Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the quarter ended 30 June 2018	Note	Current Period		Cumulative Period	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	**A7**	**49,160**	43,770	**88,877**	120,611
Operating cost		**(42,804)**	(30,428)	**(77,131)**	(103,270)
Profit from operations	**B20**	**6,356**	13,342	**11,746**	17,341
Interest income		**26**	270	**98**	583
Finance cost		**(3,417)**	(3,243)	**(6,505)**	(6,558)
Share of results of joint ventures		**6,491**	5,919	**9,095**	7,745
Share of results of associates		**(1,862)**	7,195	**(1,436)**	7,535
Profit before taxation	**A7**	**7,594**	23,483	**12,998**	26,646
Taxation	**B21**	**(377)**	457	**(1,280)**	7
Profit for the period		**7,217**	23,940	**11,718**	26,653
Attributable to:					
Shareholders of the Company		**7,217**	23,940	**11,718**	26,653
Non-controlling interests		**-**	-	**-**	-
Net profit for the period		**7,217**	23,940	**11,718**	26,653
Basic / diluted earnings per share attributable to shareholders of the Company (sen):	**B27**	**2.90**	9.64	**4.72**	10.73

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 June 2018	**Current Period**		**Cumulative Period**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit for the period	**7,217**	23,940	**11,718**	26,653
Foreign currency translation	**-**	-	**-**	-
Total comprehensive income for the period	**7,217**	23,940	**11,718**	26,653
Total comprehensive income attributable to:				
Shareholders of the Company	**7,217**	23,940	**11,718**	26,653
Non-controlling interests	**-**	-	**-**	-
Net profit for the period	**7,217**	23,940	**11,718**	26,653

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 June 2018 RM'000	As at 31 December 2017 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		**52,778**	55,528
Investment property		**13,101**	13,363
Deferred tax assets		**19,620**	19,167
Joint ventures		**111,548**	91,338
Associates		**142,167**	143,603
		339,214	322,999
Current assets			
Inventories		**3,852**	11,609
Receivables		**298,505**	267,015
Tax recoverables		**13,764**	13,262
Cash and bank balances		**6,636**	45,920
		322,757	337,806
TOTAL ASSETS		**661,971**	660,805
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**248,458**	248,458
Retained earnings		**107,928**	96,210
Shareholders' funds, representing total equity		**356,386**	344,668
Non-current liabilities			
Long term borrowings	**B23**	**5,867**	6,399
Deferred tax liabilities		**49**	49
		5,916	6,448
Current liabilities			
Borrowings	**B23**	**239,948**	221,418
Trade and other payables		**57,988**	83,302
Tax payables		**1,733**	-
Dividend payable		**-**	4,969
		299,669	309,689
Total liabilities		**305,585**	316,137
TOTAL EQUITY AND LIABILITIES		**661,971**	**660,805**
Net assets per share attributable to ordinary equity holders of the Company - RM		**1.43**	1.39

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

For the period ended 30 June 2018	Attributable to equity holders of the Company			Non-controlling Interests	Total Equity
	Share Capital	Distributable Retained Earnings	Total		
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2018	**248,458**	**96,210**	**344,668**	**-**	**344,668**
Total comprehensive income for the period	-	11,718	**11,718**	-	**11,718**
Balance at 30 June 2018	**248,458**	**107,928**	**356,386**	**-**	**356,386**
At 1 January 2017	**248,458**	**98,057**	**346,515**	**-**	**346,515**
Total comprehensive income for the period	-	26,653	**26,653**	-	**26,653**
Transaction with owners					
Dividend on ordinary shares:					
- First interim single-tier (Note A6)	-	(7,454)	**(7,454)**	-	**(7,454)**
Total dividend	-	(7,454)	**(7,454)**	-	**(7,454)**
Balance at 30 June 2017	**248,458**	**117,256**	**365,714**	**-**	**365,714**

