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Accountants' Report

ABBREVIATIONS / DEFINITIONS

In this Accountants' Report, unless where the context otherwise requires, the following abbreviations/ definitions shall apply throughout the Report:

BSR	Bonafile Shipbuilders & Repairs Sdn Bhd
Coastal	Coastal Contracts Bhd
CTS	Coastal Transport (Sandakan) Sdn Bhd
CW	Coastway Transport Sdn Bhd
COL	Coastal Offshore (Labuan) Pte Ltd
CM	PT Cosarana Marine
CYB	Current Year Assessment
EPS	Earnings per share
FP	Financial Period
FY	Financial Year
GP	Gross profit/(loss)
IRB	Inland Revenue Board
KLSE	Kuala Lumpur Stock Exchange
MI	Minority interest
PBDFT	Profit before depreciation, finance cost, taxation and minority interest
PBT	Profit before taxation
The Group/ Coastal Group	Coastal, SM, BSR, CTS, CW, COL and CM
Listing Exercise	Listing of and quotation for the entire enlarged issued and paid-up share capital of Coastal comprising 66,800,000 ordinary shares of RM1.00 each on the Main Board of the KLSE.
PYB	Preceding Year Basis
SC	Securities Commission
SM	Seri Modalwan Sdn Bhd
YA	Year of Assessment

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ACCOUNTANTS' REPORT
(Prepared for inclusion in the Prospectus)

18 June 2003

The Board of Directors
Coastal Contracts Berhad
Block G, Lot 3B
Bandar Leila, W. D. T 259
90009 Sandakan

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Ernst & Young, approved company auditors, for inclusion in the Prospectus of Coastal Contracts Berhad (hereinafter referred to as "Coastal" or "the Company") to be dated 27 June 2003 in connection with the following:

a) Public issue of 13,300,000 new ordinary shares of RM1.00 each in Coastal at an issue price of RM1.60 per share ("Public Issue");

b) Offer for Sale of 3,600,000 ordinary shares of RM1.00 each in Coastal at an offer price of RM1.60 per share ("Offer for Sale"); and

c) Listing of and quotation for the entire enlarged issued and paid-up share capital in Coastal comprising 66,800,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE").

The abovementioned shall hereinafter be referred to as "the Listing Exercise".

2. GENERAL INFORMATION

2.1. The Company

Coastal was incorporated as a private limited company under the Companies Act, 1965 as Ocean Contracts Sdn Bhd on 21 June 2000. It was converted to a public limited company on 4 December 2000 and assumed its present name on 19 April 2001.

The principal activity of Coastal is that of an investment holding company. The details of its subsidiaries are stated in section 2.3 to this report.

2 GENERAL INFORMATION – Cont'd

2.1 The Company – Cont'd

The authorised and issued and fully paid-up share capital of Coastal as at the date of this report are RM500,000,000 and RM53,500,000 respectively, divided into 500,000,000 and 53,500,000 ordinary shares of RM1.00 each respectively.

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

Authorised Share Capital

Date	No. of ordinary share of RM1.00 each	Authorised	Total authorised share capital RM
21.6.2000	2	At date of incorporation	100,000
21.11.2002	499,900,000	Increased during the Extraordinary General Meeting.	500,000,000

Issued and Paid-up Share Capital

Date of allotment	No of ordinary share of RM1.00 each	Consideration	Amount RM	Cumulative RM
At date of incorporation	2	Subscribers' shares	2	2
24.8.2000	98	Allotment for cash	98	100
21.11.2002	53,499,900	Acquisition of subsidiary companies	53,499,900	53,500,000

The issued and fully-paid up capital will be increased to RM66,800,000 upon completion of the Public Issue.

2 GENERAL INFORMATION – Cont'd

2.2. Listing Exercise

The Company proposes to undertake the following, hereinafter referred to as Listing Exercise:

a) Public issue/private placement of 13,300,000 new ordinary shares of RM1.00 each in Coastal at an issue price of RM1.60 per share;

b) Offer for Sale of 3,600,000 ordinary shares of RM1.00 each in Coastal at an offer price of RM1.60 per share; and

c) Listing of and quotation for the entire enlarged issued and paid-up share capital in Coastal comprising 66,800,000 ordinary shares of RM1.00 each on the Main Board of the KLSE.

The above mentioned exercise had been approved by the Securities Commission ("SC"), Foreign Investment Committee ("FIC"), and Ministry of International Trade and Industry ("MITI") on the dates set out below:

Authority	**Date of approval**
SC	29 August 2002
FIC	20 May 2002 and 21 August 2001
MITI	20 June 2002 and 29 August 2001

2 GENERAL INFORMATION – Cont'd

2.3. The Subsidiary Companies

The information on the subsidiaries, all wholly owned by Coastal except for CM in which Coastal holds an effective interest of 95%, are as follows:

Company	Date/ country of incorporation	Authorised share capital RM	Issued and paid-up share capital RM	Principal activities
Seri Modalwan Sdn. Bhd. ("SM")	6.12.1983 Malaysia	10,000,000	6,000,000	Fabrication and sale of marine transportation vessels, provision of ship repairs and maintenance services and sub-contract services.
Bonafile Shipbuilders & Repairs Sdn. Bhd. ("BSR")	12.7.1989 Malaysia	1,000,000	250,000	Fabrication and sale of marine transportation vessels and property letting.
Coastal Transport (Sandakan) Sdn. Bhd. ("CTS")	3.8.1976 Malaysia	5,000,000	2,000,000	Provision of tugboat and barge transportation, equipment hiring services and property letting.
Coastway Transport Sdn. Bhd. ("CW")	20.12.1982 Malaysia	250,000	80,000	Provision of vessels chartering and related services.
Coastal Offshore (Labuan) Pte Ltd ("COL")	6.9.2000 Malaysia	49,400	5,901	Provision of bareboat hiring and leasing services.
Subsidiary of COL				
PT Cosarana Marine ("CM")	25.3.2000 Indonesia	3,022,000	944,375	Provision of tugboat and barge transportation services.

