BENALEC HOLDINGS BERHAD
Company No.: 702653-V

UNAUDITED INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2010

NOTES TO THE REPORT

PART A – EXPLANATORY NOTES IN COMPLIANCE WITH FINANCIAL REPORTING STANDARDS ("FRS") 134, INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with FRS 134: Interim Financial Reporting and Appendix 9B Part A of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). This is the first interim financial report on the combined results of the first quarter ended 30 September 2010 announced by the Company in compliance with the Listing Requirements and as such, there were no comparative figures for the preceding year's corresponding period.

The interim financial report should be read in conjunction with the Proforma Consolidated Financial Information and the Accountants' Report for the financial year ended 30 June 2010 as disclosed in the Prospectus of the Company dated 28 December 2010 and the accompanying notes attached to this interim financial report

The accounting policies and methods of computation adopted by the Group in the preparation of the interim financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2010.

A2 Changes in Accounting Policies

The significant accounting policies adopted by the Group are consistent with those of the audited financial statements for the year ended 30 June 2010, except for the adoption of the following new Financial Reporting Standard ("FRS"), Amendments to FRSs ("Amendments") and Issues Committee Interpretation ("IC Interpretations") effective for financial period beginning on or after 1st January 2010:

FRS 4: Insurance Contracts
FRS 7: Financial Instruments: Disclosure
FRS 8: Operating Segments
FRS 101: Presentation of Financial Statements (revised)
FRS 123: Borrowing Costs
FRS 139: Financial Instruments: Recognition and Measurement
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards
Amendments to FRS 2: Share-based Payment-Vesting Conditions/Cancellations
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operation
Amendments to FRS 7: Financial Instruments: Disclosure
Amendments to FRS 8: Operating Segments
Amendments to FRS 107: Cash Flow Statements
Amendments to FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110: Events after the Reporting Period
Amendments to FRS 116: Property, Plant and Equipment
Amendments to FRS 117: Leases
Amendments to FRS 118: Revenue

Amendments to FRS 119: Employees Benefits
Amendments to FRS 120: Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 123: Borrowing Costs
Amendment to FRS 127: Consolidated and Separate Financial Statements
Amendment to FRS 128: Investment in Associates
Amendment to FRS 129: Financial Reporting in Hyperinflationary Economies
Amendment to FRS 131: Interest in Joint Ventures
Amendment to FRS 132: Financial Instruments: Presentation
Amendment to FRS 134: Interim Financial Reporting
Amendment to FRS 136: Impairment of Assets
Amendment to FRS 138: Intangible Assets
Amendment to FRS 139: Financial Instruments: Recognition and Measurement
Amendment to FRS 140: Investment Property
IC Interpretation 9: Reassessment of Embedded Derivatives;
IC Interpretation 10: Interim Financial Reporting and Impairment;
IC Interpretation 11: FRS2 – Group and Treasury Share Transactions;
IC Interpretation 13: Customer Loyalty Programmes;
IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction.
Amendment to IC Interpretation 9: Reassessment of Embedded Derivatives;

Other than the implications as disclosed below, the adoption of the above FRSs, IC Interpretations and the Amendments do not have material impact on the financial statements of the Group:

(i) FRS 8: Operating Segments

FRS 8 requires identification and reporting of operating segments on internal reports that are regularly reviewed by the entity's chief decision maker in order to allocate resources to the segments and to assess its performance. The Group presents its segment information based on business segments, which is also the basis of presenting its monthly internal management reports.

(ii) FRS 139: Financial Instruments: Recognition and measurement

The adoption of FRS 139 has resulted in changes to the accounting policies relating to recognition and measurement of financial instruments. A financial instrument is recognized in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instruments. A financial instrument is recognized initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(a) Financial assets: Marketable securities prior to the adoption of FRS 139, investment in equity securities, other than investment in subsidiaries and associates were stated at cost less allowance for diminution in value, which is other than temporary. With the adoption of FRS 139, quoted investments in non-current equity securities, other than investment in subsidiaries and associates are now categorized and measured as fair value through profit or loss.

