

MENCAST HOLDINGS LTD.

(Incorporated in the Republic of Singapore on 30 January 2008)

(Company Registration Number: 200802235C)

UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE SECOND FINANCIAL QUARTER ("2Q2018") IN RESPECT OF THE FINANCIAL PERIOD ENDED 30 JUNE 2018**PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS**

1(a)(i) An income statement, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	The Group					
	For the second quarter ended			For the half year ended		
	2Q2018	2Q2017	Increase/	HY2018	HY2017	Increase/
	(\$'000)	(\$'000)	(decrease)	(\$'000)	(\$'000)	(decrease)
			(%)			(%)
Revenue	15,477	14,785	5	30,510	27,566	11
Cost of sales	(12,554)	(13,294)	(6)	(26,050)	(25,798)	1
Gross profit	2,923	1,491	96	4,460	1,768	152
Other gains – net	714	462	55	1,917	759	153
Expenses						
- Administrative	(3,840)	(3,496)	10	(7,616)	(7,664)	(1)
- Finance	(1,438)	(1,446)	(1)	(2,839)	(2,773)	2
Loss before income tax	(1,641)	(2,989)	(45)	(4,078)	(7,910)	(48)
Income tax	(27)	30	NM	(199)	-	NM
Net loss	(1,668)	(2,959)	(44)	(4,277)	(7,910)	(46)
Other comprehensive (loss)/income that may be reclassified subsequently to profit or loss						
Currency translation differences arising from consolidation ⁽¹⁾	(50)	229	NM	(250)	(275)	(9)
Total comprehensive loss	(1,718)	(2,730)	(37)	(4,527)	(8,185)	(45)
Net (loss)/profit attributable to :						
Equity holders of the Company	(1,726)	(4,077)	(58)	(4,760)	(9,190)	(48)
Non-controlling interests	58	1,118	(95)	483	1,280	(62)
	(1,668)	(2,959)	(44)	(4,277)	(7,910)	(46)
Total comprehensive (loss)/income attributable to :						
Equity holders of the Company	(1,776)	(3,848)	(54)	(5,010)	(9,465)	(47)
Non-controlling interests	58	1,118	(95)	483	1,280	(62)
	(1,718)	(2,730)	(37)	(4,527)	(8,185)	(45)

(1) The currency translation difference arising from consolidation relates mainly to the fluctuations of Indonesian Rupiah and Chinese Renminbi against Singapore Dollar.

(2) "NM" denotes not meaningful.

1(a)(ii) Notes to statement of comprehensive income

	The Group					
	For the second quarter ended 30 June			For the half year ended 30 June		
	2Q2018 (\$'000)	2Q2017 (\$'000)	Increase/ (decrease) (%)	HY2018 (\$'000)	HY2017 (\$'000)	Increase/ (decrease) (%)
<u>Included in Other (charges)/credits – net:</u>						
- Claim against former shareholder of subsidiary ⁽¹⁾	-	306	NM	-	306	NM
- Foreign exchange gain/(loss), net	(89)	62	NM	(152)	(68)	(124)
- Gain/(loss) on sale of property, plant and equipment ⁽²⁾	(45)	(4)	(1,025)	555	(34)	NM
- Government grants ⁽³⁾	343	50	586	557	161	246
- Impairment of trade receivables	(2)	-	NM	(2)	(9)	(78)
- Rental income ⁽⁴⁾	331	11	2,909	615	258	138
- Sale of scrap metals ⁽⁵⁾	183	57	221	326	167	95
- Write-back of long outstanding payables	50	-	NM	50	-	NM
- Write-off of trade receivables	-	(27)	NM	-	(33)	NM
- Other income ⁽⁶⁾	(57)	7	NM	(32)	11	NM
	714	462	55	1,917	759	153
<u>Included under finance expense:</u>						
- Interest expense	1,438	1,446	(1)	2,839	2,773	2
<u>Included under cost of sales and administrative expenses:</u>						
- Depreciation of property, plant and equipment	3,324	4,083	(19)	6,692	8,036	(17)
<u>Included under income tax:</u>						
- (Over)/under provision of current income tax in prior financial years ⁽⁷⁾	-	(30)	NM	74	-	NM

