

UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE NINE MONTH FINANCIAL PERIOD (“9M2018”) IN RESPECT OF THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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 third quarter ended 30 September			For the nine months ended 30 September		
	3Q2018 (\$'000)	3Q2017 (\$'000)	Increase/ (decrease) (%)	9M2018 (\$'000)	9M2017 (\$'000)	Increase/ (decrease) (%)
Revenue	18,822	12,742	48	49,332	40,308	22
Cost of sales	(16,947)	(14,440)	17	(42,997)	(40,238)	7
Gross profit/(loss)	1,875	(1,698)	NM	6,335	70	NM
Other gains/(losses) – net	1,926	(24)	NM	3,843	735	423
Expenses						
- Administrative	(4,203)	(3,904)	8	(11,819)	(11,568)	2
- Finance	(1,516)	(1,597)	(5)	(4,355)	(4,370)	-
Loss before income tax	(1,918)	(7,223)	(73)	(5,996)	(15,133)	(60)
Income tax	(159)	(1)	NM	(358)	(1)	NM
Net loss	(2,077)	(7,224)	(71)	(6,354)	(15,134)	(58)
Other comprehensive loss that may be reclassified subsequently to profit or loss						
Currency translation differences arising from consolidation ⁽¹⁾	(347)	(254)	37	(597)	(529)	13
Total comprehensive loss	(2,424)	(7,478)	(68)	(6,951)	(15,663)	(56)
Net (loss)/profit attributable to :						
Equity holders of the Company	(2,176)	(7,141)	(70)	(6,936)	(16,331)	(58)
Non-controlling interests	99	(83)	NM	582	1,197	(51)
	(2,077)	(7,224)	(71)	(6,354)	(15,134)	(58)
Total comprehensive (loss)/income attributable to :						
Equity holders of the Company	(2,523)	(7,395)	(66)	(7,533)	(16,860)	(55)
Non-controlling interests	99	(83)	NM	582	1,197	(51)
	(2,424)	(7,478)	(68)	(6,951)	(15,663)	(56)

(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.

