



SILK HOLDINGS BERHAD (405897-V)

INTERIM RESULT FOR THE PERIOD ENDED 31 MARCH 2017 (Q1 2017)

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SILK HOLDINGS BERHAD (405897-V)

(Incorporated in Malaysia)

**UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Notes	Current Year Quarter 31-Mar-2017 RM '000	Prior Year Quarter 31-Mar-2016 RM '000 restated
Revenue		30,701	46,889
Direct costs		(21,228)	(13,443)
Gross profit		9,473	33,446
Other items of income:			
Interest income		5	276
Other item of expenses:			
Staff expenses		(2,006)	(2,166)
Administrative expenses		(863)	(1,079)
		(2,869)	(3,245)
EBITDA		6,609	30,477
Depreciation		(25,626)	(23,694)
Finance costs		(15,115)	(14,077)
		(40,741)	(37,771)
Loss before taxation		(34,132)	(7,294)
Taxation	A8	6,894	(192)
Net loss for the period		(27,238)	(7,486)
Discontinued operations			
Profit/(loss) from discontinued operations, net of tax	A9	2,619	(2,787)
Loss for the period		(24,619)	(10,273)

SILK HOLDINGS BERHAD (405897-V)

(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		Current Year Quarter 31-Mar-2017 RM '000	Prior Year Quarter 31-Mar-2016 RM '000 restated
Net loss and total comprehensive expense attributable to:			
Owners of the parent		(16,066)	(7,697)
Non-controlling interests		(8,553)	(2,576)
		(24,619)	(10,273)
(Loss)/earnings per share (sen)			
- from continuing operations	A10	(2.66)	(0.70)
- from discontinued operations		0.37	(0.40)
Basic loss per share		(2.29)	(1.10)

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

SILK HOLDINGS BERHAD (405897-V)**(Incorporated in Malaysia)****UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		31-Mar-2017	Audited 31-Dec-2016
	Notes	RM '000	RM '000
Assets			
Non-current assets			
Concession intangible assets		-	934,884
Property, vessels and equipment		1,172,000	1,200,428
Deferred tax assets		-	139,879
Goodwill on consolidation		-	13,236
		<u>1,172,000</u>	<u>2,288,427</u>
Current assets			
Inventories		1,256	1,206
Trade and other receivables		26,835	60,332
Tax recoverable		64	63
Cash and bank balances	A12	6,903	111,878
		<u>35,058</u>	<u>173,479</u>
Assets classified as held for sale		1,225,444	-
Total assets		<u>2,432,502</u>	<u>2,461,906</u>
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital	A13	175,383	175,383
Share premium	A13	87,470	87,470
Retained earnings		(73,399)	(57,333)
Reverse acquisition deficit		(92,791)	(92,791)
		<u>96,663</u>	<u>112,729</u>
Non-controlling interests		24,559	33,112
Total equity		<u>121,222</u>	<u>145,841</u>

SILK HOLDINGS BERHAD (405897-V)**(Incorporated in Malaysia)****UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		31-Mar-2017	Audited 31-Dec-2016
	Notes	RM '000	RM '000
Non-current liabilities			
Borrowings	A14	947,749	1,282,865
Ijarah rental payable	A14	-	378,730
Deferred tax liabilities		29,080	36,296
Provisions		-	65,088
		976,829	1,762,979
Current liabilities			
Borrowings	A14	41,029	348,825
Trade and other payables	A15	68,169	96,560
Ijarah rental payable	A14	-	59,329
Provision for taxation		320	270
Provisions		-	48,102
		109,518	553,086
Liabilities classified as held for sale		1,224,933	-
Total liabilities		2,311,280	2,316,065
Total equity and liabilities		2,432,502	2,461,906
Net assets per share attributable to equity holders of the Company			
		RM 0.14	RM 0.16

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

SILK HOLDINGS BERHAD (Company No: 405897-V)

