timeliness and transparency in its disclosures to the shareholders and the public. The Company does not practise selective disclosure as all price-sensitive information is released through SGXNET. Results and annual reports are announced or issued within the mandatory periods.

All shareholders receive the annual report and Notice of AGM. At the AGM, shareholders are given the opportunity to air their views and ask directors and management questions regarding the Company. The Chairman of the AC, NC and RC are present and available to address shareholders' queries at general meetings. The external auditors are also present to address shareholders' queries about the conduct of audit and the preparation and content of the audit report.

Corporate Governance

Dealings in securities

The Company has adopted the SGX-ST's best practices guide in relations to dealings in the Company's securities. The directors and the senior management are advised not to deal in the Company's shares during the period commencing one month before the announcement of the Group's financial results, ending on the date of announcement.

The directors and the senior management are also advised of the relevant provisions under the Securities and Futures Act of Singapore for dealing with the Company's securities while in possession of unpublished material price-sensitive information in relation to the securities.

Material Contracts

There were no material contracts entered into by the Company or any of its subsidiaries during the year.

Interested Person Transactions

The Company has laid down procedures for the notification to and approval by the AC for transactions with interested persons. There were no interested person transactions to be disclosed, for the financial year.

Directors' Report

The Directors present their report together with the audited financial statements of Yongnam Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2005.

Directors

The Directors of the Company in office at the date of this report are:

Yap Foo Seong
Seow Soon Yong
Siau Sun King
Seow Soon Hee
Tan Tin Nam
Lim Ghim Siew, Henry
Goon Kok Loon
Liew Jat Yuen, Richard

Arrangements to enable Directors to acquire shares and debentures

Except as disclosed in the subsequent paragraphs, neither at the end of nor at any time during the year was the Company a party to any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interest in shares and debentures

The following Directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Companies Act, an interest in shares of the Company and related corporations as stated below:

	Direct interest			Deemed interest		
	At 1.1.2005	At 31.12.2005	At 21.1.2006	At 1.1.2005	At 31.12.2005	At 21.1.2006
Name of Director						
Yongnam Holdings Limited (Ordinary shares of $0.01 each)						
Tan Tin Nam	38,848,955	41,038,955	41,038,955	64,328,432	64,328,432	64,328,432
Seow Soon Yong	27,761,077	27,761,077	27,761,077	-	-	-
Siau Sun King	29,330,077	29,330,077	29,330,077	-	-	-
Seow Soon Hee	22,637,577	22,637,577	22,637,577	-	-	-
Yap Foo Seong	15,200,000	15,200,000	15,200,000	-	-	-

Directors' Report

Directors' interest in shares and debentures (cont'd)

Yongnam Holdings Limited
(Warrants to subscribe for ordinary shares of $0.01 each, exercisable between 27 August 2004 to 26 August 2009 at $0.03 per share)

	Direct interest		Deemed interest	
	At 1.1.2005	At 31.12.2005	At 1.1.2005	At 31.12.2005
Name of Director				
Tan Tin Nam	8,141,492	10,129,492	-	-
Seow Soon Yong	5,926,845	1,952,096	-	-
Siau Sun King	6,088,345	2,514,596	-	-
Seow Soon Hee	439,595	439,595	-	5,405,000
Yap Foo Seong	4,000,000	5,951,000	-	-
Yongnam Holdings Limited				
(Options to subscribe for ordinary shares of $0.01 each)				
Yap Foo Seong				
[Exercisable between 2004 and 2009]	9,366,371	9,366,371	-	-

Except as disclosed in this report, no Director who held office at the end of the financial year had interest in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related Corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Share Options

Details of the share options schemes and the respective share options that are granted as at 31 December 2005 are disclosed as follows:

(a) Share Options Scheme ("SOS")

During the Extraordinary General Meeting held on 26 August 2003, the shareholders of the Company approved the grant of Share Options to the executive Chairman Mr Yap Foo Seong ("Mr Yap") and the then finance director Mr Chia Sin Cheng ("Mr Chia") to subscribe for 14,400,000 Option Shares and 8,000,000 Option Shares, respectively (subject to any adjustments for capitalisation, rights, sub-division or consolidated exercises undertaken by the Company), as part of their total remuneration packages.

Directors' Report

Share Options (cont'd)

(a) Share Options Scheme ("SOS") (cont'd)

The Options granted to Mr Yap of 14,400,000 Shares and Mr Chia of 8,000,000 Shares represent approximately 3.3% and 1.8%, respectively, of the enlarged issued share capital of the Company upon the completion of the Scheme. The Company has not previously implemented any share option scheme.

The principal terms of the share options :

(a) Exercise Price : 20% discount to the Market Price (The prevailing market price of the Shares based on the average of the last dealt price per Share as indicated in the daily official list or any other publication published by the SGX-ST for the last five (5) consecutive Market Days on which there are trades in the Shares immediately preceding the Date of Grant).

(b) Option Period : The unexercised Options shall expire on the anniversary date falling 5 years from the Date of Grant.

In granting the Options at a 20% discount to the Market Price, the Company seeks to reward the Grantees for their invaluable contributions to the Company as well as to provide each of the Grantees an incentive to improve the financial performance of the Group.

Vesting of Options

(a) The Options granted to Mr Yap Foo Seong shall only be exercisable, in whole or in part (provided that the Options may be exercised in part only in respect of 1,000 Shares or any multiple thereof). The Options shall vest as follows :-

(i) 7,200,000 Option Shares shall vest on the Date of Grant and may be exercisable thereafter, and

(ii) the balance 7,200,000 Option Shares shall vest 12 months after the Date of Grant and may be exercisable thereafter.

(b) All unexercised Options granted to Mr Chia Sin Cheng shall only be exercisable, in whole or in part (provided that the Options may be exercised in part only in respect of 1,000 Shares or any multiple thereof). The Options shall vest as follows :-

(i) 4,000,000 Option Shares shall vest on the Date of Grant and may be exercisable thereafter; and

(ii) the balance 4,000,000 Option Shares is not exercisable as Mr Chia Sin Cheng has resigned on 30 November 2003.

Directors' Report

Share Options (cont'd)

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

The ESOS was approved by the shareholders during the Extraordinary General Meeting held on 16 June 2004. Executive and non-executive directors, and employees of the Group or companies in which at least 20% but not more than 50% of its shares are held by the Group and over which the Company has management control are eligible to participate in the ESOS. The committee administering the scheme ("Committee") will be the Remuneration Committee.

The ESOS share options granted are exercisable for ten years after date of grant, and are exercisable at an exercise price no lesser than the par value of a share, set at:

(i) a discount to a price ("Market Price") equal to the average of the last dealt prices for the Shares on the Official List of the SGX-ST for the five consecutive market days immediately preceding the relevant date of grant of the ESOS share option, subject to a maximum of 20% discount ("Incentive Option"); or

(ii) a fixed Market Price ("Market Price Option")

The Committee has the discretion to grant options set at a discount to Market Price, and determine the participants to whom, and the options to which, such reduction in exercise prices will apply.

Incentive Options granted are exercisable after the second anniversary from the date of grant of the option, and

Market Price Options granted may be exercised after the first anniversary of the date of grant of that option.

The ESOS shall continue in operation for a maximum duration of ten years and may be continued for any further periods thereafter with the approval of Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

No options have been granted since the inception of the ESOS.

No options have been granted to the controlling shareholders of the Company and no participant under the SOS and ESOS has been granted 5% or more of the total options available under the SOS and ESOS. There were no unissued shares of the Group under options granted by the Group as at the end of the financial year. There were also no other options granted to employees of the Group.

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Directors' Report

Share Options (cont'd)

Details of options granted to Directors of the Company are as follows:

Name of participant	Options granted for	Aggregate options granted since commencement of Scheme to 31 Dec 2005	Aggregate options exercised since commencement of Scheme to 31 Dec 2005	Adjustment due to rights issue	Aggregate options outstanding as at 31 Dec 2005
Director of the Company					
Mr. Yap Foo Seong	14,400,000	14,400,000	7,200,000	2,166,371	9,366,371

Audit Committee

The Audit Committee ("AC") comprises three members, namely Mr. Goon Kok Loon (Chairman), Mr. Lim Ghim Siew, Henry and Dr. Liew Jat Yuen, Richard. Dr. Liew Jat Yuen, Richard replaced Mr. Tan Tin Nam (who was re-designated as executive director on January 2006) as member of the AC on 23 January 2006. With the change, the AC now comprises entirely and independent director.

The Audit Committee performs the functions specified in the Act, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Best Practices Guide. It meets with the external auditors, reviews the audit plans, the results of their examination and findings and their evaluation of the system of internal controls. The Audit Committee also reviews all the non-audit services provided by the external auditors to ensure that such services will not affect the independence of the external auditors. It also reviews interested person transactions.

The Audit Committee reviews the financial results of the Company and the consolidated financial results of the Group and the auditors' report thereon and submits them to the Board of Directors. The Audit Committee has full discretion to invite any directors and executive directors to attend its meetings. There were three Audit Committee Meetings held during the year under review.

The Audit Committee recommended to the Board of Directors of the Company the nomination of Ernst & Young as auditors of the Company at the forthcoming Annual General Meeting.

Directors' Report

Auditors

Ernst & Young have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors ,

Yap Foo Seong
Director

Seow Soon Yong
Director

Singapore
13 April 2006

Statement By Directors

We, Yap Foo Seong and Seow Soon Yong, being two of the Directors of Yongnam Holdings Limited, do hereby state that, in the opinion of the Directors:

(a) the accompanying balance sheets, consolidated profit and loss account, statements of changes in equity and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2005, and of the results of the business, changes in equity and cash flows of the Group and changes in equity of the Company for the year then ended; and

(b) the ability of the Group and Company to continue as going concerns is dependent on several factors as described in Note 2.1 to the financial statements in regard to the going concern assumption. In the opinion of the Directors, there are reasonable grounds to believe tha the Group and Company will be able to pay its debts as and when they fall due .

On behalf of the Board of Directors,

Yap Foo Seong
Director

Seow Soon Yong
Director

Singapore
13 April 2006

Auditors' Report

To the members of Yongnam Holdings Limited

We have audited the accompanying financial statements of Yongnam Holdings Limited (the "Company") and its subsidiaries (the "Group"), set out on pages 28 to 85 for the year ended 31 December 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 financial statement presentation.

Without qualifying our opinion, we draw attention to Note 2.5 to the financial statements. As disclosed in Note 2.5, there are significant estimations and judgements made by management in respect of the recognition of revenue relating to the Kallang-Paya Lebar Expressway Contract 421, a construction contract in Singapore undertaken by a subsidiary company. The cumulative profits on this construction contract recognised to-date by the Group amounted to $4,037,372 (2004: $5,209,514). Any shortfall in the estimation of the recovery of the variation works performed will impact the results of the Group. Profits recognised on this construction contract will need to be reversed and foreseeable losses, if any, may need to be provided for in the financial statements. No such adjustments have been made to these financial statements.

