Boustead Heavy Industries Corporation Berhad (11106-V)

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

For the quarter ended 30 September 2018	Note	Current Period		Cumulative Period	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	**A7**	**61,418**	64,262	**150,295**	184,873
Operating cost		**(38,802)**	(53,785)	**(115,933)**	(157,063)
Profit from operations	**B20**	**22,616**	10,477	**34,362**	27,810
Interest income		**35**	52	**133**	633
Finance cost		**(3,719)**	(3,153)	**(10,224)**	(9,711)
Share of results of joint ventures		**(1,293)**	3,649	**7,802**	11,394
Share of results of associates		**(1,268)**	(3,128)	**(2,704)**	4,407
Profit before taxation	**A7**	**16,371**	7,897	**29,369**	34,533
Taxation	**B21**	**(4,502)**	(138)	**(5,783)**	(131)
Profit for the period		**11,869**	7,759	**23,586**	34,402
Attributable to:					
Shareholders of the Company		**11,869**	7,759	**23,586**	34,402
Non-controlling interests		**-**	-	**-**	-
Net profit for the period		**11,869**	7,759	**23,586**	34,402
Basic earnings per share attributable to shareholders of the Company (sen):	**B27**	**4.78**	3.12	**9.49**	13.85

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 2018	Current Period		Cumulative Period	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit for the period	**11,869**	7,759	**23,586**	34,402
Foreign currency translation	**-**	-	**-**	-
Total comprehensive income for the period	**11,869**	7,759	**23,586**	34,402
Total comprehensive income attributable to:				
Shareholders of the Company	**11,869**	7,759	**23,586**	34,402
Non-controlling interests	**-**	-	**-**	-
Net profit for the period	**11,869**	7,759	**23,586**	34,402

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 2018 RM'000	As at 31 December 2017 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		**51,620**	55,528
Investment property		**12,977**	13,362
Deferred tax assets		**19,620**	19,167
Joint ventures		**108,635**	91,338
Associates		**140,900**	143,604
		333,752	322,999
Current assets			
Inventories		**3,941**	11,609
Receivables		**335,210**	267,015
Tax recoverables		**13,934**	13,262
Cash and bank balances		**6,792**	45,920
		359,877	337,806
TOTAL ASSETS		**693,629**	660,805
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		**248,458**	248,458
Retained earnings		**116,069**	96,210
Shareholders' funds, representing total equity		**364,527**	344,668
Non-current liabilities			
Long term borrowings	**B23**	**5,502**	6,399
Deferred tax liabilities		**224**	49
		5,726	6,448
Current liabilities			
Borrowings	**B23**	**253,449**	221,418
Trade and other payables		**60,127**	83,302
Tax payables		**6,073**	-
Dividend payable		**3,727**	4,969
		323,376	309,689
Total liabilities		**329,102**	316,137
TOTAL EQUITY AND LIABILITIES		**693,629**	**660,805**
Net assets per share attributable to ordinary equity holders of the Company - RM		**1.47**	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 September 2018	Share Capital	Distributable Retained Earnings	Total	Non-controlling Interests	Total Equity
	← Attributable to equity holders of the Company →				
	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	-	23,586	**23,586**	-	**23,586**
Transaction with owner					
Dividend on ordinary shares:					
- First interim single-tier (Note A6)	-	(3,727)	**(3,727)**	-	**(3,727)**
Total dividend	-	(3,727)	**(3,727)**	-	**(3,727)**
Balance at 30 September 2018	**248,458**	**116,069**	**364,527**	**-**	**364,527**
At 1 January 2017	**248,458**	**98,057**	**346,515**	**-**	**346,515**
Total comprehensive income for the period	-	34,402	**34,402**	-	**34,402**
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 September 2017	**248,458**	**125,005**	**373,463**	**-**	**373,463**

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 2018 RM'000	As at 30 September 2017 RM'000
Operating Activities		
Receipts from customers	**79,474**	182,047
Cash paid to suppliers and employees	**(124,607)**	(157,828)
Net cash paid to related companies	**346**	976
Cash (used in) / generated from operations	**(44,787)**	25,195
Interest paid	**(10,080)**	(9,852)
Tax paid less refunds	**(570)**	(1,682)
Net cash (used in) / generated from operating activities	**(55,437)**	13,661
Investing Activities		
Interest received	**133**	633
Dividends received from joint venture companies	**1,620**	1,530
Proceed from disposal of property, plant and equipment	**-**	4
Purchase of property, plant and equipment	**(457)**	(733)
Investment in a joint venture company	**(11,116)**	-
Net cash (used in) / generated from investing activities	**(9,820)**	1,434
Financing Activities		
Repayment of borrowings	**(1,083)**	(36,062)
Dividends paid to shareholders of the Company	**(4,969)**	(7,454)
Proceed from drawdown of term loan / revolving credits / hire purchases	**32,218**	20,000
Net cash generated from / (used in) financing activities	**26,166**	(23,516)
Net decrease in cash and cash equivalents	**(39,091)**	(8,421)
Effect of foreign exchange rate changes	**(37)**	116
Cash and cash equivalents at beginning of period	**45,920**	24,247
Cash and Cash Equivalents at End of Period	**6,792**	15,942
Cash and Cash Equivalents at End of Period Comprise:		
Deposits with licensed banks	**900**	2,200
Cash and bank balances	**5,892**	13,742
Cash and Cash Equivalents at End of Period	**6,792**	15,942

