



Sail Forth, Grow Beyond



Coastal Contracts Bhd (517649-A)

Block G, Lot 3B, Bandar Leila, W.D.T. 259, 90009 Sandakan, Sabah, Malaysia.  
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# C O N T E N T S

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# Notice Of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Eleventh Annual General Meeting of the Company will be held at the Registered Office, Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 28 June 2011 at 10.45 am to transact the following business:

## AGENDA

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 together with the Reports of the Directors and Auditors thereon.
2. To approve the payment of Directors' fees for the financial year ended 31 December 2010.
3. To consider and if thought fit, to pass the following Resolution:
 

"THAT pursuant to Section 129(6) of the Companies Act, 1965, Mr Kwan Cheong Kaw @ Kuan Yeek Chieu be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company."
4. To re-elect the following Directors:
  - 4.1 Mr Loh Thian Sang @ Lo Thian Siang who retires as Director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election.
  - 4.2 Mr Ng Chin Shin who retires as Director pursuant to Article No. 91 of the Company's Articles of Association and being eligible, offers himself for re-election.
5. To re-appoint Messrs Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

**Resolution 1**

**Resolution 2**

**Resolution 3**

**Resolution 4**

**Resolution 5**

**Resolution 6**

### SPECIAL BUSINESS

6. To consider and if thought fit, to pass the following Resolution:

#### ORDINARY RESOLUTION

#### Authority to issue shares under Section 132D of the Companies Act, 1965

"THAT subject always to the Companies Act, 1965, the Articles of Association of the Company and approvals from the relevant statutory and regulatory authorities, where such approvals are necessary, full authority be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965, to issue and allot shares in the Company from time to time at such price upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this Resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

**Resolution 7**

7. To transact any other business of the Company of which due notice has been given to the Company.

### GENERAL MEETING RECORD OF DEPOSITORS

**NOTICE IS ALSO HEREBY GIVEN THAT** for the purpose of determining a member who shall be entitled to attend the Eleventh Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article No. 49 of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 22 June 2011. Only a depositor whose name appears on the Record of Depositors as at 22 June 2011 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his behalf.

By Order of the Board

**Dorothy Luk Wei Kam**  
Company Secretary

Kota Kinabalu, Sabah  
Dated: 6 June 2011

## Notice Of Annual General Meeting (Cont'd)

### Notes:

- a) A member entitled to attend and vote at the meeting is entitled to appoint at least one (1) proxy but not more than two (2) proxies to attend and vote instead of him. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- b) Where a member appoints two (2) proxies to attend and vote at the same meeting, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
- c) The instrument appointing a proxy shall be in writing and in the case of an individual shall be signed by the appointer or by his attorney and in the case of a corporation shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.
- d) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, he may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account he holds with ordinary shares of the Company standing to the credit of the said securities account.
- e) The instrument appointing a proxy shall be deposited at the Registered Office of the Company at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah, not less than 48 hours before the time for holding the meeting or any adjournment thereof.

### Explanatory Note on Special Business

#### Ordinary Resolution - Authority to issue shares under Section 132D of the Companies Act, 1965

The proposed Ordinary Resolution No. 7 under Agenda 6 above, if passed, shall give power to the Directors to issue ordinary shares in the capital of the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being. This authority unless revoked or varied at a general meeting will expire at the next Annual General Meeting. This general mandate is a renewal of the mandate that was approved by the shareholders on 28 June 2010. The Company did not utilise the mandate that was approved last year. The renewal of the general mandate is to facilitate the Company to raise funds expeditiously for the purpose of funding future investment, working capital and/or acquisition without having to convene a general meeting to seek shareholders' approval when such opportunities or needs arise.



# Statement Accompanying Notice Of Annual General Meeting

Further details of the individuals who are standing for re-election or re-appointment as Directors in accordance with Agenda 3 and 4 of the Notice of Annual General Meeting are set out on pages 7 to 9 of this Annual Report, whereas the details of their interest in the securities of the Company are disclosed on pages 88 to 89 of this Annual Report.



# Corporate Information

## BOARD OF DIRECTORS

Ng Chin Heng	Executive Chairman
Ng Chin Shin	Executive Director
Ng Chin Keuan	Executive Director
Kwan Cheong Kaw @ Kuan Yeek Chieu	Senior Independent Non-Executive Director
Loh Thian Sang @ Lo Thian Siang	Independent Non-Executive Director
Zainal Bin Rajan	Independent Non-Executive Director

## AUDIT COMMITTEE

Kwan Cheong Kaw @ Kuan Yeek Chieu  
*Chairman*

Loh Thian Sang @ Lo Thian Siang  
*Member*

Zainal Bin Rajan  
*Member*

## NOMINATION COMMITTEE

Kwan Cheong Kaw @ Kuan Yeek Chieu  
*Chairman*

Loh Thian Sang @ Lo Thian Siang  
*Member*

Zainal Bin Rajan  
*Member*

## REMUNERATION COMMITTEE

Kwan Cheong Kaw @ Kuan Yeek Chieu  
*Chairman*

Loh Thian Sang @ Lo Thian Siang  
*Member*

Ng Chin Heng  
*Member*

## COMPANY SECRETARY

Dorothy Luk Wei Kam, MAICSA 7000414

## REGISTERED OFFICE

Block G, Lot 3B, Bandar Leila  
W.D.T. No. 259, 90009 Sandakan, Sabah  
Tel: +60 89 616263  
Fax: +60 89 616654, 611130  
Website: <http://www.coastalcontracts.com>

## REGISTRAR

Symphony Share Registrars Sdn Bhd  
Level 6, Symphony House  
Block D13, Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya, Selangor  
Tel: +60 3 78418000  
Fax: +60 3 78418008

## PRINCIPAL BANKERS

Affin Bank Berhad  
Alliance Bank Malaysia Berhad  
Alliance Islamic Bank Berhad  
AmBank (M) Berhad  
AmInternational (L) Ltd.  
AmIslamic Bank Berhad  
CIMB Bank (L) Limited  
CIMB Bank Berhad  
Hong Leong Bank Berhad  
HSBC Bank Malaysia Berhad  
RHB Bank Berhad  
RHB Investment Bank Berhad  
Standard Chartered Bank, Offshore Labuan  
The Hongkong and Shanghai Banking Corporation Ltd  
United Overseas Bank Limited

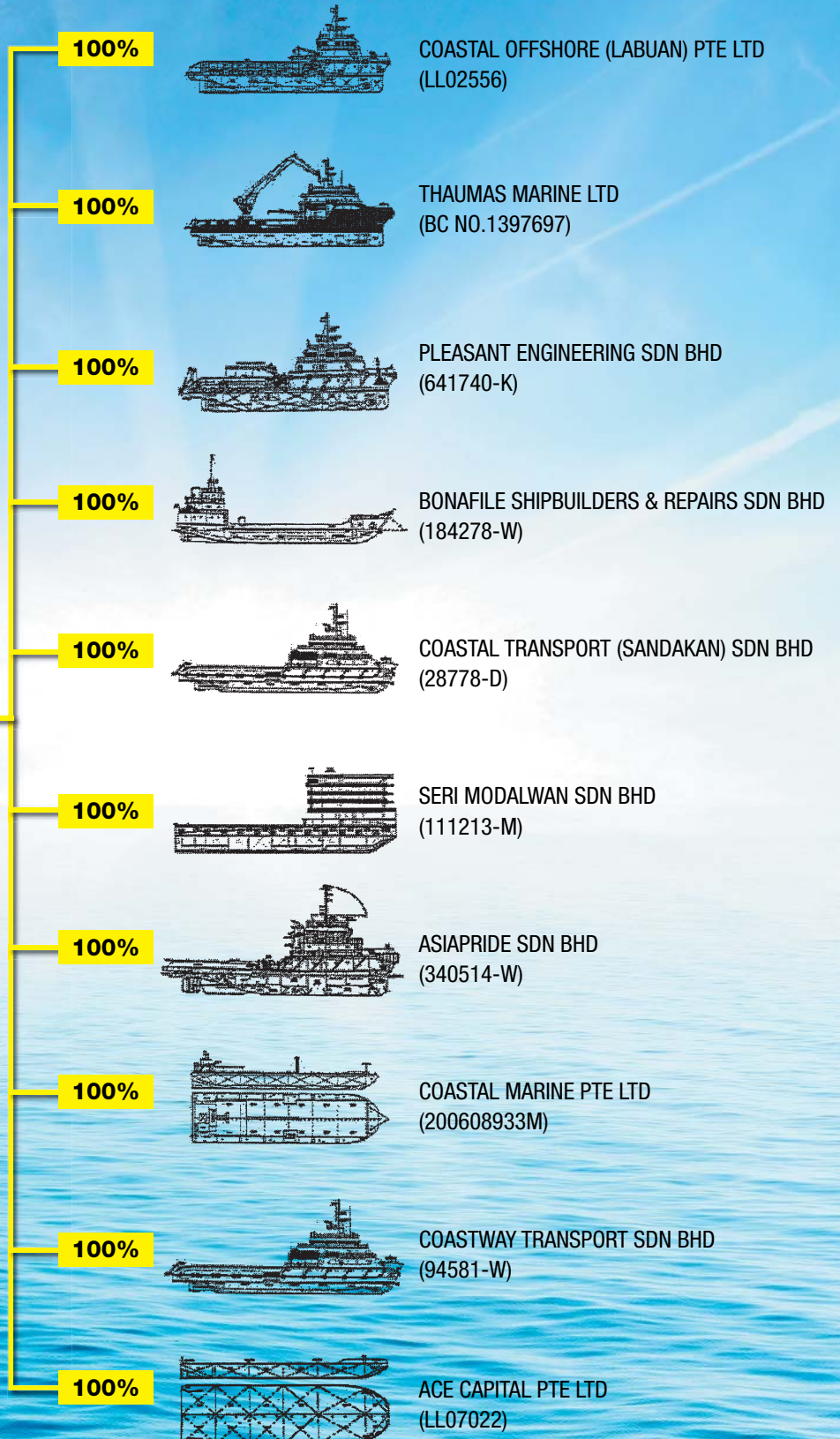
## AUDITORS

Ernst & Young (AF 0039)  
16th Floor, Wisma Khoo Siak Chiew  
Jalan Buli Sim Sim  
P.O. Box 648, 90707 Sandakan, Sabah

## STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad  
(Main Market)

# Corporate Structure



## Directors' Profiles

The Board currently has six members, comprising three Executive Directors (including the Chairman) and three Independent Non-Executive Directors. A brief description of the background of each Director is presented below:

### **NG CHIN HENG**

**Aged 62, Malaysian  
Executive Chairman**

Mr Ng Chin Heng was appointed as Executive Chairman to the Board on 8 August 2000 and serves as a member of the Remuneration Committee.

He is the principal founder of Coastal Group. Soon after completing the Lower Certificate of Education and gaining work experience in various capacities, Mr Ng Chin Heng started his business endeavour in 1977 trading in animal feed, fertilisers and raw rubber. Subsequently, he ventured into vessel chartering business in 1982 when he acquired Coastal Transport (Sandakan) Sdn Bhd, a tug and barge hire company, which then owned and operated 4 small old tankers. He then acquired the technical and management skills in tugboat and barge repairs and fabrications. He further learned and improved the technical and management aspects of shipyard operations by visiting some of the shipyards in Malaysia, Indonesia, Singapore and China.

Mr Ng Chin Heng is responsible for leadership of the Board of the Company, ensuring its effectiveness and setting its agenda. He meets with shareholders to ensure that there is sufficient and effective communication to understand shareholders' issues and concerns. He is responsible for executing the strategy agreed by the Board and developing objectives through leadership of the senior executive team. He also ensures that the Group's risks are adequately addressed and appropriate internal controls are in place.

Mr Ng Chin Heng attended all the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Ng Chin Heng has direct interests of 5.06% and indirect interests of 53.01% by virtue of Ivory Asia Sdn Bhd's, his wife's and children's shareholdings in Coastal Contracts Bhd. He is the brother of Mr Ng Chin Shin and Mr Ng Chin Keuan, both the Directors of the Company, and the husband of Madam Pang Fong Thau, a substantial shareholder of the Company. Save as disclosed on pages 74 to 75 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

### **NG CHIN SHIN**

**Aged 52, Malaysian  
Executive Director**

Mr Ng Chin Shin was appointed as Executive Director to the Board on 8 August 2000.

Shortly after completing the Lower Certificate of Education, he went on to become a mechanic and welder in 1975 and subsequently a mechanic and construction supervisor. He gained his experience in the shipbuilding industry when he worked for a shipbuilding contractor between 1980 and 1985. With his valuable knowledge, he was invited to join the Group in 1986 and has been involved in the Group for close to 30 years. He has been instrumental in shaping and laying the foundations for the Group's products and workmanship quality in vessel manufacturing and repair works. His vast experience and in-depth knowledge in the vessel manufacturing and repair activities will continue to benefit the Group.

Mr Ng Chin Shin attended four of the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Ng Chin Shin has direct interests of 2.05% in Coastal Contracts Bhd. He is the brother-in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is the brother of Mr Ng Chin Heng and Mr Ng Chin Keuan, Directors of the Company. Mr Ng Chin Heng is also a substantial shareholder of the Company. Save as disclosed on pages 74 to 75 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

## Directors' Profiles (Cont'd)

**NG CHIN KEUAN****Aged 52, Malaysian  
Executive Director**

Mr Ng Chin Keuan was appointed as Executive Director to the Board on 8 August 2000.

He has a Lower Certificate of Education. He is involved in the affairs of the Group since its early years in 1980s and thus well acquainted with the Group's operations. He gained the knowledge and skills of marine engineering through hands-on management and practical experience. He is principally responsible in supervising the day-to-day operations of the shipyards and also for fleet maintenance and parts procurement. Prior to joining the Group, he was in the trading business with Mr Ng Chin Heng.

Mr Ng Chin Keuan attended all the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Ng Chin Keuan has direct interests of 2.02% in Coastal Contracts Bhd. He is the brother-in-law of Madam Pang Fong Thau, a substantial shareholder of the Company. He is the brother of Mr Ng Chin Heng and Mr Ng Chin Shin, Directors of the Company. Mr Ng Chin Heng is also a substantial shareholder of the Company. Save as disclosed on pages 74 to 75 of the Annual Report on related party transactions, he has no conflict of interest with the Company.

**KWAN CHEONG KAW  
@ KUAN YECK  
CHIEU****Aged 72, Malaysian  
Senior Independent  
Non-Executive Director**

Mr Kwan Cheong Kaw @ Kuan Yeek Chieu was appointed as Independent Non-Executive Director to the Board on 2 December 2002 and was promoted to Senior Independent Non-Executive Director on 28 April 2004. He serves as the Chairman of the Audit Committee, Nomination Committee and Remuneration Committee respectively.

He completed his tertiary education with a Degree in Commerce from the University of New South Wales under the Colombo Scholarship Plan. He started his career as a Division One accountant with the Sabah State Treasury and subsequently gained his practical experience in a firm of chartered accountants. Having gained substantial experience in the private sector, he established his practice in the early 1970s. He is a member of CPA Australia, the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Taxation.

Mr Kwan Cheong Kaw @ Kuan Yeek Chieu attended all the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Kwan Cheong Kaw @ Kuan Yeek Chieu does not have any direct or indirect interest in shares in Coastal Contracts Bhd. He has no conflict of interest with the Company or the Group and has no family relationship with any Directors and/or substantial shareholders of the Company.

## Directors' Profiles (Cont'd)

**LOH THIAN SANG @  
LO THIAN SIANG**

**Aged 66, Malaysian  
Independent  
Non-Executive Director**

Mr Loh Thian Sang @ Lo Thian Siang was appointed as an Independent Non-Executive Director to the Board on 2 December 2002 and serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

He has over 36 years of experience in marine administration and operation. He joined the Marine Department in 1964 as signalman a year after leaving secondary school and during his tenure in the organisation advanced himself as a Senior Boarding Officer in 1998. His last post with the Marine Department before retirement was as the acting Assistant Marine Officer from 1997 to 2000.

Mr Loh Thian Sang @ Lo Thian Siang attended all the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Loh Thian Sang @ Lo Thian Siang does not have any direct or indirect interest in shares in Coastal Contracts Bhd. He has no conflict of interest with the Company or the Group and has no family relationship with any Directors and/or substantial shareholders of the Company.

**ZAINAL BIN RAJAN**

**Aged 64, Malaysian  
Independent  
Non-Executive Director**

Mr Zainal Bin Rajan was appointed as an Independent Non-Executive Director to the Board on 15 January 2009 and serves as a member of the Audit Committee and Nomination Committee.

He started his career in 1969 with the Royal Malaysian Customs And Excise Department ("RMCED") and was promoted several times from an ordinary Customs Officer to the rank of Senior Assistant Director of Customs. While serving the RMCED, the Federal Government had awarded him a scholarship which enabled him to further his studies on textile technology at the Bolton Institute of Higher Learning, Bolton, England from 1982 to 1983, where he graduated with the Certificate of T.E.C. in Textile Technology (London). Mr Zainal had been handpicked to represent RMCED as a Committee Member of the Border Patrol Coordinating Group (BPCG) (1998 to 2003) and the SOSEK-MALINDO (2002 to 2003) involved in the prevention of smuggling of goods and human trafficking along the common border of Malaysia/Philippines and Malaysia/Indonesia, respectively. Prior to his retirement in 2003, he was the Head of Department in Sandakan, Sabah, a post he has held since 1996.

Mr Zainal Bin Rajan attended all the five board meetings held during the financial year ended 31 December 2010. He does not hold any directorship in other public company, and has not been convicted of any offences within the past 10 years.

As at 3 May 2011, Mr Zainal Bin Rajan does not have any direct or indirect interest in shares in Coastal Contracts Bhd. He has no conflict of interest with the Company or the Group and has no family relationship with any Directors and/or substantial shareholders of the Company.

## Chairman's Message



## Another Record Year

### Dear Shareholders of Coastal Contracts Bhd ("Coastal"),

How quickly the year 2010 has flown past. It has come to the time again when we look back on the year that was.

About this time last year, I remembered saying that the financial year ended 31 December 2009 ("FY2009") was an exceptional year for Coastal and its subsidiaries ("Coastal Group" or "Group") despite the challenges posed by the crippling global economic recession, as well as how the Group showed strength and resilience in adversity to deliver a record-breaking set of financial numbers. Today, on behalf of the Board of Directors of Coastal ("Board"), I am proud to say that Coastal Group has grown financially stronger from where we left off last year.

Reflecting on the financial year ended 31 December 2010 ("FY2010"), I am very pleased to report that Coastal Group has once again managed to accomplish another year of record results, amid an operating environment that saw patchy recovery in the global markets, easier access to funding and increasing crude oil prices.

FY2010's financial milestones continued a seven-year unbroken trend of growing net profits and increasing revenues since Coastal's public listing in August 2003. From fiscal years 2003 to 2010, the compound annual growth rate for Coastal Group's net profit and revenue was approximately 46.7% and 42.6% respectively. During the same period, net assets of the Group have jumped on a compound annual growth rate of 30.5%. Coastal had gone on from a fledgling public listed entity that made less than RM15 million in group annual profit for fiscal year 2003, to an established corporation that has exponentially raised its earnings achievements year after year to more than RM200 million for FY2010, an enormous jump of over 1200%. And to put the icing on the cake, Coastal's market capitalisation has breached and stayed above RM1 billion since the past few months.

