3 INTRODUCTION AND DETAILS OF THE IPO

3.1 Introduction

This Prospectus is dated 27 June 2003.

A copy of this Prospectus has been registered by the Securities Commission and lodged with the Chief Executive Officer of the Companies Commission, Malaysia, who takes no responsibility for its contents.

The approval of the SC obtained vide its letter dated on 29 August 2002 shall not be taken to indicate that the SC recommends the IPO and investors should rely on their own evaluation to assess the merits and risks of the IPO.

Application will be made to the KLSE within three (3) market days of the issuance of this Prospectus for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Coastal on the Main Board of the KLSE. These Shares will be admitted to the Official List on the Main Board of the KLSE and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. Acceptance of applications for the Public Issue/Offer Shares will be conditional upon permission being granted by the KLSE to deal in and for the quotation of the entire enlarged issued and fully paid-up Shares on the Main Board of the KLSE. Accordingly, monies paid in respect of any application accepted from the Public Issue will be returned without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC).

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, KLSE has prescribed Coastal as a prescribed security. In consequence thereof, the shares issued/offered by Coastal/the Offerors in this Prospectus will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

An applicant who presently has a CDS Account should state his CDS Account number in the space provided in the Application Form. Where an applicant does not presently have a CDS Account, he should state in the Application Form his preferred ADA Code.

The SC and KLSE assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the Official List of the KLSE is not to be taken as an indication of the merits of Coastal or its Shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by Coastal. Neither the delivery of this Prospectus nor any IPO made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Coastal since the date hereof.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue shares or to buy any Offer Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional advisers.

3.2 Share Capital

	RM
Authorised:-	
500,000,000 ordinary shares of RM1.00 each	500,000,000
Issued and fully paid-up :-	
53,500,000 ordinary shares of RM1.00 each	53,500,000
To be issued pursuant to the Public Issue :-	
13,300,000 new ordinary shares of RM1.00 each	13,300,000
	66,800,000
To be Offered for Sale:-	
3,600,000 ordinary shares of RM1.00 each	3,600,000

Presently, there is only one class of shares in the Company, namely ordinary shares of RM1.00 each, all of which rank pari passu with one another. The Public Issue and Offer Shares to be issued pursuant to this Prospectus will rank pari passu in all respect with the existing Shares of the Company including voting rights and rights to all dividends that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company, such surplus shall be distributed among the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with its Articles of Association.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on show of hands, every person present who is a shareholder or representatives or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representatives shall have one vote for each Share held. A proxy may but need not be a member of the Company.

3.3 Details of the IPO

The Public Issue and Offer for Sale of 13,300,000 and 3,600,000 Shares respectively at an Issue/Offer price of RM1.60 per Share is payable in full on application upon such terms and conditions as set out in this Prospectus.

The 3,600,000 Offer Shares will be allocated to specific public investors via private placement. Any shares not taken up by the identified investors will be made available for subscription by the public.

Upon acceptance, the 13,300,000 Public Issue Shares and 3,600,000 Offer Share will be allotted or allocated in the following manner:-

(i) 10,830,000 of the IPO Shares will be made available for application by the public, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside for Bumiputera individuals, companies, societies, co-operatives and institutions;

(ii) 5,500,000 of the IPO Shares will be made available for placement to selected investors; and

(iii) 570,000 of the IPO Shares have been reserved for eligible Directors and employees of the Coastal Group.

The Public Issue Shares and Offer Shares represent 19.91% and 5.39% respectively of the enlarged issued and paid-up share capital of Coastal of 66,800,000 Shares.

All the IPO Shares in paragraph (i) and (iii) above as well as 1,100,000 Shares in paragraph (ii) allocated to non-exempt investors for the private placement have been underwritten by the panel of underwriters listed in section 1. The remaining 4,400,000 Shares in (ii) allocated to exempt investors as defined under Schedule 2 and 3 of the Securities Commission Act 1993 will not be underwritten as irrevocable undertakings have been obtained for the subscription of the said shares.