2 GENERAL INFORMATION – Cont'd

2.3 The Subsidiary Companies – Cont'd

The movements of the issued and paid-up share capital in the subsidiary companies since the date of incorporation are as follows:

Date of allotment	No of ordinary shares	Consideration	Amount	Cumulative
SM			**RM**	**RM**
DOI - 6.12.1983	2	Subscribers' shares	2	2
12.4.1985	49,998	Allotment for cash	49,998	50,000
11.2.1995	450,000	Allotment for cash	450,000	500,000
10.10.1996	250,000	Bonus issue declared out of revenue reserves on the basis of 1 bonus share for every 2 existing shares held	250,000	750,000
2.7.2001	1,250,000	Bonus issue declared out of revenue reserve on the basis of 5 bonus shares for every 3 existing shares held	1,250,000	2,000,000
22.5.2002	4,000,000	Bonus issue declared out of revenue reserve on the basis of 2 bonus shares for every 1 existing share held	4,000,000	6,000,000
BSR				
DOI - 12.7.1989	2	Subscribers' shares	2	2
21.8.1991	49,998	Allotment for cash	49,998	50,000
13.5.1993	200,000	Allotment for cash	200,000	250,000
CTS				
DOI - 3.8.1976	2	Subscribers' shares	2	2
6.10.1976	199,998	Allotment for cash	199,998	200,000
11.7.1978	100,000	Allotment for cash	100,000	300,000
1.6.1981	200,000	Allotment for cash	200,000	500,000
29.9.2000	1,500,000	Bonus issue declared out of revenue reserve on the basis of 3 new ordinary shares for each existing share held.	1,500,000	2,000,000
CW				
DOI-20.12.1982	2	Subscribers' shares	2	2
3.3.1983	79,998	Allotment for cash	79,998	80,000
COL			**USD**	**USD**
DOI - 6.9.2000	1	Subscribers' shares	1	1
29.9.2000	1,167	Allotment as consideration for the purchase of 3 units of barges and 237,500 shares at USD1.00 each in CM	1,167	1,168
15.1.2001	385	Allotment as consideration for the cost of conversion of a dump barge into an accommodation barge for a total consideration of USD192,500.	385	1,553
CM			**USD**	**USD**
25.3.2000	250,000	Subscribers' shares	250,000	250,000

DOI : Date of incorporation

2 GENERAL INFORMATION – Cont'd

2.4. Dividends

Details of dividends declared and paid by the Company and its subsidiary companies in respect of the financial years/periods under review are as follows:

Company	Financial year	Dividend Rate	RM
SM	31.12.2001	Final tax exempt dividend of 150%	3,000,000
SM	31.12.2002	Final tax exempt dividend of 71.33%	4,280,000
CW	31.12.2002	Final tax exempt dividend of 100%	80,000

Other than the above, no dividends were declared in respect of other financial years/periods under review.

3. AUDITORS AND AUDITED FINANCIAL STATEMENTS

We have been the statutory auditors for SM, BSR, CTS, CW and COL for the financial period/years under review. The financial statements of CM were audited by another firm of auditors.

The audited financial statements of all the companies for the financial period/years under review were reported on without any audit qualification.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of Coastal and its subsidiary companies, and in accordance with applicable approved accounting standards issued and adopted in Malaysia in the relevant financial years/period under review.

5. SUMMARISED INCOME STATEMENTS

5.1. The Proforma Group

The summarised proforma consolidated income statements of Coastal Group ("the Group") for the past 5 financial years ended 31 December 2002 are provided for illustrative purposes only, on the assumption that the Group had been in existence throughout the period under review and after making such adjustments considered necessary.

	Year ended 31 December				
	1998 RM'000	**1999 RM'000**	**2000 RM'000**	**2001 RM'000**	**2002 RM'000**
Revenue	13,397	27,277	28,265	41,596	42,260
Profit before depreciation, finance cost and taxation ("PBDFT")	7,182	13,685	14,502	16,769	17,645
Depreciation	(2,159)	(1,782)	(2,214)	(2,723)	(3,648)
Finance cost	(1,609)	(1,009)	(1,005)	(1,479)	(2,041)
Profit before taxation and minority interest	3,414	10,894	11,283	12,567	11,956
Taxation	(538)	65	(736)	(412)	(224)
Minority interest	-	-	2	10	(7)
Profit attributable to shareholders	2,876	10,959	10,549	12,165	11,725
Number of ordinary shares assumed in issue	53,500,000	53,500,000	53,500,000	53,500,000	53,500,000
Net EPS (sen)	5.38	20.48	19.72	22.74	21.92

Notes:

i) The audited results of the Group have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) In FY 1999, the improvement in revenue and PBT was attributed mainly to the recovery of the regional economy and improved market sentiments.

iii) For FY 2001, revenue improved due mainly to higher value vessels being built and sold. However, PBT margin declined due mainly to the increase in finance cost, loss on foreign exchange and loss on disposal of fixed assets.

iv) For FY 2002, despite the slight improvement in revenue, PBT dropped due mainly to the increase in finance cost, depreciation arising from acquisition of vessels for the hiring operation and provision of bad and doubtful debts of RM2.3 million.

v) For FYs 1998 to 2002, except for FY 1999, the tax charge was low as compared to the statutory tax rates due mainly to difference in treatment of lease payments for accounting and tax purposes, tax exemption on pioneer income and availability of unabsorbed capital and reinvestment allowances to set-off against taxable profits. No tax was provided on profit generated for FY 1999 as it formed the basis year in which tax was waived by the government.

vi) There was no exceptional or extraordinary item in respect of the financial years under review.

vii) The net EPS has been calculated based on the proforma profit attributable to shareholders divided by the issued and paid-up share capital assumed in issue after implementation of the Listing Exercise but before the Public Issue.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.2. The Company

	5 months ended	Year ended	
	31 December 2000	31 December 2001	31 December 2002
	RM'000	RM'000	RM'000
Revenue	-	-	80
PBDFT	(4)	(5)	68
Depreciation	-	-	-
Finance cost	-	-	-
(Loss)/Profit before taxation	(4)	(5)	68
Taxation	-	-	-
(Loss)/Profit attributable to shareholders	(4)	(5)	68
Weighted number of ordinary shares in issue	68	100	53,500,000
Net (loss)/earnings per share (RM)	*(141.18)	(50.00)	<0.01
Dividend	Nil	Nil	Nil