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 September 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 September 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)	-	61,667	-	-	61,667
Rendering of services	(a)	-	83,703	-	-	83,703
Heavy engineering	(a)	-	-	253	-	253
Repair and maintenance	(b)	655	517	-	-	1,172
Rendering of services	(b)	-	-	-	-	-
Sales of goods	(b)	238	-	-	-	238
Management fees	(b)	-	-	-	752	752
Rental income	(c)	-	2,510	-	-	2,510
		893	148,397	253	752	150,295

		For the quarter ended 30 September 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)	421	88,143	-	-	88,564
Rendering of services	(a)	-	83,769	-	-	83,769
Heavy engineering	(a)	-	-	5,757	-	5,757
Repair and maintenance	(b)	121	3,123	-	-	3,244
Rendering of services	(b)	-	-	-	-	-
Sales of goods	(b)	915	-	-	-	915
Management fees	(b)	-	-	-	114	114
Rental income	(c)	-	2,510	-	-	2,510
		1,457	177,545	5,757	114	184,873

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 September 2018, the Group has non-cancellable operating lease commitments of RM15.5 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 of Directors do not proposed any dividend in the quarter ended 30 September 2018.

The Company had declared and paid the following dividends during the financial year ending 31 December 2018 and year ended 31 December 2017:

	FYE 2018				FYE 2017			
	Sen	**RM'000**	**Declared date**	**Paid date**	**Sen**	**RM'000**	**Declared date**	**Paid date**
First interim single-tier dividend	1.5	3,727	21 Aug 2018	15 Nov 2018	3.0	7,454	24 Feb 2017	30 Mar 2017
Second interim single-tier dividend	-	-	-	-	2.0	4,969	15 Nov 2017	19 Jan 2018
Total	**1.5**	**3,727**			**5.0**	**12,423**		

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 September 2018						
Group total sales	893	149,116	253	3,319	(3,286)	150,295
Inter-segment sales	-	(719)	-	(2,567)	3,286	-
External Revenue (Note A2)	893	148,397	253	752	-	150,295
Results						
Segment result-external	(1,120)	54,057	(3,338)	(13,123)	(2,114)	34,362
Interest income	9	358	-	2,010	(2,244)	133
Finance costs	(1,066)	(179)	-	(11,684)	2,705	(10,224)
Share of results in joint ventures	-	7,802	-	-	-	7,802
Share of results in associates	-	(2,704)	-	-	-	(2,704)
(Loss) / profit before taxation	(2,177)	59,334	(3,338)	(22,797)	(1,653)	29,369
Income tax expense						(5,783)
Profit for the period						**23,586**
Other information						
Depreciation	109	4,085	-	742	-	4,936
Other non-cash expenses	1	-	-	21	-	22

A7. Operating Segments (cont'd.)

As at 30 September 2017	Commercial RM'000	Defence RM'000	Energy RM'000	Others RM'000	Elimination RM'000	Total RM'000
Group total sales	1,486	179,876	5,757	3,547	(5,793)	184,873
Inter-segment sales	(28)	(2,331)	-	(3,434)	5,793	-
External Revenue	1,458	177,545	5,757	113	-	184,873
Results						
Segment result-external	(2,905)	49,092	2,381	(16,931)	(3,827)	27,810
Interest income	465	848	-	1,418	(2,098)	633
Finance costs	(974)	(147)	-	(10,858)	2,268	(9,711)
Share of results in joint ventures	-	11,394	-	-	-	11,394
Share of results in associates	-	4,407	-	-	-	4,407
(Loss) / profit before taxation	(3,414)	65,594	2,381	(26,371)	(3,657)	34,533
Income tax expense						(131)
Profit for the period						**34,402**
Other information						
Depreciation	3,851	329	-	1,334	-	5,514
Other non-cash expenses	(120)	-	-	1,640	-	1,520

Discussion on the segmental performance is disclosed in Note B14 (Analysis of Performance (FPE 30 September 2018 vs. FPE 30 September 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 ("NDCS") (Company No. : 632644-H)

On 12 April 2018, the Group's wholly owned subsidiary, 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.

iv) Dissolution of Desa BHIC Sdn Bhd ("Desa") (Company No. : 418601-K)

On 13 August 2018, Desa, a wholly owned subsidiary of the Group held via BHIC Asset Holdings Sdn Bhd, which was placed under Members' Voluntary Winding-Up has been dissolved.

v) Dissolution of Burlington Promotions & Publications Sdn Bhd ("BPP") (Company No. : 267060-H)

On 10 October 2018, BPP, a wholly owned subsidiary of the Group held via Dominion Defence & Industries Sdn Bhd, which was placed under Members' Voluntary Winding-Up has been dissolved.