(b) Derivatives: Prior to the adoption of FRS 139, derivative contracts of balance sheet items and gains and losses were recognized in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now required to be initially recognized at fair value on the date of the derivative contract is entered into and subsequently re-measured at fair value at each balance sheet date. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are classified as fair value through profit and loss with any gains or losses arising from changes in fair value of these derivatives being recognized in the income statement.

(c) Financial liabilities borrowing prior to the adoption of FRS 139, transaction costs attributable to borrowing were expensed off as incurred. With the adoption of FRS 139 borrowing cost are now recognized initially at fair value, plus directly attributable transaction costs. There are subsequently measured at amortised cost using the effective interest rate method.

A3. Auditors’ Report

There were no qualifications on to the audited financial statements of Benalec Group for the financial period / year ended 30 June 2010.

A4. Seasonal or Cyclical Factors

The Group’s operations are not subject to seasonal or cyclical factors.

A5. Items of Unusual Nature

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current financial period under review.

A6. Material Changes in Estimates

There were no changes in estimates of amounts reported in prior financial year that have had a material effect in the current financial quarter.

A7. Changes in Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayments of debt and equity securities during the current financial quarter.

A8. Dividend Paid

No dividend has been paid in the financial period under review.

A9. Segmental Information

The Group is organized into the following operating segments:-

a) Marine construction
b) Vessels chartering
c) Ship maintenance and shipbuilding
d) Investment holdings

The segment revenue and results for the current interim period ended 30 September 2010:

Analysis by Activities	Revenue RM'000	Profit /(Loss) Before Taxation RM'000
Marine construction	47,400	33,452
Vessels chartering	7,080	11,503
Ship maintenance and shipbuilding	-	(558)
Investment holdings	-	(88)
Elimination	(2,275)	(5,580)
Total	52,205	38,729

A10. Valuation of Property, Plant and Equipment

There were no valuations of the property, plant and equipment in the current financial quarter.

A11. Material Events Subsequent to the end of period reported

Pursuant to a Share Sale Agreement dated 29 November 2010 between Benalec Sdn Bhd and Puncak Pasir Sdn Bhd ("PPSB"), Benalec Sdn Bhd agrees to sell and PPSB agrees to purchase Benalec Sdn Bhd's entire equity stake in Crystal Land Development Sdn Bhd (which is the legal and beneficial owner of 0.4724 acres of land) for a cash consideration of RM493,865.85.

The share sale of Crystal Land Development Sdn Bhd was completed on 6 January 2011.

The Group is expected to be listed on Main Market of Bursa Malaysia on 17 January 2011.

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current financial quarter.

The condensed consolidated financial statements of the Group were prepared based on the combined results of Benalec Holdings Berhad and its subsidiaries, assuming the Benalec Group has existed on or before 1 July 2010.

A13. Contingent Liabilities and Contingent Assets

There were no material contingent liabilities or contingent assets to be disclosed as at the date of this report.

A14. Capital Commitments

There were no capital commitments for the purchase of property, plant and equipment as at 30 September 2010.

A15. Significant Related Party Transactions

The Group had the following transactions during the financial period under review with related parties in which certain directors of the Company have substantial financial interest:-

Nature of transactions	**Transaction value based on billings**	**Balance outstanding as at 30 September 2010**
	RM'000	**RM'000**
Provision of vessels chartering services to companies in which certain Directors of the Company have substantial financial interests	5,032	-

Rental of vessels from a company in which certain Directors of the Company have substantial financial interest	(7,600)	(4,590)
Provision of Marine construction works (Payment in kind) to companies in which certain Directors of the Company have substantial financial interest	14,414	96,516 *
Provision of Marine construction works (Progress payment) to a company in which certain Directors of the Company have substantial financial interest	2,474	2,474
Provision of material from a company in which certain Directors of the Company have substantial financial interest	(1,270)	(601)
Purchase of vessels from companies in which certain Directors of the Company have substantial financial interest (Note B8(A))	(130,212)	(130,672)

The related party transactions reflect transactions of all the subsidiaries with the respective group of companies.

* This amount represents the value of the land portion pending issuance of document title of land by the local land office ("Alienation Process") which the Group has received as settlement for the marine construction contracts. It would subsequently be reclassified as "Land held for sale" following the Alienation Process.

