9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

(c) Property, plant and equipment and depreciation (cont')

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation periods and rates are as follows:

Containers	10%
Office equipment	10% - 20%
Motor vehicles	20%
Plant and machinery	10%
Tug boat and barge	50 years
Vessels	50 years
Vessel equipment	10%

At each balance sheet date, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds and the carrying amount is included in profit or loss.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. The cost of trading goods comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(e) Impairment of non-financial assets

The carrying amount of assets, except for financial assets and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

(e) Impairment of non-financial assets (cont')

The recoverable amount of an asset is estimated for an individual asset. Where it is not probable to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit (CGU) to which the asset belongs. The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised immediately in the profit or loss when the carrying amount of the asset or the CGU exceeds the recoverable amount of the asset or the CGU.

An impairment loss is reversed if and only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in the income statement.

(f) Financial instruments

Financial instruments recognised on the balance sheets

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

Financial instruments are classified as financial assets, financial liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distribution to holders of an equity instrument is debited directly to equity, net of any related tax effect. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

- Classification

  The Group classifies its financial assets in the following categories: held-to-maturity investments, financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

(f) Financial instruments (cont')

- Classification (cont')

  - Held-to-maturity investments

    Held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost.

    During the year, the Group did not hold any investments in this category.

  - Financial assets at fair value through profit or loss

    Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

    Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

    During the year, the Group did not hold any financial assets in this category.

  - Loans and receivables

    Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as trade and other receivables.

  - Available-for-sale financial assets

    Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date. Unrealised gains and losses arising from changes in fair value of the investment are recognised directly in the fair value reserve within equity. Realised gains and losses arising from changes in fair value are included in the income statements.

    The Company accounts for its investments in subsidiary companies at fair value and designates it under this category.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont') BDO

(f) Financial instruments (cont')

- Recognition and derecognition

  Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

- Initial measurement

  Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

- Subsequent measurement

  Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

  Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' investment category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the fair value reserve within equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

- Determination of fair value

  Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using various techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models refined to reflect the issuer's specific circumstances and others, where appropriate.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

(f) Financial instruments (cont')

- Impairment of financial assets

  The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investment classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the fair value reserve within equity and recognised in the income statement. Impairment losses recognsied in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of.

  If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's orginal effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in the profit or loss.

<u>Financial instruments not recognised on the balance sheets</u>

There were no financial instruments not recognised on the balance sheets.

(g) Financial assets

- Receivables

  Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

(h) *Financial liabilities*

- Payables

  Liabilities for trade and other payables, including amounts owing to associates and related parties, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

- Interest bearing loans and borrowings

  All loans and borrowings are recognised initially at fair value of the consideration received, net of directly attributable transaction cost incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the loans and borrowings using the effective interest method.

(i) *Cash and cash equivalents*

Cash and cash equivalents include cash and bank balances, bank overdraft, deposits and other short term, highly liquid investments which are readily convertible to cash and which are subject to insignificant risk of changes in value.

(j) *Equity instruments*

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to the income statement.

Dividends to shareholders are recognised in equity in the period in which they are declared.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont') BDO

(k) Income taxes

Income taxes include all domestic taxes on taxable profit. Taxes in the income statement comprises current tax and deferred tax, if any.

- Current tax

  Current tax is the amount of income taxes payable or receivable in respect of the taxable profit or loss for a period.

  Current tax for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted by the balance sheet date.

- Deferred tax

  Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base.

  Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects either accounting profit nor taxable profit.

  A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

  Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

  Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Revenue from sale of goods

  Revenue is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with delivery of goods and services and acceptance by customers.

- Revenue from rendering of services

  Revenue from logistics services is recognised upon services rendered.

- Dividend income

  Dividend income is recognised when rights to receive payment is established.

- Interest income

  Revenue is recognised as the interest accrues using the effective interest method unless collectibility is in doubt.

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9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

Note 2: Revenue

	Group 31.3.2007 RM
Marine transportation services	23,442,994
General trading	17,855,040
Total logistics services	15,742,420
Trading of freight	8,718,162
Lorry & trucking services	662,290
	66,420,906

Note 3: Excess of the Group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment

Group

This represents the excess of the Group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment pursuant to FRS 3 – Business Combinations.

Note 4: Profit before tax

	Group 31.3.2007 RM
Profit/(loss) before tax is arrived at after charging:	
Allowance for impairment of trade receivables	85,857
Auditors' remuneration	47,550
Bad debts written off	116,974
Depreciation of property, plant and equipment	1,719,971
Directors' emoluments	339,227
Interest expenses on:	
- bank overdraft	3,314
- term loans	392,698
- hire-purchase	9,357
- bankers' acceptances	60,079
- overdue interest	712
Realised loss on foreign exchange	379,955
Rental of premises	20,900
Unrealised loss on foreign exchange	124,081
and crediting:	
Gain on disposal of property, plant and equipment	80,733
Interest income from:	
- fixed deposits	92,662
- others	20,945
Excess of the group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment	33,228,518

9.1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CLSB (Cont')

Note 5: Tax expense

	Group 31.3.2007 RM
Current tax expense based on profit for the year	1,089,397
Deferred tax (Note 14)	30,183
	1,119,580
Under provision in prior year:	
- Current tax expense	51,295
- Deferred tax (Note 14)	19,878
	1,190,753

The effective tax rate is lower than the statutory tax rate mainly due to the following:

(a) recognition of the excess of group's interest in the net fair value of subsidiary companies' identifiable assets and liabilities over the cost of investment of RM33,228,518 which is not taxable; and

(b) all statutory income derived from CLSB Group's vessels, Malaysian ships, are exempted from tax under Section 54(a) of the Income Tax Act, 1967.

Note 6: Property, plant and equipment

Carrying amount	Group 31.3.2007 RM
Containers	1,669,050
Office equipment	214,004
Motor vehicles	536,236
Plant and machinery	485,494
Tug boat and barge	1,658,409
Vessels	41,968,437
Vessel equipment	284,923
	46,816,553

Vessels with carrying amount of RM16,583,182 have been pledged for banking facilities granted to the Group.