

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the quarter ended 31 December 2017	Note	Current Period		Cumulative Year	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Continuing operations					
Revenue	A7	92,774	110,473	277,647	307,518
Operating cost		(89,234)	(64,237)	(246,297)	(206,346)
Profit from operations	B20	3,540	46,236	31,350	101,172
Interest income		153	477	786	2,092
Finance cost		(3,316)	(3,483)	(13,027)	(16,168)
Share of results of joint ventures		(24,852)	14,218	(13,458)	22,011
Share of results of associates		1,712	(2,394)	6,119	(26,899)
(Loss) / Profit before taxation from continuing operations	A7	(22,763)	55,054	11,770	82,208
Taxation	B21	(1,063)	(122)	(1,194)	(1,701)
(Loss) / Profit for the period / year from continuing operations		(23,826)	54,932	10,576	80,507
Discontinued operation					
Profit / (Loss) from discontinued operation, net of tax		-	663	-	(3,811)
(Loss) / Profit for the period / year		(23,826)	55,595	10,576	76,696
Attributable to:					
Shareholders of the Company		(23,826)	55,595	10,576	76,696
Non-controlling interests		-	-	-	-
Net (loss) / profit for the period / year		(23,826)	55,595	10,576	76,696
Basic / diluted (loss) / earnings per share attributable to shareholders of the Company (sen):					
Total	B27	(9.59)	22.37	4.26	30.87
Continuing operations		(9.59)	22.10	4.26	32.40
Discontinued operation		-	0.27	-	(1.53)

The Unaudited Condensed Consolidated Income Statements should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the quarter ended 31 December 2017	Current Period		Cumulative Year	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(Loss) / Profit for the period / year	(23,826)	55,595	10,576	76,696
Foreign currency translation	-	-	-	-
Total comprehensive (loss) / income for the period / year	(23,826)	55,595	10,576	76,696
Total comprehensive (loss) / income attributable to:				
Shareholders of the Company	(23,826)	55,595	10,576	76,696
Non-controlling interests	-	-	-	-
Net (loss) / profit for the period / year	(23,826)	55,595	10,576	76,696

The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December	As at 31 December
		2017 RM'000	2016 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		55,528	62,127
Investment property		13,363	13,840
Deferred tax assets		19,167	19,447
Joint ventures		91,338	105,791
Associates		143,603	137,484
		<u>322,999</u>	<u>338,689</u>
Current assets			
Inventories		11,609	57,574
Receivables		267,015	286,746
Tax recoverables		13,262	12,163
Cash and bank balances		45,920	24,247
		<u>337,806</u>	<u>380,730</u>
TOTAL ASSETS		<u>660,805</u>	<u>719,419</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		248,458	248,458
Retained earnings		96,210	98,057
Shareholders' funds, representing total equity		<u>344,668</u>	<u>346,515</u>
Non-current liabilities			
Long term borrowings	B23	6,399	7,817
Deferred tax liabilities		49	49
		<u>6,448</u>	<u>7,866</u>
Current liabilities			
Borrowings	B23	221,418	246,416
Trade and other payables		83,302	118,208
Tax payables		-	414
Dividend payable		4,969	-
		<u>309,689</u>	<u>365,038</u>
Total liabilities		<u>316,137</u>	<u>372,904</u>
TOTAL EQUITY AND LIABILITIES		<u>660,805</u>	<u>719,419</u>
Net assets per share attributable to ordinary equity holders of the Company - RM		<u>1.39</u>	<u>1.39</u>

The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017	← Attributable to equity holders of the Company →				
	Share Capital	Distributable Retained Earnings	Total	Non- controlling Interests	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	248,458	98,057	346,515	-	346,515
Total comprehensive income for the year	-	10,576	10,576	-	10,576
Transaction with owners					
Dividend on ordinary shares:					
- First interim single-tier (Note A6)	-	(7,454)	(7,454)	-	(7,454)
- Second interim single-tier (Note A6)	-	(4,969)	(4,969)	-	(4,969)
Total dividends	-	(12,423)	(12,423)	-	(12,423)
Balance at 31 December 2017	248,458	96,210	344,668	-	344,668
At 1 January 2016	248,458	21,361	269,819	1	269,820
Total comprehensive income for the year	-	76,696	76,696	-	76,696
Transaction with owners	-	-	-	(1)	(1)
Additional investment in a subsidiary	-	-	-	(1)	(1)
Balance at 31 December 2016	248,458	98,057	346,515	-	346,515