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 (the Act) and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young
Certified Public Accountants

Singapore
13 April 2006

Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 $	2004 (Restated) $
Revenue		81,428,550	63,592,312
Costs of sales		(65,724,882)	(48,082,240)
Gross profit		15,703,668	15,510,072
Other operating income	3	1,079,443	1,123,840
General and administrative expenses		(12,359,158)	(12,745,789)
Exceptional items	4	438,564	6,704,873
Profit from operating activities	5	4,862,517	10,592,996
Finance income	6	3,057	51,814
Finance costs	7	(4,174,165)	(3,289,212)
Profit before tax		691,409	7,355,598
Taxation	8	(91,798)	(202,000)
Net profit after tax attributable to shareholders of the Company		599,611	7,153,598
Earnings per share	9		
- Basic		0.08 cents	1.29 cents
- Fully diluted		0.08 cents	1.28 cents

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

Balance Sheets

as at 31 December 2005

		Group		Company	
		2005	2004 (Restated)	2005	2004
		$	$	$	$
Non current assets					
Property, plant and equipment	10	59,096,788	58,657,655	349,019	178,109
Investment property	11	–	–	–	–
Subsidiaries	12	–	–	20,832,442	22,204,904
Fixed deposits	13	172,331	207,044	–	–
Current Assets					
Steel materials, at cost		2,006,523	1,058,149	–	–
Work-in-progress	14	63,546,787	34,329,902	–	–
Trade debtors	15	9,933,217	4,470,729	–	–
Sundry debtors, deposits and prepayments	16	1,820,397	1,699,409	21,960	60,775
Fixed deposits		–	795,700	–	–
Cash and bank balances		1,395,663	875,432	8,585	10,489
		78,702,587	43,229,321	30,545	71,264
Current liabilities					
Progress billings in excess of costs	14	6,972,550	3,423,255	–	–
Trade creditors	18	32,936,848	10,026,535	–	–
Sundry creditors and accruals	19	11,012,580	14,143,874	357,719	442,777
Amount due to a subsidiary	12	–	–	445,277	628,989
Amount due to related parties		–	19,330	–	–
Bank borrowings (secured)	20	30,994,415	63,264,867	7,691,790	7,395,819
Hire purchase creditors (secured)	24	654,577	582,523	54,087	32,658
Provision for taxation		1,350,942	1,516,015	5,786	27,602
		83,921,912	92,976,399	8,554,659	8,527,845
Net current liabilities		(5,219,325)	(49,747,078)	(8,524,114)	(8,456,581)
Non current liabilities					
Bank borrowings (secured)	20	(49,718,447)	(5,000,000)	–	–
Hire purchase creditors (secured)	24	(927,932)	(1,157,676)	(268,621)	(121,518)
Provision for deferred tax	8	(1,584,476)	(1,528,000)	–	–
Net assets/(liabilities)		1,818,939	1,431,945	12,388,726	13,804,914
Equity					
Share capital	21	7,458,155	7,427,145	7,458,155	7,427,145
Share premium		16,543,358	16,465,835	16,543,358	16,465,835
Capital reserves	22	9,034,945	9,034,945	2,198,313	2,198,313
Foreign currency translation reserve		811,145	1,132,295	–	–
Accumulated losses		(32,028,664)	(32,628,275)	(13,811,100)	(12,286,379)
		1,818,939	1,431,945	12,388,726	13,804,914

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

Statements of Changes in Equity

for the year ended 31 December 2005

	Note	Group 2005 $	Group 2004 (Restated) $	Company 2005 $	Company 2004 $
Share capital					
Balance at beginning of year	21	7,427,145	4,363,253	7,427,145	4,363,253
Issue of shares during the year		31,010	3,063,892	31,010	3,063,892
Balance at end of year		7,458,155	7,427,145	7,458,155	7,427,145
Share premium					
Balance at beginning of year	21	16,465,835	14,317,381	16,465,835	14,317,381
Premium on issue of ordinary shares during the year		77,523	2,148,454	77,523	2,148,454
Balance at end of year		16,543,358	16,465,835	16,543,358	16,465,835
Capital reserves					
Balance at beginning of year	22	9,034,945	6,836,632	2,198,313	–
Issue of warrants during the year		–	2,198,313	–	2,198,313
Balance at end of year		9,034,945	9,034,945	2,198,313	2,198,313
Foreign currency translation reserve [1]					
Balance at beginning of year		1,132,295	452,928	–	–
Translation during the year		(321,150)	679,367	–	–
Balance at end of year		811,145	1,132,295	–	–
Accumulated losses					
Balance at beginning of year, as previously reported		(31,955,879)	(39,781,873)	(12,286,379)	(11,528,086)
Prior year adjustment	2.3	(672,396)	–	–	–
Balance at beginning of year, as restated		(32,628,275)	(39,781,873)	(12,286,379)	(11,528,086)
Net profit/(loss) for the year		599,611	7,153,598	(1,524,721)	(758,293)
Balance at end of year		(32,028,664)	(32,628,275)	(13,811,100)	(12,286,379)
Total equity		1,818,939	1,431,945	12,388,726	13,804,914
Net income and expenses recognised directly in equity		(321,150)	679,367	–	–
Total recognised income and expense for the year		278,461	7,832,965	(1,524,721)	(758,293)

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

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

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Note	2005	2004 (Restated)
		$	$
Cash flows from operating activities			
Profit before tax		691,409	7,355,598
Add/(less) :			
Depreciation		1,222,241	2,093,165
Interest income		(3,057)	(51,814)
Interest expense		4,174,165	3,238,752
(Gain)/loss on disposal of property, plant and equipment		(182,597)	203,675
Effects of changes in foreign exchange		(357,470)	1,321,436
Exceptional gain arising from :			
- Share settlement of fee, loan, interest and trade debts		(438,564)	(3,296,683)
- Debt forgiveness		–	(3,634,015)
Operating cash inflow before working capital change		5,106,127	7,230,114
Increase in debtors		(5,583,476)	(751,284)
Increase/(decrease) in creditors		20,326,116	(4,417,095)
Increase in steel materials and work-in-progress		(23,781,557)	(1,603,540)
Decrease in amounts due to related parties		(19,330)	(1,683,523)
Cash used in operations		(3,952,120)	(1,225,328)
Income tax paid		(200,395)	(211,282)
Interest received		3,057	51,814
Interest paid		(4,174,165)	(3,238,752)
Net cash used in operating activities		(8,323,623)	(4,623,548)
Cash flows from investing activities			
Payments for property, plant and equipment		(5,602,710)	(1,237,163)
Proceeds from disposal of property, plant and equipment		1,735,134	3,964,295)
Net cash (used in)/generated from investing activities		(3,867,576)	2,727,132
Cash flows from financing activities			
Net repayments on borrowings		(3,173,411)	(3,481,493)
Decrease/(increase) in fixed deposits pledged for banking facility		34,713	(75,153)
Hire purchase instalments paid		(566,978)	(469,951)
Issue of ordinary shares [1]		–	2,883,120
Net cash used in financing activities		(3,705,676)	(1,143,477)
Net change in cash and cash equivalents		(15,896,875)	(3,039,893)
Cash and cash equivalents at beginning of year	17	(280,023)	(22,446,174)
Conversion of bank overdraft to revolving short term loan		–	25,206,044
Cash and cash equivalents at end of year	17	(16,176,898)	(280,023)

[1] During the year, the Company issued 3,100,946 (2004: 116,461,355) ordinary shares at a fair value of $0.035 each to fully discharge debts (Note 4).

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

Notes to the Financial Statements

31 December 2005

1. Corporate information

Yongnam Holdings Limited, a limited liability company, is incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The registered office of the Company is located at 51 Tuas South Street 5, Singapore 637644 which is also its principal place of business.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are set out in note 12 to the financial statements. There have been no significant changes in the nature of the activities during the financial year.

2. Significant accounting policies

2.1 *Going concern assumption*

The Group's and Company's current liabilities exceed its current assets by $5,219,325 and $8,524,114 (2004: $49,747,078 and $8,456,581) respectively. The Group and Company have total borrowings of $80,712,862 and $7,691,790 as at 31 December 2004 (2004: $68,264,867 and $7,395,819) respectively.

The financial statements have been prepared assuming that the Group and Company will continue as going concerns. The ability of the Group and Company to continue as going concerns is dependent on several factors which include:

(1) the Group continuing to receive support from its principal banker in relation to the banking facilities currently made available to the Group. The bank covenants include repayments of $300,000 per month and $250,000 per quarter to service principal of the revolving term loan;

(2) the Group's ability to seek alternative financing for the long-term loan granted by Hong Leong Finance ("HLF") of $7,691,790 (2004: $7,395,819). The failure to secure title to the Springleaf property has resulted in a breach of the existing loan covenants imposed by HLF and HLF recalled the loan on 17 November 2004. On 13 December 2004, HLF agreed to withhold legal proceedings against the Group for 6 months until 12 June 2005, provided the Group fulfils certain conditions stipulated by HLF, including timely minimum payment of $35,000 per month towards repayment of the outstanding debt. This had been further extended to 15 November 2005 at the same terms and then to 15 April 2006 at minimum payment of $40,000 per month. The Group will continue to pursue and negotiate with HLF to further extend the loan repayment schedule;

(3) adequate project financing facilities available to fund existing and new projects secured by the Group; and

(4) the Group's ability to secure additional new profitable contracts and generate positive cash flows.

The Directors believe that the working capital available to the Group as at the date of this report and for the next twelve months is sufficient for its requirement.

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.2 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Singapore Companies Act.

The financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at their fair values.

The financial statements are presented in Singapore Dollars (SGD or $).

2.3 *Prior year adjustment*

During the last financial year, the Group over recognised revenue arising from a construction contract in Thailand. In accordance with FRS 8, Effects of Changes in Accounting Policies, the over recognition of revenue pertaining to the prior year have been accounted for retrospectively and the comparative figures for 2004 has been restated accordingly. The effect of the resulting adjustment is the following:

- decrease the revenue and profit after tax of the Group by $672,396 in 2004;
- decrease in basic earnings per share from 1.41 cents to 1.29 cents; and
- decrease in diluted earnings per share from 1.40 cents to 1.28 cents.

2.4 *Changes in accounting policies*

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

a) Adoption of new FRS

On 1 January 2005, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2005.

- FRS 39, Financial Instruments: Recognition and Measurement
- FRS 102, Share-based Payment

i) FRS 39, Financial Instruments: Recognition and Measurement

The Group and Company had adopted FRS 39 prospectively on 1 January 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held to maturity investments were measured at amortised cost using the effective interest rate method. At 1 January 2005, differences between the carrying values and fair values of financial assets at fair value through profit or loss were recognised in accumulated profits while the differences between carrying values and fair values of available-for-sale financial assets were recognised in the fair value adjustment reserve. For investments carried at amortised cost, any differences between the carrying values and amortised costs as at 1 January 2005 were recognised in accumulated profits.

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.4 *Changes in accounting policies (cont'd)*

a) Adoption of new FRS (cont'd)

i) FRS 39, Financial Instruments: Recognition and Measurement (cont'd)

At 1 January 2005, financial liabilities (other than derivative financial instruments) within the scope of FRS 39 were measured at amortised costs using the effective interest rate method. Any difference between the carrying values and amortised costs as at 1 January 2005 were recognised in accumulated profits.

According to FRS 39, all derivative financial instruments held by the Group and the Company were recognised as assets or liabilities in the balance sheets and classified as financial assets or financial liabilities at fair value through profit or loss. Fair value adjustments of derivative financial instruments, except for those designated as hedging instruments in cash flow hedges, were recognised in accumulated profits at 1 January 2005.

The change in accounting policy on 1 January 2005 did not result in any significant impact to the financial statements.

ii) FRS 102, Share-based Payment

The main impact of FRS 102 on the Group and the Company is the recognition of an expense and a corresponding entry to equity for share options granted to senior executives and general employees.

