



Dear Shareholder

On behalf of the Board, I am pleased to report to shareholders on the performance of the company for the year ending 31 March, 2006.

This year represents the second year that the company has recorded revenues from boat sales. Sales of \$2.732 million, representing some 36 boats, indicate good market demand, as do our forward orders on hand. We anticipate higher sales again in the year ahead.

The company continues to invest heavily in research and development, fine tuning our existing models and developing new ones. Our intellectual property is valuable and is being protected. We are being selective in terms of market development, focusing principally at this stage on New Zealand, Australia, and the United Kingdom.

The large North American market will be entered once we have fully developed a boat for a high volume market, and have satisfied ourselves that it will meet North American conditions and tastes. The company will invest over \$500,000 in the year ahead towards the design and prototype testing of a boat to meet demand in the higher volume markets.

Our most significant constraint in an operational sense is around production capacity. A move to a much larger premises this year in Albany has given us manufacturing space. With this achieved, management are streamlining production processes in order to move production up from three boats per month to five per month.

Sealegs will continue to incur financial losses through this product development and market seeding phase. Our current accounting policy is to write off research and development expenditure and market development expenditure in the year incurred. We expect the year ending 31 March 2008 to be the year that we turn the corner, in terms of financial performance, upon the successful launching of a new boat for high volume markets.

The Board thanks shareholders for their support over the past year, and for the support given to the rights offering last year. We acknowledge on behalf of all shareholders the dedication of the management team, including the growing team involved in production and those who are representing our boats overseas.

On behalf of the Board  
John Robertson, Chairman





Dear Shareholder,

As Sealegs grows it is important to keep a focus on its mission:

*“To revolutionize modern boating”*

With every report I write my confidence in achieving this mission improves.

This report has broken the performance of the company into segments:

- Financial Summary
- Sales
- Gross Profit
- Looking Forward

This segmented information must be considered with progress along the strategic plan. The company continues to seed markets whilst preparing for the release of the “project X” boat. For the benefit of newer shareholders project X is the name given to the work around developing a high volume low cost amphibious boat. Once project X is released in 2008 the company will see itself in the volume manufacturing segment of its plan and will move towards profitability.

1.	2.	3.	4.	5.	6.	7.
Concept Development	Market Feedback	Production Prototype	Market Seeding	Volume Manufacturing	Sales & Marketing	International Expansion
Concept Boat	Boat Shows	R&D	Initial Sales	Quality Focus	Build Sales	Grow Company
• Planning	• Santury Cove	• Design	• UK	• Cost	• Advertising	• License
• Research	• Auckland	• Specifications	• Australia	• Efficiency	• Shows	• Production
• Discussion	• Hamilton	• Stress	• New Zealand	• Scale	• Consignment	• Distributors
		Analysis/CAD		• Premises	Stock	• Resellers
		• Build Boat				

↑  
We are here



## FINANCIAL SNAPSHOT

It has been a good year. Production has increased 112% from 17 boats to 36 boats and operating revenue grew 85%, \$1,528K to \$2,732K. The company has an order book valued at in excess of a million dollars and a cash balance of \$1,269K.

Year on year profitability is broken down as follows:

	2005 (K)	2006 (K)
Net Surplus	-\$1,063	-\$1,211
One off sale of investments (DVI)	\$1,026	-
Normalised Earnings	-\$2,089	-\$1,211

The above 2006 earnings deficit include expenses of \$161K in professional fees, most of which was incurred to pay for the rights issue, and \$146K in research and development costs.

The rights issue raised \$2,124K, gross of fees. The company still has \$1,269K cash on hand at balance date and a working capital ratio of 2.9:1.

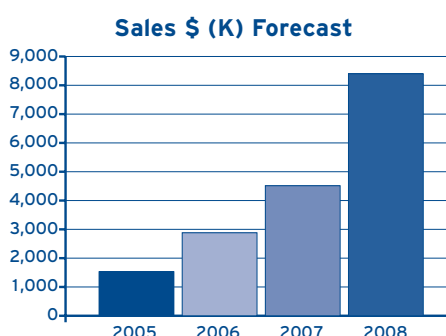
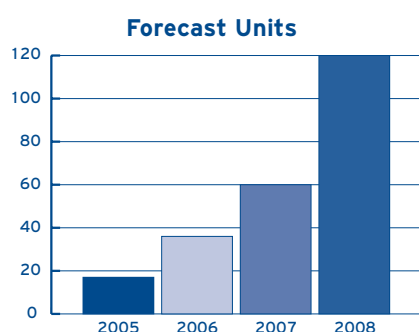
## SALES

	2005 (K)	2006 (K)
Sales	\$1,528	\$2,732
% Increase	-	79%

The company has focused its sales efforts on New Zealand, Australia and the United Kingdom. Management is particularly pleased at the local sales demand in New Zealand as it provides a very encouraging indicator of the sales potential of untapped markets such as the USA.

The average unit price of Sealegs boat sales fell due to a reduced sales price and the effect of having a distributor in the United Kingdom.

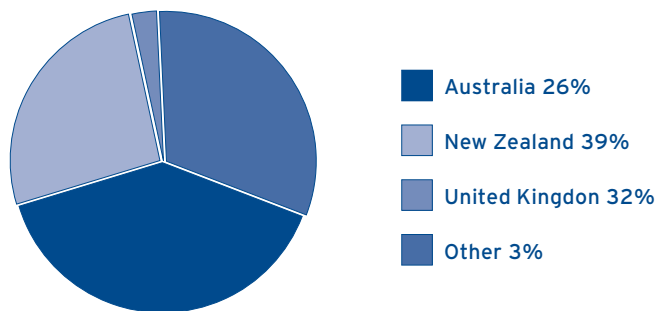
Looking forward the company plans to build five boats a month which should result in sales in excess of \$4,000K in 2007. After this we forecast that the impact of production of the project X boat should see sales climbing to in excess of \$8,000K representing sales of 120 units.





Our UK distributor is performing to plan, and sold nine boats last financial year. Three of the eight boats in Australia were sold via agency. Sealegs continues to receive much interest from all around the world. Local NZ sales continue to diminish as a percentage of total sales as exports grow.