* *Annualised*

Notes:

i) The audited results of the company have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) The Company did not commence operation during FP 2000 and FY 2001 and as such, the losses incurred during the year/period comprise mainly administration expenses.

iii) In FY 2002, revenue and PBT were attributed to dividend received from CW.

iv) There was no exceptional or extraordinary item in respect of the financial years/ period under review.

v) The net EPS has been calculated based on the profit/(loss) attributable to shareholders and the weighted average number of ordinary shares in issue for each financial period/year under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3. Subsidiary Companies

The summarised audited results of the subsidiary companies for the 5 financial years ended 31 December 2002 are as follows:

5.3.1. SM

	Year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	10,329	22,109	13,121	22,773	9,750
PBDFT	2,945	7,059	3,469	5,179	2,076
Depreciation	(462)	(625)	(557)	(627)	(733)
Finance cost	(697)	(538)	(439)	(266)	(134)
Profit before taxation ("PBT")	1,786	5,896	2,473	4,286	1,209
Taxation	(507)	77	(649)	(115)	248
Profit attributable to shareholders	1,279	5,973	1,824	4,171	1,457
Number of ordinary shares in issue	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Net EPS (RM)	0.21	1.00	0.30	0.70	0.24
Dividend	Nil	Nil	Nil	3,000	4,280

Notes:

i) The audited results of SM have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements

ii) Revenue and PBT for FY 1999 improved, attributed mainly to the recovery of the regional economy.

iii) In FY 2000, revenue and PBT decreased as a result of rationalisation of operations of the Group whereby the company thenceforth reduced its involvement in vessel manufacturing activity and focused on vessel repair and maintenance activities.

iv) In FY 2001, the significant increase in revenue was attributed mainly to the company undertaking more contract work of fabrication of vessel parts for BSR to help cope with increased orders for vessels.

v) In FY 2002, revenue and PBT decreased as the company focused its operation on ship repair and maintenance works.

vi) The effective tax rates in FYs 1998 to 2001, except for FY 1999, were lower than the statutory tax rates due mainly to the availability of unabsorbed capital and reinvestment allowances to set off against the taxable profit. No tax was provided on profits generated for FY 1999 as it formed the basis year in which tax was waived by the government. In FY 2002, the negative tax effect was due mainly to deferred tax written back to the income statement amounting to RM450,000.

vii) There was no exceptional or extraordinary item in respect of the financial years under review.

viii) The net EPS has been calculated based on the profit attributable to shareholders and the number of ordinary shares in issue for each financial year under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3 Subsidiary Companies – Cont'd

5.3.2. BSR

	Year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	132	362	12,967	31,087	33,510
PBDFT	166	295	2,005	6,044	6,384
Depreciation	(61)	(66)	(131)	(161)	(167)
Finance cost	-	-	(95)	(111)	(188)
PBT	105	229	1,779	5,772	6,029
Taxation	(26)	(12)	(84)	(234)	(324)
Profit attributable to shareholders	79	217	1,695	5,538	5,705
Number of ordinary shares in issue	250,000	250,000	250,000	250,000	250,000
Net EPS (RM)	0.32	0.87	6.78	22.15	22.82
Dividend	Nil	Nil	Nil	Nil	Nil

Notes:

i) The audited results of BSR have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) In FY 1999, PBT increased due mainly to sundry income received and the commencement of the shipbuilding operation.

iii) The increase in revenue and PBT in FY 2000 was attributed mainly to rationalisation of operations of the Group whereby this company focused on vessels manufacturing activities.

iv) In FY 2001, the improvement in PBT was attributed mainly to increased sales of higher value vessels which yielded higher margins.

v) In FY 2002, revenue and PBT improved further attributed mainly to increased sales of high value vessels.

vi) In FY 1998, the effective tax rate was lower than the statutory tax rate due to the difference in treatment of rental and equipment hire income for accounting and taxation purpose. In FY 1999, the tax charge was in relation to underprovision in previous years. No tax was provided on profit generated for FY 1999 as it formed the basis year in which tax had been waived by the government. In FYs 2000 to 2002, the tax charges were in respect of the income from the non-exempt portion of the shipbuilding operation namely rental and other income.

vii) There was no exceptional or extraordinary item in respect of the financial years under review.

viii) The net EPS has been calculated based on the profit attributable to shareholders and the number of ordinary shares in issue for each financial year under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3 Subsidiary Companies – Cont'd

5.3.3. CTS

	Year ended 31 December				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	9,190	11,696	12,049	13,705	16,831
PBDFT	2,834	5,769	7,946	9,861	10,039
Depreciation	(1,194)	(884)	(1,438)	(1,840)	(2,944)
Finance cost	(530)	(254)	(355)	(1,046)	(1,582)
PBT	1,110	4,631	6,153	6,975	5,513
Taxation	-	-	-	(7)	(30)
Profit attributable to shareholders	1,110	4,631	6,153	6,968	5,483
Number of ordinary shares in issue	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net EPS (RM)	0.56	2.32	3.08	3.48	2.74
Dividend	Nil	Nil	Nil	Nil	Nil

Notes:

i) The audited results of CTS have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) In FY 1999, PBT increased as the company widened its market reach to Indonesia, which offered favourable terms.

iii) In FY 2000, PBT improved further as time chartering activities, which yielded a higher margin, increased.

iv) In FY 2001, PBT increased further as operation gained increased efficiency.

v) For FY 2002, revenue increased further with increased size of fleet. However, PBT margin dropped due mainly to lower utilisation rate of new vessels acquired and provision for doubtful debts of RM2 million.

vi) The company was not liable to tax in FYs 1998 to 2002, except for FY 1999 due mainly to the difference in treatment of lease payments for accounting and tax purposes and the availability of unabsorbed capital allowances to set off against taxable profit. No tax was provided on profit generated for FY 1999 as it formed the basis year in which tax was waived by the government. Taxation for FY 2001 and 2002 was in respect of interest and rental income.

vii) There was no exceptional or extraordinary item in respect of the financial years under review.

viii) The net EPS has been calculated based on the profit attributable to shareholders and the number of ordinary shares in issue for each financial year under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3 Subsidiary Companies – Cont'd