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 September 2018:

	Approved but not contracted for RM'000	**Approved and contracted for RM'000**	**Total RM'000**
Property, plant and equipment	47,885	35	47,920

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

For the quarter ended 30 September 2018	Current Period		+/(-)	Cumulative Period		+/(-)
	2018	**2017**	**%**	**2018**	**2017**	**%**
	RM'000	**RM'000**		**RM'000**	**RM'000**	
Revenue	61,418	64,262	(4)	150,295	184,873	(19)
Profit from operations	22,616	10,477	>100	34,362	27,810	24
Profit before taxation	16,371	7,897	>100	29,369	34,533	(15)
Profit for the period	11,869	7,759	53	23,586	34,402	(31)

In 2018, the Group recorded a net profit of RM23.6 million versus last year's corresponding period net profit of RM34.4 million mainly due to lower defence-related maintenance, repair and overhaul ("MRO") activities, negative contribution from the associates, lower negative contribution from the energy segment and higher taxation.

For the cumulative period under review, BHIC Group recorded a revenue of RM150.3 million, RM34.6 million or 19% lower than RM184.9 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 RM2.2 million in the cumulative period as compared with last year's corresponding period loss of RM3.4 million due to lower operating costs.

Defence segment posted a lower contribution in the cumulative period mainly due to lack of MRO activities. However, the current period profits were from the finalisation of the submarines' Second Extended ISS ("EISS 2") contract with the Royal Malaysian Navy ("RMN"). 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 impacted the Group's associates bottom line. However, the impact was cushioned with good progress of both the Littoral Combat Ship ("LCS") and Littoral Mission Ship ("LMS") projects, an additional profit for KD MAHAWANGSA upon completion of cost verification / cost query by the RMN and MRO of foreign boats.

The joint venture companies posted a higher contribution of RM7.8 million in 2018 mainly due to profits recognised upon finalisation of the submarines' EISS 2 contract with the RMN. The contribution of RM11.4 million from the joint ventures in the same corresponding period last year was from the revision in the project cost under defence-related MRO projects and good progress of LCS project undertaken by Contraves Advanced Devices Group ("CAD Group").

B14. Analysis of Performance (FPE 30 September 2018 vs. FPE 30 September 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. The project was officially completed and accepted by the customer on 5 October 2018. As of to date, all amount due has been collected from the customer.

Finance cost was higher in the current period as compared with last year's corresponding period mainly due to drawdown of borrowings to finance the Group's working capital. In addition, the current period finance cost was impacted by 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 (Q3 2018 vs. Q2 2018)

For the quarter ended 30 September 2018	Current Period	Immediate Preceding Period	+/(-)
	Q3 2018	Q2 2018	%
	RM'000	RM'000	
Revenue	61,418	49,160	25
Profit from operations	22,616	6,356	>100
Profit before taxation	16,371	7,594	>100
Profit for the period	11,869	7,217	64

The Group posted RM11.9 million profit for the current quarter as compared with a net profit of RM7.2 million in the preceding quarter.

Current quarter revenue of RM61.4 million was higher than the preceding quarter revenue of RM49.2 million mainly due to profits recognised upon finalisation of the submarines' EISS 2 contract with the RMN.

The joint venture companies posted a negative contribution of RM1.3 million in the current quarter mainly due to provision for tax in the current period incurred by BDNC. However, the impact was cushioned by the profits recognised under the submarines' EISS 2 contract. In addition, CAD Group and BHIC AeroServices Sdn Bhd posted a higher contribution from the LCS project progress and higher-flying hours recorded by the Royal Malaysian Air Force ("RMAF") and Malaysian Maritime Enforcement Agency respectively. Contribution in the preceding quarter was due to favourable foreign exchange translations arising from the balance of Euros in the foreign currency bank account of BDNC.

The associates recorded a lower negative contribution of RM1.3 million in the current quarter due to variation in milestones achieved for both LCS and LMS projects, profits from ERDL works on KD MAHAWANGSA and progress on defence-related ship repair projects. The loss in the preceding quarter was due to additional work undertaken for KD KELANTAN after the delivery to the RMN and no new ship repair projects undertaken by the Group.

