

DELEUM BERHAD (715640-T)
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2017

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DELEUM BERHAD (715640-T)
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2017

RM'000	QUARTER AND YEAR-TO-DATE ENDED	
	31/03/2017	31/03/2016
	Unaudited	Unaudited
Revenue	89,963	151,873
Cost of sales	(65,834)	(124,333)
Gross profit	24,129	27,540
Other operating income	542	569
Selling and distribution costs	(6,997)	(7,642)
Administrative expenses	(10,411)	(11,590)
Other operating (losses) / gains *	(2,746)	3,690
Operating profit	4,517	12,567
Finance costs	(1,132)	(1,440)
Share of results of a joint venture (net of tax)	170	128
Share of results of associates (net of tax)	363	233
Profit before tax	3,918	11,488
Income tax expense	(1,691)	(3,745)
Profit for the period	2,227	7,743
Other comprehensive income		
Currency translation differences	(60)	(396)
Total comprehensive income for the period	2,167	7,347
Profit attributable to:		
- Equity holders of the Company	1,317	5,953
- Non-controlling interests	910	1,790
	2,227	7,743
Total comprehensive income attributable to:		
- Equity holders of the Company	1,310	5,878
- Non-controlling interests	857	1,469
	2,167	7,347
Earnings per share (EPS) attributable to equity holders of the Company (sen)		
- Basic EPS	<u>0.33</u>	<u>1.49</u>
- Diluted EPS	<u>0.33</u>	<u>1.48</u>

* Included in the other operating (losses) / gains is net foreign exchange losses of RM2,398,000 (Q1'16: net foreign exchange gains of RM2,536,000)

The above unaudited condensed interim consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

DELEUM BERHAD (715640-T)
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UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2017

RM'000	As at 31/03/2017	As at 31/12/2016
	Unaudited	Audited
ASSETS		
Property, plant and equipment	184,338	192,002
Investment properties	836	842
Intangible assets	2,196	2,371
Associates	40,001	39,745
Joint venture	27,876	27,706
Deferred tax assets	3,522	3,526
Non-current Assets	258,769	266,192
Inventories	21,454	22,079
Amounts due from an associate	14	13
Amounts due from a joint venture	75	105
Trade receivables	112,743	218,047
Deferred cost	307	4,605
Other receivables, deposits and prepayments	10,768	10,453
Tax recoverable	2,912	2,695
Cash and bank balances	196,900	140,434
Current Assets	345,173	398,431
TOTAL ASSETS	603,942	664,623
EQUITY AND LIABILITIES		
Share capital	200,000	200,000
Equity - share based payment	967	654
Retained earnings	145,086	152,769
Merger deficit	(50,000)	(50,000)
Foreign currency translation	(2,661)	(2,654)
Equity attributable to equity holders of the Company	293,392	300,769
Non-controlling interests	26,569	27,672
Total Equity	319,961	328,441
Borrowings	49,200	55,349
Deferred tax liabilities	21,247	21,222
Non-current Liabilities	70,447	76,571
Trade payables	129,194	165,203
Deferred revenue	6,374	7,362
Other payables and accruals	14,738	22,639
Amounts due to an associate	7,730	7,847
Amounts due to a joint venture	78	78
Dividend payable	0	146
Taxation	2,514	2,118
Borrowings	52,906	54,218
Current Liabilities	213,534	259,611
Total Liabilities	283,981	336,182
TOTAL EQUITY AND LIABILITIES	603,942	664,623

The above unaudited condensed interim consolidated statements of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

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**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2017**

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Issued and fully paid ordinary shares		-----Non-distributable-----		Distributable			
	Number of shares	Share capital	Share based payment	Foreign currency translation	Merger deficit	Retained earnings	Total	
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	400,000	200,000	206	(2,736)	(50,000)	145,255	292,725	318,987
Profit for the financial period	0	0	0	0	0	5,953	5,953	7,743
Other comprehensive income for the period	0	0	0	(75)	0	0	(75)	(396)
Total comprehensive income for the period	0	0	0	(75)	0	5,953	5,878	7,347
Share based payment	0	0	107	0	0	0	107	107
Dividend	0	0	0	0	0	(14,000)	(14,000)	(15,470)
At 31 March 2016	400,000	200,000	313	(2,811)	(50,000)	137,208	284,710	310,971
At 1 January 2017	400,000	200,000	654	(2,654)	(50,000)	152,769	300,769	328,441
Profit for the financial period	0	0	0	0	0	1,317	1,317	2,227
Other comprehensive income for the period	0	0	0	(7)	0	0	(7)	(60)
Total comprehensive income for the period	0	0	0	(7)	0	1,317	1,310	2,167
Share based payment	0	0	313	0	0	0	313	313
Dividend	0	0	0	0	0	(9,000)	(9,000)	(10,960)
At 31 March 2017	400,000	200,000	967	(2,661)	(50,000)	145,086	293,392	319,961

