

Boustead Heavy Industries Corporation Berhad (11106-V)
Notes to the Interim Financial Report for the Quarter Ended 31 March 2010

Part A Explanatory Notes Pursuant to FRS 134

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in compliance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2009.

A2. Changes in Accounting Policies

The accounting policies and method of computation adopted by the Group are consistent with those used in the preparation of the Y2009 Audited Financial Statements except the following FRSs mandatory with effect from 1 January 2010:

FRS 8	Operating Segments
FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements (revised)
FRS 123	Borrowing costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendment to FRS 1 and FRS 127	First-time Adoption of Financial Reporting Standards and Consolidated and Separate Financial statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 139, FRS 7 and IC Interpretation 9	Financial Instruments: Recognition and Measurement, Disclosures and Reassessment of Embedded Derivatives
Improvement to FRSs 2009 (Inclusive of FRS 117 Leases)	Improvement to FRSs (2009) (Inclusive of FRS 117 Leases)
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2- Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
TR i-3	Presentation of Financial Statements of Financial Institutions

The adoption of the above FRSs does not have any significant impact on the Group except for FRS 101, FRS 117, FRS 139, FRS 7 and FRS 8. The principal changes in accounting policies and their effects resulting from the adoption of these FRSs are as follows:

i) **FRS 101, Presentation of Financial Statements (revised)**

With the adoption of this FRS, statement of changes in equity will only include details of transaction with owners. All non-owners changes in equity are presented as a single line labeled as total comprehensive income. The Standard also introduced the statement of comprehensive income; presenting all items of income and expense recognized in income statement, together with all other items of recognized income and expense.

These changes in presentation have been applied retrospectively and have no financial impact.

ii) **Amendments to FRS 117, Leases**

The amendment to FRS 117 requires entity with existing leases and of land and building (combined) to reassess the classification of land as a finance or operating lease. The Group has reassessed and determined that all leasehold land of the Group are in substance finance leases and has reclassified the leasehold land to property, plant and equipment. These changes in presentation have been applied retrospectively and have no impact on the Group's financial statements.

The following comparative figures have been restated:

Group	31 December 2009	
	As restated	As previously stated
	RM'000	RM'000
Property, plant and equipment	76,886	64,688
Prepaid lease payments	-	12,198

iii) **FRS 139, Financial Instruments, Recognition and Measurement**

This standard establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items and permit hedge accounting only under strict circumstances.

These changes have no financial impact on the financial statements.

iv) **Amendments to FRS 7, Financial Instruments, Disclosures**

This standard requires additional disclosures regarding fair value measurements and liquidity risk in the full financial statements, and has no effect on the financial statements. However, FRS 7 disclosures are not required in the interim financial statements, and hence, no further disclosures has been made in these interim financial statements.

v) **FRS 8, Operating Segments.**

This standard requires a 'management approach' under which segment information is presented on a similar basis to that used for internal reporting purposes. As the Group's chief operating decision maker relies on internal report which are similar to those currently disclosed externally, no further segmental information disclosures will be necessary.

These changes have no financial impact on the financial statements.

A3. Comments about Seasonal or Cyclical Factors

The business operations of the Group are not materially affected by any seasonal or cyclical factors.

A4. Unusual Items Due to Their Nature, Size or Incidence

There were no items affecting the assets, liabilities, equity, net income or cash flows of the Group that are unusual because of their nature, size, or incidence for the current financial quarter ended 31 March 2010.

A5. Change in Estimates

There was no material change in estimates of amounts reported in the prior interim periods of the previous financial year.

A6. Dividends Paid

There was no dividend paid for the current financial quarter ended 31 March 2010.

A7. Operating Segments

No segmental analysis is prepared as the Group is primarily engaged in heavy engineering segment within Malaysia.

A8. Debts and Equity Securities

There were no issuances and repayment of debt and equity securities, share buybacks, share cancellations, shares held as treasury shares and resale of treasury shares in the current financial period.

A9. Carrying Amount of Revalued Assets

There has been no revaluation of property, plant and equipment during the current quarter.

A10. Subsequent Events

There were no material subsequent events that will affect the financial statements of the financial period under review.

A11. Changes in Group Composition

There were no changes in the composition of the Group during the period under review.

A12. Changes in Contingent Liabilities

	31.3.2010	31.12.2009
	RM'000	RM'000
Bank guarantee to other corporation on behalf of a subsidiary company	121,043	83,659
Corporate guarantee to other corporation/financial institution on behalf of an associate	11,211	12,604
	<u>132,254</u>	<u>96,263</u>

Other than the above, the status of the contingent liabilities disclosed in the 2009 Annual Report remains unchanged. No other contingent liability has arisen since the financial year end.

A13. Capital Commitments

The Group has the following commitments as at 31 March 2010:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	35,441	392	<u>35,833</u>

B14. Performance Review

For the current quarter under review, the Group's revenue, at RM88.4 million, was lower by 24% as compared to the RM115.8 million achieved in the corresponding quarter ended 31 March 2009 due to projects being at various stages of completion, coupled with the weakening of the US Dollar, the currency in which a significant amount of the Group's revenue is denominated. However, the lower revenue and reduced share of profit in associates was to a certain extent offset by decreased costs. As a result, profit after taxation of RM15.3 million closely approximates that of the previous year's corresponding quarter.

