

TH HEAVY ENGINEERING BERHAD (634775-D)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2019**

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|---|--|--|--|---|
| | CURRENT YEAR QUARTER 30-Jun-19 Unaudited RM'000 | PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-18 Unaudited RM'000 | CURRENT YEAR TO DATE 30-Jun-19 Unaudited RM'000 | PRECEDING YEAR CORRESPONDING PERIOD 30-Jun-18 Unaudited RM'000 |
| Revenue | 11,937 | 143 | 23,467 | 329 |
| Cost of sales | (1,276) | (1) | (2,146) | (21) |
| Gross profit | 10,661 | 142 | 21,321 | 308 |
| Other income | 3,003 | 482,535 | 3,513 | 482,565 |
| Administration expenses | (8,061) | (7,717) | (15,924) | (14,310) |
| Other expenses | (123) | (702,322) | (155) | (705,019) |
| Operating profit/(loss) | 5,480 | (227,362) | 8,755 | (236,456) |
| Unrealised loss | (93) | 8,257 | (111) | (1,764) |
| Finance cost | (1,151) | 1,474 | (2,303) | (4,957) |
| Share of loss of equity-accounted associate, net of tax | (47) | - | (94) | (2) |
| Profit/(Loss) before taxation | 4,189 | (217,631) | 6,247 | (243,179) |
| Taxation | - | - | - | - |
| Profit/(Loss) after taxation | 4,189 | (217,631) | 6,247 | (243,179) |
| Other comprehensive income for the period, net of tax | - | 8,539 | - | (17,655) |
| Total comprehensive income/(loss) for the period | 4,189 | (209,092) | 6,247 | (260,834) |
| Profit/(Loss) attributable to: | | | | |
| Owners of the Company | 4,614 | (89,480) | 7,098 | (104,232) |
| Non-controlling interests | (425) | (128,151) | (851) | (138,947) |
| | 4,189 | (217,631) | 6,247 | (243,179) |
| Total comprehensive income/(loss) attributable to:- | | | | |
| Owners of the Company | 4,614 | (80,941) | 7,098 | (121,887) |
| Non-controlling interests | (425) | (128,151) | (851) | (138,947) |
| | 4,189 | (209,092) | 6,247 | (260,834) |
| Profit/(loss) attributable to shareholders of the Company | | | | |
| | sen | sen | sen | sen |
| i) Basic profit/(loss) per share | 0.41 | (8) | 0.63 | (9.30) |
| ii) Fully diluted profit/(loss) per share | 0.21 | (4) | 0.32 | (4.69) |
| Gross interest income | 323 | 861 | 813 | 873 |
| Gross interest expense | 1,151 | (1,474) | 2,303 | 4,957 |

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018)

TH HEAVY ENGINEERING BERHAD (634775-D)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 JUNE 2019**

| | As at 30-Jun-19 Unaudited RM'000 | As at 31-Dec-18 Audited RM'000 |
|---|---|---|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 230,701 | 235,347 |
| Investment in associate | 151 | 245 |
| Deferred tax assets | 1,876 | 1,876 |
| | 232,728 | 237,468 |
| Current Assets | | |
| Inventories | 31 | 32 |
| Trade and other receivables | 62,355 | 42,731 |
| Prepayments | 405 | 251 |
| Current tax asset | 42 | 68 |
| Cash and cash equivalents | 52,305 | 60,981 |
| | 115,138 | 104,063 |
| | 347,866 | 341,531 |
| TOTAL ASSETS | | |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the Company | | |
| Share capital | 375,347 | 280,318 |
| Islamic Irredeemable Convertible Preference Shares ('ICPS-i') | 274,951 | 274,951 |
| Share premium | - | 95,029 |
| Revaluation reserves | 51,822 | 51,822 |
| Currency translation reserves | (50,821) | (50,821) |
| Accumulated losses | (589,673) | (596,771) |
| | 61,626 | 54,528 |
| Non-controlling interests | (193,873) | (193,021) |
| Capital Deficiency | (132,247) | (138,493) |
| Non Current Liabilities | | |
| Borrowings | 55,000 | 55,083 |
| | 55,000 | 55,083 |
| Current Liabilities | | |
| Trade and other payables | 331,177 | 331,014 |
| Borrowings | 93,936 | 93,927 |
| | 425,113 | 424,941 |
| Total Liabilities | 480,113 | 480,024 |
| TOTAL EQUITY AND LIABILITIES | 347,866 | 341,531 |
| Profit/(loss) attributable to shareholders of the Company | | |
| Net assets per share (sen) | 5 | 5 |