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 June 2018 RM'000	As at 30 June 2017 RM'000
Operating Activities		
Receipts from customers	**50,920**	143,882
Cash paid to suppliers and employees	**(88,055)**	(129,798)
Net cash paid to related companies	**(46)**	1,072
Cash (used in) / generated from operations	**(37,181)**	15,156
Interest paid	**(3,290)**	(3,443)
Tax paid less refunds	**(437)**	(1,548)
Net cash (used in) / generated from operating activities	**(40,908)**	10,165
Investing Activities		
Interest received	**98**	583
Proceed from disposal of property, plant and equipment	**-**	4
Purchase of property, plant and equipment	**(337)**	(595)
Investment in a joint venture company	**(11,116)**	-
Net cash used in investing activities	**(11,355)**	(8)
Financing Activities		
Repayment of borrowings	**(721)**	(10,708)
Dividends paid to shareholders of the Company	**(4,969)**	(7,454)
Proceed from drawdown of term loan / revolving credits / hire purchases	**18,718**	10,000
Net cash generated from / (used in) financing activities	**13,028**	(8,162)
Net (decrease) / increase in cash and cash equivalents	**(39,235)**	1,995
Effect of foreign exchange rate changes	**(49)**	510
Cash and cash equivalents at beginning of period	**45,920**	24,247
Cash and Cash Equivalents at End of Period	**6,636**	26,752
Cash and Cash Equivalents at End of Period Comprise:		
Deposits with licensed banks	**-**	8,200
Cash and bank balances	**6,636**	18,552
Cash and Cash Equivalents at End of Period	**6,636**	26,752

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

Part A Explanatory Notes Pursuant to MFRS 134

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the financial period ended 30 June 2018, 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 2017. 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 2017 except as follows:

MFRS and Amendments to MFRSs		**Effective for annual periods beginning on or after**
Amendments to MFRS 1 (First-time Adoption of Malaysian Financial Reporting Standards)	Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
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
Amendments to MFRS 140 (Investment Property)	Transfers of Investment Property	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 128 (Investments in Associates and Joint Ventures)	Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018

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

MFRS 9: Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has adopted MFRS 9 on 1 January 2018. Retrospective application is required, but comparative information is not compulsory.

(i) Classification and measurement

There were no significant impact on the Group's financial position in applying the classification and measurement requirements of MFRS 9.

(ii) Impairment

The Group has applied the simplified approach and record lifetime expected losses on its trade receivables and there were no significant impact on the Group's financial position and performance.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted MFRS 15 using the full retrospective method of adoption. The adoption of MFRS 15 affects disclosures of the Group's condensed interim financial statements but has had no significant impact on the Group's financial position and performance.

As required for the condensed interim financial statements, the Group has disaggregated revenue recognised from contracts with customers into categories that depicts the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The disclosure on disaggregated revenue are disclosed below.

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

MFRS 15: Revenue from Contracts with Customers (cont'd.)

		For the quarter ended 30 June 2018				
Segments		**Commercial**	**Defence**	**Energy**	**Others**	**Total**
Types of goods or service		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Repair and maintenance	(a)	-	24,763	-	-	24,763
Rendering of services	(a)	-	55,927	-	-	55,927
Heavy engineering	(a)	-	-	96	-	96
Repair and maintenance	(b)	437	4,898	-	-	5,335
Rendering of services	(b)	-	312	-	-	312
Sales of goods	(b)	149	-	-	-	149
Management fees	(b)	-	-	-	624	624
Rental income	(c)	-	1,671	-	-	1,671
		586	87,571	96	624	88,877

		For the quarter ended 30 June 2017				
Segments		**Commercial**	**Defence**	**Energy**	**Others**	**Total**
Types of goods or service		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Repair and maintenance	(a)	378	47,565	-	-	47,943
Rendering of services	(a)	-	57,751	-	-	57,751
Heavy engineering	(a)	-	-	5,757	-	5,757
Repair and maintenance	(b)	25	6,251	-	-	6,276
Rendering of services	(b)	-	713	-	-	713
Sales of goods	(b)	508	-	-	-	508
Management fees	(b)	-	-	-	77	77
Rental income	(c)	-	1,586	-	-	1,586
		911	113,866	5,757	77	120,611

Timing of revenue recognition for respective major products/service lines represented by:

(a) Services transferred over time;

(b) Products transferred at a point in time; and

(c) Income not within the scope of MFRS 15.

The Group has adopted MFRS 15 using the full retrospective approach. This means that the cumulative impact arising from the adoption will be recognised in the retained earnings as at 1 January 2018.

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

Standards and interpretations that are issued but not yet effective

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**
MFRS 16	Leases	1 January 2019
Amendments to MFRS 3 (Business Combinations)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 11 (Joint Arrangements)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 112 (Income Taxes)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 123 (Borrowing Costs)	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
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.