The change in accounting policy on 1 January 2005 did not result in any significant impact to the financial statements.

b) Adoption of revised FRS

The Group adopted the following revised standards mandatory for annual periods beginning on or after 1 January 2005. The adoption of these standards did not result in any significant change in accounting policies:

FRS 1 (revised), Presentation of Financial Statements
FRS 2 (revised), Inventories
FRS 8 (revised), Effects of Changes in Accounting policies
FRS 10 (revised), Events after the Balance Sheet Date
FRS 16 (revised), Property, Plant and Equipment
FRS 17 (revised), Leases
FRS 21 (revised), The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised), Related Party Disclosures
FRS 27 (revised), Consolidated and Separate Financial Statements
FRS 32 (revised), Financial Instruments: Disclosure and Presentation
FRS 33 (revised), Earnings Per Share
FRS 36 (revised), Impairment of Assets
FRS 38 (revised), Intangible Assets
FRS 103, Business Combinations

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.4 *Changes in accounting policies (cont'd)*

c) FRS and INT FRS not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 January 2006 (i to v) and 1 January 2007 (viii to ix):

(i) FRS 19 *(revised)*, Employee Benefits
(ii) FRS 39 *(revised)*, Financial Instruments: Recognition and Measurement
(iii) FRS 106, Exploration for and Evaluation of Mineral Resources
(iv) INT FRS 104, Determining Whether an Arrangement Contains a Lease
(v) INT FRS 105, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
(vi) INT FRS 106, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
(vii) INT FRS 107, Applying the Restatement Approach Under FRS 29 Financial Reporting in Hyperinflationary Economics
(viii) FRS 40, Investment Property
(ix) FRS 107, Financial Instruments: Disclosures

The Group has evaluated the adoption of the pronouncements listed above and these interpretations are not expected to be relevant to the activities of the Company, with the exception of FRS 19 (revised) Employee Benefits, FRS 39 (revised) Financial Instruments: Recognition and Measurement, FRS 40, Investment Property and FRS 107 Financial Instruments: Disclosures, which are not expected to have significant impact on the financial statements of the Group.

2.5 *Significant accounting estimates and judgments*

Estimates, assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) 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.

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.5 *Significant accounting estimates and judgments (cont'd)*

a) **Key sources of estimation uncertainty (cont'd)**

(i) **Revenue recognition on construction contracts**

The Group recognises contract revenue to the extent of contract costs incurred-to-date in relation to the latest estimated total costs of the contract where the outcome can be reliably estimated.

As the amounts certified may not coincide with the revenue recognised, significant judgments by management are required in determining the reasonableness of the percentages of completion of the various construction projects based on the extent of contract cost incurred. Changes in percentage of completion would result in changes in contract revenue and contract costs recognised in profit and loss account during the year.

Significant judgments by management are also required in assessing the recoverability of the contracts based on estimated total contract revenue and contract costs. In assessing total contract revenue, an estimation of the recoverable variation works from the customers and claims have been included. In making the judgment, management's evaluation is based on the actual level of work performed and past experience.

In particular, estimation of recoverable variation works were included in arriving at the estimated profit arising from certain construction contracts as follows:

- at least $12,000,000 relating to project prolongation claim, additional end wall installation and increase in steel quantities for Kallang-Paya Lebar Expressway Contract 421 (C421 KPE) in Singapore; and
- $5,800,000 relating to design changes and acceleration costs for Power Plant for Tanjung Bin Project, Malaysia.

As at the date of this report, $2,600,000 and $Nil has been certified for C421 KPE and Tanjung Bin Project respectively. Management is currently in negotiation with the customers on the claims and is of the view that the Group will obtain more than $12,000,000 for C421 KPE.

The cumulative profit recognised to-date for C421 KPE and Tanjung Bin Project amounted to $4,037,372 and $Nil (2004: $5,209,514 and $Nil) respectively. Any shortfall in the estimation of the recovery of the variation works performed and claims made for the construction contracts will impact the results of the Group. Profits recognised will need to be reversed and foreseeable losses, if any, may need to be provided for in the financial statements.

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.5 *Significant accounting estimates and judgments (cont'd)*

a) Key sources of estimation uncertainty (cont'd)

(ii) Depreciation of plant and machinery, steel beams and columns

The costs of plant and machinery (including cranes), steel beams and columns are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these plant and machinery to be within 5 to 20 years and steel beams and columns to be 15 years. The residual values of the steel beams and columns are estimated to be $370 per ton.

Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. Based on management's estimates, a 5% difference in the expected useful lives or residual value for steel beams and columns would result in approximately 5% and 5.3% in depreciation charge for steel beams respectively.

During the year, the Group revised the estimates of the residual value of steel beams and columns from $210 per ton to $370 per ton based on price quotation for scrap steel materials. The effect of the change in accounting estimate was a decrease in depreciation charge for the current year and future annual years by approximately $626,000 per annum, of which $219,000 had been allocated to contract cost incurred to-date. The impact to the profit and loss account in respect of future years may be affected by the effects of fully depreciated steel beams and columns and the utilisation rate for construction contracts. These effects are not practical to be estimated.

(iii) Taxation

The Group has exposure to income taxes in a few jurisdictions. Significant judgment is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables as at 31 December 2005 was $1,350,942 (2004: $1,516,015).

The Group's exposure to additional tax assessments not provided for in the financial statements is disclosed in Note 24 (c).

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

b) Critical judgments made in applying accounting policies

The following are the judgments made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(i) Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for indicators of impairment in accordance with FRS 36, Impairment of Assets. There has been no indicators of impairment assessed by management in respect of the Group's property, plant and equipment. As at 31 December 2005, the carrying amount of property, plant and equipment amounted to $59,096,788 (2004: $58,657,655).

(ii) Impairment of investments in subsidiary companies

The carrying values of the Company's investments in subsidiary companies are reviewed for impairment in accordance with FRS 36, Impairment of Assets. There has been no additional indicators of impairment assessed by management in respect of the Company's investments in subsidiary companies. As at 31 December 2005, the costs and provision for impairment in respect of investments in subsidiary companies amounted to $38,467,732 and $25,431,590 (2004: $38,433,208 and $25,431,590) respectively.

2.6 *Functional and foreign currency*

a) Functional currency

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in SGD.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary companies and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

Notes to the Financial Statements

31 December 2005

2. Significant accounting policies (cont'd)

2.6 *Functional and foreign currency (cont'd)*

c) **Foreign currency translation**

The results and financial position of foreign operations are translated into SGD using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and

- 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.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

Goodwill and fair value adjustments which arose on acquisitions of foreign subsidiaries before 1 January 2005 are deemed to be assets and liabilities of the parent company and are recorded in SGD at the rates prevailing at the date of acquisition.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that foreign operation is recognised in the profit and loss account as a component of the gain or loss on disposal.

2.7 *Subsidiary companies and principles of consolidation*

a) **Subsidiary companies**

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less any impairment losses.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.7 *Subsidiary companies and principles of consolidation (cont'd)*

b) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at the balance sheet date. The financial statements of the subsidiary companies are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully 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.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

For acquisitions prior to 1 January 2001, the excess of the Company's share of the net assets of a subsidiary at acquisition date over the cost to the Company is included in capital reserve on consolidation in shareholders' equity. Any excess of the cost of the business combination on or after 1 January 2001 over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill which will be measured at cost less any accumulated impairment losses.

2.8 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. All items of property, plant and equipment are initially recorded at cost.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, any trade discounts and rebates are deducted in arriving at the purchase price. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.8 *Property, plant and equipment (cont'd)*

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful lives of the assets as follows :-

Leasehold properties	-	Over the remaining term of lease
Plant and machinery	-	5 - 10 years
Motor vehicles	-	3 - 6 years
Office equipment and furniture	-	3 - 10 years
Cranes	-	5 to 20 years
Steel beams and columns	-	15 years, taking into consideration estimated residual values

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. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.9 *Investment properties*

Investment properties are investments in properties that are not occupied substantially for us by or in the operations of the Group. They are accounted for as long term investments and are carried in the balance sheet at revalued amounts based on annual directors' valuation. Professional valuation is made once in every 3 years.

The surplus on revaluation is credited directly to revaluation reserve unless it reverses a previous revaluation decrease relating to the same class of assets, which was previously recognised as an expense. In these circumstances, the increase is recognised as income to the extent of the previous write down. Any deficit on revaluation is recognised as an expense unless it reverse a previous surplus relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same class of assets. Any balance remaining in the revaluation surplus in respect of an investment property, is transferred directly to accumulated profits on retirement or disposal of the investment property.

2.10 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of non-financial assets (cont'd)*

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 of continuing operations are recognised in the profit and loss account as 'impairment losses'.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

2.11 *Financial assets*

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.11 *Financial assets (cont'd)*

a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the profit and loss account.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.12 *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and at bank, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Cash and short-term deposits carried in the balance sheets, are classified for as loans and receivables. The accounting policy for this category of financial assets is stated in Note 2.11.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash on hand, deposits in banks, net of unsecured short term borrowings and bank overdrafts which are repayable on demand and which form part of the Group's cash management.

2.13 *Trade and other receivables*

Trade and other receivables, including amounts due from subsidiary companies and are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.11.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.14 below.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.14 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

c) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.15 *Steel materials*

Steel materials are stated in the financial statements at the lower of cost and net realisable value. Cost is determined using the weighted average method.

2.16 *Trade and other payables*

Liabilities for trade and other amounts payable which are normally settled on 30-90 day terms, and payables to related companies are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.17 *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.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.18 *Borrowing costs*

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are ready for their intended use.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.19 *Derecognition of financial assets and liabilities*

a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.20 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement.

If 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 costs.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.21 *Employee benefits*

a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

c) Employee share option plans

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share options ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'), if applicable.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.21 *Employee benefits (cont'd)*

c) Employee share option plans (cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.22 *Revenue recognition*

Contract revenue and contract costs are recognised in the profit and loss account as revenue and costs of sales respectively, by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably.

2.23 *Income taxes*

a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.23 *Income taxes (cont'd)*

b) **Deferred tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.23 *Income taxes (cont'd)*

c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.24 *Derivative financial instruments*

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit and loss account for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Notes to the Financial Statements

31 December 2005

2. Summary of significant accounting policies (cont'd)

2.25 *Leases*

a) Operating leases

Operating lease payments are recognised as an expense in the profit and loss account on a straight line basis over the lease term. 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.

b) Finance leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalized. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the profit and loss account.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

2.26 *Warrants*

The assigned fair value of the warrants is capitalized as capital reserve. The value of warrants, when exercised by the holder, is capitalized as share premium. At the expiry of the warrants, if the warrants are not exercised, the balance of the capital reserve account in respect of the warrants not exercised will become a distributable reserve.

2.27 *Construction contracts*

Work-in-progress is stated at costs plus attributable profits less foreseeable losses and progress payments received or receivable on uncompleted contracts. Costs include materials, labour and other direct and indirect expenses attributable to the construction activity.

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Provision for liquidated damages for the late completion of projects is made where there is a contractual obligation and written notice is received from customers, and where in management's opinion an extension of time is unlikely to be granted.

Notes to the Financial Statements

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3. Other operating income

	Group	
	2005	2004
	$	$
Included in other operating income :		
- rental income	67,500	268,916
- sale of scrap and steel materials	774,348	816,193

4. Exceptional items

	Group	
	2005	2004
	$	$
Gain arising from shares settlement of fees, loan, interest and trade debts [1]	438,564	3,296,683
Gain arising from debt forgiveness [2]	–	3,634,015
Expenses relating to rights issue	–	(225,825)
	438,564	6,704,873

[1] In 2004, the Company issued:

- 29,919,138 ordinary shares of par value $0.01 each to certain professionals at an issue price of $0.0371 each, in settlement of approximately $1.1 million owing to these professionals. The fair value of the shares issued is $0.02 each.
- 64,328,432 ordinary shares of par value of $0.01 each at an issue price of $0.0371 each, in settlement of the $1.7 million in principal and $0.7 million of interest owing to Yongnam Private Limited ("YNPL"), a related company in which some directors have substantial interests in. The fair value of the shares issued is $0.02 each.
- 22,213,785 ordinary shares of par value of $0.01 each at an issue price of $0.10 to certain trade creditors of Yongnam Engineering Sdn Bhd ("YNESB"), for settlement of approximately $2.2 million owing by YNESB. The fair value of the shares issued is $0.02 each.

In 2005, the Company issued 3,100,946 ordinary shares of par value of $0.01 each at an issue price of $0.035 each to certain trade creditors, for settlement of approximately $302,758 owing by YNESB. The fair value of the shares issued is $0.035 each, amounting to $108,533.