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018)

TH HEAVY ENGINEERING BERHAD (634775-D)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2019**

| | 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 2019 | 280,318 | 274,951 | 95,029 | 51,822 | (50,821) | (596,771) | 54,528 | (193,022) | (138,494) |
| Credit arising from share premium reduction | 95,029 | - | (95,029) | - | - | - | 7,098 | (851) | - |
| Profit for the period | - | - | - | - | - | 7,098 | 7,098 | (851) | 6,247 |
| Total comprehensive loss for the period | 95,029 | - | (95,029) | - | - | 7,098 | 7,098 | (851) | 6,247 |
| Balance at 30 June 2019 | 375,347 | 274,951 | - | 51,822 | (50,821) | (589,673) | 61,626 | (193,873) | (132,247) |

| | 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 31 June 2018 | 280,318 | 274,951 | 95,029 | 57,141 | (61,756) | (697,074) | (51,391) | (201,923) | (253,314) |

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018)

TH HEAVY ENGINEERING BERHAD (634775-D)

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2019**

| | CUMMULATIVE QUARTER CURRENT YEAR TO DATE 30-Jun-19 (RM'000) | CORRESPONDING PRECEDING YEAR 30-Jun-18 (RM'000) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before taxation | 6,247 | (243,179) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 4,651 | 5,691 |
| Loss on disposal of property, plant and equipment | - | 225 |
| Impairment loss on property, plant and equipment | - | 708,771 |
| Finance costs | 2,303 | 4,957 |
| Finance income | (813) | (873) |
| Waiver of debt arising from Scheme of Arrangement | (2,570) | (92,688) |
| Inventories written down | 3 | 14 |
| Gain on deconsolidation of a subsidiary | - | (16,915) |
| Gain on novation of JX Nippon Contract | - | (372,000) |
| Share of loss of associate | 94 | 2 |
| Unrealised foreign exchange loss | 111 | 1,764 |
| | <u>10,026</u> | <u>(4,231)</u> |
| Operating loss before changes in working capital | | |
| Changes in working capital: | | |
| Inventories | (2) | (11) |
| Trade and other receivables | (19,777) | (1,266) |
| Trade and other payables | 2,615 | (91,899) |
| | <u>(7,138)</u> | <u>(97,407)</u> |
| Net cash (used in)/ generated from operations | | |
| Interests received | 813 | 873 |
| Interests paid | (2,303) | (4,957) |
| Tax refund | 26 | 441 |
| | <u>(8,602)</u> | <u>(101,050)</u> |
| Net cash (used in)/ from operating activities | | |
| Cash flows used in investing activities | | |
| Decrease in pledged deposits placed with licensed banks, net | 1,842 | 257 |
| Proceeds from novation of JX Nippon Contract | - | 372,000 |
| | <u>1,842</u> | <u>372,257</u> |
| Net cash from investing activities | | |
| Cash flows used in financing activities | | |
| Repayment from loans and borrowings, net | (74) | (201,802) |
| | <u>(74)</u> | <u>(201,802)</u> |
| Net cash used in financing activities | | |
| Net change in cash and cash equivalents | (6,834) | 69,405 |
| Effect of exchange rate translation | - | (17,655) |
| Cash and cash equivalents at beginning of period | 59,095 | 2,447 |
| Cash and cash equivalents at end of financial period | <u>52,261</u> | <u>54,197</u> |
| Cash and cash equivalent at end of the period comprise the followings:- | | |
| Cash and bank balances | 918 | 54,197 |
| Deposits placed with licensed banks | 51,387 | 14,610 |
| | <u>52,305</u> | <u>68,807</u> |
| Less: Deposits pledged | (44) | (14,610) |
| | <u>52,261</u> | <u>54,197</u> |

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018)

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 2019

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 reading conjunction with the Group’s audited financial statements for the financial year ended 31 December 2018. 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 2018.

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 2018 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 formulating a Proposed Regularisation Plan to address the financial condition of the Group and of the Company which mainly comprise the following: (i) 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 (ii) 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 2018 except as disclosed below:

As of 1 January 2019, 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 2019:

- MFRS 16: Leases
- Amendments to MFRS 119 'Employees Benefits': Plant Amendment, Curtailment or Settlement
- Annual Improvement to MFRSs 2015 – 2017 Cycle: Amendment to MFRS 3 'Business Combinations', MFRS 122 'Income Taxes' and MFRS 123 'Borrowing Cost'

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 2018.

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.

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.