NOTES TO THE REPORT

PART B – ADDITIONAL INFORMATION AS REQUIRED BY LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (PART A OF APPENDIX 9B)

B1. Review of Performance of the Group

The Group recorded revenue of RM52.2 million and profit after taxation of RM29.9 million for the current quarter and for the financial year-to-date.

B2. Variation of Results against Preceding Quarter

As this is the first interim report being prepared and the Group has only existed on 2 December 2010, there are no comparative figures for the preceding quarter.

B3. Prospects

The prospects for growth are bright based on the future projects in the pipeline that exists particularly in Penang, Melaka, Iskandar, Port Klang and the Sarawak Corridor of Renewable Energy (SCORE).

The 10th Malaysia Plan has ports and harbour industry as a key economic sector for targeted growth in Malaysia and has allocated a substantial amount of funding in support of the industry.

The Government is committing resources towards making Malaysia a high income, high GDP nation by the announcement of the five (5) economic regions during the 9th Malaysia Plan, by which the development of these regions encompasses coastal, rivals and waterfront development as well as the upgrade of infrastructure such as the construction of power plants and energy stations, better drainage control and flood mitigation systems.

On the regional front, the opportunities that exist in Asia Pacific with future projects estimated at over RM170 billion, is also a positive indicator for Benalec to invest and expand its operations beyond domestic borders.

B4. Profit forecast and profit guarantee

There were no profit forecast or profit guarantee in any public document.

B5. Taxation

	Current Quarter RM'000	Year-To-Date RM'000
Current year tax	8,342	8,342
Deferred tax	429	429
Total	8,771	8,771

The lower effective tax rates of the Group than the prevailing statutory tax rate is mainly due to lower tax rate in accordance to Labuan Offshore Business Activity Tax Act 1990 for vessel chartering division.

B6. Profit on Sale of Unquoted Investment and Properties

There were no material sales of unquoted investments and/or properties during the current financial quarter.

B7. Purchased and Sale of Quoted Securities

There were no purchase or sales of unquoted investments and/or properties during the current financial quarter.

B8. Status of Corporate Proposals

In conjunction with, and as an integral part of our Listing, we undertake the following Internal Restructuring and Listing Scheme, which involve the following:-

(A) Internal Restructuring

The following internal restructuring exercises were undertaken:-

(a) On 30 September 2010, Benalec Sdn Bhd ("BSB") entered into a Share Sale Agreement ("SSA1") with Oriental Grandeur Sdn Bhd ("OGSB") to acquire the entire issued and paid-up share capital of OGSB's wholly owned subsidiaries namely Ocean Marine Limited ("OML") and Pacific Ltd ("Pacific") comprising 2,432,067 and 18,645,829 ordinary shares of USD1.00 each respectively for a total purchase consideration of RM65 million (based on the exchange rate of USD1:RM3.084 as at 29 September 2010). At completion of Acquisitions of OML and Pacific, the purchase consideration was settled by creation of indebtedness of RM65 million by BSB to OGSB. This indebtedness intended to be settled by cash proceeds received from the sale of reclaimed lands or unit / buildings developed on reclaimed lands, beneficially owned by BSB, from time to time in the proportion of 30:70 whereby 30% from each cash proceeds will be paid to OGSB until full repayment of the purchase consideration of RM65 million.

The purchase consideration of OML and Pacific are derived after taking into consideration the fair value of the vessels. In this respect, the vessels have been appraised by Raine & Horne International Zaki + Partners Sdn Nhd (“Raine & Horne”) on 28 September 2010 based on the Comparison Method and Depreciated Replacement Cost Method, for a value of RM65 million.

The Acquisition of OML and Pacific were completed on 30 September 2010.