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 16: Leases

MFRS 16 will replace MFRS 117 (Leases), IC Interpretation 4 (Determining whether an Arrangement contains a Lease), IC Interpretation 115 (Operating Lease-Incentives) and IC Interpretation 127 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Standards and interpretations that are issued but not yet effective (cont'd.)

MFRS 16: Leases (cont'd.)

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments of RM16.1 million. However, the Group has not assessed if there are any adjustments which are necessary because of the different treatment of variable lease payments, extension or termination options. It is therefore not practicable at this juncture to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of MFRS 16 and how this may affect the Group's profit or loss and classification of cash flows going forward.

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

i) Right-sizing Exercise

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.

To date, a total of 160 personnel had accepted the mutual separation scheme offered by the Group with a total payment of RM11.5 million. There was no change from the announcement made on 27 February 2018.

This exercise will continue until the Group reached its desired organisation structure.

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 Declared and Paid

The Board has approved a first interim single-tier dividend of 1.5 sen per share for the second quarter in respect of the financial year ending 31 December 2018. The dividend will be paid to all shareholders on 15 November 2018.

On 19 January 2018, the Company paid the second interim single-tier dividend of 2 sen per share amounting to RM4,969,152.28 in respect of the financial year ended 31 December 2017.

On 30 March 2017, the Company paid the first interim single-tier dividend of 3 sen per share amounting to RM7,453,728.42 (2016: Nil) in respect of the financial year ended 31 December 2017.

A7. Operating Segments

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

	Commercial RM'000	**Defence RM'000**	**Energy RM'000**	**Others RM'000**	**Elimination RM'000**	**Total RM'000**
As at 30 June 2018						
Group total sales	586	87,900	96	1,097	(802)	88,877
Inter-segment sales	-	(329)	-	(473)	802	-
External Revenue (Note A2)	586	87,571	96	624	-	88,877
Results						
Segment result-external	(1,035)	24,004	(2,445)	(8,255)	(523)	11,746
Interest income	6	170	-	1,335	(1,413)	98
Finance costs	(706)	(120)	-	(7,198)	1,519	(6,505)
Share of results in joint ventures	-	9,095	-	-	-	9,095
Share of results in associates	-	(1,436)	-	-	-	(1,436)
(Loss) / profit before taxation	(1,735)	31,713	(2,445)	(14,118)	(417)	12,998
Income tax expense						(1,280)
Profit for the period						**11,718**
Other information						
Depreciation	72	2,770	-	500	-	3,342
Other non-cash expenses	-	-	-	-	-	-

A7. Operating Segments (cont'd.)

As at 30 June 2017	Commercial RM'000	Defence RM'000	Energy RM'000	Others RM'000	Elimination RM'000	Total RM'000
Group total sales	939	115,121	5,757	3,381	(4,587)	120,611
Inter-segment sales	(28)	(1,255)	-	(3,304)	4,587	-
External Revenue	911	113,886	5,757	77	-	120,611
Results						
Segment result-external	(2,262)	27,330	3,608	(7,487)	(3,848)	17,341
Interest income	-	577	-	1,283	(1,277)	583
Finance costs	(638)	(96)	-	(7,237)	1,413	(6,558)
Share of results in joint ventures	-	7,745	-	-	-	7,745
Share of results in associates	-	7,535	-	-	-	7,535
(Loss) / profit before taxation	(2,900)	43,091	3,608	(13,441)	(3,712)	26,646
Income tax expense						7
Profit for the period						**26,653**
Other information						
Depreciation	75	2,719	-	895	-	3,689
Other non-cash expenses	(80)	-	-	-	-	(80)

Discussion on the segmental performance is disclosed in Note B14 (Analysis of Performance (FPE 30 June 2018 vs. FPE 30 June 2017).

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

There has been no subsequent material events during the current quarter.

A11. Changes in Group Composition

i) 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 by way of dividing the BHIC Group structure 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.

ii) 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 ("SPA") 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. The key salient terms of the SPA and JVA has been disclosed in the announcement at Bursa Malaysia website on 18 March 2015.