The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	As at 31 December	As at 31 December
	2017	2016
	RM'000	RM'000
Operating Activities		
Receipts from customers	253,304	282,408
Cash paid to suppliers and employees	(183,814)	(288,651)
Net cash paid to related companies	(1,679)	(500)
Cash generated from / (used in) operations	67,811	(6,743)
Interest paid	(12,017)	(15,795)
Tax paid less refunds	(2,427)	(5,529)
Net cash generated from / (used in) operating activities	53,367	(28,067)
Investing Activities		
Interest received	786	2,360
Dividends received	1,530	2,771
Proceed from disposal of property, plant and equipment	5	67,138
Purchase of property, plant and equipment	(2,048)	(2,878)
Purchase of investment property	-	(335)
Upliftment of pledged fixed deposits and more than 90 days, net	-	2,677
Purchase of intangible asset	-	(117)
Investment in a joint venture company	(510)	-
Net cash (used in) / generated from investing activities	(237)	71,616
Financing Activities		
Repayment of borrowings	(46,416)	(116,225)
Dividends paid to shareholders of the Company	(7,454)	-
Proceed from drawdown of term loan / revolving credits / hire purchases	20,000	41,164
Net cash used in financing activities	(33,870)	(75,061)
Net increase / (decrease) in cash and cash equivalents	19,260	(31,512)
Effect of foreign exchange rate changes	2,413	4,360
Cash and cash equivalents at beginning of year	24,247	51,399
Cash and Cash Equivalents at End of Year	45,920	24,247
Cash and Cash Equivalents at End of Year Comprise:		
Deposits with licensed banks	11,000	1,000
Cash and bank balances	34,920	23,247
Cash and Cash Equivalents at End of Year	45,920	24,247

The Unaudited Condensed Consolidated Statements of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

Notes to the Interim Financial Report for the Quarter Ended 31 December 2017

Part A Explanatory Notes Pursuant to MFRS 134

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the financial year ended 31 December 2017, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's Audited Financial Statements for the year ended 31 December 2016. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

A2. Changes in Accounting Policies and Companies Act, 2016

The significant accounting policies adopted in preparing these condensed consolidated financial statements are consistent with those in the audited financial statements for the year ended 31 December 2016 except as follows:

MFRS and Amendments to MFRSs	Effective for annual periods beginning on or after
Amendments to MFRS 12 (Disclosure of Interest in Other Entities)	Annual Improvements to MFRSs 2014-2016 Cycle 1 January 2017
Amendments to MFRS 107 (Statement of Cash Flows)	Disclosure Initiative 1 January 2017
Amendments to MFRS 112 (Income Taxes)	Recognition of Deferred Tax Assets for Unrealised Losses 1 January 2017

The adoption of the above does not have material impact on the financial statements of the Group in the period of initial application.

Companies Act, 2016

The Companies Act, 2016 ("New Act") was enacted to replace the Companies Act, 1965 with the objectives to create a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. The New Act (except section 241 and Division 8 of Part III) becomes effective on 31 January 2017. Amongst the key changes introduced in the New Act are as follows:

- i) Removal of the authorised share capital; and
- ii) Shares of the Company will cease to have par or nominal value.

The adoption of the above did not have any significant effects on the interim financial report upon the application.

A2. Changes in Accounting Policies and Companies Act, 2016 (cont'd.)

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective:

MFRS and Amendments to MFRSs		Effective for annual periods beginning on or after
Amendments to MFRS 1 (First-time Adoption of Malaysian Financial Reporting Standards)	Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
Amendments to MFRS 2 (Share-based Payment)	Classification and Measurement of Share-based payment Transactions	1 January 2018
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers and Clarification to MFRS 15	1 January 2018
Amendments to MFRS 128 (Investments in Associates and Joint Ventures)	Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
Amendments to MFRS 140 (Investment Property)	Transfers of Investment Property	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16	Leases	1 January 2019
Amendments to MFRS 3 (Business Combinations)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 9 (Financial Instruments)	Repayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 11 (Joint Arrangements)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 112 (Income Taxes)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 123 (Borrowing Costs)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 128 (Investments in Associates and Joint Ventures)	Long Term Interest in Associates and Joint Ventures	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021

A2. Changes in Accounting Policies and Companies Act, 2016 (cont'd.)