Incorporated in Malaysia

UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	← Attributable to equity holders of the Company →					
	Non - distributable		Distributable		Non-	Total
	Share capital	Share premium	Reverse acquisition deficit	Retained earnings	Controlling interests	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	175,383	87,470	(92,791)	(57,333)	33,112	145,841
Total comprehensive loss for the period	-	-	-	(16,066)	(8,553)	(24,619)
At 31 March 2017	<u>175,383</u>	<u>87,470</u>	<u>(92,791)</u>	<u>(73,399)</u>	<u>24,559</u>	<u>121,222</u>
At 1 January 2016	175,383	87,470	(92,791)	16,741	62,044	248,847
Total comprehensive loss for the period	-	-	-	(7,697)	(2,576)	(10,273)
At 31 March 2016	<u>175,383</u>	<u>87,470</u>	<u>(92,791)</u>	<u>9,044</u>	<u>59,468</u>	<u>238,574</u>

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

SILK HOLDINGS BERHAD (405897-V)

(Incorporated in Malaysia)

UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2017**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Notes	Continuing Discontinued		Total	31-Mar-2016
		Operation	Operation		
		31-Mar-2017	31-Mar-2017	31-Mar-2017	31-Mar-2016
		RM '000	RM '000	RM '000	RM '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of revenue		44,884	32,917	77,801	93,393
Collection of other income		4	471	475	1,131
		<u>44,888</u>	<u>33,388</u>	<u>78,276</u>	<u>94,524</u>
Payment of expenses		(25,338)	(9,898)	(35,236)	(27,961)
Net tax paid		(273)	-	(273)	(446)
Net cash generated from operating activities		<u>19,277</u>	<u>23,490</u>	<u>42,767</u>	<u>66,117</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, vessels and equipment		(2,065)	(84)	(2,149)	(28,868)
Highway development expenditure		-	(300)	(300)	(2,181)
Net cash used in investing activities		<u>(2,065)</u>	<u>(384)</u>	<u>(2,449)</u>	<u>(31,049)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown of borrowings		-	-	-	27,954
Repayment of borrowings		(8)	(2,000)	(2,008)	(34,236)
Payment of finance costs		(16,452)	(11,312)	(27,764)	(27,197)
Net cash used in financing activities		<u>(16,460)</u>	<u>(13,312)</u>	<u>(29,772)</u>	<u>(33,479)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		752	9,794	10,546	1,589
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD		6,151	105,727	111,878	96,983
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	(a)	6,903	115,521	122,424	98,572

(a) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	RM '000	RM '000	RM '000	RM '000
Cash and bank balances	3,090	467	3,557	18,666
Deposits with licensed financial institutions	3,813	115,054	118,867	79,906
	<u>6,903</u>	<u>115,521</u>	<u>122,424</u>	<u>98,572</u>

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

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The condensed consolidated interim financial report for the three months ended 31 March 2017 has been prepared in accordance with MFRS 134 Interim Financial Reporting.

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2016 and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial period except for the adoption of new and amended standards as set out below:

a. New and amended standards adopted by the Group

A number of new and amended standards have become applicable for the current reporting period. However, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

b. Standards issued but not yet effective

At the date of authorization of this Report, the following MFRS and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

MFRSs, Interpretations and amendments to MFRS	Effective date
▪ MFRS 9, <i>Financial Instruments (2014)</i>	1 January 2018
▪ MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
▪ Clarifications to MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
▪ IC Interpretation 22, <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
▪ Amendments to MFRS 1, <i>First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvement to MFRS Standards 2014-2016 Cycle)</i>	1 January 2018
▪ Amendments to MFRS 2, <i>Share-based Payment - Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
▪ Amendments to MFRS 4, <i>Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	1 January 2018

A1. BASIS OF PREPARATION (continued)

MFRSs, Interpretations and amendments to MFRS	Effective date
▪ Amendments to MFRS 128, <i>Investment in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)</i>	1 January 2018
▪ Amendments to MFRS 140, <i>Investment Property - Transfers of Investment Property</i>	1 January 2018
▪ MFRS 16, <i>Leases</i>	1 January 2019
▪ Amendments to MFRS 10, <i>Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.</i>	To be confirmed

The Group are expected to apply the above pronouncements beginning from the respective dates the pronouncements become effective. The Group is currently assessing the impact of adopting the pronouncements.

