

TH HEAVY ENGINEERING BERHAD (634775-D)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**FOR THE PERIOD ENDED 30 JUNE 2018**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER 30-Jun-18 Unaudited RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-17 Unaudited RM'000	CURRENT YEAR TO DATE 30-Jun-18 Unaudited RM'000	PRECEDING YEAR CORRESPONDING PERIOD 30-Jun-17 Unaudited RM'000
Revenue	143	2,383	329	4,629
Cost of sales	(1)	(2,758)	(21)	(2,808)
Gross profit/(loss)	142	(375)	308	1,821
Other income	482,535	4,395	482,565	11,010
Administration expenses	(7,717)	(14,665)	(14,310)	(30,013)
Other expenses	(702,322)	217	(705,019)	(1,445)
Operating loss	(227,362)	(10,428)	(236,456)	(18,627)
Unrealised foreign exchange gain/(loss),net	8,257	(1,450)	(1,764)	(11,593)
Finance cost	1,474	(5,975)	(4,957)	(12,237)
Share of loss of equity-accounted associate, net of tax	-	-	(2)	-
Loss before taxation	(217,631)	(17,853)	(243,179)	(42,457)
Taxation	-	-	-	-
Loss after taxation	(217,631)	(17,853)	(243,179)	(42,457)
Other comprehensive income/(loss) for the period, net of tax	8,539	(12,310)	(17,655)	(12,310)
Total comprehensive loss for the period	(209,092)	(30,163)	(260,834)	(54,767)
Loss attributable to:				
Owners of the Company	(89,480)	(16,794)	(104,232)	(37,973)
Non-controlling interests	(128,151)	(1,059)	(138,947)	(4,484)
	(217,631)	(17,853)	(243,179)	(42,457)
Total comprehensive loss attributable to:-				
Owners of the Company	(70,145)	(25,679)	(121,887)	(50,283)
Non-controlling interests	(138,947)	(4,484)	(138,947)	(4,484)
	(209,092)	(30,163)	(260,834)	(54,767)
Loss attributable to shareholders of the Company				
	sen	sen	sen	sen
i) Basic loss per share	(7.98)	(1.50)	(9.30)	(3.39)
ii) Fully diluted loss per share	(4.03)	(0.76)	(4.69)	(1.71)
Gross interest income	861	46	873	165
Gross interest expense	(1,474)	5,975	4,957	12,237

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017)

TH HEAVY ENGINEERING BERHAD (634775-D)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 JUNE 2018**

	As at 30-Jun-18 Unaudited RM'000	As at 31-Dec-17 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	243,396	960,623
Investment in associate	324	327
Deferred tax assets	1,876	1,876
	245,596	962,826
Current Assets		
Inventories	311	314
Trade and other receivables	45,548	44,238
Prepayments	309	352
Current tax asset	50	491
Cash and cash equivalents	68,807	17,314
	115,025	62,709
	360,621	1,025,535
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	280,318	280,309
Islamic Irredeemable Convertible Preference Shares ('İCPS-i')	274,951	274,960
Share premium	95,029	95,029
Revaluation reserves	57,141	57,141
Currency translation reserves	(61,756)	(44,102)
Accumulated losses	(697,074)	(592,843)
	(51,391)	70,494
	(194,631)	(62,974)
Non-controlling interests		
Total (Capital Deficiency)/Equity	(246,022)	7,520
Non Current Liabilities		
Borrowings	69,925	30,291
	69,925	30,291
Current Liabilities		
Trade and other payables	455,421	664,991
Borrowings	81,297	322,733
	536,718	987,724
Total Liabilities	606,643	1,018,015
TOTAL EQUITY AND LIABILITIES	360,621	1,025,535
Net (liabilities)/assets per share (sen)	(5)	6

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017)

TH HEAVY ENGINEERING BERHAD (634775-D)