5.3.4. CW

	Year ended 31 December				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	3,533	3,475	2,210	1,486	1,062
PBDFT	1,392	2,389	1,569	1,111	571
Depreciation	(794)	(399)	(370)	(261)	(206)
Finance cost	(382)	(217)	(115)	(56)	(13)
PBT	216	1,773	1,084	794	352
Taxation	(5)	-	(3)	(40)	(105)
Profit attributable to shareholders	211	1,773	1,081	754	247
Number of ordinary shares in issue	80,000	80,000	80,000	80,000	80,000
Net EPS (RM)	2.64	22.16	13.51	9.43	3.09
Dividend	Nil	Nil	Nil	Nil	80

Notes:

i) The audited results of CW have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) PBT improved in FY 1999 attributed mainly to the gain on disposal of fixed assets of RM 617,626 and reduction in finance cost of RM164,986 as CW settled some of its borrowings.

iii) In FY 2000, revenue and PBT reduced as a result of rationalisation of operations of the Group whereby this company scaled down its vessels chartering activities and focused on hiring its remaining fleet, after disposal of some vessels to third parties and CTS.

iv) In FY 2001, revenue and PBT continued to drop as CW further disposed of some of its vessels.

v) In FY 2002, the further reduction in revenue and PBT was due to the effect of the disposal of vessels in previous years.

vi) In FYs 1998, 2000, 2001 and 2002, the tax charges were lower than the statutory tax rates. This was due mainly to the difference in treatment of lease payments for accounting and taxation purposes, and availability of unabsorbed capital allowances to offset against taxable profit. No tax was provided on the profit generated for FY 1999 as it formed the basis year in which tax had been waived by the government.

vii) There was no exceptional or extraordinary item in respect of the financial year under review.

viii) The net EPS has been calculated based on the profit attributable to shareholders and the number of ordinary shares in issue for each financial year under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3 Subsidiary Companies – Cont'd

5.3.5. COL

	4 months ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	2002 RM'000
Revenue	117	619	497
PBDFT	46	437	262
Depreciation	(21)	(107)	(57)
Finance cost	-	-	-
PBT	25	330	205
Taxation	-	(10)	(6)
Profit attributable to shareholders	25	320	199
Weighted number of ordinary shares in issue	939	1,538	1,553
Net EPS (RM)	79.87*	208.06	128.14
Dividend	Nil	Nil	Nil

* *Annualised*

Notes:

i) The audited results of COL have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) COL was incorporated on 6 September 2000 and commenced operations in FP2000.

iii) In FY 2001, the increase in revenue and PBT was due mainly to the operation being for a full year.

iv) For FY 2002, revenue and PBT dropped due mainly to the disposal of a vessel and provision for doubtful debts amounting to RM214,890.

v) There was no exceptional or extraordinary item in respect of the financial years/period under review.

vi) The net EPS has been calculated based on the profit attributable to shareholders and the weighted average number of ordinary shares in issue for each financial year/period under review.

5 SUMMARISED INCOME STATEMENTS – Cont'd

5.3 Subsidiary Companies – Cont'd

5.3.6. CM

	9 months ended 31 December 2000 RM'000	Year ended 31 December 2001 RM'000	2002 RM'000
Revenue	-	495	615
PBDFT	-	(2)	522
Depreciation	-	(148)	(231)
Finance cost	-	(66)	(125)
PBT	-	(216)	166
Taxation	-	(6)	(7)
(Loss)/profit attributable to shareholders	-	(222)	159
Number of ordinary shares in issue	250,000	250,000	250,000
Net (loss)/earning per share (RM)	-	(0.89)	0.64
Dividend	Nil	Nil	Nil

Notes:

i) The audited results of CM have been prepared based on accounting policies consistent with those previously adopted in the preparation of the Group's audited financial statements.

ii) CM was incorporated on 25 March 2000 and commenced operations in FY 2001.

iii) The company suffered a loss in FY 2001 due mainly to loss in foreign exchange of approximately RM0.25 million.

iv) In FY 2002, the rate of increase in PBT was higher than the revenue due mainly to the gain in foreign exchange of approximately RM458,000.

v) There was no exceptional or extraordinary item in respect of the financial years/period under review.

vi) The net EPS has been calculated based on the (loss)/profit attributable to shareholders and the number of ordinary shares in issue for each financial year/period under review.

6. SUMMARISED BALANCE SHEETS

The summarised audited balance sheets of the Company and its subsidiary companies for the 5 financial years ended 31 December 2002 are as follows:

6.1. The Company

	As at		
	31.12.2000 RM'000	**31.12.2001 RM'000**	**31.12.2002 RM'000**
Investment in subsidiaries	-	-	61,395
Current assets	-	572	704
Current liabilities	(4)	(581)	(4,042)
Net current liabilities	(4)	(9)	(3,338)
	(4)	(9)	58,057
Share capital	*	*	53,500
Share premium	-	-	4,499
(Accumulated losses) / Retained profits	(4)	(9)	58
	(4)	(9)	58,057
(Net liabilities) / Net tangible assets ("NTA") per share (RM)	(41.82)	(90.00)	1.09

* RM100

6 SUMMARISED BALANCE SHEETS - Cont'd

6.2. Subsidiary Companies

6.2.1. SM

	As at				
	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Property, plant and equipment	7,125	6,712	6,223	9,471	8,708
Subsidiary company	(5)	-	-	-	-
Current assets	14,607	20,384	20,737	18,701	11,531
Current liabilities	(9,224)	(9,912)	(9,147)	(10,257)	(5,619)
Net current assets	5,383	10,472	11,590	8,444	5,912
Long term liabilities	(3,621)	(2,354)	(1,118)	(49)	(27)
Deferred taxation	(435)	(409)	(450)	(450)	-
	8,447	14,421	16,245	17,416	14,593
Share capital	750	750	750	2,000	6,000
Retained profits	7,697	13,671	15,495	15,416	8,593
	8,447	14,421	16,245	17,416	14,593
NTA per share (RM)	11.26	19.23	21.66	8.71	2.43

6.2.2. BSR

	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Property, plant and equipment	446	584	1,043	961	1,751
Other non-current assets	-	-	-	-	1,323
Current assets	222	742	7,238	19,789	37,438
Current liabilities	(279)	(720)	(5,980)	(12,912)	(25,762)
Net current assets/ (liabilities)	(57)	22	1,258	6,877	11,676
Long term liabilities	-	-	-	-	(1,200)
Deferred taxation	-	-	-	-	(6)
	389	606	2,301	7,838	13,544
Share capital	250	250	250	250	250
Retained profits	139	356	2,051	7,588	13,294
	389	606	2,301	7,838	13,544
NTA per share (RM)	1.56	2.42	9.20	31.35	54.18

