# Boustead Heavy Industries Corporation Berhad (11106-V)

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

| For the quarter ended 31 December 2018 | Note | Current Period | | Cumulative Year | |
|---|---|---|---|---|---|
| | | **2018** | **2017** | **2018** | **2017** |
| | | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Revenue** | **A7** | **18,818** | 92,774 | **169,113** | 277,647 |
| Operating cost | | **(83,387)** | (89,234) | **(199,320)** | (246,297) |
| (Loss) / Profit from operations | **B20** | **(64,569)** | 3,540 | **(30,207)** | 31,350 |
| Interest income | | **29** | 153 | **162** | 786 |
| Finance cost | | **(3,815)** | (3,316) | **(14,039)** | (13,027) |
| Share of results of joint ventures | | **(15,255)** | (24,852) | **(7,453)** | (13,458) |
| Share of results of associates | | **(50,374)** | 1,712 | **(53,078)** | 6,119 |
| **(Loss) / Profit before taxation** | **A7** | **(133,984)** | (22,763) | **(104,615)** | 11,770 |
| Taxation | **B21** | **2,071** | (1,063) | **(3,711)** | (1,194) |
| **(Loss) / Profit for the period / year** | | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| Attributable to: | | | | | |
| Shareholders of the Company | | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| Non-controlling interests | | **-** | - | **-** | - |
| **Net (loss) / profit for the period / year** | | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| **Basic (loss) / earnings per share attributable to shareholders of the Company (sen):** | **B27** | **(53.09)** | (9.59) | **(43.60)** | 4.26 |

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 31 December 2018 | Current Period | | Cumulative Year | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **(Loss) / Profit for the period / year** | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| Foreign currency translation | **-** | - | **-** | - |
| **Total comprehensive (loss) / income for the period / year** | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| **Total comprehensive (loss) / income attributable to:** | | | | |
| Shareholders of the Company | **(131,913)** | (23,826) | **(108,326)** | 10,576 |
| Non-controlling interests | **-** | - | **-** | - |
| **Net (loss) / profit for the period / year** | **(131,913)** | (23,826) | **(108,326)** | 10,576 |

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 31 December 2018 RM'000 | As at 31 December 2017 RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **50,326** | 55,528 |
| Investment property | | **12,853** | 13,362 |
| Deferred tax assets | | **21,285** | 19,167 |
| Joint ventures | | **93,380** | 91,338 |
| Associates | | **90,525** | 143,604 |
| | | **268,369** | 322,999 |
| **Current assets** | | | |
| Inventories | | **4,035** | 11,609 |
| Receivables | | **280,371** | 267,015 |
| Tax recoverables | | **10,588** | 13,262 |
| Cash and bank balances | | **17,890** | 45,920 |
| | | **312,884** | 337,806 |
| **TOTAL ASSETS** | | **581,253** | 660,805 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | **248,458** | 248,458 |
| (Accumulated losses) / Retained earnings | | **(15,843)** | 96,210 |
| **Shareholders' funds, representing total equity** | | **232,615** | 344,668 |
| **Non-current liabilities** | | | |
| Long term borrowings | **B23** | **5,137** | 6,399 |
| Deferred tax liabilities | | **324** | 49 |
| | | **5,461** | 6,448 |
| **Current liabilities** | | | |
| Borrowings | **B23** | **268,454** | 221,418 |
| Trade and other payables | | **74,614** | 83,302 |
| Tax payables | | **109** | - |
| Dividend payable | | **-** | 4,969 |
| | | **343,177** | 309,689 |
| **Total liabilities** | | **348,638** | 316,137 |
| **TOTAL EQUITY AND LIABILITIES** | | **581,253** | **660,805** |
| **Net assets per share attributable to ordinary equity holders of the Company - RM** | | **0.94** | 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 year ended 31 December 2018 | ← Attributable to equity holders of the Company → | | | | |
|---|---|---|---|---|---|
| | Share Capital | Distributable Retained Earnings / (Accumulated Losses) | Total | Non-controlling Interests | Total Equity |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **At 1 January 2018** | **248,458** | **96,210** | **344,668** | **-** | **344,668** |
| **Total comprehensive loss for the year** | - | (108,326) | **(108,326)** | - | **(108,326)** |
| **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 31 December 2018** | **248,458** | **(15,843)** | **232,615** | **-** | **232,615** |
| | | | | | |
| **At 1 January 2017** | **248,458** | **98,057** | **346,515** | **-** | **346,515** |
| **Total comprehensive income for the year** | - | 10,576 | **10,576** | - | **10,576** |
| **Transaction with owners** | | | | | |
| Dividends on ordinary shares: | | | | | |
| - First interim single-tier (Note A6) | - | (7,454) | **(7,454)** | - | **(7,454)** |
| - Second interim single-tier (Note A6) | - | (4,969) | **(4,969)** | - | **(4,969)** |
| Total dividends | - | (12,423) | **(12,423)** | - | **(12,423)** |
| **Balance at 31 December 2017** | **248,458** | **96,210** | **344,668** | **-** | **344,668** |