Notes to the Financial Statements

31 December 2005

4. Exceptional items (cont'd)

Further analysis of the exceptional gain arising from the above is as follows:

	2005 $	2004 $
Settlement of debts:		
(a) in respect of amounts owed to certain professionals settled by issue of Nil (2004: 29,919,138) shares	–	1,110,000
(b) in respect of principal and interest owed to YNPL settled by issue of Nil (2004: 64,328,432) shares	–	2,386,585
(c) in respect of amounts owed to certain trade creditors of YNESB settled by issue of 3,100,946 (2004: 22,213,785) shares	302,758	2,129,324
	302,758	5,625,909
Issue of 3,100,946 (2004: 116,461,355) ordinary shares computed at fair value	(108,533)	(2,329,226)
Write off certain trade creditors on lapse of claim on the Company via share settlement	244,339	–
	438,564	3,296,683

(2) Pursuant to the debt forgiveness arrangement with UOB Group, the Company issued an aggregate of 219,831,324 warrants of fair value of $0.01 to rights subscribers and UOB Group. The exceptional gain arising from the debt forgiveness is further analysed as follows:

	2005 $	2004 $
Debt forgiveness from UOB Group	–	5,834,015
Warrants issued (219,831,324 warrants issued at fair value $0.01 each)	–	(2,198,314)
Amount paid in deficient warrants to UOB	–	(1,686)
	–	3,634,015

Notes to the Financial Statements

31 December 2005

5. Profit from operating activities

The following items have been (charged)/credited in arriving at the profit from operating activities:

	Group	
	2005	2004
	$	$
Non audit fees to:		
- Auditors of the company	(49,036)	(18,500)
- Other auditors	(9,303)	(14,509)
Provision for doubtful trade debts (Note 15)	(49,850)	(2,041,434)
Rental expense – operating lease [1]	(1,331,088)	(725,486)
Depreciation of fixed assets	(4,056,648)	(4,823,156)
Gain/(loss) on disposal of property, plant and equipment	182,597	(203,675)
Staff costs [2]	(19,311,999)	(10,290,102)
Foreign exchange loss	(175,579)	(832,882)
Prior year under-recognition of cost	–	(343,298)
Contributions to defined contribution pension scheme	(1,270,067)	(821,520)

(1) This represents total depreciation changes for the year, out of which $2,834, 407 (2004: $2,729,991) had been allocated to construction costs incurred to-date (Note 14).

(2) This represents total staff cost for the year, out of which $10,714,901 (2004: $6,353,971) had been allocated to construction costs incurred to-date (Note 14).

Included in total staff cost are contributions to defined contribution pension schemes of $1,270,067 (2004: $821,520).

6. Finance income

	Group	
	2005	2004
	$	$
Interest income	3,057	51,814

7. Finance cost

	Group	
	2005	2004
	$	$
Interest expenses :		
- bank borrowings	3,922,591	2,396,027
- hire purchase	103,681	113,077
- related party	–	683,732
- others	15,170	45,916
Bank charges	132,723	50,460
	4,174,165	3,289,212

Notes to the Financial Statements

31 December 2005

8. Income tax

Major components of income tax expense for the years ended 31 December were :

		Group	
		2005	2004
		$	$
In respect of profit for the year:			
Current tax	- Singapore	132,000	174,000
	- Foreign	19,758	–
Deferred tax	- Singapore	–	28,000
	- Foreign	56,476	–
Overprovision of current tax in respect of previous years		(116,436)	–
		91,798	202,000

A reconciliation between the tax expense and the product of accounting profit/(loss) multiplied by the applicable tax rate for the years ended 31 December is as follows:

	Group	
		Restated
	2005	2004
	$	$
Profit/(loss) before tax	691,409	7,355,598
Tax calculated at tax rate of 20% (2004 : 20%)	138,282	1,471,120
Adjustments:		
Tax exempt income	(10,500)	(10,500)
Tax payable for profitable foreign subsidiary not available for group set-off	–	–
Tax effect of expenses not deductible for tax purposes	242,777	1,199,761
Tax effect of income not subject to tax	60,925	(737,042)
Deferred tax assets not recognised	517,625	258,435
Utilisation of deferred tax assets previously not recognised	(942,623)	(2,100,180)
Tax effect of different tax rates applicable to overseas subsidiary companies	24,470	(76,976)
Losses not allowable to be carried forward	200,552	–
Overprovision in respect of prior years	(116,436)	–
Others	37,651	197,382
	91,798	202,000

Notes to the Financial Statements

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8. Income tax (cont'd)

	Group	
	2005	2004
	$	$
Deferred tax liabilities	1,584,476	1,528,000
This could be analysed as follows:		
Difference in depreciation	84,476	28,000
Others*	1,500,000	1,500,000
	1,584,476	1,528,000

* relates to provision for taxation on the profit of the sale of a subsidiary's leasehold properties in prior years.

As at 31 December 2005, based on latest available tax assessment, certain subsidiaries in Singapore have unutilised tax losses of approximately $26,162,000 (2004 : $42,300,000) and unabsorbed capital allowances of $8,550,000 (2004 : 8,500,000) available for offsetting against future taxable income subject to confirmation by the tax authorities, and there being no substantial change in shareholders in accordance with the relevant provisions of the Income Tax Act.

In addition, certain overseas subsidiaries have unutilised tax losses carried forward of approximately $11,700,000 (2004 : $11,264,000). The availability of these losses is subject to meeting certain statutory requirements by that overseas subsidiaries in their country of operations.

Tax effect of temporary differences for which no deferred tax asset is recognised :

	Group	
	2005	2004
	$	$
Unutilised tax losses	8,315,000	10,586,000
Unabsorbed capital allowance	2,090,000	–
Other temporary difference	579,000	(2,655,000)
	10,984,000	7,931,000

Notes to the Financial Statements

31 December 2005

9. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the profit and loss account and share data used in the basic and diluted earnings per share computations for the years ended 31 December:

	Group	
	2005	2004 (Restated)
	$	$
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	599,611	7,153,598
Weighted average number of ordinary shares applicable to basic earnings per share computation	745,298,646	555,626,671
Effect of dilution:		
Share options	4,717,876	2,494,577
Warrants	10,468,158	–
Weighted average number of ordinary shares for diluted earnings per share computation	760,484,680	558,121,248

219,831,324 warrants issued in 2004 had not been included in the calculation of diluted earnings per share in 2004 because they were anti-dilutive for the previous financial year.

Notes to the Financial Statements

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10. Property, plant and equipment

Group	Leasehold properties	Plant and machinery	Motor vehicles	Office equipment and furniture	Steel beams and columns	Cranes	Total
	$	$	$	$	$	$	$
Cost							
At 1 January 2004	40,762,354	14,439,839	832,094	4,204,408	49,155,744	5,732,099	115,126,538
Additions	19,599	156,319	339,718	123,035	376,476	398,500	1,413,647
Disposals	(5,714,115)	(722,000)	(20,978)	(411,898)	(4,635,361)	(463,750)	(11,968,102)
Translation adjustments	(179,966)	(35,705)	(5,577)	(7,179)	(663,730)	–	(892,157)
At 31 December 2004 and 1 January 2005	34,887,872	13,838,453	1,145,257	3,908,366	44,233,129	5,666,849	103,679,926
Additions	15,009	1,107,915	549,793	231,862	3,972,290	135,129	6,011,998
Disposals	–	(5,355,162)	(313,785)	(1,557,726)	(2,126,744)	–	(9,353,417)
Translation adjustments	50,085	14,018	1,397	1,897	147,206	–	214,603
At 31 December 2005	34,952,966	9,605,224	1,382,662	2,584,399	46,225,881	5,801,978	100,553,110
Accumulated depreciation and impairment							
At 1 January 2004	11,086,148	11,288,032	285,322	4,169,718	18,773,686	2,646,429	48,249,335
Depreciation charge	1,442,870	907,243	217,632	47,809	1,899,120	308,482	4,823,156
Disposals	(2,722,464)	(644,129)	(14,749)	(406,617)	(3,670,832)	(341,341)	(7,800,132)
Translation adjustments	(79,878)	(28,058)	(2,462)	(6,430)	(133,260)	–	(250,088)
At 31 December 2004 and 1 January 2005	9,726,676	11,523,088	485,743	3,804,480	16,868,714	2,613,570	45,022,271
Depreciation charge	1,217,982	806,468	230,523	80,637	1,415,209	305,829	4,056,648
Disposals	–	(5,078,115)	(172,013)	(1,557,726)	(883,578)	–	(7,691,432)
Translation adjustments	10,025	18,305	863	2,168	37,474	–	68,835
At 31 December 2005	10,954,683	7,269,746	545,116	2,329,559	17,437,819	2,919,399	41,456,322
Net book value							
At 31 December 2005	23,998,283	2,335,478	837,545	254,841	28,788,062	2,882,579	59,096,788
At 31 December 2004	25,161,196	2,315,365	659,514	103,886	27,364,415	3,053,279	58,657,655

Notes to the Financial Statements

31 December 2005

10. Property, plant and equipment (cont'd)

	Motor vehicles $
Company	
Cost	
Additions during the year and at 31 December 2004 and 1 January 2005	228,008
Additions	295,084
Disposals	(73,334)
At 31 December 2005	449,758
Accumulated depreciation	
Depreciation charge for the year and at 31 December 2004	49,899
Depreciation charge for the year	75,285
Disposals	(24,445)
At 31 December 2005	100,739
Net book value	
At 31 December 2005	349,019
At 31 December 2004	178,109

As at 31 December 2005, the Group had property, plant and equipment under hire purchase contracts with a net book value of $2,941,472 (2004 : $3,098,114). Leasehold properties are mortgaged to banks to secure banking facilities granted to subsidiaries (Note 20).

As at 31 December 2005, the Company has motor vehicles under hire purchase contracts with a net book value of $349,019 (2004: $178,109).

During the financial year, the Group and Company acquired property, plant and equipment of $409,288 and $295,084 (2004: $176,484 and $228,008) respectively by means of hire purchase.

Notes to the Financial Statements

31 December 2005

10. Property, plant and equipment (cont'd)

Details of the leasehold properties at 31 December 2005 are as follows :

Location	Site area (square metres)	Build-up area (square metres)	Tenure of lease
51 Tuas South Street 5, Singapore #	75,619	26,511	30 years expiring on 31 March 2028 subject to the fulfilment of conditions
PLO No. 3 Pontian Industrial Estates, Johore, Malaysia	8,094	2,748	60 years expiring on 16 August 2054
PLO No. 7 Pontian Industrial Estates, Johore, Malaysia	8,094	3,520	60 years expiring on 18 August 2058

Lease title of 51 Tuas South Street 5 has not been obtained as the subsidiary is still in the process of fulfilling certain criteria as set out by Jurong Town Corporation.

Notes to the Financial Statements

31 December 2005

11. Investment property

	Group	
	2005	2004
	$	$
Cost		
Balance at beginning and end of year	12,161,359	12,161,359
Provision for impairment loss		
Balance at beginning and end of year	(12,161,359)	(12,161,359)
Net carrying value	–	–

The investment property, located at Anson Road, Singapore, consists of office space on the 23rd storey of Springleaf Tower, an office block, with an unexpired lease of 99 years from 1 October 1996. The property is pledged for a long-term loan due to Hong Leong Finance ("HLF") (Note 20).

A legal dispute over the ownership of this investment property has arisen between the Group and a joint developer of the Springleaf Tower. On 2 December 2004, the court ruled in favour of the joint developer and the Group has appealed against this judgement. On 18 August 2005, the Court of Appeal dismissed the Group's appeal for the right of ownership.

A full provision for this investment property had been made in the prior year in view of the uncertainty of this matter.

The paramount mortgagee of the property at Springleaf Tower had taken foreclosure action against the Group in relation to the property following the dismissal of the appeal by the Court of Appeal on 18 August 2004. The Group had filed affidavits in September 2004 to object the foreclosure by the paramount mortgagee. The legal proceeding is still in progress.

In view of the uncertainty of the foreclosure issue of the investment property, no revaluation has been performed and the full provision for impairment loss remains.