Any Shares in paragraph (i) not subscribed will be made available for placement in paragraph (ii) and vice versa. Any Shares in paragraph (iii) not subscribed will be made available for application by the public in paragraph (i) or placement in paragraph (ii). Any further underwritten shares not subscribed will be taken up by the Underwriters in proportions specified in the underwriting agreement dated 19 June 2003. There is no minimum subscription rate for the IPO as the IPO is underwritten. Irrevocable undertakings have been obtained from exempt investors for subscription of the Shares via the private placement.

The basis of allocation for the IPO Shares to the applicants under the Public Issue and Offer for Sale shall take into account the desirability of distributing the IPO Shares to a reasonable number of applicants with a view of broadening the shareholding base of the Company to meet the public spread requirements and to establish a liquid and adequate market in the Shares.

As approved by the Board of Directors of Coastal, basis of allocation of the 570,000 Shares reserved for eligible directors and employees of the Group shall take into account the seniority and service term of the respective employee in the Coastal Group. 131 employees and 3 Directors of Coastal will be offered the opportunity to participate in the preferred allocation of the Shares. Units allocated to eligible Directors of Coastal is as follows:-

Name of Directors	Designation	Number of Shares allocated	% of the enlarged paid-up share capital
Ng Chin Hong	Executive Director	62,000	0.09
Kwan Cheong Kaw @ Kuan Yeek Chieu	Independent Non-Executive Director	12,000	0.02
Loh Thian Sang @ Lo Thian Siang	Independent Non-Executive Director	12,000	0.02

3.4 Purposes of the IPO

The purposes of the IPO are as follows:-

(i) To raise funds for the Group's continued operation and expansion, details of which are elaborated in section 3.7 "Utilisation of Proceeds from Public Issue" below;

(ii) To obtain the listing of and quotation for the entire issued and paid-up capital of Coastal on the KLSE, which is expected to enhance the business, profile and future prospects of the Group;

(iii) To enable the Group to have access to the capital market for its future expansion and growth; and

(iv) To provide an opportunity for Malaysian investors and institutions, the eligible employees and Directors of the Coastal Group to participate in the equity and continuing growth of the Coastal Group.

3.5 Basis of Arriving at the IPO Price

Prior to the offering, there has been no public market for the shares of the Company. The IPO price of RM1.60 per Share was agreed upon by the Company and AmMerchant Bank as Adviser and Managing Underwriter based on various factors, in addition to the prevailing market conditions, including the following: -

(i) The forecast net PE multiple of 7.7 times based on the forecast net EPS of 20.9 sen for the financial year ending 31 December 2003 and the IPO price of RM1.60 per Share;

(ii) The future plans and prospects of the Coastal Group as outlined in section 6 of this Prospectus; and

(iii) The proforma consolidated NTA per Share of Coastal as at 31 December 2002 of RM1.16 per Share.

However, investors should also note that the market price of Coastal Shares upon listing on the KLSE, are subject to the vagaries of market forces and other uncertainties which may affect the price of Coastal Shares when they are traded.

3.6 Proceeds of the Offer for Sale

The gross proceeds of the Offer for Sale of RM5,760,000 shall accrue to the Offerors and no part of the proceeds of the Offer for Sale is receivable by Coastal. The Offerors shall bear the underwriting and brokerage costs relating to the Offer Shares.

3.7 Utilisation of Proceeds from the Public Issue

The aggregate gross proceeds of the Public Issue of approximately RM21.28 million shall accrue to the Company and no part is receivable by the Offerors. The Company shall bear all expenses such as underwriting commission and brokerage relating to the Public Issue Shares and all other expenses and fees incidental to the listing of and quotation for the entire enlarged issued and paid-up share capital of Coastal on the Main Board of the KLSE, estimated at RM2.0 million.

The gross proceeds of approximately RM21.28 million accruing to Coastal from the Public Issue will be utilised as follows:-

Purpose	Note	RM'000
Construction of one (1) additional shielded factory	(a)	2,000
Purchase of machinery, heavy vehicles and other shipyard facilities	(b)	500
Working capital for manufacturing and chartering of vessels	(c)	16,780
Estimated listing expenses	(d)	2,000
TOTAL		21,280

Notes :

a) Construction of one (1) additional shielded factory

In line with Coastal's expansionary plans, one additional shielded factory will be constructed at its shipyard at Seguntor, Off Mile 9, Labuk Road, Sandakan, to increase production capacity to approximately 29 vessels per annum. The factory will be used to house engineering works including steel cutting and welding.