(b) On 17 September 2010, Oceanliner Pte Ltd (“Oceanliner”) entered into a Memorandum of Agreement with Oceanlec Pte Ltd (“Oceanlec”) to acquire eleven (11) vessels (comprising eight (8) barges and three (3) tug-boats) held by Oceanlec for a total purchase consideration of SGD28,000,000 (or RM65,212,000 based on an exchange rate of SGD1: RM2.329). The purchase consideration was settled by Oceanliner via the assumption of Oceanlec’s bank borrowings amounting to SGD8,546,601 and the balance via creation of indebtedness. Such indebtedness by Oceanliner to Oceanlec is to be paid via thirty six (36) equal monthly installments at an interest rate of three (3) percent (3%) per annum.

The purchase consideration of the vessels was arrived at based on the market value of the vessels as appraised by Raine & Horne on 15 September 2010 based on the Comparison Method and Depreciated Replacement Method.

The Acquisition of Oceanlec Vessels was completed on 17 September 2010.

(B) Listing Scheme

(i) Subdivision

The Company effected a subdivision of every one (1) existing ordinary share of RM1.00 each in the Company’s authorized and issued and paid-up share capital into four (4) Shares, resulting in an authorized share capital of RM100,000 comprising 400,000 Shares, and an issued and paid-up share capital of RM2 comprising 8 Shares.

Following the Subdivision, the Company’s authorized share capital increase from RM100,000 comprising 400,000 Shares to RM500,000,000 comprising 2,000,000,000 Shares.

The Subdivision of Benalec Share Capital was completed on 2 December 2010.

(ii) Acquisitions

(a) Acquisition of Benalec Sdn Bhd (“BSB”)

Pursuant to the Share Sale Agreement dated 5 October 2010 entered into by Benalec and the Vendor of BSB, Benalec acquired the entire issued and paid-up share capital of BSB, comprising 730,000 ordinary shares of RM10.00 each for a purchase consideration of RM153,369,559 which was satisfied entirely via the issuance of 613,478,236 new shares in Benalec at an issue price of RM0.25 per share. The purchase consideration of BSB was derived based on the audited consolidated Net Assets of the BSB group of companies as at 30 June 2010 and after taking into consideration on the financial effects arising from the Acquisitions of OML and Pacific, if any.

The number of Benalec shares issued to the vendors of BSB and their nominee pursuant to the Acquisition of BSB are as follows:-

Name of Vendors of BSB	No. of ordinary shares of RM10.00 each held in BSB	%	No. of Benalec shares issued as consideration
Leaw Seng Hai	211,700	29.0	56,108,688
Leaw Ah Chye	204,400	28.0	54,173,906
Datuk Leaw Tua Choon	204,400	28.0	54,173,906
Foo Polin	109,500	15.0	29,021,736
Oceancove Sdn Bhd	-	-	420,000,000
Total	**730,000**	**100.0**	**613,478,236**

The 613,478,236 new Benalec Shares issued pursuant to the Acquisition of BSB shall upon issue and allotment and when fully paid, rank pari passu in all respects with the existing Benalec shares and carry all rights to receive full all dividends and other distributions declared and paid subsequent to the allotment thereof.

The Acquisition of BSB was completed on 2 December 2010.

(b) Acquisition of Benalec Shipyard Sdn Bhd ("BenShip")

Pursuant to the Share Sale Agreement dated 5 October 2010 and a Supplemental Share Sale Agreement dated 1 December 2010 entered into by Benalec and the Vendor of BenShip, Benalec acquired the entire issued and paid-up share capital of BenShip, comprising 1,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM3,678,253 which was satisfied entirely via the issuance of 14,713,012 new shares in Benalec at an issue price of RM0.25 per share. The purchase consideration of BenShip was derived based on the audited Net Assets of the BenShip as at 30 June 2010.

The number of Benalec shares issued to the vendors of BenShip and their nominees pursuant to the Acquisition of BenShip are as follows:-

Name of Vendors of BenShip	No. of ordinary shares of RM1.00 each held in BenShip	%	No. of Benalec shares issued as consideration
Leaw Seng Hai	850,000	85.0	12,506,060
Leaw Ah Chye	70,000	7.0	1,029,911
Datuk Leaw Tua Choon	80,000	8.0	1,177,041
Total	**1,000,000**	**100.0**	**14,713,012**

The 14,713,012 new Benalec Shares issued pursuant to the Acquisition of BenShip shall upon issue and allotment and when fully paid, rank pari passu in all respects with the existing Benalec shares and carry all rights to receive full all dividends and other distributions declared and paid subsequent to the allotment thereof.