A2. CORPORATE INFORMATION

SILK Holdings Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 23 May 2017.

A3. CHANGES IN ESTIMATES

There were no changes in estimates of amounts that would have material effect in the current period.

A4. CHANGES IN THE COMPOSITION OF THE GROUP

On 18 January 2017, the Company entered into a conditional Share Purchase Agreement to dispose its entire equity interest in Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd. to Permodalan Nasional Berhad (“the Transaction”). As stated in A21, the Transaction was completed on 28 April 2017.

Following the completion of the Transaction, the Group’s remaining business activities are primarily the provision of vessel charter services serving the upstream oil and gas industry via the offshore support vessel services subsidiaries, Jasa Merin (Malaysia) Sdn Bhd and its subsidiaries, and the downstream oil and gas sector via the chemical vessel subsidiary, Jasa Merin (Labuan) Plc.

A4. CHANGES IN THE COMPOSITION OF THE GROUP (continued)

The Group has re-aligned its business segment based on the services provided – the Marine Logistics Services, and the customer groups’ activities - the Upstream and Downstream activities. Accordingly, the division previously termed as the Oil and Gas Support Services Division is now classified as the Marine Logistics – Upstream Division while the division previously termed as the Marine Logistics Services Division has been renamed as the Marine Logistics – Downstream Division.

Except for the above, there has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

A5. SEGMENT INFORMATION

	Marine Logistics - Upstream RM '000	Marine Logistics - Downstream RM	Highway Division RM '000	Others RM '000	Adjustments RM '000	Total RM '000
			(discontinued)			
Current period:						
(Q1 2017)						
Revenue						
External customers	19,697	11,004	32,636	-	(32,636)	30,701
Inter-segment	-	-	-	1,819	(1,819)	-
Total revenue	19,697	11,004	32,636	1,819	(34,455)	30,701
Segment profit/(loss) before taxation						
	(35,689)	(173)	(2,884)	1,507	3,107	(34,132)
Segment assets	1,124,259	82,141	1,195,440	281,081	(250,419)	2,432,502
Segment liabilities	1,042,520	80,879	1,224,933	872	(37,924)	2,311,280

Period year period:						
(Q1 2016)						
Revenue						
External customers	46,889	-	33,860	-	-	80,749
Inter-segment	-	-	-	1,604	(1,604)	-
Total revenue	46,889	-	33,860	1,604	(1,604)	80,749
Segment profit/(loss) before taxation						
	(8,776)	-	(2,787)	1,494	(12)	(10,081)
Segment assets	1,287,051	-	1,153,231	316,977	50,026	2,807,285
Segment liabilities	1,082,252	-	1,174,421	8,375	(13,314)	2,251,734

Pursuant to the announced disposal of Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd. as stated in A21, results of the Highway Division in the quarter ended 31 March 2017 were accounted separately from the continuing operations as discontinued operation, while its assets and liabilities were presented as a disposal group held for sale.

A5. SEGMENT INFORMATION (continued)

Except for the above, there has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

A6. SEASONAL OR CYCLICAL FACTORS

The Group's operations are not subject to any significant seasonal or cyclical factors.

A7. PROFIT/(LOSS) BEFORE TAX

Included in the profit/(loss) before tax are the following items:

	Current Period 31-Mar-17 RM '000	Prior year 31-Mar-16 RM '000
Interest income	5	276
Interest expenses	(15,115)	(14,077)
Depreciation of property, vessel and equipment	(25,626)	(23,694)
Rental expenses	(55)	(80)
Net foreign exchange loss	(21)	(121)

A8. INCOME TAX

	Current Period 31-Mar-17 RM '000	Prior year 31-Mar-16 RM '000
Current period tax charge:		
Malaysian income tax	321	398
Deferred income tax:		
temporary differences	(7,215)	(206)
	<u>(6,894)</u>	<u>192</u>

The effective tax rates of the Oil and Gas and Marine Logistics Services subsidiaries differ from the Malaysian statutory tax rate as subsidiaries incorporated in Labuan under the Offshore Companies Act, 1990 are taxed at 3% of their profit before taxation, or RM20,000 in accordance with the Labuan Offshore Business Activity Tax Act, 1990.