The conditions precedent as set out in the SPA and JVA, including the transfer of 11,257,500 units of ordinary shares in AHM, which is equivalent to 30% of the share capital of AHM to BHICDT at a total consideration of EUR2,300,000 (equivalent to RM11,115,900) has been fulfilled and completed on 30 March 2018.

iii) Commencement of Member's Voluntary Liquidation of Naval and Defence Communication System Sdn Bhd

On 12 April 2018, the Group's wholly owned subsidiary, Naval and Defence Communication System Sdn Bhd (Company No: 632644-H) ("NDCS") had wound-up voluntarily by way of members' voluntary winding up and that Mr Ng Eng Kiat and Mr Leong Kok Tong of Folks Corporate Services Sdn Bhd were appointed as the liquidators of NDCS. The subsidiary was incorporated on 28 October 2003 and is currently dormant.

The voluntary liquidation of NDCS will not have any material effect on the earnings or net assets of the Group for the current financial year.

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

i) Liquidated Ascertained Damages

On 10 July 2017, the joint venture company, Boustead DCNS Naval Corporation Sdn Bhd ("BDNC") received a letter from the Ministry of Defence Malaysia ("MINDEF") claiming for Liquidated Damages ("LD") amounting to RM53.2 million and EUR19.3 million for the In-Service Support ("ISS") for the Royal Malaysian Navy SCORPENE Submarine contract.

BDNC had made adequate provision for the LD claim to the extent that it is deemed to be sufficient in the financial year ended 31 December 2017. The Group is of the opinion that there is no further losses expected to be incurred for this ISS contract after taking into consideration appropriate justifications and supporting documents which were submitted to MINDEF for their consideration.

To date, the Group is still in the midst of negotiating and finalising the LD claims.

Other than the contingent liabilities as disclosed above and in Note B26 (Changes in Material Litigations), there has been no other contingent liability arising since the previous financial year end and in the current financial period.

A13. Capital Commitments

The Group has the following commitments as at 30 June 2018:

	Approved but not contracted for RM'000	Approved and contracted for RM'000	Total RM'000
Property, plant and equipment	48,156	39	48,195

B14. Analysis of Performance (FPE 30 June 2018 vs. FPE 30 June 2017)

For the quarter ended 30 June 2018	Current Period		+/(-)	Cumulative Period		+/(-)
	2018	2017	%	2018	2017	%
	RM'000	RM'000		RM'000	RM'000	
Revenue	49,160	43,770	12	88,877	120,611	(26)
Profit from operations	6,356	13,342	(52)	11,746	17,341	(32)
Profit before taxation	7,594	23,483	(68)	12,998	26,646	(51)
Profit for the period	7,217	23,940	(70)	11,718	26,653	(56)

In 2018, the Group recorded a net profit of RM11.7 million versus last year's corresponding period net profit of RM26.7 million mainly due to lower defence-related maintenance, repair and overhaul ("MRO") activities, negative contribution from the associates and higher taxation.

For the cumulative period under review, BHIC Group recorded a revenue of RM88.9 million, RM31.7 million or 26% lower than RM120.6 million reported in last year's corresponding period. Lower revenue recorded in 2018 was largely attributable to lower defence-related MRO activities.

Commercial segment recorded a lower negative contribution of RM1.7 million in the cumulative period as compared with last year's corresponding period loss of RM2.9 million due to lower operating costs.

Defence segment posted a lower contribution in the cumulative period mainly due to variation in the progress of MRO projects. The associates posted a negative contribution in the current period mainly due to no new defence-related shipbuilding projects undertaken and lack of MRO works which were insufficient to cover the overhead costs and therefore impacted the Group's associates bottom line. However, the impact was mitigated with the good progress of the Littoral Combat Ship ("LCS") project and an additional profit recorded for KD MAHAWANGSA upon completion of cost verification/cost query ("CVCQ") by the Royal Malaysian Navy ("RMN").

The joint venture companies posted a higher contribution of RM9.1 million in 2018 mainly due to favourable foreign exchange translations arising from the balance of Euros in the foreign currency bank account of Boustead DCNS Naval Corporation Sdn Bhd ("BDNC"). Lower contribution of RM7.7 million in last year's corresponding period was due to slower progress of LCS project undertaken by Contraves Advanced Devices Group ("CAD Group"), variation of milestone achieved by BDNC for its submarine projects as well as lower flying hours recorded by the Royal Malaysian Air Force ("RMAF") and Malaysian Maritime Enforcement Agency ("MMEA") under BHIC AeroServices Sdn Bhd ("BHICAS"). However, the results were cushioned by the progress on certain defence-related MRO projects.

B14. Analysis of Performance (FPE 30 June 2018 vs. FPE 30 June 2017) (cont'd.)