### Geographical Distribution



### GROSS PROFIT

	2005	2006
Gross Profit	\$256K	\$441K
Gross Profit %	16%	16%
% Increase	-	73%

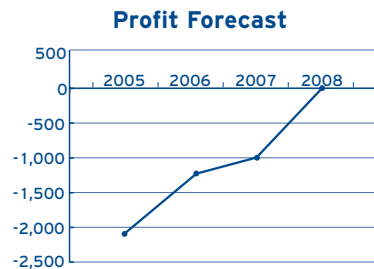
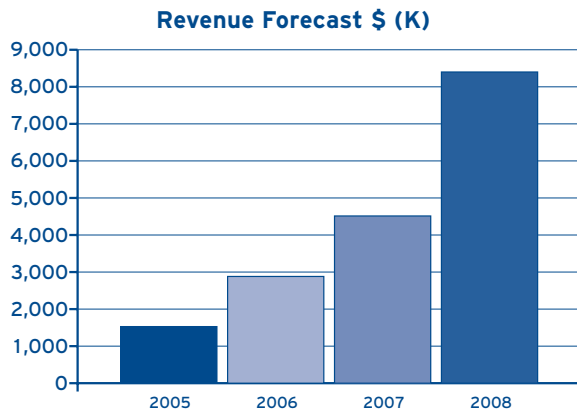
Due to the fact the company is individually assembling every boat, at relatively low production volumes, gross profit is not what it could be. This is being rectified by project X which should see the company's gross profit rise to around 25 percent of sales.

Production has been adversely affected by increases in the price of aluminum and the company's dependence on single suppliers. The company has recently engaged dual suppliers and has put in place supplier contracts to protect pricing and intellectual property.

### LOOKING FORWARD

	2007 est.	2008 est.
Revenue	\$4,000K	\$8,000K
Profit	-1,000K	0

The profit result in 2007 will be adversely affected by the research and development costs of project X and the amortisation of intellectual property expenses. 2008 should see the company scale significantly as it moves into a volume manufacturing stage with a new fiberglass production efficient boat resulting from project X.



Sealegs has significant value in its IP, sales growth potential, manufacturing processes, and earnings potential. The company is well positioned to build on its investment in amphibious marine craft and to leverage that investment into a profitable growth phase. We look forward to delivering good value to shareholders over the next three years.

Regards,

David McKee Wright  
Managing Director





<b>Auditor's Report</b>	7
Statement of Financial Performance	8
Statement of Movements in Equity	9
Statement of Financial Position	10
Statement of Cashflows	11
Notes to and Forming Part of the Financial Statements	12-25
<b>Shareholder Information</b>	
Substantial Shareholders	26
Statement of Directors' Interests	26
Twenty Largest Shareholders	26
Spread of Shareholders	27
<b>Other Annual Report Disclosures</b>	
Waivers, Principal Activities, Directors Holding Office	27
Remuneration of Directors, Remuneration of Employees	28
Entries in the Interests Register, Share Dealings	28
Independent Directors, Annual General Meeting	29
Corporate Governance	30
Directory	31
Patent & Design Information	32

## To the Shareholders of Sealegs Corporation Limited

We have audited the financial statements on pages 8 to 25. The financial statements provide information about the past financial performance of the company and group and their financial position as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 12 and 13.

### Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 31 March 2006 and of their financial performance and cashflows for the year ended on that date.

### Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Ernst & Young provides taxation advice to the company and group.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 8 to 25:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the company and group as at 31 March 2006 and their financial performance and cashflows for the year ended on that date.

Our audit was completed on 18 May 2006 and our unqualified opinion is expressed as at that date.



Auckland



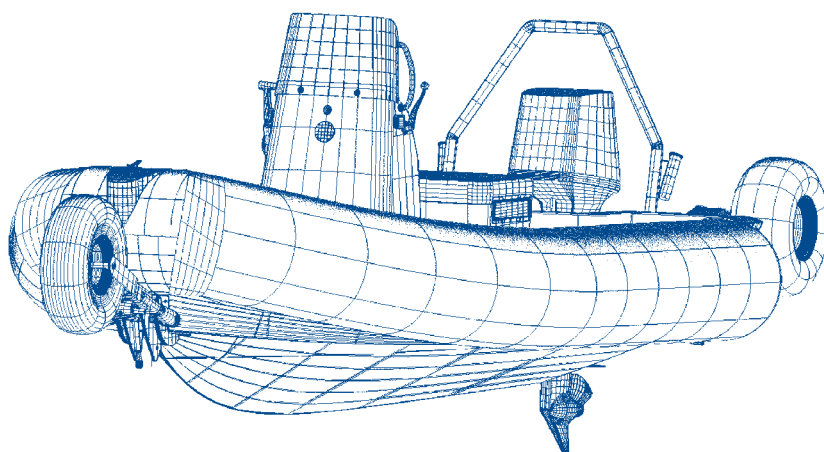
	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
<b>Income</b>				
Sales	2,732,231	-	1,528,011	-
Interest Income	87,459	85,199	21,014	21,014
Other Income	53,597	-	-	-
Gain on Sale of Investment <sup>2</sup>	-	-	1,025,579	1,025,579
<b>Operating Revenue <sup>3</sup></b>	<b>2,873,287</b>	<b>85,199</b>	<b>2,574,604</b>	<b>1,046,593</b>
<b>Auditors Remuneration</b>				
- audit of financial statements	32,753	32,753	15,750	15,750
- other services	3,255	3,255	14,955	14,955
<b>Depreciation Expense</b>				
- Computer Equipment	6,872	2,890	6,837	6,296
- Plant and Equipment	19,257	-	17,958	-
- Computer Software	3,068	-	188	-
- Furniture & Fittings	1,517	-	551	-
Amortisation of Patents and Trademarks <sup>13</sup>	12,519	-	8,738	-
Directors' Fees <sup>4</sup>	94,000	94,000	87,271	87,271
Rent	49,650	-	31,160	-
Research and Development	145,689	-	2,397	-
Amortisation of Goodwill <sup>13</sup>	55,646	-	1,213,848	-
Reduction in carrying value of Investments	-	-	-	4,357,061
<b>Other Expenses</b>	<b>3,660,122</b>	<b>161,883</b>	<b>2,243,863</b>	<b>146,282</b>
<b>Operating Deficit Before Taxation</b>	<b>(1,211,061)</b>	<b>(209,582)</b>	<b>(1,068,912)</b>	<b>(3,581,022)</b>
<b>Taxation <sup>5</sup></b>	<b>-</b>	<b>-</b>	<b>(5,558)</b>	<b>(5,558)</b>
<b>Net Deficit After Taxation <sup>3</sup></b>	<b>(1,211,061)</b>	<b>(209,582)</b>	<b>(1,063,354)</b>	<b>(3,575,464)</b>

The accompanying notes form part of these financial statements.



