COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2011

		INDIVIDUAL		CUMULATIVE	
	Note	3 months ended 31.03.2011 RM'000 (unaudited)	3 months ended 31.03.2010 RM'000 (unaudited)	3 months ended 31.03.2011 RM'000 (unaudited)	3 months ended 31.03.2010 RM'000 (unaudited)
Revenue	9	155,830	141,142	155,830	141,142
Cost of sales and services		(98,256)	(94,844)	(98,256)	(94,844)
Gross profit		57,574	46,298	57,574	46,298
Other income		1,713	1,643	1,713	1,643
Administrative expenses		(2,439)	(1,907)	(2,439)	(1,907)
Other expenses		(813)	(2,277)	(813)	(2,277)
Finance costs		(419)	(736)	(419)	(736)
Profit before tax	9	55,616	43,021	55,616	43,021
Income tax expense	19	476	285	476	285
Profit for the period		56,092	43,306	56,092	43,306
Attributable to:					
Owners of the parent		56,092	43,306	56,092	43,306
Earnings per share attributable to owners of the parent:					
- basic (sen)	28	15.48	11.95	15.48	11.95

The above Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010 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 31 MARCH 2011

		INDIVIDUAL		CUMULATIVE	
	Note	3 months ended 31.03.2011 RM'000 (unaudited)	3 months ended 31.03.2010 RM'000 (unaudited)	3 months ended 31.03.2011 RM'000 (unaudited)	3 months ended 31.03.2010 RM'000 (unaudited)
Profit for the period		56,092	43,306	56,092	43,306
Other comprehensive (loss) / income :					
Currency translation differences arising from consolidation	15(a)	(8,645)	(15,346)	(8,645)	(15,346)
Total comprehensive income for the period		47,447	27,960	47,447	27,960
Attributable to:					
Owners of the parent		47,447	27,960	47,447	27,960

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 2010 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 31 MARCH 2011

	Note	As at 31.03.2011 RM'000 (unaudited)	As at 31.12.2010 RM'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		104,698	106,504
Intangible asset		5,884	5,884
Deferred tax assets		543	243
		111,125	112,631
Current assets			
Inventories	15(b)	728,557	786,899
Trade receivables	15(c)	14,637	16,575
Other receivables	15(d)	50,228	26,450
Tax refundable		570	571
Cash and bank balances		188,014	149,792
		982,006	980,287
TOTAL ASSETS	9	1,093,131	1,092,918
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		72,490	72,490
Share premium		18,664	18,664
Currency translation reserve		(53,524)	(44,879)
Retained earnings	20	612,465	556,373
Total equity		650,095	602,648
Non-current liabilities			
Borrowings	24	14,064	14,747
Deferred tax liabilities		4,758	5,054
		18,822	19,801
Current liabilities			
Borrowings	24	35,001	36,332
Trade payables		3,873	4,582
Other payables	15(e)	385,282	429,502
Current tax payable		58	53
		424,214	470,469
Total liabilities		443,036	490,270
TOTAL EQUITY AND LIABILITIES		1,093,131	1,092,918
Net assets per share (RM)		1.7936	1.6627

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 2010 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 31 MARCH 2011

	Attributable to owners of the parent				
	Non distributable			Distributable	
	Share capital	Share premium	Currency translation reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
3 months ended 31 March 2010 (unaudited)					
Balance at 1 January 2010	72,223	18,250	(5,386)	373,703	458,790
Issuance of ordinary shares pursuant to the Employees' Share Option Scheme	267	414	-	-	681
Total comprehensive (loss) / income for the period	-	-	(15,346)	43,306	27,960
Balance at 31 March 2010	72,490	18,664	(20,732)	417,009	487,431
3 months ended 31 March 2011 (unaudited)					
Balance at 1 January 2011	72,490	18,664	(44,879)	556,373	602,648
Total comprehensive (loss) / income for the period	-	-	(8,645)	56,092	47,447
Balance at 31 March 2011	72,490	18,664	(53,524)	612,465	650,095

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 2010 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 31 MARCH 2011

	CUMULATIVE	
	3 months ended 31.03.2011 RM'000 (unaudited)	3 months ended 31.03.2010 RM'000 (unaudited)
Net cash generated from / (used in) operating activities	42,639	(18,979)
Net cash generated from investing activities	695	2,029
Net cash (used in) / generated from financing activities	(1,588)	6,702
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	41,746	(10,248)
Effect of exchange rate changes	(2,746)	(16,237)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	148,973	102,780
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD*	187,973	76,295

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

Fixed deposits	163,133	44,842
Cash and bank balances	24,881	31,595
	188,014	76,437
Bank overdrafts	(41)	(142)
Cash and cash equivalents at end of financial period	187,973	76,295

Out of the total fixed deposits of RM163.1 million, RM16.0 million were held under lien as securities for guarantee and documentary credits issued by banks in favour of third parties. Subsequent to 31 March 2011, RM74.4 million of fixed deposits were utilised for payment to contractors and suppliers.