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2018**

	Share Capital (RM'000)	ICPS-i (RM '000)	Share Premium (RM'000)	Revaluation Reserves (RM'000)	Currency Translation Reserves (RM'000)	Accumulated Losses (RM'000)	Total (RM'000)	Non-controlling interest (RM'000)	Total Equity (RM'000)
Balance at 1 January 2018	280,309	274,960	95,029	57,141	(44,101)	(592,842)	70,496	(62,976)	7,520
Other comprehensive loss for the period	-	-	-	-	(17,655)	-	(17,655)	-	(17,655)
Conversion of shares	9	(9)	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(104,232)	(104,232)	(138,947)	(243,179)
Total comprehensive loss for the period	9	(9)	-	-	(17,655)	(104,232)	(121,887)	(138,947)	(260,834)
Balance at 30 June 2018	280,318	274,951	95,029	57,141	(61,756)	(697,074)	(51,391)	(201,923)	(253,314)

	Share Capital (RM'000)	ICPS-i (RM '000)	Share Premium (RM'000)	Revaluation Reserves (RM'000)	Currency Translation Reserves (RM'000)	Accumulated Losses (RM'000)	Total (RM'000)	Non-controlling interest (RM'000)	Total Equity (RM'000)
Balance at 1 January 2017	280,269	275,000	95,029	62,459	3,119	(494,664)	221,212	(46,243)	174,969
Other comprehensive loss for the period	-	-	-	-	(12,310)	-	(12,310)	-	(12,310)
Loss for the period	-	-	-	-	-	(37,973)	(37,973)	(4,484)	(42,457)
Total comprehensive loss for the period	-	-	-	-	(12,310)	(37,973)	(50,283)	(4,484)	(54,767)
Balance at 30 June 2017	280,269	275,000	95,029	62,459	(9,191)	(532,637)	170,929	(50,727)	120,202

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017)

TH HEAVY ENGINEERING BERHAD (634775-D)

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2018**

	CUMMULATIVE QUARTER CURRENT YEAR TO DATE 30-Jun-18 (RM'000)	CORRESPONDING PRECEDING YEAR 30-Jun-17 (RM'000)
Cash flows from operating activities		
Loss before taxation	(243,179)	(42,457)
Adjustments for:		
Amortisation of intangible assets	-	13
Depreciation of property, plant and equipment	5,691	17,382
Loss on disposal of property, plant and equipment	225	-
Impairment loss on property, plant and equipment	708,771	-
Finance costs	4,957	12,237
Finance income	(873)	(165)
Waiver of debt arising from Scheme of Arrangement	(92,688)	-
Inventories written down	14	-
Gain on deconsolidation of a subsidiary	(16,915)	-
Gain on novation of JX Nippon Contract	(372,000)	-
Share of loss of associate	2	-
Unrealised foreign exchange loss	1,764	11,593
Operating loss before changes in working capital	(4,231)	(1,397)
Changes in working capital:		
Inventories	(11)	490
Trade and other receivables	(1,266)	10,395
Trade and other payables	(91,899)	40,603
Net cash (used in)/ generated from operations	(97,407)	50,091
Interests received	873	165
Interests paid	(4,957)	(12,237)
Tax refund	441	-
Net cash (used in)/ from operating activities	(101,050)	38,019
Cash flows used in investing activities		
Acquisition of property, plant and equipment	-	(12,451)
Decrease in pledged deposits placed with licensed banks, net	257	12,972
Proceeds from novation of JX Nippon Contract	372,000	-
Net cash from investing activities	372,257	521
Cash flows used in financing activities		
Repayment from loans and borrowings, net	(201,802)	(24,408)
Net cash used in financing activities	(201,802)	(24,408)
Net change in cash and cash equivalents	69,405	14,132
Effect of exchange rate translation	(17,655)	(12,310)
Cash and cash equivalents at beginning of period	2,447	4,876
Cash and cash equivalents at end of financial period	54,197	6,698
Cash and cash equivalent at end of the period comprise the followings:-		
Cash and bank balances	54,197	6,997
Deposits placed with licensed banks	14,610	15,404
	68,807	22,401
Less: Deposits pledged	(14,610)	(15,703)
	54,197	6,698

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017)

TH HEAVY ENGINEERING BERHAD (634775-D)
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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 2018

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 MFRS134 –“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 2017. 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 2017.

