ICON OFFSHORE BERHAD

(984830-D) (Incorporated in Malaysia)

QUARTERLY REPORT
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

ICON OFFSHORE BERHAD (984830-D)
(Incorporated in Malaysia)

QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

The Board of Directors of Icon Offshore Berhad ("ICON" or "the Group") announce the following unaudited condensed consolidated financial statements for the fourth quarter and year ended 31 December 2016 which should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		INDIVIDUAL QUARTER		CUMULATIVE YEAR	
		CURRENT QUARTER ENDED (UNAUDITED)	CORRESPONDING QUARTER ENDED (AUDITED)	CURRENT YEAR ENDED (UNAUDITED)	CORRESPONDING YEAR ENDED (AUDITED)
	Note	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
		RM	**RM**	**RM**	**RM**
Revenue	**15.1.(i)**	53,204,043	65,341,870	226,915,378	266,565,638
Cost of sales		(51,825,075)	(44,925,393)	(163,471,981)	(170,775,490)
Gross profit	**15.1.(ii)**	1,378,968	20,416,477	63,443,397	95,790,148
Other income		3,126,123	787,697	4,224,248	1,785,989
Administrative expenses	**15.1.(iii)**	(11,384,374)	(11,144,994)	(41,814,553)	(45,056,435)
Other expenses	**15.1.(iv)**	(135,476,980)	(376,799,347)	(135,476,980)	(379,148,348)
Loss from operations		(142,356,263)	(366,740,167)	(109,623,888)	(326,628,646)
Finance costs		(10,632,802)	(10,160,594)	(40,199,975)	(36,996,193)
Share of (loss)/profit from a joint venture		(1,082)	62,818	(1,124)	63,629
Loss before taxation		(152,990,147)	(376,837,943)	(149,824,987)	(363,561,210)
Taxation	**15.1.(v)**	4,811,077	743,137	3,126,033	272,794
Loss for the quarter/year	**15.1.(vi)**	(148,179,070)	(376,094,806)	(146,698,954)	(363,288,416)
Other comprehensive profit: Items that will be classified subsequently to profit or loss: Currency translation differences		(326,728)	(2,009,604)	129,252	1,361,302
Total comprehensive loss for the quarter/ year		(148,505,798)	(378,104,410)	(146,569,702)	(361,927,114)

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QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (continued)

		INDIVIDUAL QUARTER		CUMULATIVE YEAR	
		CURRENT QUARTER ENDED (UNAUDITED)	CORRESPONDING QUARTER ENDED (AUDITED)	CURRENT YEAR ENDED (UNAUDITED)	CORRESPONDING YEAR ENDED (AUDITED)
	Note	31.12.2016	31.12.2015	31.12.2016	31.12.2015
		RM	RM	RM	RM
Loss attributable to:					
-Equity holders of the Company		(150,502,852)	(376,893,121)	(152,746,880)	(364,086,731)
-Non-controlling interests		2,323,782	798,315	6,047,926	798,315
		(148,179,070)	(376,094,806)	(146,698,954)	(363,288,416)
Total comprehensive loss attributable to :					
-Equity holders of the Company		(150,669,483)	(379,188,818)	(152,680,962)	(363,011,522)
-Non-controlling interests		2,163,685	1,084,408	6,111,260	1,084,408
		(148,505,798)	(378,104,410)	(146,569,702)	(361,927,114)
Loss per share (Sen)					
Basic	24	(12.78)	(32.02)	(12.98)	(30.93)

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QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited	Audited
	As at 31.12.2016	As at 31.12.2015
	RM	RM
Non-current assets		
Property, plant and equipment	1,192,172,687	1,288,422,874
Investment in a joint venture	4,231,366	4,232,490
Deferred tax assets	48,732,418	46,590,022
	1,245,136,471	1,339,245,386
Current assets		
Trade and other receivables	75,080,076	81,088,346
Inventories	3,240,296	1,605,697
Tax recoverable	4,057,702	3,466,298
Cash and bank balances	58,720,087	95,354,013
	141,098,161	181,514,354
Less: Current liabilities		
Trade and other payables	62,479,152	76,295,965
Borrowings	211,883,791	181,144,834
Taxation	1,157,709	753,452
	275,520,652	258,194,251
Net current liabilities	(134,422,491)	(76,679,897)
Less: Non current liabilities		
Other payables	36,949,480	-
Borrowings	500,371,394	541,872,317
Deferred tax liabilities	1,134,349	1,864,713
	538,455,223	543,737,030
	572,258,757	718,828,459
Equity attributable to equity holders of the Company		
Share capital	588,592,550	588,592,550
Share premium	311,210,080	311,210,080
Foreign currency translation reserves	946,789	880,871
Accumulated losses	(335,835,545)	(183,088,665)
Non-controlling interest	7,344,883	1,233,623
Total equity	572,258,757	718,828,459