12. Subsidiaries

	Company	
	2005	2004
	$	$
(a) Unquoted shares, at cost	38,467,732	38,433,208
Due from subsidiaries (non-trade)	26,204,402	26,922,780
	64,672,134	65,355,988
Less : Impairment loss in subsidiary	(25,431,590)	(25,431,590)
Provision for doubtful receivables	(18,408,102)	(17,719,494)
	20,832,442	22,204,904

The amounts owing by subsidiaries are effectively quasi-equity loans to the subsidiaries.

Notes to the Financial Statements

31 December 2005

12. Subsidiaries (cont'd)

		Company	
		2005	2004
		$	$
(b)	Due to a subsidiary (non-trade)	(445,277)	(628,989)

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

(c) Details of subsidiaries are as follows:

Name	Country of Incorporation and place of business	Cost of investment		Interest held By the Group		Principal activity
		2005	2004	2005	2004	
		$	$	%	%	
Held by the Company						
Yongnam Engineering & Construction (Private) Limited *	Singapore	37,945,499	37,945,499	100	100	Engineering contractors
Yongnam Development Pte Ltd*	Singapore	2	2	100	100	Property investment
Yongnam Investment Pte Ltd *	Singapore	2	2	100	100	Investment holding
Yongnam Engineering Sdn Bhd ****	Malaysia	388,525	388,525	70	70	Engineering contractors
Yongnam Engineering & Construction (Thailand) Ltd **#	Thailand	99,180	99,180	48.4	48.4	Engineering contractors
Yongnam Steel Work System Engineering (Shanghai) Co., Ltd	China	34,524	-	100	-	Dormant
		38,467,732	38,433,208			

Notes to the Financial Statements

31 December 2005

12. Subsidiaries (cont'd)

Name	Country of Incorporation and place of business	Interest held By the Group 2005 %	Interest held By the Group 2004 %	Principal activity
Held by subsidiaries				
Held by Yongnam Engineering & Construction (Private) Limited :				
YNE Project Engineering (Private) Limited *	Singapore	100	100	Engineering contractors
Yongnam Engineering (Hong Kong) Ltd ***	Hong Kong	100	100	Engineering contractors
Held by Yongnam Engineering Sdn Bhd :				
Polifond Technologies Sdn Bhd ****	Malaysia	70	70	Dormant
Held by YNE Project Engineering (Private) Limited :				
Jiwa Harmoni Offshore Sdn Bhd ****	Malaysia	100	100	Engineering contractors

* Audited by Ernst & Young, Singapore.

** Audited by Ernst & Young, Thailand.

*** Audited by Ernst & Young, Hong Kong.

**** Audited by SQ Morison, Chartered Accountants (Malaysia).

\# The Group holds 48.4% (2004 : 48.4%) equity in Yongnam Engineering & Construction (Thailand) Ltd ("YNET"). In accordance with the Singapore Companies Act, Cap. 50, the Group considers YNET as a subsidiary by virtue of the Group having board control. Accordingly, the results and net assets of the subsidiary have been included in the consolidated financial statements.

13. Fixed deposits - non current

The fixed deposits are pledged to secure long term banking facilities granted to subsidiaries. The weighted average effective interest rate at the balance sheet date is 1.10% (2004: 1.47%) per annum.

Notes to the Financial Statements

31 December 2005

14. Work-in-progress/(progress billings in excess of costs)

	Group	
	2005	2004 (Restated)
	$	$
Contract costs incurred to-date	229,774,316	152,788,587
Attributable profit less recognised losses to date	44,047,698	32,937,120
	273,822,014	185,725,707
Progress billings	(217,247,777)	(154,819,060)
	56,574,237	30,906,647
Disclosed as :		
Work-in-progress	63,546,787	34,329,902
Progress billings in excess of costs	(6,972,550)	(3,423,255)
	56,574,237	30,906,647
The following were allocated to contract costs incurred to-date during the year:		
Depreciation of property, plant and equipment	2,834,407	2,729,991
Staff costs	10,714,901	6,353,971

15. Trade debtors

	Group	
	2005	2004
	$	$
Trade debtors are stated after deducting provision for doubtful debts of :	1,530,142	4,100,040
Balance at beginning of year	4,100,040	2,898,050
Provision during the year	49,850	2,041,434
Bad debts written-off against provision	(2,645,979)	(834,479)
Exchange rate adjustments	26,231	(4,965)
Balance at end of year	1,530,142	4,100,040

Trade debtors are non-interest bearing and are generally on 30 to 60 days' term. They are recognised at their original invoiced amounts which represents their fair values on initial recognition.

As at 31 December 2005, the following amounts are included in the Group's trade debtors:-

- $3,886,716 (2004: $923,356) denominated in United Stated dollars;
- $1,223,590 (2004: $2,036,578) denominated in Thai Baht;
- $130,566 (2004: $1,413,495) denominated in Malaysia Ringgit; and
- $50,094 (2004: $Nil) denominated in Hong Kong dollars.

Notes to the Financial Statements

31 December 2005

16. Sundry debtors, deposits and prepayments

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Sundry debtors	919,710	345,122	–	–
Deposits	450,342	456,857	19,560	59,560
Prepayments	27,854	40,817	2,400	1,215
Staff loans	–	99,355	–	–
Duties recoverable*	422,491	762,545	–	–
Others	–	6,300	–	–
	1,820,397	1,710,996	21,960	60,775
Less : Provision for doubtful recovery of sundry debts and deposits	–	(11,587)	–	–
	1,820,397	1,699,409	21,960	60,775

* comprising goods and services taxes and value added taxes.

As at 31 December 2005, the following amounts are included in the Group's sundry debtors:-

- $463,712 (2004: $77,213) denominated in Thai Baht; and
- $146,301 (2004: $15,780) denominated in Malaysia Ringgit.

17. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks less bank overdrafts. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts :

	Group	
	2005	2004
	$	$
Fixed deposits	–	795,700
Cash and bank balances	1,395,663	875,432
Bank overdrafts (Note 20)	(17,572,561)	(1,951,155)
	(16,176,898)	(280,023)

The weighted average effective interest rate of fixed deposits at the balance sheet date is not applicable (2004: 0.75% per annum).

Notes to the Financial Statements

31 December 2005

17. Cash and cash equivalents (cont'd)

As at 31 December 2005, the following amounts are included in the Group's cash and bank balances and bank overdrafts:-

Cash and bank balances

- $570,658 (2004: $277,383) denominated in Thai Baht; and
- $139,968 (2004: $132,652) denominated in Malaysia Ringgit.

Bank overdrafts

- $1,270,960 (2004: $553,775) denominated in Malaysia Ringgit.

18. Trade creditors

As at 31 December 2005, the following amounts are included in the Group's trade creditors:-

- $770,660 (2004: $80,980) denominated in Thai Baht; and
- $6,198,242 (2004: $1,544,110) denominated in Malaysia Ringgit.

19. Sundry creditors and accruals

	Group		Company	
	2005	2004 (Restated)	2005	2004
	$	$	$	$
Accrued operating expenses	10,774,762	13,622,056	254,719	310,777
Directors' fees payable	103,000	132,000	103,000	132,000
Provision for directors' performance bonus	134,818	389,818	–	–
	11,012,580	14,143,874	357,719	442,777

20. Bank borrowings (secured)

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Bank overdrafts	17,572,561	1,951,155	–	–
Term loans	63,140,301	66,313,712	7,691,790	7,395,819
	80,712,862	68,264,867	7,691,790	7,395,819
Represented by:				
Current	30,994,415	63,264,867	7,691,790	7,395,819
Non current	49,718,447	5,000,000	–	–
	80,712,862	68,264,867	7,691,790	7,395,819

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules

The Group 2005	Total $	Within 1 year $	After 1 year but within 5 years $	After 5 years $
- S$ term loan, due from 2000 to 2015 [1]	7,691,790	7,691,790	-	-
- S$ revolving term loan [2]	41,445,545	3,600,000	14,400,000	23,445,545
- S$ term loan [3]	12,000,000	1,583,800	8,670,400	1,745,800
- HK$ term loan [4]	2,002,966	546,264	1,456,702	-
- S$ bank overdraft [5]	19,473	19,473	-	-
- S$ bank overdraft [6]	1,976,982	1,976,982	-	-
- S$ bank overdraft [7]	965,299	965,299	-	-
- S$ bank overdraft [8]	488,168	488,168	-	-
- S$ bank overdraft [9]	1,064,866	1,064,866	-	-
- S$ bank overdraft [10]	1,366,028	1,366,028	-	-
- RM bank overdraft [11]	1,270,960	1,270,960	-	-
- S$ bank overdraft [12]	9,031,850	9,031,850	-	-
- S$ bank overdraft [13]	1,388,935	1,388,935	-	-
	80,712,862	30,994,415	24,527,102	25,191,345

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules

The Group 2004	Total $	Within 1 year $	After 1 year but within 5 years $	After 5 years $
- S$ term loan, due from 2000 to 2015 [1]	7,395,819	7,395,819	-	-
- S$ revolving short term loan [2]	44,938,432	44,938,432	-	-
- S$ term loan [3]	5,000,000	-	4,000,000	1,000,000
- HK$ term loan [4]	8,979,461	8,979,461	-	-
- S$ bank overdraft [5]	1,397,380	1,397,380	-	-
- RM bank overdraft [11]	553,775	553,775	-	-
	68,264,867	63,264,867	4,000,000	1,000,000

The Company 2005	Total $	Within 1 year $	After 1 year but within 5 years $	After 5 years $
- S$ term loan, due from 2000 to 2015 [1]	7,691,790	7,691,790	-	-
2004				
- S$ term loan, due from 2000 to 2015 [1]	7,395,819	7,395,819	-	-

[1] The long term loan from Hong Leong Finance ("HLF") is secured on the Group's investment property (Note 11), bears interest at 1% above average prime lending rates of stipulates banks and is repayable over 15 years.

As disclosed in Note 2.1, the Group has breached certain bank covenants and HLF has recalled the loan on 17 November 2004. On 13 December 2004, HLF agreed to withhold the legal proceedings against the Group for 6 months from 13 December 2004 until 12 June 2005, provided that the Group fulfils certain conditions stipulated by HLF, including timely minimum payment of $35,000 per month towards the repayment of the outstanding debt. During the year, this had been further extended to 15 November 2005 at the same terms and then to 15 April 2006 at a minimum payment of $40,000 per month.

Due to the breach of bank covenants, the loan has been classified as current liability.

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules (cont'd)

(2) In 2004, the revolving short term loan was secured by, inter alia, the following:

(1) a legal mortgage over the Group's property at 51 Tuas South Street 5;
(2) a debenture over Yongnam Engineering & Construction Pte Ltd's assets and future undertaking, property, assets, revenue and rights;
(3) an existing corporate guarantee for $84,000,000 by the Company;
(4) an all-monies debenture over the Company's assets and future undertakings, property, assets, revenue and rights; and
(5) a corporate guarantee for $51,570,030 by a subsidiary.

The interest rates were as follows:

(1) cost of funds of the UOB Group ("COF") plus 1% per annum for the first year;
(2) COF plus 1.5% per annum for the second year; and
(3) COF plus 2% per annum for the third year and thereafter.

Other than the above security, the covenants included the following:

(1) minimum payment of $300,000 per month to service both interest and principal;
(2) the Group's undertaking to repatriate profits and/or surplus from Yongnam Engineering & Construction (Thailand) Ltd and Yongnam Engineering (Hong Kong) Ltd; and
(3) the Group's undertaking to sell and lease back the JTC property at 51 Tuas South Street 5 at terms and conditions acceptable to the bank. The full sales proceeds of the said property shall be utilized to reduce the loan.

During the year, the revolving short term loan was revised as follows:

(1) line of credit reduced to $41,990,989; and
(2) increase in corporate guarantee to $62,000,000 by a subsidiary.
(3) rename of the term loan from 'Revolving Short Term Loan' to 'Revolving Term Loan";
(4) repayment of the revolving term loan in instalments of $300,000 (excluding interest) per month;
(5) interest rates at 1.5% per annum over Cost of Funds until April 2006 and at 2% per annum over Cost of Funds from April 2006; and
(6) waiver of all-monies debenture over the Company's assets and future undertakings, property, assets, revenue and rights as a security for the term loan.

