

TH HEAVY ENGINEERING BERHAD (634775-D)
(Incorporated in Malaysia)

The Board of Directors of TH Heavy Engineering Berhad is pleased to announce the financial results of the Group for the period ended 30 June 2013.

PART A: EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134.

1. BASIS OF PREPARATION

The interim financial statements are unaudited and prepared in accordance with the requirements under the MFRS 134 – “Interim Financial Reporting” issued by the Malaysian Accounting Standard Board (“MASB”) and Para 9.22 of the Bursa Malaysia Securities Berhad’s (“BMSB”) Listing Requirements.

The interim financial report should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2012. The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2012.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1

The accounting policies, methods of computation and basis of consolidation adopted by the Group in this unaudited financial report are consistent with those used in the preparation of the audited financial statements for the financial year ended 31 December 2012.

3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors’ report on the audited financial statements for the financial year ended 31 December 2012 was not qualified.

4. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

The Group’s performance is not affected by any seasonal or cyclical factors, save for the vagaries of the Engineering business.

5. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial year.

6. SIGNIFICANT CHANGES IN ESTIMATES

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

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7. DEBT AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial year.

8. DIVIDENDS PAID

There were no dividends paid during the current financial period.

9. SEGMENTAL REPORTING

Segmental analysis for the current financial period to date is as follows:

	Financial Period Ended	
	30th June 2013	
	Revenue	Profit/(Loss)
		Before Taxation
	RM'000	RM'000
Business Segment		
Construction Services	113,014	30,678
Offshore Crane Works	2,393	(4,684)
Others	4,998	(10,778)
Sub Total	120,405	15,216
Management Fees	(4,998)	-
Consolidation Adjustment	(90)	-
Total	115,317	15,216

Analysis by geographical segments has not been presented as the operations of the Group are in Malaysia.

10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no revaluation made during the financial period under review.

11. SUBSEQUENT EVENTS

There were no subsequent material events after the end of the current quarter.

12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes to the composition of the Group during the current quarter and financial year.

13. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities and contingent assets during the financial period under review.

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14. CAPITAL COMMITMENTS

	As at 30 June 2013 Group and Company RM'000
- Approved and contracted for	39,960
- Approved but not contracted for	20,000
	<hr/> <hr/> 59,960 <hr/> <hr/>

The capital commitments mainly consist of the cost to be incurred for the upgrading of the Pulau Indah yard.

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

15. REVIEW OF PERFORMANCE OF SECOND QUARTER

	Revenue		Profit/(Loss) Before Tax	
	2nd Quarter ended 30/6/2013 RM'000	Period ended 30/6/2013 RM'000	2nd Quarter ended 30/6/2013 RM'000	Period ended 30/6/2013 RM'000
Business Segment				
Construction Services	58,266	113,014	16,366	30,678
Offshore Crane Works	1,063	2,393	(2,987)	(4,684)
Others	2,428	4,998	(4,183)	(10,778)
Sub Total	<hr/> 61,757	<hr/> 120,405	<hr/> 9,196	<hr/> 15,216
Management Fees	(2,428)	(4,998)	-	-
Consolidation Adjustment	(90)	(90)	-	-
Total	<hr/> 59,239	<hr/> 115,317	<hr/> 9,196	<hr/> 15,216

Group

The Group recorded revenue of RM59.2 million for the second quarter bringing the revenue to date to RM115.3 million. The profit before tax for the second quarter was RM9.2 million, which increased the year to date profit to RM15.2 million.

Construction Services

This segment recorded revenue of RM58.3 million for the second quarter which increased the revenue to date to RM113.0 million. The revenue are mainly contributed by fabrication works for Sarawak Shell Berhad contracts, Murphy Sarawak Oil Company Ltd, which was awarded recently and hook-up and commissioning work order from Petrofac (Malaysia) Ltd.

Profit before taxation for the current quarter for this segment is RM16.4 million, which increased the year to date profit to RM30.7 million.

Offshore Crane Works

Offshore Crane Works segment posted revenue of RM1.1 million for the second quarter. The RM2.9 million loss for the current quarter mainly due to higher operational cost.

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15. REVIEW OF PERFORMANCE OF SECOND QUARTER (CONT'D)

Others

The revenue consists of management fees charged to subsidiaries for administrative services provided. The segment has recorded in the second quarter revenue of RM2.4 million which increased year to date to RM4.9 million.

