

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the quarter ended 30 September 2016	Note	Current Period		Cumulative Year	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Continuing operations					
Revenue	A7	64,308	57,881	197,045	196,431
Operating cost		(49,851)	(48,628)	(142,109)	(160,652)
Profit from operations	B18	14,457	9,253	54,936	35,779
Interest income		175	130	1,615	334
Finance cost		(3,033)	(4,651)	(12,685)	(13,638)
Share of results of joint ventures		7,992	6,521	7,793	20,098
Share of results of associates		(5,925)	975	(24,505)	(9,733)
Profit before taxation from continuing operations	A7	13,666	12,228	27,154	32,840
Taxation	B19	(1,154)	(1,493)	(1,579)	(2,385)
Profit for the period from continuing operations		12,512	10,735	25,575	30,455
Discontinued operation					
Profit / (Loss) from discontinued operation, net of tax		2,367	(6,794)	(4,474)	(8,934)
Profit for the period		14,879	3,941	21,101	21,521
Attributable to:					
Shareholders of the Company		14,879	3,941	21,101	21,522
Non-controlling interests		-	-	-	(1)
Net profit for the period		14,879	3,941	21,101	21,521
Basic/diluted earnings / (loss) per share attributable to shareholders of the Company (sen):					
Total	B27	5.99	1.59	8.48	8.66
Continuing operations		5.04	4.32	10.28	12.26
Discontinued operation		0.95	(2.73)	(1.80)	(3.60)

The Unaudited Condensed Consolidated Income Statements should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the quarter ended 30 September 2016	Current Period		Cumulative Year	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit for the period	14,879	3,941	21,101	21,521
Foreign currency translation	-	-	-	-
Total comprehensive income for the period	14,879	3,941	21,101	21,521
Total comprehensive income attributable to:				
Shareholders of the Company	14,879	3,941	21,101	21,522
Non-controlling interests	-	-	-	(1)
Net profit for the period	14,879	3,941	21,101	21,521

The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 30 September 2016 RM'000	As at 31 December 2015 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		62,982	65,103
Investment property		13,945	13,989
Design rights		56	-
Deferred tax assets		18,891	18,891
Joint ventures		91,573	86,552
Associates		139,879	164,384
		<u>327,326</u>	<u>348,919</u>
Current assets			
Inventories		3,476	3,641
Receivables		310,474	250,278
Tax recoverable		9,726	9,391
Cash and bank balances		67,351	54,075
Non-current assets held for sale		-	72,627
		<u>391,027</u>	<u>390,012</u>
TOTAL ASSETS		<u>718,353</u>	<u>738,931</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		248,458	248,458
Retained earnings		42,462	21,361
Shareholders' funds		<u>290,920</u>	<u>269,819</u>
Non-controlling interests		-	1
Total equity		<u>290,920</u>	<u>269,820</u>
Non-current liabilities			
Long term borrowings	B21	8,196	8,255
Deferred tax liabilities		76	76
		<u>8,272</u>	<u>8,331</u>
Current liabilities			
Borrowings	B21	271,410	346,777
Trade and other payables		147,347	113,087
Tax payables		404	916
		<u>419,161</u>	<u>460,780</u>
Total liabilities		<u>427,433</u>	<u>469,111</u>
TOTAL EQUITY AND LIABILITIES		<u>718,353</u>	<u>738,931</u>
Net assets per share attributable to ordinary equity holders of the Company - RM		<u>1.17</u>	<u>1.09</u>

The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to equity holders of the Company

For the quarter ended 30 September 2016	Share Capital	Distributable Retained Earnings	Total	Non- controlling Interests	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	248,458	21,361	269,819	1	269,820
Total comprehensive income for the year	-	21,101	21,101	-	21,101
Transaction with owners					
Additional investment in a Subsidiary			-	(1)	(1)
Total transaction with owners	-	-	-	(1)	(1)
Balance at 30 September 2016	248,458	42,462	290,920	-	290,920
At 1 January 2015	248,458	52,099	300,557	36	300,593
Total comprehensive income for the year	-	21,522	21,522	(1)	21,521
Balance at 30 September 2015	248,458	73,621	322,079	35	322,114