It is worth a reminder that Coastal's ascent was not achieved overnight. Throughout the past years, we have consistently focused a lot of attention on prudent capital management, achieving greater operational efficiencies and improving customer deliveries. This emphasis on getting the fundamentals right was, and will remain to be, vital since it forms the cornerstone from which Coastal Group achieved high growth and delivered positive returns to its shareholders.

## Chairman's Message (Cont'd)



### Financial Performance Overview

In FY2010, Coastal Group's revenue surged 44.9% to RM675.1 million, the highest ever in the Group's history, from RM466.0 million in FY2009. This was the first time that revenue breached the half-a-billion-Ringgit mark. The Group's net profit for the year, at RM200.8 million and also a historic high, marked an increase of 23.6% from RM162.5 million in FY2009. The Group's basic earnings per share for FY2010 rose by 21.7% to 55.40 Sen versus 45.51 Sen previously.

Segment wise, the Shipbuilding Division registered a net profit of RM196.3 million from RM657.2 million in revenue, demonstrating year-on-year growth of 30.5% and 49.1% from RM150.4 million and RM440.9 million respectively. This stellar performance was attributed mainly to a vessel sales mix that was more heavily skewed to larger and higher-priced offshore support vessels ("OSV"). In a testament of its solid track record, the Division had successfully delivered 29 vessels during the course of FY2010 (FY2009: 29 units), including 11 OSV (FY2009: 8 units), to various buyers based in Malaysia, Indonesia and Singapore, to as far away as the Middle East, North America and the Caribbean. Overall, the Shipbuilding Division contributed 97% and 98% to the Group's total revenue and total net profit respectively for FY2010.

Due to the combination of lower fleet utilisation, contract transition and lesser shipment volume, the Ship Chartering Division generated RM17.9 million of revenue, a 28.7% decrease from RM25.1 million in FY2009. Net profit declined by 62.8% from RM12.1 million a year ago to RM4.5 million, as the lower revenue generated was further weighed by foreign exchange losses from a weakening US Dollar and continued depreciation charges for the out-of-contract vessels. As at the end of FY2010, the Group has a fleet of 42 vessels, comprising 17 tugboats, 13 deck barges and 12 oil barges. Coastal Group will continue to seek for opportunities to deploy its fleet within Asia Pacific's niche market segment of coastal and inland waterway transportation.

As of the end of FY2010, Coastal Group's net assets have expanded to surpass the RM600-million mark at RM602.6 million or RM1.66 per share, compared with RM458.5 million

or RM1.27 per share as at 31 December 2009. The Group's financial standing has never been stronger, with net cash of RM98.7 million on the back of RM131.8 million of cash generated from operations during 2010. The Group also boast a low gearing ratio of only 8.5%. This places the Group on a sturdy platform to further explore potential business opportunities and galvanise its business growth.

### Dividend

In view of the record profit performance, an interim tax exempt dividend of 27.5% or 5.5 Sen per ordinary share in respect of FY2010 was paid on 11 May 2011.

The Board has resolved that no further dividend be recommended in respect of FY2010, given that the Board wishes to make interim dividend payment a periodic feature in the future as Coastal Group's free cash flow continues to strengthen. Via an overall higher payout ratio, the Board hopes to demonstrate its firm commitment to reward existing shareholders for their support, attract long-term investors, and enable shareholders to enjoy higher positive returns in tandem with the Group's successful earnings expansion.

### Accolades and Recognition

During FY2010, Coastal has the prestigious honour of being named again in Forbes Asia's list of **"200 Best Under a Billion"**. Forbes' annual award picked the top-performing 200 publicly traded corporations in Asia (with sales below USD1 billion) based on earnings growth, sales growth, and shareholders' return on equity in the past twelve months and over three years. Including 2010, Coastal Group has appeared on this highly regarded award list for five years running.

On top of that, Coastal Group was also a winner of the **"KPMG Shareholder Value Award 2009"**, the Group's fifth win of the award in a row. KPMG's awards applauded the top public listed companies in Malaysia that have focused on using their capital efficiency towards the creation of improved economic profits for shareholders.



Mr. Ng Chin Heng receiving Forbes Asia's "200 Best Under a Billion" award.

## Chairman's Message (Cont'd)

### Corporate Developments

As announced on 6 May 2011, the Board has proposed for shareholders' approval a one-for-three bonus issue of new ordinary shares and an issue of free warrants on the basis of one free warrant for every eight shares held after the bonus issue. These proposals are intended to reward shareholders for their continuous support, and at the same time enhance the liquidity of Coastal's shares as well as enable shareholders to further participate in future growth of Coastal Group.

At the same Extraordinary General Meeting to be convened on 28 June 2011 to consider the above proposals, the Board also proposes to seek shareholders' approval for the authority to purchase Coastal's own shares of up to 10% of its issued and paid-up share capital. By repurchasing Coastal's shares using surplus cash, the Board hopes to enhance shareholder value and stabilise the market price of Coastal's shares.

Subject to all required approvals being obtained, Coastal expects the above proposals to be implemented by the third quarter of 2011.

### Prospect

Compared with the same time a year earlier, current crude oil price has risen by some USD30 to around USD100 per barrel. On balance, the outlook of the offshore marine support sector appears to be improving as the current high crude oil price has spurred exploration and production activities in the oil and gas industry. Concrete evidence of a global turnaround can be seen in the series of new rig orders that were placed in quick succession with leading rig builders in Singapore since November 2010. The surge in rig orders will in turn provide the tailwind that accelerates new order placements for OSV. On the domestic scene, the Malaysia government is looking at intensifying exploration activities and developing marginal fields to boost the domestic oil and gas sector under the Economic Transformation Programme. The economic spin-offs from these Entry Point Projects would increase the demand for OSV to facilitate oilfield developments in Malaysia.

With more oil and gas fields off the west coast of Sabah being earmarked by Petronas for active development, the Board has identified the offshore structure fabrication business as a potential strategic growth area for Coastal Group. To make a foray into this new phase of growth, one entry option open to the Group is via collaboration with a strategic partner that complements the Group's capabilities. The expansion would fit well into the Group's plans to widen its range of participation within the offshore oil and gas sector and accelerate the Group's earnings growth momentum in the long-run. The Board believes the Group's core competencies in marine structures engineering and the geographical proximity of its Sandakan-based 52-acre fabrication yard to the heart of Sabah's growing oil and gas activities would give the Group a competitive advantage. Upgrading of infrastructure is currently at an advanced stage to expand the fabrication yard's capabilities.

When fully operational, the fabrication yard will be capable to erect offshore structures weighing up to 2,500 tonnes, with the capacity for upgrade to higher tonnage if required.

As the global economy continues its recovery from the credit crisis, the resulting improvement in business sentiments and the pick-up in seaborne trade will generate growing demand for Coastal Group's marine transportation vessels. Specifically, market expectations are that the economic fundamentals will look good for Indonesia as we move further into 2011, which will benefit the local shipping sector. As Indonesia is a key geographical market for sales of Coastal Group's tugboats and barges, we are cautiously optimistic that the resulting improvement in the local business sentiments will generate more sales of these vessels into Indonesia.

Barely four months into 2011, Coastal Group has announced several significant contract wins for the sale of OSV, tugboats and barges worth a total value of approximately RM330 million, 70% of which were from repeat customers. Since the bottoming out of the offshore market in FY2010, we have witnessed considerable pick up in interests for Coastal Group's vessels, and we see this as a positive development and a sign of more contracts to come.

Barring adverse changes in the economic outlook, the Board believes that Coastal Group will continue to experience business stability and sustain modest growth down the road, backed by strong revenue visibility of the Shipbuilding Division's vessel sales order book. With our proven track record and years of operating experience, we are confident that our vertically integrated business model will give us the flexibility to meet the changing market needs for OSV, marine transportation vessels, as well as ship chartering services.

### Heartfelt Appreciation

On behalf of the Board, I wish to express our heartfelt gratitude to our dedicated employees and management team for another outstanding year, especially for their hard work and commitment in contributing to the growth of the Group. I would like to thank our valued customers and business associates for their continued trust and support, and all our Board members for their wise council and value-accretive strategic direction. Coastal Group's achievements would not have been possible without all your support, of which the Board is truly grateful.

Finally, I would like to express our sincere appreciation to all our valued shareholders for sharing and believing in Coastal Group's vision. We look forward to your relentless support and will continue to deliver on our commitment to enhance value for our shareholders.

**Ng Chin Heng**  
Executive Chairman  
Sandakan, Malaysia

# Corporate Responsibility Statement

Coastal Group is a proponent of open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. The Group's Corporate Responsibility ("CR") initiatives are designed to deliver sustainable values. In a nutshell, our CR practices go beyond compliance with laws, for the concepts of CR are assimilated into the way the Group functions as a business entity and in the process of planning and crafting our future strategies.



Donation to SJK (C) Chi Hwa for Bazaar 2010.

## Community

We fully understand the fact that Coastal Group 'lives' within the community, and that the Group depends on the community in many ways. Correspondingly, we recognise that we can make a positive impact in the community by offering financial and other resources towards worthy causes.

In this regard, Coastal Group has from time to time made contributions to a range of local schools, sport and leisure bodies as well as community and charitable organisations in support of education, children, youth development and the underprivileged.

During the year, Coastal Group has made monetary donation to SJK(C) Tai Tong in Sandakan to build new classroom buildings, an auditorium and a larger canteen. The construction of the new facilities will not only enable the school to fully make use of the under-utilised land space to increase its student intake capacity, but it will also provide a better environment for the students to interact and gain knowledge. With the additional facilities, the teaching staff will have greater space flexibility to deliver higher standards of learning and further enrich the academic experience of the children of the school.

In facilitating the Sandakan Divisional Tennis Association in its effort to promote tennis among the local community's younger generation, Coastal Group had extended financial support to the association to cover the cost for staging the "Sandakan Coastal Invitational Team Tennis Championship 2010". The competition provided a platform for enthusiastic tennis teams from various places outside Sandakan to compete with local teams in the full spirit of sportsmanship. Coastal Group was glad that its financial support had greatly complemented the organising committee's efforts on and off the court in making the competition a reality.

We will continue our active and purposeful involvement in communal activities to enrich Coastal Group's interaction with the community on the whole.



Contribution to SJK (C) Tai Tong Construction Fund.

## Environment

As we live and operate among the rich biodiversity of flora and fauna, preservation of the environment is our joint responsibility. Coastal Group has put in place several focal initiatives to reduce our impact on the environment, which entail waste management, energy saving and water conservation.

To reduce the waste that we generate, we practice recycling both in our offices as well as at all our operation sites. Writing and photocopier papers with only one side used are collected for redeployment as scribble pads, whilst envelopes are reused for sending mails – simple actions that support a good cause and save trees at the same time. On the other hand, the Group's ship building and repair operations recycle odds and ends produced from their activities, such as scrap steel plates, for secondary usages wherever practicable. All these translate into operational cost savings as well. We also make it a point that no rubbish or solid waste is indiscriminately disposed into the river to prevent pollution.

In March last year, Coastal Group has participated in Earth Hour 2010, joining hundreds of millions of concerned citizens and corporations throughout the world in calling for action to save our planet for future generations. In conjunction with this inspiring event, we have asked all employees to switch off lights and unplug non-essential equipment before leaving the office on 27 March 2010. In addition, we have encouraged all employees to participate in Earth Hour by turning off their lights at home during the event. We have long believed that it is our duty to operate our business and conduct our daily chores more efficiently in a responsible manner and in ways that waste less of our world's limited natural resources.

In addition to installing energy-saving light bulbs to conserve electricity, we are mindful of the effects of our water consumption and of the need to monitor and limit this. For 2010, we have achieved a meaningful reduction of electricity and water usage for each Ringgit of revenue generated from our business operations. This achievement was made possible through strong top-down management leadership in effective resource conservation.

## Corporate Responsibility Statement (Cont'd)

### Workplace

Coastal Group derives its workforce from the society, so everything we do at the workplace needs to be socially responsible to compliment our drive for business success.

The Group currently employs more than 270 employees of diverse nationalities in our domestic and overseas operations. On top of our inclination to source for skills and talent from the local pool of graduates, we strive to offer equal employment opportunities to females as well. We also make a point of offering employment to older members of the society, where about 15% of our workforce are over the age of 50.

Recognising that people are the lifeblood of Coastal Group, we are resolute on creating a conducive and learning organisation to provide our personnel with career development prospects. In terms of developing and growing our talent pool, periodical training in marine technologies and workplace safety and health, as well as upgrading programmes on management and financial skills, remained our focus area. In addition, we endeavour to embed the high standards required to enhance work quality and achieve optimal job performance. Besides structured training, we dedicate time to informal learning measures in the form of on-the-job coaching. Initiatives are also taken to actively engage our workforce in curbing on-site injuries, spills and hazardous releases, and to ensure compliance with existing environmental health and safety regulations in all our operations.

While we are passionate about building corporate sustainability, we are mindful that a rewarding lifestyle outside the workplace is equally important to our workforce. By subsidising various sports and outdoor activities every now and then, we hope to encourage our employees to lead a healthier work-life balance.

### Marketplace

In our interaction with shareholders, suppliers, and customers, Coastal Group makes every attempt to meet these stakeholders' expectations by raising our standards of corporate governance, supporting green products or engaging in environmentally sustainable business practices.

Coastal Group's corporate governance practices are separately covered in the Statement on Corporate Governance (see pages 18 to 22).

At the same time as we strive to meet customer needs, we also ensure that our ship building and repair activities result in minimal environmental impact. One of the Group's initiatives to environmental stewardship include green procurement policies through the sourcing from suppliers of fuel-efficient marine engines that comply with the nitrogen oxides emission level requirements set by the governing International Maritime Organisation. The switch to these more environmentally friendly alternatives has greatly minimised our greenhouse gas footprint.

Under our CR-conscious industrial practices, only non-toxic and non-polluting tin-free antifouling paints are used in coating ship hulls. Onboard all our manned ships are energy-efficient bulbs and sewerage treatment systems that cut down effluent discharge into waterways and the sea, as well as refrigeration systems with more eco-friendly refrigerants that sharply reduce emissions of ozone-depleting substances and greenhouse gas into the atmosphere. Except for some vanes, joints and insulation, we also ensure that we do not install asbestos containing materials on board our ships. This is to ensure the safety of all persons on board and at our shipyards, as asbestos is known to cause very serious, often life threatening illnesses such as mesothelioma and lung cancer.

### Moving forward in a responsible and sustainable way

Coastal Group will continue to champion the sustainability cause and introspect on how best to readapt everything we do, everything we take, everything we make and everything we waste in the process of galvanizing our corporate responsibility commitments. There is no doubt that all businesses will have an impact on the marketplace, the workplace, the community in which they operate and on the environment. It is therefore imperative that we conduct ourselves with the utmost business conscience. After all, when we take care of these elements, we take care of our business sustainability.

# AUDIT COMMITTEE REPORT

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

The Audit Committee was established on 2 December 2002.

The Audit Committee comprises the following members:-

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Kwan Cheong Kaw @ Kuan Yeek Chieu	Chairman	Senior Independent Non-Executive Director
Loh Tian Sang @ Lo Tian Siang	Member	Independent Non-Executive Director
Zainal Bin Rajan	Member	Independent Non-Executive Director

### Terms of Reference

The Audit Committee shall be appointed by the Board from amongst its Directors (except alternate directors) which fulfils the following requirements:

- a) the audit committee must be composed of no fewer than three (3) members;
- b) all the audit committee members must be non-executive directors, with a majority of them being independent directors; and
- c) all members of the audit committee should be financially literate and at least one member of the audit committee:
  - i) must be a member of the Malaysian Institute of Accountants (MIA); or
  - ii) if he is not a member of the MIA, he must have at least 3 years' working experience and:
    - aa) he must have passed the examinations specified in Part 1 of the First Schedule of the Accountants Act, 1967; or
    - bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act, 1967; or
  - iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.

The Board shall, within three (3) months of a vacancy occurring in the Audit Committee which results in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

The Board shall review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years.

### Rights

The Audit Committee shall, in accordance with the procedures determined by the Board and at the cost of the Company:

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- e) be able to obtain independent professional or other advice; and
- f) be able to convene meetings with the external auditors, the internal auditors or both, excluding the presence of other directors and employees of the Company, whenever deemed necessary.

## AUDIT COMMITTEE REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (Cont'd)

### Functions

The functions of Audit Committee shall include the following:

- 1) review the following and report the same to the Board:
  - a) with the external auditors, the audit plan;
  - b) with the external auditors, their evaluation of the system of internal controls;
  - c) with the external auditors, their audit report;
  - d) the assistance given by the employees of the Company to the external auditors;
  - e) the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
  - f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
  - g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:
    - i) changes in or implementation of major accounting policy changes;
    - ii) significant and unusual events; and
    - iii) compliance with accounting standards and other legal requirements;
  - h) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
  - i) any letter of resignation from the external auditors of the Company; and
  - j) whether there is reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment; and
- 2) recommend the nomination of a person or persons as external auditors.

### Meetings and Reporting Procedures

#### 1) *Frequency and Notice of the Meeting*

Meetings of the Audit Committee shall be held not less than four (4) times a year. The external auditors may request a meeting if they consider that one is necessary and shall have the right to appear and be heard at any meeting of the Audit Committee. The Chairman shall convene a meeting whenever any member of the Audit Committee requests for a meeting. Written notice of the meeting together with the agenda shall be given to the members of the Audit Committee and external auditors where applicable. The Chairman shall engage on a continuous basis with the Executive Chairman, the senior finance officers, the internal auditors and the external auditors in order to be kept informed of matters affecting the Company.

Other directors and employees may attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

#### 2) *Quorum*

The quorum for a meeting of the Audit Committee shall be two (2) members provided always that the majority of the members present must be independent directors.

#### 3) *Secretaries*

The Company Secretary shall be the secretary of the Audit Committee and shall maintain minutes of the proceedings of the meetings of the Audit Committee and circulate such minutes to all members of the Board.

## AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (Cont'd)

### Audit Committee Meeting

The Audit Committee held five (5) meetings during the financial year ended 31 December 2010. These meetings were held at the registered office on 22 February, 23 April, 25 May, 24 August and 19 November 2010. Details of the attendance of the meetings by the Committee Members are as follows:

Name	No of Meetings Attended	% of Meetings Attended
Kwan Cheong Kaw @ Kuan Yeek Chieu	5/5	100%
Loh Thian Sang @ Lo Thian Siang	5/5	100%
Zainal Bin Rajan	5/5	100%

### Activities During The Year

The activities of the Audit Committee in the discharge of its duties and responsibilities for the financial year are summarised as follows:

- i) Review the external auditors' scope of work and their audit plan.
- ii) Review with the external auditors the results of their audit, the audit report and internal control recommendations in respect of improvements in internal control procedures noted in the course of their audit.
- iii) Review and approve the internal audit plan presented by the internal auditors.
- iv) Review the annual report and the audited financial statements of the Company and the Group prior to submission to the Board for consideration and approval. The review was to ensure that the audited financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.
- v) Review the Company's compliance with the Listing Requirements of Bursa Malaysia Securities Berhad and the applicable approved accounting standards issued by the Malaysian Accounting Standards Board.
- vi) Review the quarterly unaudited financial statements and the explanatory notes thereon and recommend to the Board for Directors' approval.
- vii) Review the related party transactions entered into by the Group.
- viii) Review the Company's status of compliance with the Malaysian Code on Corporate Governance for the purpose of issuing a Corporate Governance Statement pursuant to the requirement of paragraph 15.26 of the Listing Requirements of Bursa Malaysia Securities Berhad.