Notes:

- (1) The claim against a former shareholder of a subsidiary in 2Q2017 arose from the acquisition of Chinyee Engineering & Machinery Ptd Ltd ("Chinyee"), which was completed in March 2014. These claims relate to non-collections of various projects undertaken by Chinyee prior to acquisition, and accordingly the Group accounted it as other income through unanimous settlement with the former shareholder and upon receipt of the claims.
- (2) Gain on the sale of property, plant and equipment in HY2018 arose mainly from an incremental adjustment of \$530,000 to the sales consideration for 11 Tuas Basin Close property upon successfully obtaining the approval of JTC on extension of lease tenure to 31 December 2021.
- (3) The increase in government grants was mainly due to receipts from:
 - a. Workpro LED Job Redesign Grant from Singapore National Employers Federation ("SNEF") of \$111,000 during 1Q2018;
 - b. Marine Professional Conversion Programme by Association of Singapore Marine Industries of \$415,000 in 2Q2018;
- (4) Increase in rental income was mainly related to the increase in lease rental activities for in 42A Penjuru Road property.
- (5) Higher sale of scrap materials in HY2018 was mainly due from:
 - a. scrap from the steel plates cutting works for a particular customer of \$74,000; and
 - b. scrap sales of metal chips of \$180,000.
- (6) Other income relates to interest income and miscellaneous income/expense.
- (7) Under provision of current income tax in prior financial years arose from foreign subsidiaries.

- 1(b)(i) **A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

STATEMENT OF FINANCIAL POSITION

	Group		Company	
	As at 30 June 2018 (\$'000)	As at 31 December 2017 (\$'000) (Restated)	As at 30 June 2018 (\$'000)	As at 31 December 2017 (\$'000) (Restated)
ASSETS				
Current assets				
Cash and cash equivalents	9,260	14,741	44	828
Trade and other receivables	15,626	17,057	71,380	70,525
Inventories	9,310	8,564	-	-
Contract assets	4,964	3,774	668	563
	39,160	44,136	72,092	71,916
Assets of disposal group classified as held-for-sale	6,147	-	-	-
	45,307	44,136	72,092	71,916
Non-current assets				
Available-for-sale financial assets	-	109	-	-
Financial assets, FVOCI	109	-	-	-
Investment in subsidiaries	-	-	69,880	69,879
Property, plant and equipment	195,375	205,642	1	1
Deposits for purchase of property, plant and equipment	7	9	-	-
Intangible assets	9,661	9,661	-	-
Club memberships	60	60	-	-
	205,212	215,481	69,881	69,880
Total assets	250,519	259,617	141,973	141,796
LIABILITIES				
Current liabilities				
Trade and other payables	18,329	16,370	26,907	25,054
Contract liabilities	4,050	3,825	-	-
Borrowings	46,347	190,389	895	54,522
Current income tax liabilities	284	339	-	-
	69,010	210,923	27,802	79,576
Liabilities directly associated with disposal group classified as held-for-sale	6	-	-	-
	69,016	210,923	27,802	79,576
Non-current liabilities				
Borrowings	141,327	3,238	53,381	-
Deferred income tax liabilities	5,341	5,341	-	-
	146,668	8,579	53,381	-
Total liabilities	215,684	219,502	81,183	79,576
NET ASSETS	34,835	40,115	60,790	62,220
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	91,747	91,747	91,747	91,747
Fair value reserve	32	32	-	-
Other reserve	509	509	-	-
Translation reserve	(977)	(727)	-	-
Retained profits/(accumulated losses)	(63,521)	(58,761)	(30,957)	(29,527)
	27,790	32,800	60,790	62,220
Non-controlling interests	7,045	7,315	-	-
Total equity	34,835	40,115	60,790	62,220

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1 (b)(ii) Aggregate amount of group's borrowings and debt securities.**Amount repayable in one year or less, or on demand**

	As at 30 June 2018		As at 31 December 2017	
Borrowings	Secured (\$'000)	Unsecured (\$'000)	Secured (\$'000)	Unsecured (\$'000)
Bank borrowings	33,960	11,115	177,322	11,269
Finance lease liabilities	1,272	-	1,798	-
Current borrowings	35,232	11,115	179,120	11,269