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

	The Group					
	For the third quarter ended 30 September			For the nine months ended 30 September		
	3Q2018 (\$'000)	3Q2017 (\$'000)	Increase/ (decrease) (%)	9M2018 (\$'000)	9M2017 (\$'000)	Increase/ (decrease) (%)
<u>Included in Other gains/(losses) – net:</u>						
- Claim against former shareholder of subsidiary ⁽¹⁾	-	-	-	-	306	NM
- Foreign exchange loss, net ⁽²⁾	(26)	(252)	(90)	(178)	(320)	(44)
- Gain/(loss) on sale of property, plant and equipment ⁽³⁾	202	(114)	NM	757	(148)	NM
- Government grants ⁽⁴⁾	717	139	416	1,274	300	325
- Impairment of trade receivables	-	-	-	(2)	(9)	(78)
- Rental income ⁽⁵⁾	589	107	450	1,204	365	230
- Sale of scrap metals ⁽⁶⁾	368	129	185	694	296	134
- Write-back of long outstanding payables	16	-	NM	66	-	NM
- Write-off of trade receivables	-	(49)	NM	-	(82)	NM
- Other income ⁽⁷⁾	60	16	275	28	27	4
	1,926	(24)	NM	3,843	735	423
<u>Included under finance expense:</u>						
- Interest expense	1,516	1,597	(5)	4,355	4,370	-
<u>Included under cost of sales and administrative expenses:</u>						
- Depreciation of property, plant and equipment	3,197	4,058	(21)	9,889	12,094	(18)
<u>Included under income tax:</u>						
- (Over)/under provision of current income tax in prior financial years ⁽⁸⁾	(36)	1	NM	38	1	NM
- (Over)/under provision of deferred income tax in prior financial years ⁽⁸⁾	(4)	-	NM	(4)	-	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) The exchange loss of \$178,000 for 9M 2018 was mainly a result of the weakening of the Indonesian Rupiah and Chinese Yuan against the Group’s inter-companies payables that were denominated in S\$. The higher exchange loss of \$0.3 million for 9M2017 and 3Q2017 was mainly a one-off event that was related to the repayment of a quasi loan by a subsidiary in Malaysia.
- (3) Gain on the sale of property, plant and equipment of \$757,000 in 9M2018 was mainly related to:
 - a. 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; and
 - b. a gain of \$192,000 in 3Q2018 for the disposal of under utilised machinery and equipment in the Group’s overseas operation. This also explained the gain on sale of property, plant and equipment of \$202,000 in 3Q2018.
- (4) 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; and
 - b. Marine Professional Conversion Programme by Association of Singapore Marine Industries of \$415,000 in 2Q2018 and \$693,000 in 3Q2018 respectively.
- (5) Increase in rental income for 9M2018 and 3Q2018 was mainly related to the increase in leasing activities at 42A Penjuru Road property.
- (6) Higher sale of scrap materials in 3Q2018/9M2018 was mainly due from:
 - a. scrap from the steel plates cutting works for a particular customer of \$42,000 in 3Q2018 and \$116,000 in 9M2018; and
 - b. scrap sales of metal chips of \$111,000 in 3Q2018 and \$291,000 in 9M2018.
- (7) Other income relates to interest income and miscellaneous income/expense.
- (8) The (over)/under provision of current income tax and deferred 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 September 2018 (\$'000)	As at 31 December 2017 (\$'000) (Restated)	As at 30 September 2018 (\$'000)	As at 31 December 2017 (\$'000) (Restated)
ASSETS				
Current assets				
Cash and cash equivalents	10,580	14,741	174	828
Trade and other receivables	16,539	17,057	70,236	70,525
Inventories	7,238	8,564	-	-
Contract assets	7,617	3,774	570	563
	41,974	44,136	70,980	71,916
Assets of disposal group classified as held-for-sale	5,971	-	-	-
	47,945	44,136	70,980	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	196,212	205,642	1	1
Deposits for purchase of property, plant and equipment	10	9	-	-
Intangible assets	9,661	9,661	-	-
Club memberships	60	60	-	-
	206,052	215,481	69,881	69,880
Total assets	253,997	259,617	140,861	141,796
LIABILITIES				
Current liabilities				
Trade and other payables	20,761	16,370	26,453	25,054
Contract liabilities	3,349	3,825	-	-
Borrowings	51,169	190,389	1,220	54,522
Current income tax liabilities	268	339	-	-
	75,547	210,923	27,673	79,576
Liabilities directly associated with disposal group classified as held-for-sale	30	-	-	-
	75,577	210,923	27,673	79,576
Non-current liabilities				
Borrowings	140,342	3,238	53,182	-
Deferred income tax liabilities	5,337	5,341	-	-
	145,679	8,579	53,182	-
Total liabilities	221,256	219,502	80,855	79,576
NET ASSETS	32,741	40,115	60,006	62,220
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	92,077	91,747	92,077	91,747
Fair value reserve	32	32	-	-
Other reserve	509	509	-	-
Translation reserve	(1,324)	(727)	-	-
Accumulated losses	(65,697)	(58,761)	(32,071)	(29,527)
	25,597	32,800	60,006	62,220
Non-controlling interests	7,144	7,315	-	-
Total equity	32,741	40,115	60,006	62,220

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 September 2018		As at 31 December 2017	
	Secured (\$'000)	Unsecured (\$'000)	Secured (\$'000)	Unsecured (\$'000)
Borrowings				
Bank borrowings	38,467	11,427	177,322	11,269
Finance lease liabilities	1,275	-	1,798	-
Current borrowings	39,742	11,427	179,120	11,269

Amount repayable after one year

	As at 30 September 2018		As at 31 December 2017	
	Unsecured (\$'000)	Unsecured (\$'000)	Secured (\$'000)	Unsecured (\$'000)
Borrowings				
Bank borrowings	138,266	932	-	1,738
Finance lease liabilities	1,144	-	1,500	-
Non-current borrowings	139,410	932	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, 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 \$1.6 million as at 30 September 2018 (FY2017: \$1.9 million). 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.