A9. DISPOSAL GROUP HELD FOR SALE

As disclosed in A21, the Company had on 18 January 2017, entered into a Share Purchase Agreement with Permodalan Nasional Berhad to dispose its entire interest in Sistem Lingkaran-Lebuh raya Kajang Sdn. Bhd. (“SILK”).

As at 31 March 2017, the assets and liabilities related to SILK and its subsidiary have been presented in the statement of financial position as “Assets classified as held for sale” and its results are presented separately on the statement of comprehensive income as “Loss for discontinued operations, net of tax”.

Statement of financial position disclosures

	31-Mar-2017	31-Dec-2016
	RM '000	RM '000
Assets classified as held for sale		
Concession intangible assets	933,741	934,884
Property, plant and equipment	4,902	4,867
Goodwill	13,236	13,236
Deferred tax asset	139,253	139,879
Receivables	18,791	18,130
Cash and bank balances	115,521	105,728
	<u>1,225,444</u>	<u>1,216,724</u>
Liabilities classified as held for sale		
Sukuk Mudharabah	640,903	642,903
Sukuk finance cost payable	446,462	438,059
Payables	22,900	24,052
Provision for lane widening	107,209	105,558
Provision for heavy repairs	7,459	7,632
	<u>1,224,933</u>	<u>1,218,204</u>

A9. DISPOSAL GROUP HELD FOR SALE (continued)

Statement of comprehensive income disclosure

Results of SILK for the period ended 31 March 2017 are as follows:

	31-Mar-17	31-Mar-16
	RM '000	RM '000
Revenue	32,636	33,860
Direct costs	(4,055)	(4,227)
Gross profit	<u>28,581</u>	<u>29,633</u>
Other items of income:		
Interest income	868	518
Other income	481	303
Other item of expenses:		
Staff expenses	(3,137)	(3,081)
Administrative expenses	(825)	(244)
	(3,962)	(3,325)
EBITDA	25,968	27,129
Depreciation	(48) *	(227)
Amortisation	(1,142) *	(3,931)
Finance costs	(22,159)	(25,758)
	(23,349)	(29,916)
Profit/(loss) before taxation	2,619	(2,787)
Taxation	-	-
Net profit/(loss) for the period	<u>2,619</u>	<u>(2,787)</u>

* In Q1 2017, the Highway Division at the subsidiary level incurred depreciation and amortisation expenses of RM261,000 and RM6,149,000 respectively.

Pursuant to MFRS 5: Non-current Assets Held for Sale and Discontinued Operations, the total assets and total liabilities of the Highway Division have been reclassified as Assets Held for Sale at their fair values. Accordingly, the Division's depreciation and amortisation expenses incurred subsequent to the effective date of the reclassification have been excluded at SHB Group level.

A9. DISPOSAL GROUP HELD FOR SALE (continued)

Statement of cash flow disclosure

The cash flow attributable to SILK are as follows:

	31-Mar-2017	31-Mar-2016
	RM '000	RM '000
Operating	23,490	30,571
Investing	(384)	(1,145)
Financing	(13,312)	(13,646)
Net cash inflow	<u>9,794</u>	<u>15,780</u>

Capital commitments

	31-Mar-17	31-Dec-16
	RM '000	RM '000
		restated
Capital expenditure		
Approved and contracted for:		
Plant and equipment	1,962	1,926
Highway development expenditure	<u>1,207</u>	<u>1,001</u>
Approved but not contracted for:		
Plant and equipment	6,139	6,269
Highway development expenditure	<u>119,134</u>	<u>119,340</u>

Material litigation

Following the compulsory acquisition of land falling under the Expressway, which was undertaken by SILK pursuant to the Concession Agreement, certain land owners whose land have been acquired, have filed their objection in Court against the Land Administrator's award of compensation. In the SILK funded stretch, there are 240 cases with claims amounting to RM503.7 million. Out of the 240 cases, 1 case with claims of RM17.8 million is still pending Court hearing.

