COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

		INDIVIDUAL		CUMULATIVE	
	Note	3 months ended 30.09.2015 RM'000 (unaudited)	3 months ended 30.09.2014 RM'000 (unaudited)	9 months ended 30.09.2015 RM'000 (unaudited)	9 months ended 30.09.2014 RM'000 (unaudited)
Revenue	8	921,223	232,415	1,436,189	699,481
Cost of sales and services		(929,063)	(179,080)	(1,347,055)	(543,830)
Gross (loss)/profit		(7,840)	53,335	89,134	155,651
Other income		39,115	5,179	54,953	11,095
Administrative expenses		(5,105)	(3,701)	(13,856)	(10,592)
Other expenses		(2,080)	(272)	(5,252)	(2,595)
Finance costs		(27)	(30)	(83)	(90)
Profit before tax	8, 18	24,063	54,511	124,896	153,469
Income tax expense	19	(315)	(218)	(411)	(1,791)
Profit for the period		23,748	54,293	124,485	151,678
Attributable to:					
Owners of the Company		23,748	54,293	124,485	151,678
Earnings per share attributable to owners of the Company:					
- basic (sen)	26	4.47	10.22	23.44	29.35
- diluted (sen)	26	4.47	9.81	23.44	28.24

The above Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

		INDIVIDUAL		CUMULATIVE	
	Note	3 months ended 30.09.2015 RM'000 (unaudited)	3 months ended 30.09.2014 RM'000 (unaudited)	9 months ended 30.09.2015 RM'000 (unaudited)	9 months ended 30.09.2014 RM'000 (unaudited)
Profit for the period		23,748	54,293	124,485	151,678
Other comprehensive income :					
Items that may be subsequently reclassified to profit or loss:					
Currency translation differences arising from consolidation	14(a)	172,568	19,947	252,480	2,688
Total comprehensive income for the period		196,316	74,240	376,965	154,366
Attributable to:					
Owners of the Company		196,316	74,240	376,965	154,366

The above Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2015

	Note	As at 30.09.2015 RM'000 (unaudited)	As at 31.12.2014 RM'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		840,183	188,387
Investment properties		3,793	3,855
Deferred tax assets		511	15
Trade receivable		7,531	8,094
		852,018	200,351
Current assets			
Inventories	14(b)	1,343,043	1,270,438
Trade receivables	14(c)	166,861	30,689
Other receivables	14(d)	156,463	116,536
Tax recoverable		230	323
Cash and short term deposits	14(e)	749,958	469,690
		2,416,555	1,887,676
TOTAL ASSETS	8	3,268,573	2,088,027
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		106,320	106,320
Share premium		195,820	195,820
Treasury shares		(2,631)	(1,251)
Currency translation reserve		363,951	111,471
Warrants reserve		25,259	25,259
Retained earnings	20	1,083,255	989,566
Total equity		1,771,974	1,427,185
Non-current liabilities			
Borrowings	22	420,163	3,520
Deferred tax liabilities		956	1,357
		421,119	4,877
Current liabilities			
Borrowings	22	436,664	95,491
Trade payables		147,923	48,912
Other payables	14(f)	489,461	510,424
Income tax payable		1,432	1,138
		1,075,480	655,965
Total liabilities	8	1,496,599	660,842
TOTAL EQUITY AND LIABILITIES		3,268,573	2,088,027
Net assets per share (RM)		3.3397	2.6867