The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	As at 30 September	As at 30 September
	2016 RM'000	2015 RM'000
Operating Activities		
Receipts from customers	224,733	153,101
Cash paid to suppliers and employees	(189,311)	(143,036)
Net cash (paid) / received to related companies	(249)	1,245
Cash generated from operations	35,173	11,310
Interest paid	(12,126)	(13,593)
Tax paid less refunds	(2,426)	(2,194)
Net cash generated from / (used in) operating activities	20,621	(4,477)
Investing Activities		
Interest received	1,711	334
Dividends received	2,771	5,486
Proceed from disposal of property, plant and equipment	62,341	-
Purchase of property, plant and equipment and investment property	(2,181)	(1,845)
Upliftment of pledged fixed deposits and more than 90 days, net	1,782	2,001
Purchase of intangible asset	(56)	(458)
Net cash generated from investing activities	66,368	5,518
Financing Activities		
Repayment of borrowings	(115,851)	(19,777)
Proceed from drawdown of term loan / revolving credits / hire purchases	41,164	10,610
Net cash used in financing activities	(74,687)	(9,167)
Net increase / (decrease) in cash and cash equivalents	12,302	(8,126)
Effect of foreign exchange rate changes	2,756	1,995
Cash and cash equivalents at beginning of period	51,399	61,529
Cash and Cash Equivalents at End of Period	66,457	55,398
Cash and Cash Equivalents at End of Period Comprise:		
Deposits with licensed banks	30,350	38,631
Cash and bank balances	37,001	17,230
Total cash and bank balances	67,351	55,861
Less: Deposits with licensed banks pledged and more than 90 days	(894)	(463)
Cash and Cash Equivalents at End of Period	66,457	55,398

The Unaudited Condensed Consolidated Statements of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

Boustead Heavy Industries Corporation Berhad (11106-V)
Notes to the Interim Financial Report for the Quarter Ended 30 September 2016

Part A Explanatory Notes Pursuant to MFRS 134

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the financial period ended 30 September 2016, have been prepared in accordance with MFRS 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 2015. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

A2. Changes in Accounting Policies

The significant accounting policies adopted in preparing these condensed consolidated financial statements are consistent with those in the audited financial statements for the year ended 31 December 2015 except as follows:

MFRS and Amendments to MFRSs		Effective for annual periods beginning on or after
Amendments to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012 – 2014 Cycle)	1 January 2016
Amendments to MFRS 7	Financial Instruments Disclosures (Annual Improvements 2012 – 2014 Cycle)	1 January 2016
Amendments to MFRS 119	Employee Benefits (Annual Improvements 2012 – 2014 Cycle)	1 January 2016
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements 2012 – 2014 Cycle)	1 January 2016
Amendments to MFRS 10 (Consolidated Financial Statements), MFRS 12 (Disclosure of Interests in Other Entities) and MFRS 128 (Investments in Associates and Joint Ventures)	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 11 (Joint Arrangement)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 101 (Presentation of Financial Statements)	Disclosure Initiative (Amendments to MFRS 101)	1 January 2016

A2. Changes in Accounting Policies (cont'd.)

Amendments to MFRSs		Effective for annual periods beginning on or after
Amendments to MFRS 116 (Property, plant and equipment) and MFRS 138 (Intangible Assets)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 127 (Separate Financial Statements)	Equity method in Separate Financial Statements	1 January 2016

The adoption of the above does not have material impact on the financial statements of the Group in the period of initial application.

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective:

MFRS and Amendments to MFRSs		Effective for annual periods beginning on or after
Amendments to MFRS 107 (Statement of Cash Flows)	Disclosure Initiative	1 January 2017
Amendments to MFRS 112 (Income Taxes)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 2 (Share-based Payment)	Classification and Measurement of Share-based payment Transactions	1 January 2018
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers and Clarification to MFRS 15	1 January 2018
MFRS 16	Leases	1 January 2019
Amendments to MFRS 10 (Consolidated Financial Statements) and MFRS 128 (Investments in Associates and Joint Ventures)	Sales or Contribution of Asset between Investor and its Associates or Joint Venture	Deferred

The Group will adopt the above pronouncements when they become effective in the respective financial periods.

A2. Changes in Accounting Policies (cont'd.)

