Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the quarter ended 30 June 2019	Note	Current Period		Cumulative Period	
		2019	**2018**	**2019**	**2018**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	**A7**	**53,930**	49,160	**90,225**	88,877
Operating cost		**(43,722)**	(42,804)	**(79,903)**	(77,131)
Profit from operations	**B19**	**10,208**	6,356	**10,322**	11,746
Interest income		**48**	26	**132**	98
Finance cost		**(4,200)**	(3,417)	**(8,149)**	(6,505)
Share of results of joint ventures		**1,852**	6,491	**3,052**	9,095
Share of results of associates		**(3,017)**	(1,862)	**(4,523)**	(1,436)
Profit before taxation	**A7**	**4,891**	7,594	**834**	12,998
Taxation	**B20**	**(1,952)**	(377)	**(2,193)**	(1,280)
Profit / (Loss) for the period		**2,939**	7,217	**(1,359)**	11,718
Attributable to:					
Shareholders of the Company		**2,939**	7,217	**(1,359)**	11,718
Non-controlling interests		**-**	-	**-**	-
Net profit / (loss) for the period		**2,939**	7,217	**(1,359)**	11,718
Basic earnings / (loss) per share attributable to shareholders of the Company (sen):	**B26**	**1.18**	2.90	**(0.55)**	4.72

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 30 June 2019	Current Period		Cumulative Period	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit / (Loss) for the period	**2,939**	7,217	**(1,359)**	11,718
Foreign currency translation	**-**	-	**-**	-
Total comprehensive income / (loss) for the period	**2,939**	7,217	**(1,359)**	11,718
Total comprehensive income / (loss) attributable to:				
Shareholders of the Company	**2,939**	7,217	**(1,359)**	11,718
Non-controlling interests	**-**	-	**-**	-
Net profit / (loss) for the period	**2,939**	7,217	**(1,359)**	11,718

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 30 June 2019 RM'000	As at 31 December 2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		**48,245**	50,326
Investment property		**12,604**	12,853
Right of use assets		**7,649**	-
Deferred tax assets		**21,285**	21,285
Joint ventures		**93,806**	93,380
Associates		**86,002**	90,525
		269,591	268,369
Current assets			
Inventories		**4,097**	4,035
Receivables		**320,889**	280,372
Tax recoverables		**9,600**	10,588
Cash and bank balances		**10,416**	17,890
		345,002	312,885
TOTAL ASSETS		**614,593**	581,254
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**248,458**	248,458
Accumulated losses		**(17,202)**	(15,843)
Shareholders' funds, representing total equity		**231,256**	232,615
Non-current liabilities			
Long term borrowings	**B22**	**4,424**	5,137
Deferred tax liabilities		**306**	324
Leasing liabilities		**7,693**	-
		12,423	5,461
Current liabilities			
Borrowings	**B22**	**280,943**	268,454
Trade and other payables		**89,910**	74,615
Tax payables		**61**	109
Dividend payable		**-**	-
		370,914	343,178
Total liabilities		**383,337**	348,639
TOTAL EQUITY AND LIABILITIES		**614,593**	**581,254**
Net assets per share attributable to ordinary equity holders of the Company - RM		**0.93**	0.94

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

	← Attributable to equity holders of the Company →				
For the period ended 30 June 2019	**Share Capital**	**(Accmulated Losses) / Distributable Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2019	**248,458**	**(15,843)**	**232,615**	**-**	**232,615**
Total comprehensive loss for the period	-	(1,359)	**(1,359)**	-	**(1,359)**
Balance at 30 June 2019	**248,458**	**(17,202)**	**231,256**	**-**	**231,256**
At 1 January 2018	**248,458**	**96,210**	**344,668**	**-**	**344,668**
Total comprehensive income for the period	-	11,718	**11,718**	-	**11,718**
Balance at 30 June 2018	**248,458**	**107,928**	**356,386**	**-**	**356,386**