The Directors have concluded that the combination of the circumstances highlighted in the Independent Auditor’s Report in the audited financial statement for the financial year ended 31 December 2017 indicate material uncertainties that may cast significant doubt over the ability of the Group and of the Company to continue as going concern and therefore, may be unable to realise their assets and discharge their liabilities in the normal course of business.

Should the going concern basis for the preparation of the financial statements be no longer appropriate, adjustments will have to be made to restate the carrying value of the assets to their recoverable amounts and to provide for further liabilities which may arise.

The Company is currently implementing a Regularisation Plan to address the financial condition of the Group and of the Company which mainly comprise the following: (i) the Novation of the JX Nippon Contract to Yinson Energy Sdn. Bhd. (“YESB”), (ii) Scheme of Arrangements, (iii) Proposed capital reconstruction exercise involving the conversion of existing Irredeemable Convertible Preference Shares-i (“ICPS-i”) and a capital reduction and amalgamation exercise for which the quantum has not been finalised and (iv) Proposed disposal of certain non-core assets. Please refer to the Note 23 on the status of corporate proposal in relation to the Regularisation Plan.

The Group believes that the Regularisation Plan once implemented, will enable the Group and the Company to generate sufficient cash flows to meet their obligations. For these reasons, the Directors are of the opinion that the Group and the Company will be able to continue in operational existence for the foreseeable future and to realise their assets and settle their liabilities in the ordinary course of business.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS

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 2017 except as disclosed below:

As of 1 January 2018, the Group and the Company have adopted the following revised MFRSs and Amendments to MFRSs that have been issued by the MASB:

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MFRS and amendments effective for annual periods beginning on or after 1 January 2018:

Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)

Amendments to MFRS 2: Share-based Payment: Classification and Measurement of Share-based Payment Transactions

MFRS 9: Financial Instruments

MFRS 15: Revenue from Contracts with Customers

MFRS 15: Revenue from Contracts with Customers: Clarifications to MFRS 15

Amendments to MFRS 128: Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)

Amendments to MFRS 140: Investment Property: Transfers of Investment Property

IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The adoption of the above pronouncements has no material financial impact to the Group.

3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

Due to the significance of the matters described in Note 1 Basis of Preparation, the Auditors have expressed a disclaimer of opinion in the Company's latest audited financial statements for the financial year ended 31 December 2017.

4. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

Besides the vagaries of the Engineering business, the Group's fabrication business performance is also dependent upon the infrastructure spending by upstream oil and gas companies namely the production sharing contractors, which in turn is pegged amongst others to the outlook on the global oil prices and field discoveries.

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 except for the recoverable amount of the FPSO Layang Vessel owned by a subsidiary. Consequent upon the completion of the JX Nippon Contract Novation, the said FPSO Layang Vessel became idle and the Group recognized an impairment loss on the FPSO Layang Vessel of RM708 million. Based on the Valuer's Report dated 24 January 2018, the estimated scrap value of the FPSO Layang Vessel states an indicative range of between USD10 million to USD15 million (RM40.4 million to RM60.6 million equivalent). The Valuer's report states an indicative range of fair market value less cost of disposal between USD18 million to USD23 million (RM72.7 million to RM92.9 million equivalent).

7. DEBT AND EQUITY SECURITIES

There were no other issuances, cancellations, share buy-backs, resale of shares bought back or repayment of debt and equity securities:

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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:

Business Segment	Financial Period Ended	
	30 June 2018	
	Revenue	Loss Before
	(RM'000)	Taxation
		(RM'000)
Construction Services	280	38,550
Offshore Crane Works	49	(8,783)
Offshore Services	-	(5,935)
Others	3,458	(285,923)
Sub Total	3,787	(262,091)
Consolidation Adjustment	(3,458)	18,912
Total	329	(243,179)

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 other subsequent events during the quarter under review.