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 2010 and the accompanying explanatory notes attached to the interim financial statements.

Explanatory Notes
FOR THE QUARTER ENDED 31 MARCH 2011

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 2010. 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 2010.

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 2010 except for the adoption of the following new Financial Reporting Standards ("FRSs") and Interpretations, and amendments to certain FRSs and Interpretations which are applicable for the Group's financial period beginning 1 January 2011:

FRS 1 *First-time Adoption of Financial Reporting Standards (revised)*
FRS 3 *Business Combinations (revised)*
FRS 127 *Consolidated and Separate Financial Statements (revised)*
Amendments to FRS 1 *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
Amendments to FRS 1 *Additional Exemptions for First-time Adopters*
Amendments to FRS 2 *Share-based Payment*
Amendments to FRS 2 *Group Cash-settled Share-based Payment Transactions*
Amendments to FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
Amendments to FRS 7 *Improving Disclosures about Financial Instruments*
Amendments to FRS 132 *Financial Instruments: Presentation*
Amendments to FRS 138 *Intangible Assets*
Improvements to FRSs (2010)
IC Interpretation 4 *Determining whether an Arrangement Contain a Lease*
IC Interpretation 12 *Service Concession Arrangements*
IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
IC Interpretation 17 *Distributions of Non-cash Assets to Owners*
IC Interpretation 18 *Transfer of Assets from Customers*
Amendments to IC Interpretation 9 *Reassessment of Embedded Derivatives*
Amendments to IC Interpretation 15 *Agreements for the Construction of Real Estate*
Technical Release 3 *Guidance on Disclosures of Transition to IFRSs*

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:

Revised FRS 3 *Business Combinations* and FRS 127 *Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in the accounting for business combinations occurring after 1 July 2010. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised FRS 127 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments have been made to FRS 107 Statement of Cash Flows, FRS 112 Income Taxes, FRS 121 The Effects of Changes in Foreign Exchange Rates, FRS 128 Investments in Associates and FRS 131 Interests in Joint Ventures. The changes from the revised FRS 3 and FRS 127 will affect future acquisitions or loss of control and transactions with minority interests.

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 2010 was not subject to any qualification.

4 **Seasonal or Cyclical Factors**

The Group's performance is affected by the global and regional economic conditions. The demand for vessels as well as shiprepair and charter services are closely associated with the 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 issue, cancellation, repurchase, resale and repayment of debt and equity securities during the financial period under review.

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
<u>3 months ended 31 March 2011</u>				
Revenue				
External revenue	153,833	1,997	-	155,830
Inter-segment revenue	668	706	(1,374)	-
Total revenue	154,501	2,703	(1,374)	155,830
Results				
Profit/(loss) before tax	55,602	14	-	55,616
Total Assets				
31 March 2011	1,031,212	61,918	-	1,093,130
31 December 2010	1,027,646	65,272	-	1,092,918

10 **Subsequent Event**

As announced on 20 May 2011, the Memorandum of Understanding ("MoU") entered into between Pleasant Engineering Sdn Bhd ("PESB"), a wholly-owned subsidiary of the Company, and Ramunia Fabricators Sdn Bhd ("RFSB") for the proposed collaboration to undertake the tendering, bidding and fabrication in relation to structures for the oil and gas industry, has ceased to be in effect on 18 May 2011. The cessation of the MoU will not have any material financial or legal effect on PESB.