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 30 June 2019 RM'000	As at 30 June 2018 RM'000
Operating Activities		
Receipts from customers	**68,397**	50,920
Cash paid to suppliers and employees	**(81,055)**	(88,055)
Net cash paid to related companies	**(277)**	(46)
Cash used in operations	**(12,935)**	(37,181)
Interest paid	**(7,650)**	(3,290)
Tax paid less refunds	**(1,252)**	(437)
Net cash used in operating activities	**(21,837)**	(40,908)
Investing Activities		
Interest received	**132**	98
Dividends received from joint venture companies	**2,627**	-
Purchase of property, plant and equipment	**(199)**	(337)
Investment in a joint venture company	**-**	(11,116)
Net cash generated from / (used in) investing activities	**2,560**	(11,355)
Financing Activities		
Repayment of borrowings	**(1,725)**	(721)
Dividends paid to shareholders of the Company	**-**	(4,969)
Proceed from drawdown of term loan / revolving credits / hire purchases	**13,500**	18,718
Net cash generated from financing activities	**11,775**	13,028
Net decrease in cash and cash equivalents	**(7,502)**	(39,235)
Effect of foreign exchange rate changes	**28**	(49)
Cash and cash equivalents at beginning of period	**17,890**	45,920
Cash and Cash Equivalents at End of Period	**10,416**	6,636
Cash and Cash Equivalents at End of Period Comprise:		
Deposits with licensed banks	**3,300**	-
Cash and bank balances	**7,116**	6,636
Cash and Cash Equivalents at End of Period	**10,416**	6,636

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

Part A Explanatory Notes Pursuant to MFRS 134

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the financial period ended 30 June 2019, 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 2018. 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

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 2018 except as follows:

MFRS and Amendments to MFRSs		**Effective for annual periods beginning on or after**
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)	Prepayment 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 119 (Employee Benefits)	Plan Amendment, Curtailment or Settlement	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 interests in Associates and Joint Ventures	1 January 2019
IC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019

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

MFRS 16: Leases

MFRS 16 supersedes MFRS 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard 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.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value (below USD5,000).

(a) Effect of adoption of MFRS 16

Impact on the Group's statement of financial position as at 1 January 2019:

	As at 31 Dec 2018 RM'000	MFRS 16 adjustments RM'000	As at 1 Jan 2019 RM'000
Assets			
Right of use assets	-	3,700	3,700
Liabilities			
Lease liabilities	-	3,700	3,700

Leases previously classified as finance leases

The Group recognised the carrying amount of the leased asset and lease liability as at 31 December 2018 as the carrying amount of the ROU asset and the lease liability at the date of initial application.

Leases previously accounted for as operating leases

The Group recognised ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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

MFRS 16: Leases (cont'd.)

(b) Change in accounting policies

ROU assets

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. For the measurement of the ROU at the time of first-time application, initial direct costs were not taken into account. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees, and the exercise price of a purchase option reasonably certain to be exercised by the Group, and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. A single discount rate was used for a portfolio of leases with reasonably similar characteristics as a practical expedient applied by the Group. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of premises, plant and equipment, motor vehicles (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (below USD5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

Standards and interpretations that are issued but not yet effective

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 3 (Business Combinations)	Definition of a Business	1 January 2020
Amendments to MFRS 101 (Presentation of Financial Statements) and MFRS 108 (Accounting Policies, Changes in Accounting Estimates and Errors)	Definition of Material	1 January 2020
MFRS 17	Insurance Contracts	1 January 2021
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.

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

To date, a total of 160 personnel had accepted the mutual separation scheme offered by the Group with a total payment of RM11.5 million. There was no change from the announcement made on 27 February 2018.

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

The Board of Directors do not propose any dividend in the quarter ended 30 June 2019.

On 15 November 2018, the Company paid the first interim single-tier dividend of 1.5 sen per share amounting to RM3,726,863.39 in respect of the financial year ended 31 December 2018.