### Internal Audit Function

The Board has engaged the services of an independent professional firm to carry out the internal audit function of the Group, to provide independent assurance and assist the Audit Committee in discharging its duties and responsibilities. The functions of the internal audit include the review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Group.

During the year, the Internal Auditors had carried out evaluation and assessment of the internal controls within the Group's business processes that are essential to the achievement of its business objectives, in order to test the adequacy and effectiveness of the internal controls over the most significant risks. The areas covered by the audit are selected on a rotational basis, with core risk areas being subject to audit more regularly than those outside the defined core risk areas.

The system of internal controls was satisfactory and has not resulted in any material losses, contingencies and uncertainties that would require disclosures in the Group's Annual Report.

# STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is fully committed to maintaining high standards of corporate governance throughout the Group as a fundamental part of its responsibilities in managing the business and affairs of the Group. Set out below is a statement on how the Group has applied the principles and the extent of its compliance with the best practices as stipulated in the Malaysian Code on Corporate Governance (Revised 2007).

The Board of Directors plays a primary role in corporate governance by setting out the strategic direction of the Group, establishing goals and monitoring the achievement of the goals. A Strategic Plan has been adopted as one of the key policy in ensuring that the Group crystallises its future plans and provides a clear direction for the Board and officers of the Group. A structured risk management process has been established to better identify, formalise, monitor within the various operating units and manage the business risks functions affecting the Group. This is elaborated in greater detail in the Statement on Internal Control on page 23 of this Annual Report.

The Executive Directors take the primary responsibility for managing the Group's business and resources. The intimate knowledge of the Executive Directors and their hands-on management practices has enabled the Group to have leadership position in its business division.

## A. DIRECTORS

### Board Composition and Balance

The Board currently comprises three (3) Executive Directors and three (3) Independent Non-Executive Directors. The strong and independent element on the Board fairly reflects the interest of the minority shareholders in the Company and provides for effective check and balance to the functioning of the Board. The Board views the number and composition of the directors to be optimal and well-balanced given that its members are drawn from varied backgrounds, bringing in-depth and diversity in experience and perspectives to the Group's business operations. The profile of each Director is presented on pages 7 to 9 of this Annual Report.

The key functions of the Executive Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all Directors are properly briefed for a full and constructive part in Board discussions. The Executive Directors are responsible for the day-to-day management of the Group in ensuring that the strategies, policies and matters approved by the Board and/or respective Board Committees are effectively implemented. The Executive Directors ensures that there is a balance of power and authority at the head of the Group.

The Board has identified and formally appointed Mr Kwan Cheong Kaw @ Kuan Yeek Chieu, the Senior Independent Non-Executive Director, as a representative of the Board to whom concerns may be conveyed.

### Board Committees

The Board has delegated specific responsibilities to three (3) committees to assist in its functions. These committees, namely, Audit Committee, Nomination Committee and Remuneration Committee, have the authority to examine particular issues according to their respective terms of reference and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, rests entirely with the Board.

### Board Meetings

The Board meets at least four (4) times a year at quarterly intervals with additional meetings convened when necessary. In intervals between Board meetings, for matters requiring Board decision, Board approvals are sought via Directors' Circular Resolutions (DCR) with sufficient information required to make an informed decision. A summary of the DCR approved will be tabled at the following Board meetings for notation.

The Board had held five (5) meetings during the financial year ended 31 December 2010 where the Board deliberated and considered a variety of matters including the Group's financial results, major investments and strategic decisions and direction of the Group. Where a potential conflict arises in the Group's transactions involving any Director's interest, such Director is required to declare his/her interest and abstain from the decision making process.

## STATEMENT ON CORPORATE GOVERNANCE (Cont'd)

**A. DIRECTORS (Cont'd)****Board Meetings (Cont'd)**

Shown below is the number of meetings attended by each Director for the financial year ended 31 December 2010, of which were held at the registered office on 22 February, 23 April, 25 May, 24 August and 19 November 2010.

<b>Name of Director</b>	<b>Designation</b>	<b>No. of meetings attended</b>	<b>%</b>
Ng Chin Heng	Executive Chairman	5/5	100%
Ng Chin Shin	Executive Director	4/5	80%
Ng Chin Keuan	Executive Director	5/5	100%
Kwan Cheong Kaw @ Kuan Yeek Chieu	Senior Independent Non-executive Director	5/5	100%
Loh Thian Sang @ Lo Thian Siang	Independent Non-executive Director	5/5	100%
Zainal Bin Rajan	Independent Non-executive Director	5/5	100%

**Supply of Information**

All Board members are supplied with information in a timely manner. The Board's reports include, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Group and management proposals, which requires the approval of the Board. All Directors are entitled to call for additional clarification and information to assist them in matters that require their decision.

All Directors have access to the services of the Company Secretary for any information or advice they may require, and if need be, they may take independent advice if necessary at the Company's expense.

**Appointments to the Board**

The Nomination Committee comprising Mr Kwan Cheong Kaw @ Kuan Yeek Chieu (Chairman), Mr Loh Thian Sang @ Lo Thian Siang (Member) and Mr Zainal Bin Rajan (Member) is entrusted to formally and transparently review annually the Board structure, size and composition as well as the Board's required mix of skills and experience and other qualities, including core competencies which non-executive directors should bring to the Board, and is responsible for making recommendations for any appointments to the Board or committees of the Board. In making these recommendations, the Committee considers the candidates':

- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- in the case of candidates for the position of independent non-executive directors, ability to discharge such responsibilities/functions as expected from independent non-executive directors.

Any new nomination received is put to the full Board for assessment and endorsement.

The Nomination Committee held two (2) meetings during the financial year, which were attended by all the Committee members.

Summary of the activities of the Nomination Committee during the year are as follows:

- reviewed the mix of skills, experience and other qualities, including core competencies, of the Board members; and
- assessed the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director.

## STATEMENT ON CORPORATE GOVERNANCE (Cont'd)

**A. DIRECTORS (Cont'd)****Directors' Training**

All the Directors have attended the Mandatory Accreditation Programme. During the financial year ended 31 December 2010, the details of seminar attended by the Directors are as follows:

<b>Name of Directors</b>	<b>Seminar</b>
Mr Ng Chin Heng	Goods and Services Tax
Mr Ng Chin Shin	Goods and Services Tax
Mr Ng Chin Keuan	Goods and Services Tax
Mr Kwan Cheong Kaw @ Kuan Yeek Chieu	2011 Budget and Updates on Recent Tax Developments
Mr Loh Thian Sang @ Lo Thian Siang	2011 Budget and Updates on Recent Tax Developments
Mr Zainal Bin Rajan	2011 Budget and Updates on Recent Tax Developments

The Directors will continue to undergo relevant training programmes to keep abreast with latest changes in laws, regulations and the business environment to equip themselves with the knowledge to discharge their duties effectively. Further, the Company Secretary circulates the relevant guidelines on statutory and regulatory requirements from time to time for the Directors' reference and will brief the Board members on these updates as and when required.

**Re-election and Re-appointment of Directors**

In accordance with the Company's Articles of Association, at an annual general meeting of the Company, one-third (1/3) of the Directors for the time being, or if the number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office so that all Directors shall retire from office once at least in every three (3) years. A retiring Director shall be eligible for re-election and shall retain office until the close of the meeting at which he retires.

Directors who are of or over the age of seventy (70) years are subject to retirement annually and may seek for re-appointment in accordance with Section 129(6) of the Companies Act, 1965.

**Remuneration Committee**

The Remuneration Committee consists of two (2) Independent Non-Executive Directors, namely Mr Kwan Cheong Kaw @ Kuan Yeek Chieu (Chairman) and Mr Loh Thian Sang @ Lo Thian Siang (Member), and one (1) Executive Chairman, Mr Ng Chin Heng (Member).

The functions of the Committee include evaluating and making its recommendations on all aspects of the Executive Directors' performance, terms of employment, remuneration package and incentives, and recommending to the Board the Company's framework for retaining and rewarding the Executive Directors.

The Committee shall meet as and when there are matters referred to them for consideration or as necessary.

The Committee has access to professional advice on remuneration matter from within the Group and external specialists of the field.

The Remuneration Committee held one (1) meeting during the financial year, which was attended by all the Committee members.

## STATEMENT ON CORPORATE GOVERNANCE (Cont'd)

**B. DIRECTORS' REMUNERATION**

The Remuneration Committee recommends to the Board the remuneration structure and incentives for each Executive Director. The Committee has the right to obtain independent consultants' advice and information about remuneration practices elsewhere.

The Board as a whole determines and endorses the remuneration of the Directors, after considering the proposals of the Remuneration Committee. Individual Directors concerned shall abstain from discussions and decisions in respect of their own remuneration. The Directors' remuneration shall be determined by an ordinary resolution of the Company pursuant to Article 78 of the Company's Articles of Association.

The remuneration paid/payable to all the Directors of the Company for the financial year ended 31 December 2010 is as follows:-

<b>Directors' Remuneration</b>	<b>Executive Directors RM'000</b>	<b>Non-executive Directors RM'000</b>
Fee	-	83
Salaries	931	-
Bonuses and allowances	797	3
EPF	214	4
Benefits in kind (based on estimated money value)	72	-
<b>Total</b>	<b>2,014</b>	<b>90</b>

The details of the remuneration of each Director are not disclosed as they are private and confidential.

The number of Directors of the Company whose remuneration during the financial year ended 31 December 2010 fall within the following bands is as follows:

<b>Directors' Remuneration Band RM</b>	<b>Number of Directors</b>	
	<b>Executive Director</b>	<b>Non-Executive Director</b>
50,000 and below	-	3
50,001 to 100,000	-	-
100,001 to 150,000	-	-
150,001 to 200,000	-	-
200,001 to 250,000	-	-
250,001 to 300,000	-	-
300,001 to 350,000	-	-
350,001 to 400,000	-	-
400,001 to 450,000	1	-
450,001 to 500,000	-	-
500,001 to 550,000	-	-
550,001 to 600,000	1	-
600,001 to 650,000	-	-
650,001 to 700,000	-	-
700,001 to 750,000	-	-
750,001 to 800,000	-	-
800,001 to 850,000	-	-
850,001 to 900,000	-	-
900,001 to 950,000	-	-
950,001 to 1,000,000	-	-
1,000,001 to 1,050,000	1	-

## STATEMENT ON CORPORATE GOVERNANCE (Cont'd)

### C. SHAREHOLDERS

#### Dialogue between Company and Investors

The Board recognises the importance of an effective communication channel between the Board, shareholders and the general public. The annual reports, quarterly results, press releases and any announcements on material corporate exercises are the primary modes of disseminating information on the Group's business activities and performance.

#### The Annual General Meeting (AGM)

The Company's AGM provides an opportunity for direct interaction with shareholders where questions and concerns raised would serve as feedback to the Group's business and corporate decisions. The notice of AGM will be published in at least one newspaper of national circulation for a wider dissemination of such notice and to encourage greater shareholders' participation at general meeting.

### D. ACCOUNTABILITY AND AUDIT

#### Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Group's performance and prospects in all their reports and announcements to the shareholders, investors, regulatory bodies and the general public. The Board is assisted by the Audit Committee to oversee the Group's financial reporting process and the quality of its financial reporting. The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 31 of this Annual Report.

#### Internal Control

The Board acknowledges that it is responsible for maintaining a sound system of internal control covering not only financial controls but also operational, compliance as well as risk management. The internal control system is designed to meet the Group's particular needs and to manage the risk to which it is exposed. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement or loss.

The Board's statement on internal control is set out on page 23 of this Annual Report.

#### Relationship with Auditors

Key features underlying the relationship of the Audit Committee with its auditors, both external and internal, are included in the Audit Committee's terms of reference. A summary of the activities of the Audit Committee during the year are set out in the Audit Committee Report on pages 15 to 17 of this Annual Report.

#### Compliance Statement

The Company has complied with the principles and best practices of corporate governance as contained in the Malaysian Code on Corporate Governance, except for the disclosure of details of the remuneration of each Director. However, in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad, the remuneration paid is disclosed in aggregates of the categories of remuneration and analysed into successive bands of RM50,000.

# STATEMENT ON INTERNAL CONTROL

## Responsibility

The Board of Directors recognises the importance of sound systems of internal control and effective risk management practices to safeguard shareholders' investments and the Group's assets.

The Board confirms that there is an ongoing process for identifying, assessing and managing the principal risks faced by the Group, which is in accordance with the guidance as contained in the "Statement on Internal Control: Guidance for Directors of Public Listed Companies". This process includes reviewing and updating the system of internal controls to take into consideration changes in the regulatory and business environment.

In view of the limitations inherent in any system of internal control, the Group's internal control system can only provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risks that may impede the achievement of the Group's business objectives.

## Risk Management Framework and Control Self-Assessment

Risk management is firmly embedded in the Group's management system. The Board's primary objective and direction in managing the Group's risk are focused on sustaining the achievement of the Group's business objectives.

In the previous year, the Internal Auditors had carried out evaluation and assessment of the internal controls within the Group's business processes that are essential to the achievement of its business objectives, in order to test the adequacy, integrity and effectiveness of the internal controls over the most significant risks. After the audit, the findings and recommendations for improvement were communicated to the respective management for their response and corrective actions if necessary to strengthen the internal control, risk management and governance systems of the Group.

There are continuous efforts to assess the effectiveness of the controls in place to manage these risks as well as the action plans designed to address the weaknesses which are assigned to the risk owners.

The Executive Directors are specifically tasked with the responsibility of monitoring and reviewing strategic and significant operational risk profile of the Group.

## Other Key Elements of Internal Control

Ad hoc and scheduled meetings at operation sites were held to identify, discuss and resolve operational issues. The Board is aware of and involved when necessary in resolving any significant issue identified at those meetings. The Group is structured as such that the heads of each operating unit has clear reporting line. There is also proper segregation of duties to ensure safe custody of the Group's assets.

The Executive Directors are actively involved in the day-to-day operations of the Group. The Executive Directors ensure that all employees have clear understanding of their roles and responsibilities and that the Group's operations are carried out in accordance with standards set and expected by the Board.

The Executive Directors had established a structured and formal employee appraisal system that ensures employees are remunerated based on their performance.

## Internal Audit Function

The Group outsources its Internal Audit function to an independent professional firm, whose remit is to the Audit Committee. The Internal Auditors had carried out the internal audit covering the period under review and presented their report to the Audit Committee. The Audit Committee had deliberated on the contents of the report and is satisfied that appropriate actions are being taken to address all the weaknesses highlighted. The costs incurred for the Internal Audit function in respect of the financial year 2010 was RM21,000.

The Board is of the view that the system of internal control that has been implemented within the Group is sound and effective and has not resulted in any material losses and contingencies during the financial year 2010. The internal control procedures will be reviewed continuously in order to improve and strengthen the system to ensure ongoing adequacy, integrity and effectiveness so as to safeguard the Group's assets and shareholders' investment.

## ADDITIONAL COMPLIANCE INFORMATION

- **Utilisation of Proceeds**

There were no proceeds raised from any corporate proposal during the financial year.

- **Share Buyback**

During the financial year ended 31 December 2010, the Company did not enter into any share buyback transactions.

- **Options, Warrants or Convertible Securities**

During the financial year ended 31 December 2010, a total of 1,336,000 options were exercised pursuant to the Company's Employee Share Options Scheme (ESOS) which was implemented on 18 January 2005. The ESOS has expired on 17 January 2010.

The Company did not issue any warrants or convertible securities during the financial year under review.

- **American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme**

During the financial year, the Company did not sponsor any ADR or GDR programme.

- **Imposition of Sanctions/Penalties**

There were no public sanctions and/or penalties imposed on the Company or its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

- **Non-Audit Fees**

During the financial year, the non-audit fees paid by the Company and its subsidiaries to the external auditors amounted to RM39,551.

- **Variation in Results**

There was no variance of 10% or more between the audited results for the financial period ended 31 December 2010 and the unaudited results previously announced by the Company. The Company did not release any profit estimate, forecast or projection for the financial period.

- **Profit Guarantee**

No profit guarantee was given by the Company during the financial year.

- **Material Contracts**

There were no material contracts entered into by the Company and its subsidiaries involving the interest of directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

- **Revaluation Policy**

Please refer to accounting policy on property, plant and equipment found on pages 45 to 46.

- **Recurrent Related Party Transactions**

The details of the related party transactions can be found on pages 74 to 75.

## STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

- Selected suitable accounting policies and applied them consistently;
- Made judgement and estimates that are reasonable and prudent;
- Ensured that all applicable approved accounting standards have been followed; and
- Prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made due enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Directors have overall responsibilities for taking such steps as are reasonably available to them to safeguard the assets of the Group as well as to prevent and detect fraud and other irregularities.

The above statement of the Directors' responsibilities for preparing the financial statements was made in accordance with a Board resolution dated 27 May 2011.

# FINANCIAL STATEMENTS

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# Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2010.

## Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are stated in Note 15 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

## Results

	<b>Group RM</b>	<b>Company RM</b>
Profit net of tax	200,786,685	21,021,130

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of FRS 139 Financial Instruments: Recognition and Measurement which has resulted in a decrease of RM191,769 and an increase of RM1,985,961 in the Group's and the Company's profit net of tax respectively as disclosed in Note 2.2 to the financial statements.

## Dividends

The amounts of dividends paid by the Company since 31 December 2009 were as follows:

	<b>RM</b>
In respect of the financial year ended 31 December 2009 as reported in the Directors' Report of that year:	
First and final tax exempt dividend of 12% on 362,452,000 ordinary shares of RM0.20 each, declared on 28 June 2010 and paid on 3 September 2010	8,698,848
Special tax exempt dividend of 13% on 362,452,000 ordinary shares of RM0.20 each, declared on 28 June 2010 and paid on 3 September 2010	9,423,752
	<u>18,122,600</u>

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 will be payable on 11 May 2011 to depositors registered in the Records of Depositors at close of business on 15 April 2011. Such dividend will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2011.

## Directors' Report (cont'd.)

### Directors

The names of the Directors of the Company in office since the date of the last report and at the date of this report are:

Ng Chin Heng  
 Ng Chin Shin  
 Ng Chin Keuan  
 Kwan Cheong Kaw @ Kuan Yeek Chiew  
 Loh Thian Sang @ Lo Thian Siang  
 Zainal Bin Rajan

### Directors' Benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employee Share Options Scheme ("ESOS").

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 10 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 27 to the financial statements.

### Directors' Interest

According to the Register of Directors' Shareholdings, the interests of Directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

The Company	Number of Ordinary Shares of RM0.20 Each			31.12.2010
	1.1.2010	Acquired	Sold	
<b>Direct Interest:</b>				
Ng Chin Heng	18,331,400	-	-	18,331,400
Ng Chin Keuan	7,778,200	-	(400,000)	7,378,200
Ng Chin Shin	7,778,200	-	(230,200)	7,548,000
<b>Indirect Interest:</b>				
Ng Chin Heng (#)	192,306,100	-	(60,000)	192,246,100
Ng Chin Keuan (@)	53,000	-	-	53,000

# Interest by virtue of shares held by spouse, children and by Ivory Asia Sdn. Bhd.

@ Interest by virtue of shares held by spouse

Ng Chin Heng, by virtue of his interests in shares in the Company, is deemed interested in the shares of all the subsidiary companies to the extent the Company has an interest.