Approximately RM2 million of the proceeds raised will be used to part-finance the construction costs whilst the balance will be funded by internally generated funds and/or borrowings. Construction is expected to commence in the 3rd quarter of 2003 and to complete in the 4th quarter of 2004.

b) Purchase of machinery, heavy vehicles and other shipyard facilities

RM0.5 million will be used for the purchase of fabrication machineries and overhead cranes to complement the new factory as well as to upgrade the existing plant and machineries facilities. With these additional facilities, the shipyard will be able to increase the shipbuilding and repair capacity by 38% from the present capacity approximately of 21 vessels per annum to approximately 29 vessels per annum. The installation of the machineries is expected by the 4th quarter of 2004. The additional facilities is expected to be commissioned by the 1st quarter of 2005. The planned purchases of fabrication machineries include, among others, welding sets, cutting machineries, compressor, generator sets and bending machineries.

c) Working capital for manufacturing and chartering vessels

RM16.78 million of the total proceeds is earmarked as working capital for manufacturing of marine vessels and chartering business. The allocation is to enable the Group to best employ its production capacity and facilities, which is presently restricted by its working capital constraint. This situation arises as manufacturing of vessels takes a longer time period, depending on the complexity and type of the vessel, compared to other manufacturing activities. Increased production capacity would result in a bigger fleet of vessels, in the leasing division, readily available for sale.

In anticipation of the higher manufacturing activity, the allocated amount would be used for raw material purchases and to support the increment in payroll as well as other administrative and marketing expenses.

d) Estimated listing expenses

Listing expenses estimated at RM2.0 million which include underwriting commission, brokerage fees, advisers' fees, authorities' fees and other costs associated with the IPO.

It is intended that the abovementioned proceeds of RM2.5 million per item (a) and (b) will be utilised within 18 months from the listing date while RM18.78 million per item (c) and (d) will be utilised within 6 months from the listing date. Any difference arising from the proposed utilisation and proceeds raised from the IPO will be adjusted accordingly in working capital. Working capital requirements are expected to be adequately met from the listing proceeds, which would include funding to construct more marine vessels.

The Directors of Coastal are of the opinion that after taking into consideration the cashflow forecast, banking facilities available and gross proceeds from the Public Issue, the Group will have adequate working capital for its present and foreseeable requirements.

3.8 Approvals And Conditions

SC on 29 August 2002, MITI on 20 June 2002 and FIC on 20 May 2002 had approved the listing of Coastal. The SC had vide letters dated 17 March 2003 approved an extension of time for Coastal to implement the Listing Proposals. On 12 May 2003, the SC approved the waiver of from the full payment of the land premium and conversion of the ownership title of the land to industrial use and on 13 June 2003, the SC had approved the payment of a dividend amounting to RM4.28 million by SM for the financial year ended 31 December 2002. Further, on 18 June 2003, the SC had approved a waiver application by Coastal for the non provision of debts owing for more than 6 months amounting to RM0.158 million.

The approvals from the aforesaid authorities were subjected to various conditions, which are detailed in section 9.2.

3.9 Brokerage and Underwriting

Brokerage is payable in respect of the IPO Shares by the Company at the rate of 1% of the IPO price of RM1.60 per Share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

The Managing Underwriter and Underwriters mentioned herein have agreed to underwrite 12,500,000 Shares in Coastal. An underwriting commission is payable by the Company at the rate of 3% of the Issue Price of RM1.60 per Share. There are force majeure clauses in the underwriting agreement dated 19 June 2003, which allow the underwriters to withdraw from the underwriting arrangement under amongst others, adverse market conditions.