Amount repayable after one year

	As at 30 June 2018		As at 31 December 2017	
Borrowings	Unsecured (\$'000)	Unsecured (\$'000)	Secured (\$'000)	Unsecured (\$'000)
Bank borrowings	138,664	1,205	-	1,738
Finance lease liabilities	1,458	-	1,500	-
Non-current borrowings	140,122	1,205	1,500	1,738

Details of any collaterals

The bank borrowings are secured by the Group's leasehold buildings, vessels, certain short-term bank deposits and trade receivables and corporate guarantees by the Company.

Finance lease liabilities of the Group are secured by leased machinery and equipment and motor vehicles, as the legal title is retained by the lessor and will be transferred to the Group upon full payment.

Included in the unsecured portion of current bank borrowings is the Internationalisation Finance Scheme ("IFS") term loan of approximately \$1.7 million as at 30 June 2018. IFS term loan was previously obtained by S & W Pte Ltd for the purpose of capital injection into Changshu Honghua Equipment Co., Ltd. The capital was used for the long-term lease of land and construction of factory in Changshu, China.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group			
	For the second quarter ended 30 June 2Q2018 (\$'000)	2Q2017 (\$'000) (Restated)	For the half year ended 30 June HY2018 (\$'000)	HY2017 (\$'000) (Restated)
Cash flows from operating activities				
Net loss	(1,668)	(2,959)	(4,277)	(7,910)
Adjustments for:				
- Income tax	27	(30)	199	-
- Depreciation of property, plant and equipment	3,324	4,083	6,692	8,036
- Loss/(gain) on disposal of property, plant and equipment	45	4	(555)	34
- Claim against former shareholder of a subsidiary	-	(306)	-	(306)
- Interest income	(12)	(3)	(14)	(4)
- Interest expense	1,438	1,446	2,839	2,773
- Currency translation differences	38	217	(101)	152
	3,192	2,452	4,783	2,775
Changes in working capital:				
- Trade and other receivables	2,386	503	1,573	27,339
- Inventories	(1,213)	(257)	(746)	1,333
- Contract assets	(1,410)	(955)	(1,190)	(24,787)
- Trade and other payables	1,252	(884)	669	2,034
- Contract liabilities	(570)	323	225	727
Cash generated from operations	3,637	1,182	5,314	9,421
Interest received	12	3	14	4
Income tax (paid)/refunded	(196)	21	(254)	(72)
Net cash provided by operating activities	3,453	1,206	5,074	9,353
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	571	103	1,227	160
Purchase of property, plant and equipment	(355)	(723)	(1,737)	(831)
(Placement)/release of short-term bank deposits pledged	(53)	533	2,007	621
Net cash provided by/(used in) investing activities	163	(87)	1,497	(50)
Cash flows from financing activities				
Interest paid	(1,092)	(2,261)	(3,022)	(4,035)
Repayment of bank borrowings	(5,113)	(7,345)	(13,393)	(10,495)
Repayment of finance lease liabilities	(316)	(1,080)	(700)	(2,151)
Proceeds from bank borrowings	3,362	16,934	7,947	19,381
Dividends paid to non-controlling interests	(300)	-	(900)	-
Net cash (used in)/provided by financing activities	(3,459)	6,248	(10,068)	2,700
Net decrease in cash and cash equivalents	157	7,367	(3,497)	12,003
Cash and cash equivalents at beginning of financial period	7,947	7,256	11,601	2,620
Cash and cash equivalents at end of financial period	8,104	14,623	8,104	14,623

(1) Cash and cash equivalents, for the purpose of presenting consolidated statement of cash flows, consist of :

	As at 30 June 2018 (\$'000)	As at 30 June 2017 (\$'000)
Cash and bank balances	9,260	18,312
Short-term bank deposits pledged	(710)	(2,774)
Bank overdrafts included in borrowings	(484)	(915)
	8,066	14,623
Cash and cash equivalents reclassified to disposal group	38 ^(a)	-
	8,104	14,623

^(a) The difference in the amounts presented above and the closing balance in the Consolidated Statement of Cash Flows as at 30 June 2018 is because cash and cash equivalent of \$38,000 related to the disposal group were included within the single line item "Assets of disposal group classified as held-for-sale".