12. SIGNIFICANT EVENTS

- On 9 April 2018, following the presentation of a winding-up petition by Zelican Sdn. Bhd. on 31 October 2016, the High Court of Malaya at Kuala Lumpur ordered THHE Offshore Services Sdn. Bhd. ("THEOS") to be wound up with no order as to costs and the Official Receiver be appointed as provisional liquidator of THEOS.
- On 27 April 2018, the Company submitted an application for extension of time to submit the regularisation plan ("**EOT Application**") to Bursa Malaysia. The EOT Application is subject to Bursa Malaysia's approval. On 16 May 2018, Bursa Malaysia granted the Company an extension of time up to 26 October 2018 to submit a regularisation plan to the regulatory authorities.
- On 30 April 2018, the Company had entered into a conditional novation agreement with JX Nippon and YESB for the JX Nippon Contract Novation and Consideration agreement (collectively referred to as the "Executed Agreements") with YESB. The JX Nippon Contract Novation was completed on 1 June 2018 following the full payment of the Novation Consideration of RM374 million, pursuant to the terms of the Executed Agreements.

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13. CHANGES IN THE COMPOSITION OF THE GROUP

On 9 April 2018, THEOS received a winding up order from the High Court of Malaya and the Official Receiver has been appointed as the provisional liquidator of THEOS. With effect from that date, the Group has lost its control over the said subsidiary company. Arising from this, the Group has deconsolidated the financial information of THEOS and recognized gain on deconsolidation of approximately RM16.9 million during the current quarter.

Other than as disclosed above, there were no other changes in the composition of the Group during the quarter under review.

14. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Group (RM'000)
Potential liabilities claims by Scheme Creditors	60,497

In prior year, Scheme Creditors submitted claims under the Scheme of Arrangement (“Scheme”). However, the said amount is being disputed and pursuant to the Scheme, should there be any disputes or differences that may arise between the Scheme Companies and the Scheme Creditors with regards to the claims which are unable to be settled amicably, shall be referred to and settled by way of arbitration. The award of the arbitrator shall be final and binding.

Other than as disclosed above, there are no other contingent liabilities and contingent assets during the financial period under review.

15. CAPITAL COMMITMENTS

In prior year, the capital commitments consist mainly of costs to be incurred for the upgrading at the Pulau Indah yard and the conversion for the FPSO Layang project. Since the Scheme has been approved, the Group is discharged from fulfilling all the outstanding obligations and/or commitments pertaining to the upgrading of Pulau Indah Yard and the conversion for the FPSO Layang project. Hence, there is no capital commitment during the financial period under review.

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

16. REVIEW OF PERFORMANCE OF SECOND QUARTER

	Revenue		Loss Before Tax	
	2nd Quarter ended 30/6/2018 (RM'000)	2nd Quarter ended 30/6/2017 (RM'000)	2nd Quarter ended 30/6/2018 (RM'000)	2nd Quarter ended 30/6/2017 (RM'000)
Business Segment				
Construction Services	129	2,347	48,037	(11,258)
Offshore Crane Works	15	36	(7,380)	(1,131)
Offshore Services	-	-	(5,928)	(247)
Others	1,728	2,142	(230,584)	(5,540)
Sub Total	1,872	4,525	(195,855)	(18,176)
Share of (loss)/profit of equity-accounted associate, net of tax	-	-	-	-
Consolidation adjustment	(1,729)	(2,142)	(21,776)	323
Total	143	2,383	(217,631)	(17,853)

The Group recorded revenue of RM0.1 million for the second quarter 2018 as compared to RM2.3 million in the previous second quarter of 2017. The revenue is derived from fabrication activities during the quarter. The decrease in revenue is due to the lower fabrication activities during the quarter.

The Group recorded a loss before tax of RM217.6 million in the current quarter as compared to loss before tax of RM17.8 million in the corresponding quarter of 2017 mainly due to the recognition of impairment loss on FPSO Layang Vessel of RM708.7 million upon completion of the JX Nippon Contract Novation. However, this was offset with the gain on JX Nippon Contract Novation of RM372 million, gain on deconsolidation of THEOS, waiver of debts as part of the Scheme exercise as well as reversal of overprovision of cost during Scheme exercise.