	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
EQUITY AT THE BEGINNING OF THE YEAR	1,114,154	1,481,482	2,030,508	4,909,946
<b>Net Surplus Deficit attributable to:</b>				
Parent company shareholders	(1,211,061)	(209,582)	(1,063,354)	(3,575,464)
TOTAL RECOGNISED REVENUES AND EXPENSES FOR THE YEAR	(1,211,061)	(209,582)	(1,063,354)	(3,575,464)
<b>Contribution from owners:</b>				
Ordinary shares issued during the year <sup>7</sup>	2,123,588	2,123,588	147,000	147,000
EQUITY AT THE END OF THE YEAR	2,026,681	3,395,488	1,114,154	1,481,482

The accompanying notes form part of these financial statements.





	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
<b>Shareholders' Equity</b>				
Capital <sup>7</sup>	39,399,049	39,399,049	37,275,461	37,275,461
Accumulated Deficit <sup>8</sup>	(37,372,368)	(36,003,561)	(36,161,307)	(35,793,979)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,026,681</b>	<b>3,395,488</b>	<b>1,114,154</b>	<b>1,481,482</b>
<b>CURRENT LIABILITIES</b>				
Trade Payables <sup>15, 24</sup>	341,260	-	247,390	42,542
Sundry Payables and Accruals <sup>15</sup>	122,089	51,449	125,498	110,930
Employee Entitlements <sup>15</sup>	14,986	9,900	6,151	-
Deposits on Orders <sup>15</sup>	172,986	-	72,000	-
	651,321	61,349	451,039	153,472
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,678,002</b>	<b>3,456,837</b>	<b>1,565,193</b>	<b>1,634,954</b>
<b>CURRENT ASSETS</b>				
Cash at Bank and on Hand <sup>14, 20</sup>	46,787	11,908	75,932	5,274
Bank Deposits <sup>14, 20</sup>	1,222,317	1,222,317	182,682	182,682
Trade Receivables <sup>9, 20, 24</sup>	330,986	-	167,962	-
Inventory <sup>10</sup>	211,276	-	316,544	-
Prepayments <sup>9</sup>	40,416	6,505	24,517	3,334
Sundry and Tax Receivables <sup>9, 20</sup>	25,649	25,767	57,015	28,616
	1,877,431	1,266,497	824,652	219,906
<b>TOTAL ASSETS</b>	<b>2,678,002</b>	<b>3,456,837</b>	<b>1,565,193</b>	<b>1,634,954</b>
<b>NON CURRENT ASSETS</b>				
Investments in Subsidiaries <sup>12</sup>	-	-	-	-
Intercompany Receivables <sup>9, 18</sup>	-	2,188,352	-	1,410,131
Property, Plant and Equipment <sup>11</sup>	156,627	1,988	105,437	4,917
Intangibles <sup>13</sup>	643,944	-	635,104	-
	800,571	2,190,340	740,541	1,415,048

For and on behalf of the Board, who authorised the issue of this annual report on 18 May 2006:

John Robertson  
Director

David McKee Wright  
Director

The accompanying notes form part of these financial statements.



	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
<b>Cashflows from Operating Activities</b>				
Cash was provided from:				
Receipts from customers	2,638,270	(323)	1,333,497	(10,980)
Interest received	87,459	85,199	21,014	21,014
Tax refund received	-	-	50,657	50,657
Cash was disbursed to:				
Payments to suppliers and employees	(3,679,919)	(383,975)	(2,675,070)	(261,480)
<b>Net Cashflows from Operating Activities <sup>21</sup></b>	<b>(954,190)</b>	<b>(299,099)</b>	<b>(1,269,902)</b>	<b>(200,789)</b>
<b>Cashflows from Investing Activities</b>				
Cash was provided from:				
Proceeds from sale of fixed assets	-	-	-	(33)
Proceeds from sale of investments	-	-	1,025,580	1,025,580
Cash was applied to:				
Purchase of fixed assets	(81,904)	-	(51,738)	-
Patents and trademarks	(77,005)	-	(87,376)	-
Increase in loans to investees	-	(778,221)	-	(1,008,237)
<b>Net Cashflows from Investing Activities</b>	<b>(158,909)</b>	<b>(778,221)</b>	<b>886,466</b>	<b>17,310</b>
<b>Cashflows from Financing Activities</b>				
Cash was provided from:				
Proceeds from issue of shares	2,123,589	2,123,589	147,000	147,000
<b>Net Cashflows from Financing Activities</b>	<b>2,123,589</b>	<b>2,123,589</b>	<b>147,000</b>	<b>147,000</b>
<b>Net increase / (decrease) in cash held</b>	<b>1,010,490</b>	<b>1,046,269</b>	<b>(236,436)</b>	<b>(36,479)</b>
Cash at the beginning of the year	183,614	112,956	420,050	149,435
<b>Cash at the end of the year <sup>14</sup></b>	<b>1,194,104</b>	<b>1,159,225</b>	<b>183,614</b>	<b>112,956</b>

The accompanying notes form part of these financial statements.



## 1. Statement of Accounting Policies

### Reporting Entity

- Sealegs Corporation Limited (the "Company") is a company registered under the Companies Act 1993 and listed on the New Zealand Exchange Limited.
- The Company and its subsidiaries comprise the Group (the "Group").
- The Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of the Company and the Group have been prepared in accordance with the Financial Reporting Act 1993.

### Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position, on a historic cost basis, are followed by the Group.

### Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of financial performance and financial position, have been applied.

#### a) Basis of Consolidation - Purchase Method

Subsidiaries are entities in which the Company has the capacity to determine the financing and operating policies and from which it has an entitlement to significant ownership benefits.

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant inter-company transactions are eliminated on consolidation. In the Company's financial statements investments in subsidiaries are recognised at the lower of cost or net realisable value.

#### b) Intangible Assets

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets, acquired at the time of acquisition of a business. Goodwill is amortised by the straight-line method over the period during which benefits are expected to be received. Goodwill is amortised over a period not exceeding ten years. The carrying value of goodwill is reviewed by directors on a regular basis for impairment.

Patents and Trademarks are amortised by the straight-line method over a period not exceeding ten years.

#### c) Property, Plant and Equipment

The Group has the following classes of property, plant and equipment:

- |                        |                           |
|------------------------|---------------------------|
| 1. Computer Equipment  | 3. Computer Software      |
| 2. Plant and Equipment | 4. Furniture and Fittings |

All items of property, plant and equipment are initially recorded at cost, including costs directly attributable to bringing the asset to its working condition.

Any expenditure that increases the economic benefits derived from an asset is capitalised. Expenditure on repairs and maintenance that does not increase the economic benefits is expensed in the period it occurs.