Pursuant to the Turnkey Contract dated 31 July 2001 between the Company and Sunway Construction Sdn Bhd ("SCSB"), the amount payable by the Company to SCSB for the land use payments (including expenses and charges incurred by SCSB for the acquisition of land and for removal or resettling of squatters or other occupants on the Expressway) has been contracted out to SCSB at a ceiling amount of RM215 million. Any further amounts that may be awarded by the courts beyond RM215 million will be the obligation of and will therefore be borne by SCSB.

A10. (LOSS)/EARNING PER SHARE

Basic (loss)/earning per share amounts are calculated by dividing (loss)/profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial period, excluding employee trust shares held by the Company.

The following reflect the (loss)/profit and share data used in the computation of basic (loss)/earnings per share:

	Continuing operations	Discontinued operations	Total
Quarter ended 31 March 2017:			
(Loss)/profit net of tax attributable to owners of the parent (RM '000)	(18,685)	2,619	(16,066)
Weighted average number of ordinary shares in issue ('000)	701,534	701,534	701,534
Basic (loss)/earning per share (sen)	(2.66)	0.37	(2.29)
Quarter ended 31 March 2016:			
Loss net of tax attributable to owners of the parent (RM '000)	(4,910)	(2,787)	(7,697)
Weighted average number of ordinary shares in issue ('000)	701,534	701,534	701,534
Basic loss per share (sen)	(0.70)	(0.40)	(1.10)

A11. VALUATION OF PROPERTY, VESSELS AND EQUIPMENT

There is no valuation of property, vessels and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on property, vessels and equipment.

A12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following amounts:

	31-Mar-17	31-Dec-16
	RM '000	RM '000
Deposits with licensed financial institutions	3,813	108,450
Cash and bank balances	3,090	3,428
Total cash and cash equivalents	<u>6,903</u>	<u>111,878</u>

Included in the deposits placed with licensed financial institutions is RM1,984,000 (31 December 2016: RM4,274,000) pledged for banking facilities granted to subsidiaries.

A13. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

There was no issuance, cancellation, repurchase, or resale of equity securities during the financial period under review.

A14. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowings and debt securities as at the end of the reporting period are as follows:

	31-Mar-17	31-Dec-16
	RM '000	RM '000
Secured short term borrowings:		
Overdrafts	8,480	9,071
Revolving credits	10,000	20,000
Term loans	22,448	284,576
Sukuk Mudharabah	-	35,077
Hire purchase financings	101	101
Total short term borrowings	<u>41,029</u>	<u>348,825</u>
Secured long term borrowings:		
Revolving credits	30,000	20,000
Term loans	917,652	654,942
Sukuk Mudharabah	-	607,826
Hire purchase financings	97	97
Total long term borrowings	<u>947,749</u>	<u>1,282,865</u>

Included in current and non-current liabilities in the consolidated statement of financial position as at 31 December 2016 is RM438,059,000 profits accrued due to Sukukholders on Sukuk Mudharabah.

A15. PAYABLES

	31-Mar-17	31-Dec-16
	RM '000	RM '000
Trade payables	60,683	62,543
Amount due to director	2,700	3,700
Advance license and access fee	-	17,833
Accruals and other payables	4,786	12,484
	<u>68,169</u>	<u>96,560</u>

A16. DEBT AND EQUITY SECURITIES

The Group did not undertake any issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current period under review.

A17. DIVIDEND

No dividend has been proposed or paid for in the financial period under review and in the preceding financial period.

A18. COMMITMENTS

	31-Mar-17	31-Dec-16
	RM '000	RM '000
Capital expenditure		
Approved and contracted for:		
Vessel and equipment	1,386	1,926
Highway development expenditure	-	1,001
Approved but not contracted for:		
Vessel and equipment	13,224	26,224
Highway development expenditure	-	119,340

A19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities of the Group comprise the following:-

	31-Mar-17	31-Dec-16
	RM '000	RM '000
Performance bond for expressway maintenance and upgrading	-	3,225
Bank guarantee to charterers and suppliers	9,918	9,918

A20. UNUSUAL ITEMS

Except as disclosed in A21, there were no items affecting assets, liabilities, equity, net income, or cash flow that were unusual because of their nature, size and incidence in the current period.