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
As at 30 June 2019						
Group total sales	598	89,355	665	4,061	(4,454)	90,225
Inter-segment sales	(1)	(515)	-	(3,938)	4,454	-
External Revenue	597	88,840	665	123	-	90,225
Results						
Segment result-external	(1,541)	21,924	(848)	(7,009)	(2,204)	10,322
Interest income	-	732	-	1,381	(1,981)	132
Finance costs	(800)	(617)	-	(9,670)	2,938	(8,149)
Share of results in joint ventures	-	3,052	-	-	-	3,052
Share of results in associates	-	(4,523)	-	-	-	(4,523)
(Loss) / profit before taxation	(2,341)	20,568	(848)	(15,298)	(1,247)	834
Income tax expense						(2,193)
Loss for the period						**(1,359)**
Other information						
Depreciation	73	1,999	-	719	-	2,791
Other non-cash expenses	-	-	-	-	-	-

A7. Operating Segments (cont'd.)

	Commercial RM'000	Defence RM'000	Energy RM'000	Others RM'000	Elimination RM'000	Total RM'000
As at 30 June 2018						
Group total sales	586	87,900	96	1,097	(802)	88,877
Inter-segment sales	-	(329)	-	(473)	802	-
External Revenue	586	87,571	96	624	-	88,877
Results						
Segment result-external	(1,035)	24,004	(2,445)	(8,255)	(523)	11,746
Interest income	6	170	-	1,335	(1,413)	98
Finance costs	(706)	(120)	-	(7,198)	1,519	(6,505)
Share of results in joint ventures	-	9,095	-	-	-	9,095
Share of results in associates	-	(1,436)	-	-	-	(1,436)
(Loss) / profit before taxation	(1,735)	31,713	(2,445)	(14,118)	(417)	12,998
Income tax expense						(1,280)
Profit for the period						**11,718**
Other information						
Depreciation	72	2,770	-	500	-	3,342
Other non-cash expenses	-	-	-	-	-	-

Discussion on the segmental performance is disclosed in Note B14 (Analysis of Performance (FPE 30 June 2019 vs. FPE 30 June 2018).

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 Contingent Liabilities

i) Liquidated Ascertained Damages

a) <u>In-Service Support (“ISS”) contract</u>

On 10 July 2017, the joint venture company, Boustead DCNS Naval Corporation Sdn Bhd (“BDNC”) received a letter from the Ministry of Defence Malaysia (“MINDEF”) claiming for Liquidated Damages (“LD”) amounting to RM53.2 million and EUR19.3 million for the ISS for the Royal Malaysian Navy (“RMN”) SCORPENE Submarine contract.

BDNC had made adequate provision for the LD claim to the extent that it is deemed to be sufficient for the ISS contract and appeals were submitted to MINDEF for consideration.

b) <u>Refit contract</u>

On 28 June 2019, the joint venture company, BDNC received a letter from MINDEF claiming for LD amounting to RM22.4 million and EUR8.8 million for the Refit works on KD TUNKU ABDUL RAHMAN.

BDNC had made adequate provision for the LD claim to the extent that it is deemed to be sufficient for this Refit contract and appeal was submitted to MINDEF for consideration.

c) <u>Extended In-Service Support (“EISS”) contract</u>

BDNC had made adequate provision for the LD claim to the extent that it is deemed to be sufficient for this EISS contract.

The Group is of the opinion that the above provisions for the LD are sufficient and no further losses expected to be incurred after taking into consideration appropriate justifications and supporting documents which were submitted to MINDEF for their consideration. The Group is still in the midst of negotiating and finalising the LD claims.

Other than the contingent liabilities as disclosed above and in Note B25 (Changes in Material Litigations), there has been no other contingent liability arising since the previous financial year end and in the current financial year.