These pronouncements are not expected to have any material impact to the financial statements of the Group upon initial application, except as discussed below:

MFRS 9: Financial Instruments

In November 2014, MASB issued the final version of MFRS 9: Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139: Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently assessing the impact of MFRS 9 and plans to adopt the new standard on the required effective date.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118: Revenue, MFRS 111: Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Directors anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Group’s and the Company’s financial statements. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 16: Leases

MFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are no changes in lessor accounting model other than additional financial information to be disclosed in the financial statements.

This accounting standard is effective for annual periods beginning on or after 1 January 2019 with earlier adoption permitted if the entity applies MFRS 15 (Revenue from Contracts with Customers) at or before the date of initial application of MFRS 16. The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

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

Pursuant to the Circular to Shareholders dated 8 March 2016 for the proposed sale of three chemical tankers, MT CHULAN 1, MT CHULAN 2 and MT CHULAN 3 to Jasa Merin (Labuan) PLC for a total cash consideration of USD17.1 million (“the Sale”) and the approval obtained from the shareholders at the Group’s annual general meeting on 30 March 2016, the sale has been completed on 6 May 2016 following the receipt of the balance disposal consideration of USD11.97 million. Currently, both parties are compiling the necessary documentations as per the Memoranda of Agreement which was executed on 28 April 2016.

A5. Change in Estimates

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

A6. Dividends Paid

There was no dividend paid during the current financial quarter ended 30 September 2016.

A7. Operating Segments

Segment information for the cumulative period is presented in respect to the Group's business segments as follows:

	Heavy engineering RM'000	Manufacturing RM'000	Chartering RM'000	Elimination RM'000	Total RM'000
2016					
Continuing operations					
Revenue					
External revenue	197,045	-	-	-	197,045
Results					
Segmental results – external	54,936	-	-	-	54,936
Interest income	1,615	-	-	-	1,615
Finance cost	(12,685)	-	-	-	(12,685)
Share of results in joint ventures	3,824	3,969	-	-	7,793
Share of results in associates	(24,505)	-	-	-	(24,505)
Profit before taxation from continuing operations	23,185	3,969	-	-	27,154
Taxation					(1,579)
Profit for the period from continuing operations					25,575
Discontinued operation					
Loss from discontinued operation, net of tax	-	-	(4,474)	-	(4,474)
Profit for the period					21,101

A7. Operating Segments (Cont'd.)

	Heavy engineering RM'000	Manufacturing RM'000	Chartering RM'000	Elimination RM'000	Total RM'000
2015					
Continuing operations					
Revenue					
External revenue	196,431	-	-	-	196,431
Results					
Segmental results – external	35,779	-	-	-	35,779
Interest income	334	-	-	-	334
Finance cost	(13,638)	-	-	-	(13,638)
Share of results in joint ventures	1,923	18,175	-	-	20,098
Share of results in associates	(9,733)	-	-	-	(9,733)
Profit before taxation from continuing operations	14,665	18,175	-	-	32,840
Taxation					(2,385)
Profit for the period from continuing operations					30,455
Discontinued operation					
Loss from discontinued operation, net of tax	-	-	(8,934)	-	(8,934)
Profit for the period					21,521

A8. Debt and Equity Securities

There were no issuance 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

An exercise was undertaken to identify the optimal organisational structure for the Group. An obvious component of this exercise is a critical review of appropriate human capital resources, which will impact the entire Group. Specific right-sizing initiatives, based on the Group's established performance appraisal processes, have commenced in all primary operating facilities, including the head office and will lead to a reduction in overall employee headcount.

A total of 161 personnel had accepted the mutual separation scheme offered by the Group as at to date with a total actual payment of approximately RM6.4 million. The increase of RM0.7 million from the announcement made on 9 August 2016 was due to additional staff related expenses incurred under the mutual separation scheme.