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

	Note	Attributable to owners of the Company						
		Non-distributable					Distributable	
		Share capital	Share premium	Treasury shares	Currency translation reserve	Warrants reserve	Retained earnings	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>9 months ended 30 September 2014 (unaudited)</u>								
Balance at 1 January 2014		96,654	-	(427)	45,886	25,269	835,344	1,002,726
Issuance of ordinary shares pursuant to:								
- conversion of warrants		5	77	-	-	(10)	-	72
- private placement		9,661	198,059	-	-	-	-	207,720
Share issuance expenses		-	(2,317)	-	-	-	-	(2,317)
Purchase of treasury shares		-	-	(197)	-	-	-	(197)
Total comprehensive income for the period		-	-	-	2,688	-	151,678	154,366
Interim dividend for the financial year ended 31 December 2013		-	-	-	-	-	(16,425)	(16,425)
Interim dividend for the financial year ended 31 December 2014		-	-	-	-	-	(18,066)	(18,066)
Balance at 30 September 2014		106,320	195,819	(624)	48,574	25,259	952,531	1,327,879
<u>9 months ended 30 September 2015 (unaudited)</u>								
Balance at 1 January 2015		106,320	195,820	(1,251)	111,471	25,259	989,566	1,427,185
Purchase of treasury shares	6	-	-	(1,380)	-	-	-	(1,380)
Total comprehensive income for the period		-	-	-	252,480	-	124,485	376,965
Interim dividend for the financial year ended 31 December 2014	7	-	-	-	-	-	(20,184)	(20,184)
Interim dividend for the financial year ending 30 June 2016	7	-	-	-	-	-	(10,612)	(10,612)
Balance at 30 September 2015		106,320	195,820	(2,631)	363,951	25,259	1,083,255	1,771,974

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

	Note	CUMULATIVE 9 months ended 30.09.2015 RM'000 (unaudited)	9 months ended 30.09.2014 RM'000 (unaudited)
Operating Activities			
Profit before tax		124,896	153,469
Adjustments for non-cash items		28,281	943
Operating cash flows before changes in working capital		153,177	154,412
Changes in working capital:			
Decrease / (increase) in inventories		73,223	(116,368)
Decrease / (increase) in receivables		135,278	(253,891)
(Decrease) / increase in payables		(239,468)	165,337
Cash flows from / (used in) operations		122,210	(50,510)
Interest paid		(1,588)	(216)
Income tax (paid) / refunded		(1,068)	8
Net cash flows from / (used in) operating activities		119,554	(50,718)
Investing Activities			
Interest received		3,790	4,780
Proceeds from withdrawal of wholesale money market fund		65,000	-
Proceeds from disposal of property, plant and equipment		13	6
Purchase of property, plant and equipment		(507,005)	(1,085)
Net cash flows (used in) / from investing activities		(438,202)	3,701
Financing Activities			
Purchase of treasury shares		(1,380)	(197)
Proceeds from issuance of ordinary shares		-	207,792
Share issuance expenses		-	(2,317)
Dividends paid on ordinary shares		(30,796)	(34,491)
Proceeds from borrowings		873,707	59,973
Repayment of borrowings		(249,242)	(10,755)
Net cash flows from financing activities		592,289	220,005
NET INCREASE IN CASH AND CASH EQUIVALENTS		273,641	172,988
Effect of foreign exchange rate changes		68,783	110
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		360,339	319,001
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD*		702,763	492,099
* Cash and cash equivalents at end of financial period comprise the following:			
Fixed deposits		454,231	432,196
Cash and bank balances		248,532	59,903
Cash and cash equivalents at end of financial period	14(e)	702,763	492,099

Subsequent to 30 September 2015, RM68.2 million of fixed deposits were utilised for payment to contractors and suppliers.

The above Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014 and the accompanying explanatory notes attached to these interim financial statements.

COASTAL CONTRACTS BHD (Company No. 517649-A)

Explanatory Notes
FOR THE QUARTER ENDED 30 SEPTEMBER 2015

1 **Basis of Preparation**

These condensed consolidated interim financial statements are unaudited and have been prepared under the historical cost convention except for certain financial assets that are stated at fair value.

These condensed consolidated interim financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2014. The explanatory notes attached to these condensed consolidated 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 the Group since the financial year ended 31 December 2014.