There was no new oil & gas project undertaken under the **Energy** segment in the current period other than the Belum Topside project.

Finance cost was slightly higher in last year's corresponding period mainly due to higher outstanding borrowings in the first half of 2017. However, in the current period, finance cost was impacted by the bank interest rate after the increase in Overnight Policy Rate by 25 basis points as announced by Bank Negara Malaysia.

B15. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q2 2018 vs. Q1 2018)

For the quarter ended 30 June 2018	Current Period	Immediate Preceding Period	+/(-)
	Q2 2018	Q1 2018	%
	RM'000	RM'000	
Revenue	49,160	39,717	24
Profit from operations	6,356	5,390	18
Profit before taxation	7,594	5,404	41
Profit for the period	7,217	4,501	60

The Group posted RM7.2 million profit for the current quarter compared with a net profit of RM4.5 million in the preceding quarter.

Current quarter revenue of RM49.2 million was higher than the preceding quarter revenue of RM39.7 million due to progress from defence-related MRO activities.

The joint venture companies posted a positive contribution of RM6.5 million in the current quarter mainly due to favourable foreign exchange translations arising from the balance of Euros in the foreign currency bank account of Boustead DCNS Naval Corporation Sdn Bhd as compared with the preceding quarter. In addition, CAD Group and BHICAS posted a higher contribution from the LCS project progress and higher flying hours recorded by the RMAF and MMEA respectively.

The associates recorded a negative contribution of RM1.9 million in the current quarter mainly due to lack of defence-related and commercial-based projects undertaken which had consequently impacted the associates bottom line which was therefore insufficient to cover the overhead costs. The preceding quarter profit of RM426,000 by the associates was due to good progress of the LCS project and an additional profit recorded for KD MAHAWANGSA upon completion of CVCQ by the RMN.

B16. Material Changes in Statement of Financial Position (FPE 30 June 2018 vs. FYE 31 December 2017)

The Group's property, plant and equipment decreased from RM55.5 million to RM52.8 million in the current period mainly due to depreciation charge during the period.

The decrease in the Group's cash from RM45.9 million to RM6.6 million was mainly due to lower collection from customers and investment of RM11.1 million in Airbus Helicopters Simulation Centre Sdn Bhd.

The decrease in payables by RM25.3 million was due to lower amount owing to customers on contract primarily due to lower defence-related MRO activities.

The increase in receivables by RM31.5 million was mainly due to lower collection from customers.

B17. Material Changes in Statement of Cash Flows (FPE 30 June 2018 vs. FPE 30 June 2017)

The cash and cash equivalent of RM6.6 million at the end of the current period was lower as compared with RM26.8 million in last year's corresponding period largely attributable to the investment of RM11.1 million in Airbus Helicopters Simulation Centre Sdn Bhd, dividend paid in January 2018 of RM5.0 million coupled with lower collection from customers.

B18. Commentary on Prospects

It is encouraging to see that the new Government is determined to maintain the nation's maritime sovereignty. This would require RMN to be at its optimal state of readiness to support Malaysia's foreign policy and naval diplomacy. We believe this bodes well for our shipyards and business units involved in MRO of naval assets and we foresee sustained business coming from the RMN's 15 to 5 transformation programme.

The construction of the first four of six LCS by our Associate is currently ongoing, with the keel laying of LCS4 is targeted to be held later this year. In addition, our Associate is making good progress on the Littoral Mission Ship project which is currently at an early construction stage.

The contracts awarded to the Group for the ISS of the RMAF EC725, ISS of the RMN FENNEC AS555SN helicopters, the supply and delivery of RMN's Communication Suite for Squadron 23rd Frigate and the ISS for the RMN's Prime Minister's Class Submarines are expected to contribute positively towards its future earnings. The acquisition of shares in Airbus Helicopters Simulation Centre Sdn Bhd is expected to strengthen the Group's relationship with Airbus, leading to the opening up of potential business collaborations particularly in the Malaysian aviation industry.

B18. Commentary on Prospects (cont'd.)

Whilst the Group is guardedly optimistic about the prospect of the defence sector, it remains cautious on the outlook for commercial shipbuilding and energy sector. Despite signs of recovery in crude oil prices, the outlook for the oil industry remains bearish as oil majors scale back exploration and production activities which result in the commissioning of only a handful of new offshore structures. This will continue to put pressure on yards already reeling from the lack of fabrication works and we do not expect much business related to oil and gas industry at our yards until the industry fully recovers.