A12. Capital Commitments

The Group has the following commitments as at 30 June 2019:

	Approved but not contracted for RM’000	**Approved and contracted for RM’000**	**Total RM’000**
Property, plant and equipment	21,090	56	21,146

B13. Analysis of Performance (FPE 30 June 2019 vs. FPE 30 June 2018)

For the quarter ended 30 June 2019	Current Period		+/(-)	Cumulative Period		+/(-)
	2019 RM'000	2018 RM'000	%	2019 RM'000	2018 RM'000	%
Revenue	53,930	49,160	10	90,225	88,877	2
Profit from operations	10,208	6,356	61	10,322	11,746	(12)
Profit before taxation	4,891	7,594	(36)	834	12,998	(94)
Profit / (Loss) for the period	2,939	7,217	(59)	(1,359)	11,718	>-100

The Group recorded a net loss of RM1.4 million in the current cumulative period versus profit of RM11.7 million in the same corresponding period last year due to lower contribution from the joint ventures, negative contribution from the associates and higher finance costs.

For the cumulative period under review, BHIC Group recorded a revenue of RM90.2 million, RM1.3 million or 2% higher than RM88.9 million reported in the same corresponding period last year due to variations in Maintenance, Repair and Overhaul ("MRO") works and reversal of provision on expected credit losses of RM1.2 million.

Commercial segment recorded a higher negative contribution of RM2.3 million in the current period as compared with a loss of RM1.7 million in the same corresponding period last year due to higher operating expenditures.

Defence segment posted a lower contribution in the current period mainly due to lack of MRO activities. The associates posted a higher negative contribution in the cumulative period mainly due to variations in milestone achieved on its existing shipbuilding projects. However, the impact was cushioned by higher profits recorded on Emergency Repair Defect List ("ERDL") works undertaken on KD LAKSAMANA HANG NADIM, KD LAKSAMANA TUN ABDUL JAMIL, KD SRI INDERASAKTI as well as Docking for Essential Defect ("DED") works undertaken on KD LEKIR, KD KEDAH and KD JEBAT's Combat Management System ("CMS"). In addition, the Littoral Mission Ship ("LMS") programme undertaken by the associates recorded higher profit in the current period mainly from the claims by the main subcontractor for the keel laying of LMS2, launching of LMS1 and progress of the construction of the second ship. The Group recorded unrealised foreign exchange loss arising from outstanding trade payables.

B13. Analysis of Performance (FPE 30 June 2019 vs. FPE 30 June 2018) (cont'd.)

The joint venture companies posted a positive contribution of RM3.1 million in the cumulative period mainly due to higher flying hours recorded by the Royal Malaysian Air Force ("RMAF") and Malaysian Maritime Enforcement Agency ("MMEA") under BHIC AeroServices Sdn Bhd ("BHICAS") and Contraves Advanced Devices Group ("CAD Group") undertaking the Littoral Combat Ship ("LCS") programme. Higher contribution of RM9.1 million recorded by the joint venture companies in the same corresponding period last year was due to favourable foreign exchange translations arising from the balance of Euros in the foreign currency bank account of Boustead DCNS Naval Corporation Sdn Bhd ("BDNC").

There were no new oil & gas project undertaken under the **Energy** segment in the cumulative period. However, the current period revenue was from the mobilisation of the segment's resources into a shipbuilding project.

Finance cost was higher in the cumulative period as compared with the same corresponding period last year mainly due to drawdown of borrowings to finance the Group's working capital.

B14. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q2 2019 vs. Q1 2019)

For the quarter ended 30 June 2019	**Current Period**	**Immediate Preceding Period**	**+/(-)**
	Q2 2019	**Q1 2019**	**%**
	RM'000	**RM'000**	
Revenue	53,930	36,295	49
Profit from operations	10,208	114	>100
Profit / (Loss) before taxation	4,891	(4,057)	>100
Profit / (Loss) for the period	2,939	(4,298)	>100

The Group posted a profit of RM2.9 million for the current quarter as compared with RM4.3 million loss in the preceding quarter.