2 **Changes in Accounting Policies and Effects Arising from Adoption of New and Revised MFRSs**

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2014 except for the adoption of the following amendments and annual improvements to certain Malaysian Financial Reporting Standards ("MFRSs") where applicable to the Group's financial period beginning 1 January 2015:

Amendments to MFRS 119 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to MFRSs 2010-2012 Cycle
Annual Improvements to MFRSs 2011-2013 Cycle

The adoption of the abovementioned Amendments and Annual Improvements to MFRSs, where applicable, will have no material impact on the financial statements of the Group.

3 **Seasonal or Cyclical Factors**

The Group's performance is affected by volatile crude oil prices as well as the global and regional economic conditions. The demand for vessels and offshore assets for exploration and production as well as shiprepair and charter services are closely associated with the crude oil prices and economic climate.

4 **Unusual Items Affecting the Financial Statements**

There were no items affecting assets, liabilities, equity, net income or cash flows during the financial period under review that were unusual because of their nature, size or incidence.

5 **Change in Accounting Estimate**

There were no changes in estimates that have had material effects in the financial period under review.

6 **Debt and Equity Securities**

For the period ended 30 September 2015, 617,100 ordinary shares of RM0.20 each were repurchased in the open market at an average price of RM2.24 per share. The total consideration paid for the repurchase including transaction costs amounted to RM1,379,771 and were financed by internally generated funds. The shares repurchased are retained as treasury shares of the Company. As at 30 September 2015, the total number of treasury shares held was 1,017,100 ordinary shares of RM0.20 each.

Save as disclosed above, there were no other issue, cancellation, repurchase, resale and repayment of debt and equity securities during the financial period under review.

7 **Dividends Paid**

The following dividends were paid during the financial year-to-date:

	RM'000
Second interim single-tier dividend of 19% equivalent to 3.8 sen per ordinary share paid on 27 March 2015 for the financial year ended 31 December 2014	20,184
First interim single-tier dividend of 10% equivalent to 2.0 sen per ordinary share paid on 29 September 2015 for the financial year ending 30 June 2016	10,612
	30,796

8 **Segment Information**

Segment information is presented in respect of the Group's primary business segments, which is based on the Company's management and internal reporting structure.

	Shipbuilding and Shiprepair RM'000	Vessel Chartering RM'000	Eliminations RM'000	Consolidated RM'000
3 months ended 30 September 2015				
Revenue				
External revenue	918,507	2,716	-	921,223
Inter-segment revenue	800,399	-	(800,399)	-
Total revenue	1,718,906	2,716	(800,399)	921,223
Results				
Profit/(loss) before tax	24,110	(47)	-	24,063
9 months ended 30 September 2015				
Revenue				
External revenue	1,429,214	6,975	-	1,436,189
Inter-segment revenue	801,572	5	(801,577)	-
Total revenue	2,230,786	6,980	(801,577)	1,436,189
Results				
Profit before tax	122,382	2,514	-	124,896

	Shipbuilding and Shiprepair RM'000	Vessel Chartering RM'000	Eliminations RM'000	Consolidated RM'000
Total Assets				
30 September 2015	2,440,051	828,522	-	3,268,573
31 December 2014	2,059,965	28,062	-	2,088,027
Total Liabilities				
30 September 2015	1,023,819	472,780	-	1,496,599
31 December 2014	657,926	2,916	-	660,842

9 **Subsequent Event**

There was no material event subsequent to the end of the current quarter.

10 **Changes in the Composition of the Group**

There was no change in the composition of the Group for the financial period under review.

11 **Contingent Liabilities and Contingent Assets**

	RM'000
Corporate guarantees to financial institutions in respect of banking facilities granted to subsidiaries	1,067,457

As at 30 September 2015, the Company is contingently liable for RM855,944,000 of banking facilities utilised by its subsidiaries.

12 **Capital Commitments**

There was no material capital commitment as at the end of the current quarter.