None of the other Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## Directors' Report (cont'd.)

### Issue of Shares

During the financial year, the Company increased its issued and paid up ordinary share capital from RM72,223,200 to RM72,490,400 by way of the issuance of 1,336,000 ordinary shares of RM0.20 each for cash pursuant to the Company's Employee Share Options Scheme at an average exercise price of RM0.51 per ordinary share.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

### Employee Share Options Scheme ("ESOS")

The Coastal Contracts Bhd. ESOS for eligible employees and Directors of the Company and its subsidiary companies was approved by the shareholders at the Extraordinary General Meeting held on 18 October 2004. The ESOS became effective on 18 January 2005 when the last requisite approval was obtained and is valid for a period of five years. The ESOS has expired on 17 January 2010.

The salient features and other terms of the ESOS are disclosed in Note 26 to the financial statements.

### Other Statutory Information

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
  - (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

## Directors' Report (cont'd.)

### **Auditors**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 April 2011.

NG CHIN HENG

NG CHIN KEUAN

# Statement by Directors/ Statutory Declaration

## Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, NG CHIN HENG and NG CHIN KEUAN, being two of the Directors of COASTAL CONTRACTS BHD., do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 33 to 85 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their financial performance and the cash flows for the year then ended.

The information set out in Note 37 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 April 2011.

NG CHIN HENG

NG CHIN KEUAN

## Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, VOO VUN YAU, being the officer primarily responsible for the financial management of COASTAL CONTRACTS BHD., do solemnly and sincerely declare that the accompanying financial statements set out on pages 33 to 86 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared  
by the abovenamed VOO VUN YAU  
at Sandakan in the State of Sabah  
on 20 April 2011

VOO VUN YAU

Before me,

# Independent auditors' report to the members of COASTAL CONTRACTS BHD. (Incorporated in Malaysia)

## Report on the financial statements

We have audited the financial statements of Coastal Contracts Bhd., which comprise the statements of financial position as at 31 December 2010 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 85.

### *Directors' responsibility for the financial statements*

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

## Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## Other matters

The supplementary information set out in Note 37 on page 86 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young  
AF: 0039  
Chartered Accountants

Chin Mui Khiong Peter  
1881/03/12 (J)  
Chartered Accountant

Sandakan, Malaysia  
25 April 2011

# Statements of Comprehensive Income

## For the Financial Year Ended 31 December 2010

	Note	2010 RM	Group 2009 RM (Restated)	Company 2010 RM	2009 RM
Revenue	4	675,052,670	466,058,353	20,178,772	12,300,000
Cost of sales		(462,941,645)	(298,342,994)	-	-
<b>Gross profit</b>		212,111,025	167,715,359	20,178,772	12,300,000
<b>Other items of income</b>					
Interest income	5	147,446	126,317	222,175	233,700
Other income	6	5,405,024	9,585,585	1,997,574	403,849
<b>Other items of expenses</b>					
Administrative expenses		(8,844,545)	(9,081,491)	(714,303)	(585,575)
Finance costs	7	(3,585,905)	(3,726,741)	(15,039)	(2,050)
Other expenses		(5,281,615)	(1,423,798)	(645,251)	(1,322)
<b>Profit before tax</b>	8	199,951,430	163,195,231	21,023,928	12,348,602
Income tax expense	11	835,255	(669,876)	(2,798)	(1,727,434)
<b>Profit net of tax</b>		200,786,685	162,525,355	21,021,130	10,621,168
<b>Other comprehensive income:</b>					
Foreign currency translation		(39,492,786)	(5,560,199)	-	-
<b>Total comprehensive income for the year</b>		161,293,899	156,965,156	21,021,130	10,621,168
<b>Profit attributable to owners of the parent</b>		200,786,685	162,525,355	21,021,130	10,621,168
<b>Total comprehensive income attributable to owners of the parent</b>		161,293,899	156,965,156	21,021,130	10,621,168
<b>Earnings per share attributable to owners of the parent (sen):</b>					
Basic	12	55.40	45.51		
Diluted	12	55.40	45.04		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Financial Position

As at 31 December 2010

		Group			Company	
	Note	2010 RM	2009 RM (Restated)	As at 1.1.2009 RM (Restated)	2010 RM	2009 RM
<b>ASSETS</b>						
<b>Non-Current Assets</b>						
Property, plant and equipment	13	106,504,266	107,806,241	109,573,782	359,783	52,786
Land use rights	14	-	-	-	-	-
Investments in subsidiaries	15	-	-	-	66,216,193	63,513,993
Intangible asset	16	5,884,127	5,884,127	5,884,127	-	-
Deferred tax assets	17	242,982	-	15,447	-	-
		<b>112,631,375</b>	<b>113,690,368</b>	<b>115,473,356</b>	<b>66,575,976</b>	<b>63,566,779</b>
<b>Current Assets</b>						
Inventories	18	786,899,129	781,225,089	608,708,745	-	-
Trade and other receivables	19	43,024,924	144,742,069	64,620,564	39,371,776	39,328,408
Tax recoverable		571,144	933,939	922,831	253,994	190,834
Cash and bank balances	20	149,791,721	102,893,709	72,728,466	52,133	140,313
		<b>980,286,918</b>	<b>1,029,794,806</b>	<b>746,980,606</b>	<b>39,677,903</b>	<b>39,659,555</b>
<b>Total Assets</b>		<b>1,092,918,293</b>	<b>1,143,485,174</b>	<b>862,453,962</b>	<b>106,253,879</b>	<b>103,226,334</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Current Liabilities</b>						
Income tax payable		53,033	348,769	478,831	-	-
Loans and borrowings	21	36,332,114	85,186,301	72,692,631	67,555	20,256
Trade and other payables	22	434,083,526	575,610,307	456,755,696	6,632,070	7,908,374
		<b>470,468,673</b>	<b>661,145,377</b>	<b>529,927,158</b>	<b>6,699,625</b>	<b>7,928,630</b>
<b>Net Current Assets</b>		<b>509,818,245</b>	<b>368,649,429</b>	<b>217,053,448</b>	<b>32,978,278</b>	<b>31,730,925</b>
<b>Non-Current Liabilities</b>						
Loans and borrowings	21	14,747,275	18,017,888	17,875,541	239,060	-
Other payables	22	-	-	-	434,614	-
Deferred tax liabilities	17	5,054,080	5,840,725	6,554,063	6,683	3,392
		<b>19,801,355</b>	<b>23,858,613</b>	<b>24,429,604</b>	<b>680,357</b>	<b>3,392</b>
<b>Total Liabilities</b>		<b>490,270,028</b>	<b>685,003,990</b>	<b>554,356,762</b>	<b>7,379,982</b>	<b>7,932,022</b>
<b>Net Assets</b>		<b>602,648,265</b>	<b>458,481,184</b>	<b>308,097,200</b>	<b>98,873,897</b>	<b>95,294,312</b>
<b>Equity Attributable to Owners of the Parent</b>						
Share capital	23	72,490,400	72,223,200	70,561,240	72,490,400	72,223,200
Share premium	23	18,663,773	18,249,918	15,675,302	18,663,773	18,249,918
Other reserve	24	(44,879,251)	(5,386,465)	173,734	-	-
Retained earnings	25	556,373,343	373,394,531	221,686,924	7,719,724	4,821,194
<b>Total Equity</b>		<b>602,648,265</b>	<b>458,481,184</b>	<b>308,097,200</b>	<b>98,873,897</b>	<b>95,294,312</b>
<b>Total Equity and Liabilities</b>		<b>1,092,918,293</b>	<b>1,143,485,174</b>	<b>862,453,962</b>	<b>106,253,879</b>	<b>103,226,334</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Changes in Equity

For the Financial Year Ended 31 December 2010

	Note	← Attributable to Owners of the Parent →				Distributable Retained Earnings RM
		Equity, Total RM	Share Capital RM	Share Premium RM	← Non-Distributable → Foreign Currency Translation Reserve RM	
<b>2010 Group</b>						
<b>Opening balance at 1 January 2010:</b>						
As previously stated		458,272,833	72,223,200	18,249,918	(5,386,465)	373,186,180
Effects of adopting the amendments to FRS 117		208,351	-	-	-	208,351
As restated		458,481,184	72,223,200	18,249,918	(5,386,465)	373,394,531
Effects of adopting FRS 139		314,727	-	-	-	314,727
		458,795,911	72,223,200	18,249,918	(5,386,465)	373,709,258
<b>Total comprehensive income for the year</b>		161,293,899	-	-	(39,492,786)	200,786,685
Transactions with owners:						
Dividends	34	(18,122,600)	-	-	-	(18,122,600)
Share issuance expense	23	(305)	-	(305)	-	-
Exercise of employee share options	23	681,360	267,200	414,160	-	-
<b>Total transactions with owners</b>		(17,441,545)	267,200	413,855	-	(18,122,600)
<b>Closing balance at 31 December 2010</b>		602,648,265	72,490,400	18,663,773	(44,879,251)	556,373,343
<b>2009 Group</b>						
<b>Opening balance at 1 January 2009:</b>						
As previously stated		307,971,037	70,561,240	15,675,302	173,734	221,560,761
Effects of adopting the amendments to FRS 117		126,163	-	-	-	126,163
As restated		308,097,200	70,561,240	15,675,302	173,734	221,686,924
<b>Total comprehensive income for the year</b>		156,965,156	-	-	(5,560,199)	162,525,355
Transactions with owners:						
Dividends	34	(10,817,748)	-	-	-	(10,817,748)
Share issuance expense	23	(1,422)	-	(1,422)	-	-
Exercise of employee share options	23	4,237,998	1,661,960	2,576,038	-	-
<b>Total transactions with owners</b>		(6,581,172)	1,661,960	2,574,616	-	(10,817,748)
<b>Closing balance at 31 December 2009</b>		458,481,184	72,223,200	18,249,918	(5,386,465)	373,394,531

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Changes in Equity

For the Financial Year Ended 31 December 2010 (cont'd.)

	Note	Equity, Total RM	Share Capital RM	Non- Distributable Share Premium RM	Distributable Retained Earnings RM
<b>2010</b>					
<b>Company</b>					
<b>Opening balance at 1 January 2010</b>		95,294,312	72,223,200	18,249,918	4,821,194
<b>Total comprehensive income for the year</b>		21,021,130	-	-	21,021,130
Transactions with owners:					
Dividends	34	(18,122,600)	-	-	(18,122,600)
Share issuance expense	23	(305)	-	(305)	-
Exercise of employee share options	23	681,360	267,200	414,160	-
<b>Total transactions with owners</b>		(17,441,545)	267,200	413,855	(18,122,600)
<b>Closing balance at 31 December 2010</b>		98,873,897	72,490,400	18,663,773	7,719,724
<b>2009</b>					
<b>Company</b>					
<b>Opening balance at 1 January 2009</b>		91,254,316	70,561,240	15,675,302	5,017,774
<b>Total comprehensive income for the year</b>		10,621,168	-	-	10,621,168
Transactions with owners:					
Dividends	34	(10,817,748)	-	-	(10,817,748)
Share issuance expense	23	(1,422)	-	(1,422)	-
Exercise of employee share options	23	4,237,998	1,661,960	2,576,038	-
<b>Total transactions with owners</b>		(6,581,172)	1,661,960	2,574,616	(10,817,748)
<b>Closing balance at 31 December 2009</b>		95,294,312	72,223,200	18,249,918	4,821,194

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Cash Flow

## For the Financial Year Ended 31 December 2010

	Note	2010 RM	Group 2009 RM (Restated)	Company 2010 RM	2009 RM
<b>Operating Activities</b>					
Profit before tax		199,951,430	163,195,231	21,023,928	12,348,602
<u>Adjustments for:</u>					
Dividend income	4	-	-	(20,178,772)	(12,300,000)
Interest income	5	(147,446)	(126,317)	(222,175)	(233,700)
Gain on disposal of property, plant and equipment	6	(961,106)	(65,442)	-	-
Premium income arising from guarantee contracts issued	6	-	-	(1,985,961)	-
Loss arising from recalculation of carrying amounts of borrowings		174,922	-	-	-
Reversal of impairment loss on receivables	6	(87,279)	(67,470)	-	-
Interest expense	7	3,585,905	3,726,741	15,039	2,050
Impairment loss on other receivables	8	65,618	-	-	-
Bad debts written off	8	-	27,250	-	-
Depreciation of property, plant and equipment	8	7,677,522	8,113,012	111,218	34,886
Property, plant and equipment written off	8	153,732	1,819	-	-
Net unrealised loss on foreign exchange	8	711,513	744,402	6,690	1,322
Total adjustments		11,173,381	12,353,995	(22,253,961)	(12,495,442)
Operating cash flows before changes in working capital		211,124,811	175,549,226	(1,230,033)	(146,840)
<u>Changes in working capital</u>					
Net change in accounts with subsidiaries		-	-	(1,699,488)	(4,160,347)
Increase in inventories		(78,904,938)	(183,901,195)	-	-
Decrease/(increase) in receivables		93,015,530	(83,115,073)	9,117	(11,671)
(Decrease)/increase in payables		(89,378,452)	127,500,676	82,384	(3,692)
Total changes in working capital		(75,267,860)	(139,515,592)	(1,607,987)	(4,175,710)
Cash flows from/(used in) operations		135,856,951	36,033,634	(2,838,020)	(4,322,550)
Interest paid		(3,834,818)	(3,629,426)	(15,039)	(2,050)
Income tax (paid)/refund		(202,684)	(1,522,371)	42,333	14,209
Net cash flows from/(used in) operating activities		131,819,449	30,881,837	(2,810,726)	(4,310,391)

# Statements of Cash Flow

For the Financial Year Ended 31 December 2010 (cont'd.)

	Note	2010 RM	Group 2009 RM (Restated)	2010 RM	Company 2009 RM
<b>Investing Activities</b>					
Acquisition of subsidiary companies		-	-	-	(3,600)
Net dividend received		-	-	20,073,772	10,475,000
Interest received		147,446	126,317	222,175	233,700
Proceeds from disposal of property, plant and equipment		3,554,245	428,745	-	-
Purchase of property, plant and equipment		(11,358,742)	(6,918,478)	(58,215)	(4,028)
Net cash flows (used in)/from investing activities		(7,657,051)	(6,363,416)	20,237,732	10,701,072
<b>Financing Activities</b>					
Proceeds from issuance of ordinary shares		681,055	4,236,576	681,055	4,236,576
Dividends paid on ordinary shares		(18,122,600)	(10,817,748)	(18,122,600)	(10,817,748)
Net (repayment)/proceeds from revolving credits		(46,095,625)	13,637,490	-	-
Proceeds from bank loans		203,830	5,845,960	-	-
Repayment of bank loans		(2,475,424)	(4,281,467)	-	-
Repayment of obligations under finance lease		(1,464,257)	(1,500,180)	(73,641)	(39,170)
Net cash flows (used in)/from financing activities		(67,273,021)	7,120,631	(17,515,186)	(6,620,342)
<b>Net increase/(decrease) in cash and cash equivalents</b>		56,889,377	31,639,052	(88,180)	(229,661)
<b>Effect of foreign exchange rate changes</b>		(10,696,034)	(1,587,998)	-	-
<b>Cash and cash equivalents at beginning of year</b>		102,779,520	72,728,466	140,313	369,974
<b>Cash and cash equivalents at end of year</b>	20	148,972,863	102,779,520	52,133	140,313

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Notes to the Financial Statements

31 December 2010

## 1. Corporate Information

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad. The registered office of the Company is located at Block G, Lot 3B, Bandar Leila, W. D. T. 259, 90009 Sandakan, Sabah. The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are stated in Note 15 to the financial statements. There have been no significant changes in the nature of the principal activities during the financial year.

## 2. Summary of Significant Accounting Policies

### 2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRS") and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2010 as described fully in Note 2.2.

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM).

### 2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2010, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2010.

- 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: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

FRS 4 Insurance Contracts and TR i-3 Presentation of Financial Statements of Islamic Financial Institutions will also be effective for annual financial periods beginning on or after 1 January 2010. These FRS are, however, not applicable to the Group or the Company.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.2 Changes in Accounting Policies (cont'd.)

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

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

#### 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. These revised disclosures, including the related revised comparative information, are shown in Note 33 to the financial statements.

#### 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 and the Company have elected to present this statement as one single statement.

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 (see Note 32).

The revised FRS 101 was adopted retrospectively by the Group and the Company.

#### 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.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.2 Changes in Accounting Policies (cont'd.)

##### Amendments to FRS 117 Leases (cont'd.)

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. The following are effects to the consolidated statements of financial position as at 31 December 2010 and consolidated statements of comprehensive income for the year ended 31 December 2010 arising from the above change in accounting policy:

	<b>Group RM</b>
<b>Statements of financial position</b>	
Increase/(decrease) in:	
Property, plant and equipment	7,260,024
Land use rights	(6,939,142)
Deferred tax liabilities	18,645
Retained earnings	302,237
	<hr/>
<b>Statements of comprehensive income</b>	
Increase/(decrease) in:	
Cost of sales	(100,101)
Income tax expense	6,215
Profit net of tax	93,886
	<hr/>

The following comparatives have been restated:

	<b>As previously stated RM</b>	<b>Adjustments RM</b>	<b>As restated RM</b>
<b>Consolidated statements of financial position</b>			
<b>31 December 2009</b>			
Property, plant and equipment	101,733,582	6,072,659	107,806,241
Land use rights	5,851,878	(5,851,878)	-
Deferred tax liabilities	5,828,295	12,430	5,840,725
Retained earnings	373,186,180	208,351	373,394,531
	<hr/>	<hr/>	<hr/>
<b>1 January 2009</b>			
Property, plant and equipment	103,501,123	6,072,659	109,573,782
Land use rights	5,940,281	(5,940,281)	-
Deferred tax liabilities	6,547,848	6,215	6,554,063
Retained earnings	221,560,761	126,163	221,686,924
	<hr/>	<hr/>	<hr/>
<b>Consolidated statements of comprehensive income</b>			
<b>31 December 2009</b>			
Cost of sales	298,431,397	(88,403)	298,342,994
Income tax expense	663,661	6,215	669,876
Profit net of tax	162,443,167	82,188	162,525,355
	<hr/>	<hr/>	<hr/>

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.2 Changes in Accounting Policies (cont'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. During the financial year, RM343,561 of borrowing costs have been capitalised on inventories.

##### 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 and the Company have 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. The details of the changes in accounting policies and the effects arising from the adoption of FRS 139 are discussed below:

- Financial guarantee contracts

During the current and prior years, the Company provided financial guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Prior to 1 January 2010, the Company did not provide for such guarantees unless it was more likely than not that the guarantees would be called upon. The guarantees were disclosed as contingent liabilities. Upon the adoption of FRS 139, all unexpired financial guarantees issued by the Company are recognised as financial liabilities and are measured at their initial fair value less accumulated amortisation as at 1 January 2010.