Current quarter revenue of RM53.9 million was higher than the preceding quarter revenue of RM36.3 million due to progress on defence-related MRO activities and reversal of expected credit loss. Lower revenue in Q1 2019 was due to adjustments made on the submarines contracts and variations in milestone achieved for defence-related MRO projects.

Lower operating costs in Q1 2019 was due to adjustment on staff related expenses.

The joint venture companies posted a positive contribution of RM1.9 million in the current quarter mainly from BHICAS due to higher flying hours recorded by RMAF and MMEA as well as LCS project progress undertaken by CAD Group. Lower contribution of RM1.2 million recorded by the joint ventures in Q1 2019 was mainly from CAD Group undertaking the LCS project.

B14. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q2 2019 vs. Q1 2019) (cont'd.)

The associates recorded a higher negative contribution of RM3.0 million in the current quarter due to unfavourable foreign exchange translations arising from outstanding trade payables. However, the current quarter results were cushioned by higher contribution from DED works undertaken on KD LEKIR, KD KEDAH and KD JEBAT's CMS as well as ERDL works on KD SRI INDERASAKTI, which vessel was delivered to the RMN on 24 June 2019, one day ahead of schedule.

The associates results in Q1 2019 was impacted by minor ship repair works undertaken by the Group and revision in the LMS programme costing arising from Government of Malaysia's decision to build all four ships in China instead.

B15. Material Changes in Statement of Financial Position (FPE 30 June 2019 vs. FYE 31 December 2018)

The Group's property, plant and equipment decreased from RM50.3 million to RM48.2 million in the current period mainly due to depreciation charge during the period.

The decrease in the Group's cash from RM17.9 million to RM10.4 million was mainly due to lower collection from customers.

The increase in payables by RM15.3 million was due to higher amount owing to customers on contract.

The increase in receivables by RM40.5 million was mainly due to lower collection from customers.

B16. Material Changes in Statement of Cash Flows (FPE 30 June 2019 vs. FPE 30 June 2018)

The cash and cash equivalent of RM10.4 million at the end of the current period was higher as compared with RM6.6 million last year largely attributable to higher collections from customers, lower payment to suppliers and dividends received from joint venture companies.

B17. Commentary on Prospects

The Defence White Paper which is being drafted by the Ministry of Defence is expected to be tabled by October 2019, aims to establish the long-term planning for Malaysia's defence capability and shape the direction of our defence policies for the next ten years. The Group is encouraged by the opportunities ahead led by the Group's defence segment which has been awarded various contracts by the Government.

On 12 July 2019, the launching and naming ceremony of LMS2, SUNDANG with pennant number 112 was held in China. Meanwhile the delivery of LMS1 is expected to be by end of 2019.

B17. Commentary on Prospects (cont'd.)

The contracts awarded to the Group's associates and joint venture companies for the In-Service Support ("ISS") for the RMN's Prime Minister's Class Submarines, for Refit services for the RMN's KD TERENGGANU and for the extension for the Integrated Maintenance and Logistic Support Services on three units of MMEA Dauphin AS365N3 helicopters to BHICAS, are expected to contribute positively to the Group bottomline.

The construction of the LCS programme is currently ongoing. The keel-laying ceremony of LCS5 is expected to be held in the fourth quarter of 2019. The Group is proud to contribute to safeguarding the nation's maritime security through building and maintaining these assets and other RMN's assets. The LCS and LMS projects showcase Malaysia's capabilities in shipbuilding and high technologies as well as highlighting local skills and talents in constructing sophisticated military vessels.

The Group plans to expand its customer base to other government agencies such as the Royal Malaysian Police, Malaysian Maritime Enforcement Agency and Malaysian Fisheries Department as well as to venture into South East Asia and Middle East markets.