The above unaudited condensed interim consolidated statements of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

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UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2017

RM'000	YEAR-TO-DATE-ENDED	
	31/03/2017	31/03/2016
	Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	2,227	7,743
<u>Adjustments for:</u>		
Other receivables		
- write back of impairment	0	(1,500)
Allowance for slow moving inventories:		
- write back of allowance	(31)	(21)
Amortisation of intangible assets	175	269
Financial guarantee receivables	(3)	(5)
Depreciation:		
- property, plant and equipment	7,761	8,284
- investment properties	6	6
Bad debts written off:		
- other receivables	2	42
Provision for liquidated damages		
- provision made	0	2
Loss on disposals of property, plant and equipment	0	2
Write-off:		
- property, plant and equipment	32	0
Interest income	(444)	(339)
Finance cost	1,132	1,440
Share based payment expense	313	107
Share of results of associates	(363)	(233)
Share of results of a joint venture	(170)	(128)
Tax expense	1,691	3,745
Unrealised foreign exchange gains	(2,042)	(760)
Operating profit before working capital changes	10,286	18,654
<u>Changes in working capital</u>		
Inventories	656	(5,669)
Amounts due from a joint venture	30	(86)
Trade receivables	106,449	13,952
Deferred costs	4,298	1,918
Other receivables, deposits and prepayments	(231)	2,000
Trade payables	(34,272)	(45,694)
Other payables and accruals	(7,701)	(1,793)
Deferred revenue	(988)	1,030
Cash generated from / (used in) operations	78,527	(15,688)
Tax paid	(1,833)	(2,952)
Tax refunded	350	0
Interest paid	(1,051)	(1,362)
Net cash generated from / (used in) operating activities	75,993	(20,002)

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UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTER AND YEAR-TO-DATE ENDED 31 MARCH 2017

RM'000	YEAR-TO-DATE-ENDED	
	31/03/2017	31/03/2016
	Unaudited	Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	426	330
Property, plant and equipment		
- Purchases	(360)	(1,081)
- Proceeds from disposals	0	151
Purchases of intangible assets	0	(163)
Dividend received from associates	0	1,600
Amounts due from an associate	(1)	1
Amounts due from a joint venture	0	159
Amounts due to an associate	(117)	(638)
Amounts due to a joint venture	0	(2)
Net cash (used in)/generated from investing activities	(52)	357
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving credit		
- Repayment	(600)	(2,000)
Loans against import		
- Drawn down	0	1,359
- Repayment	(707)	0
Term loan		
- Repayment	(6,149)	(6,150)
Repayment of hire purchase under finance lease	(5)	(9)
Dividends paid to:		
- Shareholders	(9,000)	(13,723)
- Non-controlling interest	(2,106)	(1,523)
Increase/(decrease) in restricted cash	14	(253)
Net cash used in financing activities	(18,553)	(22,299)
Net increase/(decrease) in cash and cash equivalents	57,388	(41,944)
Foreign currency translation	(908)	(3,441)
Cash and cash equivalents at beginning of the year	129,611	123,830
Cash and cash equivalents at end of period	186,091	78,445
COMPOSITION OF CASH AND CASH EQUIVALENTS		
Short term deposits	164,458	53,103
Cash and bank balances	32,442	36,477
	196,900	89,580
Restricted cash	(10,809)	(11,135)
Cash and cash equivalents at end of period	186,091	78,445

The above consolidated statements of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

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**UNAUDITED INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 31 MARCH 2017**

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the reporting requirements as set out in Malaysian Financial Reporting Standards No.134 – “Interim Financial Reporting” and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The unaudited interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the attached explanatory notes. These explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

The significant accounting policies and methods of computation applied in the unaudited interim financial report are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2016 except for changes made to comply to the requirements of the new Companies Act, 2016 in Malaysia.

The amendments to published standards effective for financial year beginning on 1 January 2017 that are applicable and adopted by the Group as follows:

Annual Improvements to MFRS 2012 – 2014 cycle	Amendments to MFRS 12 Disclosure of Interests in Other Entities
Amendments to MFRS 107	Statement of Cash Flows – Disclosure Initiatives
Amendments to MFRS 112	Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these amendments did not have any impact on the current period or any prior period.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A1. BASIS OF PREPARATION (Cont'd)

The Group has not early adopted the following accounting standards and amendments to published standards that have been issued by the Malaysian Accounting Standards Board ("MASB") as these are effective for the financial period beginning on or after 1 January 2018.

Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)
Amendments to MFRS 140	Transfers of Investment Property (effective 1 January 2018)
MFRS 15	Revenue from Contracts with Customers (effective 1 January 2018)
MFRS 9	Financial Instruments (effective 1 January 2018)
MFRS 16	Leases (effective 1 January 2019)
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
Annual Improvements to MFRS 2012 – 2014 cycle (effective 1 January 2018)	Amendments to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards and Amendments to MFRS 128 Investments in Associates and Joint Ventures

The initial application of the aforementioned accounting standards and amendments to published standards are not expected to have any material impacts to the financial statements of the Group except as mentioned below:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces MFRS 118 Revenue and MFRS 111 Construction contracts and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The adoption of MFRS 15 will result in a change in accounting policy. The Group and the Company are currently assessing the financial impact of adopting MFRS 15.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A1. BASIS OF PREPARATION (Cont'd)

MFRS 16 Leases

MFRS 16 will replace the existing leasing standard MFRS 117 Leases and related interpretations. Under MFRS 16, a lease is a contract (or part of a contracts) that conveys the right to control the use of an identified assets for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance lease (on balance sheet) or operating lease (off balance sheet) and requires lessee to recognise "right-of-use" of the underlying asset and the corresponding lease liability to reflect the future obligations on these lease payments.

The adoption of MFRS 16 will result in a change in accounting policy. The Group and the Company are currently assessing the financial impact of adopting MFRS 16.

A2. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group's operations are not affected by any significant seasonal or cyclical factors in the financial year under review. It should be noted that the Group operates predominantly in the oil and gas sector in Malaysia. Accordingly, the level of the Group's business activities is closely co-related with that of the oil and gas operators and contractors in Malaysia. Any significant change in their level of activities will likewise have an impact on the Group.

A3. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE, OR INCIDENCE

There were no significant unusual items affecting the assets, liabilities, equity, net income or cash flows during the financial year-to-date.

A4. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES

There were no material changes to estimates that have had any material effect on the financial year-to-date results.

A5. EQUITY AND DEBT SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial year-to-date.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A6. OUTSTANDING DERIVATIVES

The Group had not entered into any new type of derivative in the current interim quarter that was not disclosed in the preceding year's annual financial statements. The Group did not have any outstanding derivative as at 31 March 2017.

A7. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group did not have any financial liabilities measured at fair value through profit or loss as at 31 March 2017.

A8. DIVIDENDS PAID

During the current quarter under review, the Company paid the following second interim single tier dividend of 2.25 sen per share of RM0.50 each on 400,000,000 ordinary shares, in respect of the financial year ended 31 December 2016.

	RM'000
Second interim single tier dividend of 2.25 sen per share on 400,000,000 ordinary shares, paid on 28 March 2017	<u>9,000</u>

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION

The segments of the Group are as follows:

- Power and Machinery ("P&M") – Mainly consists of:
 - Sale of gas turbines and related parts, and overhaul of turbines, maintenance and technical services, including complete installation turnkey for new installations, package renewal and retrofit;
 - Supply and commission of combined heat and power plants;
 - Supply, install, repair and maintenance of valves, flow regulators and other production related equipment; and
 - Repair, servicing, maintenance and overhaul of motors, generators, transformers and pumps.
- Oilfield Services ("OS") – Mainly consists of:
 - Provision of slickline equipment and services;
 - Provision of integrated wellhead maintenance services;
 - Provision of oilfield chemicals; and
 - Provision of drilling equipment and services and other oilfield products and technical services.
- Integrated Corrosion Solution ("ICS") – Mainly consists of:
 - Provision of integrated corrosion and inspection services, blasting technology and services for tanks, vessels, structures and piping.
- Other non-reportable segment comprises management fees charged to a joint venture which does not meet the quantitative threshold for a reporting segment in 2017.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

Segmental information for the financial period ended 31 March 2017 was as follows:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
<u>Segment Revenue</u>		
Power and Machinery		
External revenue	58,193	114,638
Power and Machinery	58,193	114,638
Oilfield Services		
External revenue	23,918	31,682
Oilfield Services	23,918	31,682
Integrated Corrosion Solution		
External revenue	7,754	5,467
Integrated Corrosion Solution	7,754	5,467
Other non-reportable segment		
External revenue	98	86
Other non-reportable segment	98	86
Total Group revenue	89,963	151,873

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
<u>Segment Results</u>		
Power and Machinery	4,227	10,001
Oilfield Services	275	2,319
Integrated Corrosion Solution	26	(647)
Other non-reportable segment	9	4
Segment results	4,537	11,677
Unallocated income ^	58	41
Unallocated corporate expenses #	(1,210)	(591)
Share of results of a joint venture *	170	128
Share of results of associates *	363	233
Tax expense *	(1,691)	(3,745)
Profit for the financial period	2,227	7,743

^ Unallocated income comprised mainly interest earned by the Group.