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective (cont'd.):

MFRS and Amendments to MFRSs	Effective for annual periods beginning on or after
Amendments to MFRS 10 (Consolidated Financial Statements) and MFRS 128 (Investments in Associates and Joint Ventures)	Sales or Contribution of Asset between Investor and its Associates or Joint Venture Deferred

The Group will adopt the above pronouncements when they become effective in the respective financial periods.

These pronouncements are not expected to have any material impact to the financial statements of the Group upon initial application, except as discussed below:

MFRS 9: Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 (Financial Instruments) which reflects all phases of the financial instruments project and replaces MFRS 139 (Financial Instruments: Recognition and Measurement) and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group has assessed the impact of MFRS 9 and based on the initial assessment, the Group is of the opinion that there is no major impact onto the Group's Financial Statements upon adoption of this new standards.

The Group will adopt this new standard on the required effective date.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 (Revenue), MFRS 111 (Construction Contracts) and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

A2. Changes in Accounting Policies (cont'd.)

MFRS 15: Revenue from Contracts with Customers (cont'd.)

The Group is currently assessing the impact onto the Financial Statements and series of discussions with several stakeholders and review of existing contracts are on going.

Based on the initial assessment, the Directors anticipate that the application of MFRS 15 will have a material impact on the additional disclosures in the Group's and the Company's financial statements. However, there will be minimal impact on the amount recorded in the Financial Statements.

The Group will adopt the new standard on the required effective date.

MFRS 16: Leases

MFRS 16 will replace MFRS 117 (Leases), IC Interpretation 4 (Determining whether an Arrangement contains a Lease), IC Interpretation 115 (Operating Lease-Incentives) and IC Interpretation 127 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

A3. Comments about Seasonal or Cyclical Factors

The business operations of the Group are not materially affected by any seasonal or cyclical factors.

A4. Unusual Items Due to Their Nature, Size or Incidence

i) Right-sizing Exercise

An exercise was undertaken to identify the optimal organisational structure for the Group. An obvious component of this exercise is a critical review of appropriate human capital resources, which will impact the entire Group. Specific right-sizing initiatives, based on the Group's established performance appraisal processes, have commenced in all primary operating facilities, including the head office and will lead to a reduction in overall employee headcount.

A4. Unusual Items Due to Their Nature, Size or Incidence (cont'd.)

i) Right-sizing Exercise (cont'd.)

A total of 160 personnel (as at 31 December 2016: 149 personnel) had accepted the mutual separation scheme offered by the Group as at to date with a total payment of RM11.5 million (as at 31 December 2016: RM9.2 million). The increase of RM2.3 million from the announcement made on 24 February 2017 was due to additional staff related expenses incurred under the mutual separation scheme.

This exercise will continue until the Group reached its desired organisation structure.

A5. Change in Estimates

There was no material change in estimates of amounts reported in the prior interim periods of the current or in the previous financial year.

A6. Dividends Declared and Paid

During the current financial year, the Company had declared and paid the following dividends:

- i) On 30 March 2017, the Company paid the first interim single-tier dividend of 3 sen per share amounting to RM7,453,728.42 (2016: Nil) in respect of the financial year ended 31 December 2017; and
- ii) On 19 January 2018, the Company paid the second interim single-tier dividend of 2 sen per share amounting to RM4,969,152.28 (2016: Nil) in respect of the financial year ended 31 December 2017.

The Directors do not propose the payment of any final dividend in the current quarter.

A7. Operating Segments

Segment information for the cumulative period is presented in respect to the Group's business segments as follows:

	Commercial RM'000	Defence RM'000	Energy RM'000	Others RM'000	Elimination RM'000	Total RM'000
<u>As at 31 December 2017</u>						
Group total sales	2,733	268,839	8,149	4,133	(6,207)	277,647
Inter-segment sales	(27)	(2,328)	-	(3,852)	6,207	-
External Revenue	<u>2,706</u>	<u>266,511</u>	<u>8,149</u>	<u>281</u>	<u>-</u>	<u>277,647</u>
Results						
Segment result-external	(3,999)	76,292	7,660	(44,357)	(4,246)	31,350
Interest income	563	1,186	-	2,034	(2,997)	786
Finance costs	(1,319)	(199)	-	(14,693)	3,184	(13,027)
Share of result in joint venture	-	(13,458)	-	-	-	(13,458)
Share of result in associates	<u>-</u>	<u>6,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,119</u>
(Loss) / profit before taxation from continuing operations	(4,755)	69,940	7,660	(57,016)	(4,059)	11,770
Income tax expense						<u>(1,194)</u>
Profit for the year from continuing operations						10,576
Discontinued operation						
Profit from discontinued operation, net of tax	-	-	-	-	-	<u>-</u>
Profit for the year						<u>10,576</u>
<u>Other information</u>						
Continuing operations						
Depreciation	254	5,500	-	1,654	-	7,408
Other non-cash expenses	1,346	12,738	-	1,640	-	15,724

A7. Operating Segments (cont'd.)