- Loans and borrowings

Upon the adoption of FRS 139, all loans and borrowings are recorded initially at fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, the loans and borrowings are measured at amortised cost. As at 1 January 2010, the Group and the Company has remeasured such loans and borrowings at their amortised cost of RM102,812,078 and the adjustments to their previous carrying amounts are recognised as adjustments to the opening balance of retained earnings as at that date.

The following are effects arising from the above changes in accounting policies:

	<b>Increase/(Decrease)</b>	
	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>1 January</b>
	<b>2010</b>	<b>2010</b>
	<b>RM</b>	<b>RM</b>
<b>Statements of financial position</b>		
<b>Group</b>		
Loans and borrowings	(144,936)	(392,111)
Deferred tax liabilities	19,285	77,384
Retained earnings	125,651	314,727
	<hr/>	<hr/>
<b>Company</b>		
Investment in subsidiaries	2,702,200	1,551,479
Trade and other payables – financial guarantees	716,239	1,551,479
Retained earnings	1,985,961	-
	<hr/>	<hr/>

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.2 Changes in Accounting Policies (cont'd.)

*FRS 139 Financial Instruments: Recognition and Measurement* (cont'd.)

The following are effects arising from the above changes in accounting policies: (cont'd.)

	<b>Increase/(Decrease)</b>	
	<b>Group</b>	<b>Company</b>
	<b>2010</b>	<b>2010</b>
	<b>RM</b>	<b>RM</b>
<b>Statements of comprehensive income</b>		
Other income	-	1,985,961
Finance costs	74,946	-
Other expenses	174,922	-
Profit before tax	(249,868)	1,985,961
Income tax expense	(58,099)	-
Profit net of tax	(191,769)	1,985,961
	<hr/>	<hr/>
		<b>Group</b>
		<b>Increase/(Decrease)</b>
		<b>2010</b>
		<b>Sen per share</b>
<b>Earnings per share:</b>		
Basic		0.05
Diluted		0.05
		<hr/>

#### 2.3 Standards and Interpretations Issued but Not Yet Effective

##### Effective for financial periods beginning on or after 1 March 2010

- Amendments to FRS 132: Financial Instruments: Presentation (paragraphs 11,16 and 97E relating to classification of Right Issues)

##### Effective for financial periods beginning on or after 1 July 2010

- FRS 1: First-time Adoption of Financial Reporting Standards
- FRS 3: Business Combinations (revised)
- Amendments to FRS 127: Consolidated and Separate Financial Statements
- Amendments to FRS 2: Share-based Payment
- Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS138: Intangible Assets
- Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- 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

##### Effective for financial periods beginning on or after 30 August 2010

- Amendments to IC Interpretation 15: Agreements for the Construction of Real Estate

##### Effective for financial periods beginning on or after 1 January 2011

- 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: Group Cash - Settled Share-based Payment Transactions
- Amendments to FRS 7: Improving Disclosures about Financial Instruments
- IC Interpretation 4 : Determining whether an Arrangement Contain a Lease
- IC Interpretation 18 : Transfer of Assets from Customers
- Technical Release 3: Guidance on Disclosures of Transition to IRFSs

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.3 Standards and Interpretations Issued but Not Yet Effective (cont'd.)

##### Effective for financial periods beginning on or after 1 July 2011

- Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirements
- IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments

##### Effective for financial periods beginning on or after 1 January 2012

- IC Interpretation 15: Agreements for the Construction of Real Estate
- Amendments to FRS 124: Related Party Disclosure

The Malaysian Accounting Standards Board also issued "Improvements to FRSs (2010)" which contain amendments to eleven FRSs and are effective for financial periods beginning on or after 1 January 2011.

The Group and the Company plan to adopt the above pronouncements when they become effective in the respective financial period. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Group and the Company upon their initial application:

##### Revised FRS 3 Business Combinations and Amendments to 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 Amendments to FRS 127 require 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 amended 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 revised FRS 3 and Amendments to FRS 127 will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early adopted. However, the Group does not intend to early adopt.

#### 2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination.

Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 2.7.

Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.5 Foreign Currency

##### (a) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

##### (b) Foreign Currency Transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on the initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is classified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

##### (c) Foreign Operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

#### 2.6 Property, Plant and Equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Long leasehold land held on long-term leases (with remaining lease period of over 50 years) is not amortised. The non-amortisation of the long leasehold land has no material effect on the financial statements. The effect on the non-amortisation of the leasehold land is disclosed under Note 13 to the financial statements.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.6 Property, Plant and Equipment (cont'd.)

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life. The estimated useful lives are as follows:

Buildings and workshops	10 - 15 years
Heavy machinery and equipment	5 - 18 years
Motor vehicles	5 years
Renovation	5 - 10 years
Slipway and shipyard infrastructure	10 - 20 years
Telecommunications and office equipment, furniture and fittings	5 - 10 years
Tugboats and barges	11 - 15 years

Assets under construction are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the assets is included in the profit or loss in the year the asset is derecognised.

### 2.7 Goodwill

Goodwill acquired in a business combination is initially measured at cost being 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. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### 2.8 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.9 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

### 2.10 Financial Assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

#### (a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that is held primarily for trading purposes are presented as current whereas financial assets that is not held primarily for trading purposes are presented as current or non-current based on the settlement date.

#### (b) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

#### (c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.10 Financial Assets (cont'd.)

#### (d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Group and the Company commit to purchase or sell the asset.

### 2.11 Impairment of Financial Assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

#### Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment 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 original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.12 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits, and short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.13 Inventories

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

The cost of raw materials and spare parts are determined using the weighted average method. The cost of raw materials comprises costs of purchase. The cost of finished goods and work-in-progress are determined using specific identification of their individual costs. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

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.

### 2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

### 2.15 Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### (a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

#### (b) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.15 Financial Liabilities (cont'd.)

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.16 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

### 2.17 Borrowing Costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

### 2.18 Employee Benefits

#### (i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (ii) Defined Contribution Plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (iii) Share-Based Compensation

The Coastal Contracts Bhd. Employee Share Options Scheme ("ESOS"), an equity-settled, share-based compensation plan, allows the Group's employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 2. Summary of Significant Accounting Policies (cont'd.)

#### 2.19 Leases

##### (a) As Lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

##### (b) As Lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

#### 2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

##### (a) Sale of vessels

Revenue from sale of vessels is recognised upon the delivery of the vessels to customers during the year. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

##### (b) Rendering of Services

Revenue from provision of vessel repairs and maintenance services, sub-contract services, provision of tugboats, barges and equipment hiring income, ocean freight income, towing service and commission agency income are recognised upon rendering of services.

##### (c) Interest Income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

##### (d) Dividend Income

Dividend income is recognised when the Group's right to receive payment is established.

#### 2.21 Income Taxes

##### (a) Current Tax

Current tax assets and liabilities 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 are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.21 Income Taxes (cont'd.)

#### (b) Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

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 is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.22 Segment Reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 33, including the factors used to identify the reportable segments and the measurement basis of segment information.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 2. Summary of Significant Accounting Policies (cont'd.)

### 2.23 Share Capital and Share Issuance Expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### 2.24 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

## 3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### 3.1 Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Useful lives of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and equipment to be within 5 to 20 years. These are common life expectancies applied in the vessels construction and transportation industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and equipment at the reporting date is disclosed in Note 13.

#### (b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use and/or fair value less costs to sell of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2010 was RM5,884,127 (2009: RM5,884,127). Further details are disclosed in Note 16.

#### (c) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivable at the reporting date is disclosed in Note 19.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 3. Significant Accounting Judgements and Estimates (cont'd.)

### 3.1 Key Sources of Estimation Uncertainty (cont'd.)

#### (d) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised tax losses and capital allowances of the Group was RM3,519,038 (2009: RM103,369).

## 4. Revenue

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Sale of offshore support and marine transportation vessels	656,625,307	411,410,120	-	-
Shipbuilding construction contract income	-	27,772,585	-	-
Tugboats and barges hiring income	16,661,396	25,127,304	-	-
Vessel repairs and service income	541,949	1,748,344	-	-
Dividend income	-	-	20,178,772	12,300,000
Commission and agency income	1,224,018	-	-	-
	<u>675,052,670</u>	<u>466,058,353</u>	<u>20,178,772</u>	<u>12,300,000</u>

## 5. Interest Income

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest income from:				
- Short term deposits	147,446	126,317	-	-
- Credit facility granted to a subsidiary	-	-	222,175	233,700
	<u>147,446</u>	<u>126,317</u>	<u>222,175</u>	<u>233,700</u>

## 6. Other Income

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Bad debts recovered	2,390	-	-	-
Commission received	11,613	11,052	11,613	11,052
Gain on foreign exchange				
- realised	134,777	312,508	-	12
- unrealised	937,318	154,668	-	-
Insurance claim received	2,770	1,527,671	-	-
Premium income	-	-	1,985,961	-
Reversal of impairment loss on receivables	87,279	67,470	-	-
Gain on disposal of property, plant and equipment	961,106	65,442	-	-
Rental income	3,600	3,600	-	-
Forfeiture of deposits	-	4,399,496	-	-
Sundry income	3,264,171	3,043,678	-	392,785
	<u>5,405,024</u>	<u>9,585,585</u>	<u>1,997,574</u>	<u>403,849</u>

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 7. Finance Costs

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Interests on:				
Bank overdrafts	14,262	11,040	-	-
Hire purchase	428,755	487,604	15,039	2,050
Overdue	-	162	-	-
Revolving credits	2,648,937	2,423,193	-	-
Bank loans	837,512	804,742	-	-
	<u>3,929,466</u>	<u>3,726,741</u>	<u>15,039</u>	<u>2,050</u>
Less: Interest capitalised in inventories (Note 18)	(343,561)	-	-	-
	<u>3,585,905</u>	<u>3,726,741</u>	<u>15,039</u>	<u>2,050</u>

## 8. Profit before Tax

The following items have been included in arriving at profit before tax:

	Group		Company	
	2010 RM	2009 RM (Restated)	2010 RM	2009 RM
Employee benefits expenses (Note 9)	9,973,662	10,268,121	242,231	185,877
Non-executive Directors' fees and allowances (Note 10)	90,288	78,205	90,288	78,205
Auditors' remuneration:				
- statutory audits				
- current year	170,229	171,903	35,000	30,000
- (over)/underprovision in prior years	(3,000)	18,350	-	-
- other services	39,551	26,812	21,500	6,500
Impairment loss on other receivables (Note 19)	65,618	-	-	-
Bad debts written off	-	27,250	-	-
Depreciation of property, plant and equipment (Note 13)	7,677,522	8,113,012	111,218	34,886
Equipment hire charges	20,210	23,924	-	-
Incorporation fee	-	3,484	-	-
Property, plant and equipment written off	153,732	1,819	-	-
Tugboat hired	7,600	2,400	-	-
Loss on foreign exchange				
- realised	3,230,171	522,919	603,195	-
- unrealised	1,648,831	899,070	6,690	1,322
Rental of premises	95,192	113,149	6,000	6,000
	<u>9,973,662</u>	<u>10,268,121</u>	<u>242,231</u>	<u>185,877</u>

## 9. Employee Benefits Expenses

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Salaries, wages and bonuses	9,128,411	9,469,186	215,124	164,901
Contributions to defined contribution plan	781,393	725,441	25,672	19,650
Social Security Contributions	63,858	73,494	1,435	1,326
	<u>9,973,662</u>	<u>10,268,121</u>	<u>242,231</u>	<u>185,877</u>

Included in employee benefits expenses of the Group are Executive Directors' remuneration amounting to RM3,133,904 (2009: RM2,470,006).

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 10. Directors' Remuneration

The details of remuneration receivable by directors of the Company during the year are as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Directors of the Company</b>				
Executive:				
Salaries and other emoluments	1,942,032	1,527,408	-	-
Total executive directors' remuneration (excluding benefits-in-kind) (Note 9)	1,942,032	1,527,408	-	-
Estimated money value of benefits-in-kind	72,042	46,150	-	-
Total executive directors' remuneration (including benefits-in-kind)	2,014,074	1,573,558	-	-
Non-Executive:				
Fees and allowances	90,288	78,205	90,288	78,205
Total directors' remuneration	2,104,362	1,651,763	90,288	78,205
<b>Directors of Subsidiaries</b>				
Executive:				
Fees and allowances	14,174	14,543	-	-
Salaries and other emoluments	1,177,698	928,055	-	-
Total executive directors' remuneration (excluding benefits-in-kind) (Note 9)	1,191,872	942,598	-	-
Estimated money value of benefits-in-kind	8,800	8,800	-	-
Total executive directors' remuneration (including benefits-in-kind)	1,200,672	951,398	-	-

## 11. Income Tax Expense

### Major component of income tax expenses

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

	Group		Company	
	2010 RM	2009 RM (Restated)	2010 RM	2009 RM
<b>Statement of comprehensive income:</b>				
Current income tax:				
- On results for the year	195,054	1,037,158	-	1,724,547
- Labuan offshore business activity	20,000	20,000	-	-
- Foreign tax	50,827	308,141	-	-
	265,881	1,365,299	-	1,724,547
Under/(Over) provision in prior years:				
- Malaysian income tax	5,875	2,301	(493)	2,362
- Foreign tax	-	167	-	-
	271,756	1,367,767	(493)	1,726,909
Deferred income tax (Note 17):				
Origination and reversal of temporary differences	(1,102,264)	(821,345)	3,291	525
(Over)/underprovision in prior years	(4,747)	123,454	-	-
	(1,107,011)	(697,891)	3,291	525
Income tax expense recognised in profit or loss	(835,255)	669,876	2,798	1,727,434

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 11. Income Tax Expense (cont'd.)

#### Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2010 and 2009 are as follows:

	Group		Company	
	2010 RM	2009 RM (Restated)	2010 RM	2009 RM
Accounting profit before tax	199,951,430	163,195,231	21,023,928	12,348,602
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	49,987,857	40,798,808	5,255,982	3,087,151
Adjustments:				
Non-deductible expenses	448,598	340,796	239,036	44,542
Income not subject to taxation	(597)	(267,313)	(5,491,727)	(1,406,621)
Effect on tax exempt profit#	-	(4,464,878)	-	-
Effect of different tax rates in other jurisdictions	(51,272,662)	(35,877,462)	-	-
Deferred tax assets not recognised	421	14,003	-	-
(Over)/underprovision in prior years:				
- income tax	5,875	2,468	(493)	2,362
- deferred tax	(4,747)	123,454	-	-
Income tax expense recognised in profit or loss	(835,255)	669,876	2,798	1,727,434

- # A subsidiary had been granted pioneer status under the Promotion of Investments Act, 1986 which exempts 100% of its statutory income from ship building and ship repairing activities for a period of 5 years with effect from April 2007.

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Tax savings recognised during the year arising from:				
Utilisation of current year capital allowance	289,548	649,420	9,808	3,542
Unabsorbed capital allowances carried forward	2,496,553	116,605	-	-
Unutilised tax losses carried forward	1,076,331	42,777	-	-

### 12. Earnings Per Share

Basic earnings per share amounts are calculated by dividing profit for the year net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing profit for the year net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

## Notes to the Financial Statements

31 December 2010 (cont'd.)

**12. Earnings Per Share (cont'd.)**

The following reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	2010 RM	Group 2009 RM (Restated)
Profit net of tax attributable to owners of the parent used in the computation of basic/dilute earnings per share	200,786,685	162,525,355
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic earnings per share computation	362,400,756	357,159,027
Effects of dilution in share options	-*	3,679,975
Weighted average number of shares for diluted earnings per share computation	362,400,756	360,839,002

\* There were no dilutive potential ordinary shares to be issued pursuant to share options as the ESOS has expired on 17 January 2010.

**13. Property, Plant and Equipment**

Group	Leasehold land and buildings* RM	Slipway and shipyard infrastructure RM	Tugboats, barges, heavy machinery and equipment RM	Motor vehicles RM	Telecom- munication and office equipment, furniture, fittings and renovations RM	Construction work-in- progress RM	Total RM
<b>Cost</b>							
<b>At 1 January 2009:</b>							
As previously stated	11,728,941	14,823,865	97,619,019	2,576,103	1,756,987	9,453,636	137,958,551
Effects of adopting the amendments to FRS 117	6,072,659	-	-	-	-	-	6,072,659
As restated	17,801,600	14,823,865	97,619,019	2,576,103	1,756,987	9,453,636	144,031,210
Additions	561,917	70,182	279,005	-	84,715	5,922,659	6,918,478
Disposal	-	-	(478,639)	-	(3,799)	-	(482,438)
Scrapped	-	-	-	-	(2,799)	-	(2,799)
Reclassifications	85,836	-	-	-	-	(85,836)	-
Exchange differences	-	-	(311,803)	-	-	-	(311,803)
<b>At 31 December 2009 (restated)</b>	18,449,353	14,894,047	97,107,582	2,576,103	1,835,104	15,290,459	150,152,648
<b>At 1 January 2010:</b>							
As previously stated	12,376,694	14,894,047	97,107,582	2,576,103	1,835,104	15,290,459	144,079,989
Effects of adopting the amendments to FRS 117	6,072,659	-	-	-	-	-	6,072,659
As restated	18,449,353	14,894,047	97,107,582	2,576,103	1,835,104	15,290,459	150,152,648
Additions	1,456,505	1,812,204	383,117	949,872	150,931	7,564,113	12,316,742
Disposal	-	-	(3,244,316)	-	-	-	(3,244,316)
Scrapped	(166,643)	-	-	-	(4,519)	-	(171,162)
Reclassifications	-	110,873	-	-	-	(110,873)	-
Exchange differences	-	-	(4,015,000)	-	-	-	(4,015,000)
<b>At 31 December 2010</b>	19,739,215	16,817,124	90,231,383	3,525,975	1,981,516	22,743,699	155,038,912

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 13. Property, Plant and Equipment (cont'd.)