A11. Changes in Group Composition

i) Proposed acquisition of 30% shares of Airbus Helicopters Simulation Centre Sdn Bhd

On 18 March 2015, the Group's wholly owned subsidiary, BHIC Defence Technologies Sdn Bhd ("BHICDT") (a subsidiary held via Boustead Penang Shipyard Sdn Bhd) signed a Share Purchase Agreement and Joint Venture Agreement ("JVA") with Airbus Helicopters Malaysia Sdn Bhd ("AHM") for the purpose of providing Full Flight Simulator training services to pilots of EC225/EC725 helicopters in Malaysia. Included in the JVA, AHM is offering 30% of the issued and paid-up capital of Airbus Helicopters Simulation Centre Sdn Bhd for a total consideration of EUR2,300,000. The acquisition of this entity will be made through both internally generated funds and bank borrowing.

The key salient terms of the JVA has been disclosed in the announcement at Bursa Malaysia website on 18 March 2015. To date, the conditions precedent of the JVA are not met.

ii) BHIC Group Reorganisation of Corporate Structure

On 21 August 2015, the Group announced the reorganisation of its corporate structure, in order to achieve better operational efficiencies, organisational clarity and focus on its core businesses. The proposed revised BHIC Group structure will be divided into three distinct divisions namely the Defence and Security Division, Commercial Division and Energy Division.

As at to date, the Group had procured all required consents and approvals from parties concerned as part of the conditions precedent imposed under the Internal Reorganisation exercise. Most dormant companies under the Group are currently in liquidation process. All agreements and statutory documents are currently in the process of execution.

The proposed Internal Reorganisation exercise is expected to be completed by 31 December 2016.

iii) Acquisition of a subsidiary

On 11 March 2016, the Group incorporated a new subsidiary, BHIC AeroTech Sdn Bhd ("BHICAT") and presently has an authorised share capital of RM500,000 comprising of 500,000 ordinary shares of RM1.00 each. The principal activity of BHICAT is to carry on the business of maintenance, repair and overhaul of rotary and fixed wing aircraft.

A11. Changes in Group Composition (cont'd.)

iv) Commencement of Member's Voluntary Liquidation of Desa BHIC Sdn Bhd

On 8 March 2016, the Group's subsidiary Desa BHIC Sdn Bhd (Company No: 418601-K) had wound-up voluntarily and that Ms Khoo Pek Ling and Mr Leong Kok Tong of Folks Corporate Services Sdn Bhd were appointed as the Liquidators of Desa BHIC Sdn Bhd ("Desa BHIC").

Desa BHIC was incorporated on 23 January 1997 and is currently dormant.

The voluntary liquidation of Desa BHIC will not have any material effect on the earnings or net assets of the Group for the financial year ending 31 December 2016.

v) Commencement of Member's Voluntary Liquidation of Burlington Promotions & Publications Sdn Bhd

On 28 June 2016, the Group's subsidiary Burlington Promotions & Publications Sdn Bhd (Company No: 267060-H) had wound-up voluntarily and that Mr Ng Eng Kiat and Mr Ng Yong Chin of Folks Corporate Services Sdn Bhd were appointed as the Liquidators of Burlington Promotions & Publications Sdn Bhd ("BPP").

BPP was incorporated on 15 June 1993 and is currently dormant.

The voluntary liquidation of BPP will not have any material effect on the earnings or net assets of the Group for the financial year ending 31 December 2016.

vi) Acquisition of the remaining 400 ordinary shares in Perstim Industries Sdn Bhd

On 21 June 2016, the Group acquired the remaining 400 shares of RM1.00 each in Perstim Industries Sdn Bhd ("Perstim") at a total consideration of RM400.00 ("Acquisition").

Perstim was incorporated on 24 January 1995 and is currently dormant.

The Acquisition will not have any material effect on the earnings or net assets of the Group for the financial year ending 31 December 2016.

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

A customer of the Group, issued a notice of arbitration dated 7 December 2012 against a subsidiary of the Group for alleged breach of contract. The subsidiary, in response, has initiated a counter-claim against the customer.

The customer is claiming USD4,935,000 (RM19,851,038 equivalent) together with interest and costs. The subsidiary's counter-claim is a rejection of the entire customer's claim plus additional sums of USD449,332 (RM1,807,438 equivalent) and RM9,535,994, together with interest and costs.

The discovery of documents process between the customer and the subsidiary of our Group has been completed. The subsidiary of our Group reserves its rights for further discovery of documents, subject to the tribunal's approval. The subsidiary of our Group has submitted a revised application and proposed amended defence and counterclaim on 19 February 2016.

