

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 2014

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 2013. 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 2013.

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 2013.

3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors’ report on the audited financial statements for the financial year ended 31 December 2013 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 period.

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 period.

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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 period.

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 30 th June 2014	
	Revenue (RM'000)	Profit/(Loss) Before Taxation (RM'000)
Business Segment		
Construction Services	205,827	(16,549)
Offshore Crane Works	16,237	(2,064)
Offshore Services	9,761	(166)
Others	5,679	(1,575)
Sub Total	237,504	(20,354)
Consolidation Adjustment	(30,691)	10,887
Total	206,813	(9,467)

Analysis by geographical segments has not been presented as the operations of the Group are principally 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

On 10 April 2014, Conditions Precedent pertaining to the Share Sales Agreement (“SSA”) in relation to the proposed disposal of 20% interest in Floatech (Labuan) Ltd. (“Floatech”) has been fulfilled and deemed completed on even date. With the completion of the Proposed Disposal, Floatech becomes an 80% subsidiary of the Company.

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13. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

14. CAPITAL COMMITMENTS

	As at 30-Jun-2014 Group and Company (RM'000)
- Approved and contracted for	19,628
- Approved but not contracted for	10,572
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	30,200
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The capital commitments consist mainly costs 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 30/6/2014 (RM'000)	2nd Quarter ended 30/6/2013 (RM'000)	2nd Quarter ended 30/6/2014 (RM'000)	2nd Quarter ended 30/6/2013 (RM'000)
Business Segment				
Construction Services	63,785	58,266	(12,976)	16,366
Offshore Crane Works	7,673	1,063	175	(2,987)
Offshore Services	9,761	-	222	-
Others	2,159	2,428	(97)	(4,183)
Sub Total	83,378	61,757	(12,676)	9,196
Share of profit of equity-accounted associates, net of tax	-	-	(2,756)	-
Share of profit of equity-accounted joint venture, net of tax	-	-	(257)	-
Consolidation Adjustment	(18,679)	(2,518)	5,698	-
Total	64,699	59,239	(9,991)	9,196

Group

The Group recorded revenue of RM64.7 million for the second quarter 2014 as compared to RM59.2 million in the previous second quarter of 2013. The increase in the revenue is mainly contributed to the receipt of award of two new fabrication projects in mid 2013.

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16. MATERIAL CHANGE IN QUARTERLY RESULTS AGAINST IMMEDIATE PRECEDING QUARTER

	Revenue		Profit/(Loss) Before Tax	
	2 nd Quarter ended 30/6/2014 (RM'000)	1 st Quarter ended 31/3/2014 (RM'000)	2 nd Quarter ended 30/6/2014 (RM'000)	1 st Quarter ended 31/3/2014 (RM'000)
Business Segment				
Construction Services	63,785	142,043	(12,976)	(3,572)
Offshore Crane Works	7,673	8,564	175	(2,240)
Offshore services	9,761	-	222	-
Others	2,159	3,520	(97)	(1,865)
Total	83,378	154,127	(12,676)	(7,677)
Share of profit of equity-accounted associates, net of tax	-	-	(2,756)	8,201
Share of profit of equity-accounted joint venture, net of tax	-	-	(257)	-
Consolidation Adjustment	(18,679)	(12,013)	5,698	-
Total	64,699	142,114	(9,991)	524

For the current quarter under review, Group revenue decreased by 54% to RM64.7 million as compared to RM142.1 million in the 1st quarter 2014. The decreased in revenue during the quarter is due to the ramping up of work for an ongoing project in the 1st quarter prior to load-out in the 2nd quarter of 2014.

17. COMMENTARY ON PROSPECTS

As at 30 June 2014, the Group had an outstanding fabrication order books of RM250 million and FPSO Leasing Award of approximately USD372 million.

The FPSO Leasing Award from JX Nippon is expected to contribute positively towards the earnings and net assets per share of the Company.