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QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Issued and fully paid ordinary shares of RM0.50 each		Non-distributable		Distributable		
	Number of shares	Share capital	Share premium	Currency translation reserve	(Accumulated losses)	Non-controlling interest	Total equity
		RM	RM	RM	RM	RM	RM
At 1 January 2016	1,177,185,100	588,592,550	311,210,080	880,871	(183,088,665)	1,233,623	718,828,459
(Loss)/profit for the year	-	-	-	-	(152,746,880)	6,047,926	(146,698,954)
Currency translation differences, representing total income and expense recognised directly in equity	-	-	-	65,918	-	63,334	129,252
Total comprehensive income/(loss) for the financial year	-	-	-	65,918	(152,746,880)	6,111,260	(146,569,702)
At 31 December 2016	1,177,185,100	588,592,550	311,210,080	946,789	(335,835,545)	7,344,883	572,258,757

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Company						
	Issued and fully paid ordinary shares of RM0.50 each		Non-distributable		Distributable		
	Number of shares	Share capital	Share premium	Currency translation reserve	Retained earnings/ (Accumulated losses)	Non-controlling interest	Total equity
		RM	RM	RM	RM	RM	RM
At 1 January 2015	1,177,185,100	588,592,550	311,210,080	(194,338)	180,998,066	-	1,080,606,358
(Loss)/profit for the financial year	-	-	-	-	(364,086,731)	798,315	(363,288,416)
Currency translation differences, representing total income and expense recognised directly in equity	-	-	-	1,075,209	-	286,093	1,361,302
Total comprehensive income/(loss) for the financial year	-	-	-	1,075,209	(364,086,731)	1,084,408	(361,927,114)
Transactions with owners:							
Increase in non-controlling interest arising from additional shares issued	-	-	-	-	-	149,215	149,215
Total transactions with owners recognised directly in equity	-	-	-	-	-	149,215	149,215
At 31 December 2015	1,177,185,100	588,592,550	311,210,080	880,871	(183,088,665)	1,233,623	718,828,459

ICON OFFSHORE BERHAD (984830-D)

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QUARTERLY REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	CURRENT YEAR ENDED (UNAUDITED) 31.12.2016	CORRESPONDING YEAR ENDED (AUDITED) 31.12.2015
	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(149,824,987)	(363,561,210)
Adjustments for:		
Amortisation of intangible assets	-	3,132,000
Depreciation of property, plant and equipment	62,418,345	65,719,917
Impairment of receivables	106,987	1,003,530
Interest expense	40,199,975	36,996,193
Interest income	(706,414)	(1,089,720)
Impairment loss on goodwill	-	180,643,348
Impairment loss on vessels	135,476,980	195,373,000
Unrealised loss on foreign exchange	5,066,373	4,370,944
Reversal of impairment of receivables	(601,869)	(234,318)
Share of loss/(profit) of a joint venture	1,124	(63,629)
Operating profit before working capital changes	92,136,514	122,290,055
Changes in working capital:		
Increase in inventories	(1,634,684)	(62,050)
Decrease in receivables	6,451,862	13,075,377
Increase in payables	2,415,916	13,615,968
Cash generated from operations	99,369,608	148,919,350
Tax refund/(paid)	346,363	(2,870,207)
Net cash from operating activities	99,715,971	146,049,143
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(87,226,765)	(139,329,831)
Interest received	969,717	1,089,720
Net cash used in investing activities	(86,257,048)	(138,240,111)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from immediate holding company	35,000,000	-
Issuance of shares to non-controlling interest	-	149,215
Drawdown of borrowings	118,000,000	208,560,048
Repayment of finance lease liabilities	(33,036)	(33,036)
Repayment of advances from immediate holding company	(35,000,000)	-
Repayment of borrowings	(131,473,562)	(158,861,422)
Interest paid	(36,748,312)	(37,170,805)
(Increase)/decrease in fixed deposits pledged	3,535,460	(5,961,565)
Net cash (used in)/generated from financing activities	(46,719,450)	6,682,435
Unrealised foreign exchange gain on cash and bank balances	162,061	82,776
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(33,098,466)	14,574,243
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	83,108,970	68,534,727
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	50,010,504	83,108,970
Fixed deposit pledge	8,709,583	12,245,043
CASH AND BANK BALANCES	58,720,087	95,354,013