13 **Related Party Transactions**

	Individual 3 months ended 30 September 2015 RM'000	Cumulative 9 months ended 30 September 2015 RM'000
Transactions with a company in which certain Directors of the Company have financial interests:		
- Top Pride Sdn. Bhd.		
Rent of premises	3	8
Transactions with a Director of the Company:		
- Ng Chin Shin		
Rent of premises	5	15

The above transactions were entered into in the normal course of business and were established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

14 **Detailed Analysis of Performance**

The Group achieved a new quarterly high revenue of RM921.2 million for the third quarter ended 30 September 2015 (3Q2015), a jump of almost four-fold from last year's RM232.4 million (3Q2014). Sequentially (quarter-on-quarter), the Group reported a 462% growth in topline from RM164.0 million.

Shipbuilding and Shiprepair Division

The division's revenue for 3Q2015 has risen substantively by 470% to RM918.5 million from RM161.2 million in the preceding quarter. Year-on-year, current quarter's revenue has increased over 3.9 times from RM231.1 million. The huge increase in revenue was credited to the successful delivery of the Group's first jack-up drilling rig in 3Q2015. A total of 7 units of vessels were delivered in 3Q2015 (2Q2015: 3 units; 3Q2014: 3 units).

The division's profit margin before tax for the current quarter of 3% (RM24.1 million) was lower than the 20% (RM32.6 million) recorded in 2Q2015 and 24% (RM54.4 million) posted last year, owing to lower margins derived from the different vessel sales mix as well as provision for inventories written-down to net realisable value.

Vessel Chartering Division

The division's revenue of RM2.7 million in 3Q2015 was fairly consistent with the RM2.8 million reported in 2Q2015. Against 3Q2014, current quarter's revenue was doubled from RM1.3 million. The better showing was principally due to earnings derived from new short-term bareboat charter contracts secured during the year.

The division incurred a loss margin before tax of 2% (RM0.1 million in loss) in 3Q2015 as compared to the profit margin before tax of 70% (RM2.0 million) and 7% (RM0.1 million) achieved in 2Q2015 and 3Q2014, respectively. The loss margin ocurred in the current quarter was mainly attributed to the provision for impairment loss on receivables.

(a) Currency translation differences arising from consolidation were a result of exchange differences arising on the translation of the financial statements of foreign operations.

(b) Included in inventories of the Group were finished goods of RM383.2 million (31 December 2014: RM388.2 million) and vessels work-in-progress of RM940.1 million (31 December 2014: RM871.1 million). For the current quarter under review and financial year-to-date, inventories were written-down by RM56.7 million.

(c) Out of the RM166.9 million of short term trade receivables as at 30 September 2015, RM139.1 million was subsequently received by the Group.

(d) Included in other receivables of the Group were payments made to suppliers and contractors totalling RM145.1 million (31 December 2014: RM100.1 million) to secure the supply of input materials, equipment and services intended for the Group's rolling vessel building programme.

(e) Included in cash and short term deposits of the Group were cash and cash equivalent of RM702.8 million (31 December 2014: RM360.3 million) and short term deposit with wholesale money market fund of RM47.2 million (31 December 2014: RM109.4 million).

(f) Included in other payables were advance payments received from vessel buyers totalling RM381.0 million (31 December 2014: RM493.3 million), indicative of the Group's healthy order book that will last until 2017.

15 **Material Change in Profit Before Tax**

The Group reported a profit before tax of RM24.1 million in the current quarter, a 30% and 56% decrease from RM34.6 million and RM54.5 million achieved in 2Q2015 and 3Q2014, respectively. The lower profit recorded was principally due to provision for inventories written-down to net realisable value in the current quarter.

16 **Prospects**

Shale oil production from the United States at a breakneck pace coupled with supply glut in the oil and gas market has translated into plummeting global oil price in the recent months. Despite current signs of gloom, Coastal Group envisages the medium to long term fundamentals of Oil and Gas industry to remain positive given the hardly substitutable nature of oil and natural gas. In tandem with the rising population growth, motorization, emerging economies notably in China, India and Middle East as well as the development of rural areas in most countries, the demand for oil and gas would certainly move in an upward trend in the medium to long term which would in turn mask the near-term Oil and Gas production surplus and eventually the production-consumption balance could be achieved. In view of the above, oil prices are anticipated to normalize in the medium to long term as output adjusts to prevailing demand.