Group (cont'd.)	Leasehold land and buildings* RM	Slipway and shipyard infrastructure RM	Tugboats, barges, heavy machinery and equipment RM	Motor vehicles RM	Telecommunication and office equipment, furniture, fittings and renovations RM	Construction work-in-progress RM	Total RM
<b>Accumulated depreciation</b>							
<b>At 1 January 2009</b>	3,006,945	4,846,647	23,648,490	1,669,975	1,285,371	-	34,457,428
Depreciation charge for the year	744,082	845,118	5,958,534	384,610	180,668	-	8,113,012
Disposal	-	-	(117,268)	-	(3,797)	-	(121,065)
Scrapped	-	-	-	-	(980)	-	(980)
Exchange differences	-	-	(101,988)	-	-	-	(101,988)
<b>At 31 December 2009</b>	<b>3,751,027</b>	<b>5,691,765</b>	<b>29,387,768</b>	<b>2,054,585</b>	<b>1,461,262</b>	<b>-</b>	<b>42,346,407</b>
<b>At 1 January 2010</b>	3,751,027	5,691,765	29,387,768	2,054,585	1,461,262	-	42,346,407
Depreciation charge for the year	752,068	873,428	5,507,820	395,404	148,802	-	7,677,522
Disposal	-	-	(804,265)	-	-	-	(804,265)
Scrapped	(15,041)	-	-	-	(2,389)	-	(17,430)
Exchange differences	-	-	(667,588)	-	-	-	(667,588)
<b>At 31 December 2010</b>	<b>4,488,054</b>	<b>6,565,193</b>	<b>33,423,735</b>	<b>2,449,989</b>	<b>1,607,675</b>	<b>-</b>	<b>48,534,646</b>
<b>Net carrying amount</b>							
At 31 December 2009	14,698,326	9,202,282	67,719,814	521,518	373,842	15,290,459	107,806,241
At 31 December 2010	15,251,161	10,251,931	56,807,648	1,075,986	373,841	22,743,699	106,504,266

Leasehold land and buildings comprise:

Group	Leasehold Land RM	Leasehold Buildings RM	Buildings and Workshops RM	Total RM
<b>Cost</b>				
<b>At 1 January 2009:</b>				
As previously stated	-	730,109	10,998,832	11,728,941
Effects of adopting the amendments to FRS 117	6,072,659	-	-	6,072,659
As restated	6,072,659	730,109	10,998,832	17,801,600
Additions	-	-	561,917	561,917
Reclassification	-	-	85,836	85,836
<b>At 31 December 2009 (restated)</b>	<b>6,072,659</b>	<b>730,109</b>	<b>11,646,585</b>	<b>18,449,353</b>
<b>At 1 January 2010:</b>				
As previously stated	-	730,109	11,646,585	12,376,694
Effects of adopting the amendments to FRS 117	6,072,659	-	-	6,072,659
As restated	6,072,659	730,109	11,646,585	18,449,353
Additions	1,187,365	-	269,140	1,456,505
Scrapped	-	-	(166,643)	(166,643)
<b>At 31 December 2010</b>	<b>7,260,024</b>	<b>730,109</b>	<b>11,749,082</b>	<b>19,739,215</b>

## Notes to the Financial Statements

31 December 2010 (cont'd.)

**13. Property, Plant and Equipment (cont'd.)**

Leasehold land and buildings comprise: (cont'd.)

<b>Group (cont'd.)</b>	<b>Leasehold Land RM</b>	<b>Leasehold Buildings RM</b>	<b>Buildings and Workshops RM</b>	<b>Total RM</b>
<b>Accumulated depreciation</b>				
At 1 January 2009	-	194,319	2,812,626	3,006,945
Depreciation charge for the year	-	14,602	729,480	744,082
At 31 December 2009 and 1 January 2010	-	208,921	3,542,106	3,751,027
Depreciation charge for the year	-	14,602	737,466	752,068
Scrapped	-	-	(15,041)	(15,041)
<b>At 31 December 2010</b>	-	223,523	4,264,531	4,488,054
<b>Net carrying amount</b>				
At 31 December 2009	6,072,659	521,188	8,104,479	14,698,326
At 31 December 2010	7,260,024	506,586	7,484,551	15,251,161

<b>Company</b>	<b>Motor Vehicles RM</b>	<b>Furniture, Fittings and Office Equipment RM</b>	<b>Total RM</b>
<b>Cost</b>			
At 1 January 2009	170,625	1,790	172,415
Addition	-	4,028	4,028
At 31 December 2009 and 1 January 2010	170,625	5,818	176,443
Addition	412,145	6,070	418,215
At 31 December 2010	582,770	11,888	594,658
<b>Accumulated depreciation</b>			
At 1 January 2009	88,150	621	88,771
Depreciation charge for the year	34,125	761	34,886
At 31 December 2009 and 1 January 2010	122,275	1,382	123,657
Depreciation charge for the year	109,685	1,533	111,218
At 31 December 2010	231,960	2,915	234,875
<b>Net carrying amount</b>			
At 31 December 2009	48,350	4,436	52,786
At 31 December 2010	350,810	8,973	359,783

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 13. Property, Plant and Equipment (cont'd.)

### Assets held under finance lease

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM958,000 (2009: Nil) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to RM11,358,742 (2009: RM6,918,478).

The carrying amounts of property, plant and equipment held under finance leases at the reporting date were as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Heavy equipment	7,188,611	8,064,235	-	-
Motor vehicles	975,963	416,675	336,585	48,350
	<u>8,164,574</u>	<u>8,480,910</u>	<u>336,585</u>	<u>48,350</u>

### Assets pledged as security

In addition to assets held under finance lease, the carrying amounts of property, plant and equipment pledged as securities for borrowings (Note 21) are as follows:

	2010 RM	Group 2009 RM (Restated)
Leasehold land	4,600,419	3,311,713
Slipway and shipyard infrastructure	4,118,086	3,489,757
Buildings and workshops	6,613,105	7,000,025
Tugboats, barges, heavy machinery and equipment	21,288,650	25,824,080
Motor vehicles	43,400	62,000
Telecommunication and office equipments, furniture, fittings and renovations	122,202	112,861
Construction work-in-progress	3,693,553	3,489,723
	<u>40,479,415</u>	<u>43,290,159</u>

The financial impact of non-amortisation of the long leasehold land on the financial results as stated in Note 2.6 is an increase in amortisation charge for the Group of RM100,101 (2009: RM88,403).

## 14. Land Use Rights

	2010 RM	Group 2009 RM
<b>Cost</b>		
<b>At 1 January:</b>		
As previously stated	6,072,659	6,072,659
Effects of adopting the amendments to FRS 117	(6,072,659)	(6,072,659)
<b>At 31 December (restated)</b>	<u>-</u>	<u>-</u>
<b>Accumulated amortisation</b>		
<b>At 1 January:</b>		
As previously stated	220,781	132,378
Effects of adopting the amendments to FRS 117	(220,781)	(132,378)
As restated	<u>-</u>	<u>-</u>
Amortisation for the year	-	-
<b>At 31 December (restated)</b>	<u>-</u>	<u>-</u>
<b>Net carrying amount</b>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements

31 December 2010 (cont'd.)

## 15. Investments in Subsidiaries

	Company	
	2010 RM	2009 RM
Unquoted shares at cost	63,513,993	63,513,993
Provision for financial guarantee	2,702,200	-
	66,216,193	63,513,993

Details of the subsidiaries held by the Company are as follows:

Name of Subsidiaries	Country of Incorporation	Principal Activities	Proportion of Ownership Interest	
			2010 %	2009 %
Bonafide Shipbuilders & Repairs Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels, provision of repairs and maintenance services and sub-contract services	100	100
Coastal Transport (Sandakan) Sdn. Bhd.	Malaysia	Provision of tugboat and barge transportation, equipment hiring services and property letting	100	100
Coastway Transport Sdn. Bhd.	Malaysia	Provision of vessel chartering and related services	100	100
Seri Modalwan Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels, provision of ship repairs and maintenance services and sub-contract services	100	100
Pleasant Engineering Sdn. Bhd.	Malaysia	Fabrication and sale of offshore support and marine transportation vessels and provision of ship repairs and maintenance services	100	100
Coastal Marine Pte. Ltd. #	Singapore	Sale of offshore support and marine transportation vessels, provision of vessels chartering and towing services	100	100
Coastal Offshore (Labuan) Pte. Ltd.	Malaysia	Sale of offshore support and marine transportation vessels, provision of bareboat chartering and leasing services to non-Malaysian residents	100	100
Asiapride Sdn. Bhd.	Malaysia	Vessel chartering, shipbroking and land and sea transportation	100	100
Thaumas Marine Ltd #	British Virgin Islands	Sale of marine vessels and provision of shipping agency, vessel chartering and towing services	100	100
Ace Capital Pte. Ltd. #	Malaysia	Investment holding	100	100

# Audited by firm other than Ernst & Young.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 16. Intangible Asset

	2010 RM	Group 2009 RM
<b>Goodwill</b>		
At 1 January and 31 December	5,884,127	5,884,127

#### Allocation of goodwill

Goodwill has been allocated to the Group's CGUs identified according to business segment as follows:

	2010 RM	2009 RM
<b>At 31 December</b>		
Vessels manufacturing and repairing services	5,641,469	5,641,469
Vessels chartering and equipment hire	242,658	242,658
	<u>5,884,127</u>	<u>5,884,127</u>

The recoverable amount of the vessels manufacturing and repairing services segment is determined based on value-in-use calculation, whilst the recoverable amount of the vessels chartering and equipment hire segment is determined based on fair value less costs to sell.

#### Key assumptions used in value-in-use calculations

The recoverable amount is determined based on value-in-use calculations using cash flow projections based on financial forecast approved by management covering the useful lives of the assets. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(i) Budgeted gross margins

The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past four years immediately before the budgeted year and taking into account of the forecast of selling price and historical margin trend.

(ii) Growth rates

The weighted average growth rates used are consistent with the long-term average growth rate for the industry.

(iii) Discount rate

The discount rate used is pre-tax and reflect specific risks relating to the industry.

(iv) Raw materials price inflation

The basis used to determine the value assigned to the raw materials price inflation is the forecast price indices during the budget year for Malaysia being where raw materials are sourced. Values assigned to key assumptions are consistent with external information sources.

#### Sensitivity to changes in assumptions

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values materially exceed their recoverable amount.

#### Methodology used to determine the fair value less costs to sell

Fair value less costs to sell is determined using an observable market price of an active market for used vessels adjusted for the incidental costs that would be directly attributable to the disposal of such vessels.

## Notes to the Financial Statements

31 December 2010 (cont'd.)

## 17. Deferred Tax

	Group		Company	
	2010 RM	2009 RM (Restated)	2010 RM	2009 RM
At 1 January:				
As previously stated	5,828,295	6,532,401	3,392	2,867
Effects of adopting the amendments to FRS 117	12,430	6,215	-	-
As restated	5,840,725	6,538,616	3,392	2,867
Effects of adopting FRS 139	77,384	-	-	-
Recognised in profit or loss (Note 11)	(1,107,011)	(697,891)	3,291	525
At 31 December (restated)	4,811,098	5,840,725	6,683	3,392
Presented after appropriate offsetting as follows:				
Deferred tax assets	(242,982)	-	-	-
Deferred tax liabilities	5,054,080	5,840,725	6,683	3,392
	4,811,098	5,840,725	6,683	3,392

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

## Deferred Tax Liabilities:

Group	Property, Plant and Equipment RM	Others RM	Total RM
	At 1 January 2009:		
As previously stated	6,813,341	140,831	6,954,172
Effects of adopting the amendments to FRS 117	6,215	-	6,215
As restated	6,819,556	140,831	6,960,387
Recognised in profit or loss	(490,541)	(105,286)	(595,827)
At 31 December 2009 (restated)	6,329,015	35,545	6,364,560
At 1 January 2010:			
As previously stated	6,316,585	35,545	6,352,130
Effects of adopting the amendments to FRS 117	12,430	-	12,430
As restated	6,329,015	35,545	6,364,560
Effects of adopting FRS 139	-	77,384	77,384
Recognised in profit or loss	(362,333)	(53,895)	(416,228)
At 31 December 2010	5,966,682	59,034	6,025,716
<b>Company</b>			
At 1 January 2009	2,869	-	2,869
Recognised in profit or loss	853	-	853
At 31 December 2009 and 1 January 2010	3,722	-	3,722
Recognised in profit or loss	4,634	-	4,634
At 31 December 2010	8,356	-	8,356

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 17. Deferred Tax (cont'd.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows: (cont'd.)

#### Deferred Tax Assets:

Group	Inventories RM	Receivables RM	Tax Losses and Unabsorbed Capital	Others RM	Total RM
			Allowances RM		
At 1 January 2009	(105,153)	(232,360)	(13,680)	(70,578)	(421,771)
Recognised in profit or loss	58,824	1,809	(12,163)	(150,534)	(102,064)
At 31 December 2009 and 1 January 2010	(46,329)	(230,551)	(25,843)	(221,112)	(523,835)
Recognised in profit or loss	(27,040)	15,727	(853,917)	174,447	(690,783)
At 31 December 2010	(73,369)	(214,824)	(879,760)	(46,665)	(1,214,618)

#### Company

	Others RM
At 1 January 2009	(2)
Recognised in profit or loss	(328)
At 31 December 2009 and 1 January 2010	(330)
Recognised in profit or loss	(1,343)
At 31 December 2010	(1,673)

Deferred tax assets have not been recognised in respect of the following items:

	2010 RM	Group 2009 RM
Unutilised tax losses	40,152	42,777
Unabsorbed capital allowances	13,694	13,236
	53,846	56,013

The unutilised tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the said subsidiary, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

### 18. Inventories

Cost	2010 RM	Group 2009 RM
Finished goods	357,198,764	328,456,047
Raw materials	15,706,559	18,999,568
Work-in-progress	413,983,466	433,749,568
Spare parts	10,340	19,906
	786,899,129	781,225,089

During the financial year, the borrowing costs capitalised as cost of work-in-progress amounted to RM343,561.

There were no inventories stated at net realisable value as at 31 December 2010 and 2009.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 19. Trade and Other Receivables

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Current</b>				
<b>Trade receivables</b>				
Third parties	17,358,438	91,389,849	-	-
Less: Allowance for impairment	(783,245)	(905,778)	-	-
Trade receivables, net	16,575,193	90,484,071	-	-
<b>Other receivables</b>				
Amounts due from subsidiaries				
- Interest-bearing advances	-	-	-	5,790,839
- Interest-free advances	-	-	39,358,261	33,514,894
	-	-	39,358,261	39,305,733
Deposits paid to suppliers and contractors	20,057,654	45,798,227	-	-
Deposits	394,266	388,378	3,400	3,400
Prepayments	1,708,722	1,981,915	8,445	8,944
Sundry receivables	4,366,414	6,102,784	1,670	10,331
	26,527,056	54,271,304	39,371,776	39,328,408
Less: Allowance for impairment	(77,325)	(13,306)	-	-
Other receivables, net	26,449,731	54,257,998	39,371,776	39,328,408
Total trade and other receivables	43,024,924	144,742,069	39,371,776	39,328,408
Add: Cash and bank balances (Note 20)	149,791,721	102,893,709	52,133	140,313
Total loans and receivables	192,816,645	247,635,778	39,423,909	39,468,721

#### (a) Trade receivables

Trade receivables are non-interest bearing and are generally on 40 to 120 days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

#### Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	2010 RM	2009 RM
Neither past due nor impaired	6,560,301	82,767,303
1 to 30 days past due not impaired	103,124	710,315
31 to 120 days past due not impaired	2,565,822	1,977,618
More than 121 days past due not impaired	7,345,946	5,028,835
	10,014,892	7,716,768
Impaired	783,245	905,778
	17,358,438	91,389,849

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 19. Trade and Other Receivables (cont'd.)

#### (a) Trade receivables (cont'd.)

##### Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. These receivables are mostly regular customers with no history of default in payment. None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

##### Receivables that are past due but not impaired

The Group has trade receivables amounting to RM10,014,892 (2009: RM7,716,768) that are past due at the reporting date but not impaired. These balances mainly relate to customers who have never defaulted on payments but are slow paymasters hence, periodically monitored. The receivables that are past due but not impaired are unsecured in nature.

##### Receivables that are impaired

The Group's trade and other receivables that are impaired at the reporting date and the movement of allowance accounts used to record the impairment are as follows:

	Trade		Others	
	2010 RM	2009 RM	2010 RM	2009 RM
Individually impaired:				
Receivables - nominal amounts	783,245	905,778	77,325	13,306
Less: Allowance for impairment	(783,245)	(905,778)	(77,325)	(13,306)
	-	-	-	-
Movement in allowance accounts:				
	2010 RM	2009 RM	2010 RM	2009 RM
At 1 January	905,778	886,800	13,306	15,534
Reversal of impairment loss	(85,680)	(67,470)	(1,599)	-
Written off	-	(1,871)	-	(2,531)
Charge for the year (Note 8)	-	-	65,618	-
Exchange differences	(36,853)	88,319	-	303
At 31 December	783,245	905,778	77,325	13,306

#### (b) Amounts due from subsidiaries

All the amounts are repayable on demand, unsecured, and are to be settled in cash.

### 20. Cash and Bank Balances

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Cash on hand and at banks	27,009,619	18,399,388	52,133	140,313
Short term deposits with licensed banks	122,782,102	84,494,321	-	-
Cash and bank balances	149,791,721	102,893,709	52,133	140,313

## Notes to the Financial Statements

31 December 2010 (cont'd.)

**20. Cash and Bank Balances (cont'd.)**

Short-term deposits are made for varying periods of between three days and one month depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The interest rates as at 31 December 2010 for the Group were range from 0.08% to 0.18% (2009: 0.04% to 0.25%).

Short-term deposits with licensed banks of the Group amounting to RM5,157,107 (2009: RM37,871,323) have been pledged as securities for bank guarantees and documentary credits issued by the banks in favour of third parties.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise the following at the reporting date:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Cash and bank balances	149,791,721	102,893,709	52,133	140,313
Bank overdrafts (Note 21)	(818,858)	(114,189)	-	-
Cash and cash equivalents	148,972,863	102,779,520	52,133	140,313

**21. Loans and Borrowings**

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Current</b>				
Secured:				
Obligations under finance leases (Note 28 (b))	1,530,727	1,325,081	67,555	20,256
Bank overdrafts (Note 20)	818,858	114,189	-	-
Revolving credits ("RC"):				
- RM RC at COF + 1% p.a.	31,540,000	17,240,000	-	-
- USD RC at COF + 1.5% p.a.	-	34,245,000	-	-
- USD RC at COF + 1.25% p.a.	-	19,690,875	-	-
- USD RC at COF + 1% p.a.	-	10,273,500	-	-
Bank loans:				
- RM loan at COF	296,471	263,246	-	-
- RM loan at BLR – 1.85% p.a.	182,500	208,410	-	-
- RM loans at BLR + 1% p.a.	1,963,558	1,826,000	-	-
	36,332,114	85,186,301	67,555	20,256
<b>Non-Current</b>				
Secured:				
Obligations under finance leases (Note 28 (b))	5,307,930	6,019,833	239,060	-
Bank loans:				
- RM loan at COF	2,637,419	2,974,304	-	-
- RM loan at BLR – 1.85% p.a.	2,391,706	2,426,751	-	-
- RM loans at BLR + 1% p.a.	4,410,220	6,597,000	-	-
	14,747,275	18,017,888	239,060	-
Total loans and borrowings	51,079,389	103,204,189	306,615	20,256

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 21. Loans and Borrowings (cont'd.)

The remaining maturities of the loans and borrowings as at 31 December 2010 are as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
On demand or within one year	36,332,114	85,186,301	67,555	20,256
More than 1 year and less than 2 years	4,095,259	3,842,506	71,365	-
More than 2 years and less than 5 years	7,769,103	10,502,837	167,695	-
5 years or more	2,882,913	3,672,545	-	-
	<u>51,079,389</u>	<u>103,204,189</u>	<u>306,615</u>	<u>20,256</u>

#### Obligation under finance leases

These obligations are secured by a charge over the lease assets (Note 13) and corporate guarantee provided by the Company (Note 29). The average discount rates implicit in the leases are range from 4.41% p.a. to 6.79% p.a. (2009: 4.41% to 5.92% p.a.). These obligations are denominated in RM.

#### Bank overdrafts

Bank overdrafts are denominated in RM, bear interest at 1% - 1.5% p.a. above BLR and are secured by certain leasehold land, all present and future fixed and floating assets of a subsidiary and corporate guarantee provided by the Company (Note 29).

#### Revolving credits

Revolving credits are secured by certain leasehold land, all present and future fixed and floating assets of a subsidiary and corporate guarantee provided by the Company (Note 29).