8. DIVIDENDS PAID

There were no dividends paid during the current financial period.

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9. SEGMENTAL REPORTING

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

| | Financial Period Ended | |
|--------------------------|-------------------------------|----------------------|
| | 30 June 2019 | |
| Business Segment | Revenue | Profit Before |
| | (RM'000) | Taxation |
| | | (RM'000) |
| Construction Services | 23,412 | 10,772 |
| Offshore Crane Works | 55 | (1,244) |
| Holding company & Others | 3,457 | (3,188) |
| Sub Total | 26,924 | 6,340 |
| Consolidation Adjustment | (3,457) | (93) |
| Total | 23,467 | 6,247 |

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

- (a) On 24 April 2019, the Company has 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 17 May 2019, Bursa Malaysia has granted the Company an extension of time up to 24 October 2019 to submit a regularisation plan to Bursa and/or other the relevant regulatory authorities.
- (b) On 13 June 2019, the Company had been awarded by Afcons Infrastructure Limited of India a sub-contract for the Fabrication of Piles (“**Sub-Contract**”) in relation to the Offshore Process Platform Project (CPP & LQUP) for the development of KG-DWN-98/2 NEP Block offshore India (“**Project**”).

Under the Sub-Contract, the Company is to undertake the fabrication of piles for offshore jackets in relation to the abovementioned Project which are to be located off the east coast of India. The total value of the Sub-Contract is approximately USD9.7 million (or approximately RM39.8 million).

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13. CHANGES IN THE COMPOSITION OF THE GROUP

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 | 37,835 |

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

| | Group (RM'000) |
|-----------------------------|---------------------------|
| Approved and contracted for | 13,000 |

The capital commitments mainly consist of costs to be incurred for the infrastructure of slipway at the Pulau Indah yard for support of the OPV Project.

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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 | | Profit/(Loss) Before Tax | |
|--------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2nd Quarter ended 30/6/2019 (RM'000) | 2nd Quarter ended 30/6/2018 (RM'000) | 2nd Quarter ended 30/6/2019 (RM'000) | 2nd Quarter ended 30/6/2018 (RM'000) |
| Business Segment | | | | |
| Construction Services | 11,918 | 129 | 5,499 | 48,037 |
| Offshore Crane Works | 19 | 15 | (603) | (7,380) |
| Offshore Services | - | - | - | (5,928) |
| Holding company & Others | 1,728 | 1,728 | (660) | (230,584) |
| Sub Total | 13,665 | 1,872 | 4,236 | (195,855) |
| Consolidation adjustment | (1,728) | (1,729) | (47) | (21,776) |
| Total | 11,937 | 143 | 4,189 | (217,631) |

The Group recorded revenue of RM11.9 million for the second quarter 2019 as compared to RM0.1 million in the previous second quarter of 2018. The revenue is derived from constructions services for Offshore Petrol Vessel (OPV) project. The increase in revenue is due to the recognition revenue from the OPV Project during the quarter.

The Group recorded a profit before tax of approximately RM4.1 million in the current quarter as compared to loss before tax of RM217.6 million in the corresponding quarter of 2018 mainly arising from strong contribution from OPV Project, while the loss in corresponding quarter of 2018 is mainly due to recognition of impairment loss on the FPSO Layang vessel.

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17. REVIEW OF QUARTERLY RESULTS AGAINST IMMEDIATE PRECEDING QUARTER

| | Revenue | | Profit/(Loss) Before Tax | |
|--------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2nd Quarter ended 30/6/2019 (RM'000) | 1st Quarter ended 31/3/2019 (RM'000) | 2nd Quarter ended 30/6/2019 (RM'000) | 1st Quarter ended 31/3/2019 (RM'000) |
| Business Segment | | | | |
| Construction Services | 11,918 | 11,494 | 5,499 | 5,273 |
| Offshore Crane Works | 19 | 36 | (603) | (641) |
| Offshore services | - | - | - | - |
| Holding company & Others | 1,728 | 1,729 | (660) | (2,528) |
| Total | 13,665 | 13,259 | 4,236 | 2,104 |
| Consolidation adjustment | (1,728) | (1,729) | (47) | (46) |
| Total | 11,937 | 11,530 | 4,189 | 2,058 |

For the current quarter under review, the Group recorded revenue of RM11.9 million as compared to revenue of RM11.5 million in the immediate preceding quarter due to strong contribution from OPV Project. The Group recorded a profit before tax of RM4.1 million in the second quarter 2019 as compared to a profit before tax of RM2.0 million for the immediate preceding quarter mainly arising from gain on waiver of debts as part of the Scheme of Arrangement .