Other than the above revisions, all other terms of the loan remain binding.

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules (cont'd)

(3) In 2004, the bank loan of $5,000,000 was secured by the following:

(1) Existing letter of set-off in respect of deposit of not less than $118,000 placed with the UOB Group;
(2) Fixed and floating charge to be executed over all the Company's and a subsidiary's assets and future undertaking, property, assets, revenue and rights;
(3) Corporate guarantees for $15,000,000 by the Company and a subsidiary respectively;
(4) Legal assignments of the contracts in relation to 7 projects; and
(5) Legal assignments of all insurances in relation to the projects.

The bank loan bears interest at 1.5% per annum over UOB's 1-month Cost of Funds and is repayable by 20 quarterly instalments of $250,000 each. The first instalment is due three months from the first anniversary of the first drawdown of the loan on 31 December 2004

During the year, an additional bank loan of $7,000,000 was granted to the Group. Consequently, the following revisions were made to the security of the new combined bank facility:

(1) increase in corporate guarantees to $26,951,000 by the Company and a subsidiary respectively; and
(2) Legal assignments of the contracts in relation to 9 projects.

Other than the above revisions, all other terms of the loan remain binding.

(4) In 2004, a HK$68,000,000 bank loan facility of a subsidiary was secured by way of a floating charge on the assets of a subsidiary, corporate guarantee for HK$68,000,000 given by the Company and similar amount given by another subsidiary. The loan was interest bearing at 2% per annum over the higher of Hong Kong Inter Bank Offered Rate or Cost of Funds.

During the year, the bank loan facility was revised as follows:

(1) a decrease in the facility to HK$10,306,857; and
(2) 48 monthly principal instalments of HK$214,726 plus interest.

Other than the above revisions, all other terms of the loan remain binding.

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules (cont'd)

(5) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above.

(6) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $1,000,000 by 31 March 2006 and cancelled by 30 June 2006.

(7) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $500,000 by 30 April 2006 and cancelled by 31 July 2006.

(8) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be cancelled by 28 February 2006.

(9) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $1,000,000 by 31 May 2006 and cancelled by 30 September 2006.

(10) This bank overdraft is secured under the same terms as the facility agreement for the term loan as disclosed in (3) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $1,000,000 by 28 February 2006, $500,000 by 30 April 2006 and cancelled by 30 June 2006.

(11) In 2004, this bank overdraft was secured by the following:
(1) corporate guarantee for RM6,850,000 by the Company and 3 subsidiaries respectively.
(2) an all-monies debenture over a subsidiary's present and future assets and properties; and
(3) a subsidiary's undertaking to perfect the legal assignment of all its future contracts and insurance proceeds; and
(4) Corporate guarantees for RM6,850,000 by the Company and three subsidiary respectively.

The bank overdraft bears interest at 1.5% per annum over UOB (Malaysia)'s Base Lending Rate and is repayable on demand. The full repayment was expected to be made upon the receipt of progress payments.

During the year, the following revisions were made to the security:
(1) increase in corporate guarantees from RM6,8500,000 to RM8,350,000 by the Company and three subsidiaries respectively;
(2) third party first and second legal charges for RM8,350,000 created over a piece of industrial land together with a factory building at PLO7, Kawasan Perindustrian Pontian, Batu 34 ¼, Jalan Johor, 82000 Pontian, Johor, held under US(D) 8476 PTD 9674 Mukim of Rimba Terjun, District of Pontian, Johor; and
(3) reduction of the bank overdraft to RM500,000 by 1 July 2006, and cancelled by 1 January 2007
Other than the above revision, all other terms of the loan remain binding.

Notes to the Financial Statements

31 December 2005

20. Bank borrowings (secured) (cont'd)

(a) Terms and repayment schedules (cont'd)

(12) This bank overdraft is secured under the same terms as the term loan disclosed in (2) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $6,500,000 by 31 July 2006, $4,000,000 by 31 August 2006, $2,000,000 by 30 September 2006 and cancelled by 31 October 2006.

(13) This bank overdraft is secured on the same terms as the term loan disclosed in (2) above. The overdraft is payable on demand and bears interest at the prevailing prime rate. The overdraft facility will be reduced to $1,200,000 by 31 May 2006 and cancelled by 31 October 2006.

(b) Effective interest rates

The weighted average effective interest rates per annum at the balance sheet date are as follows:

	Group		Company	
	2005	2004	2005	2004
	%	%	%	%
Trust receipts	5.59	1.33	–	–
Bank overdrafts	5.18	2.18	–	–
Bank loans	4.06	4.06	5.75	6.08
Revolving credit facilities	4.06	2.37	–	–

Notes to the Financial Statements

31 December 2005

21. Share capital

	Group and Company	
	2005	2004
	$	$
Authorised :		
Balance at beginning and end of year		
5,000,000,000 ordinary shares of $0.01 each	50,000,000	50,000,000
Issued and fully paid :		
Balance at beginning of year		
742,714,524 ordinary shares of $0.01 each (2004 : 436,325,297 ordinary shares of $0.10 each)	7,427,145	4,363,253
Issuance during the year		
Exercise of Share Options of Nil (2004 : 3,000,000) ordinary shares of $0.01 each(5)	–	30,000
Rights issue of Nil (2004: 186,927,872) ordinary shares of $0.01 each	–	1,869,279
Issuance of Nil (2004: 94,247,570) ordinary shares of $0.01 each from capitalisation of fees, loan and interest	–	942,475
Issuance of 3,100,946 (2004: 22,213,785) ordinary shares of $0.01 each issued in connection with Malaysian Settlement Shares	31,010	222,138
Balance at end of year		
745,815,470 ordinary shares of $0.01 each (2004 : 742,714,524) ordinary shares of $0.01 each	7,458,155	7,427,145

As disclosed in Note 4, the Company issued 3,100,946 ordinary shares at the fair value of $0.035 each or full discharge of approximately $302,758 owing to certain trade creditors by YNESB. Share premium arising from the issue of these shares amounted to $77,523.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

Notes to the Financial Statements

31 December 2005

22. Capital reserves

	Note	Group 2005 $	Group 2004 $	Company 2005 $	Company 2004 $
Capital reserve on consolidation arising from acquisition of subsidiaries		6,836,632	6,836,632	–	–
Warrants reserve	23	2,198,313	2,198,313	2,198,313	2,198,313
		9,034,945	9,034,945	2,198,313	2,198,313

The capital reserves are non-distributable.

23. Warrants

	Group and Company 2005 $	Group and Company 2004 $
Balance at beginning of year 219,831,324 (2004: $Nil) warrants	2,198,313	–
Issuance during the year $Nil (2004: 219,831,324) warrants	–	2,198,313
Balance at end of year 219,831,324 (2004: 219,831,324) warrants	2,198,313	2,198,313

In connection with the Rights Issue in 2004, 93,463,936 Attached Warrants were issued. Pursuant to an agreement with the UOB Group as part of the debt forgiveness in 2004, the Company had:

(i) paid UOB one cent for each of the Attached Warrants issued to Rights subscribers (a total of $934,639); and

(ii) issued 16,367,388 UOB deficient warrants ("Deficient Warrants") at no cost with a warrant value for $0.01 for the shortfall between Attached Warrants issued and 110 million UOB warrants, and paid UOB $1,686 for the shortfall of deficient warrants; and

(iii) issued 110 million warrants to UOB ("UOB Warrants") at no cost with a warrant value of $0.01.

Based on the above, the fair value of the warrants has been assessed to be $0.01 each.

An aggregate of 219,831,324 warrants at $0.01 were released in 2004 by the Central Depository (Pte) Limited to the Rights subscribers and UOB on the terms described above. These warrants have been listed since 26 August 2004. The warrants are valid for 5 years from date of issue, with an exercise price of $0.03.

Notes to the Financial Statements

31 December 2005

24. Commitments and contingencies

(a) Operating lease commitments

The Group has future minimum lease payments under other non-cancellable operating leases payable as follows :

	Group	
	2005	2004
	$	$
Within one year	864,805	1,046,045
After one year but not more than five years	3,246,240	3,402,387
After five years	13,999,410	14,811,073
	18,110,455	19,259,505

The Group has lease commitment in respect of lease of land up to 31 March 2028 for a monthly rental presently of $67,630 (2004 : $67,615).

(b) Hire purchase creditors (secured)

Future minimum payments together with the present value of the net minimum payments are as follows :

Group	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	2005	2005	2004	2004
	$	$	$	$
Within one year	717,421	654,577	702,285	582,523
After one year but not more than five years	1,045,500	927,932	1,730,943	1,157,676
Total minimum lease payments	1,762,921	1,582,509	2,433,228	1,740,199
Less : amounts representing interest	(180,412)	–	(693,029)	–
Present value of minimum lease payments	1,582,509	1,582,509	1,740,199	1,740,199

Notes to the Financial Statements

31 December 2005

24. Commitments and contingencies (cont'd)

(b) Hire purchase creditors (secured) (cont'd)

Company	Minimum payments 2005 $	Present value of payments 2005 $	Minimum payments 2004 $	Present value of payments 2004 $
Within one year	62,796	54,087	39,741	32,658
After one year but not more than five years	319,160	268,621	132,895	121,518
Total minimum lease payments	381,956	322,708	172,636	154,176
Less : amounts representing interest	(59,248)	–	(18,460)	–
Present value of minimum lease payments	322,708	322,708	154,176	154,176

The liabilities are secured on the Group's property, plant and equipment as disclosed in Note 10. The weighted average effective interest rate at the balance sheet date is 8.60% (2004 : 4.92%) per annum.

(c) Contingent liabilities

As at the balance sheet date, the Group has the following contingent liabilities arising from:

(i) Corporate guarantees given to certain financial institutions for banking facilities granted to certain subsidiaries amounting to approximately $136 million (2004: $120 million). As at 31 December 2005, the amount outstanding is approximately $81 million (2004: $68 million).

(ii) Guarantees given to certain unsecured creditors amounting to approximately $5.7 million (2004: $4 million). As at 31 December 2005, the amount outstanding is approximately $2.3 million (2004: $1.3 million) owing by subsidiaries. In the opinion of the Directors, no loss is likely to arise from these contingent liabilities.

(iii) Additional tax assessments raised to a subsidiary company in respect of withholding tax payable to the tax authorities. No provision has been made in the financial statements as the matter is under discussion and is not finalized. The tax exposure is approximately $280,000.

Save as disclosed above, the Directors of the Company are not aware of any litigation or arbitration to which the Company or any of its subsidiaries is a party or of which any of their respective properties is the subject or which is contemplated, the outcome of which in the opinion of the Directors would have a material and adverse effect on the financial position of the Company and its subsidiaries taken as a whole.

Notes to the Financial Statements

31 December 2005

25. Employee benefits

Share Options

Details of the share options schemes and the respective share options that are granted as at 31 December 2005 are disclosed as follows:

(a) Share Options Scheme ("SOS")

During the Extraordinary General Meeting held on 26 August 2003, the shareholders of the Company approved the grant of Share Options to the executive Chairman Mr Yap Foo Seong ("Mr Yap") and the then finance director Mr Chia Sin Cheng ("Mr Chia") to subscribe for 14,400,000 Option Shares and 8,000,000 Option Shares, respectively (subject to any adjustments for capitalisation, rights, sub-division or consolidated exercises undertaken by the Company), as part of their total remuneration packages.

The Options granted to Mr Yap of 14,400,000 Shares and Mr Chia of 8,000,000 Shares represent approximately 3.3% and 1.8%, respectively, of the enlarged issued share capital of the Company upon the completion of the Scheme. The Company has not previously implemented any share option scheme.