#### RM loan at COF

This loan is fully repayable on 31 May 2019 and is secured by certain leasehold land of the Group and corporate guarantee provided by the Company (Note 29).

#### RM loan at BLR – 1.85% p.a.

This loan is fully repayable on 31 December 2021 and is secured by certain buildings under construction and corporate guarantee provided by the Company (Note 29).

#### RM loans at BLR + 1% p.a.

These loans are fully repayable on 31 October 2013 and 31 July 2014 respectively and are secured by certain leasehold land, all present and future fixed and floating assets of a subsidiary and corporate guarantee provided by the Company (Note 29).

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 22. Trade and Other Payables

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Current</b>				
<b>Trade payables</b>				
Third parties	4,581,693	42,223,043	-	-
<b>Other payables</b>				
Amounts due to related parties:				
- Subsidiaries	-	-	6,162,919	7,803,232
- A company connected with certain Directors of the Company	-	220,480	-	-
Accruals	5,898,620	6,843,524	113,044	85,350
Deposits received from vessel buyers	421,514,310	524,058,756	-	-
Financial guarantees	-	-	281,625	-
Sundry payables	2,088,903	2,264,504	74,482	19,792
	429,501,833	533,387,264	6,632,070	7,908,374
	434,083,526	575,610,307	6,632,070	7,908,374
<b>Non-Current</b>				
<b>Other payables</b>				
Financial guarantees	-	-	434,614	-
Total trade and other payables	434,083,526	575,610,307	7,066,684	7,908,374
Add: Loans and borrowings (Note 21)	51,079,389	103,204,189	306,615	20,256
Total financial liabilities carried at amortised cost	485,162,915	678,814,496	7,373,299	7,928,630

#### (a) Trade payables

This amounts are non-interest bearing. Trade payables are normally settled on 30 days to 90 days (2009: 30 days to 90 days) terms.

#### (b) Other payables

These amounts are non-interest bearing. Other payables are normally settled on an average term of four months.

#### (c) Amounts due to related parties

The amounts are unsecured, non-interest bearing and are repayable on demand.

#### (d) Financial guarantees

This amount relates to corporate guarantees provided by the Company to banks for banking facilities (Note 21) taken by wholly-owned subsidiaries.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 23. Share Capital and Share Premium

	Group and Company			
	Number of Ordinary Shares of RM0.20 Each	← Amount →		
	Share Capital (Issued and Fully Paid)	Share Capital (Issued and Fully Paid) RM	Share Premium RM	Total Share Capital and Share Premium RM
At 1 January 2009	352,806,200	70,561,240	15,675,302	86,236,542
Exercise of employee share options (Note 26)	8,309,800	1,661,960	2,576,038	4,237,998
Share issuance expenses	-	-	(1,422)	(1,422)
At 31 December 2009 and 1 January 2010	361,116,000	72,223,200	18,249,918	90,473,118
Exercise of employee share options (Note 26)	1,336,000	267,200	414,160	681,360
Share issuance expenses	-	-	(305)	(305)
At 31 December 2010	362,452,000	72,490,400	18,663,773	91,154,173

	Number of Ordinary Shares of RM0.20 Each		Amount	
	2010	2009	2010 RM	2009 RM
<b>Authorised</b>				
At 1 January and 31 December	2,500,000,000	2,500,000,000	500,000,000	500,000,000

#### (a) Shares Capital

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

During the financial year, the Company issued 1,336,000 new ordinary shares of RM0.20 each through an Employee Share Options Scheme at an average exercise price of RM0.51 per ordinary share for cash, for additional working capital purposes. The share premium of RM0.31 arising from the issuance of ordinary shares and the share issue costs of RM305 have been included in the share premium account. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

### 24. Other Reserve

	2010 RM	Group 2009 RM
<b>Foreign Currency Translation Reserve</b>		
At 1 January	(5,386,465)	173,734
Other comprehensive income:		
Foreign currency translation	(39,492,786)	(5,560,199)
At 31 December	(44,879,251)	(5,386,465)

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 25. Retained Earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company had elected for the irrevocable option to disregard the Section 108 balance. Hence, the Company will be able to distribute dividends out of its entire retained earnings as at 31 December 2010 and 2009 under the single tier system.

As at 31 December 2010, the Company has tax exempt profit available for distribution of approximately RM2,071,000 (2009: RM435,000), subject to the agreement of the Inland Revenue Board.

## 26. Employee Benefits

### Employee Share Options Scheme ("ESOS")

The Coastal Contracts Bhd. ESOS for eligible employees and directors of the Company and its subsidiary companies which was approved by the shareholders at the Extraordinary General Meeting held on 18 October 2004 became effective on 18 January 2005 when the last of the requisite approvals was obtained and is valid for a period of five years. The ESOS has expired on 17 January 2010.

The salient features of the ESOS were as follows:

- (a) the maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company at any point in time during the duration of the ESOS, or such percentage that may be permitted by the relevant regulatory authorities during the duration of the ESOS.
- (b) the aggregate maximum number of shares that may be offered and allocated to the various grades of eligible employees shall be subject to the following:
  - (i) not more than fifty percent (50%) of the new shares available under the ESOS should be allocated, in aggregate, to the directors and senior management of the Group; and
  - (ii) not more than ten percent (10%) of the new shares available under the ESOS should be allocated to any individual director or employee who, either singly or collectively through persons connected with the eligible employees, holds twenty percent (20%) or more in the issued and paid-up capital of the Company.
- (c) any director or employee of the Company and its subsidiaries, who fulfills the following conditions shall be eligible to participate in the ESOS if the director or employee, as the case may be:
  - (i) is at least eighteen years of age on the date of offer; and
  - (ii) is a natural person who is a Malaysian citizen who is confirmed as at the date of offer and must have served the Group on a full-time basis for a continuous period of six months or such other period as may be determined by the Option Committee; or
  - (iii) is serving under an employment or service contract, the employee shall have served the Company on a full time basis for a continuous period of six months or such other period as may be determined by the Option Committee, as at the date of offer under the contract and renewal thereof; or
  - (iv) is employed by a subsidiary (other than a subsidiary which is dormant) of the Company, the employee's period of employment in the Group, for purposes of determining the minimum continuous service as stipulated in paragraph (iii) above, shall be deemed to commence from the date on which such company becomes a subsidiary of the Group; or

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 26. Employee Benefits (cont'd.)

The salient features of the ESOS were as follows: (cont'd.)

- (c) any director or employee of the Company and its subsidiaries, who fulfills the following conditions shall be eligible to participate in the ESOS if the director or employee, as the case may be: (cont'd.)
- (v) is a Director of a company within the Group who has held office for at least one year in the Group and whose entitlement under the ESOS is approved by shareholders of the Company in general meeting (for Directors of the Company only), and who is not prohibited or disallowed by the relevant authorities from participating in the ESOS; or
- (vi) is a foreign employee, in addition to the conditions stipulated in paragraphs (i) to (iv) above, the employee's contribution must be deemed by the Option Committee to be vital to the Group. In the case of a foreign director, he must have held office for a period of at least one year.
- (d) a director in a non-executive capacity who is eligible pursuant to By-Law 5.1, must not sell, transfer or assign the shares obtained through the exercise of the options granted pursuant to the ESOS within one year from the date of offer of the options.
- (e) The ESOS shall be in force for a period of five years from the effective date. The date of expiry of the ESOS shall be at the end of the five years from the effective date. However, on or before the expiry thereof, the Option Committee may extend the duration or tenure of the ESOS beyond five years from the effective date with the approval of the relevant authorities and shareholders of the Company and without contravening any applicable laws prevailing at the time of such extension subject to a maximum duration of ten years.
- (f) The new shares to be allotted and issued upon any exercise of the options shall, upon allotment and issue, rank pari passu in all respects with the existing issued and fully paid-up ordinary shares of the Company save and except that the new shares will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new shares and shall be subject to the provisions of the Articles of Association of the Company.

### Movement of share options during the financial year

The following table illustrates the number ("No") and weighted average exercise prices ("WAEP") of, and movement in, share options during the year:

	2010		2009	
	No.	WAEP RM	No.	WAEP RM
Outstanding at 1 January	1,336,000	0.51	9,862,000	0.51
- Forfeited	-	-	(216,000)	0.51
- Exercised	(1,336,000)	0.51	(8,310,000)	0.51
Outstanding at 31 December	-	-	1,336,000	0.51
Exercisable at 31 December	-	-	1,336,000	0.51

The weighted average share price at the date of exercise of the options exercised during the financial year was RM2.16 (2009: RM1.78).

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 27. Related Party Transactions

- (a) In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

<b>Group</b>	<b>2010 RM</b>	<b>2009 RM</b>
Transactions with companies in which certain Directors of the Company are also directors:		
Syarikat Guan Huat Trading*		
- Purchase of fuel and oil	53,550	51,450
Top Pride Sdn. Bhd.*		
- Rent of premises	15,750	14,700
PT. Prima Armada Nusantara**		
- Agency service fees paid	42,519	93,049
Transactions with a person connected with certain Directors of the Company:		
Ng Lai Whoon		
- Rent of premises	19,200	19,200
Transactions with a Director of the Company:		
Ng Chin Shin		
- Rent of premises	19,143	19,174
Remuneration for employment services provided by close members of the family of Directors:		
Salaries, wages and bonuses	941,226	868,731
Contributions to defined contribution plan	102,924	92,220
Social security contributions	5,962	5,637
Estimated money value of benefits-in-kind	12,677	13,160
	1,062,789	979,748
<b>Company</b>		
Transactions with subsidiary companies:		
Bonafide Shipbuilders & Repairs Sdn. Bhd.		
- Dividend income	-	5,000,000
Coastal Transport (Sandakan) Sdn. Bhd.		
- Rental	6,000	6,000
- Dividend income	-	7,000,000
Coastal Offshore (Labuan) Pte. Ltd.		
- Interest on credit facility granted	222,175	233,700
- Dividend income	19,758,772	-
Coastway Transport Sdn. Bhd.		
- Dividend income	420,000	300,000

\* A partnership/company in which Ng Chin Heng, Pang Fong Thau, Ng Chin Keuan, Ng Chin Kok and Ng Chin Shin have financial interests.

\*\* A company in which the spouse of Ng Chin Kok has financial interests.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 27. Related Party Transactions (cont'd.)

#### (b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Short-term employee benefits	2,917,852	2,307,251	86,400	74,965
Defined contribution plan	306,340	240,960	3,888	3,240
Estimated money value of benefits-in-kind	80,842	54,950	-	-
	<u>3,305,034</u>	<u>2,603,161</u>	<u>90,288</u>	<u>78,205</u>

Executive Directors of the Group and of the Company and other members of key management have been granted the following number of options under the Employee Share Options Scheme:

	Group and Company	
	2010	2009
At 1 January	-	4,622,000
Exercised	-	(4,622,000)
	<u>-</u>	<u>-</u>
At 31 December	-	-

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 26).

### 28. Commitments

#### (a) Capital Commitment

Capital expenditure as at the reporting date is as follows:

	Group	
	2010 RM	2009 RM
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	915,660	611,490
	<u>915,660</u>	<u>611,490</u>

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 28. Commitments (cont'd.)

#### (b) Finance Lease Commitments

The Group has finance leases for certain items of heavy equipment and motor vehicles (Note 13). These leases do not have terms of renewal, but have purchase options at nominal values at the end of the lease term.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payment are as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<b>Minimum lease payments:</b>				
Not later than 1 year	1,878,560	1,719,397	81,684	20,610
Later than 1 year but not later than 2 years	1,873,225	1,651,919	81,684	-
Later than 2 years but not later than 5 years	3,918,347	4,727,668	176,982	-
Later than 5 years	-	380,052	-	-
Total minimum lease payments	7,670,132	8,479,036	340,350	20,610
Less: Amounts representing finance charges	(831,475)	(1,134,122)	(33,735)	(354)
Present value of minimum lease payments	6,838,657	7,344,914	306,615	20,256
<b>Present value of payments:</b>				
Not later than 1 year	1,530,727	1,325,081	67,555	20,256
Later than 1 year but not later than 2 years	1,621,208	1,343,428	71,365	-
Later than 2 years but not later than 5 years	3,686,722	4,299,626	167,695	-
Later than 5 years	-	376,779	-	-
Present value of minimum lease payments	6,838,657	7,344,914	306,615	20,256
Less: Amount due within 12 months (Note 21)	(1,530,727)	(1,325,081)	(67,555)	(20,256)
Amount due after 12 months (Note 21)	5,307,930	6,019,833	239,060	-

### 29. Contingent Liabilities

The Company has provided the following guarantees at the reporting date:

	Company	
	2010 RM	2009 RM
Unsecured:		
Corporate guarantees given to bankers to secure credit facilities granted to subsidiary companies	50,362,765	102,901,748
Corporate guarantees given to a banker in respect of documentary credits issued on behalf of a subsidiary company	10,977,260	72,958,973
	61,340,025	175,860,721

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 30. Fair Value of Financial Instruments

- (a) Fair value of financial instruments by classes that are not carried at fair value and the carrying amounts of which are not reasonable approximation of fair value:

Group	Note	2010		2009	
		Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<b>Financial liabilities:</b>					
Loans and borrowings (non-current)					
- Obligations under finance leases	21	5,307,930	5,008,176	6,019,833	5,660,202
<b>Company</b>					
<b>Financial liabilities:</b>					
Loans and borrowings (non-current)					
- Obligations under finance leases	21	239,060	226,099	-	-
Financial guarantees	22	716,239	-	-	-

- (b) Determination of fair value

Financial instruments that are not carried at fair value and the carrying amounts of which are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and the carrying amounts of which are reasonable approximation of fair value:

	Note
Trade and other receivables (current)	19
Trade and other payables (current)	22
Loan and borrowings (current)	21
Loan and borrowings (non-current)	21
- RM loan at COF	
- RM loan at BLR – 1.85% p.a.	
- RM loan at BLR + 1% p.a.	

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amounts of the current portion of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

The fair values of current loans and borrowings are estimated by discounting expected future cash flows at market interest rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

Finance lease obligations

The fair values of these financial instruments are estimated by discounting expected future cash flows at market interest rate for similar types of lending, borrowing or leasing arrangements at the reporting date.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 30. Fair Value of Financial Instruments (cont'd.)

(b) Determination of fair value (cont'd.)

### Financial guarantees

Fair value is determined based on probability weighted discounted cash flow method. The probability has been estimated and assigned for the following key assumptions:

- The likelihood of the guaranteed party defaulting within the guaranteed period;
- The exposure on the portion that is not expected to be recovered due to the guaranteed party's default;
- The estimated loss exposure if the party guaranteed were to default.

The fair value of financial guarantees are estimated to be zero based on the assessment of the probability of the default event.

## 31. Financial Risk Management Objectives and Policies

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

### (a) Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

### Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statements of financial position.
- A nominal amount of RM328,685,116 (2009: RM417,861,313) relating to corporate guarantees provided by the Company to banks on certain subsidiaries' bank borrowings.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 19 (a).

### Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date are as follows:

	Group			
	2010	2010	2009	2009
By country:	RM	% of total	RM	% of total
Malaysia	5,983,050	36%	7,129,722	8%
Singapore	10,007,741	60%	81,108,340	90%
Others	584,402	4%	2,246,009	2%
	16,575,193	100%	90,484,071	100%

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 31. Financial Risk Management Objectives and Policies (cont'd.)

### (a) Credit Risk (cont'd.)

#### Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 19. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

#### Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 19.

### (b) Liquidity Risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash equivalents to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness. At the reporting date, approximately 71% (2009: 83%) of the Group's and approximately 22% (2009: 100%) of the Company's loans and borrowings (Note 21) will mature in less than one year based on the carrying amount reflected in the financial statements.

#### Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	2010			Total RM
	On demand or within one year RM	One to five years RM	Over five years RM	
<b>Group</b>				
<b>Financial liabilities:</b>				
Trade and other payables	434,083,526	-	-	434,083,526
Loans and borrowings	37,352,074	13,495,080	3,225,306	54,072,460
Total undiscounted financial liabilities	471,435,600	13,495,080	3,225,306	488,155,986
<b>Company</b>				
<b>Financial liabilities:</b>				
Trade and other payables, excluding financial guarantees*	6,350,445	-	-	6,350,445
Loans and borrowings	81,684	258,666	-	340,350
Total undiscounted financial liabilities	6,432,129	258,666	-	6,690,795

\* At the reporting date, the counterparty to the financial guarantees does not have a right to demand cash as the default has not occurred. Accordingly, financial guarantees under the scope of FRS 139 are not included in the above maturity profile analysis.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 31. Financial Risk Management Objectives and Policies (cont'd.)

### (c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's and the Company's financial assets and liabilities at floating rates are contractually re-priced at intervals of less than 6 months (2009: less than 6 months) from the reporting date.

#### Sensitivity analysis for interest rate risk

The table below demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's profit net of tax through the impact on interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

	2010		2010	
	Interest rate	Effect on profit net of tax RM	Interest rate	Effect on profit net of tax RM
Ringgit Malaysia	+ 0.25%	(82,951)	- 0.25%	82,951
United States Dollar	+ 0.10%	(50,367)	- 0.10%	50,367

### (d) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales or expenses that are denominated in a currency other than the respective functional currencies of the Group entities, primarily RM, Singapore Dollar ("SGD") and United States Dollars ("USD"). The foreign currencies in which these transactions are denominated are RM, SGD, Euro ("EUR"), Renminbi ("RMB") and Indonesia Rupiah ("IDR").

Approximately 5% (2009: 23%) of the Group's sales are denominated in foreign currencies whilst almost 95% (2009: 86%) of costs are denominated in the respective functional currencies of the Group entities. The Group's foreign currency exposures arising from receivable and payable balances at the reporting date are as follows:

	2010 RM	2009 RM
Trade receivables	947,306	656,215
Other receivables	17,121,068	26,992,643
Trade payables	832,603	4,355,086
Other payables	2,295,187	22,036,407

The Group also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in USD, IDR and SGD) amount to RM19,381,678 (2009: RM13,325,544) for the Group.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including British Virgin Islands and Singapore. These investments are not hedged as currency positions in USD and SGD are considered to be long-term in nature.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 31. Financial Risk Management Objectives and Policies (cont'd.)

### (d) Foreign Currency Risk (cont'd.)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD, RM, IDR, EUR, RMB and SGD exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

	Increase/(Decrease) in Profit Net of Tax			
	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
USD/RM				
- strengthened 5% (2009: 5%)	(778,004)	(1,088,458)	(3,120)	(766)
- weakened 5% (2009: 5%)	778,004	1,088,458	3,120	766
IDR/RM				
- strengthened 2% (2009: 2%)	(24,955)	(36,015)	-	-
- weakened 2% (2009: 2%)	24,955	36,015	-	-
EUR/RM				
- strengthened 5% (2009: 5%)	1,565	284,346	-	-
- weakened 5% (2009: 5%)	(1,565)	(284,346)	-	-
IDR/USD				
- strengthened 5% (2009: 5%)	(5,461)	84,173	-	-
- weakened 5% (2009: 5%)	5,461	(84,173)	-	-
RMB/USD				
- strengthened 3% (2009: 3%)	429,679	598,876	-	-
- weakened 3% (2009: 3%)	(429,679)	(598,876)	-	-
SGD/USD				
- strengthened 5% (2009: 5%)	247,662	(137,676)	-	-
- weakened 5% (2009: 5%)	(247,662)	137,676	-	-
RM/USD				
- strengthened 5% (2009: 5%)	(223,105)	(1,224,418)	-	-
- weakened 5% (2009: 5%)	223,105	1,224,418	-	-
USD/SGD				
- strengthened 5% (2009: 5%)	153,658	183,794	-	-
- weakened 5% (2009: 5%)	(153,658)	(183,794)	-	-
RM/SGD				
- strengthened 3% (2009: 3%)	73,287	76,722	-	-
- weakened 3% (2009: 3%)	(73,287)	(76,722)	-	-

## 32. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 32. Capital Management (cont'd.)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is total loans and borrowings divided by equity attributable to equity owners of the parent. The Group's policy is to maintain the gearing ratio at manageable level.