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	249,309
Corporate guarantee to a financial institution in respect of documentary credits issued on behalf of a subsidiary	64,104
	313,413

As at 31 March 2011, the Company is contingently liable for RM48,074,000 of banking facilities utilised by its subsidiaries and RM55,215,000 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 31 March 2011 is as follows:

	RM'000
Approved and contracted for	579

14 **Related Party Transactions**

	Individual 3 months ended 31 March 2011 RM'000	Cumulative 3 months ended 31 March 2011 RM'000
Transactions with a company in which certain Directors of the Company have financial interests:		
- Top Pride Sdn. Bhd.		
Rent of premises	2	2
Transactions with a person connected with certain Directors of the Company:		
- Ng Lai Whoon		
Rent of premises	5	5
Transactions with a Director of the Company:		
- Ng Chin Shin		
Rent of premises	3	3

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**

For the three months ended 31 March 2011, Coastal Group made a net profit of RM56.1 million, a slight increase of 1% from RM55.7 million booked in the fourth quarter of 2010 (4Q2010). Compared against the first quarter of 2010 (1Q2010), net profit was up by 30% from RM43.3 million.

Current quarter's net profit was achieved despite a 23% drop in revenue to RM155.8 million from 4Q2010's RM203.4 million. Year-on-year, the Group's revenue has risen by 10% from RM141.1 million. The strong performance was vastly driven by higher operating margins from the Shipbuilding Division.

Shipbuilding and Shiprepair Division

Revenue generated from this division in the current quarter stood at RM153.8 million, 15% higher compared with RM134.0 million recorded in 1Q2010. Quarter-on-quarter, revenue has fallen 24% from RM202.0 million. In spite of this sequential decline, the division contributed earnings before tax that is almost on par with 4Q2010. Of the total 5 units of vessels delivered in the current quarter (1Q2010: 8 units; 4Q2010: 7 units), 3 units were high-end offshore support vessels (1Q2010: 2 units; 4Q2010: 4 units).

Vessel Chartering Division

The division's revenue grew by 43% to RM2.0 million from 4Q2010's RM1.4 million, on the back of improvement in overall tonnage transported. Compared with preceding year's corresponding quarter, revenue has reduced by 72% from RM7.1 million. Fleet utilisation rate has been lower for the past two quarters due to contract transition.

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

(b) Included in inventories of the Group are finished goods of RM294.8 million (31 December 2010: RM357.2 million) and vessels work-in-progress of RM418.7 million (31 December 2010: RM414.0 million). For the current quarter under review, there are no provisions made for obsolete or slow-moving inventories or work-in-progress write-off.

(c) Out of the RM14.6 million of trade receivables as at 31 March 2011, RM1.4 million was subsequently received by the Group.

(d) Included in other receivables of the Group are payments made to suppliers and contractors totalling RM44.7 million (31 December 2010: RM20.1 million) to secure the supply of input materials, equipment and services intended for the Group's rolling vessel building programme.

(e) Included in other payables are advance payments received from vessel buyers totalling RM375.9 million (31 December 2010: RM421.5 million). The Group currently has a strong vessel sales order book that will deliver progressive revenue and earnings until 2012.

16 **Material Change in Profit Before Taxation**

The Group's profit before tax in the current quarter stood at RM55.6 million, a marginal increase of 1% compared with RM55.0 million achieved in 4Q2010. Year-on-year, profit before tax was up by 29% from RM43.0 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 36% was higher than the 27% and 30% achieved in 4Q2010 and 1Q2010, respectively. This improvement was credited to higher margins derived from the sale of vessels.

17 **Prospects**

Compared with the same time last year, current crude oil price has risen by some USD30 to around USD100 per barrel. Much of the price gain occurred after the dawn of 2011, triggered by the unrest in some Middle East and North Africa countries, the disruption of crude oil exports from Libya, and the improving global economic sentiment. In a high oil price environment, more orders for offshore support vessels ("OSV") are expected to flow in along with the increased rollout of exploration, development and production projects by oil companies. Additionally, demand for specialised and high performance OSV that can withstand harsh environments is anticipated to firm up in tandem with the shift towards deep water production, where most of today's oil reserves are located.

With Sabah set to become Malaysia's oil and gas hub, particularly in deepwater oilfield developments off the state's western coast, Coastal Group is actively pursuing strategic opportunities to diversify into the offshore structure fabrication business. To make a foray into this potential new phase of growth, one strategic entry option open to the Group is via collaboration with a business partner that complements the Group's technical capabilities. Central to this plan are the Group's strong foundation in marine structures and the close proximity of its 52-acre fabrication yard to the heart of Sabah's growing oil and gas activities. Upgrading works to expand the fabrication yard's infrastructure and capabilities have currently reached an advanced stage.

