

NOTES TO THE ACCOUNTS

PART A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134

1. Basis Of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2015. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of Perisai Petroleum Teknologi Bhd ("Perisai" or the "Company") and its subsidiaries ("Group") since the financial year ended 31 December 2015.

2. Changes In Accounting Policies

- a) The Group adopted the following Standard, Amendments/Annual Improvement to Standards effective as of 1 January 2016:-

Amendment to MFRS 11	Joint Arrangements
Amendment to MFRS 101	Disclosure Initiative
Amendment to MFRS 127	Separate Financial Statements
Amendment to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation And Amortisation
Annual Improvements to MFRSs 2012 -2014 Cycle	

The adoption of the above Amendments to MFRSs did not have any material effect on the financial statements of the Group.

- b) At the date of this report, the following new MFRSs and Amendments/Improvements to MFRSs were issued but not yet effective and have not been applied by the Group:

Amendment to MFRS 107	Disclosure Initiative *
MFRS 112	Income Taxes *
MFRS 9	Financial Instruments **
MFRS 15	Revenue from Contracts with Customers **
MFRS 16	Leases ***
Amendment to MFRS 10	Consolidated Financial Statements #
Amendment to MFRS 128	Investment in Associates and Joint Ventures #

**Effective for financial periods beginning on or after – 1 January 2017*

*** Effective for financial periods beginning on or after – 1 January 2018*

**** Effective for financial periods beginning on or after – 1 January 2019*

Not yet effective and to be announced by Malaysian Accounting Standards Board ("MASB")

The Group will adopt the above new MFRS and Amendments/Improvements to MFRSs when it becomes effective in the respective financial periods.

3. Seasonal Or Cyclical Factors

The Group's operations are not materially subject to any seasonal or cyclical factors except for severe weather conditions.

4. Unusual Items Due To Their Nature, Size Or Incidence

There were no unusual items affecting assets, liabilities, equity, net income and cash flows during the financial period ended 31 March 2016.

5. Changes In Estimates

There were no significant changes in estimates that had a material effect on the results for the financial period 31 March 2016 except for the revised in residual value of plant and equipment. The revision was accounted for prospectively as a change in accounting estimate and as a result, the depreciation charges of the Group for the current quarter and financial period ended 31 March 2016 have been increased by RM951,017.

6. Debts And Equity Securities

Save as disclosed below, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period ended 31 March 2016:

- i. Perisai had fixed the issue price of the Placement Shares under the Private Placement as follows:

Date	Issue Price	No of Placement Shares
4.2.2016	RM0.25	6,000,000
16.2.2016	RM0.25	6,000,000
18.2.2016	RM0.25	6,000,000

- ii. As at 31 December 2015, 400,000 shares of RM0.10 each were held as treasury shares in accordance with the requirements of section 67A of the Companies Act, 1965.

7. Dividends Paid

There were no dividends paid during the financial period ended 31 March 2016.

8. Segmental Information

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000 (Restated)	31 March 2016 RM'000	31 March 2015 RM'000 (Restated)
Segment Revenue				
Drilling	39,928	43,940	39,928	43,940
Production	-	-	-	-
Marine vessels	14,960	12,790	14,960	12,790
Others	-	-	-	-
Total revenue	54,888	56,730	54,888	56,730
Segment Results				
Drilling	1,436	5,294	1,436	5,294
Production	(2)	(1)	(2)	(1)
Marine vessels	9,156	7,473	9,156	7,473
Others	(19,305)	(8,512)	(19,305)	(8,512)
Share of results in associates	610	1,402	610	1,402
Share of results in joint ventures	15,393	13,233	15,393	13,233
Total results	7,288	18,889	7,288	18,889

9. Valuation Of Property, Plant and Equipment

The Group did not revalue any plant and equipment during the financial period ended 31 March 2016. As at 31 March 2016, all property, plant and equipment were stated at cost less accumulated depreciation and provision for impairment.

10. Subsequent Events

Save as disclosed below, there were no material events subsequent to the financial period ended 31 March 2016.

11. Changes In Composition Of The Group

There were no changes to the composition of the Group during the financial period ended 31 March 2016.

12. Changes In Contingent Liabilities

Save as disclosed below, the Directors are not aware of any material contingent liabilities which, upon becoming enforceable, may have a material impact on the financial position of the Group during the financial period ended 31 March 2016.