B15. Material Changes in Quarterly Results Compared to the Results of the Immediate Preceding Quarter

The profit before taxation of RM19.5 million was 11% lower as compared to the immediate preceding quarter results. Lower progress billings due to our projects being at various stages of completion, coupled with reduced share of profit in associates, contributed to the decline.

B16. Current Year Prospects

We believe that the improving economic environment will support further progress. It is anticipated that other strategic alliances will start generating earnings for the Group. Boustead DCNS Naval Corporation Sdn. Bhd. has begun operations and the Service Life Extension Programme (SLEP) has commenced. Both are expected to contribute positively to the Group's bottomline in the second half of the year.

Further, the oil and gas sector has been showing signs of recovery and the Group is cautiously optimistic that it will be obtaining new oil and gas fabrication jobs in the near future.

B17. Notes on variance in actual profit and shortfall in profit guarantee

The disclosure requirements for explanatory notes for the variance of actual profit after tax and minority interests and shortfall in profit guarantee are not applicable.

B18. Taxation

	Current Period 2010 RM'000	Cumulative Period 2010 RM'000
Malaysian taxation based on profit for the period:		
- Current	4,317	4,317
- Overprovision in prior year	(170)	(170)
- Deferred	25	25
	4,172	4,172

The Group's effective tax rate for the financial year-to-date is slightly higher than the statutory rate of tax applicable mainly due to certain expenses which were not deductible for tax purpose.

B19. Sale of Unquoted Investments and Properties

There were no sales of unquoted investments and properties for the period under review.

B20. Quoted Securities

There were no purchases or disposals of quoted securities for the period under review.

B21. Status of Corporate Proposal

There were no corporate proposals announced and there are none pending completion.

B22. Group Borrowings and Debt Securities

Total group borrowings as at 31 March 2010 are as follows:

	31.3.2010	31.12.2009
	RM'000	RM'000
Long term borrowings:		
- Term loan (unsecured)	11,506	12,287
- Term loan (secured)	10,253	-
- Hire Purchase and finance lease liabilities (secured)	101	107
	21,860	12,394
Short term borrowings		
- Term loan (unsecured)	2,200	1,713
- Revolving credit (unsecured)	45,000	15,000
- Hire Purchase and finance lease liabilities (secured)	65	79
	47,265	16,792

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 31 March 2010.

B24. Gains/Losses Arising From Fair Value Changes of Financial Liabilities

There were no gains/losses arising from fair value changes of the financial liabilities for the current quarter and financial period ended 31 March 2010.

B25. Changes in Material Litigations

There were no changes in material litigation, including the status of pending material litigation since the last annual balance sheet as at 31 December 2009, except the following cases are pending:

Company	Claimant Company	Amount RM'000	Remark
Boustead Penang Shipyard Sdn Bhd	Tetuan Thanggaya Khoo & Co.	4,000	Claims for purported outstanding legal fees amounting to RM4,000,000. The Plaintiff has filed an application for summary judgment which is fixed for Decision on 5 January 2010. On the said date the Court has dismissed the Plaintiff's summary judgment application with cost.

Company	Claimant Company	Amount RM'000	Remark
Boustead Naval Shipyard Sdn Bhd (BN Shipyard)	Meridien Shore Sdn Bhd (Meridien)	49,577	<p>BN Shipyard, an associate company, has been served with a writ of summons by Meridien for special damages, interest on amount claimed, general damages and other cost and relief that the Court deems fit over alleged loss suffered by Meridien arising from foreclosure of several of its land by Bank Kerjasama Rakyat Sdn Bhd.</p> <p>BN Shipyard on 22 July 2008 has filed defence against Meridien's claim. BN Shipyard also filed a counterclaim for general damages, interest on damages awarded, cost of action borne by Meridien on full indemnity basis and other relief that the Court deems fit and proper to grant over loss and damages suffered by BN Shipyard arising from Meridien failure to repay the sum owed of RM14,946,277.28. On 29 August 2008, Meridien has filed defence to BN Shipyard's counterclaim. Meridien has yet to file the Notice for Pre-Trial Case Management.</p> <p>BN Shipyard in consultation with the solicitors is of the view that BN Shipyard has a good chance to win in this suit.</p> <p>On 26 April 2010, the suit against BN Shipyard has been fully discontinued by Meridien with no order to costs and BN Shipyard has also fully discontinued its counterclaim against Meridien with no order as to costs on the same date.</p>

B26. Dividend Payable

No dividend has been declared for the financial period ended 31 March 2010.

B27. Earnings per Share

	Current Period		Cumulative Period	
	2010	2009	2010	2009
Net profit for the period – RM'000	15,668	15,312	15,668	15,312
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Basic earnings per share for – sen	6.31	6.16	6.31	6.16