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134

1. BASIS OF PREPARATION

The unaudited quarterly report has been prepared in accordance with the requirements of MFRS 134, "Interim Financial Reporting", paragraph 9.22 and Appendix 9B of the Bursa Malaysia Securities Berhad Main Market Listing Requirement ("Bursa Securities Listing Requirements") and should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015.

The significant accounting policies and methods adopted for the unaudited condensed financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2015; with an additional accounting policy and methods for non-current assets held for sale under MFRS 5 : An non-current assets held for sale and discontinued operation.

Non-current assets (or disposal groups of assets) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying and fair value less costs to sell.

As at 31 December 2016, the Group's current liabilities exceeded their current assets by RM134,422,491.

The Group has taken steps to review the existing loan repayment schedule and the capital commitment for vessels under construction. As at the date of this report 27 February 2017, the Group has completed all of three restructuring and rescheduling of the loan repayments with the banks to allow the Group to defer certain amount of the current loan obligations. For the year ended 31 December 2016, we have reflected the impact of the reduction in borrowings due in the next twelve months for all of the loans. The Group has also deferred the delivery and payment for vessels under construction. In addition, the Group has obtained a new credit facility for its working capital requirements and will also be able to obtain the required financial support from its immediate holding company, if necessary. However, the financial support shall automatically terminate and cease to be of any effect upon completion date of the sale and purchase agreement, where on 19 January 2017, the immediate holding company signed share purchase agreement with UMW Oil & Gas Corporation Berhad in respect of the sale and purchase of 497,768,820 ordinary shares of RM0.50 each in the Company representing 42.3% equity interest in the Company.

With the steps taken above, the Directors are of the view that the Group will be able to generate sufficient cash inflows from the charter hire contracts within the next twelve months from the reporting date to meet working capital requirements and repayment of existing loan obligations, and to carry on their business without significant curtailment of operations. The Directors believe that the Group are able to realise their assets and discharge their liabilities in the normal course of business and that the financial position will be improved through future operating profits and cash flows. Thus, the Directors believe no material uncertainty exists that may cast significant doubt on the Group's ability to continue as going concerns.

As such, the Directors believe that it is appropriate to prepare this report on a going concern basis.

The adoption of the following MFRSs and Amendments to MFRSs that came into effect on 1 January 2016 did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

- Amendments to MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets-Clarification of Acceptable Methods of Depreciation and Amortisation (effective from 1 January 2016)
- Amendments to MFRS10 Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures–Sale or Contribution of Assets between an Investor and its Associates/ Joint Ventures (Effective from 1 January 2016)
- Amendments to MFRS 127 Separate Financial Statements – Equity Accounting in Separate Financial Statements (Effective from 1 January 2016)
- Annual Improvements to MFRSs 2012-2014 Cycle (Amendments to MFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, MFRS 7 Financial Instruments: Disclosures, MFRS 119 Employee Benefits, MFRS 134 Interim Financial Reporting) (effective from 1 January 2016)

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134 (continued)

1. BASIS OF PREPARATION (continued)

MFRSs and amendments to MFRSs that are applicable to the Group but not yet effective

Malaysian Accounting Standards Board had issued the following new standards and amendments to standards which are effective for the financial year beginning on or after 1 January 2016. The Group did not early adopt these new standards, amendments and improvements to published standards.

- MFRS 9 Financial Instruments (effective from 1 January 2018)
- MFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)
- MFRS 16 Leases (effective from 1 January 2019)

The initial application of the abovementioned accounting standards and amendments to published standards are not expected to have any material impacts to the financial statements of the Group and of the Company except as mentioned below:

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement". The complete version of MFRS 9 was issued in November 2014.

  FRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with a irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- MFRS 15 'Revenue from contracts with customers' (effective from 1 Jan 2018) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement. For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134 (continued)

2. SEASONAL/CYCLICAL FACTORS

The principal activities of the Group are vessel owning/leasing and provision of vessel chartering and ship management services to oil and gas related industries.

The Group services are generally dependent on the level of activity of oil and gas companies, which may be affected by volatile oil and natural gas prices as well as the cyclicality in the offshore drilling and oilfield services industries.

3. UNUSUAL ITEMS

No unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group in the quarter and year ended 31 December 2016.

4. MATERIAL CHANGES IN ESTIMATES

There was no material changes in estimate of amounts reported in the prior financial year that have a material effect in the quarter and year ended 31 December 2016.

5. DEBT AND EQUITY SECURITIES

There were no other issuance, repurchase and repayment of debt and equity securities by the Group during the quarter and year ended 31 December 2016.

6. DIVIDEND PAID

There was no dividend paid by the Group during the quarter and year ended 31 December 2016.

7. SEGMENT RESULTS AND REPORTING

7.1 Reportable Segment

No segmental analysis is prepared as the Group is organised as a single integrated business operations comprising the vessel owning/leasing activities and provision of vessel chartering and ship management services to oil and gas and related industries. These integrated activities are known as the offshore support vessel (“OSV”) operations. The Group as a whole is regarded as an operating segment. In making decisions about resource allocation and performance assessment, key management regularly reviews the financial results of the Group as a whole. Hence, the information that is regularly provided to the key management is consistent with that presented in the financial statements.

7. SEGMENT RESULTS AND REPORTING (continued)

7.2 Geographical Information

The Group's operations are carried out predominantly in Malaysia. Revenue earned by the Group analysed by the location of its external customers is as follows:

	INDIVIDUAL QUARTER				CUMULATIVE YEAR			
	CURRENT QUARTER ENDED 31.12.2016		CORRESPONDING QUARTER ENDED 31.12.2015		CURRENT YEAR ENDED 31.12.2016		CORRESPONDING YEAR ENDED 31.12.2015	
	%	RM	%	RM	%	RM	%	RM
Revenue								
Malaysia	61	32,523,332	68	44,143,021	63	143,516,048	73	192,584,621
Others	39	20,680,711	32	21,198,849	37	83,399,330	27	73,981,017
Total	100	53,204,043	100	65,341,870	100	226,915,378	100	266,565,638

7.3 Services

The Group's revenue mainly comprise charter hire income from vessels where it is recognised upon rendering of services to customers over the term of the charter hire contract.

Breakdown of revenue is as follows:

	INDIVIDUAL QUARTER		CUMULATIVE YEAR	
	CURRENT QUARTER ENDED 31.12.2016	CORRESPONDING QUARTER ENDED 31.12.2015	CURRENT YEAR ENDED 31.12.2016	CORRESPONDING YEAR ENDED 31.12.2015
	RM	RM	RM	RM
Analysis of revenue by category:				
- Charter hire own vessel	50,558,811	61,247,340	217,114,698	252,789,646
- Charter hire of forerunner vessels	-	-	-	1,987,480
	50,558,811	61,247,340	217,114,698	254,777,126
- Others [(1)]	2,645,232	4,094,530	9,800,680	11,788,512
	53,204,043	65,341,870	226,915,378	266,565,638

Note
(1) *Others comprise income from the hire of third party vessels which are recognised net of charter-in cost, i.e. third party arrangement, ship management fees, revenue from chargeable costs to clients during the charter hire.*

8. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group as at 31 December 2016.

9. CAPITAL COMMITMENTS

The Group's capital commitments not provided for in the interim financial statements as at the end of the year are as follows:

	AS AT 31.12.2016	AS AT 31.12.2015
	RM	RM
Approved and contracted capital expenditure commitments	93,188,000	216,476,527

10. SIGNIFICANT RELATED PARTY DISCLOSURES

Parties are considered related if the party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The related parties of, and their relationships with the Company, are as follows:

Related parties	Relationship
Yayasan Ekuiti Nasional	Ultimate holding foundation
E-Cap (Internal) One Sdn. Bhd.	Intermediate holding company
Hallmark Odyssey Sdn. Bhd.	Immediate holding company
Icon Ship Management Sdn. Bhd. ("ICON Ship")	Subsidiary
Icon Fleet Sdn. Bhd. ("ICON Fleet")	Subsidiary
Icon Offshore Group Sdn. Bhd.	Subsidiary

10.1 Significant related party balances

There are no significant related party balances arising from normal business transactions.

