

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

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

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		31 December 2008	
	As restated	As previously stated	As restated	As previously stated
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	76,886	64,688	60,860	48,479
Prepaid lease payments	-	12,198	-	12,381

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 December 2010.

A5. Change in Estimates

There was no material change in estimates of amounts reported in the prior interim periods of the current financial year and 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 Material Events

Except for the following, there were no material events, subsequent to the end of the current financial quarter ended 31 December 2010, that has not been reflected in the financial statements:

Deeds of Novation

On 14 January 2011, three wholly owned subsidiaries of Boustead Heavy Industries Corporation Berhad ("BHIC"), namely BHIC Petroleum Sdn Bhd, Marine Venture Capital Sdn Bhd and PSC Miri Sdn Bhd, had entered into three Deeds of Novation ("Deeds") with three companies under the Gagasan Group ("Gagasan"), namely Gagasan SAB Sdn Bhd ("GS"), Gagasan Sembilan Sdn Bhd ("GSEM") and Gagasan Penang Sdn Bhd ("GP").

The Deeds enable Gagasan to release and discharge its rights and obligations under the original shipbuilding contract dated 21 February 2007 entered into between Boustead Penang Shipyard Sdn Bhd, a wholly owned subsidiary of BHIC, and Gagasan Carriers Sdn Bhd ("GC"), which GC had subsequently assigned and novated the contract to its subsidiary companies, GS, GSEM and GP.

The Deeds will enable BHIC to enter into the chartering business, which is synergistic with its other core business activity, shipbuilding.

Financial Effects of the Chartering Business

- i) **Share Capital and Substantial Shareholdings**
The chartering business does not have any effect on the share capital of BHIC.
- ii) **Earnings**
The chartering business is expected to contribute positively to BHIC Group's earnings moving forward.
- iii) **Substantial Shareholders' Shareholdings**
The chartering business does not have any effect on the substantial shareholders' shareholdings at BHIC.
- iv) **Net Assets ("NA")**
The chartering business does not have any effect on the NA of BHIC Group.
- v) **Gearing**
The chartering business is expected to increase the gearing ratio of BHIC Group from 0.46 to 0.73.

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

	31.12.2010	31.12.2009
	RM'000	RM'000
Corporate guarantee to other corporation/financial institution on behalf of an associate	-	12,604
Amount under legal action	-	4,000
	<u>-</u>	<u>16,604</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 December 2010:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	31,868	12,454	44,322

B14. Performance Review

The Group's revenue for the year of RM649.8 million was 19% higher as compared with the RM543.8 million reported in the previous year. This was mainly attributed to revenue recognised for accumulation of work performed on naval vessels.

Profit after taxation recorded an increase of RM3.0 million, from RM76.6 million in 2009 to RM79.6 million. Although associates contributed positively to the bottom-line, earnings derived from the maintenance work were eroded by cost escalations incurred by certain shipbuilding projects, including foreign exchange losses due to a weak US dollar.

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

There was no significant variation on the Group's revenue for the current quarter of RM229.2 million as compared with the RM227.7 million attained in the third quarter.

However, profit before taxation recorded was RM20.0 million as compared with RM37.0 million in the immediate preceding quarter. The lower pre-tax profit in the fourth quarter was primarily due to cost escalation from delays in completing certain shipbuilding projects. In addition, the higher income for the vessel maintenance work in the third quarter represented revenue for accumulation of work done on submarine maintenance for a period of twelve months, as compared with three months recorded in the current quarter under review.

B16. Prospects for the Next Financial Year

Both the submarine maintenance and Fast Interceptor Craft projects are in progress and are expected to continue contributing positively to Group's earnings in 2011. Our associate, Boustead Naval Shipyard Sdn Bhd is presently negotiating with the Government on the value and duration of the project to construct six (6) second-generation patrol vessels with combatant capabilities (Littoral Combatant Ships).

The Group has put in place initiatives to strengthen competencies and operational processes and procedures of business entities, and externally, it will continue to look for new opportunities and invest in strategic assets that will generate healthy returns in the medium and long run.

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	4,544	19,179
- Overprovision in prior year	(223)	(1,808)
- Transferred to deferred taxation	(1,997)	(1,972)
	2,324	15,399

The Group's effective tax rate for the current period is marginally higher than the statutory rate of tax applicable mainly due to certain non-deductible expenses. However, the Group's effective tax rate for the financial year-to-date is still 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 31 December 2010 are as follows:

	31.12.2010 RM'000	31.12.2009 RM'000
Long term borrowings:		
Unsecured		
- Term loan	24,966	12,287
Secured		
- Term loan	8,429	-
- Hire Purchase and finance lease liabilities	54	107
	33,449	12,394
Short term borrowings		
Unsecured		
- Term loan	7,313	1,713
- Revolving credit	156,000	10,000
- Banker acceptance	516	5,000
- Overdraft	1,177	-
Secured		
- Term loan	2,217	-
- Revolving credit	3,066	-
- Hire Purchase and finance lease liabilities	53	79
	170,342	16,792

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 31 December 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 December 2010.

B25. Realised and Unrealised Unappropriated Profits

	As at 30 September 2010 RM'000	As at 31 December 2010 RM'000
Total retained profits of Company and its subsidiaries:		
- Realised profit	56,026	55,300
- Unrealised loss	(10,749)	(6,973)
Total shares of retained profits from associated company:		
- Realised profit	133,085	141,425
- Unrealised profit / (loss)	(20)	24
Total Group retained profit	178,342	189,776

B26. 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</p>

Company	Claimant Company	Amount RM'000	Remark
			that the Court deems fit against Maraputra. The said Statement of Defence and Counterclaim was filed in the Ipoh High Court. We are waiting for the next mention date to be fixed by the Court.

B27. Dividend Payable

The Directors have declared a single tier first interim dividend of 6.5% (2010: 6.0%) per share in respect of year ending 31 December 2011 amounting to RM16,149,745. The dividend will be paid on 24 March 2011 to shareholders registered in the Register of Members at the close of business on 10 March 2011. These financial statements do not reflect the interim dividend which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011 when paid.

B28. Earnings per Share

	Current Period		Cumulative Period	
	2010	2009	2010	2009
Net profit for the period – RM'000	11,434	18,601	69,806	76,280
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Basic earnings per share for – sen	4.60	7.49	28.10	30.70