COASTAL CONTRACTS BHD (Company No. 517649-A)

**CONDENSED CONSOLIDATED INCOME STATEMENTS**
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2010

| | | INDIVIDUAL | | CUMULATIVE | |
|---|---|---|---|---|---|
| | Note | 3 months ended 30.06.2010 RM'000 (unaudited) | 3 months ended 30.06.2009 RM'000 (unaudited) | 6 months ended 30.06.2010 RM'000 (unaudited) | 6 months ended 30.06.2009 RM'000 (unaudited) |
| Revenue | 9 | 138,619 | 94,939 | 279,761 | 175,101 |
| Cost of sales and services | | (89,608) | (59,991) | (184,452) | (113,214) |
| Gross profit | | 49,011 | 34,948 | 95,309 | 61,887 |
| Other income | | 2,600 | 2,109 | 4,243 | 6,198 |
| Administrative expenses | | (1,624) | (1,572) | (3,531) | (3,269) |
| Other expenses | | (164) | (1,007) | (2,441) | (1,997) |
| Finance costs | | (1,240) | (836) | (1,976) | (1,827) |
| Profit before tax | 9 | 48,583 | 33,642 | 91,604 | 60,992 |
| Income tax expense | 19 | (308) | (673) | (23) | (257) |
| Profit for the period | | 48,275 | 32,969 | 91,581 | 60,735 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 48,275 | 32,969 | 91,581 | 60,735 |
| Earnings per share attributable to equity holders of the Company: | | | | | |
| - basic (sen) | 27 | 13.32 | 9.31 | 25.27 | 17.18 |

The above Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2010

| | | INDIVIDUAL | | CUMULATIVE | |
|---|---|---|---|---|---|
| | Note | 3 months ended 30.06.2010 RM'000 (unaudited) | 3 months ended 30.06.2009 RM'000 (unaudited) | 6 months ended 30.06.2010 RM'000 (unaudited) | 6 months ended 30.06.2009 RM'000 (unaudited) |
| Profit for the period | | 48,275 | 32,969 | 91,581 | 60,735 |
| Other comprehensive (loss) / income : | | | | | |
| Currency translation differences arising from consolidation | 15 | (1,831) | (7,089) | (17,177) | 2,485 |
| Total comprehensive income for the period | | 46,444 | 25,880 | 74,404 | 63,220 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 46,444 | 25,880 | 74,404 | 63,220 |

The above Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AS AT 30 JUNE 2010

| | Note | As at 30.06.2010 RM'000 (unaudited) | As at 31.12.2009 RM'000 (audited) (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2 (c) | 104,072 | 107,806 |
| Intangible asset | | 5,884 | 5,884 |
| Deferred tax assets | | 112 | - |
| | | 110,068 | 113,690 |
| **Current assets** | | | |
| Inventories | 15 | 894,704 | 781,225 |
| Trade receivables | 15 | 14,521 | 90,484 |
| Other receivables | 15 | 35,194 | 54,258 |
| Tax refundable | | 945 | 934 |
| Cash and bank balances | | 44,823 | 102,894 |
| | | 990,187 | 1,029,795 |
| **TOTAL ASSETS** | 9 | 1,100,255 | 1,143,485 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | 72,490 | 72,223 |
| Share premium | | 18,664 | 18,250 |
| Currency translation reserve | | (22,563) | (5,386) |
| Retained earnings | | 465,284 | 373,388 |
| **Total equity** | | 533,875 | 458,475 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 16,393 | 18,018 |
| Deferred tax liabilities | | 5,461 | 5,847 |
| | | 21,854 | 23,865 |
| **Current liabilities** | | | |
| Borrowings | 23 | 158,320 | 85,186 |
| Trade payables | | 8,814 | 42,223 |
| Other payables | 15 | 376,670 | 533,387 |
| Current tax payable | | 722 | 349 |
| | | 544,526 | 661,145 |
| **Total liabilities** | | 566,380 | 685,010 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,100,255 | 1,143,485 |
| Net assets per share (RM) | | 1.4730 | 1.2696 |