When an item of property, plant and equipment is disposed of the difference between net disposal proceeds and the carrying amount is recognised as a gain, or loss, in the statement of financial performance.

Depreciation is provided for on a straight-line basis on all property, plant and equipment items, at depreciation rates calculated to allocate the asset's cost or valuation less estimated residual value, over their estimated useful lives. When an asset is revalued the depreciation charge is calculated on that revalued amount from the date of revaluation.

Major depreciation rates are:

- |                        |           |                           |           |
|------------------------|-----------|---------------------------|-----------|
| 1. Computer Equipment  | 24% - 30% | 3. Computer Software      | 24% - 30% |
| 2. Plant and Equipment | 8% - 24%  | 4. Furniture and Fittings | 8% - 24%  |

#### d) Receivables

Receivables are stated at their estimated realisable value.



**e) Taxation**

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

**f) Financial Instruments**

Financial instruments recognised in the statement of financial position include cash balances, receivables, payables and investments. All financial instruments are stated at fair value, and any gain or loss is recognised in the statement of financial performance. No hedging activities are undertaken.

**g) Investments**

Investments are stated at cost. Where the valuation of an individual investment is considered to represent a permanent diminution in value, then the unrealised loss is recognised in the financial statements.

**h) Cashflows**

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

**i) Employee Entitlements**

A liability for annual leave is accrued and recognised in the statement of financial position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

**j) Inventories**

Inventories are recognised at the lower of cost, determined on a first-in-first-out basis, and net realisable value. The cost of work in progress and finished goods includes the cost of direct material, direct labour and a proportion of the manufacturing overhead, based on the normal capacity of the facilities, expended in putting the inventories in their present location and condition.

**k) Research and Development Costs**

Research expenditure is recognised in the statement of financial performance in the period that it is incurred. Development costs are deferred where future benefits are expected to exceed those costs, otherwise they are recognised in the statement of financial performance in the period that they are incurred. Deferred development costs are amortised over future periods (not exceeding five years) in relation to expected future revenue in each period. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount so identified is written off.

**l) Leases**

The Group entities lease one building.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal installments over the period of the lease.

**m) Foreign Currencies**

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are recognised in the statement of financial performance.

**n) Revenue Recognition Policy**

Local sales are recorded on the day the boat is picked up by or delivered to the customer. Export sales are recorded on the day the boat is uplifted from Sealegs premises.

**Changes in Accounting Policies**

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

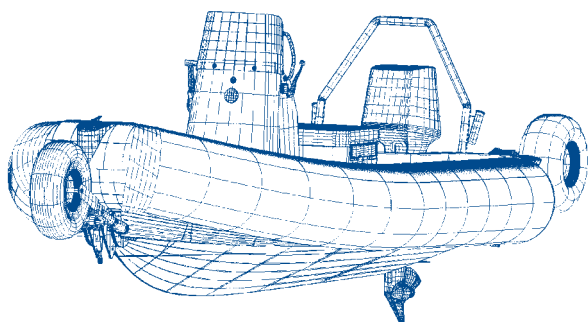


## 2. Disposal of Investments

During the year ended 31 March 2006, Sealegs Corporation Limited had no disposal of investments. (2005: Disposed of investment in DVI Investments Limited)

## 3. Operating Activities

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
<u>Operating Activities</u>				
Operating Revenue	2,873,287	85,199	1,549,025	21,014
Operating Surplus (Deficit) before non recurring items	(1,211,061)	(209,582)	(2,088,933)	(4,601,043)
Operating Surplus (Deficit)	(1,211,061)	(209,582)	(2,088,933)	(4,601,043)
<u>Discontinued Activities</u>				
Operating Revenue	-	-	1,025,579	1,025,579
Operating Surplus (Deficit) before non recurring items	-	-	1,025,579	1,025,579
Operating Surplus (Deficit)	-	-	1,025,579	1,025,579
<u>Totals</u>				
Operating Revenue	2,873,287	85,199	2,574,604	1,046,593
Operating Surplus (Deficit)	(1,211,061)	(209,582)	(1,063,354)	(3,575,464)



#### 4. Directors' Fees

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Total Directors' Fees	94,000	94,000	87,271	87,271

#### 5. Income Tax Expense (Benefit)

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Operating deficit before taxation	(1,211,061)	(209,582)	(1,068,912)	(3,581,022)
Prima facie income tax	(399,650)	(69,162)	(352,741)	(1,181,737)
Taxation effect of adjustments	54,774	6,949	284,806	1,145,804
Prior year adjustments	-	-	(5,558)	(5,558)
Benefit of tax losses not taken up as an asset	344,876	62,213	67,935	35,933
Tax charge	-	-	(5,558)	(5,558)

The Income Tax Expense/(Benefit) is represented by:

Current Tax	-	-	(5,558)	(5,558)
Deferred Tax	-	-	-	-
Income Tax Expense (Benefit)	-	-	(5,558)	(5,558)

Sealegs Corporation Limited has tax losses of \$15,926,600 to carry forward. Sealegs Corporation Group has tax losses of \$19,300,550 to carry forward. (2005: In the prior year Sealegs Corporation Limited had tax losses of \$15,736,238 available for set off against future assessable income. Sealegs Corporation Group had tax losses of \$17,627,532). These taxation losses are subject to Inland Revenue Department approval and continued compliance with legislation for the carry forward of tax losses.



## 6. Imputation Credit Account

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Balance at beginning of the year	7,922	6,308	57,959	56,345
Imputation credits attached to dividends received during the year	-	-	-	-
Imputation credits attached to dividends paid during the year	-	-	-	-
Transfer from other tax types	-	-	6,309	6,309
RWT payments	25,768	25,768	174	174
Tax refunds received	(6,308)	(6,308)	(56,520)	(56,520)
Imputation credits forfeited due to shareholder continuity breach	-	-	-	-
<b>Balance at end of the year</b>	<b>27,382</b>	<b>25,768</b>	<b>7,922</b>	<b>6,308</b>
At balance date the imputation credits available to the shareholders of the Company were:				
Through direct shareholding in the Company	-	25,768	-	6,308
Through indirect interests in subsidiaries and in-substance subsidiaries	27,382	-	7,922	-
	<b>27,382</b>	<b>25,768</b>	<b>7,922</b>	<b>6,308</b>