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1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital (\$'000)	Treasury shares (\$'000)	Retained profits/ (accumulated losses) (\$'000)	Fair value reserve (\$'000)	Translation reserve (\$'000)	Other reserve (\$'000)	Total (\$'000)	Non-controlling interests (\$'000)	Total equity (\$'000)
Group									
Balance as at 1 January 2018	91,950	(203)	(58,761)	32	(727)	509	32,800	7,315	40,115
Total comprehensive (loss)/income	-	-	(3,034)	-	(200)	-	(3,234)	425	(2,809)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(600)	(600)
Balance as at 31 Mar 2018	91,950	(203)	(61,795)	32	(927)	509	29,566	7,140	36,706
Total comprehensive (loss)/income	-	-	(1,726)	-	(50)	-	(1,776)	58	(1,718)
Issue of newly incorporated subsidiary's shares to non-controlling interests	-	-	-	-	-	-	-	147	147
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(300)	(300)
Balance as at 30 June 2018	91,950	(203)	(63,521)	32	(977)^(a)	509	27,790	7,045	34,835
Balance as at 1 January 2017	91,860	(203)	23,227	14	-	509	115,407	6,591	121,998
Total comprehensive (loss)/income	-	-	(5,113)	-	(504)	-	(5,617)	162	(5,455)
Balance as at 31 Mar 2017	91,860	(203)	18,114	14	(504)	509	109,790	6,753	116,543
Shares for Directors' fees (in lieu of cash)	90	-	-	-	-	-	90	-	90
Total comprehensive (loss)/income	-	-	(4,077)	-	229	-	(3,848)	1,118	(2,730)
Balance as at 30 June 2017	91,950	(203)	14,037	14	(275)	509	106,032	7,871	113,903

^(a) As at 30 June 2018, the translation reserve of -\$977,000 includes the amount of -\$329,000 which is directly associated with disposal group classified as held-for sale.

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	Share capital (\$'000)	Treasury shares (\$'000)	Accumulated losses) (\$'000)	Total equity (\$'000)
Company				
Balance as at 1 January 2018	91,950	(203)	(29,527)	62,220
Total comprehensive loss	-	-	(1,161)	(1,161)
Balance as at 31 Mar 2018	91,950	(203)	(30,668)	61,059
Total comprehensive loss	-	-	(269)	(269)
Balance as at 30 June 2018	91,950	(203)	(30,957)	60,790
Balance as at 1 January 2017	91,860	(203)	(11,424)	80,233
Total comprehensive loss	-	-	(878)	(878)
Balance as at 31 Mar 2017	91,860	(203)	(12,302)	79,355
Shares for Directors' fees (in lieu of cash)	90	-	-	90
Total comprehensive loss	-	-	(1,292)	(1,292)
Balance as at 30 June 2017	91,950	(203)	(13,594)	78,153

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There has been no change in the issued share capital of the Company since its last issuance on 22 June 2017.

As at 30 June 2018, the total number of treasury shares held was 455,025 (30 June 2017: 455,025).

The Company has no outstanding options or convertibles as at 30 June 2018 and 31 December 2017.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	As at 30 June 2018	As at 31 December 2017
Total number of issued shares (excluding treasury shares) (in '000)	422,240	422,240

- 1(d)(iv) A statement showing all sales, transfers, disposals, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

There were no sales, transfers, disposal, cancellation and/or use of treasury shares as at end of 30 June 2018.

- 1(d)(v) A statement showing all sales, transfers, disposals, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the independent auditor.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group and the Company have applied the same accounting policies and methods of computation in the preparation of the financial statements for the current financial period compared with the audited financial statements for the financial year ended 31 December 2017, except that the Group and the Company have adopted Singapore Financial Reporting Standards (International) ("SFRS(I)") and all new and revised standards which are effective for annual financial periods beginning on or after 1 January 2018.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

On transition to SFRS(I), the Group elected to set the cumulative translation differences to zero as at 1 January 2017. As a result, translation reserve and retained profits as at 1 January 2017 and 31 December 2017 were increased/reduced by \$3,973,000 respectively.