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

The Group's property, plant and equipment decreased from RM55.5 million to RM51.6 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 RM6.8 million was mainly due to lower collection from customers and acquisition of 30% stake in Airbus Helicopters Simulation Centre Sdn Bhd.

The decrease in payables by RM23.2 million was due to lower amount owing to customers on contract primarily due to lower defence-related MRO activities.

The increase in receivables by RM68.2 million was mainly due to lower collection from customers.

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

The cash and cash equivalent of RM6.8 million at the end of the current period was lower as compared with RM15.9 million in last year's corresponding period largely attributable to the acquisition of 30% stake 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

The agenda of reform on which the new Malaysian Government based its manifesto looks set to create a more competitive business environment in the country. It is encouraging to see that the new Government is committed to defend the nation's maritime sovereignty and promote defence diplomacy. This would require RMN to have modern, fit-for-purpose assets and a capable workforce to be at its optimal state of readiness.

Despite the Malaysian Government's announcement of a cutback on its defence spending in 2019, the Group expects the current contracts to contribute towards future earnings of the Group. In addition, the Group will continue to pursue potential contracts with parties other than MINDEF as well as in foreign markets. We are confident that with our track record as a leading player in Malaysia's defence industry, we can flourish in a more competitive business environment.

A double ceremony was held on 23 October 2018 to mark the keel laying for LMS1 and steel cutting for LMS2 in China. The construction of the first four of six LCS by our Associate is currently ongoing, with the keel laying of LCS4 held on 31 October 2018. The Group is proud to contribute to national security through the building of these assets. This showcases Malaysia's capabilities in shipbuilding and high technologies as well as highlighting local skills and talents in constructing sophisticated vessels.

B18. Commentary on Prospects (cont'd.)

The contracts awarded to the Group for the In-Service Support ("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 Group takes a guarded outlook of the key businesses, namely in the defence and commercial shipbuilding / ship repair industries and in the oil and gas sector.

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	(123)	-	(152)	(18)
Net gain on foreign currency exchange	(148)	(55)	(4,167)	(354)
Loss on disposal of property, plant and equipment	-	-	-	8
Allowance for impairment:				
- Other receivables	-	-	21	-
Depreciation of investment property	137	119	386	358
Depreciation of property, plant and equipment	1,456	1,706	4,550	5,156

B21. Taxation

	Current Period 2018 RM'000	Cumulative Period 2018 RM'000
Malaysian taxation based on profit for the period:		
- Current corporate tax	4,767	6,436
- Over provision in prior year	(464)	(464)
Deferred taxation:		
- Relating to origination and reversal of temporary differences	199	(189)
	4,502	5,783

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 September 2018 and 31 December 2017 are as follows:

	30.09.2018 RM'000	31.12.2017 RM'000
Long term borrowings:		
Secured		
- Term loan	4,966	5,806
- Hire purchase and finance lease liabilities	536	593
	5,502	6,399
Short term borrowings:		
Unsecured		
- Revolving credits	252,000	220,000
Secured		
- Term loan	1,120	1,120
- Hire purchase and finance lease liabilities	329	298
	253,449	221,418
Total borrowings	258,951	227,817

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

All current period borrowings are denominated in Ringgit Malaysia.

As at 30 September 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%).

<u>Refinancing of the existing revolving credit facility</u>

The Group has planned to refinance part of its outstanding revolving credits to improve its financial position. The proposal was submitted to a financial institution. On 3 October 2018, the financial institution had approved the application by offering an Islamic term revolving credits of up to RM110.0 million. The management is in the process of completing the relevant documentations to accept this offer.

The facility will offer interest savings to the Group due to the favourable rates obtained for the facility and will not increase the Group's gearing as it will be wholly utilised to refinance the existing borrowings.

The refinancing is not expected to have any material impact on the earnings and net assets of the Group for the financial year ending 31 December 2018.

B24. Disclosure of Derivatives

There were no outstanding derivatives as at 30 September 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 September 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 ("BNS")	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 BNS. BNS, 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.

Company	Claimant Company	Amount RM'000	Status
			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.
Boustead Penang Shipyard Sdn Bhd ("BPS")	Muara Hijau Sdn Bhd ("Plaintiff")	5,537	The Plaintiff was a contractor appointed by BPS to supply microturbine generator ("MTG") for one of BPS's oil & gas project. During performance of test run in the commissioning phase to synchronise the MTG and a diesel engine generator (supplied by BPS'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 BPS due to insufficient evidence. The costs of RM35,000 is awarded to BPS. 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	11,869	7,759	23,586	34,402
Number of ordinary shares in issue – '000	248,458	248,458	248,458	248,458
Total earnings per share – sen	4.78	3.12	9.49	13.85

By Order of the Board

LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)
SUZANA BINTI SANUDIN (LS 008028)
Company Secretaries
Kuala Lumpur
Date: 23 November 2018