The principal terms of the share options :

(a) Exercise Price : 20% discount to the Market Price (The prevailing market price of the Shares based on the average of the last dealt price per Share as indicated in the daily official list or any other publication published by the SGX-ST for the last five (5) consecutive Market Days on which there are trades in the Shares immediately preceding the Date of Grant).

(b) Option Period : The unexercised Options shall expire on the anniversary date falling 5 years from the Date of Grant.

In granting the Options at a 20% discount to the Market Price, the Company seeks to reward the Grantees for their invaluable contributions to the Company as well as to provide each of the Grantees an incentive to improve the financial performance of the Group.

Vesting of Options

(a) The Options granted to Mr Yap Foo Seong shall only be exercisable, in whole or in part (provided that the Options may be exercised in part only in respect of 1,000 Shares or any multiple thereof). The Options shall vest as follows :-

(i) 7,200,000 Option Shares shall vest on the Date of Grant and may be exercisable thereafter, and

(ii) the balance 7,200,000 Option Shares shall vest 12 months after the Date of Grant and may be exercisable thereafter.

Notes to the Financial Statements

31 December 2005

25. Employee benefits

Share Options (cont'd)

(a) Share Options Scheme ("SOS") (cont'd)

(b) The Options granted to Mr Chia Sin Cheng shall only be exercisable, in whole or in part (provided that the Options may be exercised in part only in respect of 1,000 Shares or any multiple thereof). The Options shall vest as follows :-

(i) 4,000,000 Option Shares shall vest on the Date of Grant and may be exercisable thereafter; and

(ii) the balance 4,000,000 Option Shares is not exercisable as Mr Chia Sin Cheng has resigned on 30 November 2003.

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

The ESOS was approved by the shareholders during the Extraordinary General Meeting held on 16 June 2004. Executive and non-executive directors, and employees of the Group or companies in which at least 20% but not more than 50% of its shares are held by the Group and over which the Company has management control are eligible to participate in the ESOS. The committee administering the scheme ("Committee") will be the Remuneration Committee.

The ESOS share options granted are exercisable for ten years after date of grant, and are exercisable at an exercise price no lesser than the par value of a share, set at:

(i) a discount to a price ("Market Price") equal to the average of the last dealt prices for the Shares on the Official List of the SGX-ST for the five consecutive market days immediately preceding the relevant date of grant of the ESOS share option, subject to a maximum of 20% discount ("Incentive Option"); or

(ii) a fixed Market Price ("Market Price Option")

The Committee have the discretion to grant options set at a discount to Market Price, and determine the participants to whom, and the options to which, such reduction in exercise prices will apply.

Incentive Options granted are exercisable after the second anniversary from the date of grant of the option, and

Market Price Options granted may be exercised after the first anniversary of the date of grant of that option.

Notes to the Financial Statements

31 December 2005

25. Employee benefits

Share Options (cont'd)

(b) Employee Share Option Scheme ("ESOS") (cont'd)

The ESOS shall continue in operation for a maximum duration of ten years and may be continued for any further periods thereafter with the approval of Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

No options have been granted since the inception of the ESOS.

No options have been granted to the controlling shareholders of the Company and no participant under the SOS and ESOS has been granted 5% or more of the total options available under the SOS and ESOS. There were no unissued shares of the Group under options granted by the Group as at the end of the financial year. There were also no other options granted to employees of the Group.

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Details of options granted are as follows:

Name of participant	Options granted for	Aggregate options granted since commencement of Scheme to 31 Dec 2005	Aggregate options exercised since commencement of Scheme to 31 Dec 2005	Options cancelled since commencement of scheme to 31 Dec 2005	Adjustments due to rights issue	Aggregate options outstanding as at 31 Dec 2005
Mr. Yap Foo Seong	14,400,000	14,400,000	7,200,000	-	2,166,371	9,366,371
Mr.Chia Sing Cheng	8,000,000	8,000,000	1,000,000	4,000,000	902,654	3,902,654

Notes to the Financial Statements

31 December 2005

26. Related party transactions

(a) Purchase of services

Related parties refer to companies in which certain directors and substantial shareholders have a substantial financial interest.

In addition to the related party information disclosed elsewhere in the financial statements, the following related party transactions took place between the Group and a related party during the financial year at terms agreed by parties concerned :

	Group	
	2005	2004
	$	$
Transportation services provided by a company in which a director has substantial financial interest	40,738	169,404

(b) Directors' and executives' remuneration

	Group	
	2005	2004
	$	$
Directors' remuneration	1,120,913	1,178,264
Directors' fees	50,000	50,000
Executive officers' remuneration (including CPF)	476,196	607,807
Number of directors of the Company during the year		
In remuneration bands :		
$250,000 to below $500,000	1	2
Below $250,000	6	5

Directors' interest in share option plan

The Company's Executive Chairman held options to purchase ordinary shares of the Company under the Share Option Scheme as disclosed in Note 25.

Notes to the Financial Statements

31 December 2005

27. Financial risk management objectives and policies

(a) Financial risk management

The Group's principal financial instruments, other than derivative financial instruments, comprise bank loans and overdraft, hire purchase contracts, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative transactions, principally forward currency contracts, are entered into for the purpose of managing currency risks arising from the Group's operations.

(i) Foreign currency risk

The companies in the Group primarily transacts in their respective functional currencies. The exposure of the Group to foreign currency risk arise from certain transactions denominated in foreign currencies, primarily in United Stated dollars. To mitigate foreign currency risk, the Group enter into financial hedges as appropriate. The Group does not use foreign currency exchange contracts for trading purposes.

As at 31 December 2005, the Group had entered into forward foreign currency exchange buy contracts amounting to $903,485 (2004: $Nil). The fair value of the contracts amounted to $897,626 (2004: $Nil).

(ii) Interest rate and liquidity risk

The ability of the Group and Company to continue as going concerns is dependent on several factors which are mentioned and more fully described in Note 2.1 to the financial statements. The Directors believe that the working capital available to the Group as at the date of this report is sufficient for its present requirement for the next 12 months. The Group's income and operating cash flows are dependent on changes in market interest rates, as the Group holds significant interest bearing liabilities. The ability of the Group to manage its interest rate and liquidity risks is dependent on the continued support from the principal banker.

All the bank borrowings are on floating rates and the Group's interest rate risk exposure is also disclosed in Note 20.

(iii) Credit risk

The carrying amounts of trade and other debtors, fixed deposits and cash and bank balances represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

Concentration of credit risk exists when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group is principally involved in the construction activities. Consequently, the risk of non-payment from its trade debtors is affected by any unfavourable economic changes to the construction industry.

The Group manages its credit risk through regular review on collectibility of receivables. Cash and deposits are placed with reputable financial institutions.

Notes to the Financial Statements

31 December 2005

27. Financial risk management objectives and policies (cont'd)

(b) Fair values

(i) Financial instruments carried at fair value

The Group has carried all derivative financial instruments at their fair value as required by FRS 39.

(ii) Financial instruments whose carrying amounts approximate fair values

Management has determined that the carrying amounts of cash and short term deposits, trade and other debtors, bank overdrafts, trade and other payables and current bank loans, based on their notional amounts, reasonably approximate their fair values as these are mostly short term in nature or repriced frequently.

(iii) Methods and assumptions used to determine fair values

The methods and assumptions used by management to determine fair values of financial instruments, other than those whose carrying amounts reasonably approximate their fair values as mentioned above, are as follows:

Financial assets and liabilities	Methods and assumptions
Derivative financial instruments	Fair value has been determined by reference to published prices at the balance sheet date without factoring in transaction costs.
Long term loans and hire purchase creditors	Fair value has been determined using discounted cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and hire purchase arrangements.

During the financial year, $5,859 (2004: $Nil) has been recognised in the profit and loss in relation to the change in fair value of financial assets or liabilities estimated using a valuation technique.

28. Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services, or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's segments. The primary format, by geographical segments is based on the Group's management and internal reporting structure. Inter-segment pricing, if any, is determined on an arm's length basis.

Notes to the Financial Statements

31 December 2005

28. Segment information (cont'd)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

Geographical segments

The Group operates in four geographical areas, namely Singapore, Malaysia, Thailand and Hong Kong. Singapore and Malaysia are major markets for these revenue. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

Segmental Accounting Policies are the same policies of the Group as described in Note 2.

Primary segment - by geographical

	Singapore	Thailand	Malaysia	Hong Kong	Elimination	Group
	$	$	$	$	$	$
Year ended 31 December 2005						
Revenue from external customers	69,363,547	3,758,198	4,761,648	3,545,157		81,428,550
Inter-segment revenue	–	–	6,638,789	–	(6,638,789)	–
Total revenue	69,363,547	3,758,198	11,400,437	3,545,157	(6,638,789)	81,428,550
Segment results	7,027,734	(115,246)	(391,297)	(1,498,157)	(160,517)	4,862,517
Finance income						3,057
Finance costs						(4,174,165)
Profit before tax						691,409
Tax						(91,798)
Net profit						599,611
Segment assets	122,420,912	2,712,996	11,064,526	1,600,941		137,799,375
Unallocated assets						172,331
Consolidated total assets						137,971,706
Segment liabilities	41,743,751	928,540	7,108,787	1,140,900		50,921,978
Unallocated liabilities						85,230,789
Consolidated total liabilities						136,152,767
Capital expenditure	5,460,338	–	528,153	23,507		6,011,998
Depreciation	3,874,772	9,209	154,019	18,647		4,056,647

Notes to the Financial Statements

31 December 2005

28. Segment information (cont'd)

Primary segment - by geographical

	Singapore	Thailand	Malaysia	Hong Kong	Group
	$	$	$	$	$
Year ended 31 December 2004 (restated)					
Revenue	53,360,059	5,538,778	–	4,693,475	63,592,312
Segment results	11,434,414	938,902	(1,102,354)	(677,966)	10,592,996
Finance income					51,814
Finance costs					(3,289,212)
Profit before tax					7,355,598
Tax					(202,000)
Net Profit					7,153,598
Segment assets	81,607,163	4,345,406	2,635,469	13,298,938	101,886,976
Unallocated assets	–	–	–	–	207,044
Consolidated total assets					102,094,020
Segment liabilities	(21,283,636)	(3,093,780)	(1,865,195)	(1,370,383)	(27,612,994)
Unallocated liabilities					(73,049,081)
Consolidated total liabilities					(100,662,075)
Capital expenditure	1,338,654	5,091	69,902	–	1,413,647
Depreciation	3,630,774	10,795	335,860	845,727	4,823,156

Segment assets consist primarily of property, plant and equipment, work-in-progress, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment.

	Group	
	2005	2004 (Restated)
	$	$
Revenue		
Structural steelworks	37,392,352	21,891,232
Specialist civil engineering	37,561,029	41,487,694
Mechanical engineering	6,475,169	213,386
	81,428,550	63,592,312

It is not meaningful to show the total assets employed and the capital expenditure by business activity.

Notes to the Financial Statements

31 December 2005

29. Comparatives

The following comparatives have been reclassified to better reflect the nature of the balances and to confirm with current year's classification.

	Group	
	2004 As reclassified $	2004 As previously reported $
Profit and loss account		
Direct costs	–	47,171,716
Production overheads	–	910,524
Costs of sales	48,082,240	–
Balance sheet		
Trade debtors	4,470,729	7,377,607
Work-in-progress	34,329,902	31,396,120
Trade creditors	(10,026,535)	(6,249,084)
Sundry creditors and accruals	(14,143,874)	(17,222,025)

* This includes the restated comparatives after prior year adjustments as disclosed in Note 2.3.

Other changes in comparatives have been explained in various notes to the financial statements.

30. Subsequent event

Yongnam Engineering & Construction (Private) Limited and Yongnam Development Pte Ltd. had in year 2005 sought legal claim against its formal legal advisor – Messers Yeo Wee Kiong and Partners, for professional negligence in connection with the Group's ownership of the investment property at springleaf Tower (Note 11). The case was dismissed on 11th April, 2006. The Board of directors will review the case with the company's legal advisor and decide on its future course of action accordingly.