According to the recent provisional figures released by four of the world’s six biggest oil firms, new reserves could only replenish two-thirds of the hydrocarbons extracted in 2014, implying the need for active involvement by the global oil majors in deep-water Oil and Gas drilling and exploration activities in consequence of shallow water fields’ depletion. This phenomenon would subsequently trigger the demand surge for deep-water capable OSV in the medium to long run and hence, the OSV market is expected to stay firm in the long term.

Driven by the above factors, increasing demand of fossil fuels will eventually lead to its rapid depletion. To overcome this, Enhanced Oil Recovery (EOR) technology has been practised immensely since the past few years as it can ensure the optimum exploitation of oil resources and thus able to increase overall production while slowing down the depletion rate of oil resources. With the recent Jack-up Gas Compression Service Unit charter contract secured by the Group, the management remains optimistic with the prospect of this market, particularly in the Gulf of Mexico and Southeast Asia. Coastal Group is determined to build up its expertise and global network in this market to procure opportunities that lie ahead.

Due to the current adverse market condition, Coastal Group has disposed its first Jack-up Drilling Rig to reduce the Group’s exposure to a potential prolonged downturn in the drilling market while continue to defend its solid position in the offshore Oil and Gas market. As anemic performance in the drilling industry persists, the Group will put on hold its plan to venture into the drilling industry in the near term until the recovery of oil price.

In any event, Coastal Group will leave itself well-positioned to riding out the downturn for future opportunities in the Oil and Gas market and moving forward, the Group will continue to execute its expansion plan via a two-pronged approach, which is extending its participation in lucrative oil and gas upstream sector and scaling up its shipbuilding value chain.

17 **Explanatory Notes for Variance of Forecast and Profit Guarantee**

The Company did not issue any profit forecast or profit guarantee and therefore, this note is not applicable.

18 Profit Before Tax

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

	Individual 3 months ended 30 September 2015 RM'000	Cumulative 9 months ended 30 September 2015 RM'000
Interest income	1,366	3,491
Other income	1,306	4,955
Depreciation and amortisation	1,661	4,910
Impairment loss on receivables	903	903
Inventories written-down	56,683	56,683
Foreign exchange gain (net)	35,306	44,549

There were no gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets, gain or loss on derivatives and other exceptional items for the current quarter under review and financial year-to-date.

19 Income Tax Expense

	Individual 3 months ended 30 September 2015 RM'000	Cumulative 9 months ended 30 September 2015 RM'000
Income tax expense comprises:		
Current tax charge	555	1,308
Deferred tax charge / (reversal)	(240)	(897)
	315	411

The effective tax rates for the current quarter and the financial year-to-date were lower than the statutory tax rate in Malaysia due to the different income tax rate applicable to subsidiaries of the Group in other jurisdictions.

20 Retained Earnings

The retained earnings as at 30 September 2015 and 31 December 2014 were further analysed as follows:

	As at 30 September 2015 RM'000	As at 31 December 2014 RM'000
Total retained earnings of the Group:		
- Realised	1,208,345	1,048,848
- Unrealised	28,205	(599)
	1,236,550	1,048,249
Consolidation adjustments	(153,295)	(58,683)
Total Group retained earnings as per consolidated accounts	1,083,255	989,566

21 **Status of Corporate Proposals**

(a) As announced on 28 October 2015, the Company proposes to establish a new employees' share option scheme of up to fifteen percent (15%) of the issued and paid-up share capital (excluding treasury shares) of the Company at any one time over the duration of the scheme for the eligible directors and employees of the Company, and its subsidiaries (excluding subsidiaries which are dormant) ("Proposed ESOS").