6 SUMMARISED BALANCE SHEETS - Cont'd

6.2 Subsidiary Companies – Cont'd

6.2.3. CTS

	As at				
	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Property, plant and equipment	11,699	18,737	24,982	39,264	47,908
Subsidiary companies	-	-	2,322	2,949	-
Other non-current assets	-	-	-	-	946
Current assets	4,486	3,956	6,205	8,690	15,608
Current liabilities	(10,521)	(12,889)	(13,373)	(22,245)	(27,441)
Net current liabilities	(6,035)	(8,933)	(7,168)	(13,555)	(11,833)
Long term liabilities	(1,002)	(511)	(4,690)	(6,244)	(9,124)
	4,662	9,293	15,446	22,414	27,897
Share capital	500	500	2,000	2,000	2,000
Retained profits	4,162	8,793	13,446	20,414	25,897
	4,662	9,293	15,446	22,414	27,897
NTA per share (RM)	9.32	18.59	7.72	11.21	13.95

6.2.4. CW

	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Plant and equipment	6,165	5,287	4,630	3,163	2,024
Current assets	4,280	5,487	2,560	3,750	4,132
Current liabilities	(6,432)	(5,867)	(1,827)	(1,044)	(91)
Net current (liabilities) /assets	(2,152)	(380)	733	2,706	4,041
Long term liabilities	(1,782)	(903)	(278)	(16)	-
Deferred taxation	-	-	-	(14)	(59)
	2,231	4,004	5,085	5,839	6,006
Share capital	80	80	80	80	80
Retained profits	2,151	3,924	5,005	5,759	5,926
	2,231	4,004	5,085	5,839	6,006
NTA per share (RM)	27.89	50.05	63.57	72.99	75.08

6 SUMMARISED BALANCE SHEETS - Cont'd

6.2 Subsidiary Companies – Cont'd

6.2.5. COL

	As at		
	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Plant and equipment	1,293	792	735
Subsidiary company	883	903	903
Other non-current assets	-	997	491
Current assets	67	1,080	1,385
Current liabilities	(3)	(480)	(23)
Net current assets	64	600	1,362
	2,240	3,292	3,491
Share capital	4	6	6
Share premium	2,213	2,943	2,943
Retained profits	23	343	542
	2,240	3,292	3,491
NTA per share (RM)	560.00	548.67	581.83

6.2.6. CM

Plant and equipment	46	3,345	3,659
Deferred expenses	39	18	-
Current assets	758	1,845	1,291
Current liabilities	(88)	(4,305)	(4,273)
Net current assets	670	(2,460)	(2,982)
Long term liabilities	-	(432)	-
	755	471	677
Share capital	944	944	944
Accumulated losses	-	(250)	(99)
Reserves	(189)	(223)	(168)
	755	471	677
NTA per share (RM)	0.80	0.50	0.72

7. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following proforma consolidated cash flow statement has been prepared for illustrative purposes only, based on the audited financial statements of Coastal, SM, BSR, CTS, CW, COL and CM for the year ended 31 December 2002, on the assumption that the Group had been in existence throughout the period under review:

	Note	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation but after minority interest	5.1	11,949
Adjustments for:		
Depreciation of property, plant and equipment	5.1	3,648
Finance costs	5.1	2,041
Minority interest	5.1	7
Unrealised gain on foreign exchange		(148)
Provision for bad and doubtful debts		2,329
Loss on disposal of equipment		156
Surplus from insurance claim		(34)
Interest income		(106)
		7,893
Operating profit before working capital changes		19,842
Increase in inventories		(2,808)
Decrease in receivables		12,884
Decrease in directors' account		3,208
Increase in payables		(25,087)
Exchange difference		14
Cash generated from operations		8,053
Income tax paid		(1,220)
Net cash generated from operating activities		6,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		110
Proceeds from disposal of equipment		8,273
Purchase of property, plant and equipment		(18,290)
Proceeds from insurance claim		39
Net cash used in investing activities		(9,868)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from drawdown of banking facilities		25,255
Repayment of banking facilities		(10,567)
Payment of finance lease liabilities		(574)
Finance costs paid		(2,041)
Dividends paid		(7,280)
Net cash generated from financing activities		4,793
Net movement in cash and bank balances		1,758
Cash and cash equivalents at beginning of year		1,311
Cash and cash equivalents at end of year*		3,069

* Cash and cash equivalents comprise the following:		
- Cash and bank balances	8	3,618
- Overdraft	8.9	(549)
		3,069

8. STATEMENTS OF ASSETS AND LIABILITIES

We set out below the statements of assets and liabilities of the Company and the Group based on the audited financial statements of the Company and the Group as at 31 December 2002 which should be read in conjunction with the notes thereto:

	Note	COMPANY RM'000	GROUP RM'000
ASSETS			
Property, plant and equipment	8.2	-	70,510
Investment in subsidiary companies	8.3	61,395	-
Trade receivables	8.5	-	1,323
Other receivables	8.6	-	1,437
		61,395	73,270
CURRENT ASSETS			
Inventories	8.4	-	11,870
Trade receivables	8.5	-	12,034
Other receivables	8.6	704	9,990
Tax refundable		-	173
Cash and bank balances		-	3,618
		704	37,685
CURRENT LIABILITIES			
Amount due to a subsidiary company	8.7	3,820	-
Amount due to directors	8.8	-	1,926
Amounts due to bankers	8.9	-	21,004
Trade payables	8.10	-	4,040
Other payables	8.11	222	5,757
Hire purchase creditors	8.12	-	22
Provision for taxation		-	96
		4,042	32,845
NET CURRENT (LIABILITIES)/ASSETS		(3,338)	4,840
LONG TERM LIABILITIES			
Deferred taxation	8.13	-	65
Amounts due to bankers	8.9	-	10,076
Other payables	8.11	-	249
Hire purchase creditors	8.12	-	27
		-	(10,417)
		58,057	67,693
Share capital	8.14	53,500	53,500
Share premium	8.15	4,499	4,499
Consolidation reserve		-	6,366
Currency translation reserve		-	5
Retained profits		58	3,289
		58,057	67,659
Minority interest		-	34
		58,057	67,693
Net tangible assets per share (RM)		1.09	1.26

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1. Significant Accounting Policies

(a) Basis of Accounting

The statements of assets and liabilities have been prepared under the historical cost convention unless otherwise indicated in the significant accounting policies and comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board.