The Acquisition of BenShip was completed on 2 December 2010.

(c) Acquisition of Oceanliner Pte Ltd ("Oceanliner")

Pursuant to the Share Sale Agreement dated 5 October 2010 entered into by Benalec and the Vendor of Oceanliner, Benalec acquired the entire issued and paid-up share capital of Oceanliner, comprising 200,000 ordinary shares of RM1.00 each for a purchase consideration of RM452,186 which was satisfied entirely via the issuance of 1,808,744 new shares in Benalec at an issue price of RM0.25 per share. The purchase consideration of Oceanliner was derived based on the audited Net Assets of the Oceanliner as at 30 June 2010 and after taking into consideration the financial effects of the Acquisition of Oceanlec Vessels, if any.

The number of Benalec shares issued to the vendor of Oceanliner and their nominees pursuant to the Acquisition of Oceanliner are as follows:-

Name of Vendors of Oceanliner	No. of ordinary shares held in Oceanliner	%	No. of Benalec shares issued as consideration
Leaw Seng Hai	100,000	50.0	904,372
Leaw Ah Chye	100,000	50.0	904,372
Total	**200,000**	**100.0**	**1,808,744**

The 1,808,744 new Benalec Shares issued pursuant to the Acquisition of Oceanliner shall upon issue and allotment and when fully paid, rank pari passu in all respects with the existing Benalec shares and carry all rights to receive full all dividends and other distributions declared and paid subsequent to the allotment thereof.

The Acquisition of Oceanliner was completed on 2 December 2010.

(iii) IPO

The IPO comprises both the Public Issue and Offer for Sale.

(a) Public Issue

The Company is undertaking a Public Issue of 100,000,000 new shares at an issue price of RM1.00 per share.

(b) Offer for Sale

The Offer for Sale of 130,000,000 existing shares at an issue price of RM1.00 per share.

The Company issued its prospectus for its IPO on 28 December 2010.

(iv) Employee Share Option Scheme ("ESOS")

In conjunction with the listing, the Company is implementing an ESOS which entails the issuance of up to 10% of the Company's issued and paid-up share capital (excluding treasury shares) at any time pursuant to the options to be granted under the ESOS, to eligible Directors and employees of Benalec Group.

(v) Listing

Simultaneous with the IPO, the Company will seek a listing and quotation of the entire enlarged issued share capital comprising 730,000,000 shares on the Main Market of Bursa Securities.

(vi) Utilisation of Proceeds

The Public Issue Shares will raise gross proceeds of RM100.0 million. We intend to utilise the proceed raised in the following manner:-

Description	Estimated timeframe for utilization upon Listing	Amount RM'000	% of Total Gross Proceeds
Finance on-going projects	Within 24 months	90,000	90.00
Working capital	Within 24 months	3,500	3.50
Estimated listing expenses	Immediate	6,500	6.50
Total proceeds		**100,000**	**100.00**

B9. Borrowings and Debts Securities

Total Group borrowings as at 30 September 2010 were as follows:

	RM'000
Long Term Borrowings	
Secured:	
Hire purchase and lease creditors	685
Term loans	75,902
	76,587
Short Term Borrowings	
Secured:	
Bank overdraft	4,154
Trust receipts	794
Hire purchase and lease creditors	867
Term loans	25,925
	31,740
Total	108,327

Included in the total borrowings are borrowings in denominated in SGD as follows:

Term loan	**SGD'000**
Secured:	
Short term	9,334
Long term	18,666
Total	28,000

B10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at the date of this quarterly report.

B11. Material Litigation

There were no material litigation as at the date of issuance of this quarterly report.

B12. Dividends

No interim dividend have been declared during the current quarter under review.

B13. Earnings Per Share

Basic and diluted earning per share are calculated based on the assumptions that the enlarged share capital of 630,000,000 shares of RM0.25 each, to be issued and the completion of the Internal Restructuring and Acquisition had taken place on or before 1 July 2010.

B14. Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 11 January 2011.