In addition, the Group and the Company adopted SFRS(I) equivalent of IFRS 9 and SFRS(I) equivalent of IFRS 15. Other than those discussed below, the adoption of these new SFRS(I) did not result significant change to the Group's and Company's accounting policies and no material impact on the amounts reported for the current or prior financial periods.

The following summarised the significant impact in the Group's financial position arising from adoption of the above mentioned SFRS(I):

	FY2017 (as currently reported)	FY2017 (as previously reported)	Increase/ (decrease)
Consolidated Statement of Financial Position	\$'000	\$'000	\$'000
Effect of SFRS(I) 15			
- Trade and other receivables	17,057	20,691	(3,634)
- Inventories	8,564	8,704	(140)
- Contract assets	3,774	-	3,774
- Trade and other payables	16,370	20,195	(3,825)
- Contract liabilities	3,825	-	3,825
Effect of SFRS(I) 9			
- Available-for sale financial assets	109	109	-
- Financial assets, at FVOCI	-	-	-
Effect of SFRS(I) 1			
- Translation reserve	(727)	(4,700)	(3,973)
- Retained earnings	(58,761)	(54,788)	3,973

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- 6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:**

	The Group		For the half year ended	
	For the second quarter ended 30 June 2Q2018	2Q2017	30 June HY2018	HY2017
Net (loss)/earnings attributable to equity holders of the Company (\$'000)	(1,726)	(4,077)	(4,760)	(9,190)
Weighted average number of shares outstanding for basic and diluted EPS ('000)	422,240	421,783	422,240	421,761
Basic and diluted EPS attributable to equity holders of the Company (SGD cents)	(0.41)	(0.97)	(1.13)	(2.18)

Basic and Diluted EPS is computed by dividing the net loss attributable to the equity holders of the Company in each financial period by the weighted average number of ordinary shares outstanding at the end of the respective financial period.

There are no dilutive potential ordinary shares for the financial period ended 2Q2018/2Q2017 and HY2018/HY2017 respectively.

- 7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:**
- (a) current financial period reported on; and**
- (b) immediately preceding financial year.**

NET ASSET VALUE ("NAV")

	Group		Company	
	As at		As at	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
NAV per ordinary share (SGD cents)	6.58	7.77	14.40	14.74
Number of shares used in computation of NAV per share ('000)	422,240	422,240	422,240	422,240

8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

REVIEW OF INCOME STATEMENT OF THE GROUP

HY2018 vs HY2017 and 2Q2018 vs 2Q2017

Revenue

<u>Revenue by segment</u>	2Q2018		2Q2017		HY2018		HY2017	
	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)
Offshore & Engineering	4,255	27	3,875	26	7,794	25	7,503	27
Marine	8,129	53	5,805	39	15,521	51	12,187	44
Energy Services	3,093	20	5,105	35	7,195	24	7,876	29
	15,477	100	14,785	100	30,510	100	27,566	100

Notes:

- (1) Offshore & Engineering includes offshore structures, engineering, manufacturing, inspection and maintenance. This also includes rope access services.
- (2) Marine includes stearn gear manufacturing and refurbishment works, ship inspection, repair & maintenance services and engineering & fabrication works. This also includes diving services.
- (3) Energy Services includes oil sludge and slop reclamation, hydro cleaning oil and gas tanks, encapsulation of wastes prior for landfill disposal and design and launch carbon footprint management initiatives and green initiatives.

Overall, revenue for HY2018 rose by 11% or \$2.9 million to \$30.5 million as compared to \$27.6 million in HY2017. The 11% revenue growth was mainly attributable to stronger performance from Marine segment but was mitigated by lower revenue in Energy services segment while Offshore and Engineering segment remains resilient.

Offshore & Engineering segment

Revenue from the Offshore & Engineering segment increased by 4% or \$291,000 to \$7.8 million in HY2018.

For 2Q2018, this segment also recorded a \$380,000 increase or 10% in its revenue when compared to \$3.9 million revenue in 2Q2017 mainly due to higher demand.