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17. MATERIAL CHANGE IN QUARTERLY RESULTS AGAINST IMMEDIATE PRECEDING QUARTER

	Revenue		Loss Before Tax	
	2nd Quarter ended 30/6/2018 (RM'000)	1st Quarter ended 31/3/2018 (RM'000)	2nd Quarter ended 30/6/2018 (RM'000)	1st Quarter ended 31/3/2018 (RM'000)
Business Segment				
Construction Services	129	151	48,037	(9,487)
Offshore Crane Works	15	34	(7,380)	(1,403)
Offshore services	-	-	(5,928)	(7)
Others	1,728	1,730	(230,584)	(55,339)
Total	1,872	1,915	(195,855)	(66,236)
Share of (loss)/profit of equity-accounted associate, net of tax	-	-	-	-
Consolidation adjustment	(1,729)	(1,729)	(21,776)	40,688
Total	143	186	(217,631)	(25,548)

For the current quarter under review, the Group recorded revenue of RM0.1 million as compared to revenue of RM0.2 million in the immediate preceding quarter. The Group's loss before tax increase to RM217.6 million in the second quarter 2018 as compared to a loss before tax of RM25.5 million for the immediate preceding quarter mainly due to the recognition of impairment loss on the FPSO Layang Vessel of RM708.7 million upon completion of the JX Nippon Contract Novation. However, this was offset with the gain on the JX Nippon Contract Novation of RM372 million, gain on deconsolidation of THEOS, waiver of debt as part of Scheme exercise as well as reversal of overprovision of cost during Scheme exercise.

18. COMMENTARY ON PROSPECTS

The Group is cautiously optimistic of its business prospects in the non oil & gas sector subject to the successful implementation of the proposed Scheme of Arrangement pending the issuance of ICPS-i to the Scheme Creditors as disclosed in Note 23. Upon full settlement of the cash portion under the Scheme, the Group envisage that further recognition of waiver of debts from the Scheme Creditors as other income in the near future.

As at 30 June 2018, the Group, via THHE Destini Sdn Bhd, a joint venture company between THHE Fabricators Sdn Bhd and Destini Shipbuilding and Engineering Sdn Bhd, has a contract value for supply, delivery, testing and commissioning of 3 OPV for MMEA of RM697.4 million excluding GST.

Moving forward, the Group expects the fabrication business to remain challenging in view of the present competitive environment and CAPEX cut as announced by major oil companies.

The Group has expanded into ship building activities and also plans to expand into the refurbishment and maintenance works and non-oil and gas related fabrication works which is expected to provide a more stable and recurring income to the Group.

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19. PROFIT FORECAST

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

20. TAXATION

There is no tax expense during the current quarter and financial year.

21. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

22. 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 2018.

23. STATUS OF CORPORATE PROPOSALS

(a) Practice Note 17 and Regularisation Plan

On 28 April 2017, the Company announced that it has become an affected listed issuer pursuant to the amended Practice Note 17 (“PN17”) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). As an affected issuer, the Company is required to submit a Regularisation Plan within 12 months from 28 April 2017 to Bursa Malaysia for approval. The Company is currently implementing a Regularisation Plan which mainly comprise, among others, the following: (i) the JX Nippon Contract Novation to Yinson Energy Sdn. Bhd. (“YESB”), (ii) Scheme of Arrangements, (iii) Proposed capital reconstruction exercise involving the conversion of existing Irredeemable Convertible Preference Shares-i (“ICPS-i”) and a capital reduction and amalgamation exercise for which the quantum has not been finalised., and (iv) Proposed disposal on certain-non-core assets.

On 27 April 2018, the Company submitted an application for extension of time to submit the regularisation plan (“EOT Application”) to Bursa Securities. The EOT Application is subject to Bursa Securities’ approval.

On 16 May 2018, Bursa Malaysia has granted the Company an extension of time up to 26 October 2018 to submit the Regularisation Plan to the regulatory authorities for approval.