Unallocated corporate expenses represented the Group's corporate expenses including depreciation of property, plant and equipment of corporate assets that were not charged to business segments.

* Tax expense, results of joint venture and associates were not allocated to the business segments as they were measured at the entity level.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
<u>Segment Assets</u>		
Power and Machinery	244,810	278,036
Oilfield Services	235,274	250,692
Integrated Corrosion Solution	27,975	33,348
Segment assets	508,059	562,076
Unallocated corporate assets ^	95,883	102,547
Total assets	603,942	664,623

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
<u>Segment Liabilities</u>		
Power and Machinery	129,713	160,045
Oilfield Services	109,478	125,084
Integrated Corrosion Solution	11,331	16,920
Segment liabilities	250,522	302,049
Unallocated corporate liabilities #	33,459	34,133
Total liabilities	283,981	336,182

^ Unallocated corporate assets represented the Group's corporate assets including property, plant and equipment, investment properties, intangible assets, investment in joint venture and associates, deferred tax assets and tax recoverable that were not allocated by business segments.

Unallocated corporate liabilities represented the Group's corporate liabilities including deferred tax liabilities, taxation and dividend payable that were not allocated by business segments.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A10. ACQUISITIONS AND DISPOSALS OF PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the current and cumulative quarters ended 31 March 2017, the acquisitions and disposals of plant and equipment and intangible assets by the Group were as follows:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Acquisitions at cost:		
- Plant and equipment	360	1,081
- Intangible assets	0	163
Disposals at net book value:		
- Plant and equipment	231	153

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

There was no material event after the end of the reporting date.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial year.

A13. CONTINGENT LIABILITIES / ASSETS

As at 31 March 2017, the Group did not have any contingent liabilities or assets except for guarantees given to third parties in relation to operating requirements, utilities and maintenance contracts of RM25.9 million (31 December 2016: RM26.9 million).

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A14. COMMITMENTS

(a) Capital commitment

Capital commitments for property, plant and equipment and intangible assets not provided for as at 31 March 2017 were as follows:

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Authorised but not contracted for		
- Plant and machinery	7,132	7,126
- Others	2,516	2,646
Authorised and contracted for		
- Plant and machinery	25	188
- Others	3	3
	9,676	9,963

(b) Operating lease commitment

The Group has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments were as follows:

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Within one year	826	836
Between two to five years	408	550
	1,234	1,386

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY DISCLOSURES

- (a) The following transactions were with a corporate shareholder of a subsidiary of the Group, Turboservices Sdn. Bhd.

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Purchases and technical services from STICO	32,329	77,212

Significant outstanding balance arising from the above transactions as at 31 March 2017 was as follows:

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Amount due to STICO	98,797	101,384

- (b) The following transactions were with a corporate shareholder and affiliate companies of corporate shareholder of a subsidiary of the Group, Penaga Dresser Sdn. Bhd.

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Purchases from related parties of Dresser Italia S.R.L	6,528	7,314

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) The following transactions were with a corporate shareholder and affiliate companies of corporate shareholder of a subsidiary of the Group, Penaga Dresser Sdn. Bhd. (Cont'd)

Significant outstanding balance arising from the above transactions as at 31 March 2017 was as follows:

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Amount due to related parties of Dresser Italia S.R.L	4,713	5,465

- (c) Turboservices Overhaul Sdn. Bhd. ("TOSB") is a joint venture between Deleum Berhad and STICO and the related party transactions during the period were as follows:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Sales to STICO	1,484	1,400
Rental income from affiliate company of STICO	207	207

Significant outstanding balance arising from the above transactions as at 31 March 2017 was as follows:

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Amount due from STICO	1,074	1,198

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY TRANSACTIONS (Cont'd)

(d) The remuneration of the key management personnel during the quarter and year-to-date ended were as follows:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Directors' fees	236	236
Salaries, bonuses, allowances and other staff related expenses	3,939	2,521
Defined contribution plan	388	255
	4,563	3,012