The salient terms of the Underwriting Agreement dated 19 June 2003 between the Company and the Underwriters ("Underwriting Agreement") stating the events that may affect the underwriting of the Public Issue Shares ("Underwritten Shares") are as follows:-

Clause 4 : Conditions Precedent for the Underwriting

4.1 **Conditions Precedent:** The several obligations of the Underwriters under this Agreement shall further be conditional upon:-

(a) the issue of the IPO Shares having been approved by the shareholders of the Company in an Extraordinary General Meeting to be convened by the Company;

(b) the lodgment and acceptance for registration with the CCM and the SC respectively of the Prospectus together with copies of all documents required under Section 42 of the Companies Act prior to the issuance of the Prospectus to the public;

(c) the issuance of the Prospectus to the public within one (1) month from the date hereof or such extension as may be consented by the Underwriters, advertisement of the Prospectus and all other procedures, requirements, letters and documents required under the KLSE Listing Requirements have been complied with. The Closing Date to be a date not later than one (1) month from the date of the Prospectus or any extension as mutually agreed by the Underwriters;

(d) the KLSE agreeing in principle to the listing of and quotation for (on terms satisfactory to the Managing Underwriter) the entire issued and paid up share capital of the Company within six (6) weeks from the date of issue of the prospectus or such later date as may be consented by the Underwriters prior to the issuance of the Prospectus, or the Underwriters being reasonably satisfied that such listing and quotation will be granted three (3) Market Days (or such other days as the KLSE may permit) after the submission to the KLSE of the relevant documents required for such listing and quotation for the entire issued and paid up share capital of the Company have been accepted and the respective Shares are deposited in or transferred to the securities account maintained by the entitled shareholders under the Securities Industry (Central Depository) Act, 1991;

(e) there having been, as at any time hereafter up to and including the Closing Date, no material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise of the Company and its subsidiaries (which in the reasonable opinion of the Underwriters are or will be material in the context of the issue of the IPO Shares) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect to an extent which is or will be material in any of the representations, warranties and undertakings contained in **Clauses 3.1, 3.2 and 3.3** if they are repeated on and as of the Closing Date;

(f) the issue, offering and subscription of the IPO Shares in accordance with the provisions hereof not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority of Malaysia (including the KLSE);

(g) all necessary approvals and consents required in relation to the IPO including but not limited to governmental approvals having been obtained and are in full force and effects and not having been revoked or suspended. and that all conditions to the approvals (which is required to be complied prior to the listing of the Company) have been complied with;

(h) the Underwriters having been satisfied that arrangements have been made by the Company and the Offerors to ensure payment of the expenses referred to in **Clause 13**;

(i) the delivery to the Managing Underwriter prior to the date of registration of the Prospectus of (aa) a copy certified as true copy by an authorised officer of the Company of all the resolutions of the directors of the Company and/or the shareholders in general meeting approving this Agreement, the Prospectus, the Public Issue and authorising the execution of this Agreement and the issuance of the Prospectus; (bb) a certificate dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as referred to in Clause 4.1(e);

(j) the implementation of the Private Placement and all monies due from all the identified investors (save for 1,100,000 Placement Shares which is underwritten) shall be payable to the Placement Agent, namely AmMerchant Bank Berhad on or before the Closing Date; and

(k) the delivery to the Managing Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the board of directors of the Company as the Managing Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of this Agreement that will adversely affect the performance or financial position of the Company or its subsidiaries.

Clause 14 : Termination

14.1 <u>**Termination:**</u> Notwithstanding anything herein contained, any of the Underwriters and/or the Managing Underwriter (as the case may be) may by notice in writing to the Company given at any time before the Closing Date, terminate and cancel and withdraw its commitment to underwrite the Underwritten Shares if:-

(a) there is any breach by the Company and/or the Offerors of any of the representations, warranties or undertakings contained in Clause 3 or which is contained in any certificate, statement or notice under or in connection with this Agreement, which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated in the notice given to the Company; or

(b) there is failure on the part of the Company and/or the Offerors to perform any of its obligations herein contained; or

(c) there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Coastal

Group, the success of the IPO, or the distribution or sale of the IPO Shares; or

(d) there shall have occurred, or happened any material and adverse change in the business or financial condition of the Company or the Coastal Group as determined by the Managing Underwriter; or

(e) there shall have occurred, or happened any of the following circumstances:-

(i) any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or

(ii) any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Underwriters (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents);

(iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally in the KLSE due to exceptional financial circumstances or otherwise;

which, would have or can reasonably be expected to have, a material adverse effect on, and/or materially prejudice the business or the operations of the Company or the Coastal Group as a whole, the success of the IPO, or the distribution or sale of the IPO Shares, or which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms.