10.2 Significant related party transactions

The related party transaction described below was carried out based on terms and conditions agreed with the related party.

	INDIVIDUAL QUARTER		CUMULATIVE YEAR	
	CURRENT QUARTER ENDED 31.12.2016	CORRESPONDING QUARTER ENDED 31.12.2015	CURRENT YEAR ENDED 31.12.2016	CORRESPONDING YEAR ENDED 31.12.2015
	RM	RM	RM	RM
Interest expense to immediate holding company	-	-	679,665	-

The transactions have been entered into in the normal course of business at terms mutually agreed between the parties.

Apart from the transaction disclosed above, the Group has entered into transactions that are collectively, but not individually significant with other government-related entities. These transactions include vessel chartering, drydocking expenditure and repairs and maintenance. They are conducted in the ordinary course of business based on the Group's consistently applied terms in accordance with the Group's internal policies and processes.

PART A – EXPLANATORY NOTES PURSUANT TO
MALAYSIAN FINANCIAL REPORTING STANDARD 134 (continued)

11. FAIR VALUE MEASUREMENTS

The table below shows the carrying amounts and fair value of the borrowings, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the borrowings are estimated using the income approach, by discounting the cash flows based on the market interest rates of a comparable instrument. This is a Level 2 fair value measurement.

	Carrying amount		Fair Value	
	AS AT 31.12.2016	AS AT 31.12.2015	AS AT 31.12.2016	AS AT 31.12.2015
	RM	RM	RM	RM
Fixed rate term loans	224,641,477	253,304,956	239,218,370	262,709,565

12. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment during the quarter and year ended 31December 2016 except for vessels for the purpose of impairment review. As at 31 December 2016, all property, plant and equipment were stated at cost less accumulated depreciation and accumulated impairment losses.

13. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On 19 January 2017, Hallmark Odyssey Sdn Bhd, immediate holding company signed share purchase agreement with UMW Oil & Gas Corporation Berhad in respect of the sale and purchase of 497,768,820 ordinary shares of RM0.50 each in the Company representing 42.3% equity interest in the Company.

14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 December 2016, the Group did not have any material contingent liabilities or assets.

15. ANALYSIS OF PERFORMANCE

15.1 Review of performance for the current quarter (Quarter ended 31 December 2016) against the corresponding quarter (Quarter ended 31 December 2015):

(i) Revenue

Revenue decreased by RM12.1 million or 18.5%, from RM65.3 million for the quarter ended 31 December 2015 to RM53.2 million for the quarter ended 31 December 2016. The decreased was primarily due to lower fleet utilisation rate of 48.1% for the quarter ended 31 December 2016 as compared to 56.5% for the quarter ended 31 December 2015, arising from completion of a long-term contract, delays in award of contract as well as continuous low activities in oil and gas industry.

(ii) Gross profit

The cost of sales increased by RM6.9 million or 15.4%, from RM44.9 million for the quarter ended 31 December 2015 to RM51.8 million for the quarter ended 31 December 2016, mainly due to one-off accrual for underassessment of crew income tax for previous years of RM6.5 million and increased in vessels repair and maintenance costs, offset by the cost saving from initiatives in relation to fuel consumption monitoring, vessels laid-up and domestic safe manning during the current quarter as well as lower depreciation charge for vessels impaired during the financial year ended 2015.

Consequently, the Group's gross profit decreased by RM19.0 million or 93.1%, from RM20.4 million for the quarter ended 31 December 2015 to RM1.4 million for the quarter ended 31 December 2016.

(iii) Administrative expenses

The administrative expenses increased by RM0.3 million or 2.7%, from RM11.1 million for the quarter ended 31 December 2015 to RM11.4 million for the quarter ended 31 December 2016 primarily due to higher unrealised foreign exchange losses during the quarter ended 31 December 2016 as a result of weaker Ringgit during the quarter and offset by lower payroll cost.

