
11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



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20 July 2007

The Board of Directors
Complete Logistic Services Berhad
(Formerly known as Complete Logistic Services Sdn. Bhd.
and prior to that known as Spectral Logistics Sdn. Bhd.)
No. 25 Jalan Berangan
42000 Port Klang
Selangor Darul Ehsan

Dear Sirs

COMPLETE LOGISTIC SERVICES BERHAD
(FORMERLY KNOWN AS COMPLETE LOGISTIC SERVICES SDN. BHD. AND
PRIOR TO THAT KNOWN AS SPECTRAL LOGISTICS SDN. BHD.)
ACCOUNTANTS' REPORT

1. INTRODUCTION

This Report has been prepared by BDO Binder, an approved company auditor, for inclusion in the Prospectus of Complete Logistic Services Berhad (formerly known as Complete Logistic Services Sdn. Bhd. and prior to that known as Spectral Logistics Sdn. Bhd.) ("the Company" or "CLSB") to be dated 14 August 2007 in connection with the following:

- (a) Public issue of the 12,000,000 new ordinary shares of RM0.50 each comprising:
- 3,000,000 new ordinary shares of RM0.50 each by way of private placement to the identified investors;
 - 3,000,000 new ordinary shares of RM0.50 each available for application by the eligible directors and employees and persons who have contributed to the success of CLSB Group; and
 - 6,000,000 new ordinary shares of RM0.50 each available for application by Malaysian Public;

and

- (b) Offer for sale of the 30,668,000 ordinary shares of RM0.50 each by way of private placement to Bumiputera investors approved by the Ministry of International Trade and Industry ("MITI"),

at an issue/offer price of RM1.00 per ordinary share payable in full on application in conjunction with the listing of CLSB on the Main Board of Bursa Malaysia Securities Berhad.

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2. GENERAL INFORMATION



- 2.1 The Company was incorporated in Malaysia under the Companies Act, 1965 on 29 November 2005 as a private limited liability company under the name of Spectral Logistics Sdn. Bhd. and subsequently on 22 November 2006, it changed its name to Complete Logistic Services Sdn. Bhd. On 11 December 2006, the Company was converted into a public limited company and assumed its present name.
- 2.2 The principal activity of CLSB is that of investment holding. The principal activities of the subsidiary companies are set out in item 2.3 below.
- 2.3 The details of the subsidiary companies of CLSB which are incorporated in Malaysia, as at the date of this Report, are as follows:

Name of subsidiary company	Date of incorporation	Principal activities	Effective equity interest
1. Bagai Pertama Sdn. Bhd. ("Bagai Pertama")	19.04.2001	Shipowner/provision of marine transportation services	100%
2. Complete Container Services Sdn. Bhd. ("Complete Container")	27.03.2001	Shipowner/provision of marine transportation services	100%
3. Complete Logistic Specialists Sdn. Bhd. ("Complete Logistic")	03.09.1997	Total logistics services provider	100%
4. Complete Marine Services Sdn. Bhd. ("Complete Marine")	09.08.1999	Shipowner/provision of marine transportation services	100%
5. Complete Shipping Sdn. Bhd. ("Complete Shipping")	30.10.1998	Shipowner/provision of marine transportation services	100%
6. Complete Tug & Barge Sdn. Bhd. ("Complete Tug & Barge")	02.10.2000	Shipowner/provision of marine transportation services	100%
7. Complete Transport Services Sdn. Bhd. ("Complete Transport")	24.04.2001	Lorry and trucking services	100%
8. Dolphin Shipping Agency Sdn. Bhd. ("Dolphin Shipping")	08.03.2000	Trading of freight	100%
9. Island Network Sdn. Bhd. ("Island Network")	07.08.1998	General trading	100%
10. Island Network Shipbuilders Sdn. Bhd. ("Island Network Shipbuilders") *	16.05.2000	Dormant since incorporation	100%
11. Malsuria Logistics Sdn. Bhd. ("Malsuria Logistics")	08.06.1998	Shipowner/provision of marine transportation services	100%
12. Malsuria (M) Sdn. Bhd. ("Malsuria (M)")	15.02.1992	Shipowner/provision of marine transportation services	100%

