

Boustead Heavy Industries Corporation Berhad (11106-V)
Notes to the Interim Financial Report for the Quarter Ended 30 June 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 30 June 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

The single tier first interim dividend of 6.0% (2009: nil%) per share for the financial year ended 31 December 2010 amounting to RM14,907,457 was paid on 8 April 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

| | 30.6.2010 | 31.12.2009 |
|--|------------------|-------------------|
| | RM'000 | RM'000 |
| Bank guarantee to other corporation on behalf of a subsidiary company | 144,361 | 83,569 |
| Corporate guarantee to other corporation/financial institution on behalf of an associate | 10,129 | 12,604 |
| | <u>154,490</u> | <u>96,173</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 30 June 2010:

| | Approved but not contracted for RM'000 | Approved and contracted for RM'000 | Total RM'000 |
|-------------------------------|---|---|-------------------------|
| Property, plant and equipment | 33,251 | 392 | <u>33,643</u> |

B14. Performance Review

For the six months period ended 30 June 2010, the Group recorded revenue of RM192.9 million, 18% lower compared to the corresponding period ended 30 June 2009 of RM236.1 million. Cost escalations resulting from delays in completing certain shipbuilding projects, coupled with a reduced contribution from associates, resulted in profit after taxation reducing by 6%, from RM33.6 million obtained in the first half of 2009 to RM31.7 million for the same period this year.

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

The current quarter revenue, at RM104.5 million, was higher by 18% as compared to the RM88.4 million achieved in the first quarter of 2010. Profit before taxation registered for the current quarter of RM18.5 million represented a 5% decrease in earnings as compared to the results in the preceding quarter due to cost overruns in certain shipbuilding projects.

B16. Current Year Prospects

Boustead DCNS Naval Corporation Sdn Bhd has recently been awarded a EUR193 million and RM532 million (totaling approximately RM1.3 billion) contract to undertake In Service Support for the two Royal Malaysian Navy's Prime Minister Class Scorpene Submarines. The difference in contract value being awarded from the initial Letter of Intent was due to the inclusion of a full Submarine Integrated Logistics Support package. This consists of a comprehensive spare parts package as well as the outfitting of workshop equipment, respective yard facilities and equipment, submarine safety conditioning facilities and their corresponding upkeep and maintenance. The contract also covers tug boat services and the operation and maintenance of the shiplift, transfer system and submarine "umbilical services".

In June 2010, BYO Marine Sdn Bhd was awarded by the Government of Malaysia a contract to build ten Fast Interceptor Craft, worth RM130.7 million, for the Malaysian Maritime Enforcement Agency.

Mobilisation for both contracts has commenced and these projects should contribute positively to Group earnings going forward. Consequently, the Group continues to be cautiously optimistic about future growth prospects.

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 | 3,391 | 7,708 |
| - Overprovision in prior year | (1,178) | (1,348) |
| - Deferred | - | 25 |
| | 2,213 | 6,385 |

The Group's effective tax rate for the current period and financial year-to-date is lower than the statutory rate of tax applicable mainly due to the availability of tax losses brought forward to offset against current profit of a subsidiary, and overprovision in prior year.

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 30 June 2010 are as follows:

| | 30.6.2010 RM'000 | 31.12.2009 RM'000 |
|---|-----------------------------|------------------------------|
| Long term borrowings: | | |
| - Term loan (unsecured) | 10,718 | 12,287 |
| - Term loan (secured) | 9,981 | - |
| - Hire Purchase and finance lease liabilities (secured) | 71 | 107 |
| | 20,770 | 12,394 |
| Short term borrowings | | |
| - Term loan (unsecured) | 2,692 | 1,713 |
| - Term loan (secured) | 665 | - |
| - Revolving credit (unsecured) | 100,000 | 10,000 |
| - Banker acceptance (unsecured) | 1,479 | 5,000 |
| - Hire Purchase and finance lease liabilities (secured) | 74 | 79 |
| | 104,910 | 16,792 |

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 30 June 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 30 June 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 | With the demise of Mr Thanggaya a/l Munusamy on 11 February 2010, parties have agreed to withdraw the matter. |
| Boustead Naval Shipyard Sdn Bhd (“BN Shipyard”) | Maraputra Sdn Bhd (“Maraputra”) | 10,367 | <p>On 14 July 2010, BN Shipyard was served with a Writ of Summons by Maraputa in the Ipoh High Court, and was served on BN Shipyard’s solicitors, Messrs Azzat & Izzat on 23 July 2010.</p> <p>Under the said Writ of Summons, Maraputra is claiming against BN Shipyard for damages totaling RM10,367,063.74, interest at 8% per annum on the said amount of RM10,367,063.74, cost and other relief that the Court deems fit, arising from a contract dispute between Maraputra and BN Shipyard.</p> <p>BN Shipyard is disputing the claims based on records and contract terms. In consultation with solicitors, the BN Shipyard is of the view that it has a good defence to these claims by Maraputra.</p> <p>On August 2010, BN Shipyard had filed its Statement of Defence and a Counterclaim for damages totaling RM10,295,249.07, interest at 8% per annum on the said amount of RM10,295,249.07, cost and other relief that the Court deems fit against Maraputra. The said Statement of Defence and Counterclaim was filed in the Ipoh High Court.</p> |

B26. Dividend Payable

No dividend has been declared for the financial period ended 30 June 2010.

B27. Earnings per Share

| | Current Period | | Cumulative Period | |
|---|-----------------------|-------------|--------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net profit for the period – RM’000 | 15,804 | 17,617 | 31,472 | 32,929 |
| Number of ordinary shares in issue – ‘000 | 248,458 | 248,458 | 248,458 | 248,458 |
| Basic earnings per share for – sen | 6.36 | 7.09 | 12.67 | 13.25 |