	Commercial RM'000	Defence RM'000	Energy RM'000	Others RM'000	Elimination RM'000	Total RM'000
<u>As at 31 December 2016</u>						
Group total sales	2,722	289,573	11,781	86,754	(83,312)	307,518
Inter-segment sales	(18)	(1,610)	-	(81,684)	83,312	-
External Revenue	<u>2,704</u>	<u>287,963</u>	<u>11,781</u>	<u>5,070</u>	<u>-</u>	<u>307,518</u>
Results						
Segment result-external	(6,298)	115,942	5,333	(31,865)	18,060	101,172
Interest income	-	624	-	4,593	(3,125)	2,092
Finance costs	(1,170)	(355)	-	(18,238)	3,595	(16,168)
Share of result in joint venture	-	22,011	-	-	-	22,011
Share of result in associates	-	(26,899)	-	-	-	(26,899)
(Loss) / profit before taxation from continuing operations	(7,468)	111,323	5,333	(45,510)	18,530	82,208
Income tax expense						<u>(1,701)</u>
Profit for the period from continuing operations						80,507
Discontinued operation						
Loss from discontinued operation, net of tax	(3,811)	-	-	-	-	<u>(3,811)</u>
Profit for the year						<u>76,696</u>
<u>Other information</u>						
Continuing operations						
Depreciation	155	5,276	106	991	-	6,528
Other non-cash expenses	589	31,356	-	1,222	-	33,167

Discussion on the segmental performance is disclosed in Note B14 (Analysis of Performance (FYE 31 December 2017 vs. FYE 31 December 2016)).

A8. Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share buybacks, share cancellations, shares held as treasury shares and resale of treasury shares in the current financial period.

A9. Carrying Amount of Revalued Assets

There has been no revaluation of property, plant and equipment during the current quarter.

A10. Subsequent Material Events

There has been no subsequent material events during the current quarter.

A11. Changes in Group Composition

i) Proposed acquisition of 30% shares of Airbus Helicopters Simulation Centre Sdn Bhd

On 18 March 2015, the Group's wholly owned subsidiary, BHIC Defence Technologies Sdn Bhd ("BHICDT") (a subsidiary held via Boustead Penang Shipyard Sdn Bhd) signed a Share Purchase Agreement and Joint Venture Agreement ("JVA") with Airbus Helicopters Malaysia Sdn Bhd ("AHM") for the purpose of providing Full Flight Simulator training services to pilots of EC225/EC725 helicopters in Malaysia. Included in the JVA, AHM is offering 30% of the issued and paid-up capital of Airbus Helicopters Simulation Centre Sdn Bhd for a total consideration of EUR2,300,000. The acquisition of this entity will be made through both internally generated funds and bank borrowing.

The key salient terms of the JVA has been disclosed in the announcement at Bursa Malaysia website on 18 March 2015. To date, the conditions precedent of the JVA are not met.

ii) BHIC Group Reorganisation of Corporate Structure

On 21 August 2015, the Group announced the reorganisation of its corporate structure, in order to achieve better operational efficiencies, organisational clarity and focus on its core businesses. The proposed revised BHIC Group structure will be divided into three distinct divisions namely the Defence and Security Division, Commercial Division and Energy Division.

As at date, the Group had procured all required consents and approvals from parties concerned as part of the conditions precedent imposed under the Internal Reorganisation exercise. Most dormant companies under the Group are currently in liquidation process.

iii) Dissolution of wholly owned subsidiaries

a) Boustead Tugs & Transport Sdn Bhd ("BTT") (Company No. : 250496-P)

On 5 September 2017, BTT a wholly owned subsidiary of the Group held via Boustead Penang Shipyard Sdn Bhd, which was placed under Members' Voluntary Winding-Up has been dissolved.