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2010

| | | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|---|
| | | Non distributable | | | Distributable | |
| | | Share capital | Share premium | Currency translation reserve | Retained earnings | Total |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **6 months ended 30 June 2009 (unaudited)** | | | | | | |
| **Balance at 1 January 2009** | | 70,561 | 15,675 | 174 | 221,561 | 307,971 |
| Effects of adopting FRS 117 | 2 (c) | - | - | - | 120 | 120 |
| **Balance at 1 January 2009 (restated)** | | 70,561 | 15,675 | 174 | 221,681 | 308,091 |
| Issuance of ordinary shares pursuant to the Employees' Share Option Scheme | | 1,248 | 1,934 | - | - | 3,182 |
| Total comprehensive income for the period | | - | - | 2,485 | 60,735 | 63,220 |
| **Balance at 30 June 2009** | | 71,809 | 17,609 | 2,659 | 282,416 | 374,493 |
| **6 months ended 30 June 2010 (unaudited)** | | | | | | |
| **Balance at 1 January 2010** | | 72,223 | 18,250 | (5,386) | 373,186 | 458,273 |
| Effects of adopting FRS 117 | 2 (c) | - | - | - | 202 | 202 |
| Effects of adopting FRS 139 | 2 (e) | - | - | - | 315 | 315 |
| **Balance at 1 January 2010 (restated)** | | 72,223 | 18,250 | (5,386) | 373,703 | 458,790 |
| Issuance of ordinary shares pursuant to the Employees' Share Option Scheme | 7 | 267 | 414 | - | - | 681 |
| Total comprehensive (loss) / income for the period | | - | - | (17,177) | 91,581 | 74,404 |
| **Balance at 30 June 2010** | | 72,490 | 18,664 | (22,563) | 465,284 | 533,875 |

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2010

| | CUMULATIVE | |
|---|---|---|
| | 6 months ended 30.06.2010 RM'000 (unaudited) | 6 months ended 30.06.2009 RM'000 (unaudited) |
| Net cash used in operating activities | (128,661) | (23,306) |
| Net cash used in investing activities | (653) | (2,618) |
| Net cash generated from financing activities | 74,468 | 43,594 |
| NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | (54,846) | 17,670 |
| Effect of exchange rate changes | (4,340) | 2,399 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR | 102,780 | 72,728 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD* | 43,594 | 92,797 |

* Cash and cash equivalents at end of financial period comprise the following:

| | | |
|---|---|---|
| Fixed deposits | 36,847 | 40,143 |
| Cash and bank balances | 7,976 | 52,655 |
| | 44,823 | 92,798 |
| Bank overdrafts | (1,229) | (1) |
| Cash and cash equivalents at end of financial period | 43,594 | 92,797 |

Out of the total fixed deposits of RM36.8 million, RM31.9 million were held under lien as securities for guarantees and documentary credits issued by banks in favour of third parties and for a credit facility granted to a subsidiary.

The above Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements.

**Explanatory Notes**
FOR THE QUARTER ENDED 30 JUNE 2010

1 **Basis of Preparation**

The interim financial statements are unaudited and have been prepared under the historical cost convention and in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2009. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2009.

2 **Changes in Accounting Policies and Effects Arising from Adoption of Revised FRSs**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2009 except for the adoption of the following new Financial Reporting Standards ("FRSs") and Interpretations, and amendments to certain FRSs and Interpretations effective for financial period beginning 1 January 2010:

FRS 4 *Insurance Contracts*
FRS 7 *Financial Instruments: Disclosures*
FRS 8 *Operating Segments*
FRS 101 *Presentation of Financial Statements (Revised)*
FRS 123 *Borrowing Costs*
FRS 139 *Financial Instruments: Recognition and Measurement*
Amendments to FRS 1 *First-time Adoption of Financial Reporting Standards* and FRS 127 *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
Amendments to FRS 2 *Share-based Payment: Vesting Conditions and Cancellations*
Amendments to FRS 132 *Financial Instruments: Presentation*
Amendments to FRS 139 *Financial Instruments: Recognition and Measurement*, FRS 7 *Financial Instruments: Disclosures* and IC Interpretation 9 *Reassessment of Embedded Derivatives*
Improvements to FRS issued in 2009
IC Interpretation 9 *Reassessment of Embedded Derivatives*
IC Interpretation 10 *Interim Financial Reporting and Impairment*
IC Interpretation 11 *FRS 2 - Group and Treasury Share Transactions*
IC Interpretation 13 *Customer Loyalty Programmes*
IC Interpretation 14 *FRS119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of the abovementioned FRSs, Interpretations, Amendments to FRS and Interpretation will have no material impact on the financial statements of the Group except for the following:

(a) **FRS 8 : *Operating Segments***

FRS 8, which replaces FRS 114 *Segment Reporting,* specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The Standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the reportable operating segments determined in accordance with FRS 8 are the same as the business segments previously identified under FRS 114. The Group has adopted FRS 8 retrospectively.

(b) **FRS 101 : *Presentation of Financial Statements (revised)***

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present this statement in two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by the Group.

(c) **Amendments to FRS 117 : *Leases***

Prior to 1 January 2010, for all leases of land and buildings, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group as operating lease and where necessary, the minimum lease payments or the up-front payments made were allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represented prepaid lease payments and were amortised on a straight-line basis over the lease term.

The amendments to FRS 117 *Leases* clarify that leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. They also clarify that the present value of the residual value of the property in a lease with a term of several decades would be negligible and accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee. Hence, the adoption of the amendments to FRS 117 has resulted in certain unexpired land leases to be reclassified as finance leases. The Group has applied this change in accounting policy retrospectively and certain comparatives have been restated as follows:

| **Group** | Previously stated RM'000 | Adjustments RM'000 | Restated RM'000 |
|---|---|---|---|
| **At 31 December 2009** | | | |
| Property, plant and equipment | 101,733 | 6,073 | 107,806 |
| Prepaid lease payments | 5,852 | (5,852) | - |
| Retained earnings | 373,186 | 202 | 373,388 |
| Deferred tax liabilities | 5,828 | 19 | 5,847 |
| **At 1 January 2009** | | | |
| Property, plant and equipment | 103,501 | 6,073 | 109,574 |
| Prepaid lease payments | 5,940 | (5,940) | - |
| Retained earnings | 221,561 | 120 | 221,681 |
| Deferred tax liabilities | 6,548 | 13 | 6,561 |

(d) **FRS 123:** ***Borrowing Costs***

FRS 123 has been revised to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. The Group has amended its accounting policy based on the revised FRS 123. In accordance with the transitional provisions of the Standard, the Group has adopted this as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2010. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

(e) **FRS 139:** ***Financial Instruments: Recognition and Measurement***

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group has adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. Comparatives are not restated.

Prior to 1 January 2010, borrowings were recorded at cost in the financial statements of the Group. Upon the adoption of FRS 139, borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. As at 1 January 2010, the Group has remeasured such borrowings at their respective amortised cost. The effects on the adjustments to the previous carrying amounts of these borrowings are as follows:

| **Group** | Previously stated | Adjustments | Restated |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| **At 1 January 2010** | | | |
| Retained earnings | 373,186 | 315 | 373,501 |
| Borrowings | 103,204 | (392) | 102,812 |
| Deferred tax liabilities | 5,828 | 77 | 5,905 |

(f) **FRS 7:** ***Financial Instruments: Disclosures***

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 *Financial Instruments: Disclosure and Presentation*. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group has applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures will included throughout the Group's financial statements for the year ending 31 December 2010.

3 **Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the Group's most recent annual audited financial statements for the year ended 31 December 2009 was not subject to any qualification.

4 **Seasonal or Cyclical Factors**

The Group's performance is affected by the regional economic conditions. The demand for vessels as well as shiprepair and charter services are closely associated with the regional economic climate.

5 **Unusual Items Affecting the Financial Statements**

There were no items affecting assets, liabilities, equity, net income or cash flows during the financial period under review that were unusual because of their nature, size or incidence.

6 **Change in Accounting Estimate**

There were no changes in estimates that have had material effects in the financial period under review.