(iv) Other expenses

Other expenses decreased by RM241.3 million or 64.0%, from RM376.8 million for the quarter ended 31 December 2015 to RM135.5 million for the quarter ended 31 December 2016, due to lower impairment charge during the quarter ended 31 December 2016 of RM135.5 million compared to RM376.0 million comprise RM195.4 million for vessels impairment and RM180.6 million for goodwill impairment during the quarter ended 31 December 2015. In addition, the intangible asset has been fully amortised as at 31 December 2015.
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15. ANALYSIS OF PERFORMANCE (continued)

15.1. Review of performance for the current quarter (Quarter ended 31 December 2016) against the corresponding quarter (Quarter ended 31 December 2015) (continued):

(v) Taxation

	INDIVIDUAL QUARTER		CUMULATIVE YEAR	
	CURRENT QUARTER ENDED 31.12.2016	**CORRESPONDING QUARTER ENDED 31.12.2015**	**CURRENT YEAR ENDED 31.12.2016**	**CORRESPONDING YEAR ENDED 31.12.2015**
	RM	**RM**	**RM**	**RM**
Current tax	264,807	85,483	733,602	775,576
Deferred tax	(5,075,884)	(828,620)	(3,859,635)	(1,048,370)
Tax expense for the financial year	(4,811,077)	(743,137)	(3,126,033)	(272,794)
Effective tax rate	(3%)	0%	(2%)	0%

The effective tax rate for the current quarter and year ended 31 December 2016 is lower than the statutory tax rate of 24% mainly due to the lower tax rate applicable to income from our vessel leasing subsidiaries being Malaysia tax residents incorporated in Labuan.

(vi) Profit after taxation

As a result of the foregoing, loss after taxation decreased by RM227.9 million or 60.6%, from loss RM376.1 million for the quarter ended 31 December 2015 to a loss of RM148.2 million for the quarter ended 31 December 2016.

15.2. Review of performance for the current year ended 31 December 2016 against the corresponding year ended 31 December 2015:

(i) Revenue

The Group's revenue decreased by RM39.7 million or 14.9% from RM266.6 million for the year ended 31 December 2015 to RM226.9 million for the year ended 31 December 2016. The decreased was primarily due to decreased in vessel utilisation rate from 60.0% for the year ended 31 December 2015 to 51.6% for the year ended 31 December 2016. This is due to completion of certain long-term contracts, delays in award of contracts and longer monsoon off-hires during the current year as well as continuous lower demand and lower activities in oil and gas industry.

(ii) Gross profit

The cost of sales decreased by RM7.3 million or 4.3% from RM170.8 million for the year ended 31 December 2015 to RM163.5 million for the year ended 31 December 2016, primarily due to the cost saving initiatives in relation to fuel consumption monitoring, vessels laid-up, domestic safe manning and off-set by increased in vessels repair and maintenance costs to ensure vessels readiness for charter. The decrease were also due to lower depreciation charge for vessels impaired during the financial year ended 2015.

Consequently, the Group's gross profit decreased by RM32.4 million or 33.8% from RM95.8 million for the year ended 31 December 2015 to RM63.4 million for the year ended 31 December 2016 mainly due to lower revenue.

15. ANALYSIS OF PERFORMANCE (continued)

15.2. Review of performance for the current year ended 31 December 2016 against the corresponding year ended 31 December 2015: (continued)

(iii) Administrative expenses

The administrative expenses decreased by RM3.3 million or 7.3% from RM45.1 million for the year ended 31 December 2015 to RM41.8 million for the year ended 31 December 2016 primarily due to lower payroll cost and offset by unrealised loss on foreign exchange, one-off Mutual Separation Scheme of RM1.0 million as well as one-off professional fees which includes branding/reputation recovery, loan rescheduling and restructuring fees and legal opinion for shipbuilding contracts.

(iv) Other expenses

Other expenses decreased by RM243.6 million or 64.3%, from RM379.1 million for the quarter ended 31 December 2015 to RM135.5 million for the quarter ended 31 December 2016, due to lower impairment charge during the quarter ended 31 December 2016 of RM135.5 million compared to RM376.0 million comprise RM195.4 million for vessels impairment and RM180.6 million for goodwill impairment during the quarter ended 31 December 2015. In addition, the intangible asset has been fully amortised as at 31 December 2015.