The tribunal then directed the customer to submit the substantive reply to the said revised application by 11 April 2016, but the customer requested an extension of time to reply. The tribunal adjourned the case management conference call initially fixed on 5 May 2016 and directed the subsidiary to response to the customer's reply within 10 days, before 13 May 2016.

On 21 May 2016, the subsidiary responded to the customer's reply to the subsidiary's revised application and proposed amended defence and counterclaim ("the Revised Amendment Application"). The Tribunal allowed the subsidiary's Revised Amendment Application on 26 May 2016. Pursuant to the Tribunal's aforesaid judgment and direction, the subsidiary served its Amended Defence to Counterclaim on the customer on 30 June 2016. The customer had requested to serve their Amended Reply and Defence to Counterclaim from the initial date of 16 July 2016 to a later date. The subsidiary agreed provided that the customer will reciprocate the same in the event the subsidiary requires extension of time to serve the subsidiary's Amended Reply and Defence to Counterclaim.

As per the announcement made on 14 October 2016 to Bursa Malaysia, the subsidiary had entered into a settlement agreement with the customer in counterparts on 12 October 2016 and subsequently exchanged the counterparts on 13 October 2016.

In accordance to the settlement, the subsidiary proposed and the customer had accepted a settlement sum of USD1.5 million as full and final settlement of all claims and counterclaims in this reference, on the basis that each party is to bear its own legal costs in relation to the claims and counterclaims, including but not limited to the costs incurred in the arbitration under the Kuala Lumpur Regional Centre for Arbitration ("KLRCA") Rules 2013.

Both parties also agreed in the settlement agreement that the property in and ownership of all and any goods and materials bought or supplied by either party for the construction of the Vessels, presently located at the subsidiary' premises, shall if not already so vested, vest in the subsidiary.

The subsidiary will proceed to inform the arbitrators in this reference that the dispute with the customer has been settled and thereafter withdraw the arbitration from the KLRCA once payment has been made in accordance with the terms of the Settlement Agreement.

The Group has effected the settlement payment of USD1.5 million on 25 October 2016.

A13. Capital Commitments

The Group has the following commitments as at 30 September 2016:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	246,087	823	246,910

B14. Analysis of Performance (YTD 30 September 2016 vs. YTD 30 September 2015)

For the current period under review, BHIC Group recorded a revenue of RM197.0 million, RM0.6 million higher than RM196.4 million reported in the previous corresponding period. Revenue from defence-related maintenance, repair and overhaul (“MRO”) activities contributed significantly to the Group’s revenue in the current period.

Higher interest income in the current period was mainly due to deposit pledged by the Group. On the other hand, finance cost was lower in the current period mainly due to repayment of borrowings.

Against last year’s corresponding period, the Joint Venture Companies (“JV Cos”) posted a lower contribution in the current period and this was mainly from Contraves Advanced Devices Group (“CAD Group”) undertaking the Littoral Combat Ship (“LCS”) project. However, the impact was cushioned by the tax exemption granted by the Ministry of Finance (“MoF”) on the submarine projects undertaken by Boustead DCNS Naval Corporation Sdn Bhd (“BDNC”).

The associates posted a higher share of losses of RM24.5 million in the current period due to variation orders for the shipbuilding project, additional cost to completion for the restoration of KD PERANTAU, additional staff costs incurred under the mutual separation scheme, lack of commercial MRO of foreign boats and local ferries and no new shipbuilding projects undertaken. Additionally, fewer Royal Malaysian Navy (“RMN”) vessels enter the yard for repair works.

Under the discontinued operation, the chartering segment posted a loss in the current period mainly due to higher direct costs incurred by the chemical tankers under the previous spot charter arrangement prior to the disposal of the chemical tankers in May 2016 and loss on disposal of the chemical tankers. However, the losses were cushioned by the reversal of accrual of operating expenses such as crew wages and lubricant oils pursuant to the reconciliation of expenses. Higher losses were recorded in last year’s corresponding period due to foreign exchange losses resulting from the rollover of the Group’s foreign currency-denominated borrowings to purchase MT CHULAN 1 chemical tanker in prior years.

The Group recorded a profit after tax of RM21.1 million versus last year’s corresponding period net profit of RM21.5 million.