11. ACCOUNTANTS' REPORT

2. GENERAL INFORMATION (cont')



Name of subsidiary company	Date of incorporation	Principal activities	Effective equity interest
13. Malsuria Tanker Services Sdn. Bhd. ("Malsuria Tanker")	06.02.1996	Shipowner/provision of marine transportation services	100%
14. Sierra Jaya Sdn. Bhd. ("Sierra Jaya")	10.06.1993	Shipowner/provision of marine transportation services	100%

* *Island Network Shipbuilders is wholly-owned by Island Network.*

3. SHARE CAPITAL

As at the date of this Report, the authorised and issued share capital of the Company is as follows:

	Number of shares	RM
Ordinary shares of RM0.50 each:		
Authorised	<u>200,000,000</u>	<u>100,000,000</u>
Issued and fully paid	<u>108,000,000</u>	<u>54,000,000</u>

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

Date of allotment	No of shares allotted	Par value	Consideration	Total issued and paid up share capital
		RM		RM
29.11.2005	2	1.00	Subscribers' shares	2
23.10.2006	27,982,645	1.00	Acquisitions of subsidiary companies	27,982,647
20 July 2007	26,017,353	1.00	Bonus issue	54,000,000
20 July 2007	108,000,000	0.50	Share split	54,000,000

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4. DIVIDENDS



CLSB has not paid any dividends since the date of its incorporation. The dividends declared or paid by the subsidiary companies during the relevant years under review are as follows:

Name of subsidiary companies	Financial year ended 31 March	Issued and paid-up capital RM	Gross dividend rate %	Net dividend RM
Bagai Pertama	2006: Interim	300,000	100.0	300,000
	2006: Interim	300,000	200.0	600,000
Complete Container	2005: Interim	300,000	300.0	900,000
	2006: Interim	300,000	100.0	300,000
	2006: Interim	300,000	200.0	600,000
	2006: Interim	300,000	530.0	1,590,000
	2007: Interim	300,000	700.0	2,100,000
Complete Marine	2007: Interim	1,000	105,000.0	1,050,000
Complete Shipping	2006: Interim	300,000	200.0	600,000
	2006: Interim	300,000	500.0	1,500,000
	2007: Interim	300,000	2,750.0	8,250,000
Island Network	2007: Interim	100,000	1,300.0	1,300,000
Malsuria Logistics	2006: Interim	300,000	100.0	300,000
	2006: Interim	300,000	150.0	450,000
	2006: Interim	300,000	200.0	600,000
	2006: Interim	300,000	950.0	2,850,000
Malsuria (M)	2005: Interim	1,000,000	200.0	2,000,000
	2005: Interim	1,000,000	100.0	1,000,000
	2006: Interim	1,000,000	700.0	7,000,000
	2007: Interim	1,000,000	410.0	4,100,000
Malsuria Tanker	2006: Interim	300,000	100.0	300,000
	2006: Interim	300,000	276.7	830,000
	2006: Interim	300,000	300.0	900,000
	2007: Interim	300,000	1,700.0	5,100,000
Sierra Jaya	2005: Interim	300,000	200.0	600,000
	2005: Interim	300,000	400.0	1,200,000
	2006: Interim	300,000	200.0	600,000
	2006: Interim	300,000	300.0	900,000
	2006: Interim	300,000	300.0	900,000
	2006: Interim	300,000	300.0	900,000
	2007: Interim	300,000	1,450.0	4,350,000

All dividends declared are tax exempted.

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5. LISTING SCHEME



In conjunction with and as an integral part of the listing of and quotation for the entire issued and fully paid-up share capital of CLSB on the Main Board of Bursa Malaysia Securities Berhad ("Listing"), CLSB undertook a listing scheme which was approved by the Securities Commission on 30 March 2007 and 5 July 2007 as well as the MITI on 26 February 2007 and 28 June 2007, involving the following:

5.1 Bonus Issue

CLSB undertook a bonus issue of 26,017,353 new ordinary shares of RM1.00 each in CLSB to the then existing shareholders of CLSB on the basis of approximately 92.97 new ordinary shares of RM1.00 each in CLSB for every one hundred (100) existing ordinary shares of RM1.00 each held in CLSB, by way of capitalising the retained profits and share premium reserves, as follows:

	RM
Retained profits	25,692,876
Share premium reserve	324,477
	<hr/>
Total	26,017,353
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Following the said bonus issue, the issued and paid-up share capital was increased from RM27,982,647 comprising 27,982,647 ordinary shares of RM1.00 each to RM54,000,000 comprising 54,000,000 ordinary shares of RM1.00 each in CLSB.