(b) Scheme of Arrangement

The Company and its three subsidiaries namely THHE Fabricators Sdn. Bhd., (“THFSB”), THHE Offshore Services Sdn. Bhd. (“THEOS”) and O&G Works Sdn. Bhd. (“OGW”) (“Scheme Companies”) were served with various legal notices and winding up petitions by their respective creditors in the prior year. These winding up petitions, if successful would cause the winding up of the Scheme Companies. However, the Scheme Companies had each formulated a Scheme with their respective Scheme Creditors. The respective Scheme Creditors approved the Company’s Scheme and that of THFSB and OGW (“Approved Scheme Companies”) at Court Convened Creditors Meetings held in December 2017 and the same were subsequently approved by the High Court on 6 February 2018. With the requisite lodgement of the relevant Court Order with the Registrar, the Schemes for the Approved Scheme Companies are now effective by virtue of Section 366(5) of the Companies Act 2016.

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Pursuant to the Approved Scheme Companies' Schemes, all pending litigation proceedings including all winding up petitions against the Approved Scheme Companies are to be withdrawn or terminated as the debts are deemed to have been compromised under the Schemes. Pursuant to these Schemes, the total debt due and owing to the Scheme Creditors will be reduced and the remaining outstanding balance to be settled by way of cash settlement, issuance of new ICPS-i in the Company and term out of the existing facility. Any remaining amount owing to the Scheme Creditors after the aforesaid shall be completely waived. The Company received the Novation Consideration of RM374 million from YESB on 1 June 2018. Commencing from 1 June 2018, the Company and the Group has made settlement for the cash portion to their respective Scheme Creditors.

(c) The Proposed Novation

The Company proposes to novate the Contract for the Provision of EPCIC and Leasing for Layang FPSO Facilities awarded by JX Nippon Oil & Gas Exploration (Malaysia) Limited ("JX Nippon Contract") to YESB ("the JX Nippon Contract Novation"). On 15 February 2018, at an Extraordinary General Meeting, the Shareholders of the Company have approved the JX Nippon Contract Novation. Proceeds from the JX Nippon Contract Novation will be utilised mainly to repay the Scheme Creditors in accordance with the terms of the respective Schemes.

On 30 April 2018, the Company had entered into a conditional novation agreement with JX Nippon and YESB for the JX Nippon Contract Novation and Consideration agreement (collectively referred to as the "Executed Agreements") with YESB. The JX Nippon Contract Novation was completed on 1 June 2018 following the full payment of the Novation Consideration, pursuant to the terms of the Executed Agreements.

As of the date of this report, the gross proceeds from the JX Nippon Contract Novation of RM374 million was utilized in the following manner:

Details	Estimated timeframe	Proposed	Actual	Variance	
		utilisation RM'mil	utilisation RM'mil	RM'mil	%
Payment to Scheme Creditors*	1 month	352.8	328.8	24.0	7%
Estimated expenses^	1 month	21.2	1.1	20.1	95%
Working capital			5.2	-5.2	NA
		<u>374.0</u>	<u>335.1</u>	<u>38.9</u>	

* The negotiation with the Scheme Creditors are still on going with respect to the disputed amount and the full settlement sum will be subjected to the terms and conditions of the Schemes.

^ The proceeds were utilised for other purposes instead of the initial proposed utilisation for GST cost of RM21.1 million. There was no payment for GST cost as GST was zero rated effective from 1 June 2018.

The utilisation of the proceeds as disclosed above should be read in conjunction with the Circular of the Company dated 29 January 2018.

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24. BORROWINGS AND DEBT SECURITIES

	Group	
	As at	As at
	30 June	31 December
	2018	2017
	(RM'000)	(RM'000)
<i>Long Term Borrowings</i>		
- Finance lease liabilities	-	291
- Sukuk	69,925	30,000
Sub Total	69,925	30,291
<i>Short Term Borrowings</i>		
- Sukuk	41,346	209,808
- Secured term loan	14,962	14,921
- Bridger loan - secured	10,609	41,823
- Revolving credit facilities - unsecured	14,000	55,999
- Finance lease liabilities	380	182
Sub Total	81,297	322,733
Total borrowings	151,222	353,024

25. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at 30 June 2018.