7 **Debt and Equity Securities**

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the financial period under review except for the following:

On 14 June 2005, the Company offered 33,400,000 new ordinary shares in the Company pursuant to the Company's Employees' Share Option Scheme ("ESOS") at an exercise price of RM0.51 per share to the eligible employees and Directors of the Company and its subsidiaries. 30,482,000 of the options offered were accepted and subsequently granted on 14 July 2005. During the financial year-to-date, a total of 1,336,000 new ordinary shares were issued pursuant to the Company's ESOS. The Company's ESOS had expired on 17 January 2010.

8 **Dividends Paid**

No dividend has been paid in the current quarter under review.

9 **Segmental Reporting**

Segment information is presented in respect of the Group's primary business segments, which is based on the Company's management and internal reporting structure.

| | Shipbuilding and Shiprepair RM'000 | Vessel Chartering RM'000 | Eliminations RM'000 | Consolidated RM'000 |
|---|---|---|---|---|
| **3 months ended 30 June 2010** | | | | |
| ***Revenue*** | | | | |
| External revenue | 133,269 | 5,350 | - | 138,619 |
| Inter-segment revenue | 225 | 1,719 | (1,944) | - |
| Total revenue | 133,494 | 7,069 | (1,944) | 138,619 |
| ***Results*** | | | | |
| Profit before tax | 46,848 | 1,735 | - | 48,583 |
| **6 months ended 30 June 2010** | | | | |
| ***Revenue*** | | | | |
| External revenue | 267,280 | 12,481 | - | 279,761 |
| Inter-segment revenue | 225 | 1,908 | (2,133) | - |
| Total revenue | 267,505 | 14,389 | (2,133) | 279,761 |
| ***Results*** | | | | |
| Profit before tax | 86,586 | 5,018 | - | 91,604 |
| **Total Assets** | | | | |
| 30 June 2010 | 1,030,087 | 70,168 | - | 1,100,255 |
| 31 December 2009 | 1,064,131 | 79,354 | - | 1,143,485 |

10 **Subsequent Event**

There was no material event subsequent to the end of the current quarter.

11 **Changes in the Composition of the Group**

There was no change in the composition of the Group for the financial period under review.

12 **Contingent Liabilities and Contingent Assets**

| | RM'000 |
|---|---|
| Corporate guarantees to financial institutions in respect of banking facilities granted to subsidiaries | 211,526 |
| Corporate guarantee to a financial institution in respect of documentary credits issued on behalf of a subsidiary | 80,265 |
| | 291,791 |

As at 30 June 2010, the Company is contingently liable for RM174,044,000 of banking facilities utilised by its subsidiaries and RM53,179,000 of documentary credits issued on behalf of the subsidiary.

13 **Capital Commitments**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 June 2010 is as follows:

| | RM'000 |
|---|---|
| Approved and contracted for | 611 |

14 **Related Party Transactions**

| | Individual 3 months ended 30 June 2010 RM'000 | Cumulative 6 months ended 30 June 2010 RM'000 |
|---|---|---|
| *Transactions with a company in which certain Directors of the Company have financial interests:* | | |
| - Top Pride Sdn. Bhd. | | |
| Rent of premises | 4 | 8 |
| *Transactions with a company in which a director is the spouse of a person connected with the Directors of the Company:* | | |
| - PT. Prima Armada Nusantara | | |
| Agency service fees charged | 22 | 44 |
| *Transactions with a person connected with certain Directors of the Company:* | | |
| - Ng Lai Whoon | | |
| Rent of premises | 5 | 10 |
| *Transactions with a Director of the Company:* | | |
| - Ng Chin Shin | | |
| Rent of premises | 5 | 10 |

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

15 **Review of Performance**

The Group recorded a slightly lower revenue of RM138.6 million in the current quarter ended 30 June 2010 as compared to last quarter's RM141.1 million, a reduction of 2%. Against the corresponding period last year, the Group's revenue rose 46% from RM94.9 million.

Currency translation differences arising from consolidation were attributed to exchange differences arising on the translation of the financial statements of foreign operations.

Included in inventories of the Group are finished goods totalling RM335.9 million (31 December 2009: RM328.5 million) and vessels work-in-progress amounting to RM541.0 million (31 December 2009: RM433.7 million). For the current quarter under review, there are no provisions made for obsolete or slow-moving inventories or work-in-progress write-off.