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 31 December 2018 RM'000 | As at 31 December 2017 RM'000 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from customers | **131,740** | 253,304 |
| Cash paid to suppliers and employees | **(168,625)** | (183,814) |
| Net cash paid to related companies | **(1,065)** | (1,679) |
| Cash (used in) / generated from operations | **(37,950)** | 67,811 |
| Interest paid | **(13,858)** | (12,017) |
| Tax paid less refunds | **(2,772)** | (2,427) |
| Net cash (used in) / generated from operating activities | **(54,580)** | 53,367 |
| **Investing Activities** | | |
| Interest received | **162** | 786 |
| Dividends received from joint venture companies | **1,620** | 1,530 |
| Proceed from disposal of property, plant and equipment | **11** | 5 |
| Purchase of property, plant and equipment | **(512)** | (2,048) |
| Investment in a joint venture company | **(11,116)** | (510) |
| Net cash used in investing activities | **(9,835)** | (237) |
| **Financing Activities** | | |
| Repayment of borrowings | **(1,444)** | (46,416) |
| Dividends paid to shareholders of the Company | **(8,696)** | (7,454) |
| Proceed from drawdown of term loan / revolving credits / hire purchases | **47,218** | 20,000 |
| Net cash generated from / (used in) financing activities | **37,078** | (33,870) |
| Net (decrease) / increase in cash and cash equivalents | **(27,337)** | 19,260 |
| Effect of foreign exchange rate changes | **(693)** | 2,413 |
| Cash and cash equivalents at beginning of year | **45,920** | 24,247 |
| **Cash and Cash Equivalents at End of Year** | **17,890** | 45,920 |
| **Cash and Cash Equivalents at End of Year Comprise:** | | |
| Deposits with licensed banks | **1,500** | 11,000 |
| Cash and bank balances | **16,390** | 34,920 |
| **Cash and Cash Equivalents at End of Year** | **17,890** | 45,920 |

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 year ended 31 December 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.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of goods and service tax, returns, rebates and discounts. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

The following is the revenue recognition criteria by type of goods and services:

(a) <u>Repair & maintenance, rendering of services and heavy engineering</u>

The revenue from repair & maintenance, rendering of services and heavy engineering is recognised over time if one of the following criteria is met:

i) As the Group performs, the customer simultaneously receives and consumes the benefits provided by the Group's performance;

ii) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

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

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

(a) Repair & maintenance, rendering of services and heavy engineering (cont'd.)

iii) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Revenue from contracts with customers is recognised as and when the control of the asset is transferred to the customer and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the asset that will be transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The Group recognises revenue over time using the input method, which is based on the stage of completion of the cost incurred to-date.

(b) Sale of goods

Revenue from sale of goods and services is recognised upon transfer of significant risks and reqards of ownership to the buyer and when the goods and services are delivered.

(c) Management fees

Management fee is recognised when the services are rendered.

(d) Rental income

Rental income is accounted for on a straight line basis over the lease term. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight line basis.