As further announced on 12 November 2015, Bursa Malaysia Securities Berhad ("Bursa Securities") had via its letter dated 11 November 2015 approved the listing of and quotation for up to 15% of the issued and paid-up share capital of the Company, to be issued pursuant to the exercise of options under the Proposed ESOS, subject to the following conditions:

(i) RHB Investment Bank is required to submit a confirmation to Bursa Securities of full compliance of the Proposed ESOS pursuant to Rule 6.43(1) of the Listing Requirements and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders in general meeting approving the Proposed ESOS; and

(ii) the Company is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of options, arising from the Proposed ESOS as at the end of each quarter together with a detailed computation of listing fees payable.

The Proposed ESOS is further subject to and conditional upon approvals being obtained from the following:

(i) the shareholders of the Company, for the Proposed ESOS at the forthcoming Extraordinary General Meeting to be convened on 2 December 2015; and

(ii) any other relevant authorities, if required.

Barring any unforeseen circumstances and subject to all requisite approvals being obtained, the Company expects the Proposed ESOS to be completed by the fourth quarter of 2015.

(b) Status of Utilisation of Proceeds

The proceeds raised from the private placement were approved for the following activities and status on the fund utilised as at 25 November 2015 are summarised below:

Purpose	Proposed utilisation RM'000	Actual utilisation RM'000	Balance unutilised RM'000	Expected timeframe for the full utilisation
*Working capital:				
- purchase of offshore support vessels	195,133	-	195,133	Within 24 months from March 2014
- other operational expenses, including utilities, staff salaries, marketing, administrative and other operating expenses	10,270	5,346	4,924	Within 24 months from March 2014
*Estimated expenses in relation to the Proposed Private Placement	2,317	2,317	-	Completed
Total	207,720	7,663	200,057	

* The actual amount raised was RM207.7 million as compared to the initial announcement of RM184.0 million under the Minimum Scenario, and the surplus of RM23.7 million was proportionately added to the working capital and estimated expenses.

22 Group Borrowings and Debt Securities

The Group's borrowings as at the end of the quarter were as follows:

	As at 30 September 2015 RM'000
Short term	
Secured	38,432
Unsecured	398,232
	436,664
Long term	
Secured	420,163
Total	856,827

Apart from RM3.9 million of secured borrowings which are denominated in Ringgit Malaysia, all the other borrowings are denominated in United States Dollar.

The debt-equity ratio of the Group has increased to 0.483 from last quarter's 0.057. Additional funds were drawn down from existing credit lines to partly finance the Group's shipbuilding division to keep an orderly rolling work-in-progress, as well as from new credit facility to finance the Group's acquisition of its first self-elevating mobile offshore unit for chartering division.

The current gearing is within management comfort level.

23 Financial Instruments

(a) Derivatives

There were no outstanding derivatives as at 30 September 2015.

(b) Gains or Losses Arising from Fair Value Changes of Financial Liabilities

As the Group did not have any financial liabilities measured at fair value through profit or loss, there were no gains or losses arising from fair value changes of financial liabilities for the current quarter and financial year-to-date.

24 Material Litigation

(a) As announced on 26 September 2012, the Company's wholly-owned subsidiary, Seri Modalwan Sdn Bhd ("SM"), had on 24 September 2012 received a Writ of Summons and Statement of Claim dated 20 September 2012 from a customer, namely PT Mainstream Indonesia ("PTMI") and its affiliate, Mainstream Venture Sdn Bhd ("collectively referred to as the Plaintiffs") pertaining to the loss of use and damage to PTMI's vessel while under repair at SM's premises. The Plaintiffs alleged that the damage to the subject vessel by fire was due to negligence of SM, which allegation was denied by SM. The Plaintiffs claim for the sum of RM7,927,314.46 being the cost of the subject vessel and the loss of income for the subject vessel from September 2011 to July 2012 and other relevant costs, interest, cost and such other relief as may be appropriate or just. As announced on 19 November 2012, SM had via its solicitors filed a Statement of Defence on 16 November 2012 in response to the Statement of Claim served by the Plaintiffs. Subsequently on 30 November 2012, the Plaintiffs served a Statement of Reply against SM. The trial of litigation proceedings between SM and the Plaintiffs has been finished on 13 November 2013. On 4 March 2014, SM received a correspondence from its solicitors informing that the High Court at Sandakan had adjudged that the Plaintiffs' claims against SM be dismissed with costs of RM50,000 to SM. However, on 19 March 2014, the Plaintiffs had lodged an appeal to the Court of Appeal against the decision made. The hearing of appeal had initially fixed on 4 August 2015 in the Court of Appeal at Kota Kinabalu, but subsequently, it was postponed to 17 March 2016 . There is no further development on the above litigation proceedings as of to-date.