(b) Basis of Consolidation

The statements of assets and liabilities incorporate the financial statements of the Company and all its subsidiaries made up to 31 December 2002. Particulars of the subsidiary companies are set out in section 2.3 to this report. The results of subsidiaries acquired or disposed of are included in the consolidated financial statements from the date of acquisition or up to the date of disposal, as applicable.

The financial statements of the subsidiaries are consolidated based on the acquisition method of accounting. The difference between the consideration paid for the shares in the subsidiary companies and the value of attributable net assets acquired is treated as goodwill or reserve on consolidation where applicable. Goodwill arising on consolidation is not amortised.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

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

Minority interest is measured at the minorities share of the post acquisition fair value of the identifiable assets and liabilities of the acquiree.

(c) Investment in Subsidiary Companies

A subsidiary company is defined as a company in which the Group has a long term interest of more than 50% of the equity and whose financial and operating policy decisions are controlled by the Group.

The Company's investments in subsidiary companies are stated at cost less impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with note 8.1(f) below.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1 Significant Accounting Policies - Cont'd

(c) *Investment in Subsidiary Companies – Cont'd*

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised as income or expense in the income statement.

(d) *Property, Plant and Equipment and Depreciation*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with note 8.1(f).

(i) Leasehold land held on long-term leases (with remaining lease period of over 50 years) is not amortised. The non-amortisation of the long leasehold land has no material effect on the financial statements. The effect on the non-amortisation of the leasehold land is disclosed under note 8.2 to this report.

Short leasehold land and building are amortised over 50 years or over the unexpired period of the lease whichever is shorter.

(ii) All other property, plant and equipment are depreciated over their estimated useful lives after taking into account estimated net realisable values using the straight line method. The estimated useful lives are as follows:

Factory buildings	15 years
Workshop	10 - 15 years
Slipway	20 years
Tugboats and barges	11 - 15 years
Heavy machinery and equipment	10 years
Motor vehicles	5 years
Telecommunications and office equipment, furniture and fittings	5 years
Renovation	10 years

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1 Significant Accounting Policies - Cont'd

(e) Leased Property, Plant and Equipment

(i) Finance leases

Property, plant and equipment held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the Group are capitalised. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is written off in the income statement so as to produce a constant periodic rate of charge. These property, plant and equipment are depreciated over their expected useful lives on the basis outlined in note 8.1(d)(ii) above.

(ii) Operating leases

Lease rental payments on operating leases are recognised in the income statement in the year in which they are payable.

(f) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss.

Where an indication of impairment exists, the recoverable amount of the assets is determined and the carrying amount of the assets is written down immediately to its recoverable amount. Impairment loss is recognised as an expense. Any reversal of an impairment loss will be immediately recognised as income.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value and are computed on the weighted average basis. In arriving at the net realisable value, due allowance is made for all damaged, obsolete and slow moving items, where applicable.

Work-in-progress comprises cost of materials, direct labour and overheads of unsold vessels in progress and is stated at cost. Full provision is made for estimated losses where applicable.

Cost of consumable stores includes expenses incurred in bringing the inventories into stores and is computed using the weighted average basis.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1 Significant Accounting Policies - Cont'd

(h) Provisions for Liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

(i) Deferred Taxation

Deferred taxation is provided using the liability method for the tax effects of all material timing differences other than differences which are not expected to reverse in the foreseeable future. In accounting for timing differences, deferred tax debits are not accounted for unless there is reasonable expectation of their realisation.

(j) Revenue Recognition

Sales of tugboats and barges are recognised upon delivery of vessels to customers during the year.

Provision of vessel repairs and maintenance services and sub-contract services are recognised upon rendering of services.

Provision of tugboats, barge and equipment hiring are recognised upon rendering of services.

Interest is recognised on a time proportion basis that reflects the effective yield on the assets.

Transactions between companies within the Group are excluded in determining the revenue of the Group.

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

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1 Significant Accounting Policies - Cont'd

(k) Foreign Currencies

(i) Foreign currency transactions

Foreign currency transactions are recorded in Ringgit Malaysia at the rates of exchange approximating those ruling at transaction dates. Foreign currency assets and liabilities are reported at the rates ruling at balance sheet date. All gains or losses on exchange are dealt with through the income statements.

(ii) Foreign entities

Financial statements of foreign consolidated subsidiary companies are translated into Ringgit Malaysia at the rates of exchange which approximate those prevailing at balance sheet date except for share capital, which is recorded at historical rates, while income statements are translated at average rates for the year. Exchange differences are transferred directly to the Currency Translation Reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the dates of transaction.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used are as follows:

	RM
Australian Dollar	2.1489
Euro	3.9811
Indonesian Rupiah (RP100)	0.0425
Singapore Dollar	2.1887
United States Dollar	3.8000

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.1 Significant Accounting Policies - Cont'd

(l) Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are highly liquid investments which are readily convertible to cash with short periods to maturity and are subject to an insignificant risk of changes in value. They also include borrowings which are not subject to a term facility and are integral to the cash management function of the Group and of the Company.

(m) Financial Instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are debited directly to equity.

(i) Trade Receivables

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

(ii) Trade Payables

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

(iii) Interest-bearing Borrowings

Interest-bearing bank overdrafts and other facilities are recorded at the amount of proceeds received, net of transaction costs. Borrowing costs are reported in the income statement as an expense in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or for sale. All other borrowing costs are recognised in the income statement as an expense in the period in which they are incurred.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.2. Property, Plant and Equipment

	At Cost RM'000	Accumulated Depreciation RM'000	Net book value RM'000
GROUP			
Long leasehold land	2,649	-	2,649
Buildings	15,442	2,621	12,821
	18,091	2,621	15,470
Tugboats, barges, heavy machinery and equipment	63,571	8,971	54,600
Motor vehicles	755	601	154
Telecommunication and office equipment, furniture, fittings and renovation	979	693	286
	83,396	12,886	70,510

Certain leasehold land and buildings and tugboats of the Group with an aggregate net book value of approximately RM18.8 million have been charged in favour of the Group's bankers to secure overdraft and term loan facilities granted to the Group. In addition, property, plant and equipment of the Group amounting to RM15.3 million are pledged by way of a debenture in favour of the bankers to secure revolving credit facilities granted to the Group. The details of the banking facilities are stated in note 8.9 below.