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

(A) Performance of the current quarter against the corresponding quarter

	Q1'17 RM'000	Q1'16 RM'000	Variance RM'000	Variance %
Revenue				
Power and Machinery	58,193	114,638	(56,445)	(49.2)
Oilfield Services	23,918	31,682	(7,764)	(24.5)
Integrated Corrosion Solution	7,754	5,467	2,287	41.8
Other non-reportable segment	98	86	12	14.0
	<u>89,963</u>	<u>151,873</u>	<u>(61,910)</u>	<u>(40.8)</u>

Trading conditions in the quarter remained difficult as oil producers continued to assess the sustainability of the rebound in oil prices following the production cutbacks by Organisation of Petroleum Exporting Countries (OPEC) announced in late 2016. The budgetary disciplines adopted by our key customers continued unabated, adversely impacting demand for products and services. Consequently, revenue from both the Power and Machinery and Oilfield Services retreated compared with the corresponding quarter. Bucking the trend, Integrated Corrosion Solution reported higher revenue stemming from the Pan Malaysia Blasting contract.

The **Power and Machinery** segment registered a contraction in revenue of RM56.4 million against the corresponding quarter mainly attributable to lower work orders for exchange engines of RM43.8 million and lower revenue contribution from parts, repairs and maintenance and valve and flow regulators of RM10.9 million.

The **Oilfield Services** segment's revenue fell by RM7.8 million against the corresponding quarter to RM23.9 million. This was mainly attributable to the lower utilisation of slickline assets by RM7.3 million, lower revenue contribution from well intervention and enhancement services of RM1.1 million offset by the improvement in revenue contribution from oilfield chemicals activities of RM1.0 million.

The **Integrated Corrosion Solution** segment recorded an increase in revenue of RM2.3 million compared to the corresponding quarter due to the improved work orders for corrosion protection and maintenance services from the Pan Malaysia Blasting Contract and fulfilment of back orders secured in the previous financial year.

Other non-reportable segment comprised provision of management services to the joint venture.

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B1. PERFORMANCE REVIEW (Cont'd)

(B) Profit before tax for the current quarter against the corresponding quarter

	Q1'17 RM'000	Q1'16 RM'000	Variance RM'000	Variance %
Power and Machinery	4,227	10,001	(5,774)	(57.7)
Oilfield Services	275	2,319	(2,044)	(88.1)
Integrated Corrosion Solution	26	(647)	673	104.0
Other non-reportable segment	9	4	5	125.0
Segment results	4,537	11,677	(7,140)	(61.1)
Share of results of a joint venture, net of tax	170	128	42	32.8
Share of results of associates, net of tax	363	233	130	55.8
Profit before tax	3,918	11,488	(7,570)	(65.9)

Overall profit before tax fell by RM7.6 million from RM11.5 million in the corresponding quarter to RM3.9 million in the current quarter. The reduction was mainly attributable to the weaker performance from the Power and Machinery and Oilfield Services segments, offset partially by the increase in contribution from Integrated Corrosion Solution segment.

The **Power and Machinery** segment results reduced by RM5.8 million in line with lower revenue reported and its lower results were further impacted by exchange losses of RM2.5 million in the current period compared with a gain of RM2.3 million in the corresponding quarter.

The **Oilfield Services** segment results were lower by RM2.0 million affected by lower demand for slickline and well intervention and enhancement activities as customers cut back on operating expenditures. The decrease was partially offset by the lower finance costs on account of lower borrowings.

Integrated Corrosion Solution recorded a marginal profit of RM26,000 as opposed to a loss of RM0.6 million recorded in the previous corresponding quarter mainly attributable to the higher revenue recorded coupled with the improvement in operating efficiencies in areas of lower equipment rental charges, increased utilisation of company owned assets, improvements in logistic management and manpower utilisation.

Share of results of joint venture was contributed from the overhaul and repairs works of gas turbines.

Share of results of associates increased to RM0.4 million from RM0.2 million in the corresponding quarter mainly attributable to the better performance from Malaysia Mud And Chemicals Sdn. Bhd. ("2MC").