Below is the reclassification of the new revenue segment:

| | For the year ended 31 December 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 | 1,009 | 41,933 | - | - | 42,942 |
| Rendering of services | - | 119,487 | - | - | 119,487 |
| Heavy engineering | - | - | 468 | - | 468 |
| Repair and maintenance * | - | 2,183 | - | - | 2,183 |
| Sales of goods | 355 | - | - | - | 355 |
| Management fees | - | - | - | 331 | 331 |
| Rental income | - | 3,347 | - | - | 3,347 |
| | 1,364 | 166,950 | 468 | 331 | 169,113 |

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

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

| | For the year ended 31 December 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 | 581 | 147,882 | - | - | 148,463 |
| Rendering of services | - | 111,767 | - | - | 111,767 |
| Heavy engineering | - | - | 8,149 | - | 8,149 |
| Repair and maintenance * | - | 3,515 | - | - | 3,515 |
| Sales of goods | 2,125 | - | - | - | 2,125 |
| Management fees | - | - | - | 281 | 281 |
| Rental income | - | 3,347 | - | - | 3,347 |
| | 2,706 | 266,511 | 8,149 | 281 | 277,647 |

**Revenue recognised at a point in time*

Contract asset is the right to consideration for goods or services transferred to the customers. Where revenue is recognised over time, contract asset is the excess of cumulative revenue earned over the billings to-date.

When there is objective evidence of impairment, the amount of impairment losses is determined by comparing the contract asset's carrying amount and the present value of estimated future cash flows to be generated by the contract asset.

Contract liability is the obligation to transfer goods or services to customer for which the consideration has yet to be received or has billed the customer. Where revenue is recognised over time, contract liability is the excess of the billings to-date over the cumulative revenue earned. Contract liabilities include the downpayments received from customers and other deferred income where the entity has billed or has collected the payment before the goods are delivered or services are provided to the customers.

## 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 |
| Amendments to MFRS 3 (Business Combinations) | Definition of a Business | 1 January 2020 |
| Amendments to MFRS 101 (Presentation of Financial Statements) and MFRS 108 (Accounting Policies, Changes in Accounting Estimates and Errors) | Definition of Material | 1 January 2020 |
| 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.

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

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

**MFRS 16: Leases (cont'd.)**

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.

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 31 December 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 31 December 2018.

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

| **As at 31 December 2018** | **Commercial RM'000** | **Defence RM'000** | **Energy RM'000** | **Others RM'000** | **Elimination RM'000** | **Total RM'000** |
|---|---|---|---|---|---|---|
| Group total sales | 1,364 | 168,042 | 468 | 3,458 | (4,219) | 169,113 |
| Inter-segment sales | - | (1,092) | - | (3,127) | 4,219 | - |
| External Revenue (Note A2) | 1,364 | 166,950 | 468 | 331 | - | 169,113 |
| **Results** | | | | | | |
| Segment result-external | (9,116) | 12,055 | (3,029) | (42,143) | 12,026 | (30,207) |
| Interest income | 12 | 825 | - | 2,410 | (3,085) | 162 |
| Finance costs | (1,443) | (807) | - | (15,662) | 3,873 | (14,039) |
| Share of results in joint ventures | - | (7,453) | - | - | - | (7,453) |
| Share of results in associates | - | (53,078) | - | - | - | (53,078) |
| **(Loss) / profit before taxation** | (10,547) | (48,458) | (3,029) | (55,395) | 12,814 | (104,615) |
| Income tax expense | | | | | | (3,711) |
| **Loss for the period** | | | | | | **(108,326)** |
| **<u>Other information</u>** | | | | | | |
| Depreciation | 228 | 5,202 | - | 977 | - | 6,407 |
| Other non-cash expenses | 9,111 | 21,572 | - | 1,249 | - | 31,932 |