Motor vehicles acquired under hire purchase arrangements are as follows:

	GROUP RM'000
At cost	97
Accumulated depreciation	(38)
Net book value	59

The financial impact of non-amortisation of the long leasehold land on the financial results as stated in note 8.1(d)(i) is a decrease in amortisation charge for the Group of RM37,139.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.3. Investment In Subsidiary Companies

	COMPANY RM'000
Unquoted shares - at cost	61,395

	Purchase Consideration		
Subsidiary Companies	**Ordinary shares of RM1.00 issued at a premium of 0.084 per share of the Company RM'000**	**Cash RM'000**	**Total RM'000**
SM	20,435	-	20,435
BSR	10,450	-	10,450
CTS	21,275	-	21,275
CW	5,839	-	5,839
COL	-	3,396	3,396
	57,999	3,396	61,395

The details of the subsidiaries are stated in section 2.3 of this report.

Reserve arising from the aforementioned acquisitions amounting to RM6,366,000 has been accounted for using the acquisition method of accounting effective 1 December 2002.

8.4. Inventories

	GROUP RM'000
At cost	
Finished goods	1,450
Work-in-progress	7,070
Input material	3,285
Spare parts	65
	11,870

There were no inventories stated at net realisable value as at 31 December 2002.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.5. Trade Receivables

	GROUP RM'000
Receivable within 12 months	12,034
Receivable after 12 months	1,323
	13,357
These are stated after providing for doubtful debts of	2,916

The Group's normal trade credit terms ranges from 30 to 180 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

The foreign currency exposure of trade receivables of the Group is as follows:

	GROUP RM'000
Indonesian Rupiah	1,801
Singapore Dollar	876
United States Dollar	776
	3,453

8.6. Other Receivables

	COMPANY RM'000	GROUP RM'000
Receivable within 12 months	704	9,990
Receivable after 12 months	-	1,437
	704	11,427

The other receivables of the Company represent expenditure incurred in relation to the Listing Exercise of the Company. These expenses are to be set-off against the share premium account upon successful listing of the Company's shares on the Main Board of the KLSE.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.6 Other Receivables - Cont'd

Included in other receivables of the Group is an amount of RM820,716 due from a company in which the wife of a director of a subsidiary is a director. This amount represents the outstanding proceeds on the disposal of a barge to the said company. It is interest-free and receivable by 42 equal instalments commencing July 2001.

The Group or the Company has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

The foreign currency exposure of other receivables of the Group is as follows:

	GROUP RM'000
Indonesian Rupiah	1,150
Singapore Dollar	157
United States Dollar	7,228
	8,535

8.7. Amount Due To A Subsidiary Company

This represents unsecured, interest-free advances from a subsidiary company with no fixed terms of repayment.

8.8. Amount Due To Directors

	GROUP RM'000
Ng Chin Heng	1,284
Ng Chin Shin	642
	1,926

These amounts are unsecured, interest-free and have no fixed term of repayment.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.9. Amounts Due To Bankers

	GROUP RM'000
Secured:	
Bank overdrafts	549
Revolving credits	15,000
Trade loans	1,495
Term loan	2,400
Bank loans	11,527
Islamic bank loan	109
	31,080
Less : Portion repayable after 12 months	
Not later than two years	4,010
Later than two years but not later than five years	5,511
Later than five years	555
	10,076
Portion repayable within twelve months	21,004

The effective weighted average interest rates for the borrowings during the financial year were as follows:

	%
Bank overdrafts	7.75
Revolving credits	8.00
Trade loans	9.67
Term loan	8.63
Bank loans	9.30
Islamic bank loan	7.45

Term loan is repayable by 30 monthly instalments commencing July 2002.

The repayment terms for bank loans range from 48 to 60 monthly instalments, commencing from October 2000 to August 2003.

The Islamic bank loan is structured under the Syariah principle of Bai Bithaman Ajil at the banker's sale price of RM306,032 and is repayable over ten years commencing November 1997.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.9 Amounts Due to Bankers – Cont'd

The bank overdrafts are secured by:

(a) legal charges over a leasehold building of a subsidiary company;

(b) third party legal charges over the leasehold buildings of a company in which certain Directors of the Company are also directors; and

(c) guarantees given by certain Directors of the Company and a director of certain subsidiary companies.

The trade loans, revolving credits and term loan are secured by:

(a) legal charges over all the leasehold lands with factory buildings of a subsidiary company;

(b) legal charges over all present and future fixed and floating assets of two subsidiary companies;

(c) unconditional corporate guarantees by two subsidiary companies; and

(d) irrevocable and unconditional joint and several guarantees by certain Directors of the Company and a director of certain subsidiary companies.

The bank loans and Islamic bank loan are secured by:-

(a) legal charges over certain leasehold buildings, tugboats and barges of a subsidiary company;

(b) joint and several guarantees by certain Directors and a director of certain subsidiary companies;

(c) corporate guarantees issued by a subsidiary company; and

(d) legal charges over all present and future fixed and floating assets of certain subsidiary companies.

8.10 Trade Payables

Included in trade payables is an amount of RM17,288 due to a partnership in which a director of a subsidiary has interest.