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B2. MATERIAL CHANGE IN THE PROFIT BEFORE TAX AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER PROFIT BEFORE TAX

	Q1'17 RM'000	Q4'16 RM'000	Variance RM'000	Variance %
Revenue				
Power and Machinery	58,193	151,820	(93,627)	(61.7)
Oilfield Services	23,918	36,285	(12,367)	(34.1)
Integrated Corrosion Solution	7,754	13,055	(5,301)	(40.6)
Other non-reportable segment	98	129	(31)	(24.0)
	<u>89,963</u>	<u>201,289</u>	<u>(111,326)</u>	<u>(55.3)</u>
	Q1'17 RM'000	Q4'16 RM'000	Variance RM'000	Variance %
Power and Machinery	4,227	12,931	(8,704)	(67.3)
Oilfield Services	275	1,929	(1,654)	(85.7)
Integrated Corrosion Solution	26	3,412	(3,386)	(99.2)
Other non-reportable segment	9	6	3	50.0
Segment results	<u>4,537</u>	<u>18,278</u>	<u>(13,741)</u>	<u>(75.2)</u>
Share of results of a joint venture, net of tax	170	191	(21)	(11.0)
Share of results of associates, net of tax	363	25	338	1,352.0
Profit before tax	<u>3,918</u>	<u>17,703</u>	<u>(13,785)</u>	<u>(77.9)</u>

Quarter on quarter, the Group experienced a sharp contraction in results across the core segments.

Power and Machinery segment recorded a profit of RM4.2 million for the current quarter compared to RM12.9 million in the preceding quarter. The adverse variance was attributable to the lower contribution from exchange engines, retrofit projects and ancillary services by RM9.4 million and unfavorable foreign exchange rate fluctuations offset by the lower staff related expenses and restructuring cost of RM4.4 million in the immediate preceding quarter.

Oilfield Services segment results were lower by RM1.7 million on the account of lower contribution from slickline and well intervention & enhancement activities in line with lower revenue registered.

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**B2. MATERIAL CHANGE IN THE PROFIT BEFORE TAX AS COMPARED WITH THE IMMEDIATE
PRECEDING QUARTER PROFIT BEFORE TAX (Cont'd)**

Integrated Corrosion Solution segment result were lower by RM3.4 million in tandem with lower revenue earned in the current period under review.

Share of results of joint venture was contributed from the overhaul and repairs works of gas turbines.

Share of results of associates increased to RM0.4 million from RM0.03 million in the preceding quarter mainly contributed by the improved throughput from 2MC in the current quarter. However, this was offset by the lower result from CUPL.

B3. PROSPECTS

In late November 2016, OPEC announced a cut back in production which resulted in a rebound in oil prices and there was some optimism of a return to USD60 plus prices as the excess supply is removed from the market. However, the oil price momentum moderated as other producers and in particular non-conventional producers ramped up production to take advantage of higher prices exacerbating the supply glut. In early May prices reached a new low for 2017 of USD 45/bbl.

Nevertheless, most recent developments have seen some signs of improvement in oil prices as Saudi and Russia have agreed to extend crude oil output cuts until March 2018. This creates a certain level of anticipation that the oil price would bounce back to the USD 50/bbl – USD 60/bbl average. Amidst these developments, the major domestic producer, Petronas is expected to continue with the existing reductions in capital spending and operational costs. The existing cuts had a critical knock on effect on the Group's performance which experienced a sharp decline in revenue and earnings in the first quarter of this financial year.

Looking ahead, trading condition is expected to remain challenging. However, based on Petronas's plans for 2017-2019 and contracts that have been contracted out recently, there are indications that the levels of activities would improve in subsequent quarters as compared to quarter 1, 2017, but monetary value of the activities are likely to be lower impacting revenue and earnings. Within the Group, we will continue to make necessary adjustments to meet the challenges. In this context, working capital had reduced and liquid assets improved compared with the position at the beginning of the financial year and borrowings repaid on schedule.

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B4. PROFIT FORECAST

The Group has not issued any profit forecast for the current financial year and therefore no comparison is available.

B5. INCOME TAX EXPENSE

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Current tax – current years	1,662	2,422
Deferred tax – origination and reversal of temporary differences	29	1,323
Total income tax expense	1,691	3,745

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B5. INCOME TAX EXPENSE (Cont'd)

Including the joint venture's and associates' results which were presented net of tax, the effective tax rate of the Group for the financial period ended 31 March 2017 was higher than the headline tax rate as shown below.

	Cumulative Quarters ended	
	31/03/2017 %	31/03/2016 %
Numerical reconciliation between the effective tax rate and the Malaysian tax rate		
Malaysian tax rate	24	24
<u>Tax effects of:</u>		
- Expenses not deductible for tax purposes	14	5
- Share of results of associates and joint venture	(3)	0
- Deferred tax assets not recognised	8	4
Effective tax rate	43	33

B6. PROFIT ON SALES OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sales of unquoted investments and/or properties during the financial year-to-date.

B7. QUOTED SECURITIES

There were no sales or purchases of quoted securities during the financial year-to-date.

