

Boustead Heavy Industries Corporation Berhad (11106-V)

Notes to the Interim Financial Report for the Quarter Ended 30 June 2011

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 2010.

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 Y2010 Audited Financial Statements, except for the adoption of the following:

Effective for financial periods beginning on or after 1 March 2010:

- Amendments to FRS 132: Classification of Right Issues

Effective for financial periods beginning on or after 1 July 2010:

- FRS 1: First-time Adoption of Financial Reporting Standards
- FRS 3: Business Combinations (Revised)
- Amendments to FRS 2: Share-based Payment
- Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 127: Consolidated and Separate Financial Statements
- Amendments to FRS 138: Intangible Assets
- Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- IC Interpretation 12: Service Concession Arrangements
- IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17: Distributions of Non-cash Assets to Owners

Effective for financial periods beginning on or after 1 January 2011:

- Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- Amendments to FRS 1: Additional Exemptions for First-time Adopters
- Amendments to FRS 1: First-time Adoption of Financing Reporting Standards [Improvements to FRS (2010)]
- Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions
- Amendments to FRS 3: Business Combinations [Improvements to FRS (2010)]
- Amendments to FRS 7: Improving Disclosures about Financial Instruments
- Amendments to FRS 7: Financial Instruments: Disclosures [Improvement to FRS (2010)]
- Amendments to FRS 101: Presentation of Financial Statements [Improvements to FRS (2010)]
- Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates [Improvements to FRS (2010)]

A2. Changes in Accounting Policies (cont'd)

Effective for financial periods beginning on or after 1 January 2011 (cont'd):

- Amendments to FRS 128: Investments in Associates [Improvements to FRS (2010)]
- Amendments to FRS 131: Interests in Joint Ventures [Improvements to FRS (2010)]
- Amendments to FRS 132: Financial Instruments: Presentation [Improvements to FRS (2010)]
- Amendments to FRS 134: Interim Financial Reporting [Improvements to FRS (2010)]
- Amendments to FRS 139: Financial Instruments: Recognition and Measurement [Improvements to FRS (2010)]
- IC Interpretation 4: Determining whether an Arrangement contains a Lease
- Amendments to IC Interpretation 13: Customer Loyalty Programme [Improvements to FRS (2010)]
- IC Interpretation 18: Transfer of Assets from Customers

The adoption the above standards, amendments and interpretations are not expected to have any significant impact on the financial statements of the Group.

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 2011.

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

A single tier first interim dividend of 6.5% per share for the financial year ended 31 December 2011 amounting to RM16,149,745 was paid on 24 March 2011.

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

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

The status of the contingent liabilities disclosed in the 2010 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 2011:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	27,863	7,696	35,559

B14. Performance Review

For the six months period ended 30 June 2011, the Group recorded revenue of RM237.5 million, 23% higher compared with RM192.9 million reported for the corresponding period ended 30 June 2010. Defence related projects continued to support revenue growth.

Profit after taxation declined by 38%, from RM31.7 million obtained in the first half of 2010 to RM19.8 million for the same period this year. The decline was partly attributed to cost escalations in completing certain commercial shipbuilding projects, increase in finance charges due to higher borrowings arising from the acquisition of three chemical tankers for chartering business and lower contribution from associates with the completion of the patrol vessel project.

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

The current quarter revenue of RM120.8 million was slightly higher as compared with the RM116.7 million achieved for the first quarter of 2011. However, the cost overruns in certain shipbuilding projects and lower contribution from associates has resulted in a profit before taxation of RM2.7 million as compared with profit recorded in the immediate preceding quarter of RM18.6 million.

B16. Current Year Prospects

The Group has implemented various programmes which aim at cost containment, margin improvement, and working towards the delivery of ongoing projects and replenishing its order book. As for Boustead Naval Shipyard Sdn Bhd, the associate company's negotiation for the contract to build the six Littoral Combat Ships is at the advance stage of preparations, and negotiations are ongoing.