This is after the expiration of three months notice from the date of lodgement of the Return by Liquidator relating to the Final Meeting on 5 June 2017 with the Companies Commission of Malaysia and the Official Receiver.

b) UMC Engineering Sdn Bhd ("UMC") (Company No. : 267612-T)

On 6 November 2017, UMC a wholly owned subsidiary of the Group held via Boustead Penang Shipyard Sdn Bhd, which was placed under Members' Voluntary Winding-Up has been dissolved.

A11. Changes in Group Composition (cont'd.)

iii) Incorporation of a joint venture company

On 22 August 2017, the Group incorporated a new joint venture company, BHIC Systems Integration Sdn Bhd ("BHICSI") and presently has a paid-up share capital of RM1,000,000 comprising of 1,000,000 ordinary shares. The Group's wholly owned subsidiary, BHICDT holds 51% of BHICSI shares and the remaining shares by RD Investment AG.

The principal activity of BHICSI is to set-up, establish and run the activities relating to business of project management, contract administration, and related services for defence industry in Malaysia, especially but not limited to the Littoral Combat Ship ("LCS") for the Royal Malaysian Navy, Combat System Equipment and Combat Management System procurement, Combat System Engineering and Combat System Integration activities.

iv) Acquisition of additional shares in Pyrotechnical Ordnance Malaysia Sdn Bhd ("POM"), a joint venture company

POM was incorporated in Malaysia on 27 May 2011. Its principal activities are to carry on in Malaysia, or elsewhere the business of manufacturing, producing, supplying and distributing double-based artillery propellant and double-based rocket propellant and other matters related to defence industry and to promote or engage any relevant experts to manage the sale or marketability of the relevant products.

On the incorporation date, both Pyrotechnical Managers Holdings Sdn Bhd ("PMH") (formerly known as Prokhas Managers Sdn Bhd) and BHICDT subscribed 1 ordinary share of RM1.00 each.

On 6 September 2017, the Group completed the acquisition of additional 24,500 units of ordinary shares of RM1.00 each in POM by way of capitalisation of advances whereas PMH subscribed 25,500 units of ordinary share of RM1.00 each. Following these acquisitions, the Group's shares was diluted from 50% to 49%. The additional investment in POM does not give any material effect on the consolidated earnings of the Group for the year ended 31 December 2017.

Save as disclosed above, there were no other changes in the composition of the Group during the period under review.

A12. Changes in Contingent Liabilities

There has been no contingent liability arising since the financial year end other than as disclosed under Note B26 (Changes in Material Litigations).

A13. Capital Commitments

The Group has the following commitments as at 31 December 2017:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	48,416	68	48,484

Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia

B14. Analysis of Performance (FYE 31 December 2017 vs. FYE 31 December 2016)

For the quarter ended 31 December 2017	Current Period			Cumulative Year		
	2017	2016	+ / (-)	2017	2016	+ / (-)
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	92,774	110,473	(16)	277,647	307,518	(10)
Profit from operations	3,540	46,236	(92)	31,350	101,172	(69)
(Loss) / Profit before taxation from continuing operations	(22,763)	55,054	(141)	11,770	82,208	(86)
(Loss) / Profit for the period from continuing operations	(23,826)	54,932	(143)	10,576	80,507	(87)
Profit / (Loss) from discontinued operation, net of tax	-	663	n/a	-	(3,811)	n/a
(Loss) / Profit attributable to shareholders of the Company	(23,826)	55,595	(143)	10,576	76,696	(86)

The Group recorded a net profit of RM10.6 million versus last year's corresponding year net profit of RM76.7 million.

For the current year under review, BHIC Group recorded a revenue of RM277.6 million, RM29.9 million or 10% lower than RM307.5 million reported last year. The current year revenue was derived mainly from defence-related maintenance, repair and overhaul ("MRO") activities. Higher revenue recorded in 2016 was largely attributable to defence-related MRO activities and conditional approved variation orders for the Oil and Gas's Belum Topside project.

Commercial segment recorded higher losses in 2016 due to higher direct costs incurred by the chemical tankers under the previous spot charter arrangement prior to the disposal of the chemical tankers in May 2016 and loss on disposal of the chemical tankers. However, the losses were cushioned by the reversal of accrual of operating expenses such as crew wages and lubricant oils pursuant to the reconciliation of expenses.