## A7. Operating Segments (cont'd.)

| | Commercial RM'000 | Defence RM'000 | Energy RM'000 | Others RM'000 | Elimination RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| Group total sales | 2,733 | 268,839 | 8,149 | 4,133 | (6,207) | 277,647 |
| Inter-segment sales | (27) | (2,328) | - | (3,852) | 6,207 | - |
| External Revenue | 2,706 | 266,511 | 8,149 | 281 | - | 277,647 |
| **Results** | | | | | | |
| Segment result-external | (3,999) | 76,292 | 7,660 | (44,357) | (4,246) | 31,350 |
| Interest income | 563 | 1,186 | - | 2,034 | (2,997) | 786 |
| Finance costs | (1,319) | (199) | - | (14,693) | 3,184 | (13,027) |
| Share of results in joint ventures | - | (13,458) | - | - | - | (13,458) |
| Share of results in associates | - | 6,119 | - | - | - | 6,119 |
| **(Loss) / profit before taxation** | (4,755) | 69,940 | 7,660 | (57,016) | (4,059) | 11,770 |
| Income tax expense | | | | | | (1,194) |
| **Profit for the period** | | | | | | **10,576** |
| **Other information** | | | | | | |
| Depreciation | 254 | 5,500 | - | 1,654 | - | 7,408 |
| Other non-cash expenses | 1,346 | 12,738 | - | 1,640 | - | 15,724 |

Discussion on the segmental performance is disclosed in Note B14 (Analysis of Performance (FYE 31 December 2018 vs. FYE 31 December 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

a) In-Service Support ("ISS") contract

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 ISS for the Royal Malaysian Navy SCORPENE Submarine contract.

BDNC had made adequate provision for the LD claim.

b) Extended In-Service Support ("EISS") & Refit contract

During the year, BDNC had made adequate provision for the LD claim to the extent that it is deemed to be sufficient for this EISS and Refit contract.

The Group is of the opinion that the above provision for the LDs' are sufficient and no further losses expected to be incurred 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 year.

## A13. Capital Commitments

The Group has the following commitments as at 31 December 2018:

| | **Approved but not contracted for RM'000** | **Approved and contracted for RM'000** | **Total RM'000** |
|---|---|---|---|
| Property, plant and equipment | 21,252 | 21 | 21,273 |

## B14. Analysis of Performance (FYE 31 December 2018 vs. FYE 31 December 2017)

| For the quarter ended 31 December 2018 | Current Period | | +/(-) | Cumulative | Year | +/(-) |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | % | 2018 | 2017 | % |
| | RM'000 | RM'000 | | RM'000 | RM'000 | |
| Revenue | 18,818 | 92,774 | (80) | 169,113 | 277,647 | (39) |
| (Loss) / Profit from operations | (64,569) | 3,540 | >-100 | (30,207) | 31,350 | >-100 |
| (Loss) / Profit before taxation | (133,984) | (22,763) | >-100 | (104,615) | 11,770 | >-100 |
| (Loss) / Profit for the period / year | (131,913) | (23,826) | >-100 | (108,326) | 10,576 | >-100 |

In 2018, the Group recorded a net loss of RM108.3 million versus last year's profit of RM10.6 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 year under review, BHIC Group recorded a revenue of RM169.1 million, RM108.5 million or 39% lower than RM277.6 million reported last year. Lower revenue recorded in 2018 was mainly attributable to lower defence-related MRO activities, no new oil & gas project and delay in finalisation of the submarine contracts.

**Commercial** segment recorded a negative contribution of RM10.5 million in the current year as compared with last year's loss of RM4.8 million due to RM8.3 million being inventories written off.

**Defence** segment posted a lower contribution in the cumulative year mainly due to lack of MRO activities. The associates posted a negative contribution in the current year mainly due to lack of MRO works, variation orders from the Original Equipment Manufacturers ("OEM")s' for the shipbuilding project coupled with increase in its project finance cost and revision in the project costs pending customer's approval. However, the impact was cushioned with good progress of Littoral Mission Ship ("LMS") project and MRO of foreign boats. In 2017, the associates posted positive contribution mainly due to good progress on ship repair works, LCS and LMS projects as well as from the additional revenue from the claim for the out of scope obligation expenses for the Patrol Vessel project which was finally agreed by the Royal Malaysian Navy ("RMN"). Furthermore, the defence segment recorded a reversal of provision for cost and reversal of long outstanding debt pertaining to the salvage work for the Service Life Extension Programme project.