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 2011 RM'000	Cumulative Period 2011 RM'000
Malaysian taxation based on profit for the period:		
- Current	(2,273)	3,329
- Overprovision in prior year	(2,947)	(2,747)
- Deferred	1,762	997
	<u>(3,458)</u>	<u>1,579</u>

The Group's effective tax rate for the current period and financial year to-date are lower than the statutory rate of tax applicable mainly due to certain income not being subjected to income tax 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 2011 are as follows:

	30.06.2011	31.12.2010
	RM'000	RM'000
Long term borrowings:		
Unsecured		
- Term loans	21,248	24,966
Secured		
- Term loans	33,681	8,429
- Hire purchase and finance lease liabilities	136	54
	<u>55,065</u>	<u>33,449</u>
Short term borrowings		
Unsecured		
- Term loans	7,393	7,313
- Revolving credits	256,000	156,000
- Banker acceptances	1,120	516
- Overdraft	1,488	1,177
Secured		
- Term loans	7,313	2,217
- Revolving credits	53,145	3,066
- Hire purchase and finance lease liabilities	204	53
	<u>326,663</u>	<u>170,342</u>

Included above is a secured revolving credit of RM34.8 million (US Dollar: 11.4 million) and a secured term loan of RM31.0 million (US Dollar: 10.2 million) which are denominated in US Dollar. All other borrowings are denominated in Ringgit Malaysia.

B23. Disclosure of Derivatives

There were no outstanding derivatives as at 30 June 2011.

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 2011.

B25. Realised and Unrealised Unappropriated Profits

	As at 30 June 2011 RM'000	As at 31 December 2010 RM'000
Total retained profits of Company and its subsidiaries:		
- Realised	24,575	25,411
- Unrealised	429	(7,167)
Total share of retained profits from associates:		
- Realised	142,003	144,125
- Unrealised	-	24
	<hr/>	<hr/>
	167,007	162,393
Consolidated adjustments	18,088	27,383
Total Group retained profits as per consolidated financial statements	<hr/>	<hr/>
	185,095	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 statement of financial position as at 31 December 2010, except the following cases are pending:

Company	Claimant Company	Amount RM'000	Remark
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>In 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>On 31 March 2011, BN Shipyard filed an Application to Strike Out the Action. On 25 May 2011, the Court dismissed the Application. The case, originally scheduled for trial on 27 and 28 July 2011 has been adjourned by the Court to 27 and 28 October 2011.</p>

B26. Changes in Material Litigations (cont'd)

Company	Claimant Company	Amount RM'000	Remark
Boustead Naval Shipyard Sdn Bhd (“BN Shipyard”)	Meridien Shore Sdn Bhd (In Liquidation) (“Meridien”)	49,577	<p>BN Shipyard had on 25 March 2011 been served with a Writ of Summons dated 13 January 2011 and Amended Statement of Claim dated 10 March 2011 by Meridien.</p> <p>The Writ of Summons dated 13 January 2011 and the Amended Statement of Claim dated 10 March 2011 are based on the same subject matter of the litigation that was fully discontinued as announced on 28 April 2010. However, BN Shipyard is not in a position to ascertain as to why Meridien has commenced a fresh action against BN Shipyard based on the same subject matter. From the description of Meridien, BN Shipyard believes that the fresh action has been commenced by the liquidators of the said company, whereas the discontinued litigation was before the winding up of Meridien Shore Sdn Bhd.</p> <p>Under the said Writ of Summons, Meridien is claiming against BN Shipyard for specific damages in the amount of RM49,577,510.10, interest at 8% per annum on the said amount of RM49,577,510.10, general damages, cost and other relief that the Court deems fit over alleged losses suffered by Meridien arising from foreclosure of several of its lands in Johor (“Lands”) by Bank Kerjasama Rakyat Malaysia Berhad (“Bank Rakyat”).</p> <p>Meridien is alleging that it had created third party charges over the Lands as a form of security for a financing facility granted by Bank Rakyat to BN Shipyard for the sum of RM15 million. It was also alleged by Meridien that Bank Rakyat foreclosed and auctioned off the Lands because BN Shipyard had defaulted on its repayment obligations to Bank Rakyat.</p> <p>BN Shipyard has appointed solicitors to handle this case while its Directors, in consultation with the solicitors, are of the view that BN Shipyard has a good defence to this claim by Meridien. BN Shipyard’s Statement of Defence & Counterclaim was filed on 13 April 2011. The case management, originally scheduled on 1 August 2011, has been rescheduled by the Court to 25 August 2011.</p>

B27. Dividend Payable

No dividend has been declared for the financial period ended 30 June 2011.

B28. Earnings per Share

	Current Period		Cumulative Period	
	2011	2010	2011	2010
Net profit for the period – RM'000	1,397	15,804	11,469	31,472
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Basic earnings per share for – sen	0.56	6.36	4.62	12.67