The loss to date of RM10.8 million is mainly due to corporate expenses.

16. MATERIAL CHANGE IN QUARTERLY RESULTS AGAINST IMMEDIATE PRECEDING QUARTER

	Revenue		Profit/(Loss) Before Tax	
	2 nd Quarter ended 30/6/2013 RM'000	1 st Quarter ended 31/3/2013 RM'000	2 nd Quarter ended 30/6/2013 RM'000	1 st Quarter ended 31/3/2013 RM'000
Business Segment				
Construction Services	58,266	54,748	16,366	14,312
Offshore Crane Works	1,063	1,330	(2,987)	(1,697)
Others	2,428	2,570	(4,183)	(6,595)
Total	61,757	58,648	9,196	6,020
Management Fees	(2,428)	(2,570)	-	-
Consolidation Adjustment	(90)	-	-	-
Total	59,239	56,078	9,196	6,020

For the current quarter under review, Group revenue increased by 5.6% to RM59.2 million as compared to RM56.1 million in the first quarter. The increase is mainly due to near completion of Sarawak Shell Jacket and Topsides project and recognition of Murphy Sarawak Oil Company Ltd (Permas) project which is reported under construction services segment.

Group net profit before tax increase by 52.7% to RM9.2 million as compared to RM6.0 million for the immediate preceding quarter. The improved result is primarily due to contribution from projects.

17. COMMENTARY ON PROSPECTS

As of 30 June 2013, the Group has outstanding orders of approximately RM250 million. This includes the recently awarded project by Murphy Oil amounting to RM196 million.

New prospective works are expected to add positively to the revenue and profit of the Group in current financial year. With the current work and new prospective projects to be secured, the Group is confident of delivering overall positive results.

18. PROFIT FORECAST

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

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19. TAXATION

There were no tax provisions made during the financial period under review.

20. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

21. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There were no dealings by the Group in quoted securities for the current quarter and financial year. The Group did not hold any investments in quoted shares as at 30 June 2013.

22. STATUS OF CORPORATE PROPOSALS

(i) Utilisation of Rights Issue Proceeds

The utilisation status of proceeds of RM106.05million raised from the Rights Issue as at 23 August 2013 (being a date not earlier than 7 days from the date of issue of the quarterly report) is as follows:-

Purpose	Actual Utilisation RM'000	Proposed Utilisation RM'000
1) Payment for Yard acquisition	80,000	80,000
2) Improvement works on Pulau Indah Yard	22,400	22,400
3) Working capital requirements of our Group	1,654	1,654
4) Estimated expenses relating to the Regularisation Plan	2,000	2,000
	<u>106,054</u>	<u>106,054</u>

(ii) Proposed Acquisition of BMD, Proposed Disposal of THF and Proposed Establishment of JVs

The Proposed Acquisition of BMD, Proposed Disposal of THF and Proposed Establishment of Joint Ventures had been approved in the Extraordinary General meeting held on 3 June 2013.

On 19 June 2013, the Cut-off date of the Proposal had been extended to 30 September 2013.

(iii) Private Placement

On 6 May 2013, the Company undertook a private placement ("Private Placement") of up to 92,797,000 new ordinary shares of RM0.25 each in the Company, representing approximately ten percent (10%) of the existing issued and paid-up share capital of the Company at a price of RM0.45 per share.

The Company has completed the Private Placement on 21 May 2013.

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23. BORROWINGS AND DEBT SECURITIES

	Group	
	As at 30-June-13 RM'000	As at 31-Dec-12 RM'000
<u>Long Term Borrowings</u>		
- Finance lease liabilities	193	193
Sub Total	193	193
<u>Short Term Borrowings</u>		
- Secured term loan	222,811	201,300
Less: Transactions costs	(5,189)	(5,189)
	217,622	196,111
Accreted interest	4,432	3,135
	222,054	199,246
- Finance lease liabilities	14	28
Sub Total	222,068	199,274
Total borrowings	222,261	199,467

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance financial instruments as at 30 June 2013.