31. Authorisation of financial statements

The financial statements of the Company for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Directors on 13 April 2006.

Statistics of Shareholdings

As at 10 April 2006

YONGNAM HOLDINGS LIMITED - ORDINARY SHARES

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 10 APRIL 2006

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	61	2.45	15,288	-
1,000 - 10,000	1,151	46.22	4,646,034	0.63
10,001 - 1,000,000	1,177	47.27	182,516,703	24.47
1,000,001 and above	101	4.06	558,637,445	74.90
Total	2,490	100.00	745,815,470	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 10 APRIL 2006

	NAME OF SHAREHOLDERS	NO OF SHARES	%
1	YONGNAM PRIVATE LIMITED	64,328,432	8.63
2	UNITED ENGINEERS (SINGAPORE) PTE LTD	58,939,514	7.90
3	TAN TIN NAM	41,038,955	5.50
4	SEOW SOON HEE	21,637,577	2.90
5	SBS NOMINEES PTE LTD	21,600,000	2.90
6	TAKENAKA SINGAPORE PTE LTD	16,385,430	2.20
7	UNITED OVERSEAS BANK NOMINEES PTE LTD	15,552,500	2.09
8	YAP FOO SEONG	15,200,000	2.04
9	MAYBAN NOMINEES (SINGAPORE) PTE LTD	11,316,000	1.52
10	HONG LEONG FINANCE NOMINEES PTE LTD	10,500,000	1.41
11	TAN KWEK KIOW	9,000,000	1.21
12	THONG KONG FATT	9,000,000	1.21
13	SUPER GALVANISING PTE LTD	8,307,620	1.11
14	OCBC NOMINEES SINGAPORE PTE LTD	8,153,020	1.09
15	SIAU SUN KING	7,887,577	1.06
16	KIM ENG SECURITIES PTE. LTD.	7,422,565	1.00
17	TIONG WOON CRANE & TRANSPORT (PTE) LTD	7,253,292	0.97
18	DELOITTE & TOUCHE FINANCIAL ADVISORY SERVICES PTE LTD	7,115,903	0.95
19	LIM EAM CHIM	6,950,000	0.93
20	SEOW SOON YONG	6,787,577	0.91
	Total	354,375,962	47.53

PUBLIC SHAREHOLDINGS

Rule 723 of the Listing Manual of the SGX-ST requires that at least 10% of the equity securities (excluding preference shares and convertible equity securities) of a listed company in a class that is listed is at all times held by the public. The Company has complied with Rule 723 of the Listing Manual. As at 10 April 2006, approximately 65.24% of the Company's ordinary shares listed on the SGX-ST were held in the hands of the public.

Statistics of Shareholdings

As at 10 April 2006

Substantial Shareholders

NAME	NO. OF SHARES REGISTERED IN THE NAME OF SUBSTANTIAL SHAREHOLDER OR NOMINEE	NO. OF SHARES IN WHICH SUBSTANTIAL SHAREHOLDERS ARE DEEMED TO BE INTERESTED	TOTAL	PERCENTAGE OF ISSUED SHARES
Tan Tin Nam	41,038,955	64,328,432[1]	105,367,387	14.13
United Engineers (Singapore) Pte Ltd	58,939,514	–	58,939,514	7.90
United Engineers Limited	–	58,939,514[2]	58,939,514	7.90
Yongnam Private Limited	64,328,432	–	64,328,432	8.63

(1) This represents Mr Tan Tin Nam's deemed interest of 64,328,432 held in the name Yongam Private Limited.

(2) This represents United Engineers Limited's deemed interest of 58,939,514 held in the name United Engineers (Singapore) Pte Ltd.

YONGNAM HOLDINGS LIMITED-WARRANT

DISTRIBUTION OF WARRANTHOLDERS BY SIZE OF WARRANTHOLDINGS AS AT 10 APRIL 2006

SIZE OF WARRANTHOLDINGS	NO. OF WARRATHOLDERS	%	NO. OF WARRANTHOLDINGS	%
1 - 999	40	8.75	15,466	0.01
1,000 - 10,000	166	36.33	730,602	0.33
10,001 - 1,000,000	226	49.45	24,192,038	11.01
1,000,001 and above	25	5.47	194,893,218	88.66
Total	457	100.00	219,831,324	100.00

Statistics of Shareholdings

As at 10 April 2006

TWENTY LARGEST WARRANTHOLDERS AS AT 10 APRIL 2006

	NAME OF WARRANTHOLDERS	NO OF WARRANTS	%
1	UNITED OVERSEAS BANK NOMINEES PTE LTD	127,699,146	58.09
2	TAN TIN NAM	10,129,492	4.61
3	YAP FOO SEONG	5,951,000	2.71
4	THONG KONG FATT	5,600,000	2.55
5	LEE PUI CHING	5,405,000	2.46
6	LIM EAM CHIM	4,075,000	1.85
7	CHAN OI LIN	4,025,000	1.83
8	SBS NOMINEES PTE LTD	3,100,000	1.41
9	LIM YIT WAH	3,000,000	1.36
10	SEOW SOON YONG	2,764,596	1.26
11	SIAU SUN KING	2,514,596	1.14
12	SEOW SOON HOCK	2,504,500	1.14
13	SIM PUAY SUANG	2,000,000	0.91
14	MAYBAN NOMINEES (SINGAPORE) PTE LTD	1,886,000	0.86
15	TOH GECK LENG	1,800,000	0.82
16	HONG LEONG FINANCE NOMINEES PTE LTD	1,750,000	0.80
17	CHONG YIM PENG	1,502,500	0.68
18	LENG FEI	1,500,000	0.68
19	LIM BEOW HWA	1,240,000	0.56
20	TIONG WOON CRANE & TRANSPORT (PTE) LTD	1,208,882	0.55
	Total	189,655,712	86.27

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Yongnam Holdings Limited (the "Company") will be held at 51 Tuas South Street 5, Singapore 637644 on Monday, 11 May 2006 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive and consider the Audited Accounts of the Company for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon. **(Resolution 1)**

2. To approve the Directors' fees of S$50,000.00 for the financial year ended 31 December 2005. (Year 2004: S$50,000.00) **(Resolution 2)**

3. To re-elect the following Directors retiring in accordance with the Company's Articles of Association:-

   (a) Mr Kevin Yap Foo Seong (retiring under Article 104) **(Resolution 3)**

   (b) Mr Henry Lim Ghim Siew (retiring under Article 104) **(Resolution 4)**

   (c) Mr Richard Liew Jat Yuen (retiring under Article 108) **(Resolution 5)**

   (See Explanatory Note 1)

4. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

5. To consider and, if thought fit, pass the following ordinary resolution with or without modifications:

   Authority to allot and issue shares

   (a) "That, pursuant to Section 161 of the Companies Act, Chapter 50 and the listing rules of the Singapore Exchange Securities Trading Limited, approval be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:

      (i) issue shares and convertible securities in the capital of the Company whether by way of rights or otherwise;

      (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively referred as "Instruments") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;

      (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and

   (b) (Notwithstanding the authority conferred by the shareholders may have ceased to be in force) Issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

NOTICE OF ANNUAL GENERAL MEETING

provided always that

(i) the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the Company's issued share capital, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company, and for the purpose of this resolution, the issued share capital shall be the Company's issued share capital at the time this resolution is passed, after adjusting for;

a) new shares arising from the conversion or exercise of convertible securities, or

b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the Singapore Exchange Securities Trading Limited, and

c) any subsequent consolidation or subdivision of the Company's shares, and

(ii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." **(Resolution 7)**
(See Explanatory Note 2)

6. To consider and, if thought fit, pass the following ordinary resolution with or without modifications:

Authority to grant options and to issue shares under the Yongnam Employee Share Option Scheme

"That authority be and is hereby given to the Directors of the Company to offer and grant options from time to time in accordance with the provisions of the Yongnam Employee Share Option Scheme (the "Scheme"), and, pursuant to Section 161 of the Companies Act, Chapter 50, to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted under the Scheme, provided that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed 15% of the issued share capital of the Company from time to time, as determined in accordance with the provisions of the Scheme." **(Resolution 8)**
(See Explanatory Note 3)

OTHER BUSINESS

7. To transact any other business that may be properly transacted at an Annual General Meeting of the Company.

Dated this 25th day of April 2006

By Order of the Board
Choong Mee Fong
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy and vote in his stead.

2) A proxy need not be a member of the Company.

3) If the appointer is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4) The instrument appointing a proxy must be deposited at the registered office of the Company at 51 Tuas South Street 5, Singapore 637644 not later than 48 hours before the time appointed for the Meeting.

Explanatory Notes:

1. Mr Henry Lim Ghim Siew will, upon re-election as a director of the Company, continue to serve as the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

   Mr Richard Liew Jat Yuen will, upon re-election as a director of the Company, continue to serve as the Chairman of the Remuneration Committee and a member of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

2. The Ordinary Resolution in item no. 5 is to authorise the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50% of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20% of the issued share capital of the Company for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Listing Manual of the Singapore Exchange Securities Trading Limited currently provides that the percentage of issued share capital is based on the Company's share capital at the time the mandate is passed after adjusting for:-

   (a) new shares arising from the conversion of convertible securities or employee share options on issue when the mandate is passed; and

   (b) any subsequent consolidation or subdivision of shares.

   This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

3. The Ordinary Resolution in item no. 6 above, if passed, will empower the Directors of the Company to offer and grant options under the Yongnam Employee Share Option Scheme and to allot and issue shares pursuant to the exercise of such options under the Yongnam Employee Share Option Scheme. The aggregate nominal amount of new Shares over which the Company may grant Options on any date, when added to the nominal amount of new Shares issued and issuable in respect of (a) all options granted under the Scheme, and (b) all awards granted under any other share option, share incentive, performance share or restricted share plan implemented by the Company and for the time being in force, shall not exceed (15) per cent of the issued share capital of the Company on the day preceding that date.

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YONGNAM HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)

IMPORTANT

1. For investors who have used their CPF monies to buy Yongnam Holdings Limited's shares, this Annual Report 2005 is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to vote should contact their CPF Approved Nominees.

PROXY FORM

*I / We, _____

of _____

being *a member/members of Yongnam Holdings Limited (the "Company"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of Shareholding(s) (%)

and/or (delete as appropriate)

as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting ("AGM") of the Company to be held at 51 Tuas South Street 5, Singapore 637644 on Monday, 11 May 2006 at 4.00 p.m. and at any adjournment thereof. The *proxy is/proxies are to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the Meeting:-

	Ordinary Resolutions	**For**	**Against**
1.	To receive and consider the Audited Accounts of the Company for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon. **(Resolution 1)**		
2.	To approve Directors' fees of S$50,000.00 for the financial year ended 31 December 2005. **(Resolution 2)**		
3(a).	Re-election of Mr Kevin Yap Foo Seong (Retiring under Article 104) **(Resolution 3)**		
3(b).	Re-election of Mr Henry Lim Ghim Siew (Retiring under Article 104) **(Resolution 4)**		
3(c).	Re-election of Mr Richard Liew Jat Yuen (Retiring under Article 108) **(Resolution 5)**		
4.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**		
5.	To authorise the Directors to allot and issue shares pursuant to Section 161 of the Companies Act, Chapter 50. **(Resolution 7)**		
6.	To authorise Directors to grant options and to issue shares under the Yongnam Employee Share Option Scheme. **(Resolution 8)**		

Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of the Meeting.

Dated this _____ day of _____ 2006

Total Number of Shares Held

_____

Signature(s) of Member(s) / Common Seal

* Delete where applicable

Notes:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
4. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore.
5. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at 51 Tuas South Street 5, Singapore 637644 not later than 48 hours before the time set for the Annual General Meeting.
6. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
7. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 48 hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.
8. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register 48 hours before the time set for the Annual General Meeting.

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Affix Postage Stamp Here

The Company Secretary

YONGNAM HOLDINGS LIMITED

51 Tuas South Street 5

Singapore 637644

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