Corporate Guarantee of RM420.9 million issued by the Group for banking facilities granted to its joint ventures.

13. Changes In Contingent Assets

The Directors are not aware of any material contingent assets, which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group during the financial period ended 31 March 2016.

14. Material Commitments

Save as disclosed below, the Group is not aware of any material commitments incurred or known to be incurred by the Group which upon becoming enforceable may have a material impact on the profit or net asset value of the Group as at 31 March 2016.

	RM'Million
<u>Capital expenditure</u>	
Approved and contracted for:	
Construction of two (2) jack-up drilling rigs	<u>1,310</u>

15. Significant Related Party Transactions

Save as disclosed below, there were no significant related party transactions during the financial period ended 31 March 2016.

The recurrent related party transactions with the Group and the Company are as follows:-

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000	31 March 2016 RM'000	31 March 2015 RM'000
Revenue				
Bareboat charter of vessels to Emas Offshore Pte. Ltd.*	10,773	3,580	10,773	3,580
Bareboat charter of vessels to Emas Offshore (M) Sdn. Bhd.*	4,187	9,210	4,187	9,210
Secondment of personnel to Victoria Production Services Sdn Bhd^	-	39	-	39
Expenses				
Agency fee charged by Larizz Petroleum Services Sdn. Bhd.#	45	45	45	45
Agency fee charged by Larizz Energy Services Sdn. Bhd.#	45	45	45	45
Agency fee charged by Perisai Offshore Sdn. Bhd.#	28	28	28	28

*The transactions above involve Emas Offshore Pte Ltd, and Emas Offshore (M) Sdn Bhd which are indirect wholly-owned subsidiaries of EMAS Offshore Limited (“EMAS Offshore”). EMAS Offshore and HCM Logistics Limited (“HCM”) are major shareholders of Perisai. Emas Offshore is a 75.46% subsidiary of Ezra Holding Limited (“Ezra”) whereas HCM is a wholly-owned subsidiary of Ezra.

^The transactions above involving Victoria Production Services Sdn Bhd, a Joint Venture between Perisai and EMAS.

#Agency fees charged by Larizz Petroleum Services Sdn Bhd (“LPSSB”), Larizz Energy Services Sdn Bhd (“LESSB”) and Perisai Offshore Sdn Bhd (“POSB”) is a recurrent related party transaction as Datuk Zainol Izzet Bin Mohamed Ishak (“Datuk Izzet”) is a substantial shareholder of LPSSB, LESSB and POSB. Datuk Izzet holds 60% equity interest in LPSSB, 49% equity interest in LESSB with effect from 15 September 2015 and 49% equity interest in POSB. He is also a director of Perisai and holds 5.45% equity interest in Perisai.

16. Fair Value Measurements

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, the lowest level input that is significant to the fair value measurement as a whole.

- (a) Level 1 fair value measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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- (b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provided the fair value measurement hierarchy of the Group's assets and liabilities:

Liabilities measured at fair value

	Amount	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
Group				
Derivative financial instruments				
-cross currency interest rate swaps *	5,985	-	5,985	-

There were no transfers between Level 1 and Level 2 during the period ended 31 March 2016 and the Group does not have any financial instruments classified as Level 3 as at 31 March 2016.

* The valuation technique used to derive the Level 2 is as disclosed in Note B15.

17. Discontinued Operation

The Company has the intention to dispose of its idle asset. If the disposal is materialised, it is expected to enhance the cash position of the Group.

In accordance with MFRS 5, the assets and liabilities of a wholly-owned subsidiary of Perisai have been presented on the consolidated statement of financial position as a disposal group held for sale and results from this subsidiary are presented separately on the consolidated income statement as discontinued operation.