While there has been a rejuvenation of activities in the Oil & Gas industry, we do not foresee a sharp turnaround in the performance of our Energy segment. Likewise, the Group does not expect its Commercial shipbuilding segment turning the corner anytime soon as the shipping sector continues to be saddled by overcapacity, low freight and tight financing. However, the Group will continue to explore new business areas such as undertaking MRO on commercial vessels.

B18. 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.

B19. 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**	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other income	(2)	(2)	(333)	(28)
Reversal of expected credit loss	(1,225)	-	(1,225)	-
Net loss / (gain) on foreign currency exchange	11	(2,412)	(1,791)	(4,019)
Depreciation of investment property	124	124	249	249
Depreciation for right of use asset	123	-	277	-
Depreciation of property, plant and equipment	1,107	1,518	2,265	3,094

B20. Taxation

	Current Period 2019 RM'000	Cumulative Period 2019 RM'000
Malaysian taxation based on profit for the period:		
- Current corporate tax	1,928	2,169
- Underprovision in prior year	24	24
	1,952	2,193

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 subsidiaries utilising its availability of tax losses brought forward from prior years to be offset against current period profit.

B21. Status of Corporate Proposal

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

B22. Group Borrowings and Debt Securities

Total group borrowings as at 30 June 2019 and 31 December 2018 are as follows:

	30.06.2019 RM'000	31.12.2018 RM'000
Long term borrowings:		
Secured		
- Term loan	4,126	4,686
- Hire purchase and finance lease liabilities	298	451
	4,424	5,137
Short term borrowings:		
Unsecured		
- Revolving credits	279,500	267,000
Secured		
- Term loan	1,120	1,120
- Hire purchase and finance lease liabilities	323	334
	280,943	268,454
Total borrowings	285,367	273,591

All current period borrowings are denominated in Ringgit Malaysia.

B22. Group Borrowings and Debt Securities (cont'd.)

As at 30 June 2019, the Group recorded higher borrowings mainly due to drawdown of revolving credits facility in the current period for working capital purposes.

The Group's borrowing weighted average interest rate is 5.7% per annum for the current period (FYE 31 December 2018: 5.8% per annum).

Refinancing of the existing revolving credit facility

The Group had accepted the refinancing part of its outstanding revolving credits to improve its financial position. The management is in the process of compiling the relevant documentations to complete this exercise.

The facility will not increase the Group's gearing as it will be wholly utilised to refinance the existing borrowings.

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 30 June 2019.

B24. 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 30 June 2019.

B25. 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 2018, except for the following cases:

Company	Claimant Company	Amount RM'000	Status
Boustead Naval Shipyard Sdn Bhd ("BNS")	Ingat Kawan (M) Sdn Bhd ("Plaintiff")	50,000	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 BNS. BNS, 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.

Company	Claimant Company	Amount RM'000	Status
			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 & the High Court. The Federal Court reverted the matter to the Ipoh High Court for full trial which was held on 16 and 17 April 2018. The trial continued in May, July, August and November. The Court had scheduled the dates for continuation of trial on 22 January 2019 and 19 February 2019. The trial continued on 22 January 2019, 5 April 2019 and 10 April 2019. The Court had fixed the next trial to be held on 16 May 2019 and 23 May 2019 however, the trial was postponed to 22 July 2019 and 23 July 2019. The next continuation of the trial fixed by the Court will be on 22 August 2019 and 11 September 2019.

B26. Earnings per Share

	Current Period		Cumulative Period	
	2019	**2018**	**2019**	**2018**
Net profit / (loss) for the period – RM'000	2,939	7,217	(1,359)	11,718
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Total earnings / (loss) per share – sen	1.18	2.90	(0.55)	4.72

By Order of the Board

LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)
SUZANA BINTI SANUDIN (LS 008028)
Company Secretaries
Kuala Lumpur
Date: 23 August 2019