(v) Profit after taxation

As a result of the foregoing, loss after taxation decreased by RM216.6 million or 59.6% from loss RM363.3 million for the year ended 31 December 2015 to loss of RM146.7 million for the year ended 31 December 2016.

15.3. Review of performance for the current quarter (Quarter ended 31 December 2016) against the preceding quarter (Quarter ended 30 September 2016):

The Group's revenue decreased by RM9.7 million from RM62.9 million for the quarter ended 30 September 2016 to RM53.2 million for the quarter ended 31 December 2016, mainly due to lower utilisation during the quarter ended 30 September 2016 of 59.1% as compared to 48.1% in the quarter ended 31 December 2016 mainly due to monsoon-season off-hires and completion of long-term contract.

The Group's profit after tax decreased by RM150.9 million from a profit after tax of RM2.7 million for the quarter ended 30 September 2016 to loss RM148.2 million for the quarter ended 31 December 2016, mainly due to impairment of vessels of RM135.5 million and one-off accrual for underassessment of crew income tax for previous years of RM6.5 million as well as lower revenue during the quarter ended 31 December 2016.

16. PROSPECTS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2017

The upstream exploration and production activities in Malaysia is expected to continue to underpin the demand for OSV. The global political concerns and volatility of the oil price during the period under review contributed to highly challenging market condition for OSV which has largely impacted the OSV operators, including the Company. In addition, OSV operators are also impacted by increasing pressure to conserve cash and secure contracts to drive utilisation rates upwards to sustain the business. However, during the quarter subsequent to period under review, the oil price has reasonably stabilise.

As the cost optimisation and cash conservation initiatives are largely completed, the Group continue to focus on securing new contracts and maximisation of utilisation rates through competitive tendering for domestic and regional contracts, as well as leveraging on its expanded presence in Brunei.

In view of this, the Board of Directors remain cautious on the Group's financial results for the financial year ending 31 December 2017.

17. PROFIT FORECAST

Not applicable as the Group did not publish any profit forecast.

18. QUALIFICATION OF PRECEDING AUDITED ANNUAL FINANCIAL STATEMENTS

There was no qualification to the preceding audited annual financial statements for the financial year ended 31 December 2015.

19. PROFIT BEFORE TAX

Profit before taxation is stated after charging/(crediting):

	INDIVIDUAL QUARTER		CUMULATIVE YEAR	
	CURRENT QUARTER ENDED 31.12.2016	CORRESPONDING QUARTER ENDED 31.12.2015	CURRENT YEAR ENDED 31.12.2016	CORRESPONDING YEAR ENDED 31.12.2015
	RM	RM	RM	RM
Amortisation of intangible assets	-	783,000	-	3,132,000
Auditor's remuneration	483,486	68,568	692,335	693,000
Consumable costs	3,947,448	1,234,874	10,417,727	7,010,817
Depreciation of property, plant and equipment	20,752,645	16,356,986	62,418,345	65,719,917
Employee benefits expense	16,252,895	18,605,888	65,252,403	74,442,670
Impairment of vessels	135,476,980	195,373,000	135,476,980	195,373,000
Impairment of receivables	106,987	691,748	106,987	1,003,530
Impairment of goodwill	-	180,643,348	-	180,643,348
Insurance	881,835	5,532,954	4,794,667	5,532,954
Interest income	(18,021)	(338,402)	(706,414)	(1,089,720)
Interest expense	10,632,802	10,160,594	40,199,975	36,996,193
Professional fees	620,821	581,370	2,152,226	2,197,683
Realised (gain)/loss on foreign exchange	(1,477,122)	357,341	870,275	1,329,218
Rental of premises	739,613	923,618	2,583,791	2,071,147
Reversal of impairment of receivables	(601,869)	(234,318)	(601,869)	(234,318)
Ship operation and charter hire costs	7,639,157	9,667,080	28,065,306	34,769,639
Unrealised loss on foreign exchange	4,444,720	2,151,801	5,066,373	4,370,944
Write-down of inventories	-	-	-	556,354
Underassessment of crew income tax for previous years	6,489,960	-	6,489,960	-

Other than as presented in the condensed consolidated statements of comprehensive income and as disclosed above, there were no impairment of assets or any other exceptional items for the current quarter under review.

20. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds from drawdown (net of transaction costs) amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

	AS AT 31.12.2016	**AS AT 31.12.2015**
	RM	**RM**
Short term:		
Secured		
Bank borrowings		
- term loans	83,273,301	141,853,623
- revolving credit (Commodity Murabahah Financing-i)	13,000,000	30,014,548
- revolving credit (Short Term Revolving Credit-i)	106,352,028	-
Redeemable preference shares	9,209,512	9,209,512
Finance lease liabilities	48,950	67,151
	211,883,791	181,144,834
Long-term:		
Secured		
Bank borrowings - term loans	500,333,381	541,828,849
Finance lease liabilities	38,013	43,468
	500,371,394	541,872,317
Total borrowings	712,255,185	723,017,151

Total term loan denominated in USD is USD1.6 million (equivalent to RM7.0 million), with USD0.7 million (equivalent to RM3.4 million) being secured short-term portion and USD0.9 million (equivalent to RM3.6 million) being secured long-term portion; and in Brunei is BND31.9 million (equivalent to RM98.9 million), with BND4.7 million (equivalent to RM14.6 million) being secured short-term portion and BND27.2 million (equivalent to RM84.3 million) being secured long-term portion.

As at 31 December 2016, the Group have provided bank guarantees, tender bonds and bid bonds amounting to RM9.5 million primarily due to the tendering of new contracts and as financial guarantee for the performance of our charter contracts by our subsidiaries and corporate guarantees for loan obtained by our subsidiaries.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group does not have any derivative financial instruments for the quarter and year ended 31 December 2016.

22. DISCLOSURE OF REALISED AND UNREALISED RETAINED PROFITS

The following analysis is prepared in accordance with Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the context of disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

The breakdown of retained profits of the Group as at the balance sheet date, into realised and unrealised profits, pursuant to the directive, is as follows:

	AS AT 31.12.2016	**AS AT 31.12.2015**
	RM	**RM**
Total (accumulated losses)/retained profits of the Company and its subsidiaries:		
- Realised	(221,259,936)	74,859,050
- Unrealised	47,598,069	42,283,431
	(173,661,867)	117,142,481
Total share accumulated profit from jointly controlled entity:		
- Realised	98,625	63,629
	(173,563,242)	117,206,110
Less: Consolidation adjustments	(162,272,303)	(300,294,775)
Total accumulated losses as per consolidated accounts	(335,835,545)	(183,088,665)

The unrealised retained profits comprise mainly the deferred tax provision.

23. CHANGES IN MATERIAL LITIGATION

There are no material litigations pending as at the date of this report.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE

BURSA SECURITIES LISTING REQUIREMENTS (continued)

24. LOSS PER SHARE("LPS")

The basic LPS has been calculated based on the consolidated loss attributable to equity holders of the Company and divided by the weighted number of ordinary shares in issue.

	INDIVIDUAL QUARTER		**CUMULATIVE YEAR**	
	CURRENT QUARTER ENDED 31.12.2016	**CORRESPONDING QUARTER ENDED 31.12.2015**	**CURRENT YEAR ENDED 31.12.2016**	**CORRESPONDING YEAR ENDED 31.12.2015**
(Loss) attributable to equity holders (RM)	(150,502,852)	(376,893,121)	(152,746,880)	(364,086,731)
Weighted average number of ordinary shares in issue	1,177,185,100	1,177,185,100	1,177,185,100	1,177,185,100
Basic LPS (Sen)	(12.78)	(32.02)	(12.98)	(30.93)

25. MATERIAL EVENTS SUBSEQUENT TO THE QUARTER ENDED 31 DECEEMBER 2016

On 19 January 2017, Hallmark Odyssey Sdn Bhd, immediate holding company signed share purchase agreement with UMW Oil & Gas Corporation Berhad in respect of the sale and purchase of 497,768,820 ordinary shares of RM0.50 each in the Company representing 42.3% equity interest in the Company.

BY ORDER OF THE BOARD

Amir Hamzah Azizan
Managing Director
27 February 2017