26. MATERIAL LITIGATIONS

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) **NKA Energy Ventures Sdn. Bhd. vs THHE Fabricators Sdn. Bhd. (High Court, Bintulu Suit No: BTU-22NCC-3/5-2016)**

NKA Energy Ventures Sdn. Bhd. ("NKA") brought an action in the High Court, Bintulu against THFSB. The amount claimed is in relation to supply and delivery of goods and services for PERMAS Project amounting to RM5,302,962. The next mention date is fixed on 29 October 2018. Pursuant to the Scheme, all pending proceedings are to be withdrawn or terminated as the debt has been compromised.

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26. MATERIAL LITIGATION (CONTINUED)

- (b) **Globalmariner Offshore Services Sdn. Bhd. vs TH Heavy Engineering Berhad (Originating Summon: WA-24NCC-404-09/2016 was filed at Kuala Lumpur High Court).**

Globalmariner Offshore Services Sdn. Bhd. (“GMOS”) filed an Originating Summon in the Kuala Lumpur High Court against the Company, and a Notice of Application for Fortuna Injunction to prevent the Company from presenting a winding-up petition against GMOS.

This is in response to a notice under Section 218 of the Companies Act 1965 served by the Company on GMOS on 8 September 2016 for the sum of RM17,974,095 being the equity contribution due pursuant to Clause 3.2(e) of the Shareholders Agreement.

On 18 June 2018, GMOS withdrew its application for a perpetual injunction to restrain THHE from presenting the winding up petition against GMOS; and its application for a Fortuna Injunction against THHE, in exchange for THHE not presenting the winding up petition against GMOS for the sum of RM 17,974,095.

The Group’s solicitor will commence a summary judgment application in Suit 374 for the abovementioned sum, and subsequently present the winding up petition against GMOS.

- (c) **Globalmariner Offshore Services Sdn. Bhd. vs TH Heavy Engineering Berhad (Civil Suit: WA-22NCC-588-09/2016 was filed at Kuala Lumpur High Court).**

Globalmariner Offshore Services Sdn. Bhd. (“GMOS”) brought an action in the Kuala Lumpur High Court against the Company for the amount of USD3,196,952 together with interest for purported debt related to the technical expertise services in the conversion of FPSO Layang.

On 11 November 2016, the Company filed its defence and counterclaim and served the same on the following:

- i) Globalmariner Offshore Services Sdn. Bhd.,
- ii) Zahar Mohd Hashim Zainuddin,
- iii) Abdul Rahman Bin Mohamed Shariff,
- iv) Nor Badli Munawir Bin Mohamad Alias Lafti,
- v) Globalmariner Offshore Services (L) Ltd,
- vi) Dynac Sdn. Bhd.,

As the Scheme has been approved by the Court, GMOS’s claim will be compromised under the Scheme.

On the Counterclaim, the court made the Orders in favour of the Defendant. However, the Company has filed appeals against the striking out orders so that it will not prejudice THHE’s Counterclaim in Suit 374 or its other actions against GMOS. The Group’s solicitor is of the view that there is a fair chance of succeeding in the abovementioned Appeals.

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26. MATERIAL LITIGATION (CONTINUED)

- (d) **Globalmariner Offshore Services Sdn. Bhd. vs TH Heavy Engineering Berhad & Floatech (L) Ltd. (Civil Suit: WA-22NCC-374-11/2016 was filed at Kuala Lumpur High Court) (“Suit 374”)**

Globalmariner Offshore Services Sdn. Bhd. (“GMOS”) brought an action in the Kuala Lumpur High Court against the Company claiming that they are entitled to purchase THHE’s 80% shareholding in Floatech (L) Ltd on 31.10.2016 pursuant to their claim that THHE is insolvent due to several winding up petitions being presented against THHE at the Kuala Lumpur High Court by its creditors.