## 7. Capital

	MARCH 2006 Group & Parent NZ\$	MARCH 2005 Group & Parent NZ\$
Opening Ordinary Shares 42,474,041 (2005: 42,039,666)	37,275,461	37,128,461
Issued during the year 14,157,254 (2005:434,375)	2,123,588	147,000
Closing Ordinary Shares 56,631,295 (2005: 42,474,041)	39,399,049	37,275,461
56,617,419 (2005: 42,460,165) of the ordinary shares are fully paid		
6,250 (2005: 6,250) of the ordinary shares have \$7.04 (2005: \$ 7.04) uncalled		
5,438 (2005:5,438) of the ordinary shares have \$10.56 (2005: \$ 10.56) uncalled		
313 (2005: 313) of the ordinary shares have \$8.96 (2005: \$ 8.96) uncalled		
1,875 (2005: 1,875) of the ordinary shares have \$4.16 (2005: \$ 4.16) uncalled		
Total Capital	39,399,049	37,275,461

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up. Partly paid shares represent shares originally held in Iddison Holdings Limited. In accordance with the restructuring which occurred on 1 April 1999 these shares were converted to partly paid shares in Sealegs Corporation Limited (previously IT Capital Limited). The values of these shares were adjusted in line with the following ratio; \$1 in Iddison Holdings Limited for \$0.88 in Sealegs Corporation Limited (previously IT Capital Limited). The number of shares and uncalled amount was also adjusted by the share consolidation in 2005.

Participatory options expiring 8 March 2007 - Opening	40,000	
Issued	-	
Cancelled	-	
Participatory options expiring 8 March 2007 - Closing	40,000	Exercise Price \$0.40
Participatory options expiring 8 March 2008 - Opening	40,000	
Issued	-	
Cancelled	-	
Participatory options expiring 8 March 2008 - Closing	40,000	Exercise Price \$0.40

Options participate in any restructure of share capital, including cash and bonus issues, on a pro-rata basis. If the above options were exercised, the Company would receive \$ 32,000 (2005: \$ 68,000).



## 8. Accumulated Deficit

	MARCH 2006		MARCH 2005	
	Group	Parent	Group	Parent
	NZ\$	NZ\$	NZ\$	NZ\$
Balance at beginning of the year	(36,161,307)	(35,793,979)	(35,097,953)	(32,218,515)
Net Surplus (deficit) attributable to the Shareholders of the company	(1,211,061)	(209,582)	(1,063,354)	(3,575,464)
<b>Balance at end of the year</b>	<b>(37,372,368)</b>	<b>(36,003,561)</b>	<b>(36,161,307)</b>	<b>(35,793,979)</b>

## 9. Receivables and Prepayments

	MARCH 2006		MARCH 2005	
	Group	Parent	Group	Parent
	NZ\$	NZ\$	NZ\$	NZ\$
Trade Receivables	330,986	-	167,962	-
Sundry Receivables	(118)	-	51,457	23,058
Inter-Company Receivables	-	2,188,352	-	1,410,131
Tax Receivable	25,767	25,767	5,558	5,558
Prepayments	40,416	6,505	24,517	3,334
<b>Total Receivables and Prepayments</b>	<b>397,051</b>	<b>2,220,624</b>	<b>249,494</b>	<b>1,442,081</b>

## 10. Inventory

	MARCH 2006		MARCH 2005	
	Group	Parent	Group	Parent
	NZ\$	NZ\$	NZ\$	NZ\$
Work in Progress	211,276	-	229,074	-
Finished Goods	-	-	87,470	-
<b>Total Inventory</b>	<b>211,276</b>	<b>-</b>	<b>316,544</b>	<b>-</b>

## 11. Property, Plant and Equipment

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Computer Equipment	31,913	9,713	77,247	75,133
Accumulated Depreciation	(12,018)	(7,725)	(70,857)	(70,216)
	19,895	1,988	6,390	4,917
Plant and Equipment	159,132	-	119,221	-
Accumulated Depreciation	(43,874)	-	(27,243)	-
	115,258	-	91,978	-
Computer Software	16,888	-	628	-
Accumulated Depreciation	(3,288)	-	(188)	-
	13,600	-	440	-
Furniture and Fittings	9,711	-	7,180	-
Accumulated Depreciation	(1,837)	-	(551)	-
	7,874	-	6,629	-
<b>Total Property, Plant and Equipment</b>	<b>156,627</b>	<b>1,988</b>	<b>105,437</b>	<b>4,917</b>

## 12. Investments in Subsidiaries

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Investment in Sealegs International Limited	-	-	-	-
Investment in Sealegs Middle East Limited	-	-	-	-
Investment in Sealegs Australia Pty Limited	-	-	-	-
<b>Total Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Percentage Held		Balance Date
	2006	2005	
<b>Significant Subsidiaries:</b>			
Sealegs International Limited	100%	100%	31 <sup>st</sup> March
Sealegs Middle East Limited	100%	100%	31 <sup>st</sup> March
Sealegs Australia Pty Limited	100%	0%	31 <sup>st</sup> March

### Sealegs International Limited

Sealegs International Limited manufactures amphibious marine craft. The Company is a 100% owned subsidiary of Sealegs Corporation Limited.

### Sealegs Middle East Limited

Sealegs Middle East Limited is a 100% owned subsidiary of Sealegs Corporation Limited. The Company has never traded.

### Sealegs Australia Pty Limited

Sealegs Australia Pty Limited is a 100% owned subsidiary of Sealegs Corporation Limited. The Company has never traded.



### 13. Intangibles

	MARCH 2006	MARCH 2005
	Group	Group
	NZ\$	NZ\$
<u>Goodwill</u>		
Cost	3,641,542	3,641,542
Additional Goodwill purchased during the year	-	-
Accumulated amortisation	(3,140,722)	(3,085,076)
	500,820	556,466

Goodwill is amortised over a period not exceeding ten years from the date of acquisition. The carrying value of goodwill is reviewed on a regular basis for impairment.

	MARCH 2006	MARCH 2005
	Group	Group
	NZ\$	NZ\$
<u>Patents and Trademarks</u>		
Cost	164,381	87,376
Accumulated amortisation	(21,257)	(8,738)
	143,124	78,638

Patents and Trademarks are amortised over a ten year period.

<b>Total Intangibles</b>	<b>643,944</b>	<b>635,104</b>
--------------------------	----------------	----------------

### 14. Bank

	MARCH 2006		MARCH 2005	
	Group	Parent	Group	Parent
	NZ\$	NZ\$	NZ\$	NZ\$
Cash at Bank and on hand	46,787	11,908	75,932	5,274
Bank deposits	1,222,317	1,222,317	182,682	182,682
<b>Total Bank</b>	<b>1,269,104</b>	<b>1,234,225</b>	<b>258,614</b>	<b>187,956</b>

The New Zealand Exchange Limited holds a NZ\$75,000 deposit for the Group as a normal listing requirement. This amount has been included in the bank balances above, however has been excluded in the balances in the Statement of Cashflows.