(b) As announced on 9 October 2015, the Company's wholly-owned subsidiary, Thaumas Marine Ltd ("TM"), a party to a shipbuilding contract ("SBC") with Yantai CIMC Raffles Offshore Limited ("Builder") and Dynamic Driller Limited ("Co-Builder"), has on the same date filed a Notice of Arbitration with the Singapore International Arbitration Centre against the Builder and Co-Builder to refer certain disputes to arbitration, thereby commencing arbitration proceedings against the same. The arbitration proceedings were commenced following disputes resulting from 1) the late delivery of 1 unit brand new JU 2000E F&G Design Jack-Up Drilling Rig ("Vessel") by the Builder and Co-Builder to TM, and 2) the non-conformities of the Vessel's parts and equipment against the Technical Specifications as agreed between the Parties. TM claims from the Builder and Co-Builder the liquidated damages of USD3,650,000 for the 73-days delay after the Cancellation Date in accordance to the terms and conditions of the SBC and USD2,000,000 being the damages incurred by TM as a result of the non-conformities of the Vessel's parts and equipment, specifically with regard to the Vessel's generators and cranes. TM is, as a result, claiming for the sum USD5,650,000 and applicable interest, any other damages as the arbitration tribunal deems fit and the costs of the arbitration. This case is still pending before the Arbitral Tribunal.

The Group is not engaged in other material litigation and is not aware of any proceedings which may materially affect the position or business of the Group as at 25 November 2015.

25 Dividend

On 25 August 2015, the Directors declared a first interim single-tier dividend of 10% equivalent to 2.0 sen per ordinary share in respect of the financial year ending 30 June 2016. This dividend was paid on 29 September 2015 to depositors registered in the Records of Depositors at close of business on 11 September 2015. The dividend declared in the corresponding period of last year was 3.4 sen.

26 Earnings Per Share

Basic earnings per share attributable to owners of the Company

Basic earnings per share of the Group was calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period excluding treasury shares held by the Company.

	Individual 3 months ended 30 September 2015	Cumulative 9 months ended 30 September 2015
Basic earnings per share		
Profit attributable to owners of the Company (RM'000)	23,748	124,485
Weighted average number of ordinary shares in issue ('000)	530,832	531,053
Basic earnings per share (sen)	4.47	23.44

Diluted earnings per share attributable to owners of the Company

For diluted earnings per share calculation, the weighted average number of ordinary shares in issue was adjusted to assume that the maximum number of new ordinary shares have been issued pursuant to the share options granted under the warrants ("Warrants"). The dilutive portion of the ordinary shares deemed issued pursuant to the Warrants are accounted for in the diluted earnings per share calculation. The Warrants will have a dilutive effect only when the average market price of ordinary shares of the Company during the period exceeds the exercise price of the options granted. As the average market price of ordinary shares during the period (RM2.65) was lower than the exercise price of the options (RM3.18), the options were not assumed to be exercised because they were antidilutive in the period.

As at the end of the quarter, there was only one class of shares in issue and they ranked pari passu among each other.

27 **Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2014 was not subject to any qualification.

28 **Authorisation for Issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 25 November 2015.

29 **Change of Financial Year End**

On 25 August 2015, the Board has approved to change the financial year end from 31 December to 30 June and the next audited financial statements shall be for a period of 18 months, made up from 1 January 2015 to 30 June 2016.