The revenue, results and cash flows of the wholly-owned subsidiary, which are classified as discontinued operation are as follows:-

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000	31 March 2016 RM'000	31 March 2015 RM'000
Revenue	-	-	-	-
Other Income	5	10	5	10
Expenses	(6,391)	(7,696)	(6,391)	(7,696)
Loss before tax of discontinued operation	(6,386)	(7,686)	(6,386)	(7,686)
Tax expense	-	-	-	-
Loss for the period from discontinued operation	(6,386)	(7,686)	(6,386)	(7,686)
The cash flows attributable to the discontinued operations are as follows:				
Operating cash flows	(1,999)	(1,943)	(1,999)	(1,943)
Investing cash flows	6,686	15,873	6,686	15,873
Financing cash flows	(7,895)	(13,944)	(7,895)	(13,944)
Total cash flows	(3,208)	(14)	(3,208)	(14)

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The major classes of assets and liabilities of the discontinued operation classified as held for sale as at 31 March 2016 are as follows:

	Carrying Amount As at 31.3.2016	Carrying Amount As at 31.12.2015
	RM'000	RM'000
<u>Assets</u>		
Plant and equipment	283,829	317,332
Other receivables	40	40
Assets of disposal group classified as held for sale	283,869	317,372
<u>Liabilities</u>		
Other payables	2,193	2,765
Borrowings	85,391	102,048
Liabilities of disposal group classified as held for sale	87,584	104,813
Net assets of disposal group classified as held for sale	196,285	212,559

18. Comparatives

During the financial period ended 31 March 2016, certain comparatives of the Group has been re-presented in accordance with the requirement of MFRS 5 “ Non-current Assets Held for Sale and Discontinued Operations” as mentioned in Note 17 above.

The effect of this exercise was adjusted as a prior year adjustment against the comparative figures as summary below:-

Income statement

3 months ended 31 March 2015	Previously stated RM'000	MFRS 5 RM'000	Restated RM'000
Revenue	56,730	-	56,730
Direct cost	(42,296)	6,703	(35,593)
Gross profit	14,434	6,703	21,137
Other income	2,366	(10)	2,356
Operating expenses	(8,879)	117	(8,762)
Finance costs	(11,353)	876	(10,477)
Share of results of associates, net of tax	1,402	-	1,402
Share of results of joint ventures, net of tax	13,233	-	13,233
Profit before tax	11,203	7,686	18,889
Tax expense	(250)	-	(250)
Profit for the period from continuing operations	10,953	7,686	18,639
<u>Discontinued Operation</u>			
Loss for the period from discontinued operation	-	(7,686)	(7,686)
Profit for the period, net of tax	10,953	-	10,953

PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MMLR

1. Performance Review

For the current quarter and period ended 31 March 2016, the Group generated total revenue of RM54.89million, a decrease of RM1.84million when compared to the amount of RM56.73million in the corresponding quarter and period ended 31 March 2015.

The decrease in revenue was mainly due to discount given on the charter rate for Perisai Pacific 101 as a result of significant drop in oil prices.

Profit before tax (“PBT”) from continuing operations for the current quarter and period ended 31 March 2016 amounted to RM7.29million, a decrease of RM11.6million when compared to the PBT amount of RM18.89million (restated) recorded in the corresponding quarter and period ended 31 March 2015.

The decrease in PBT was mainly due to:

- (i) the discount given on the charter rate;
- (ii) higher foreign exchange loss as reflected in other operating expenses, amounting to RM11.6million; and
- (iii) higher finance cost.

Total profit net of tax from both continuing and discontinued operations for the current quarter and period ended 31 March 2016 amounted to RM0.68 million, a decrease of RM10.27million when compared to the amount of RM10.95million attained in the corresponding quarter and period ended 31 March 2015. The decrease is mainly due to the same reasons as mentioned in the immediate paragraph above.

2. Material Change in Profit Before Tax (“PBT”) In Comparison to the Preceding Quarter

For the current financial quarter ended 31 March 2016, the Group recorded a PBT of approximately RM7.29million against a Loss Before Tax of RM719.53million recorded in the preceding quarter.

The improvement in PBT was mainly because in the preceding quarter, the Group made a provision for impairment on plant and equipment of RM689.91million and share of impairment in joint ventures of RM35.82million.

3. Future Prospects

Continuing depressed oil prices has caused uncertainty on the outlook for the demand for the oil and gas assets in the short to medium terms. The Group will remain cautious on its capital and cost management. Operational efficiency of the operating assets is expected to be maintained while pursuing various opportunities with respect to the Rubicone, Enterprise 3 and drilling rigs.

4. Profit Forecast and Profit Guarantee

The Group did not announce or disclose any profit forecast or profit guarantee in any public documents for the financial period ended 31 March 2016.