## 15. Payables and Accruals

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Trade payables	341,260	-	247,390	42,542
Sundry payables and accruals	96,271	25,631	113,680	99,112
Employee entitlements	14,986	9,900	6,151	-
Deposits on orders	172,986	-	72,000	-
Payable to Directors	25,818	25,818	11,818	11,818
<b>Total Payables</b>	<b>651,321</b>	<b>61,349</b>	<b>451,039</b>	<b>153,472</b>

## 16. Contingent Liabilities

There were no contingent liabilities at balance date (2005: Nil)

## 17. Commitments

There were the following operating lease commitments at balance date (2005: Nil).

Sealegs International Limited	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Rental at 227a Bush Road, Albany	73,000	73,000	42,583	-
Holden Rodeo Ute	11,069	2,767	-	-

## 18. Transactions with Related Parties

During the year Sealegs Corporation Limited made a further loan advance of \$ 778,221 to its subsidiary Sealegs International Limited (2005: \$ 1,008,236. The balance outstanding as at 31 March 2005 was \$ 1,410,131). The loan is repayable on demand, and no interest is charged on the balance.

Platinum Management Limited provides management services to the Group. David McKee Wright and Maurice Bryham are employed by Platinum Management Limited. David McKee Wright is a director of Platinum Management Limited. David McKee Wright and Maurice Bryham also hold significant shareholdings in Sealegs Corporation Limited. Total payments made to Platinum Management during the year were \$300,000 (2005: \$300,000).

## 19. Earnings Per Share

	MARCH 2006 Group & Parent NZ\$	MARCH 2005 Group & Parent NZ\$
Earnings (deficit) per share (undiluted)	(2.14 cents)	(2.50 cents)
Earnings (deficit) per share (diluted)	(2.14 cents)	(2.50 cents)



## 20. Financial Instruments

Maximum exposures to credit risk at balance date are:

	MARCH 2006		MARCH 2005	
	Group	Parent	Group	Parent
	NZ\$	NZ\$	NZ\$	NZ\$
Bank balances	1,269,104	1,234,225	258,615	187,956
Receivables	356,635	25,767	221,298	28,616
Payables	651,321	61,349	451,039	153,472

No collateral is held on the above amounts. There are no significant concentrations of credit risk for the parent or group.

### Interest Rate Risk

At 31 March 2006 the Sealegs Corporation Group held the following short-term deposits at fixed rates of interest ranging from 4.0% to 7.6% per annum. (2005: 4.0% to 5.1% per annum).

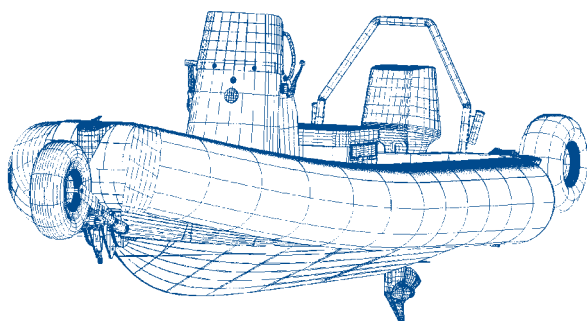
	MARCH 2006		MARCH 2005	
	VALUE		VALUE	
	NZ\$		NZ\$	
Bank Deposit	Group & Parent 1,222,317		Group & Parent 182,682	

There are significant exposures to currency risk for the parent or the group

The following methods and assumptions were used to estimate the fair value of each class of the following instruments

Bank Balances, Receivables, Payables and Investments

The carrying value is the fair value for each of these classes of financial instrument



## 21. Reconciliation of Reported Surplus After Taxation with Net Cashflows from Operating Activities

	MARCH 2006		MARCH 2005	
	Group NZ\$	Parent NZ\$	Group NZ\$	Parent NZ\$
Reported surplus (deficit) after taxation	(1,211,061)	(209,582)	(1,063,354)	(3,575,464)
<b>Add (less) non-cash items and non-operating items:</b>				
Amortisation of goodwill	55,646	-	1,213,848	-
Amortisation of patents and trademarks	12,519	-	8,738	-
Depreciation	30,714	2,890	25,534	6,296
Property, plant and equipment written off	-	-	-	-
Provision for doubtful debts	-	-	-	-
Other	-	-	-	4,357,061
Non Cash Directors Fees	-	-	-	-
Write down in value of advances to investees	-	-	-	-
(Gain) loss on sale of investments	-	-	(1,025,579)	(1,025,579)
Transfer of shares to employees	-	-	-	-
Foreign exchange gain	-	-	-	-
	<b>98,879</b>	<b>2,890</b>	<b>222,541</b>	<b>3,337,778</b>
<b>Movement in Working Capital</b>				
Increase (decrease) in payables & accruals	99,295	(92,084)	99,396	2,779
(Increase) decrease in receivables	(163,024)	-	(152,880)	15,082
(Increase) decrease in other current assets	15,467	(323)	(47,191)	(31,621)
Increase (decrease) in tax balance	-	-	50,657	50,657
(Increase) decrease in inventory	105,268	-	(197,479)	-
Increase (decrease) in income in advance	100,986	-	(181,592)	-
Net cashflows from operating activities	<b>(954,190)</b>	<b>(299,099)</b>	<b>(1,269,902)</b>	<b>(200,789)</b>



## 22. Employee Share Ownership Plan

Directors and associated persons of Directors are excluded from participating in the issue of such options if the issue is a material transaction with a related party, unless the transaction is approved by an ordinary resolution of shareholders and the notice of the meeting approved by an appraisal report.

For the year ended 31 March 2006 the Employee Share Ownership Plan had:

- 40,000 options expiring 08 March 2007 - exercise price \$0.40.  
100% of the class.
- 40,000 options expiring 08 March 2008 - exercise price \$0.40.  
100% of the class.

The shares held by employees under the Employee Share Ownership Plan carry the same voting rights as other issued ordinary shares pro-rata to paid up value. There are no advances made by the Company to the Employee Share Ownership Plan. Unallocated shares of the Employee Share Ownership Plan are not subject to put or call options.

## 23. Segment Information

At 31 March 2006 the company operated in one industry as an amphibious marine craft manufacturing company. All material operations are within New Zealand.