B15. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q3 2016 vs. Q2 2016)

Current quarter revenue of RM64.3 million was 8% lower than RM69.7 million reported in the second quarter of 2016.

The joint venture companies posted higher profit of RM8.0 million in the current quarter due to higher contribution from joint venture companies involved in the submarine project as well as supply and delivery of guns.

The associates contribution in the current quarter was adversely affected by the variation orders for the shipbuilding project and slower progress of the LCS project as well as lack of commercial MRO of foreign boats and local ferries.

Under discontinued operation, the chartering segment posted a higher profit of RM2.4 million due to over accrual of operating expenses pursuant to the reconciliation of expenses with the former ship manager.

As a result, the Group posted a profit after tax of RM14.9 million in the current quarter as compared with a net profit of RM25.3 million in the second quarter of 2016.

B16. Commentary on Prospects

On 4 November 2016, the Group's associate, Boustead Naval Shipyard Sdn Bhd ("BN Shipyard") received a non-binding Letter of Intent dated 26 October 2016 from the Ministry of Defence Malaysia for the supply of four (4) units of the Littoral Mission Ship for the Royal Malaysian Navy ("RMN").

The contracts awarded to the joint venture companies, BHIC AeroServices Sdn Bhd ("BHICAS"), BHIC Bofors Asia Sdn Bhd ("Bofors") and Boustead DCNS Naval Corporation Sdn Bhd ("BDNC") are expected to contribute positively towards future earnings of the Group.

On 25 August 2016, the Group entered into a Memorandum of Understanding ("MoU") with the Government of Malaysia ("GoM") to strengthen the implementation of Human Capital Development Programme for trainees from the RMN and the Group. The duration of the MoU is three (3) years or until the completion of the programme, whichever is earlier.

On 8 March 2016, the Group's associate, BN Shipyard held a Keel Laying Ceremony for the first of six units of LCS being built at the yard for RMN. The construction of the blocks and systems and engineering integration development activities of the first unit of the LCS is currently on-going and the construction for the second unit has started. The first ship is expected to be delivered in 2019 and the remaining five ships will be delivered at regular intervals thereafter.

The oil and gas sector is on firmer ground now compared to a year ago as it adapts to the low oil price environment through cost rationalisation, capital discipline and cash flow preservation. The Group will continue to source for new oil and gas projects amid the improving industry landscape.

B16. Commentary on Prospects (cont'd.)

The proposed internal reorganisation is an important step in the Group's transformation. The objective is to achieve better operational efficiencies, organisational clarity and focus on its core businesses. The ongoing internal reorganisation is expected to be completed by end of December 2016.

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 non-controlling interests and shortfall in profit guarantee are not applicable.

B18. Notes to the Consolidated Income Statements

Save as disclosed below and included in the consolidated income statements, there were no other items applicable to be disclosed pursuant to item 16 of Appendix 9B of the Listing Requirements of Bursa Malaysia:

	Current Period 2016 RM'000	Cumulative Period 2016 RM'000
Continuing operations		
Other income	4	(108)
Net gain on foreign currency exchange	(3,175)	(3,967)
Gain on disposal of property, plant and equipment	(54)	(93)
Depreciation of investment property	121	364
Depreciation of property, plant and equipment	1,386	4,347
Discontinued operation		
Net loss / (gain) on foreign currency exchange	229	(2,083)
Loss on disposal of property, plant and equipment	-	4,927

B19. Taxation

	Current Period 2016 RM'000	Cumulative Period 2016 RM'000
Malaysian taxation based on profit for the period:		
- Current corporate tax	1,359	1,783
- Over provision in prior year	(205)	(204)
	<u>1,154</u>	<u>1,579</u>

The Group's effective tax rate for the current and cumulative period are lower than the statutory rate of tax applicable mainly due to certain incomes were granted a tax exemption and availability of tax losses brought forward from prior years to be offset against current profit.