Defence segment posted higher profits in 2016 due to an upward revision of an MRO project margin and higher contribution from joint venture companies involved in the Littoral Combat Ship ("LCS") project, submarine project, and repair, supply and delivery of Bofors guns. Negative share of results from associates of RM26.9 million in previous year were due to variation orders for the shipbuilding project, additional cost to completion for the restoration of KD PERANTAU, additional staff costs incurred under the mutual separation scheme, lack of commercial-based MRO of foreign boats and local ferries as well as no new shipbuilding project undertaken. Additionally, fewer Royal Malaysian Navy ("RMN") vessels enter the yard for repair works. The current year's profit was impacted due to Liquidated Damages ("LD") recorded by the joint venture company, Boustead DCNS Naval Corporation Sdn Bhd ("BDNC") for the In-Service Support under the RMN SCORPENE Submarines contract. In addition, the Group recorded a revision in the project cost under defence-related MRO. On the other hand, the associates posted higher profits due to good progress on ship repair works, LCS and Littoral Mission Ship ("LMS") projects as well as from the additional revenue from the claim for the out of scope obligation expenses for the Patrol Vessel project which was finally agreed by the RMN.

B14. Analysis of Performance (FYE 31 December 2017 vs. FYE 31 December 2016) (cont'd.)

Furthermore, the defence segment recorded a reversal of provision for cost and reversal of long outstanding debt pertaining to the salvage work for the Service Life Extension Programme (“SLEP”) project.

The **Energy** segment posted higher profits in the current year due to conditional approved variation orders and reimbursement claims for the Oil and Gas’s Belum Topside project.

Higher expenses recorded in the current year was mainly due to impairment loss of RM12.1 million from advances to supplier.

Against last year, the other income in the current year was higher mainly due to favourable foreign exchange translations arising from outstanding trade payables. On the other hand, finance cost was lower in the current year due to repayment of borrowings.

B15. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q4 2017 vs. Q3 2017)

For the quarter ended 31 December 2017	Current	Immediate	+ / (-)
	Period	Preceding	
	Q4 2017	Q3 2017	%
	RM'000	RM'000	
Revenue	92,774	64,262	44
Profit from operations	3,540	10,480	(66)
(Loss) / Profit before taxation from continuing operations	(22,763)	7,900	(388)
(Loss) / Profit for the period from continuing operations	(23,826)	7,762	(407)
Loss from discontinued operation, net of tax	-	(13)	n/a
(Loss) / Profit attributable to shareholders of the Company	(23,826)	7,749	(407)

The Group posted RM23.8 million loss for the current quarter compared with a net profit of RM7.7 million in the preceding quarter.

Current quarter revenue of RM92.8 million was higher than the preceding quarter revenue of RM64.3 million due to progress on defence-related MRO activities and an upward revision of the project margin post completion of a defence-related MRO project.

The joint venture companies posted a negative contribution of RM24.9 million in the current quarter as compared with the preceding quarter profit of RM3.6 million largely due to LD recorded by BDNC for the In-Service Support under the RMN SCORPENE Submarines contract. However, the joint venture company undertaking the LCS project generated significant contribution for the quarter.

The associates contribution of RM1.7 million in the current quarter of 2017 was mainly due to additional revenue from the claim for the out of scope obligation expenses for the Patrol Vessel project which was finally agreed by the RMN as well as good progress on both LCS and LMS projects.

B16. Material Changes in Statement of Financial Position (FYE 31 December 2017 vs. FYE 31 December 2016)

The Group's property, plant and equipment decreased from RM62.1 million to RM55.5 million in the current period mainly due to depreciation charge during the year.

The increase in the Group's cash from RM24.2 million to RM45.9 million was mainly due to higher collections from customers.

The decrease in payables of RM35.0 million was due to lower amount owing to customers on contract primarily due to lower defence-related MRO activities.

B17. Material Changes in Statement of Cash Flows (FYE 31 December 2017 vs. FYE 31 December 2016)

The cash and cash equivalent of RM45.9 million at the end of the current year was higher as compared with RM24.2 million in 2016 largely attributable to lower cash paid to suppliers and employees, lower interest paid to the lenders and lower corporate income tax expenses.

B18. Commentary on Prospects

On 18 December 2017, the Group's associate Boustead Naval Shipyard Sdn Bhd ("BN Shipyard") held a Keel Laying Ceremony for the third of six units of LCS being built at the Lumut yard for the Royal Malaysian Navy ("RMN"). The launching of the first LCS was held on 24 August 2017 and it is expected to make its debut at Langkawi International Maritime and Aerospace Exhibition 2019. The construction of the first four LCS is currently ongoing.