**B14. Analysis of Performance (FYE 31 December 2018 vs. FYE 31 December 2017) (cont'd.)**

The joint venture companies posted a negative contribution of RM7.5 million in 2018 mainly due to additional provision for LD and costs overrun recorded by BDNC under the RMN SCORPENE Submarines contracts. In 2017, the joint venture companies posted a higher negative contribution of RM13.5 million mainly due to provision for LD recorded by BDNC for the In-Service Support under the RMN SCORPENE Submarines contract. However, the impact was cushioned by CAD Group and BHIC Bofors undertaking the LCS project as well as repair, supply and delivery of Bofors guns respectively.

There was no new oil & gas project undertaken under the **Energy** segment in the current year. The Belum Topside project was officially completed & accepted by the customer and all amount due has been collected from the customer.

The Group recorded total allowance for impairment of RM22.3 million (FYE 2017: RM13.7 million) for both trade and other receivables in the current year. In addition, the Group written-off its inventories worth RM8.3 million in the current year. Impairments in 2017 was primarily due to impairment loss of RM12.1 million for the advances to supplier.

Finance cost was higher in the current year as compared with last year's corresponding period mainly due to drawdown of borrowings to finance the Group's working capital.

**B15. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q4 2018 vs. Q3 2018)**

| For the quarter ended 31 December 2018 | Current Period | Immediate Preceding Period | +/(-) |
|---|---|---|---|
| | **Q4 2018** | **Q3 2018** | **%** |
| | **RM'000** | **RM'000** | |
| Revenue | 18,818 | 61,418 | (69) |
| (Loss) / Profit from operations | (64,569) | 22,616 | >-100 |
| (Loss) / Profit before taxation | (133,984) | 16,371 | >-100 |
| (Loss) / Profit for the period | (131,913) | 11,869 | >-100 |

The Group posted RM131.9 million loss for the current quarter as compared with a net profit of RM11.9 million in the preceding quarter.

Current quarter revenue of RM18.8 million was lower than the preceding quarter revenue of RM61.4 million mainly due to delay in finalisation of submarine contracts.

The Group recorded total allowance for impairment of RM22.3 million for both trade and other receivables in the current quarter.

**B15. Material Changes in Quarterly Results Compared with the Results of the Immediate Preceding Quarter (Q4 2018 vs. Q3 2018) (cont'd.)**

The joint venture companies posted a negative contribution of RM15.3 million in the current quarter due to additional provision for LD and costs overrun recorded by BDNC under the RMN SCORPENE Submarines contracts. Higher contribution in the preceding quarter was due to profits recognised under the submarines' EISS 2 contract. In addition, CAD Group and BHIC AeroServices Sdn Bhd posted a higher contribution in the preceding quarter due to LCS project progress and higher flying hours recorded by the Royal Malaysian Air Force ("RMAF") and Malaysian Maritime Enforcement Agency ("MMEA") respectively.

The associates recorded a negative contribution of RM50.4 million in the current quarter due to variation orders for the shipbuilding project coupled with increase in its project finance cost. The lower loss of RM1.3 million in the preceding quarter was due to variation in milestones achieved for both LCS and LMS projects, profits from repair works on KD MAHAWANGSA and progress on defence-related ship repair projects.

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

The Group's property, plant and equipment decreased from RM55.5 million to RM50.3 million in the current period mainly due to depreciation charge during the year.

The decrease in the Group's cash from RM45.9 million to RM17.9 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 RM8.7 million was due to lower amount owing to customers on contract primarily due to lower defence-related MRO activities.

The increase in receivables by RM13.4 million was mainly due to lower collection from customers.

**B17. Material Changes in Statement of Cash Flows (FYE 31 December 2018 vs. FYE 31 December 2017)**

The cash and cash equivalent of RM17.9 million at the end of the current year was lower as compared with RM45.9 million last year largely attributable to the acquisition of 30% stake in Airbus Helicopters Simulation Centre Sdn Bhd, total dividends paid in 2018 amounting to RM8.7 million coupled with lower collection from customers.

**B18. Commentary on Prospects**

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.

On 16 January 2019, a keel laying ceremony for LMS2 was held in China. The construction of the first four of six LCS by our Associate is currently ongoing, with the keel laying of LCS4 was 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.