14.2 **Result of Termination:** Upon any such notice(s) being given pursuant to Clause 14.1, the Underwriters shall be released and discharged from their obligations hereunder whereupon this Agreement shall be of no further force or effect and no party shall be under any liability to any other in respect of this Agreement, save and except that the Company and the Offerors shall remain liable in respect of their respective obligations and liabilities under Clause 13 for the payment of costs and expenses which are incurred prior to or in connection with such release or discharge. Thereafter, the Underwriters and the Company shall confer with a view to deferring the IPO or amending its terms and/or entering into a new Underwriting Agreement PROVIDED THAT the Company or the Underwriters shall not be under any obligation to enter into such new agreement.

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3.10 Listing Expenses

Listing expenses are estimated at approximately RM2.0 million, with the following estimated breakdown:

	RM'000
Professional fees	800
Fees of the Authorities	160
Underwriting and placement fee*	520
Brokerage fee	170
Printing and advertising fees	260
Miscellaneous	90
Total	**2,000**

* *A 1.75% placement fee is payable for the placement of the IPO Shares.*

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4 RISK FACTORS

Prior to making an investment decision, potential applicants for the IPO Shares should carefully consider, in addition to all other relevant information contained elsewhere in this Prospectus, the following risk factors before making the application for the IPO Shares. Prospective investors are cautioned that this Prospectus contains certain forward-looking statements that involve risks and uncertainties, which are only predictions and that actual results or events may differ materially from those disclosed in this Prospectus.

4.1 Business Risks

The Coastal Group is subject to certain risks inherent in the vessel manufacturing and marine chartering business. These include, inter alia, increases in the cost of steel materials and fuel.

An increase in material cost is inevitable and prevalent in any industry. In such a situation it is common that companies transfer the increase in cost to the end users. The alternative is to source a different supplier without foregoing quality of the materials. Additionally, the management's experience in vessel manufacturing allows them to control cost more efficiently.

Coastal's chartering business in relation to an increase in costs is not significantly affected as a sizeable portion of the Group's charter arrangements is in the form of time and bare-boat charters in which fuel cost is borne by clients and therefore negates a total increase in operation costs.

4.2 Achievability of Forecasts

This Prospectus contains certain forecasts for Coastal that are based on assumptions, which the Directors deem to be reasonable at the time of issuance, but nevertheless are subject to uncertainties and contingencies. As a mitigating factor, the management of Coastal Group is well entrenched in the industry and the Group have registered commendable results in the past. Nevertheless, because of the subjective judgements and inherent uncertainties of forecasts and because events and circumstances frequently do not occur as predicted, there can be no assurance that the forecasts contained herein will be realised and actual results may be materially different than those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecasts that are contained herein.

4.3 Sales/Production Cycle

Typically, the completion period for a standard sized vessel is considerably longer than that of other manufacturing businesses in general. Actual time frame for completion of vessels depends on the type and complexity according to the buyers' requirements. It takes Coastal anywhere from 3 to 8 months to complete a vessel.

Companies with longer sales cycles are more likely to experience a shortfall in working capital due to longer conversion cycles. Nevertheless, the integrative nature of the Group's business allows it to minimise any shortfall in working capital. Synergistic demand for chartering services complements the manufacturing arm to manufacture new vessels to be deployed for chartering as well as repair the existing fleet of vessels. On the other hand, vessels that are custom-made to buyers are sold immediately after completion of the vessels.

4.4 Security Risk

The fleet of the Group is mobile and deployed in various geographical areas. The nature of operation of the Group potentially exposes the vessels to hazards such as hijacks and piracy. The Group mitigates this risk by keeping constant contact with its fleet and traversing on well-patrolled waters. However, there can be no assurance that there will not be such cases in the future that could adversely affect the business of the Group.

4.5 Control by Substantial Shareholders

After the IPO, the Promoters of Coastal will collectively hold 74.7% of Coastal. With their collective shareholding, the abovementioned parties will effectively be able to control the outcome of matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law, covenants and/or by the relevant authorities.