A21. SUBSEQUENT EVENTS

Proposed disposal of 100% equity interest in Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd. (“SILK”) (“Proposed Disposal”)

On 18 January 2017, the Company entered into a conditional Share Purchase Agreement (“SPA”) with Permodalan Nasional Berhad (“PNB” or “the Purchaser”) in relation to the Proposed Disposal.

The proposed Disposal involves the disposal of the entire issued and paid-up share capital of SILK comprising 220,000,000 ordinary shares of RM1.00 each for a cash consideration of RM380 million.

On 28 April 2017, the Company announced that the Proposed Disposal had been completed upon receipt of the balance disposal consideration of RM342 million.

Accordingly, SILK ceases being a subsidiary of the Company and the Company has completely exited the toll-concessionaire business.

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

B1. REVIEW OF PERFORMANCE

	31-Mar-17 (Q1 2017) RM '000	31-Mar-16 (Q1 2016) RM '000 restated	Change
Revenue			
Marine Logistics - Upstream	19,697	46,889	(58.0%)
Marine Logistics - Downstream	11,004	-	n/a
Investment Holding and Others	1,819	1,604	13.4%
Adjustments	(1,819)	(1,604)	
Total	30,701	46,889	(34.5%)
Profit/(loss) before taxation			
Marine Logistics - Upstream	(35,689)	(8,776)	*
Marine Logistics - Downstream	(173)	-	n/a
Investment Holding and Others	1,507	1,494	0.9%
Adjustments	223	(12)	
Total	(34,132)	(7,294)	*

* *not meaningful*

i. Marine Logistics – Upstream Division

During the period ended 31 March 2017, the Upstream Division contributed 64% of the Group revenue of RM30.1 million.

Despite the rise in crude oil prices to more than USD50 per barrel since the end of 2016, the oil and gas activities have remained sluggish.

As a result, the Upstream Division recorded higher loss of RM35.7 million during the current period.

ii. Marine Logistics – Downstream Division

The Downstream Division which operated three chemical tankers commenced its operation in Q2 2016. During the quarter, one of its vessels was not available for deployment due to a scheduled major drydocking. Accordingly, the Downstream Division recorded a revenue amounting to RM11 million, equivalent to 36% of the Group revenue, and loss before taxation of RM173,000 for the quarter.

iii. Group

The Group recorded a lower revenue of RM30.7 million compared to RM46.9 million in the prior year, which is mainly due to declining performance of the Upstream Division. Consequently, the Group recorded higher loss before taxation of RM34 million for the quarter.

B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE RESULTS OF THE PRECEDING PERIOD

	Current period	Preceding period	
	31-Mar-17	31-Dec-16	Change
	RM '000	RM '000	
		restated	
Revenue			
Marine Logistics - Upstream	19,697	30,975	(36.4%)
Marine Logistics - Downstream	11,004	13,656	(19.4%)
Investment Holding and Others	1,819	2,195	(17.1%)
Adjustments	(1,819)	(2,195)	
Total	30,701	44,631	(31.2%)
Profit/(loss) before taxation			
Marine Logistics - Upstream	(35,689)	(68,446)	47.9%
Marine Logistics - Downstream	(173)	1,056	*
Investment Holding and Others	1,507	(31,185)	*
Adjustments	223	24,989	
Total	(34,132)	(73,586)	53.6%

* *not meaningful*

During the current period, the Group recorded lower loss before taxation of RM34.1 million compared to RM73.6 million in the preceding quarter, which is mainly due to RM33 million vessel impairment loss recognized in the preceding quarter.

B3. PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017

a. Marine Logistics – Upstream Division

World crude oil prices have fallen significantly since June 2014. Oil and gas producers including Petronas have reiterated that moving forward there will be a focus on cost rationalization and improvements in efficiency.