The calculations of the Group's and Company's gearing ratios are as follows:

		Group		Company	
	Note	2010 RM	2009 RM	2010 RM	2009 RM
Loans and borrowings	21	51,079,389	103,204,189	306,615	20,256
Equity attributable to the owners of the parent		602,648,265	458,481,184	98,873,897	95,294,312
Gearing ratio		8.48%	22.51%	0.31%	0.02%

## 33. Segment Information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- (a) Vessels manufacturing and repairing services - Fabrication and sale of marine transportation vessels and provision of ship repairs and maintenance services.
- (b) Vessels chartering and equipment hire - Provision of vessels transportation and equipment hiring services.

Except as indicated above, no operating segments has been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respect as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

The Directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions mutually agreed between the relevant parties.

# Notes to the Financial Statements

## 31 December 2010 (cont'd.)

### 33. Segment Information (cont'd.)

	Vessels manufacturing and repairing services		Vessels chartering and equipment hire		Adjustments and Elimination		Notes	Per consolidated financial statements	
	2010	2009	2010	2009	2010	2009		2010	2009
	RM	RM	RM	RM	RM	RM		RM	RM
<b>Revenue:</b>									
External customers	657,167,256	440,931,049	17,885,414	25,127,304	-	-		675,052,670	466,058,353
Inter-segment	902,110	886,201	1,348,874	3,104,323	(2,250,984)	(3,990,524)	A	-	-
<b>Total revenue</b>	<b>658,069,366</b>	<b>441,817,250</b>	<b>19,234,288</b>	<b>28,231,627</b>	<b>(2,250,984)</b>	<b>(3,990,524)</b>		<b>675,052,670</b>	<b>466,058,353</b>
<b>Results:</b>									
Interest income	144,268	119,336	3,178	6,981	-	-		147,446	126,317
Depreciation	3,316,146	3,475,446	4,249,701	4,602,680	111,675	34,886		7,677,522	8,113,012
Other non-cash expenses	1,437,204	901,073	599,120	25,740	6,779	1,326	B	2,043,103	928,139
<b>Segment profit/ (loss)</b>	<b>200,159,952</b>	<b>154,009,828</b>	<b>4,725,233</b>	<b>13,098,134</b>	<b>(4,933,755)</b>	<b>(3,912,731)</b>	C	<b>199,951,430</b>	<b>163,195,231</b>
<b>Assets:</b>									
Additions to non-current assets	11,051,196	4,445,606	847,331	2,468,844	418,215	4,028	D	12,316,742	6,918,478
<b>Segment assets</b>	<b>1,026,614,673</b>	<b>1,062,978,896</b>	<b>65,057,521</b>	<b>79,354,283</b>	<b>1,246,099</b>	<b>1,151,995</b>	E	<b>1,092,918,293</b>	<b>1,143,485,174</b>
<b>Segment liabilities</b>	<b>429,774,506</b>	<b>573,083,476</b>	<b>4,119,160</b>	<b>2,417,774</b>	<b>56,376,362</b>	<b>109,502,740</b>	F	<b>490,270,028</b>	<b>685,003,990</b>

Notes Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A Inter-segment revenues are eliminated on consolidation.

B Other material non-cash expenses consist of the following items as presented in the respective notes to the financial statements:

	Note	2010 RM	2009 RM
Loss arising from recalculation of carrying amount of borrowing		174,922	-
Bad debts written off	8	-	27,250
Property, plant and equipment written off	8	153,732	1,819
Unrealised loss on foreign exchange	8	1,648,831	899,070
Impairment loss on other receivables	8	65,618	-
		<b>2,043,103</b>	<b>928,139</b>

C The following items are deducted from segment profit to arrive at "Profit before tax" presented in the consolidated statement of comprehensive income:

	2010 RM	2009 RM
Finance costs	3,585,905	3,726,741
Unallocated corporate expenses	1,347,850	185,990
	<b>4,933,755</b>	<b>3,912,731</b>

## Notes to the Financial Statements

31 December 2010 (cont'd.)

**33. Segment Information (cont'd.)**

Notes Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements (cont'd.)

D Additions to non-current assets consist of:

	<b>2010 RM</b>	<b>2009 RM</b>
Property, plant and equipment	12,316,742	6,918,478

E The following items are added to segment assets to arrive at total assets reported in the consolidated statements of financial position:

	<b>2010 RM</b>	<b>2009 RM</b>
Deferred tax assets	242,982	-
Tax recoverable	571,144	933,939
Unallocated corporate assets	431,973	218,056
	<u>1,246,099</u>	<u>1,151,995</u>

F The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statements of financial position:

	<b>2010 RM</b>	<b>2009 RM</b>
Deferred tax liabilities	5,054,080	5,840,725
Income tax payable	53,033	348,769
Loans and borrowings	51,079,389	103,204,189
Unallocated corporate liabilities	189,860	109,057
	<u>56,376,362</u>	<u>109,502,740</u>

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	<b>Revenue</b>		<b>Non-current assets</b>	
	<b>2010 RM</b>	<b>2009 RM</b>	<b>2010 RM</b>	<b>2009 RM</b>
Malaysia	19,224,325	52,645,935	87,888,713	81,918,434
United States of America	173,456,235	104,680,620	-	-
Singapore	293,868,462	24,532,204	-	-
Egypt	12,092	161,636,893	-	-
Indonesia	149,126,777	91,295,931	24,494,243	31,769,725
Others	39,364,779	31,266,770	5,437	2,209
	<u>675,052,670</u>	<u>466,058,353</u>	<u>112,388,393</u>	<u>113,690,368</u>

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 33. Segment Information (cont'd.)

### Geographical information (cont'd.)

Non-current assets information presented above consist of the following items as presented in the consolidated statements of financial position.

	<b>2010</b> <b>RM</b>	<b>2009</b> <b>RM</b>
Property, plant and equipment	106,504,266	107,806,241
Intangible assets	5,884,127	5,884,127
	<hr/>	<hr/>
	112,388,393	113,690,368
	<hr/>	<hr/>

### Information about major customers

Revenue from three (2009: two) major customers amount to RM584,263,411 (2009: RM266,317,513), arising from sales by the vessels manufacturing and repairing services segment.

## 34. Dividends

	<b>Group and Company</b>	
	<b>2010</b> <b>RM</b>	<b>2009</b> <b>RM</b>
<b>Recognised during the financial year:</b>		
Dividends on ordinary shares:		
- First and final tax exempt dividend for 2009: 2.40 sen (2008: 0.90 sen) per share	8,698,848	3,245,324
- First and final tax exempt (single-tier) dividend for 2008: 1.50 sen per share	-	5,408,874
- Special tax exempt dividend for 2009: 2.60 sen (2008: 0.60 sen) per share	9,423,752	2,163,550
	<hr/>	<hr/>
	18,122,600	10,817,748
	<hr/>	<hr/>

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 will be payable on 11 May 2011 to depositors registered in the Records of Depositors at close of business on 15 April 2011. Such dividend will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2011.

## 35. Material Litigation

On 6 May 2009, a subsidiary company, Thaumaz Marine Ltd. ("TML"), had received a Notice of Arbitration from one of its vessel buyers in connection with the commencement of an arbitration proceedings against TML. The arbitration proceedings was instigated following a dispute over an allegation by the buyer that the vessel delivered was not in conformance with certain specification. On 26 January 2010, the buyer has served a Statement of Claim against TML for the sum of USD722,164, interest, cost and such further and other relief as may be appropriate or just. TML had on 19 March 2010 filed a Statement of Defence in response to the buyer's Statement of Claim and subsequently the buyer's Statement of Reply was served on TML's solicitors on 11 May 2010. This case is still pending before the Arbitral Tribunal.

## 36. Authorisation of Financial Statements for Issue

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 20 April 2011.

# Notes to the Financial Statements

31 December 2010 (cont'd.)

## 37. Supplementary information - breakdown of retained earnings into realised and unrealised

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2010 into realised and unrealised earnings is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits of Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	<b>Group RM</b>	<b>Company RM</b>
<b>Total retained earnings of the Company and its subsidiaries</b>		
- Realised	608,793,441	7,735,460
- Unrealised	(4,131,032)	(15,736)
	<hr/>	<hr/>
	604,662,409	7,719,724
Less: Consolidation adjustments	(48,289,066)	-
	<hr/>	<hr/>
Retained earnings as per financial statements	556,373,343	7,719,724
	<hr/>	<hr/>

## List of Properties in the Group

Property / Location Address	Age of Buildings	Tenure / Expiry Date	Description / Existing Use	Land Area / Built-up Area	Date of Purchase	Valuation Date	Net Book Value (31.12.2010) (RM)
CL 075512168 Off Mile 9, Sungai Seguntor, Labuk Road, Sandakan, Sabah	6 to 23 years	Leasehold / 31.12.2073	Shipbuilding & Repairs Facility	17.66 acres / 76,348.43 sq ft	24.04.1990	11.05.2001	5,895,485
1/50 undivided share of TL077508886 Lot 4A, 4th Floor, Wisma Wemin, Mile 1 1/2, Leila Road, Sandakan, Sabah	24 years since 1987	Leasehold / 15.12.2910	1 unit residential flat	1.027 acres / 900 sq ft	14.12.1995	11.05.2001	20,898
1/2 undivided share of TL077534313 Lot 3A, Block G, Bandar Leila, Jalan Leila, Sandakan, Sabah	27 years since 1984	Leasehold / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	06.08.1997	11.05.2001	179,340
1/2 undivided share of TL077534313 Lot 3B, Block G, Bandar Leila, Jalan Leila Sandakan, Sabah	27 years since 1984	Leasehold / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	06.08.1988	11.05.2001	88,174
1/2 undivided share of TL077534304 Lot 4A, Block G Bandar Leila, Jalan Leila, Sandakan, Sabah	27 years since 1984	Leasehold / 05.02.2888	1 unit double storey terrace workshop cum office	1,685 sq ft / 1,104.5 sq ft	20.04.1991	11.05.2001	91,785
CL 075360673 CL 075360664 CL 075360655 CL 075366022 CL 075366013 CL 075366004 CL 075448930 CL 075448921 Mile 8, Jalan Datuk Tay, Off Jalan Lintas Sibuga, Sandakan, Sabah.	1 to 4 years ↓	Leasehold / 31.12.2073 31.12.2073 31.12.2073 31.12.2073 31.12.2078 31.12.2078 31.12.2088 31.12.2088	Shipbuilding & Repairs Facility ↓	2.07 acres 1.80 acres 1.99 acres 6.30 acres 12.83 acres 11.38 acres 8.00 acres 8.00 acres	24.07.2004 ↓	22.03.2006 ↓	28,579,195
CL 075350855 CL 075350864 CL 075350882 CL 075359652 Mile 10, Church Road, Off Jalan Labuk, Jalan Seguntur, Sandakan, Sabah	2 years ↓	Leasehold / 31.12.2073 31.12.2073 31.12.2073 31.12.2078	Shipbuilding & Repairs Facility ↓	2.36 acres 2.83 acres 10.65 acres 6.20 acres	22.12.2008 ↓	N/A ↓	4,175,911
CL 075366031 Sungai Seguntor Sandakan, Sabah	N/A	Leasehold / 31.12.2077	Shipbuilding & Repairs Facility	6.31 acres	18.05.10	N/A	1,187,365

# Analysis of Shareholdings

## as at 3 May 2011

### Statistics on Ordinary Shareholdings as at 3 May 2011

<b>Authorised Share Capital</b>	RM500,000,000
<b>Issued and Paid-up Share Capital</b>	RM72,490,400
<b>Type of Shares</b>	Ordinary Shares of RM0.20 each
<b>Voting Rights</b>	One vote per ordinary share

### Analysis of Shareholdings

Size of Holdings	No. of Holders	No. of Shares	% of Issued Capital
Less than 100	3	150	0.00
100 to 1,000	920	570,250	0.16
1,001 to 10,000	2,093	9,841,900	2.72
10,001 to 100,000	731	23,976,542	6.61
100,001 to less than 5% of issued shares	149	149,544,558	41.26
5% and above of issued shares	5	178,518,600	49.25
<b>Total</b>	<b>3,901</b>	<b>362,452,000</b>	<b>100.00</b>

### List of Thirty Largest Securities Accounts Holders

No.	Name	No. of Shares	% of Issued Capital
1.	IVORY ASIA SDN BHD	63,559,995	17.54
2.	IVORY ASIA SDN BHD	50,000,000	13.79
3.	PANG FONG THAU	23,750,000	6.55
4.	PANG FONG THAU	22,000,000	6.07
5.	PANG FONG THAU	19,208,605	5.30
6.	RICKOH CORPORATION SDN BHD	15,000,000	4.14
7.	PANG FONG THAU	12,500,000	3.45
8.	NG CHIN HENG	10,280,000	2.84
9.	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG CHIN KOK (B TINGGI-CL)	7,663,200	2.11
10.	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG CHIN SHIN (KKINABALU-CL)	7,448,000	2.05
11.	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NG CHIN KEUAN (KKINABALU-CL)	7,328,200	2.02
12.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN KIT PHENG	5,788,000	1.60
13.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR RICKOH CORPORATION SDN BHD (MY0507)	4,000,000	1.10
14.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK NLEND)	4,000,000	1.10
15.	HLG NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOON YEW YIN (M)	3,798,100	1.05
16.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SUSY DING (471873)	3,485,000	0.96
17.	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR KOON YEW YIN	3,089,900	0.85
18.	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR KOON YEW YIN (MY0951)	3,003,400	0.83
19.	NG CHIN HENG	2,800,000	0.77
20.	NG CHIN HENG	2,750,000	0.76

## Analysis of Shareholdings as at 3 May 2011 (cont'd.)

### List of Thirty Largest Securities Accounts Holders (cont'd.)

No.	Name	No. of Shares	% of Issued Capital
21.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (PHEIM)	2,716,800	0.75
22.	NG CHIN HENG	2,501,400	0.69
23.	ECML NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOON YEW YIN (002)	2,417,300	0.67
24.	RUBY TECHNIQUE SDN BHD	1,738,900	0.48
25.	UNIVERSAL TRUSTEE (MALAYSIA) BERHAD CIMB ISLAMIC SMALL CAP FUND	1,700,000	0.47
26.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK LEND)	1,304,000	0.36
27.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN KIT YEW	1,300,000	0.36
28.	YAP LIM SEN	1,290,000	0.36
29.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR PERTUBUHAN KESELAMATAN SOSIAL (CIMB-P 6939-404)	1,219,400	0.34
30.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TING SIEW PIN (8059095)	1,159,000	0.32

### Substantial Shareholders

No.	Name	No. of Shares Held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	IVORY ASIA SDN BHD	113,559,995	-	31.33	-
2.	PANG FONG THAU	77,458,605	<sup>a</sup> 131,891,395	21.37	36.39
3.	RICKOH CORPORATION SDN BHD	19,000,000	-	5.24	-
4.	NG CHIN HENG	18,331,400	<sup>b</sup> 191,018,600	5.06	52.70
5.	DATO' SRI KOH KIN LIP, JP	621,000	<sup>c</sup> 19,000,000	0.17	5.24

### Directors' Shareholdings

No.	Name	No. of Shares Held		% of Issued Share Capital	
		Direct	Indirect	Direct	Indirect
1.	NG CHIN HENG	18,331,400	<sup>d</sup> 192,146,100	5.06	53.01
2.	NG CHIN SHIN	7,448,000	-	2.05	-
3.	NG CHIN KEUAN	7,328,200	-	2.02	-
4.	KWAN CHEONG KAW @ KUAN YEEK CHIEU	-	-	-	-
5.	LOH THIAN SANG @ LO THIAN SIANG	-	-	-	-
6.	ZAINAL BIN RAJAN	-	-	-	-

<sup>a</sup> Deemed interests by virtue of shareholdings of husband, Mr. Ng Chin Heng and Ivory Asia Sdn Bhd in the Company.

<sup>b</sup> Deemed interests by virtue of shareholdings of wife, Madam Pang Fong Thau and Ivory Asia Sdn Bhd in the Company.

<sup>c</sup> Deemed interests by virtue of shareholdings through Rickoh Corporation Sdn Bhd.

<sup>d</sup> Deemed interests by virtue of shareholdings of wife, Madam Pang Fong Thau, shareholdings of son, Mr. Ng San Chen, shareholdings of daughters, Madam Ng San Yin and Madam Alice Ng and Ivory Asia Sdn Bhd in the Company.

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# COASTAL CONTRACTS BHD

(Company No. 517649-A)  
(Incorporated in Malaysia)

No. of ordinary shares held

## FORM OF PROXY

I/We, .....

being a Member/Members of COASTAL CONTRACTS BHD, hereby appoint.....

of.....

or failing him .....

of.....

as my/our proxy to vote for me/us on my/our behalf at the Eleventh Annual General Meeting of the Company to be held at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah on 28 June 2011 at 10.45 am or at any adjournment thereof.

I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereinunder indicated.

No.	Resolutions	For	Against
1.	To receive the Audited Financial Statements for the financial year ended 31 December 2010 together with the Reports of the Directors and Auditors thereon.		
2.	To approve the payment of Directors' fees for the financial year ended 31 December 2010.		
3.	To re-appointment of Mr Kwan Cheong Kaw @ Kuan Yeek Chieu as Director.		
4.	To re-elect Mr Loh Thian Sang @ Lo Thian Siang as Director.		
5.	To re-elect Mr Ng Chin Shin as Director.		
6.	To re-appoint Messrs Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.		
7.	Authority to issue shares under Section 132D of the Companies Act, 1965.		

(Please indicate with an "X" in the appropriate box against each resolution how you wish your proxy to vote. If this form of proxy is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit).

Dated this ..... day of ..... 2011

.....  
Signature/common seal of Member(s)

### Notes:

- A member entitled to attend and vote at the meeting is entitled to appoint at least one (1) proxy but not more than two (2) proxies to attend and vote instead of him. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- Where a member appoints two (2) proxies to attend and vote at the same meeting, the appointment shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
- The instrument appointing a proxy shall be in writing and in the case of an individual shall be signed by the appointer or by his attorney and in the case of a corporation shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, he may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account he holds with ordinary shares of the Company standing to the credit of the said securities account.
- The instrument appointing a proxy shall be deposited at the Registered Office of the Company at Block G, Lot 3B, Bandar Leila, 90000 Sandakan, Sabah, not less than 48 hours before the time for holding the meeting or any adjournment thereof.

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**Coastal Contracts Bhd**  
(Company No. 517649-A)

Block G, Lot 3B, Bandar Leila  
W.D.T. 259, 90009 Sandakan, Sabah

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