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.

As at 30 June 2019, 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 three units of OPV for MMEA of RM738.9 million.

In addition, as at 30 June 2019 the Group has total contract value of USD9.7 million for the oil & gas business.

Moving forward, the Group expects the fabrication business to remain challenging in view of the present domestic competitive environment. However, the Group is actively pursuing oil & gas business in overseas market.

The Group has expanded into ship repair and 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.

19. PROFIT FORECAST

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

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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 31 December 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 listed issuer, the Company is required to submit a Regularisation Plan to address the PN17 status within 12 months from 28 April 2017 to Bursa Malaysia for approval. The Company is currently in the process of formulating the Proposed Regularisation Plan for submission and during the financial year, it has applied to and has been granted extension of time for third time to 24 October 2019 by Bursa Malaysia to submit the Proposed Regularisation Plan.

The Proposed Regularisation Plan will mainly comprise the following: (i) Proposed capital reconstruction exercise involving the conversion of existing Irredeemable Convertible Preference Shares-i (“ICPS-i”) to ordinary shares, proposed issuance of new ICPS-i in the Company, and a capital reduction and amalgamation exercise for which the quantum has not been finalised; and (ii) Proposed disposal of certain non-core assets.

(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. 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, proposed 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 Approved Scheme Companies are currently in the process of implementing the Schemes.

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23. STATUS OF CORPORATE PROPOSALS (CONTINUED)

(b) Scheme of Arrangement (Continued)

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 substantial settlement for the cash portion to their respective Scheme Creditors. Currently, the issuance of new ICPS-i to the Scheme Creditors is still pending.

(c) The Novation of JX Nippon Contract

The Company had novated the JX Nippon Contract to YESB which was completed on 1 June 2018 following the full payment of the Novation Consideration.

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 | 334.9 | 17.9 | 5% |
| Estimated expenses^ | 1 month | 21.2 | 3.3 | 17.9 | 84% |
| Working capital | 6 months | - | 18.6 | -18.6 | NA |
| | | <u>374.0</u> | <u>356.8</u> | <u>17.2</u> | |

* Amount owing to the Scheme Creditors is lower than the amount disclosed in the Circular, due to the following reasons:

- (i) variation in the amount of disputed debt admitted under the proof of debt exercise pursuant to the Schemes, which is currently under negotiation;
- (ii) the amount owing to the Scheme Creditors of THEOS will be separately settled through proceeds from liquidation of THEOS;
- (iii) the final amount owing to the Scheme Creditors of OGW of RM8.8 million will be settled through THFSB's Schemes, hence not included in the above settlement schedule; and
- (iv) lower exchange rate applied on foreign payables admitted under the proof of debt exercise pursuant to 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 30 June 2019 (RM'000) | As at 31 December 2018 (RM'000) |
| <u>Long Term Borrowings</u> | | |
| - Sukuk | 55,000 | 55,000 |
| Sub Total | 55,000 | 55,000 |
| <u>Short Term Borrowings</u> | | |
| - Sukuk | 54,200 | 54,200 |
| - Secured term loan | 14,961 | 14,961 |
| - Bridger loan - secured | 10,609 | 10,609 |
| - Revolving credit facilities - unsecured | 14,000 | 14,000 |
| - Finance lease liabilities | 166 | 241 |
| Sub Total | 93,936 | 94,011 |
| Total borrowings | 148,936 | 149,011 |

25. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at 30 June 2019.

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) **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 October 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.

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26. MATERIAL LITIGATION (CONTINUED)

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 July 2016 and Default Sale Notice dated 29 July 2016 and subsequently be entitled the option of purchasing all of THHE's shares in Floatech (L) Ltd.

On 23 May 2018, the Company filed its defence and counterclaim and served the same to Globalmariner Offshore Services Sdn. Bhd., Zahar Mohd Hashim Zainuddin, Abdul Rahman Bin Mohamed Shariff, Nor Badli Munawir Bin Mohamad Alias Lafti, Globalmariner Offshore Services (L) Ltd and Dynac Sdn. Bhd.

A summary judgment application for a sum of RM 17.97 million and an application (to determine the issue regarding the Default Notices without going to trial) by THHE were both filed on 28 September 2018. The High Court however dismissed both the applications on 14 January 2019 and 15 January 2019 respectively ("Decisions"). THHE has filed an appeal against the respective Decisions ("Appeals").