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B8. STATUS OF CORPORATE PROPOSALS ANNOUNCED

Pursuant to Paragraph 9.19(51) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors announced on 22 March 2017 that a special grant of 398,400 ordinary shares in the Company (“Deleum Shares”) under the Long Tern Incentive Plan (“LTIP”) (“Special Grant”) to the selected Eligible Employees of the Group to whom an award of Deleum Shares is made pursuant to the LTIP (“Selected Employee(s)”), the details of which are set out in the table below:

No.	Description	LTIP
1.	Date of Special Grant	22 March 2017
2.	Exercise price	Not applicable as the Deleum Shares will be awarded upon vesting to the Selected Employees without any cash consideration.
3.	Number of Deleum Shares granted*	398,400 Deleum Shares under Restricted Share Incentive Plan (“RS Award”)
4.	Closing market price of Deleum Shares on the Date of Special Grant	RM1.060
5.	Vesting Period	Half annually from the date of Special Grant over 2 years, with the first vesting on 15 June 2017 and the second vesting on 15 June 2018 or such other date to be determined by the Plan Committee.

* In determining the total number of Deleum Shares to be granted to each Selected Employee under the Special Grant, the Plan Committee has taken into consideration, amongst others, the Selected Employee’s individual performance and achievement and seniority (denoted by corporate rank).

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B9. JOINT VENTURE

	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Group's share of net assets of joint venture	27,876	27,706

TOSB was a wholly owned subsidiary of the Group. It was incorporated in Malaysia and its main activities included the provision of gas turbine overhaul and maintenance services. In March 2015, the Group entered into a Subscription Agreement with STICO, which resulted in the Group having an equity interest of 80.55%. However, there are certain reserved matters within the Subscription Agreement that require the approval of both parties. Accordingly, under current accounting rules and in the opinion of the Directors, TOSB is regarded as a material joint venture and its results and net assets are accounted under the equity method of accounting.

The capital of TOSB consists of ordinary shares and redeemable convertible preference shares. It is a private company and there is no readily available quoted market price available for its shares.

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B9. JOINT VENTURE (Cont'd)

Summarised statement of comprehensive income

	Quarter and year-to-date ended	
	31/03/2017	31/03/2016
	RM'000	RM'000
Profit before tax	289	256
Income tax expense	(78)	(97)
Profit for the period	<u>211</u>	<u>159</u>
Interest in joint venture (80.55%) Share of results	<u>170</u>	<u>128</u>

B10. ASSOCIATES

	As at 31/03/2017	As at 31/12/2016
	RM'000	RM'000
Group's share of net assets of associates	<u>40,001</u>	<u>39,745</u>

In the opinion of the Directors, 2MC and CUPL are material associates to the Group. The Group's effective equity interest in the associates, the nature of the relationship and place of business / country of incorporation are set out in the audited financial statements for the financial year ended 31 December 2016. The associates have share capitals consisting solely of ordinary shares, which are held directly by the Group.

Both associates are private companies and there is no quoted market price available for the shares.

The power generating facility operated by CUPL under a build, operate and transfer agreement with Electricite Du Cambodge expired on 8 May 2015. Upon its expiration, the Company will continue to equity account for the results of CUPL until it ceases to be an associate. The share of profit from this associate and its contribution attributable to the shareholders of the Company in the financial period ended 31 March 2017 amounted to RM3,000 (31 March 2016: loss of RM6,000) and RM1,800 (31 March 2016: loss of RM3,600) respectively.

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B10. ASSOCIATES (Cont'd)

Summarised statement of comprehensive income

	2MC		CUPL		Total	
	Quarter and		Quarter and		Quarter and	
	year-to-date ended		year-to-date ended		year-to-date ended	
	31/03/2017	31/03/2016	31/03/2017	31/03/2016	31/03/2017	31/03/2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Profit before tax	1,286	982	16	58	1,302	1,040
Income tax expense	(160)	(236)	0	(87)	(160)	(323)
Profit / (loss) for the period	<u>1,126</u>	<u>746</u>	<u>16</u>	<u>(29)</u>	<u>1,142</u>	<u>717</u>
Interest in associates (32%; 20%)						
Share of results	<u>360</u>	<u>239</u>	<u>3</u>	<u>(6)</u>	<u>363</u>	<u>233</u>

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B11. GROUP BORROWINGS

The Group borrowings as at 31 March 2017 were as follows:

	Short Term RM '000	Long Term RM '000	Total RM '000
<u>31/03/2017</u>			
Borrowings - secured	24,606	49,200	73,806
- unsecured	28,300	0	28,300
	52,906	49,200	102,106
<u>31/12/2016</u>			
Borrowings - secured	24,611	55,349	79,960
- unsecured	29,607	0	29,607
	54,218	55,349	109,567

The borrowings were all denominated in Ringgit Malaysia.