## 24. Unhedged Foreign Currency

At balance date the Group had the following unhedged assets and liabilities:

	MARCH 2006 Group & Parent NZ\$	MARCH 2005 Group & Parent NZ\$
<u>Receivables</u>		
AUD	21,739	-
USD	-	31,243
<u>Payables</u>		
AUD	1,841	9,695

## 25. Significant Events After Balance Date

There were no significant events after balance date. (2005: Nil).

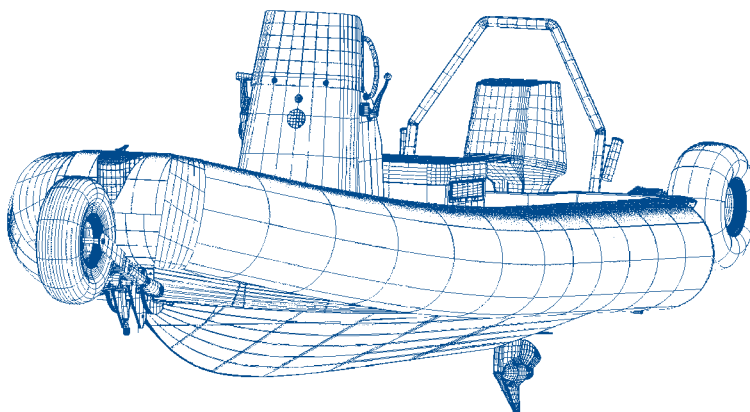


## 26. International Financial Reporting Standards Transition

In December 2002, the New Zealand Accounting Standards Review Board (“ASRB”) announced that New Zealand reporting entities would be required to apply New Zealand equivalents to International Financial Reporting Standards (“NZ IFRSs”) for reporting periods commencing on or after 1 January 2007. Early adoption is allowed for periods beginning on or after 1 January 2005.

NZ IFRSs will first be reflected in Sealegs Corporation Limited financial statements for the half-year ending 30 September 2007 and the year ending 31 March 2008. Comparative financial information prepared in compliance with NZ IFRSs will be required for the period ending on 31 March 2007. An opening position as at 1 April 2006 will need to be determined using NZ IFRSs.

At this stage Sealegs Corporation Limited has not commenced the transition to NZ IFRSs and it is not known what the key differences in accounting policies or financial impacts are expected to be as a result of conversion to NZ IFRSs.





### Substantial Shareholders

	Number of Shares Held	Percentage Held
Nada Daisy Bryham & KPMG Legal Trustee Company Ltd	10,484,102	18.52
Kenneth Edward McKee Wright & Christina Carol McKee Wright	8,656,061	15.29
Raphael Chaikin	3,803,045	6.72
Brian Ernest Taylor	3,387,929	5.98

### Statement of Directors' Interests

Present directors held the following equity securities in the Company:

		Beneficially Held	
		2006	2005
John Robertson	Ordinary	282,333	256,750
Donald Caldwell	Ordinary	-	203,125
Brian Taylor	Ordinary	3,387,929	2,711,472
David McKee Wright	Ordinary	8,656,061	6,656,061

### Twenty Largest Shareholders as at 31 March 2006

	Number of Shares Held	Percentage Held
Nada Daisy Bryham & KPMG Legal Trustee Company Ltd	10,484,102	18.52
Kenneth Edward McKee Wright & Christina Carol McKee Wright	8,656,061	15.29
Raphael Chaikin	3,803,045	6.72
Brian Ernest Taylor	3,387,929	5.98
Nessock Custodians Limited	2,000,000	3.53
Cross Atlantic Capital Partners Inc	1,829,190	3.23
Primdonn Nominees Pty Limited	1,053,333	1.86
ANZ Nominees Limited - A/c NZCSD	888,490	1.57
The Co Investment 2000 Fund Incorporated	870,147	1.54
Glen James Robinson	835,050	1.47
The Co Investment 2000 Fund LP	781,250	1.38
Silver Spur Investments Limited	545,396	0.96
First NZ Capital Custodians Limited	537,777	0.95
Johnny Lum	525,105	0.93
Robert Warner Seddon Walker & Bridget Georgina Johnson	520,000	0.92
James Ian Urquhart	500,000	0.88
Arthur Frederick Whitaker	500,000	0.88
Forty Traders Limited	456,245	0.81
Timothy Kerry Frewen Swinburn	300,916	0.53
John Struan Robertson	282,333	0.50
	<b>38,756,369</b>	<b>68.45</b>
Total number of shares on issue	56,631,295	100.00



### Spread of Shareholders as at 31 March 2006

Size of Shareholding	Number of Holders	Percentage	Number of Shares Held
1 - 499	10	0.48	2,031
500 - 999	3	0.15	2,127
1,000 - 1,999	710	34.62	1,016,328
2,000 - 4,999	612	29.84	1,888,633
5,000 - 9,999	319	15.55	2,152,086
10,000 - 49,999	313	15.26	6,205,644
50,000 - 99,999	36	1.76	2,352,494
100,000 - 499,999	31	1.51	5,281,201
500,000 - 999,999	10	0.49	6,503,215
1,000,000 - 99,999,999	7	0.34	31,213,660
	<b>2,051</b>	<b>100.00</b>	<b>56,617,419</b>

### Waivers

In May 2005, NZX granted the company a waiver from the application of NZSX listing rule 7.3.4(A) in relation to its rights issue to shareholders. The waiver permitted the company to make its rights issue without extending it to shareholders resident outside New Zealand. Rights that would otherwise have accrued to overseas shareholders were issued to a nominee who was required to endeavour to sell those rights, hold the proceeds on trust and account to overseas shareholders on a pro-rata basis (net of costs) for the proceeds. Also in May 2005, the company was granted a waiver from NZSX listing rule 3.3.2 which allowed the company to adopt a shorter notice period for directors' nominations than that prescribed by the Rules. On page 27, the date of Don Caldwell's appointment to the board was 28 January 2000, and the date of John Robertson's appointment was 1 August 1993.

### Principal Activities

The principal activity of the Company is the manufacture of amphibious marine craft.

### Directors Holding Office During the Year

#### Parent: Sealegs Corporation Limited

Brian Taylor	Appointed	25/09/03
David McKee Wright	Appointed	25/09/03
Donald Caldwell	Appointed	28/01/00
John Robertson	Appointed	01/08/93
Simon Vodanovich	Appointed	15/06/04

#### Subsidiary: Sealegs International Limited

Brian Taylor	Appointed	12/11/03
David McKee Wright	Appointed	01/09/03

#### Sealegs Australia Pty Limited

Simon Butler	Appointed	13/08/05
David McKee Wright	Appointed	13/08/05

#### Sealegs Middle East Limited

David McKee Wright	Appointed	03/02/04
John Robertson	Appointed	03/02/04
Brian Taylor	Appointed	03/02/04



### Remuneration of Directors

	Meeting attendance	Group NZ\$	Parent NZ\$
John Robertson	100%	40,000	40,000
Donald Caldwell	40%	14,000	14,000
David McKee Wright	100%	-	-
Brian Taylor	100%	20,000	20,000
Simon Vodanovich	100%	20,000	20,000

### Remuneration of Employees

There are no employees with remuneration of \$100,000 or more.