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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 third quarter ended 30 September		For the nine months ended 30 June	
	3Q2018 (\$'000)	3Q2017 (\$'000) (Restated)	9M2018 (\$'000)	9M2017 (\$'000) (Restated)
Cash flows from operating activities				
Net loss	(2,077)	(7,224)	(6,354)	(15,134)
Adjustments for:				
- Income tax	159	1	358	1
- Depreciation of property, plant and equipment	3,197	4,058	9,889	12,094
- (Gain)/loss on disposal of property, plant and equipment	(202)	114	(757)	148
- Claim against former shareholder of a subsidiary	-	-	-	(306)
- Award of performance shares to employees	240	-	240	-
- Interest income	(7)	(1)	(21)	(5)
- Interest expense	1,516	1,597	4,355	4,370
- Currency translation differences	54	(121)	(47)	31
	<u>2,880</u>	<u>(1,576)</u>	<u>7,663</u>	<u>1,199</u>
Changes in working capital:				
- Trade and other receivables	(863)	(2,437)	710	24,902
- Inventories	2,072	843	1,326	2,176
- Contract assets	(2,653)	2,952	(3,843)	(21,835)
- Trade and other payables	2,989	2,087	3,658	4,121
- Contract liabilities	(701)	1,342	(476)	2,069
Cash generated from operations	<u>3,724</u>	<u>3,211</u>	<u>9,038</u>	<u>12,632</u>
Interest received	7	1	21	5
Income tax paid	(179)	(13)	(433)	(85)
Net cash provided by operating activities	<u>3,552</u>	<u>3,199</u>	<u>8,626</u>	<u>12,552</u>
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	207	144	1,434	304
Purchase of property, plant and equipment	(3,900)	(474)	(5,637)	(1,305)
Payments of other payables relating to prior financial years' acquisitions	-	(150)	-	(150)
Release/(placement) of short-term bank deposits pledged	73	(1)	2,080	620
Net cash used in investing activities	<u>(3,620)</u>	<u>(481)</u>	<u>(2,123)</u>	<u>(531)</u>
Cash flows from financing activities				
Interest paid	(2,355)	(1,820)	(5,377)	(5,855)
Repayment of bank borrowings	(688)	(7,576)	(14,081)	(18,071)
Repayment of finance lease liabilities	(309)	(768)	(1,009)	(2,919)
Proceeds from bank borrowings	4,888	2,538	12,835	21,919
Dividends paid to non-controlling interests	-	-	(900)	-
Net cash provided by/(used in) financing activities	<u>1,536</u>	<u>(7,626)</u>	<u>(8,532)</u>	<u>(4,926)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,468</u>	<u>(4,908)</u>	<u>(2,029)</u>	<u>7,095</u>
Cash and cash equivalents at beginning of financial period	<u>8,104</u>	<u>14,623</u>	<u>11,601</u>	<u>2,620</u>
Cash and cash equivalents at end of financial period	<u>9,572</u>	<u>9,715</u>	<u>9,572</u>	<u>9,715</u>

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

	As at 30 September 2018 (\$'000)	As at 30 September 2017 (\$'000)
Cash and bank balances	10,580	12,966
Short-term bank deposits pledged	(637)	(2,775)
Bank overdrafts included in borrowings	(432)	(476)
	<u>9,511</u>	<u>9,715</u>
Cash and cash equivalents reclassified to disposal group	61	-
	<u>9,572</u>	<u>9,715</u>

(a) The difference in the amounts presented above and the closing balance in the Consolidated Statement of Cash Flows as at 30 September 2018 is because cash and cash equivalent of \$61,000 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)	509	27,790	7,045	34,835
Total comprehensive (loss)/income	-	-	(2,176)	-	(347)	-	(2,523)	99	(2,424)
Shares for Directors' fees (in lieu of cash)	90	-	-	-	-	-	90	-	90
Award of performance shares to employees	240	-	-	-	-	-	240	-	240
Balance as at 30 September 2018	92,280	(203)	(65,697)	32	(1,324)^(a)	509	25,597	7,144	32,741
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
Total comprehensive loss	-	-	(7,141)	-	(254)	-	(7,395)	(83)	(7,478)
Balance as at 30 September 2017	91,950	(203)	6,896	14	(529)	509	98,637	7,788	106,425