Coastal has appointed 2 independent directors as a measure of good corporate governance to ensure that any future transactions involving related parties, if any, are entered into on normal commercial terms.

4.6 Labour

Coastal is heavily reliant on manpower as the shipbuilding industry is labour intensive. Its skilled and unskilled labour force comprises both locals and foreigners with valid working permits. Most of its unskilled workers are sourced locally. All foreign employees of Coastal has valid working permits.

Additionally, Coastal has maintained cordial relations with its labour force and continues to do so. The labour force, which does not belong to any organised union, has not been involved in any disputes or strikes. However there can be no assurance that the Group will not be affected by any future labour disputes or shortages, which could adversely affect its operations.

4.7 Management of Growth

The Group hopes to significantly expand its business, in part with the proceeds of this Public Issue. Such anticipated expansion will likely place further demand on the Group's existing management and operations. The Group's future growth and profitability will depend, in part, on its ability to successfully manage marketing activities and implement management and operating systems which react efficiently and timely to short and long-term trends or changes in its business. The Group, however, has the managerial experience and a good understanding of the industry to support its expansion plans. However, there can be no assurance that the Group will be able to effectively manage any expansion of its business.

4.8 Potential Acquisitions and Joint Ventures

The Group may from time to time engage in acquisitions of companies with complementary products and services in related areas. Although no such acquisitions are currently being negotiated by the Group, any future acquisitions could expose the Group to new risks, including those associated with the assimilation of new operations and personnel, the diversion of financial and management resources from existing operations, and the inability of management to integrate successfully acquired businesses, personnel and technologies, all of which may absorb a significant amount of management attention that would otherwise be available for ongoing development of the Group's business. Furthermore, there can be no assurance that the Group will be able to generate sufficient revenues from any such acquisition to offset associated acquisition costs, or that the Group will be able to maintain uniform standards of quality and service, controls, procedures and policies, which may result in the impairment of relationships with customers, employees, and new management personnel. Acquisitions may also result in potentially dilutive issuance of equity, the incidence of debt and contingent liabilities and amortisation expenses related to goodwill and other intangible assets. The Group may also evaluate, on a case-by-case basis, joint venture relationships with certain complementary businesses. Any such joint venture investment would involve many of the same risks posed by acquisitions, particularly those risks associated with the diversion of resources, the inability to generate sufficient revenues, the management of relationships with third parties, and potential additional expenses, any of which could have a material adverse effect on the Group's business, financial condition or operating results.

If appropriate opportunities present themselves, the Group intends to acquire businesses, products or technologies that the Group believes will be in the interest of its shareholders, although the Group currently has no understandings, commitments or agreements with respect to any material acquisition and no material acquisition is currently being pursued. There can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions, or to integrate any such acquisitions with its current business.

4.9 Disclosure Regarding Forward-Looking Statements

This Prospectus includes forward-looking statements, which are statements other than statements of historical facts. These include certain sections, without limitation, in the "Strategic Business Plans and Prospects". Although the Group believes that, barring unforeseen circumstances, the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to be correct.

Although the Group seeks to limit these business risks, no assurance can be given that any changes to these factors will not have a material adverse effect on the Group's profitability. Save as disclosed above and apart from normal commercial risks, the Directors are not aware of any other specific factors or events to which the Group is vulnerable.

4.10 Risk Of Fire

Risk of a fire breakout is a concern of the management and could significantly disrupt Coastal's business and potentially cause considerable losses. To mitigate such a threat, the management implements and practices precautionary measures to avoid or minimise the catastrophic impact of a major fire. Employees are trained to adhere to fire prevention guidelines and policies to ensure a safe working environment.

Fire prone activities and/or equipment and machineries at the factory are handled by suitably trained personnel but there is no guarantee that a fire incident is totally remote. To however moderate and control such instances, fire-fighting equipments are strategically deployed in places with a high possibility of fire. Fire detection systems are also put in place in the premises of the Coastal Group to minimise the risk of a financially crippling fire incident.

All premises in the shipyard are fully insured to cover for potential losses.