Since the bottoming out of the offshore market in 2010, Coastal Group has witnessed considerable pick up in interests for its vessels. The Group has modest optimism of clinching new contracts to add to its vessel sales order book, especially in the OSV category. The Group also expects to redeploy its chartering fleet within Asia Pacific's niche market segment of coastal and inland waterway transportation to earn recurring income stream. With net cash of RM139 million and a low gearing ratio of 7.5% (see Explanatory Note 24 below) as at end-March 2011, the Group is on a solid financial footing which enables it to explore potential business opportunities in the offshore structure fabrication sector to galvanise its growth.

Barring adverse changes in the global and regional economic outlook, Coastal Group expects a reasonably satisfactory financial performance for 2011, backed by the clear revenue visibility 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 31 March 2011 RM'000	Cumulative 3 months ended 31 March 2011 RM'000
Income tax expense comprises:		
Estimated tax payable	120	120
Deferred tax charge / (reversal)	(596)	(596)
	(476)	(476)

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 Retained Earnings

The retained earnings as at 31 March 2011 and 31 December 2010 are further analysed as follows:

	As at 31 March 2011 RM'000	As at 31 December 2010 RM'000
Total retained earnings of the Group:		
- Realised	664,171	608,793
- Unrealised	(3,686)	(4,131)
	660,485	604,662
Consolidation adjustments	(48,020)	(48,289)
Total Group retained earnings as per consolidated accounts	612,465	556,373

21 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.

22 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.

23 Status of Corporate Proposals

As announced on 6 May 2011, the Company proposes to undertake the following:

(a) a bonus issue of new ordinary shares on the basis of one (1) bonus share for every three (3) shares held (“Proposed Bonus Issue”);

(b) an issue of free warrants on the basis of one (1) warrant for every eight (8) shares held after the Proposed Bonus Issue (“Proposed Free Warrants Issue”); and

(c) purchase by the Company of up to ten percent (10%) of its issued and paid-up share capital

(collectively referred to as the “Proposals”).

As further announced on 19 May 2011, Bursa Malaysia Securities Berhad (“Bursa Securities”) had via its letter dated 18 May 2011 resolved to approve the following:

(a) listing and quotation of 120,817,333 new ordinary shares in the Company to be issued pursuant to the Proposed Bonus Issue;

(b) admission to the Official List of Bursa Securities and the listing and quotation of 60,408,667 warrants to be issued pursuant to the Proposed Free Warrants Issue; and

(c) listing of 60,408,667 new ordinary shares in the Company to be issued pursuant to the exercise of warrants.

The Proposals are further subject to and conditional upon approvals being obtained from the following:

(a) Bank Negara Malaysia, for the issuance of warrants to non-resident shareholders;

(b) the shareholders of the Company, for the Proposals at the forthcoming Extraordinary General Meeting to be convened on 28 June 2011; and

(c) any other relevant authorities, if required.

Barring any unforeseen circumstances and subject to all requisite approvals being obtained, the Company expects the Proposals to be implemented by the end of third quarter of 2011.

24 **Group Borrowings and Debt Securities**

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

	As at 31 March 2011 RM'000
Secured	
Short term	35,001
Long term	14,064
Total	49,065

All the borrowings are denominated in Ringgit Malaysia.

The debt-equity ratio of the Group has reduced to 0.075 from last quarter's 0.085. The reduction was mainly due to lower utilisation of credit facilities. Internally generated funds derived from operations were utilised to sustain the Group's working capital requirements during the quarter under review.

With renewed domestic and regional demand from the oil and gas as well as the 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.

25 **Financial Instruments**

(a) Derivatives

There were no outstanding derivatives as at 31 March 2011.

(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.

26 **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 proceeding 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. To-date, the parties have exchanged factual witness statements and expert reports. The 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 27 May 2011.

27 **Dividend**

On 28 March 2011, the Directors declared an interim tax exempt dividend of 27.5% equivalent to 5.5 sen per ordinary share in respect of the financial year ended 31 December 2010. This dividend was paid on 11 May 2011 to depositors registered in the Records of Depositors at close of business on 15 April 2011.

28 **Earnings Per Share**

Basic earnings per share attributable to owners of the parent

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

	Individual 3 months ended 31 March 2011	Cumulative 3 months ended 31 March 2011
Basic earnings per share		
Profit attributable to owners of the parent (RM'000)	56,092	56,092
Weighted average number of ordinary shares in issue ('000)	362,452	362,452
Basic earnings per share (sen)	15.48	15.48

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

29 **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 27 May 2011.