^(a)As at 30 September 2018, the translation reserve of -\$1,324,000 includes the amount of -\$641,000 which is directly associated with the 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)	(30,688)	61,059
Total comprehensive loss	-	-	(269)	(269)
Balance as at 30 June 2018	91,950	(203)	(30,957)	60,790
Total comprehensive loss	-	-	(1,114)	(1,114)
Shares for Directors' fees (in lieu of cash)	90	-	-	90
Award of performance shares to employees	240	-	-	240
Balance as at 30 September 2018	92,280	(203)	(32,071)	60,006
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
Total comprehensive loss	-	-	(1,280)	(1,280)
Balance as at 30 September 2017	91,950	(203)	(14,874)	76,873

- 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.**

The details of the changes in issued share capital of the Company from 1 January 2018 to 30 September 2018 are as follows:

CHANGES IN ISSUED SHARE CAPITAL

	Number of shares (‘000)	Paid-up capital (\$'000)
Issued share capital as at 1 January 2018	422,240	91,747
Shares for Directors' fees (in lieu of cash)	959	90
Award of performance shares to employees	2,720	240
Issued share capital as at 30 September 2018 excluding treasury shares	425,919	92,077

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

The Company has no outstanding options or convertibles as at 30 September 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 September 2018	As at 31 December 2017
Total number of issued shares (excluding treasury shares) (in '000)	425,919	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 September 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 in significant changes in the Group's and Company's accounting policies and there is 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)
	\$'000	\$'000	\$'000
Consolidated Statement of Financial Position			
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)
- (Accumulated losses)/Retained earnings	(58,761)	(54,788)	3,973

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 third quarter ended 30 September 3Q2018	3Q2017	For the nine months ended 30 September 9M2018	9M2017
Net loss attributable to equity holders of the Company (\$'000)	(2,176)	(7,141)	(6,936)	(16,331)
Weighted average number of shares outstanding for basic and diluted EPS ('000)	423,239	426,880	422,576	421,922
Basic and diluted EPS attributable to equity holders of the Company (SGD cents)	(0.51)	(1.67)	(1.64)	(3.87)

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 3Q2018/3Q2017 and 9M2018/9M2017 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 30 September 2018	31 December 2017	As at 30 September 2018	31 December 2017
NAV per ordinary share (SGD cents)	6.01	7.77	14.09	14.74
Number of shares used in computation of NAV per share ('000)	425,919	422,240	425,919	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

3Q2018 vs 3Q2017 and 9M2018 vs 9M2017

Revenue

<u>Revenue by segment</u>	3Q2018		3Q2017		9M2018		9M2017	
	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)
Offshore & Engineering	3,353	18	4,172	33	11,147	23	11,675	29
Marine	11,568	61	5,563	44	27,089	55	17,750	44
Energy Services	3,901	21	3,007	23	11,096	22	10,883	27
	18,822	100	12,742	100	49,332	100	40,308	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 and dredging and reclamation works.
- (3) Energy Services include oil sludge and slop reclamation, hydro cleaning oil and gas tanks, encapsulation of wastes prior to landfill disposal and design and launch carbon footprint management initiatives and green initiatives.

Overall, revenue for 9M2018 rose by 22% or \$9.0 million to \$49.3 million as compared to \$40.3 million in 9M2017. The 22% revenue growth was mainly attributable to a stronger revenue contribution from the Marine segment.

Offshore & Engineering segment

Revenue from the Offshore & Engineering segment remained resilient at approximately \$11 million for both 9M2018 and 9M2017 reporting periods.

In 3Q2018, this segment however recorded a \$819,000 decrease or 6% in revenue when compared to \$4.2 million revenue in 3Q2017. This was mainly due to lower demands from rope access and offshore business activities.

REVIEW OF INCOME STATEMENT OF THE GROUP (continued)

Marine segment

Marine segment contributed 55% or \$27.1 million to the Group's revenue in 9M2018. On the whole, it recorded a revenue growth of \$9.3 million or 23% when compared to 9M2017 revenue of \$17.8 million which was mainly due to:

- Revenue from the segment's MRO (maintenance, repairs and overhaul) services was up by 53% or \$4.0 million to \$11.6 million when compared to 9M2017 of \$7.6 million, due mainly to an uptick in business activities that led to higher demand for the Group's MRO services;
- The growth was further driven by stronger demand for new built propellers which posted an increase in revenue of approximately 38% or \$2.4 million to \$8.7 million in 9M2018, from \$6.3 million in 9M2017; and
- The new dredging and reclamation business of 51%-owned Mencast-KSE Pte Ltd contributed a maiden revenue of \$3.2 million.