5.2 Share Split

Subsequent to the aforesaid bonus issue, CLSB implemented a share split exercise involving the subdivision of every one (1) existing ordinary share of RM1.00 each in CLSB into two (2) ordinary shares of RM0.50 each, resulting in the issued and paid-up share capital of CLSB of RM54,000,000 comprising 54,000,000 ordinary shares of RM1.00 each being subdivided into 108,000,000 ordinary shares of RM0.50 each.

5.3 Offer for Sale

Mr. Law Hee Ling, a substantial shareholder of CLSB, shall offer for sale an aggregate of 30,668,000 ordinary shares of RM0.50 each in CLSB by way of private placement to Bumiputera investors approved by the MITI at an offer price of RM1.00 per ordinary share.

5.4 Public Issue

In conjunction with the Listing, CLSB is undertaking a public issue of 12,000,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per ordinary share comprising the following:

- (a) 3,000,000 new ordinary shares of RM0.50 each by way of private placement to the identified investors.

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5. LISTING SCHEME (Cont')



5.4 Public Issue (Cont')

- (b) 3,000,000 new ordinary shares of RM0.50 each available for application by the eligible directors and employees and persons who have contributed to the success of CLSB.
- (c) 6,000,000 new ordinary shares of RM0.50 each available for application by Malaysian Public.

5.5 Listing and Quotation

Following the Offer for Sale and Public Issue, CLSB shall seek the permission of Bursa Malaysia Securities Berhad for the listing of and quotation for the enlarged issued and paid-up share capital comprising 120,000,000 ordinary shares of RM0.50 each on the Main Board of Bursa Malaysia Securities Berhad.

6. FINANCIAL STATEMENTS AND AUDITORS

The financial year end of CLSB and its subsidiary companies ("CLSB Group") is 31 March. We have acted as the auditors of CLSB since the date of its incorporation. The audited financial statement of CLSB for the financial period ended 31 March 2006 and the audited financial statements of CLSB and CLSB Group for the financial year ended 31 March 2007 were reported on by us without any qualifications.

We have acted as auditors for all of its subsidiary companies of CLSB for the financial year ended 31 March 2007. Prior to that, the subsidiary companies were audited by another firm of auditors, Messrs Chuah Kim Seng & Co. The audited financial statements of the subsidiary companies for the financial years ended 31 March 2005 and 2006 were reported on by Messrs Chuah Kim Seng & Co without any qualifications.

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11. ACCOUNTANTS' REPORT

7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES



The financial information presented in this Report is based on:

- audited financial statements of CLSB for the financial period from 29 November 2005 (date of incorporation) to 31 March 2006 and financial year ended 31 March 2007; and
- audited financial statements of the subsidiary companies of CLSB for the financial years ended 31 March 2005 to 2007

which have been prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

- (a) The audited financial statements of CLSB and its subsidiary companies for the financial year ended 31 March 2007 have been prepared in accordance with applicable approved Financial Reporting Standards in Malaysia ("FRSs") which are mandatory to CLSB and the subsidiary companies for annual periods beginning on or after 1 January 2006. Prior to that, the financial statements of CLSB and its existing subsidiary companies were prepared under the MASB approved accounting standards.

The new and revised FRSs which are mandatory to CLSB Group are as follows:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held For Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the abovementioned new and revised FRS during the financial year ended 31 March 2007 has no material impact to CLSB's and its subsidiary companies' financial statements as the existing accounting policies are consistent with the requirements under those applicable new standards except for the following financial areas:

- (i) The adoption of FRS 3 and FRS 136 has resulted in CLSB Group not amortising goodwill annually. Goodwill is now stated at cost less accumulated impairment losses and the carrying amount is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. CLSB Group has not recognised any goodwill during the financial year ended 31 March 2007.

