

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

A2. Changes in Accounting Policies (cont'd)

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 September 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

i) **Dissolution of a Subsidiary**

Pursuant to a request by the Company under Section 308(4) of the Companies Act, 1965, the Company had received a Notice of striking off of its 51% subsidiary, Eagacorp Marine Sdn Bhd (“Eagacorp”), on 5 August 2010. Accordingly, Eagacorp was dissolved.

A11. Changes in Group Composition (cont'd)

ii) Acquisition of a Subsidiary

The Company, via its wholly owned subsidiary, BHIC Defence Technologies Sdn Bhd (“BDT”), had on 13 August 2010, acquired two million five hundred and fifty thousand (2,550,000) ordinary shares of RM1.00 each in Contraves Advanced Devices Sdn Bhd (“CAD”), representing 51% of the total issued and paid up capital of CAD, for the purchase consideration of RM25,938,144.

iii) Incorporation of a Subsidiary

BDT, a wholly owned subsidiary of the Company had, on 5 October 2010 formed a joint venture company, BHIC MSM Sdn Bhd (“BHIC MSM”), with MTU Services (Malaysia) Sdn Bhd. BDT holds 60% shareholding in BHIC MSM.

Save as disclosed above, there were no other changes in the composition of the Group during the period under review.

A12. Changes in Contingent Liabilities

	30.9.2010	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	10,727	12,604
	<u>155,088</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 September 2010:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	33,722	-	<u>33,722</u>

B14. Performance Review

The Group's revenue for the period ended 30 September 2010 has increased to RM420.6 million from RM380.3 million, representing 11% growth compared to the previous year corresponding period. To-date profit after taxation was higher by 6%, from RM58.5 million recorded in the preceding year's corresponding period, to RM62.0 million.

The improved result was mainly due to the revenue from the provision of services for the maintenance of naval vessels. However its contribution to the Group's earnings was, to some extent, offset by cost escalations from delays in completing certain shipbuilding projects, coupled with a reduced contribution from associates.

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

For the third quarter, the Group's revenue stood at RM227.7 million, significantly higher compared to the RM104.5 million achieved in the immediate preceding quarter, while profit before taxation was RM37.0 million compared to RM18.5 million achieved in the second quarter. The increase was mainly due to the revenue for accumulation of work done on naval vessels maintenance.

B16. Current Year Prospects

The submarine maintenance contract is now in progress and the Fast Interceptor Craft contract is expected to contribute positively to Group's earnings from next year.

On 15 October 2010, Boustead Naval Shipyard Sdn Bhd, an associate company of the Group, received a Letter of Intent from the Malaysian Ministry of Defence to undertake the construction of six (6) second-generation patrol vessels with combatant Capabilities (Littoral Combatant Ship, LCS). The value and duration of the project are being negotiated with the government and is not expected to contribute to the earnings in the current year.

The Group is positive about its future growth and earnings 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	6,927	14,635
- Under/(Over)provision in prior year	(237)	(1,585)
- Deferred	-	25
	6,690	13,075

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 subsidiaries, 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 September 2010 are as follows:

	30.9.2010 RM'000	31.12.2009 RM'000
Long term borrowings:		
- Term loan (unsecured)	9,940	12,287
- Term loan (secured)	9,316	-
- Hire Purchase and finance lease liabilities (secured)	64	107
	19,320	12,394
Short term borrowings		
- Term loan (unsecured)	3,138	1,713
- Term loan (secured)	1,330	-
- Revolving credit (unsecured)	166,000	10,000
- Banker acceptance (unsecured)	3,023	5,000
- Hire Purchase and finance lease liabilities (secured)	61	79
	173,552	16,792

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 30 September 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 September 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 Maraputra 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> <p>The Court have fixed the case for mention on 20 November 2010 for Maraputra to file a formal Notice of Pre Trial Case Management.</p>

B26. Dividend Payable

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

B27. Earnings per Share

	Current Period		Cumulative Period	
	2010	2009	2010	2009
Net profit for the period – RM'000	26,900	24,750	58,372	57,679
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Basic earnings per share for – sen	10.83	9.96	23.49	23.21