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 global oil price remained volatile and the Malaysian Ringgit continues to fluctuate as a result of world economic uncertainties and trade war between the two economic giants, which consequently poses many challenges to the Group. However, the Group continues to remain upbeat about the prospects ahead.

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 | (284) | (27) | (436) | (46) |
| Net loss / (gain) on foreign currency exchange | 3,967 | 877 | (200) | 521 |
| Loss on disposal of property, plant and equipment | - | - | - | 6 |
| Inventories written off | 8,335 | 402 | 8,335 | 402 |
| Inventories written down | 46 | 144 | 46 | 144 |
| Allowance for impairment: | | | | |
| - Trade receivables | 21,076 | 946 | 21,098 | 946 |
| - Other receivables | 1,249 | 12,738 | 1,249 | 12,738 |
| Reversal of allowance for impairment: | | | | |
| - Trade receivables | (5) | (26) | (5) | (146) |
| Depreciation of investment property | 124 | 119 | 509 | 478 |
| Depreciation of property, plant and equipment | 1,347 | 1,773 | 5,897 | 6,930 |
| Property, plant and equipment written off | - | 1,640 | - | 1,640 |

## B21. Taxation

| | Current Period 2018 RM'000 | Cumulative Period 2018 RM'000 |
|---|---|---|
| Malaysian taxation based on profit for the period: | | |
| - Current corporate tax | (418) | 6,018 |
| - Over provision in prior year | - | (464) |
| Deferred taxation: | | |
| - Relating to origination and reversal of temporary differences | (2,222) | (2,412) |
| - Under provision in prior year | 569 | 569 |
| | (2,071) | 3,711 |

**B21. Taxation (cont'd.)**

The Group had recorded a net adjustment of RM1.8 million on deferred tax assets primarily relating to changes in taxable temporary differences during the current financial year.

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 31 December 2018 and 31 December 2017 are as follows:

| | **31.12.2018 RM'000** | **31.12.2017 RM'000** |
|---|---|---|
| Long term borrowings: | | |
| Secured | | |
| - Term loan | 4,686 | 5,806 |
| - Hire purchase and finance lease liabilities | 451 | 593 |
| | 5,137 | 6,399 |
| Short term borrowings: | | |
| Unsecured | | |
| - Revolving credits | 267,000 | 220,000 |
| Secured | | |
| - Term loan | 1,120 | 1,120 |
| - Hire purchase and finance lease liabilities | 334 | 298 |
| | 268,454 | 221,418 |
| Total borrowings | 273,591 | 227,817 |

All current period borrowings are denominated in Ringgit Malaysia.

As at 31 December 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 year (FYE 31 December 2017: 5.6%).

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

Refinancing of the existing revolving credit facility

The Group had accepted the refinancing part of its outstanding revolving credits to improve its financial position. The management is in the process of completing the relevant documentations to complete this exercise.

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.

## B24. Disclosure of Derivatives

There were no outstanding derivatives as at 31 December 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 31 December 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.<br><br>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.<br><br>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.<br><br>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 in May, July, August and November 2018. The Court has scheduled the dates for continuation of trial on 22 January 2019, 5 April 2019 and 10 April 2019. |

| Company | Claimant Company | Amount RM'000 | Status |
|---|---|---|---|
| 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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Muara Hijau has agreed to the proposed set-off between their invoiced sum against BPS's total costs and subsequently settled the outstanding costs of RM28,408.98 to BPS on 28 January 2019. |

## B27. Earnings per Share

| | Current Period | | Cumulative Year | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net (loss) / profit for the period / year – RM'000 | (131,913) | (23,826) | (108,326) | 10,576 |
| Number of ordinary shares in issue – '000 | 248,458 | 248,458 | 248,458 | 248,458 |
| Total (loss) / earnings per share – sen | (53.09) | (9.59) | (43.60) | 4.26 |

**By Order of the Board**

**LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)**
**SUZANA BINTI SANUDIN (LS 008028)**
Company Secretaries
Kuala Lumpur
Date: 27 February 2019