11. ACCOUNTANTS' REPORT

7. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES (Cont')



Under FRS 3, any excess of the acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combinations, after reassessment, is recognised immediately in profit or loss. CLSB Group has recognised the excess of its interest in the net fair values of the subsidiaries' identifiable assets and liabilities amounting to RM33,228,518 in the consolidated income statement as disclosed in item 9.1; and

- (ii) Under FRS 127, when separate financial statements are prepared, investments in subsidiaries that are not classified as held for sale in accordance with FRS 5 shall be accounted for either at cost or in accordance with FRS 139. CLSB accounts for its investments in subsidiaries at fair value and designates it under available-for-sale category.
- (b) During the financial year ended 31 March 2007, CLSB and its subsidiary companies have early adopted FRS 139 Financial Instruments: Recognition and Measurement during the financial year ended 31 March 2007. The early adoption requires financial assets within the scope of FRS 139 to be classified in the following categories, where relevant:
 - (i) held-to-maturity
 - (ii) financial assets at fair value through profit and loss
 - (iii) loans and receivables
 - (iv) available-for-sale financial assets

The details of the accounting policy adopted are stated in item 9.1.

The effect on the financial statements is as follows:

	CLSB	
	(company level)	
	(item 9.2)	
	2007	2006
	RM	RM
Increase in:		
Available-for-sale financial asset		
- Investments in subsidiaries	<u>15,324,138</u>	<u>-</u>
Other reserve		
- Fair value reserve	<u>15,324,138</u>	<u>-</u>

Other than as stated above, the early adoption has no material impact to the financial statements of the Group and of the Company for the financial year ended 31 March 2007. As required under this standard, retrospective application is not permitted for the first time adoption of this standard. Accordingly, the comparative figures of the financial statements of CLSB and its subsidiary companies for prior years have not been restated in this Report.

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8. FINANCIAL INFORMATION AND LIMITATION



The scope of work conducted in the preparation of this Report does not, in itself, constitute an audit in accordance with the approved standards on auditing in Malaysia. Except where otherwise explicitly stated, information contained in this Report was not independently verified by us. In preparing the Report, we have relied upon information and representations given to us by the directors, officers and employees of the respective companies and sought explanations for apparent discrepancies, if any.

9. AUDITED FINANCIAL STATEMENTS

We set out in the following pages the financial information of CLSB and its subsidiary companies based on the audited financial statements for the relevant financial years/period covered in this Report.

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11. ACCOUNTANTS' REPORT

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB



The first set of the audited consolidated income statement of CLSB for the financial year ended 31 March 2007 is set out below:

	Note	Financial year ended 31.3.2007 RM
Revenue	2	66,420,906
Cost of sales		(54,232,913)
Gross profit		12,187,993
Other income		444,757
Excess of the group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment	3	33,228,518
Marketing and distribution costs		(127,012)
Administration expenses		(1,250,602)
Other expenses		(1,277,468)
Finance costs		(466,160)
Profit before tax	4	42,740,026
Tax expense	5	(1,190,753)
Profit for the year		41,549,273
<u>Key financial ratios</u>		
Gross profit margin		18.3%
Pre-tax profit margin *		14.3%
Effective tax rate *		12.5%
Earnings per share ^ *		51.0 sen
After tax return on shareholders' funds *		11.9%

Notes:

- (i) The acquisitions of subsidiary companies were completed in August 2006. Thus, the consolidated results reflect only seven (7) months' performance of the Group.
- (ii) ^ Computed based on the weighted average number of shares in issue of 16,323,212.
- (iii) * Excluding the recognition of the excess of the Group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment.

11. ACCOUNTANTS' REPORT

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')



The first set of the audited consolidated balance sheet of CLSB as at 31 March 2007 is set out below:

	Note	As at 31.3.2007 RM
ASSETS		
Non-current assets		
Property, plant and equipment	6	46,816,553
Current assets		
Inventories	7	2,890,223
Trade receivables	8	29,325,758
Other receivables, deposits and prepayments	9	2,401,125
Tax recoverable		8,343
Fixed deposits with licensed banks	10	6,215,437
Cash and bank balances		2,825,745
		43,666,631
TOTAL ASSETS		90,483,184
EQUITY AND LIABILITIES		
Share capital	11	27,982,647
Share premium		324,477
Retained profit	12	41,496,523
TOTAL EQUITY		69,803,647
Non-current and deferred liabilities		
Term loans (secured)	13	5,726,888
Deferred tax liabilities	14	143,056
		5,869,944
Current liabilities		
Trade payables	15	8,815,926
Other payables and accruals	16	809,829
Amounts owing to Directors	17	205,715
Borrowings (secured)	18	4,353,440
Tax liabilities		624,683
		14,809,593
TOTAL LIABILITIES		20,679,537
TOTAL EQUITY AND LIABILITIES		90,483,184
<u>Key financial ratios</u>		
Inventories' turnover period **		43 days
Trade receivables' collection period **		101 days
Trade payables' repayment period **		37 days
Net current assets		RM28,857,038
Number of ordinary shares of RM1.00 each		27,982,647
Net tangible assets per share		RM2.49
Current ratio		2.95 times
Gearing		0.14 times