As a result, oil and gas service providers may experience weaker revenue ahead due to lower market rates, increased competition and lower utilization. In view of the challenging market conditions, the prospects of the Upstream Division which provides offshore support services, are expected to be challenging.

B3. PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017 (continued)**b. Marine Logistics – Downstream Division**

The chemical vessels provides flexibility in terms of cargoes it can carry to include chemicals, clean petroleum products and palm oil. Trading of small parcels of chemicals, clean petroleum products or palm oil is consistent especially in South East Asia where many ports could not accommodate larger vessels. The coastal vessel segment ranging from 3,000 DWT to 10,000 DWT is a niche segment focusing on near coastal transportation used for intra trade in the region.

Seaborne chemical trade is greatly influenced by global economic development and it has closely followed the trends of global gross domestic product as well as industrial production growth. Despite the gloomy global economic outlook, the coastal chemical vessel segment is expected to provide stable returns.

B4. VARIANCE OF ACTUAL PROFIT FROM PROFIT FORECAST

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

B5. STATUS OF CORPORATE PROPOSALS ANNOUNCED

Except as disclosed in A21, there is no corporate exercise that has been completed during the current period or is still pending as at the end of the current period.

B6. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no financial instruments with off balance sheet risks as at the date of issue of the report.

B.7 REALISED AND UNREALISED PROFITS OF THE GROUP

	<u>31-Mar-17</u> RM '000	<u>31-Dec-16</u> RM '000
Total retained profits of the Company and its subsidiaries:		
- realised profit/(loss)	(110,451)	(90,040)
- unrealised loss	(139,258)	(133,927)
	<u>(249,709)</u>	<u>(223,967)</u>
Less consolidation adjustments	176,310	166,634
Total Group retained profits as per consolidated accounts	<u>(73,399)</u>	<u>(57,333)</u>

B8. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report on the Group's financial statements for the year ended 31 December 2016 was not subject to any qualification.

B9. STATUS OF MATERIAL UNCERTAINTY DISCLOSED IN THE INDEPENDENT AUDITORS' REPORT

Material uncertainty reported by the Independent Auditors in their report to the financial statements for the year ended 31 December 2016

In relation to the audit of the financial statements of the Group for the financial year ended 31 December 2016 2016 ("FY 2016") (the "Financial Statements"), the Company's independent auditors, Messrs. KPMG PLT had included an emphasis of a matter to draw attention to the material uncertainty related to going concern in its independent auditors' report dated 27 April 2017.

The material uncertainty was related to:

- that the Group and the Company had incurred net losses of approximately RM103 million and RM28 million respectively for FY 2016 and as at 31 December 2016, the Group's current liabilities exceeded its current assets by RM380 million, and
- the Group had also not met the scheduled repayment obligations on several financing facilities provided by a financial institution.

In any event, during and subsequent to FY 2016, the Group managed to negotiate to reschedule payments with the affected licensed financial institutions. These indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. The validity of the going concern assumption is dependent on the following:

- i. the Group's ability to generate adequate cash flows from its operations to service its loans and obligations as and when they fall due, and
- ii. the completion of the successful disposal of Sistem Lingkaran-Lebuhraya Kajang Sdn. Bhd. ("SILK") and its subsidiary, Manfaat Tetap Sdn. Bhd. ("MTSB"), representing the entire toll highway concessionaire segment, which the Group was expected to receive cash consideration of RM380 million.

Steps taken by the Group to address the material uncertainty

In relation to the above, the Board wishes to advise on the following:

- a. The Group has already addressed the net current liabilities through:
 - i. as stated in A21, the disposal of SILK and MTSB to Permodalan Nasional Berhad for a cash consideration of RM380 million, which was completed on 28 April 2017.