B19. 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.

B20. 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		**Cumulative Period**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other income	(2)	(17)	(28)	(18)
Net gain on foreign currency exchange	(2,412)	(455)	(4,019)	(2,720)
Loss on disposal of property, plant and equipment	-	-	-	8
Allowance for impairment:				
- Other receivables	-	-	21	-
Depreciation of investment property	124	239	249	478
Depreciation of property, plant and equipment	1,518	1,634	3,094	3,212

B21. Taxation

	Current Period 2018 RM'000	Cumulative Period 2018 RM'000
Malaysian taxation based on profit for the period:		
- Current corporate tax	765	1,668
Deferred taxation:		
- Relating to origination and reversal of temporary differences	(388)	(388)
	377	1,280

The current year domestic statutory tax rate will be reduced by 1%, 2%, 3% or 4% if the Company records an increase in chargeable income by 5% to 9.99%, 10% to 14.99%, 15% to 19.99% or more than 20% respectively from the immediate preceding year of assessment.

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 subsidiaries utilising its availability of tax losses brought forward from prior years to be offset against current period profit.

B22. Status of Corporate Proposal

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

B23. Group Borrowings and Debt Securities

Total group borrowings as at 30 June 2018 and 31 December 2017 are as follows:

	30.06.2018 RM'000	31.12.2017 RM'000
Long term borrowings:		
Secured		
- Term loan	5,246	5,806
- Hire purchase and finance lease liabilities	621	593
	5,867	6,399
Short term borrowings:		
Unsecured		
- Revolving credits	238,500	220,000
Secured		
- Term loan	1,120	1,120
- Hire purchase and finance lease liabilities	328	298
	239,948	221,418
Total borrowings	245,815	227,817

B23. Group Borrowings and Debt Securities (cont'd.)

All current period borrowings are denominated in Ringgit Malaysia.

As at 30 June 2018, the Group recorded higher borrowings mainly due to drawdown of revolving credits facility in the current period for working capital purposes.

The Group's borrowing weighted average interest rate is 5.8% for the current period (FYE 31 December 2017: 5.6%).

B24. Disclosure of Derivatives

There were no outstanding derivatives as at 30 June 2018.

B25. 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 June 2018.

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 2017, 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. Hearing of the Appeal was held on 22 August 2017 where the Federal Court have set aside both the decision of the Court of Appeal & the High Court. The Federal Court reverted the matter to the Ipoh High Court for full trial which was held on 16 and 17 April 2018. The trial continued on 7 May, 11 July and 12 July 2018. The Court adjourned the trial and fixed the next trial dates on 20 and 27 August 2018 as well as on 22 and 23 November 2018.

Company	Claimant Company	Amount RM'000	Status
Boustead Penang Shipyard Sdn Bhd ("BP Shipyard"	Muara Hijau Sdn Bhd ("Plaintiff")	5,537	The Plaintiff was a contractor appointed by BP Shipyard to supply microturbine generator ("MTG") for one of BP Shipyard's oil & gas project. During performance of test run in the commissioning phase to synchronise the MTG and a diesel engine generator (supplied by BP Shipyard's other contractor), the MTG tripped and was damaged. Due to such incident, the Plaintiff claims that the warranty of the MTG is void. The Plaintiff is now claiming for the alleged costs incurred during the commissioning phase and to repair and maintain the MTG as well as renewal of its warranty. On 7 November 2017, the High Court dismissed the Plaintiff's claim against BP Shipyard due to insufficient evidence. The costs of RM35,000 is awarded to BP Shipyard. However, Muara Hijau has filed an appeal against the decision of the High Court to the Court of Appeal. The final case management and hearing of the appeal was held on 2 July 2018 and 13 July 2018 respectively. The Court of Appeal has dismissed Muara Hijau's appeal with costs of RM15,000 to be paid to BPS.

B27. Earnings per Share

	Current Period		Cumulative Period	
	2018	2017	2018	2017
Net profit for the period – RM'000	7,217	23,940	11,718	26,653
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Total earnings per share – sen	2.90	9.64	4.72	10.73

By Order of the Board

LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)
SUZANA BINTI SANUDIN (LS 008028)
Company Secretaries
Kuala Lumpur
Date: 21 August 2018