	Note	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
Revolving credits	(i)	28,300	28,900
Finance lease liabilities	(ii)	6	11
Term loan	(iii)	73,800	79,949
Loans against import	(iv)	0	707
		102,106	109,567
Less: Amount repayable within 12 months			
Revolving credit		(28,300)	(28,900)
Finance lease liabilities		(6)	(11)
Term loan		(24,600)	(24,600)
Loans against import		0	(707)
		(52,906)	(54,218)
Amount repayable after 12 months		49,200	55,349

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B11. GROUP BORROWINGS (Cont'd)

- (i) Revolving credits are rolled over on a monthly basis at an average interest rate of 5.20% (average interest of 1.20% per annum above the bank's cost of funds).
- (ii) Finance lease liabilities carry interest rate of 2.55% per annum.
- (iii) Term loan carries an average interest rate of 4.03% (0.85% per annum above the bank's cost of funds). The tenure of the loan is 5 years.
- (iv) Loans against import carry an interest of 5.06% (1.15% per annum above the bank's cost of funds). The tenure of the import line is 90 days.

B12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument as at 31 March 2017.

B13. MATERIAL LITIGATION

There was no material litigation as at 16 May 2017 (being the latest practicable date which shall not be earlier than 7 days from the date of issue of this report).

B14. DIVIDEND

The Board of Directors have, in respect of financial year ended 31 December 2016, declared a second interim single tier dividend of 2.25 sen per share on 400,000,000 ordinary shares, totaling RM9,000,000. The dividend was paid on 28 March 2017.

No dividend was declared during the quarter under review for the financial year ending 31 December 2017.

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B15. EARNINGS PER SHARE (“EPS”)

The calculations of basic and diluted earnings per share for the reporting periods are computed as follows:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Basic earnings per share		
Profit attributable to equity holders of the Company (RM'000)	1,317	5,953
Number of ordinary shares at the beginning of the year ('000)	400,000	400,000
Basic earnings per share (sen)	0.33	1.49
Diluted earnings per share		
Profit attributable to equity holders of the Company (RM'000)	1,317	5,953
Weighted average number of ordinary shares as per basic earnings per share ('000)	400,000	400,000
Effect of potential vesting of Long Term Incentive Plan	3,887	2,488
Weighted average number of ordinary shares ('000)	403,887	402,488
Diluted earnings per share	0.33	1.48

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B16. PROFIT BEFORE TAX

The following items were charged / (credited) in arriving at profit before tax:

	Quarter and year-to-date ended	
	31/03/2017 RM'000	31/03/2016 RM'000
Interest income	(444)	(339)
Other income including investment income	(98)	(230)
Interest expenses	1,132	1,440
Depreciation and amortisation	7,942	8,559
Write back of impairment for doubtful debts - Other receivables	0	(1,500)
Bad debts written off - Other receivables	2	42
Reversal of allowance for slow moving inventories	(31)	(21)
Property, plant and equipment written off	32	0
Foreign exchange losses / (gains)		
- Realised	4,440	(1,776)
- Unrealised	(2,042)	(760)
Provision for liquidated damages	0	2

Other than as disclosed in the unaudited condensed interim consolidated statement of comprehensive income and as disclosed above, there were no other impairment of assets and gain or loss on derivatives.

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B17. REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group into realised and unrealised profits, pursuant to a directive issued by Bursa Securities on 25 March 2010 and 20 December 2010 is as follows:

RM'000	Cumulative Quarters ended 31/03/2017	Cumulative Quarters ended 31/12/2016
Total retained profits of the Company and its subsidiaries:		
Realised	134,203	137,847
Unrealised	(17,118)	(12,927)
	117,085	124,920
Total share of retained profits from associated companies:		
Realised	40,230	39,816
Unrealised	(3,961)	(3,910)
	36,269	35,906
Total share of retained profits of joint venture:		
Realised	2,171	1,947
Unrealised	(542)	(488)
	1,629	1,459
Less: Consolidation adjustments	(9,897)	(9,516)
Total Group's retained profits	145,086	152,769

The determination of realised and unrealised profits is compiled based on Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for the purposes of complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

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B18. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the financial year ended 31 December 2016 was unqualified.

B19. AUTHORISATION OF ISSUE

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated on 23 May 2017.

By order of the Board

Lee Sew Bee (MAICSA no. 0791319)
Lim Hooi Mooi (MAICSA no. 0799764)
Company Secretaries
Kuala Lumpur
23 May 2017