Out of the RM14.5 million of trade receivables as at 30 June 2010, RM2.0 million was subsequently received by the Group.

Included in other receivables of the Group are payments made to suppliers and contractors totalling RM26.0 million (31 December 2009: RM45.8 million) to secure the supply of input materials, equipment and services intended for the Group's rolling vessel building programme.

Included in other payables are deposits received from vessel buyers totalling RM368.5 million (31 December 2009: RM524.1 million), reflecting a healthy vessel sales order book with deliveries through 2011.

*Shipbuilding and Shiprepair Division*

The division registered RM133.3 million of revenue in the current quarter, which was largely unchanged from the RM134.0 million recorded in the immediate preceding quarter. Year-on-year, the division's revenue climbed 49% from RM89.6 million. 7 units of vessels were delivered in the current quarter, compared to 8 units in the preceding quarter and 4 units for the corresponding quarter of last year.

*Vessel Chartering Division*

The revenue generated from this division in the current quarter was lower by RM1.8 million or 25% to RM5.3 million, from RM7.1 million in the preceding quarter. This was mostly attributed to the inclusion of a RM1.3 million of ship delivery income in the preceding quarter which was infrequent in nature. Against the corresponding quarter a year ago, the division's revenue this quarter was consistent with the RM5.3 million posted last year.

16 **Material Change in Profit Before Taxation**

The Group made a profit before tax of RM48.6 million in the current quarter which was 13% higher compared to the RM43.0 million achieved in the previous quarter. Against the same period last year, profit before tax has jumped 45% from RM33.6 million. This was vastly due to the better results achieved by the Shipbuilding Division. On the whole, current quarter's profit margin before tax of 35% was higher than the 30% achieved in the previous quarter, but was relatively on a par with that of last year's corresponding quarter.

17 **Prospects**

Crude oil prices have stayed listless around USD75 a barrel on concerns that the global economic recoveries are losing momentum. The latest economic indicators from China, the U.S. and Japan (the world's top three largest oil consumers) showed that the world economy may not grow as much as expected in the second half of 2010. Still, the U.S. Energy Information Agency expects world oil prices will rise slowly as demand increases because of projected global economic growth, continued production restraint by members of the Organisation of the Petroleum Exporting Countries (OPEC), and slower growth in non-OPEC oil supply. A gradual reduction in global oil inventories should also lend support to firming oil prices. This positive price sentiment augurs well for offshore exploration, development and production activities, and any renewed capital spending in the upstream oil and gas sector would spill over to spur the sales market for offshore support vessels ("OSVs").

With major new oilfield developments off the western coast of Sabah gaining traction, the Group will continuously pursue opportunities to diversify into offshore structure fabrication and gain industry knowledge of the oil and gas engineering, procurement and construction business. Central to this new venture are the Group's strong foundation in marine structures and the geographical proximity of the Group's 52-acre fabrication yard to the heart of Sabah's growing oil and gas activities. Upgrading and improvement works are currently ongoing to expand the fabrication yard's capabilities.

Given that the shipbuilding market has shown signs of recovery, Coastal Group has modest optimism of securing a consistent flow of new contracts to add to its sales order book, especially in the OSVs category. The Group also expects steady income stream from its ship chartering division through continued deployment of the Group's fleet in commodities transportation and in various oil and gas support services. It is anticipated that any future participation in the oil and gas fabrication business would further broaden Coastal Group's revenue base and boost its bottomline. The Group's healthy financial position with low level of borrowings will also shield it from major financial stress.

Barring adverse changes in the global and regional economic outlook, Coastal Group expects to deliver continued revenue and earnings growth in 2010, backed by the strength of the shipbuilding division's vessel sales order book.

18 **Explanatory Notes for Variance of Forecast and Profit Guarantee**

The Company did not issue any profit forecast or profit guarantee and therefore, this note is not applicable.

19 **Income Tax Expense**

| | Individual 3 months ended 30 June 2010 RM'000 | Cumulative 6 months ended 30 June 2010 RM'000 |
|---|---|---|
| Income tax expense comprises: | | |
| Estimated tax payable | 405 | 547 |
| Foreign tax | 31 | 51 |
| Deferred tax charge / (reversal) | (128) | (575) |
| | 308 | 23 |

The effective tax rates for the current quarter and the financial year-to-date were lower than the statutory tax rate in Malaysia due to the reversal of deferred tax relating to temporary differences as well as the different income tax rate applicable to subsidiaries of the Group in other jurisdictions.