Notes:

- (i) ** Annualised based on proforma results assuming CLSB Group had been in existence throughout the financial year ended 31 March 2007.

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9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')



The first set of the audited consolidated cash flow statement of CLSB for the financial year ended 31 March 2007 is set out below:

Note	Financial year ended 31.3.2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	42,740,026
Adjustments for:	
Allowance for impairment of trade receivables	85,857
Bad debts written off	116,974
Depreciation of property, plant and equipment	1,719,971
Gain on disposal of property, plant and equipment	(80,733)
Interest income	(113,607)
Interest expenses	466,160
Excess of group's interest in the net fair value of of subsidiary companies' identifiable assets and liabilities over the cost of investment	(33,228,518)
Unrealised loss on foreign exchange	124,081
Operating profit before working capital changes	11,830,211
Changes in working capital:	
Inventories	(1,545,733)
Receivables	(8,617,562)
Payables	1,972,236
Cash generated from operations	3,639,152
Tax paid	(733,617)
Net cash from operating activities	2,905,535
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	113,607
Purchase of property, plant and equipment	(506,073)
Acquisitions of subsidiary companies, net of cash acquired	4,388,659
Proceeds from disposal of property, plant and equipment	88,001
Net cash from investing activities	4,084,194
CASH FLOWS FROM FINANCING ACTIVITIES	
Drawdown from bankers' acceptances	2,258,000
Interest paid	(466,160)
Repayment of borrowings	(1,011,493)
Repayment of hire-purchase creditors	(24,166)
Repayment to Directors	(276,635)
Net cash from financing activities	479,546
Net increase in cash and cash equivalents	7,469,275
Cash and cash equivalents at beginning of year	2
Cash and cash equivalents at end of year	7,469,277
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9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

The first set of the audited consolidated statement of changes in equity of CLSB for the financial year ended 31 March 2007 is set out below:

	Share capital RM	Share premium RM	(Accumulated loss) / Retained profit RM	Total RM
Balance as at 31 March 2006	2	-	(52,750)	(52,748)
Issue of shares	27,982,645	324,477	-	28,307,122
Profit for the year	-	-	41,549,273	41,549,273
Balance as at 31 March 2007	27,982,647	324,477	41,496,523	69,803,647

Notes to the Material Items on the Consolidated Financial Statements of CLSB

Summarised below are the material items in the audited financial statements of CLSB for the financial year ended 31 March 2007.

Note 1: Significant Accounting Policies

(a) *Basic of accounting*

The audited consolidated financial statements have been prepared under the historical cost convention unless otherwise indicated in the significant accounting policies.

The preparation of financial statements in conformity with applicable approved Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, the Directors are also required to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

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9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')



(b) *Basic of consolidation*

The consolidated financial statements incorporate the financial statements of CLSB and all its subsidiary companies made up to the end of the financial year using the purchase method of accounting.

Under the purchase method of accounting, the cost of business combination is measured at the aggregate of fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the business combination.

At the acquisition date, the cost of business combination is allocated to identifiable assets, liabilities and contingent liabilities in the business combination which are measured initially at their fair values at the acquisition date. The excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the cost of business combination is less than the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the Group will:

- (i) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (ii) recognise immediately in profit or loss any excess remaining after that reassessment.

Subsidiary companies are consolidated from the acquisition date, which is the date on which the Group effectively obtains control, until the date in which the Group ceases to control the subsidiary companies.

Intragroup balances, transactions and unrealised gains and losses on intragroup transactions are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements.

(c) *Property, plant and equipment and depreciation*

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred. Cost also comprises the initial estimate of dismantling and removing the item and restoring the site on which it is located for which the Group is obligated to incur when the item is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and which have different useful lives, are depreciated separately.