B9. STATUS OF MATERIAL UNCERTAINTY DISCLOSED IN THE INDEPENDENT AUDITORS' REPORT (continued)

Effects of the disposal had the disposal been completed at 31 December 2016 are as follows:

Group	As reported	Effects of the disposal	Proforma after disposal
	RM'000	RM'000	RM'000
Net (loss)/profit for the year	(103,006)	373,480	270,474
(Loss)/profit after tax attributable to owners of the Company	(74,018)	373,480	299,462
	Sen	Sen	Sen
(Loss)/earning per share	(10.55)	53.24	42.69
	RM'000	RM'000	RM'000
Net current (liabilities)/assets	(379,607)	414,702	35,095
Net assets	145,841	373,480	519,321
	Sen	Sen	Sen
Net assets per share	20.79	53.24	74.03
	RM'000	RM'000	RM'000
Total net debt	2,054,431	(1,370,999)	683,432
Gearing ratio	95%		58%

- ii. the restructuring of RM908.8 million financings and the rescheduling of RM198.2 million financing repayments for a period of up to 18 months, which was completed in January 2017.

The restructuring and refinancing will provide the Group a greater degree of financial flexibility in 2017.

- b. SHB Group will continue to focus on cost optimisation and stringent cash flow management while at the same time maintain safety and quality services to remain competitive.

B10. COMPARATIVE FIGURES**a. Reconciliation of profit or loss and other comprehensive income for the period ended 31 March 2016**

	As previously stated RM'000	Reclassified to Disposal Group RM'000	As restated RM'000
Revenue	80,749	33,860	46,889
Direct costs	(17,670)	(4,227)	(13,443)
Gross profit	63,079	29,633	33,446
Other items of income:			
Interest income	794	518	276
Other income	187	187	-
Other item of expenses:			
Staff expenses	(5,247)	(3,081)	(2,166)
Administrative expenses	(1,207)	(128)	(1,079)
	(6,454)	(3,209)	(3,245)
EBITDA	57,606	27,129	30,477
Depreciation	(23,921)	(227)	(23,694)
Amortisation	(3,931)	(3,931)	-
Finance costs	(39,835)	(25,758)	(14,077)
	(67,687)	(29,916)	(37,771)
Loss before taxation	(10,081)	(2,787)	(7,294)
Taxation	(192)	-	(192)
Net loss for the period	(10,273)	(2,787)	(7,486)
Net loss and total comprehensive expenses attributable to:			
Owners of the parent	(7,697)	(2,787)	(4,910)
Non-controlling interests	(2,576)	-	(2,576)
	(10,273)	(2,787)	(7,486)

B10. COMPARATIVE FIGURES (continued)**b. Reconciliation of summarised results for the period ended 31 March 2016**

	As previously stated RM'000	Reclassified to Disposal Group RM'000	As restated RM'000
Revenue			
Oil and Gas Division	46,889	-	46,889
Highway Division (<i>excluding RM755,000 construction revenue</i>)	33,105	33,105	-
Investment Holding	1,604	-	1,604
Adjustments	(1,604)	-	(1,604)
Total	<u>79,994</u>	<u>33,105</u>	<u>46,889</u>
(Loss)/profit before tax			
Oil and Gas Division	(8,776)	-	(8,776)
Highway Division	(2,787)	(2,787)	-
Investment Holding	1,494	-	1,494
Adjustments	(12)	-	(12)
Total	<u>(10,081)</u>	<u>(2,787)</u>	<u>(7,294)</u>

c. Reconciliation of summarised results for the period ended 31 December 2016

	As previously stated RM'000	Reclassified to Disposal Group RM'000	As restated RM'000
Revenue			
Oil and Gas Division	30,975	-	30,975
Highway Division	33,303	33,303	-
Marine Logistics Services	13,656	-	13,656
Investment Holding	2,195	-	2,195
Adjustments	(2,195)	-	(2,195)
Total	<u>77,934</u>	<u>33,303</u>	<u>44,631</u>
(Loss)/profit before tax			
Oil and Gas Division	(68,446)	-	(68,446)
Highway Division	8,570	8,570	-
Marine Logistics Services	1,056	-	1,056
Investment Holding	(31,185)	-	(31,185)
Adjustments	24,989	-	24,989
Total	<u>(65,016)</u>	<u>8,570</u>	<u>(73,586)</u>

**BY ORDER OF THE BOARD
SECRETARIES**