BN Shipyard showed good progress on the LMS project which is currently at design stage and the construction is expected to commence this year.

Meanwhile, the ship repair projects undertaken by BN Shipyard progressed well and were delivered on cost and on time. The transformation programme undertaken by the Group had shown a positive sign and the Group expect this achievement to be maintained.

The RMN's 15 to 5 transformation programme, conceptualised to suit the current economic situation and to meet the tasks faced by RMN, will result in cost savings, optimal utilisation of resources and enhanced efficiency. The Group is excited with the prospect that the transformation strategy will have on our earnings. It should translate into the commissioning of new vessels by RMN and more MRO works for our yards as RMN looks to realise the objectives of the 15 to 5 strategy.

The submarine refit and In-Service Support programme undertaken by the Group is in line with the Government's mission to optimise the usage of the nation's critical assets. The Transfer of Technology and Transfer of Know How programme has progressed well in providing knowledge and skills needed to our local technicians in ensuring the submarines achieve operational and technical availability which meets our obligations to the RMN. This will provide an opportunity to the Group to continue serving the RMN towards achieving self-reliance in maintaining our country's strategic assets.

B18. Commentary on Prospects (cont'd.)

The contracts awarded to BHIC AeroServices Sdn Bhd (“BHICAS”) for the In-Service Support of the RMAF EC725 helicopters, BHIC Defence Techservices Sdn Bhd for the supply and delivery of Communication Suite for Squadron 23rd Frigate of the RMN and BDNC for the In-Service Support for two units of Prime Minister’s Class Submarines for the RMN are expected to contribute positively towards the future earnings of the Group.

Whilst the Group is guardedly optimistic about the prospect of the defence sector, the Group remain cautious on the outlook for commercial shipbuilding. Over-tonnage, tight financing and uncertain economic outlook will continue to underpin shipyards which are already dealing with thin orderbooks and cancelled deliveries of commercial vessels.

The Group is also cautious on the prospect of the energy sector despite signs of recovery in crude oil prices. The outlook for the oil industry remains bearish as oil majors including PETRONAS scales back exploration and production activities and refrains from commissioning the construction of new offshore structures. This will continue to put pressure on yards already reeling from the lack of fabrication works.

B19. Notes on variance in actual profit and shortfall in profit guarantee

The disclosure requirements for explanatory notes for the variance of actual profit after tax and non-controlling interests and shortfall in profit guarantee are not applicable.

B20. Notes to the Consolidated Income Statements

Save as disclosed below and included in the consolidated income statements, there were no other items applicable to be disclosed pursuant to item 16 of Appendix 9B of the Listing Requirements of Bursa Malaysia:

	Current Period		Cumulative Period	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Continuing operations				
Other income	(27)	(88)	(46)	(196)
Net loss / (gain) on foreign currency exchange	877	3,183	481	(784)
Loss / (gain) on disposal of property, plant and equipment	-	14	8	(79)
Stock written off	(546)	-	(546)	-
Stock written down	6	30,844	6	30,844
Reversal of impairment of trade receivables	(26)	-	(146)	-
Allowance for impairment:				
- Trade receivables	946	589	946	589
- Other receivables	15	1,222	15	1,222
Impairment loss of advances to supplier	12,088	-	12,088	-
Depreciation of investment property	119	120	478	484
Depreciation of property, plant and equipment	1,773	1,696	6,929	6,043
Written off of property, plant and equipment	-	-	1,640	-
Discontinued operation				
Net loss on foreign currency exchange	-	(4)	-	(2,087)
Loss on disposal of property, plant and equipment	-	-	-	4,927

B21. Taxation

	Current	Cumulative
	Period	Year
	2017	2017
	RM'000	RM'000
Malaysian taxation based on profit for the period:		
- Current corporate tax	136	1,288
- Over provision in prior year	(3)	(374)
	<u>133</u>	<u>914</u>
Deferred taxation:		
- Relating to origination and reversal of temporary differences	930	280
	<u>1,063</u>	<u>1,194</u>

B21. Taxation (cont'd.)

The current year domestic statutory tax rate will be reduced by 1%, 2%, 3% or 4% if the Company records an increase in chargeable income by 5% to 9.99%, 10% to 14.99%, 15% to 19.99% or more than 20% respectively from the immediate preceding year of assessment.