5. Income Tax Expense

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000	31 March 2016 RM'000	31 March 2015 RM'000
Based on result for the year				
- Current year provision	(227)	(252)	(227)	(252)
- (Under)/overprovision for taxation in prior year	-	2	-	2
	(227)	(250)	(227)	(250)

The effective tax rate for the current quarter and financial period ended 31 March 2016 was lower than the statutory tax rate arising mainly from certain subsidiaries being subject to fixed tax rates under the Labuan Business Activity Tax Act, 1990.

6. Corporate Proposal

(a) There were no corporate proposals announced but not completed as at the reporting date.

(b) Status of Utilisation of Proceeds

Macquarie Bank Limited (“Macquarie”) was granted call options with the right to exercise and be issued with up to 119,000,000 ordinary shares of RM0.10 each pursuant to the Call Option Agreement dated 24 November 2015.

The proceeds raised during the private placement were approved for the following activities and status on the funds utilised as at 13 May 2016 are summarised below:

Purpose	Approved Utilisation RM' Million	Amount Utilised RM' Million	Amount Unutilised RM' Million	Expected Time Frame For The Full Utilisation
Repayment of bank borrowings and/or capital investment for jack-up drilling rigs and MOPU	25.0	(-)	25.0	Within one (1) year
Working capital:				
- Operational expenses for jack-up drilling and MOPU	1.2	(1.2)	-	Fully utilised
- Finance cost	5.8	(1.3)	4.5	Within one (1) year
- Management and administrative expenses	4.7	(4.7)	0	Fully utilised
Estimated expenses relating to the Proposed Private Placement	0.3	(0.3)	-	Fully utilised
Total	*37.0	(7.5)	29.5	

* Total proceeds raised as at 13 May 2016 is RM7.5million.

The Company had on 7 April 2016 obtained the approval from Bursa Malaysia Securities Berhad for an extension of time of six (6) months from 21 April 2016 up to 20 October 2016 to complete the implementation of the Proposed Private Placement.

7. Borrowings And Debt Securities

The Group's borrowings and debt securities as at 31 March 2016 are as follows:

	Short Term RM'000	Long Term RM'000
Secured		
- Term loan	47,573	673,682
- Revolving credit	49,020	-
- Overdraft	4,954	-
- Hire purchase	125	122
Unsecured		
- MTN	359,062	-
Total	460,734	673,804

The Group borrowings are denominated in the following currencies:

	Short Term RM'000 Equivalent	Long Term RM'000 Equivalent
Ringgit Malaysia	54,099	122
US Dollar	47,573	673,682
SG Dollar	359,062	-
Total	460,734	673,804

8. Prepayment

Prepayment mainly consists of capital expenditure, project management and other related costs for the second (2nd) and third (3rd) jack up drilling rigs.

9. Changes In Material Litigation

There was no litigation for the financial period ended 31 March 2016.

10. Dividends Payable

There was no dividend declared for the financial period ended 31 March 2016.

11. Earnings Per Share ("EPS")

Basic earnings per share is calculated by dividing the profit/(loss) attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the financial period, excluding treasury shares held by the Company.

(a) Basic Earnings Per Share

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000	31 March 2016 RM'000	31 March 2015 RM'000
		(Restated)		(Restated)
Profit from continuing operations	2,341	14,718	2,341	14,718
Loss from discontinued operations	(6,386)	(7,686)	(6,386)	(7,686)
(Loss)/Profit attributable to owners of the Company net of tax	(4,045)	7,032	(4,045)	7,032
Weighted average number of ordinary shares in issue ('000)	1,213,504	1,192,725	1,213,504	1,192,725
Basic (loss)/earnings per share (sen):				
- from continuing operations	0.19	1.23	0.19	1.23
- from discontinued operation	(0.52)	(0.64)	(0.52)	(0.64)
Total (sen)	(0.33)	0.59	(0.33)	0.59