REVIEW OF INCOME STATEMENT OF THE GROUP (continued)

Marine segment

Marine segment contributed 51% or \$15.5 million to the Group's revenue in HY2018. On the whole, it recorded a revenue growth of 27% when compared to HY2017 revenue of \$12.2 million.

Revenue from the segment's repairs and maintenance services grew approximately 46% or \$2.3 million when compared to HY2017 of \$5.0 million, due mainly to increased demand.

The growth was further driven by stronger demand for new built propellers which posted an increase in revenue of approximately 32% or \$1.4 million to \$5.7m in HY2018, from \$4.3 million in HY2017.

Revenue for diving services was however down by 12%, from \$2.8 million in HY2017 due to lower work volume from a major refinery.

These also explained the fluctuation in revenue in 2Q2018 as compared to 2Q2017.

Energy Services segment

Energy services segment revenue in HY2018 was lower at \$7.2 million compared to \$7.9 million in HY2017 mainly due to lower work orders from a major customer.

This also explained the fluctuation in revenue in 2Q2018 as compared to 2Q2017.

Cost of sales, gross profit and gross profit margin

On the back of stronger revenue and lower depreciation charges in HY2018 (a result of impairments undertaken in FY2017), the Group's gross profit and gross profit margin improved from \$1.8 million and 6% in HY2017 to \$4.5 million and 15% in HY2018 respectively.

This also explained the fluctuations in cost of sales and gross profit in 2Q2018 as compared to 2Q2017.

Other income

Other income increased by \$1.1 million, from \$0.8 million in HY2017 to \$1.9 million in HY2018. Detailed explanations of these gains were highlighted in paragraph 1(a)(ii).

The above also explained the decrease in other income in 2Q2018 as compared to 2Q2017.

Administrative expenses

The Group's administrative expenses remained relatively similar for both reporting periods in HY2018 and HY2017.

Administrative expenses in 2Q2018 increased by \$0.3 million to \$3.8 million, from \$3.5 million in 2Q2017, due mainly to higher expenses incurred in professional fees, travelling, upkeep of office buildings and office equipment among others.

REVIEW OF INCOME STATEMENT OF THE GROUP (continued)

Finance expenses

Finance expense remained relatively similar for both reporting periods ended HY2018/HY2017 and 2Q2018/2Q2017.

Income tax

The Group recognised a tax charge of \$199,000 mainly due to provision of current income tax from its Energy segment.

Net profit

Consequent to the revenue growth and increase in other income, the Group was able to reduce its net loss before tax by 48%, from \$7.9 million loss in HY2017 to \$4.1 million loss in HY2018.

Net loss attributable to equity holders of the Company in HY2018 dropped by 48% from \$9.2 million in HY2017 to \$4.8 million in HY2017.

These also explained the fluctuation in Group's net loss and net loss attributable to equity holders of the Company in 2Q2018 as compared to 2Q2017.

REVIEW OF FINANCIAL POSITION

Current assets

Current assets increased by \$1.2 million or 3% from \$44.1 million as at 31 December 2017 to \$45.3 million as at 30 June 2018, mainly attributable to reclassification of asset balances, amounting to \$6.1 million, from non-current assets to current assets, which were mainly related to the leasehold land and building in Changshu Honghua. As previously announced, the Company through S & W Pte Ltd, its wholly owned subsidiary, entered into a Sale and Purchase Agreement ("SPA") for the disposal of the entire stake in Changshu Honghua for RMB49 million. The Group had in 2Q2018 recognised and reclassified the assets and liabilities directly associated with Changshu Honghua to current assets / liabilities as "Assets / Liabilities of disposal group classified as held for sale".

The increase was offset by a reduction in cash and cash equivalents of \$5.5 million and trade and other receivables of \$1.4 million, of which the details are highlighted in the Review of Statement of Cash Flows.

Non-current assets

The decline in non-current assets of \$10.3 million, from \$215.5 million as at 31 December 2017 to \$205.2 million as at 30 June 2018 was mainly due to the reclassification of leasehold land and building of approximately \$6.1 million to current assets, as explained above. The balance \$4.2 million was mainly due to depreciation charges of \$6.7 million in HY2018, offset by purchases in property, plant and equipment of \$1.7 million, arising mainly from rectification works in 42A Penjuru Road property.