GMOS claims that according to the Shareholders Agreement and Share Sale Agreement entered into between GMOS and THHE, it is entitled to issue its Default Notice dated 20.7.2016 and Default Sale Notice dated 29.7.2016 and subsequently be entitled the option of purchasing all of THHE’s shares in Floatech (L) Ltd.

GMOS also claims that the purchase price of the shares would be RM 1.00 under the Shareholders Agreement, as Floatech does not possess any other assets except FPSO DP-1 which was at the time under arrest at Dubai and therefore allegedly had no value.

On 23.5.2018, the Company filed its defence and counterclaim and served the same on the following:

- i) Globalmariner Offshore Services Sdn. Bhd.,
- ii) Zahar Mohd Hashim Zainuddin, (“Zahar”)
- iii) Abdul Rahman Bin Mohamed Shariff, (“Abdul Rahman”)
- iv) Nor Badli Munawir Bin Mohamad Alias Lafti, (“Badli”)
- v) Globalmariner Offshore Services (L) Ltd, (“GMOS (L)”)
- vi) Dynac Sdn. Bhd., (“Dynac”)

The next Pre-Trial Case Management is set on 21 September 2018 for the court to give directions as to the close of pleadings, and to set a trial date.

The Group’s solicitor is of the opinion that there is a fair chance of defending this action.

- (e) **Belhana Piling & Construction Sdn. Bhd. vs THHE Fabricators Sdn. Bhd.**

Belhana Piling & Construction Sdn. Bhd. (“Belhana”) brought an action in the Kuala Lumpur High Court against THFSB. The claim dated 24 March 2017 was served on THFSB on 1 April 2017. The amount claimed is in relation to the “Construction of New Bulkhead, Wharf, Shoreline Protection, Skid Track and Relieve Platform Project” amounting RM2,756,840. Belhana withdrew the suit on 27 July 2018 as the Scheme has been approved by the Court.

27. PROPOSED DIVIDENDS

No dividends have been proposed for the current reporting quarter.

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28. LOSS PER SHARE

Loss per share ('LPS')	SECOND QUARTER		CUMULATIVE QUARTER	
	Current Quarter	Preceding Year Corresponding Quarter	Current Financial Period	Preceding Corresponding
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Loss for the purpose of basic earnings per share (RM'000)	(89,480)	(16,794)	(104,232)	(37,973)
Weighted average number of ordinary shares for the purpose of basic earnings share (No.'000)	1,121,237	1,121,077	1,121,237	1,121,077
Basic LPS (sen)	(7.98)	(1.50)	(9.30)	(3.39)
Adjusted loss for the purpose of diluted earnings per share (RM'000)	(89,480)	(16,794)	(104,232)	(37,973)
Weighted average number of ordinary shares for the purpose of diluted earnings share (No.'000)	1,121,237	1,121,077	1,121,237	1,121,077
Conversion of ICPS-i	1,099,805	1,100,000	1,099,805	1,100,000
Weighted average number of ordinary shares for the purpose of diluted earnings share (No.'000)	2,221,042	2,221,077	2,221,042	2,221,077
Diluted LPS (sen)	(4.03)	(0.76)	(4.69)	(1.71)

29. ITEMS TO DISCLOSE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 30/6/2018 (RM'000)	Cumulative Period ended 30/6/2018 (RM'000)
Interest income	(861)	(873)
Interest expense	(1,474)	4,957
Impairment of property, plant and equipment	708,771	708,771
Depreciation of property, plant of equipment	2,835	5,691
Loss on disposal property, plant and equipment	225	225
Gain on novation of JX Nippon Contract	(372,000)	(372,000)
Gain on deconsolidation of THEOS	(16,915)	(16,915)
Inventories written down	7	14
Waiver of debt arising from Scheme of Arrangement	(92,688)	(92,688)
Unrealised forex (gain)/loss recognised in Profit & Loss Account	(8,257)	1,764
Unrealised forex (gain)/loss recognised in Other Comprehensive Income	(38,690)	2,002
	(46,947)	3,766

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.