The normal trade credit term granted to the Group ranges from 30 to 90 days.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.10 Trade Payables – Cont'd

The foreign currency exposure of trade payables of the Group is as follows:

	GROUP RM'000
Australian Dollar	21
Euro	12
Indonesian Rupiah	13
Singapore Dollar	1,808
United States Dollar	78
	1,932

8.11 Other Payables

	COMPANY RM'000	GROUP RM'000
Payable within 12 months	222	5,757
Payable after 12 months	-	249
	222	6,006

The foreign currency exposure of other payables of the Group is as follows:

Euro	2
Indonesian Rupiah	36
United States Dollar	126
	164

Included in the other payables of the Group is an amount of RM2,354,000 owed by a subsidiary company to a shareholder of the Company, Madam Pang Fong Thau. It is unsecured and has no fixed term of repayment.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.12 Hire Purchase Creditors

	GROUP RM'000
Hire-purchase payments:-	
- not later than one year	25
- later than one year and not later than five years	29
	54
Less: Future interest charges	(5)
	49
Current - not later than one year	22
Non-current - later than one year and not later than five years	27
	49

8.13 Deferred Taxation

	GROUP RM'000
At date of acquisition and carried forward	65
This is in respect of the following timing differences:	
On excess of capital allowances over depreciation	234

The following potential deferred tax liabilities of certain subsidiary companies have not been provided for in the financial statements as it is anticipated that the tax effects of such deferrals will not reverse in the foreseeable future:

	GROUP RM'000
Capital allowances in excess of depreciation	32,511
Excess of fair value of land and buildings of subsidiaries acquired during the year over their respective carrying amounts in subsidiaries' financial statements	5,725
Unabsorbed capital allowances	(3,197)
	35,039
Potential deferred tax liability not taken up in the financial statements, calculated at 28% tax rate	9,203

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.14 Share Capital

	COMPANY/ GROUP RM'000
Ordinary shares of RM1 each:	
- Authorised	500,000
- Issued and fully paid-up:	53,500

8.15 Share Premium

The share premium arose from the issurance of shares at a premium RM0.084 per share.

8.16 Unabsorbed Capital Allowances

As at 31 December 2002, one of the subsidiary companies has unabsorbed capital allowances amounting to RM3,604,000 which, subject to the agreement of the Inland Revenue Board, can be carried forward and utilised to offset against future business profits of the subsidiary company.

8.17 Financial Instruments

(a) *Financial risk management objectives and policies*

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the Group's business operations whilst managing its input material price, interest rate, foreign exchange, liquidity and credit risks.

(b) *Price risk*

The Group's earnings are affected by changes in the prices of its input materials and manufactured products.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.17 Financial Instruments –Cont'd

(c) *Interest rate risk*

The Group's borrowings comprise a mixture of fixed and floating interest-bearing debts. The Group manages its interest exposure by maintaining a prudent mix of fixed and floating rate borrowings. This strategy allows it to gain access to cheaper funding in a low interest rate environment and achieve a certain level of protection against hikes.

(d) *Foreign exchange risk*

The Group operates in Indonesia and Malaysia and is exposed to various currencies, mainly Indonesian Rupiah, United States Dollar and Singapore Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

The Group minimises its exposure to foreign exchange risks by transacting with its business partners in Ringgit Malaysia, United States Dollar or other foreign currencies, namely Singapore Dollar, Australian Dollar and Euro which are relatively stable.

For transactions conducted in currencies other than those mentioned above, the Group will closely monitor the movement of those foreign currencies and would take appropriate action to minimise adverse impact to the Group.

The financial assets and financial liabilities of the Group as at 31 December 2002 that are not denominated in their functional currencies are as follows:

Functional currency of the Group	**Ringgit Malaysia RM'000**	**Indonesian Rupiah RM'000**	**Total RM'000**
Cash and bank balances			
Singapore Dollar	17	-	17
United States Dollar	1,895	-	1,895
	1,912	-	1,912

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.17 Financial Instruments –Cont'd

(d) Foreign exchange risk – Cont'd

Functional currency of the Group	Ringgit Malaysia RM'000	Indonesian Rupiah RM'000	Total RM'000
Trade receivables			
Indonesian Rupiah	1,596	-	1,596
Singapore Dollar	874	2	876
United States Dollar	625	151	776
	3,095	153	3,248
Other receivables			
Indonesian Rupiah	114	-	114
Singapore Dollar	157	-	157
United States Dollar	5,382	1,847	7,229
	5,653	1,847	7,500
Trade payables			
Australian Dollar	20	-	20
Euro	12	-	12
Indonesian Rupiah	14	-	14
Singapore Dollar	1,808	-	1,808
United States Dollar	78	-	78
	1,932	-	1,932
Other payables			
Euro	2	-	2
Indonesian Rupiah	23	-	23
United States Dollar	109	17	126
	134	17	151

(e) Liquidity risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

8 STATEMENTS OF ASSETS AND LIABILITIES-Cont'd

8.17 Financial Instruments –Cont'd

(f) *Credit risk*

Credit risk is minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis by the Board.

(g) *Fair values*

The net fair value of financial liability which is not carried at fair value on the balance sheet of the Company is represented as follows:

	Note	Carrying Amount RM'000	Fair Value RM'000
Financial Liability			
Amounts due to a subsidiary company	8.7	3,820	*

* It is not practical to estimate the fair value of amount due to a subsidiary company due principally to a lack of fixed repayment terms entered by the parties involved and without incurring excessive costs. However, the Company does not anticipate the carrying amount recorded at the balance sheet date to be significantly different from the value that would eventually be settled.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) *Cash and cash equivalents, trade and other receivables/payables and short term borrowings*

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) *Borrowings*

The fair value of borrowings is estimated to approximate the carrying amount.

9 PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Coastal Group as at 31 December 2002 as set out in Section 8, the proforma net tangible assets and the enlarged issued and paid-up share capital are derived as follows:

		RM'000
i)	***Proforma net tangible assets***	
	Net tangible assets as at 31 December 2002	67,659
	Less: Effects of change in accounting policy on deferred taxation arising from the adoption of Standard No.25, Income Taxes issued by the Malaysian Accounting Standard Board (note 8.13)	(9,203)
		58,456
	Add: Public Issue	21,280
	Less: Estimated listing expenses	(2,000)
	Proforma net tangible assets	77,736

		No. of ordinary shares of RM1.00 each '000
ii)	***Enlarged issued and paid-up share capital***	
	As at 31 December 2002	53,500
	Add: To be issued pursuant to the Public Issue	13,300
		66,800
iii)	***Proforma net tangible assets per share (RM)***	1.16

10 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2002.

Yours faithfully,

ERNST & YOUNG
AF: 0039
Chartered Accountants

CHONG YEW HOONG
1502/04/05 (J)
Partner