Moving forward, we are cautiously optimistic but anticipate the fabrication business to remain challenging in view of the present competitive environment. However, the Company is working towards realigning its business strategies to capitalize on more promising areas in the fabrication business and is exploring other business opportunities in the Oil & Gas value chain.

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

	As at 30-Jun-2014 (RM'000)	As at 31-Dec-2013 (RM'000)
<u>Tax Expense</u>		
Current year	-	2,000
Under provision in prior year	-	170
<u>Deferred tax expense</u>		
Origination and reversal of temporary differences	108	(4,700)
Total Tax Expense	108	(2,530)

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 2014.

22. STATUS OF CORPORATE PROPOSALS

The Company had on 18 February 2014 entered into a SSA with Globalmariner Offshore Services Sdn. Bhd. ("GMOS" or Purchaser") to dispose of 2,000,000 ordinary shares of USD1.00 each in the capital of Floatech, representing 20% of the equity interest ("Sale Shares") to GMOS, for a total cash consideration of USD13.126 million ("Purchase Price") ("Proposed Disposal").

Upon completion of the Proposed Disposal, Floatech becomes an 80% subsidiary of the Company.

On 10 April 2014, Conditions Precedent pertaining to the Proposed Disposal has been fulfilled and deemed completed on even date.

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23. BORROWINGS AND DEBT SECURITIES

	Group	
	As at 30-Jun-14 (RM'000)	As at 31-Dec-13 (RM'000)
<u>Long Term Borrowings</u>		
- Finance lease liabilities	833	431
- Sukuk term loan	240,000	240,000
- Secured term loan	35,817	33,564
Less: Transactions costs	(7,706)	(1,237)
	268,944	272,758
Accreted interest	5,556	126
Sub Total	274,500	272,884
<u>Short Term Borrowings</u>		
- Revolving credit facilities - unsecured	35,000	28,000
- Trust receipt - secured	3,996	482
- Finance lease liabilities	125	89
	39,121	28,571
Sub Total	39,121	28,571
Total borrowings	313,621	301,455

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at 30 June 2014.

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 in 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 matter is fixed for trial on 4th to 12th December 2014. 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 also 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. (LOSS)/EARNINGS PER SHARE

(Loss)/Earnings per share (“(LPS)/EPS”)	SECOND QUARTER		CUMULATIVE QUARTER	
	Current Quarter 30-Jun-14	Preceding Year Corresponding Quarter 30-Jun-13	Current Financial Year 30-Jun-14	Preceding Corresponding Financial Year 30-Jun-13
(Loss)/Profit for the purpose of basic earnings per share (RM’000)	(9,883)	9,196	(9,359)	15,216
Weighted average number of ordinary shares for the purpose of basic earnings share (No.’000)	1,020,798	938,399	1,020,798	985,179
Basic (LPS)/EPS (sen)	(0.97)	0.99	(0.92)	1.54
Adjusted earnings for the purpose of diluted earnings per share (RM’000)	(9,883)	9,196	(9,359)	15,216
Weighted average number of ordinary shares for the purpose of diluted earnings share (No.’000)	1,194,513	1,012,857	1,206,145	1,004,375
Diluted (LPS)/EPS (sen)	(0.82)	0.92	(0.77)	1.51

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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 2014 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-Jun-2014 (RM'000)
Total accumulated losses of the Company and its subsidiaries:-	
- realised	(164,343)
- unrealised	(18,500)
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Total Group accumulated losses	(182,843)
Add: Consolidation adjustments	237,913
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Total Group retained profits as per consolidated accounts	55,070
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29. ITEMS TO DISCLOSE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 30/6/2014 (RM'000)	Period ended 30/6/2014 (RM'000)
Interest income	175	380
Depreciation and amortisation	(3,197)	(6,266)
Inventories written off	-	(9)
Realised foreign exchange	37	(35)
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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 22 August 2014.