4.11 Risk Of Loss Of Vessels

Risk of loss of vessels due to for example mechanical failure, collision and ocean disaster. The fleet of Coastal is maintained in first-rate condition taking cognisance of the potential damaging effect of unfit vessels. In addition, the vessel manufacturing activity is well regulated and monitored to ensure that manufactured vessels meet the safety requirements. Independent qualified surveyors are called in periodically to inspect and assess the conditions and seaworthiness of the vessels.

By constantly monitoring the conditions of its fleet and employing experienced personnel, risk of loss of vessels is remote.

In order to mitigate the risk of loss and liability arising from its chartering service, the management has arranged for insurance to indemnify against such risks. Although the Group does not presently experience any adverse effect from such factors, there can be no assurance that all such risks can be adequately insured or fully covered and that they will not have a material effect on the Group's business in the future.

4.12 Risk Of Delay In Vessel Delivery

The risk of a project exceeding its estimated timing of completion gives rise to potential legal actions for breach of contract. There can be no assurance that the Group would be able to continue with its trend of delivering projects on time. As this is potentially damaging to the reputation of and trust bestowed to the Group, the management stresses the importance of a detailed building and workflow plan and securing construction materials in adequate quantities to ensure timely delivery. Steered by a prudent management style, Coastal commits to a contract order after thorough job planning. The Group has so far never encountered such a predicament.

4.13 Continuity of Management and Key Personnel

As in any other businesses, the Board of Directors believes that its continued success will depend to a significant extent on the abilities and continued dedication of the Directors and management team members. These key personnel, with their strong background in the marine engineering industry, are valuable assets to the Group. The loss of any key members of the Company could adversely affect the Group's continued ability to manage the Group's activities. However, the Group has made efforts to train its staff and enjoy the support of long-term management staff. Furthermore, the management ensures that any one task is handled by two members of management to ensure prompt and uninterrupted business. The Group's future success will also depend upon its ability to attract and retain skilled personnel.

4.14 General Risks

In addition to its current product range, the Group could in the future expand its product selection to include other more sophisticated and specialised vessels. There is no guarantee that these attempts will improve the performance of the Group. Nonetheless, the management's experience and involvement in the industry would adequately equip the Group to take calculated risk on new products and/or services.

4.15 Adherence to Quality and Safety Standards

The ships manufactured by the Group is subject to inspections by International Surveyors that examine the manufacturing process to ensure that international quality and safety standards are strictly adhered to. Coastal typically engages the services of Germanischer Lloyd and Nippon Kaiji Kyokai.

Every effort is made in the manufacturing process of a vessel to ensure adherence to the threshold benchmark. In the event of non-compliance, corrective actions are taken immediately as the surveyors closely monitor the manufacturing process. Although the Group has never experienced any contravention in relation to the International Ship Classification Standards, there can be no assurance that the Group will continue to have no difficulty in complying with the requirements in the future.

4.16 Competition and Risk of New Entrants

The manufacturing and chartering of marine vessels industry operates in a competitive business environment, as they are not constrained by national borders. In the light of the competition in the international arena, the Coastal Group places great importance in strategic business and marketing planning. The Group selectively seeks out its own niche market within the industry by concentrating on market segments where it has competitive and location advantages.

There is always the possibility of new players coming to compete for market share and thereby possibly affecting the Group's performance. However, manufacturing of vessels is a capital and labour intensive business that requires unique technical expertise. As such, these act as a natural deterrent to new entrants. No assurance can be given that there will be no new future entrants in the future.

4.17 Cyclical Nature of the Industry

The Group may be affected by cyclical variations as dictated by the level of economic activities. The demand for new vessels is closely associated with the general economic climate as well as the degree of business activity of the Group's customer base. A general slowdown in the business environment may result in a decrease in demand for new vessels due to cost cutting measures by companies. This should result in an increase in demand for chartering services and the Group's exposure to economic variations is thus mitigated. However, there can be no assurance that changes to economic environment will not have an adverse impact on the Group's business performance.

4.18 No Prior Market for Coastal Shares

Prior to the IPO, there has been no public market for Coastal's shares. There can be no assurance that an active market for Coastal's shares will develop upon its listing on the Main Board of the KLSE or, if developed, that such market will be sustained. The IPO price of RM1.60 for the IPO Shares has been agreed between the Group and the Managing Underwriter after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and condition, its prospects and the prospects of the industry in which the Group operates, the management of the Group, the market prices for shares of companies involved in businesses similar to that of the Group and the prevailing economic and market conditions. There can be no assurance that the IPO price will correspond to the price at which Coastal's shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for Coastal's Shares will develop and continue upon or subsequent to its listing.