### Entries in the Interests Register

#### Directors' Interests

Mr Vodanovich disclosed his interest as a partner of Buddle Findlay, a law firm which from time to time provides legal services to the company.

The company has in place directors' and officers' liability insurance to cover risks normally covered by such policies arising out of acts or omissions of directors or employees of the company in that capacity.

The company has entered into deeds of indemnity with each director pursuant to which it has agreed to indemnify them against liability incurred by them arising out of their acts or omissions in their capacity as a director of the company, subject to certain exceptions which are normal in such indemnities.

### Share Dealings

During the year no directors acquired or disposed of equity securities in the Company.

Director	Number of Shares Acquired (Disposed)	Class of Shares	Consideration Paid (Received)	Date of Acquisition or Disposal
Brian Taylor	903,824	Ordinary	\$ 135,574	June 2005*
Brian Taylor	(227,367)	Ordinary	\$ (54,818)	June 2005
David McKee Wright	2,218,687	Ordinary	\$ 332,803	June 2005*
David McKee Wright	(218,687)	Ordinary	\$ (18,855)	June 2005*
John Robertson	85,583	Ordinary	\$ 12,837	June 2005*
John Robertson	(60,000)	Ordinary	\$ (3,664)	June 2005*

\*Acquired/disposed as a result of the Rights Issue



### **Independent Directors**

The Board has determined the following Directors to be Independent Directors:

Simon Vodanovich

The remaining directors are not independent, due to their shareholding interests.

### **Annual General Meeting**

The 2006 Annual General Meeting of Sealegs Corporation Limited is to be held on Friday 30 June 2006 at 11am at the office of Buddle Findlay. The venue is located at the Clarendon Tower, Level 13, 78 Worcester Street, Christchurch.

For and on behalf of the Board:

John Robertson  
Director  
18 May 2006

David McKee Wright  
Director  
18 May 2006



## Corporate Governance

The company is committed to a high standard of corporate behaviour and ethics and has adopted a code of ethics and board and audit committee charters. These principles differ from NZX's Corporate Governance Best Practice Code only in that the company has not established a nominations or remuneration committee.

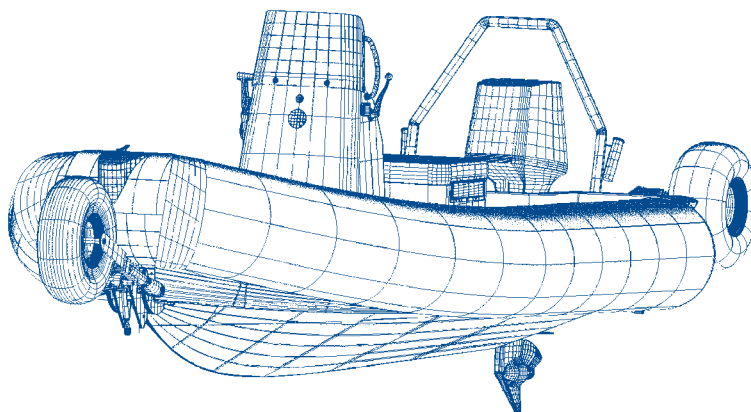
### Audit Committee

J Robertson (Chairman)

D McKee Wright

S Vodanovich

The function of this audit committee is to assist the Board in carrying out its responsibilities regarding management's accounting practices, policies and controls relative to the company's financial results and to review and make appropriate inquiry into the audits of the company's accounts.





**Company Number:** HN/345055

**Date of Incorporation:** 16 July 1987

**Directors:** J Robertson, MBA, BBS (Hons), CA, Chairman  
D Caldwell, BS, MBA, CPA  
D McKee Wright, ACA  
B Taylor  
S Vodanovich, LLB

**Registered Office:** 227 Bush Road  
Albany  
AUCKLAND  
Ph: (+64 9) 414 5542  
Fax: (+64 9) 414 5546  
Email: info@sealegs.com  
Web: www.sealegs.com

**Auditor:** Ernst & Young, Auckland, New Zealand

**Lawyers:** Buddle Findlay, Auckland, New Zealand

**Bankers:** ASB Bank Limited, Auckland, New Zealand  
ANZ Banking Group (New Zealand) Limited, Auckland, New Zealand

**Share Registry:** Computershare Investor Services Limited  
Private Bag 92119  
AUCKLAND 1020  
Ph: (+64 9) 488 8777  
Fax: (+64 9) 488 8787  
Email: enquiry@computershare.co.nz



## PATENT SUMMARY

Country	Title	App No
Australia	Amphibious Vehicle	2002359096
Canada	Amphibious Vehicle	2,471,585
EPO	Amphibious Vehicle	2793599.7999999998
Malaysia	Amphibious Vehicle	PI 20041985
Norway	Amphibious Vehicle	2004 3069
New Zealand	Amphibious vehicle	526705
New Zealand	Amphibious vehicle	542813
United States of America	Amphibious Vehicle	10/493,624
United States of America	Amphibious Vehicle	11/294,537
United Arab Emirates	Amphibious Vehicle	50/2004
South Africa	Amphibious Vehicle	2004/4955
EPO	Retractable gear for Amphibious Vehicle	4775157.2999999998
New Zealand	Retractable gear for Amphibious Vehicle	528471
PCT	Retractable gear for Amphibious Vehicle	PCT/NZ2004/000232

## DESIGN SUMMARY

Country	Title	App No
Australia	A Boat	2080/2003
European Design	A Boat	000043500-001
New Zealand	A Boat	403199
United States of America	A Boat	29/185,032
Australia	Jetski	12305/2005
European Design	Jetski	349113
New Zealand	Jetski	405561
United States of America	Jetski	29/230,741

## TRADEMARK SUMMARY

Country	Title	App No
New Zealand	SEALEGS	657146
New Zealand	SEALEGS-stylised	670732
United Arab Emirates	SEALEGS in UAE	59907
Australia	SEALEGS (broader coverage)	958062
European Community Trade Mark Office	SEALEGS	3229523
United States of America	SEALEGS in USA	76/524,744