Current liabilities

Current liabilities reduced by \$141.9 million or 67% from \$210.9 million as at 31 December 2017 to \$69.0 million as at 30 June 2018, mainly due to reclassifications of significant portion of current borrowings to non-current liabilities, as explained below.

Trade and other payables increased by \$2.0 million or 12% to \$18.3 million as at 30 June 2018 due mainly to the receipt of a non-refundable deposit of approximately \$1.9 million from the proposed disposal of the entire issued and paid-up share capital of Changshu Honghua Equipment Co., Ltd. ("Changshu"), a wholly owned indirect subsidiary of the Company.

The liabilities directly associated with disposal group classified as held-for-sale stood at \$6,000 being 3rd party payables.

Non-current liabilities

Non-current liabilities rose by \$138.1 million, from \$8.6 million as at 31 December 2017 to \$146.7 million as at 30 June 2018. The Company had on 8th May 2018 received by way of a letter from one of our principal bankers who responded to our waiver application on our non-compliance in financial covenants. The bank has accommodated the said breach on a one-off basis and the Company had reclassified approximately \$139.1 million of its borrowings from current to non-current liabilities.

REVIEW OF STATEMENT OF CASH FLOWS

The Group reported a net cash inflow from operating activities of \$5.1 million in HY2018 due mainly to its operating income before changes in working capital.

Net cash of \$1.5 million was generated from investing activities as a result of the release of a \$2.0 million fixed deposits pledged and net proceeds from disposal of fixed assets of \$1.2 million, offset by purchases of fixed assets of \$1.7 million.

Net cash used in financing activities of \$10.1 million as at 30 June 2018 was mainly due to repayments of term loans, finance lease liabilities and payment of interests of approximately \$17.1 million, offset by proceeds from bank borrowings of \$7.9 million.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group reported increase in revenue for two consecutive quarters for the period ended 30 June 2018. Market sentiment had improved amid sign of increase in customer's enquiries.

Our Group has outstanding orders amounting to approximately \$50.8 million as at 30 June 2018 (\$15.5 million as at 31 December 2017), including orders from the recent joint venture with KSE Marine Works Pte Ltd. The deliveries for these orders are expected to spread within the next 24 months.

Notwithstanding the improved conditions, the Group's businesses serving largely the marine, oil and gas industries remain challenging as the recovery is still in its early stages.

11 Dividend

(a) Current financial period reported on

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12 If no dividend has been declared (recommended), a statement to that effect.

Not applicable.

13 Interested Person Transactions

There were no interested person transactions, as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited, entered into by the Group or by the Company during the second quarter ended 30 June 2018. The Company does not have a general mandate from shareholders for interested person transactions.

14. Negative Assurance on Interim Financial Statements

To the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial statements of the Group and the Company for the second quarter ended 30 June 2018 to be false or misleading in any material aspect.

15 Confirmation that the issuer has procured undertakings from all its directors and executive officers pursuant to Rule 720(1) of the SGX Listing Manual.

The Company confirms that it has procured undertakings from all its Directors and Executive Officers (in the format set out in Appendix 7.7) pursuant to Rule 720 (1) of the SGX Listing Manual.

16 Net Current Liabilities Position and Loan Restructuring

As at 30 June 2018, the Group remained in a net current liabilities position of \$23.7 million (FY2017: \$166.8 million) even though it had reclassified a significant portion of its current borrowings of \$139.1 million to non-current liabilities (as explained in paragraph 8 – non-current liabilities).

Currently, the Group continues to make progress in discussion with the banks on the formulation of a debt restructuring plan which will include, among others, moratorium of loan principal repayment for a certain period and longer repayment terms.

In terms of the Company's progress on its non-core asset divestment plan of Honghua Changshu, it had on 5th July 2018 obtained a waiver from the requirement of getting shareholders' approval.

In view of the above, the Company continues to use the going concern basis in preparing the financial statements for the financial period ended 30 June 2018.

The Company will make appropriate announcements as and when there is any material development.

BY ORDER OF THE BOARD

Sim Soon Ngee Glenndle
Executive Chairman and Chief Executive Officer

10 August 2018