(b) Diluted Earnings Per Share

	Individual Period		Cumulative Period	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	31 March 2016 RM'000	31 March 2015 RM'000	31 March 2016 RM'000	31 March 2015 RM'000
		(Restated)		(Restated)
Profit from continuing operations	2,341	14,718	2,341	14,718
Loss from discontinued operations	(6,386)	(7,686)	(6,386)	(7,686)
(Loss)/Profit attributable to owners of the company net of tax	(4,045)	7,032	(4,045)	7,032
Weighted average number of ordinary shares in issue ('000)	1,213,504	1,192,725	1,213,504	1,192,725
Effect of dilution ('000)				
- Share options	-	-	-	-
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,213,504	1,192,725	1,213,504	1,192,725
Diluted (loss)/earnings per share (sen):				
- from continuing operations	0.19	1.23	0.19	1.23
- from discontinued operation	(0.52)	(0.64)	(0.52)	(0.64)
Total (sen)	(0.33)	0.59	(0.33)	0.59

12. Auditors' Report On Preceding Annual Financial Statements

The auditors' report on the latest audited financial statements was not qualified.

13. Realised and Unrealised Retained Earnings/Accumulated Losses

	As at 31 March 2016 RM'000	As at 31 December 2015 RM'000
Total retained earnings/(accumulated losses)		
Total (accumulated losses)/retained earnings of the Company and its subsidiaries		(Audited)
- realised profit/(loss)	(976,539)	(956,351)
- unrealised profit/(loss)	(10,736)	12,367
	(987,275)	(943,984)
Total share of (accumulated losses)/retained earnings from associates		
- realised profit/(loss)	(15,613)	(15,299)
- unrealised profit/(loss)	(148)	(473)
	(15,761)	(15,772)
Total share of (accumulated losses)/retained earnings from joint ventures		
- realised profit	86,080	70,907
- unrealised profit/(loss)	(111)	(331)
	85,969	70,576
Less: Consolidated adjustments	506,402	482,560
Total (accumulated losses)/retained earnings as per unaudited consolidated financial statements	(410,665)	(406,620)

14. Notes to Condensed Consolidated Statements of Comprehensive Income

	Current Year Quarter 3 months 31 March 2016 RM'000	Current Year Todate 3 months 31 March 2016 RM'000
Profit/(loss) before tax is arriving at after charging/(crediting):		
Interest income	(28)	(28)
Other income	(277)	(277)
Interest expenses	12,270	12,270
Depreciation and amortisation	11,424	11,424
Realised foreign exchange loss	(841)	(841)
Unrealised foreign exchange (gain)/loss	(10,736)	(10,736)

15. Financial Instruments

- (a) Details of derivative financial instruments outstanding as at 31 March 2016 are set out below:-

Type of derivative	Contract/Notional Amount	Fair value liabilities
	RM'000	RM'000
Cross Currency Interest Rate Swaps ("CCRIS")		
-less than 1 year	66,645	66,645
-1 year to 3 years	Nil	Nil
-More than 3 years	Nil	Nil

There have been no changes since the end of the previous financial period ended 31 March 2016 in respect of the following:-

- i. the credit risk and market risks associated with the derivatives;
 - ii. the cash requirements of the derivatives;
 - iii. the policies in place for mitigating or controlling the risk associated with the derivatives; and
 - iv. the related accounting policies.
- (b) Disclosure of gains and/losses arising from fair value changes of financial liabilities

The Group determines the fair value of the derivative financial liabilities relating to the CCIRS using valuation technique which utilises data from recognised financial information sources. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flow using an appropriate market based yield curve.

As at 31 March 2016, the Group has on re-measuring the fair value of the derivative financial instrument, recognized derivative financial liabilities of RM5.985million, a decrease of RM4.558million from the previous financial year ended 31 December 2015. The corresponding increase has been included in equity in the cashflow hedging reserve of which unrealized profit of RM3.034million for the financial year was transferred to the income statement. This has resulted in an increase in the cash flow hedging reserve as at 31 December 2015 by the amount of RM1.524million to RM1.818million as compared to the preceding financial year ended 31 December 2015.

The cashflow hedging reserve represents the deferred fair value losses relating to the CCIRS. As the Group intends to hold the MTN and associated derivative instrument to maturity, any changes to the fair value of the derivative instrument will not impact the income statement.

16. Authorised For Issue

The interim financial statements were authorised for issue by the Board in accordance with a resolution of the Board of Directors dated 19 May 2016.

By Order of the Board
Perisai Petroleum Teknologi Bhd

Finton Tuan Kit Ming (LS 0008941)
Hooi Sook Han (MAICSA No: 7026472)
Company Secretaries