The Group's effective tax rate for the current and cumulative period are lower than the statutory rate of tax applicable mainly due to certain incomes were granted a tax exemption and availability of tax losses brought forward from prior years to be offset against current period profit.

B22. Status of Corporate Proposal

There were no corporate proposals announced and there are none pending completion.

B23. Group Borrowings and Debt Securities

Total group borrowings as at 31 December 2017 and 31 December 2016 are as follows:

	31.12.2017	31.12.2016
	RM'000	RM'000
Long term borrowings:		
Secured		
- Term loans	5,806	6,926
- Hire purchase and finance lease liabilities	593	891
	<u>6,399</u>	<u>7,817</u>
Short term borrowings:		
Unsecured		
- Revolving credits	220,000	245,000
Secured		
- Term loans	1,120	1,120
- Hire purchase and finance lease liabilities	298	296
	<u>221,418</u>	<u>246,416</u>
Total borrowings	<u>227,817</u>	<u>254,233</u>

All current period borrowings are denominated in Ringgit Malaysia.

As at 31 December 2017, the Group recorded lower borrowings mainly due to repayment of revolving credits facility in the current period.

The Group's borrowing weighted average interest rate is 5.6% for the current period (FYE 31 December 2016: 5.3%).

B24. Disclosure of Derivatives

There were no outstanding derivatives as at 31 December 2017.

B25. Gains/Losses Arising From Fair Value Changes of Financial Liabilities

There were no gains/losses arising from fair value changes of the financial liabilities for the current quarter ended 31 December 2017.

B26. Changes in Material Litigations

There were no changes in material litigation, including the status of pending material litigation since the last annual statement of financial position as at 31 December 2016, except for the following cases:

Company	Claimant Company	Amount RM'000	Status
Boustead Naval Shipyard Sdn Bhd ("BN Shipyard")	Ingat Kawan (M) Sdn Bhd ("Plaintiff")	50,000	<p>On 14 March 2013, the Court had allowed the application to strike out the Plaintiff's claim with costs of RM5,000.00 to be paid by the Plaintiff to BN Shipyard.</p> <p>BN Shipyard, as instructed by the High Court, had on 1 April 2013 withdrawn its counterclaim with liberty to file afresh with no order as to costs. Ingat Kawan had, on 22 March 2013, filed a Notice of Appeal to the Court of Appeal. Hearing on the appeal was heard on 11 November 2013, where the Court of Appeal had allowed Ingat Kawan's appeal and ordered the matter to be tried at the High Court.</p> <p>Hearing of the Appeal was held on 22 August 2017 where the Federal Court have set aside both the decision of the Court of Appeal and the High Court. The Federal Court reverted the matter to the Ipoh High Court for full trial.</p> <p>Ipoh High Court have fixed the matter for case management on 28 March 2018.</p>
Boustead Penang Shipyard Sdn Bhd ("BP Shipyard")	Muara Hijau Sdn Bhd ("Plaintiff")	5,537	<p>The Plaintiff was a contractor appointed by BP Shipyard to supply microturbine generator ("MTG") for one of BP Shipyard's oil & gas project.</p> <p>During performance of test run in the commissioning phase to synchronise the MTG and a diesel engine generator (supplied by BP Shipyard's other contractor), the MTG tripped and damaged. Due to such incident, the Plaintiff claims that the warranty of the MTG is void.</p> <p>The Plaintiff is now claiming for the alleged costs incurred during the commissioning phase and to repair and maintain the MTG as well as renewal of its warranty.</p> <p>On 7 November 2017, the High Court dismissed the Plaintiff's claim against BP Shipyard due to insufficient evidence. The costs of RM35,000 is awarded to BP Shipyard.</p>

Company	Claimant Company	Amount RM'000	Status
			However, the Plaintiff has filed an appeal against the decision of the High Court to the Court of Appeal. The next case management has been fixed on 8 March 2018 for the Plaintiff's solicitor to update the court on receipt of the Grounds of Judgement.

B27. Earnings per Share

	Current Period		Cumulative Year	
	2017	2016	2017	2016
Net (loss) / profit for the period / year– RM'000	(23,826)	55,595	10,576	76,696
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Total (loss) / earnings per share – sen	(9.59)	22.37	4.26	30.87

By Order of the Board

LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)

SUZANA BINTI SANUDIN (LS 008028)

Secretaries

Kuala Lumpur

Date: 27 February 2018