B20. Status of Corporate Proposal

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

B21. Group Borrowings and Debt Securities

Total group borrowings as at 30 September 2016 are as follows:

	30.09.2016	31.12.2015
	RM'000	RM'000
Long term borrowings:		
Secured		
- Term loans	7,206	8,046
- Hire purchase and finance lease liabilities	990	209
	<u>8,196</u>	<u>8,255</u>
Short term borrowings		
Unsecured		
- Revolving credits	270,000	290,000
Secured		
- Term loans	1,120	7,705
- Revolving credits	-	48,975
- Hire purchase and finance lease liabilities	290	97
	<u>271,410</u>	<u>346,777</u>

All current period borrowings are denominated in Ringgit Malaysia.

B22. Disclosure of Derivatives

There were no outstanding derivatives as at 30 September 2016.

B23. 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 ended 30 September 2016.

B24. Realised and Unrealised Unappropriated Profits

	As at 30 September 2016 RM'000	As at 31 December 2015 RM'000
Total retained profits of Company and its subsidiaries:		
- Realised	(213,715)	(381,824)
- Unrealised	15,009	35,068
Total share of retained profits from joint ventures:		
- Realised	112,751	109,962
- Unrealised	(8,664)	(13,668)
Total share of retained profits from associates:		
- Realised	88,144	112,647
- Unrealised	-	-
	(6,475)	(137,815)
Consolidated adjustments	48,937	159,176
Total Group retained profits as per consolidated financial statements	42,462	21,361

The determination of realised and unrealised profits is compiled based on Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010. The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

B25. 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 2015, except for the following cases:

Company	Claimant Company	Amount RM'000	Status
Boustead Naval Shipyard Sdn Bhd ("BN Shipyard")	Ingat Kawan (M) Sdn Bhd ("Plaintiff")	50,000	On 14 March 2013, the Court had allowed the application to strike out the Plaintiff's claim with costs of RM5,000.00 to be paid by the Plaintiff to BN Shipyard. BN Shipyard, as instructed by the High Court, had on 1 April 2013 withdrawn its counterclaim with liberty to file afresh with no order as to costs. Ingat Kawan had, on 22 March 2013, filed a Notice of Appeal to the Court of Appeal. Hearing on the appeal was heard on 11 November 2013, where the Court of Appeal had allowed Ingat Kawan's appeal and ordered the matter to be tried at the High Court.

Company	Claimant Company	Amount RM'000	Status
			<p>BN Shipyard has filed a leave application to appeal to the Federal Court. This matter was originally fixed for hearing on 23 June 2014 but later adjourned by the Court to 15 October 2014. The Court heard the application on 15 October 2014 and then adjourned the matter for Case Management on 3 November 2014 pending issuance of the Grounds of Judgment by the Court of Appeal.</p> <p>Pursuant to the Case Management before the Deputy Registrar of the Federal Court on 3 November 2014, the Court has fixed the next case management on 4 February 2015 pending availability of the Court of Appeal's Ground of Judgement and the filing of the Supplementary Affidavit containing the Grounds of Judgement.</p> <p>The Court has fixed the next Case Management date on 7 May 2015 pending the availability of the Court of Appeal's Ground of Judgement and filing of the Supplementary Affidavit containing the Grounds of Judgement. The Court has further allowed BN Shipyard to add or alter the question of law for the leave application upon obtaining the Grounds of Judgement.</p> <p>Due to the non-availability of the Court of Appeal's Ground of Judgement, the Court fixed the matter for further case management on 18 August 2015.</p> <p>On 13 July 2016, the Federal Court granted BN Shipyard the leave to appeal to the Federal Court against the decision of the Court of Appeal dated 11 November 2013 that the case be tried at the High Court.</p> <p>The Federal Court allowed all the six (6) leave questions for hearing and ordered that the request for cost be in the appeal cause paper and the deposit to be refunded to BN Shipyard.</p> <p>The Federal Court had fixed the hearing of the appeal on 5 December 2016.</p>

B26. Dividend Payable

The Board does not recommend any dividend for the financial year ended 30 September 2016 (previous period ended 30 September 2015: Nil).

B27. Earnings per Share

	Current Period		Cumulative Period	
	2016	2015	2016	2015
Net profit for the period – RM'000	14,879	3,941	21,101	21,522
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Total earnings per share – sen	5.99	1.59	8.48	8.66

By Order of the Board**LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)****SUZANA BINTI SANUDIN (LS 008028)**

Secretaries

Kuala Lumpur

Date: 9 November 2016