20 **Sale of Unquoted Investments and/or Properties**

There was no sale of unquoted investments and/or properties for the current quarter and financial year-to-date.

21 **Purchase or Disposal of Quoted Securities**

There was no purchase or sale of quoted securities for the current quarter and financial year-to-date. In addition, the Group did not own any quoted security as at the end of the reporting period.

22 **Status of Corporate Proposals**

There are no corporate proposals announced but not completed as at 24 August 2010.

23 **Group Borrowings and Debt Securities**

The Group's borrowings as at the end of the quarter were as follows:

| | As at 30 June 2010 RM'000 |
|---|---|
| Secured | |
| Short term | 158,320 |
| Long term | 16,393 |
| Total | 174,713 |

Apart from RM121.4 million of short term secured borrowings which are denominated in United States Dollar, all the other borrowings are denominated in Ringgit Malaysia.

The debt-equity ratio of the Group has increased to 0.327 from last quarter's 0.219. Additional funds were drawn down from existing credit lines as well as from new credit facility to partly finance the Group's shipbuilding division to keep an orderly rolling work-in-progress. Accordingly, the Group registered an increase in inventories (comprising mainly work-in-progress) to RM894.7 million as compared to the RM781.2 million recorded as at the end of 2009.

With renewed domestic and regional demand from oil and gas and related services as well as commodity transportation sectors, the Group will continue to strategically invest both internal and external funds into its vessel building programme intended for eventual sale and also for its fleet development for charter purposes.

The current gearing is within management comfort level.

24 **Financial Instruments**

(a) Derivatives

There were no outstanding derivatives as at 30 June 2010.

(b) Gains or Losses Arising from Fair Value Changes of Financial Liabilities

As the Group did not have any financial liabilities measured at fair value through profit or loss, there were no gains or losses arising from fair value changes of financial liabilities for the current quarter and financial year-to-date.

**25 Material Litigation**

As announced on 19 May 2009, 29 January 2010, 19 March 2010 and 13 May 2010, the Company's wholly-owned subsidiary, Thaumas Marine Ltd ("TML"), a party to a Memorandum of Agreement ("MOA") with Scorpio Logistics Pte Ltd (as subsequently assigned to Zeus Logistics Company Limited) ("Buyer") relating to the sale of one unit flat top barge ("Vessel"), had on 6 May 2009 received a notice from the Buyer to refer a dispute to arbitration. The arbitration proceedings was instigated following a dispute over an allegation by the Buyer that the Vessel was not in conformance with a certain specification. The Buyer claims for the sum of USD722,164, interest, cost and such further and other relief as may be appropriate or just. This case is still pending before the Arbitral Tribunal.

The Group is not engaged in other material litigation and is not aware of any proceedings which materially affect the position or business of the Group as at 24 August 2010.

**26 Dividend Payable**

No interim dividend has been declared for the current quarter ended 30 June 2010.

At the Annual General Meeting of the Company held on 28 June 2010, the shareholders of the Company have approved the declaration of a first and final tax exempt dividend of 12% and a special tax exempt dividend of 13% (or 5 sen in aggregate per ordinary share) in respect of the financial year ended 31 December 2009. This dividend will be payable on 3 September 2010 to shareholders registered in the Records of Depositors at the close of business on 9 August 2010.

**27 Earnings Per Share**

*Basic earnings per share attributable to equity holders of the Company*

Basic earnings per share of the Group is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Individual 3 months ended 30 June 2010 | Cumulative 6 months ended 30 June 2010 |
|---|---|---|
| *Basic earnings per share* | | |
| Profit attributable to equity holders of the Company (RM'000) | 48,275 | 91,581 |
| Weighted average number of ordinary shares in issue ('000) | 362,452 | 362,349 |
| Basic earnings per share (sen) | 13.32 | 25.27 |

As at the end of the quarter, there was only one class of shares in issue and they rank pari passu with each other.

**28 Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 24 August 2010.