4.19 Sensitivity to Political and Economic Risks

As in any other businesses, Coastal is subject to risks inherent in the vessel manufacturing and chartering industry business. Adverse developments in the political, economic and regulatory conditions in Malaysia and other countries where Coastal sources its suppliers or market its products and services, could materially and adversely affect the financial prospects of the Coastal Group. Political and economic uncertainties include, but are not limited to, changes in general economic conditions, business and credit conditions, government legislation and policies affecting manufacturers, inflation, interest rates, taxation, fluctuation in foreign exchange rates and political or social developments both within and outside Malaysia. Other uncertainties include risk of war, expropriation, nationalisation or nullification of existing contracts.

4.20 Volatility of Share Price due to Future Sales

Sales of substantial amounts of shares in the public market after this Issue could adversely affect the market price of the Group's shares and the Group's ability to raise capital in the future in the equity markets. Nevertheless, the profitability of the Group does not depend on the performance of the KLSE and Coastal good track record and strong fundamentals acts as a mitigating factor.

4.21 Dependence on the Indonesian market

Shifts in political and economic scenarios as well as in the regulations governing the industry could affect the Group's financial prospects.

The Group recognises that Indonesia shall continue to remain a major market with tremendous growth potential. The reasons being that firstly, the country's marine transportation sector is yet to be fully developed. Secondly, marine transportation will remain as an important means of transportation for its people as the country is made up of archipelagos. The oil palm, refined oil, mining and timber industries will create more demand for vessels for transportation. The Group now has a healthy Indonesian operation and has over the years displayed encouraging growth. Contribution to the Group's revenue are as follows:-

Contribution to Group revenue (%)	1998	1999	2000	2001	2002
Indonesia	7.0	55.0	65.0	65.0	65.0
Others	93.0	45.0	35.0	35.0	35.0

Nonetheless, the Group aims to expand its market to other geographical areas such as the Asian-Pacific region including Australia, Papua New Guinea, Hong Kong, Korea and the Pacific Islands in order to diversify and minimise systemic market risks. In addition, the Group constantly adopts a precautionary attitude toward the financial background and creditability of its customers to ensure low occurrence of bad debts.

4.22 Need for Future Capital Injection

It is the Group's opinion that the net proceeds of the Public Issue, with cash flow from operations and other existing sources of liquidity will be sufficient to meet its projected working capital and other cash requirements. However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. The issue of additional equity or other convertible securities to non-shareholders will result in further dilution of the Group's shareholders.

The continued availability of credit lines has an important bearing on the operations and capital expenditure plans of the Group. As such there can be no assurance that the creditors that have extended credit will continue to make available the funding facilities required. Further to the above, there can be no assurance that the current assets of the Group will be realised on a timely basis to meet the obligations of the Group as and when they fall due.

4.23 Foreign Exchange Fluctuations

Certain portions of the Group's sales are denominated in foreign currencies. Any adverse fluctuations to foreign exchange rates therefore, would have implications on the Group's profitability. However, some of the Group's expenses are also denominated in foreign currency and thus provide a natural hedge. In addition, the imposition of exchange controls and the fixing of the RM to the USD by the Malaysian Government has helped to lower the risk of foreign exchange exposure. Further, although a large proportion of the Group's revenue are to overseas customers, Coastal invoices in RM whenever possible. In the period 1998 to 2002, sales denominated in foreign currencies is as tabled below:-

Sales currency (%)	**1998**	**1999**	**2000**	**2001**	**2002**
Local	35.0	50.0	63.0	63.0	63.0
Foreign	65.0	50.0	37.0	37.0	37.0

Nevertheless, while the Group does not presently experience any adverse effects arising from foreign exchange exposure, there can be no assurance that there will not be a material effect on the Group's business in the future. Neither can there be certainty of the permanence of the capital control and RM3.80 currency peg imposed by the Malaysian Government.

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