25. CHANGES IN MATERIAL LITIGATION

Save as disclosed below, the Company is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which has or will have a material effect on the financial position on our business, and our Directors are not aware of any proceedings, pending or threatened, against the Company and/or any of the Company's subsidiaries or of any facts likely to give rise to any proceedings which might materially affect the position or business of our Group:

**(a) Ramunia Fabricators Sdn Bhd ("RFSB") vs. Global Fabricators Sdn Bhd ("GFSB")
(Kuala Lumpur High Court Civil Suit No.: 22NCC-752-2011)**

RFSB instituted a suit against GFSB and a counter claim of RM4,632,778 was brought by GFSB for work done on the Melor and Kumang projects. A stay application was filed as the respective contracts have an arbitration agreement and GFSB agreed to resolve the disputes by way of Arbitration. A Notice of Arbitration was served to RFSB on March 2012. In response to the notice of arbitration, the Company has nominated an arbitrator and proposed consolidation of both arbitrations. To date, no arbitrator has been appointed as yet and the arbitration proceedings is still pending.

RFSB's solicitors are of the opinion that RFSB has a fair chance of successfully defending the counterclaim during the arbitration proceedings.

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25. CHANGES IN MATERIAL LITIGATION (CONT'D)

- (b) **Ramunia Optima Sdn Bhd (“ROSB”) vs. PFCE Engineering Sdn. Bhd. (“PFCE”)**
(Kuala Lumpur Sessions Court, Suit No.52-17410-05/2012)
Ramunia Holdings Berhad (“RaHB”) vs. PFCE Engineering Sdn. Bhd. (“PFCE”)
(Kuala Lumpur Sessions Court, Suit No.52-17409-05/2012)
Ramunia Fabricators Berhad (“RFSB”) vs. PFCE Engineering Sdn. Bhd. (“PFCE”)
(Kuala Lumpur High Court, Suit No. 22NCVC-566-5/2012 and Suit No. 22NCVC-565-5/2012)

The Group instituted a number of legal suits against PFCE Engineering Sdn. Bhd. (“PFCE”) for unpaid monies and losses and expenses incurred in the cause of executing a project which was novated to PFCE in Financial Year 2009. The total claim presented by the Group amounted to RM30.4 million against which a counter suit of RM7.2 million from PFCE has been received.

The trial dates which were fixed from 7 October to 9 October has been vacated. The matter is now fixed for case management on 5 September 2013. The Company’s solicitors are of the view that the Company has a fair chance of successfully defending the counterclaim brought by PFCE during the court proceedings.

The Group’s solicitors are of the opinion that the Group has a fair chance of being successful in its claims.

26. PROPOSED DIVIDENDS

No dividends have been proposed for the current reporting quarter.

27. EARNINGS PER SHARE

Earnings per share (“EPS”)	SECOND QUARTER		CUMULATIVE QUARTER	
	Current Quarter 30-June-13	Preceding Year Corresponding Quarter 30-June-12	Current Financial Year 30-June-13	Preceding Corresponding Financial Year 30-June-12
Profit for the purpose of basic earnings per share (RM’000)	9,196	6,033	15,216	13,822
Weighted average number of ordinary shares for the purpose of basic earnings share (No.’000)	938,399	662,840	985,179	662,840
Basic EPS (sen)	0.99	0.91	1.54	2.09
Adjusted earnings for the purpose of diluted earnings per share (RM’000)	9,196	N/A	15,216	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings share (No.’000)	1,012,857	N/A	1,004,375	N/A
Diluted EPS (sen)	0.92	N/A	1.51	N/A

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28. REALISED AND UNREALISED (LOSSES)/PROFITS

The breakdown of the (accumulated losses)/retained profits of the Group as at 30 June 2013 into realised and unrealised (losses)/profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on 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.

	As at 30-June-2013 RM'000
Total accumulated losses of the Company and its subsidiaries:-	
- realised	(223,760)
- unrealised	13,642
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Total Group accumulated losses	(210,118)
Add: Consolidation adjustments	237,350
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Total Group retained profits as per consolidated accounts	27,232
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29. ITEMS TO DISCLOSE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 30/6/2013 RM'000	Period ended 30/6/2013 RM'000
Interest income	188	771
Depreciation and amortisation	(652)	(1,368)
Inventories written off	(34)	(53)
Realised foreign exchange	269	456
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30. AUTHORISED FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors dated 29 August 2013.