On 6 August 2019, the Court of Appeal dismissed THHE's application for a summary judgement for the sum of RM 17.97 million. On 26 August 2019, the Court of Appeal dismissed THHE's application with regard to the Default Notice.

The High Court has fixed trial on 16 to 20 December 2019, 3 to 7 February 2020 and 17 to 21 February 2020.

The Group's solicitor is of the opinion that there is a fair chance of defending the proceedings.

(b) **Drydock World – Dubai LLC vs Floatech (L) Ltd. (Dubai Court of First Instance, Number 63346/2019)**

Floatech (L) Limited ("Floatech"), a 80% owned subsidiary of THHE, had received a Writ of Summons filed by Drydocks World – Dubai LLC ("DWD") ("Plaintiff") on 23 April 2019 in the Dubai Courts of First Instance ("Court"). A copy was served via email to a third party on 29 April 2019.

DWD is demanding Floatech to pay the sum of USD6,224,494, equivalent to AED22,906,137 for the wharfage charges, maintenance, repairs and installation equipment carried out by the Plaintiff on FPSO Layang vessel. In addition, DWD also claims a legal interest of twelve percent (12%) per annum from due date until the date of full settlement with expeditious execution without bail and all fees, charges and attorney fees.

THHE has appointed a local legal firm ("Counsel") and the Counsel has attended court on 5 May 2019. A memorandum of defence was filed at the Court on 16 July 2019 and DWD's lawyer requested an adjournment to submit a commentary memo.

The Court decided to reserve the case for a judgment to be delivered on 24 September 2019, and granted DWD 5 days to submit its memo, and also granted the Company 5 days from the DWD's submission date to submit the Company's final memo.

The Group's solicitor is of the opinion that there is a fair chance of defending the proceedings. Nevertheless, THHE is not expected to incur any additional cost except for legal cost, as the amount claim has been accrued for.

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26. MATERIAL LITIGATION (CONTINUED)

(c) **THHE Fabricators Sdn Bhd v Murphy Sarawak Oil Co. Ltd. (Arbitration Proceedings)**

THHE Fabricators Sdn. Bhd. (“THF”) is claiming a sum of RM 112,744,482.05 pursuant to a Change Order Proposal under the EPCC Contract with Murphy Sarawak Oil Company Limited (“Murphy”) made effective on 1 April 2013 (“EPCC Contract”) for additional costs incurred by THF as a result of loss and expenses incurred due to major design changes and additional works that required amongst others, massive reengineering works and significant increase in size, weight and complexity of the topsides that was constructed by THF; prolongation of Hookup and Commissioning campaign work offshore; and various Field Instructions issued by Murphy.

THF had submitted its claim of RM 112,744,482.05 to Murphy in June 2015 but in December 2015 Murphy had rejected THF’s claim and instead offered a sum of RM13.9 million as settlement. Murphy’s offer was not acceptable and was rejected by THF. The parties are currently in negotiation to reach an amicable settlement.

27. PROPOSED DIVIDENDS

No dividends have been proposed for the current reporting quarter.

28. PROFIT/(LOSS) PER SHARE

| Earning per share ('EPS') | FIRST QUARTER | | CUMULATIVE QUARTER | |
|--|------------------|--------------------------------------|--------------------------|-------------------------|
| | Current Quarter | Preceding Year Corresponding Quarter | Current Financial Period | Preceding Corresponding |
| | 30-Jun-19 | 30-Jun-18 | 30-Jun-19 | 30-Jun-18 |
| Profit/(Loss) for the purpose of basic earnings per share (RM'000) | 4,614 | (89,480) | 7,098 | (104,232) |
| 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 EPS (sen) | 0.41 | (7.97) | 0.63 | (9.30) |
| Adjusted profit/(loss) for the purpose of diluted earnings per share (RM'000) | 4,614 | (89,480) | 7,098 | (104,232) |
| 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 EPS (sen) | 0.21 | (4.03) | 0.32 | (4.69) |

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29. ITEMS TO DISCLOSE IN THE STATEMENT OF COMPREHENSIVE INCOME

| | Quarter ended 30/6/2019 (RM'000) | Cummulative Period ended 30/6/2019 (RM'000) |
|---|---|--|
| Interest income | (323) | (813) |
| Interest expense | 1,151 | 2,303 |
| Depreciation of property, plant of equipment | 2,315 | 4,651 |
| Inventories written down | - | 3 |
| Waiver of debt arising from Scheme of Arrangement | (2,570) | (2,570) |
| Unrealised forex loss recognised in Profit & Loss Account | 93 | 111 |
| Realised forex gain | (101) | (101) |

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.