These also explained the fluctuation in revenue in 3Q2018 as compared to 3Q2017.

Energy Services segment

Energy Services segment revenue remained comparable at \$11.0 million for both reporting periods in 9M2018 and 9M2017.

3Q2018 revenue increased by 7% or \$0.9 million to \$3.9 million when compared to 3Q2017 of approximately \$3.0 million, due mainly to increased work orders of \$0.3 million from an existing customer and revenue contributions of \$0.6 million from the Group's waste treatment plant.

Cost of sales, gross profit and gross profit margin

On the back of stronger revenue and lower depreciation charges in 9M2018 (a result of impairments undertaken in FY2017), the Group registered a gross profit margin over revenue of 13% or a gross profit of \$6.3 million in 9M2018, as compared to a breakeven position in gross margin/ profitability in 9M2017.

This also explained the fluctuations in cost of sales and gross profit in 3Q2018 as compared to 3Q2017.

Other gains/(losses) - net

Other gains increased by \$3.1 million, from \$0.7 million in 9M2017 to \$3.8 million in 9M2018. Detailed explanations of these gains were highlighted in paragraph 1(a)(ii).

The above also explained the increase in other gains in 3Q2018 as compared to 3Q2017.

Administrative expenses

The Group's administrative expenses remained relatively similar for both reporting periods in 9M2018 and 9M2017.

Administrative expenses in 3Q2018 increased by \$0.3 million from \$3.9 million in 3Q2017 to \$4.2 million in 3Q2018, due mainly to the award of performance shares to key management employees of \$240,000 coupled with administrative expenses incurred by newly incorporated subsidiaries.

Finance expenses

Finance expenses remained relatively similar for reporting periods ended 9M2018/9M2017 and 3Q2018/3Q2017.

Income tax

The Group recognised a tax charge of \$358,000 in 9M2018 mainly due to provision of current income tax from its profitable Energy and Marine segments

Net profit

Consequent to the revenue growth and increase in other gains, net loss before income tax for the Group was reduced by 60%, from \$15.1 million loss in 9M2017 to \$6.0 million loss in 9M2018.

Net loss attributable to equity holders of the Company in 9M2018 dropped by 58% from \$16.3 million in 9M2017 to \$6.9 million in 9M2018.

These also explained the fluctuation in Group's net loss and net loss attributable to equity holders of the Company in 3Q2018 as compared to 3Q2017.

REVIEW OF FINANCIAL POSITION

Current assets

As at 30 September 2018 the Group's current assets at \$47.9 million increased by 9% or \$3.8 million as compared to \$44.1 million as at 31 December 2017. The increase was mainly attributable to reclassification of asset balances, amounting to \$5.9 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. 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 net reduction of \$2.2 million in other current assets balances, as follows:

- reduction in cash and cash equivalents of \$4.2 million, of which the details are highlighted in the Consolidated Statement of Cash Flows under paragraph 1(c) and Review of Statement of Cash Flows.
- decrease in trade and other receivables of \$0.5 million and reduction in inventory of \$1.2 million due to recent deliveries to customers for new built propellers in the Marine segment; and
- offset by an increase in contract assets of \$3.2m million due mainly to accrued revenue for works done.

Non-current assets

Non-current assets decreased by \$9.4 million, from \$215.5 million as at 31 December 2017 to \$206.1 million as at 30 September 2018, due to the movements in the property, plant and equipment:

- reclassification of leasehold land and building of approximately \$5.9 million to current assets, as explained above;
- depreciation charges of \$9.9 million in 9M2018; offset by
- purchase of a vessel of approximately \$3.6 million for the new dredging and reclamantion business; and
- costs capitalised from the rectification works in 42A Penjuru Road property of \$3.1 million.

Current liabilities

Current liabilities declined by \$135.3 million or 64% from \$210.9 million as at 31 December 2017 to \$75.6 million as at 30 September 2018, mainly due to reclassifications of significant portion of current borrowings to non-current liabilities, as explained below (under Non-current liabilities).

Trade and other payables increased by \$4.4 million or 27% from \$16.4 million as at 31 December 2017 due mainly to the following:

- receipt of a non-refundable deposit of approximately \$1.8 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; and
- \$2.6 million from the new dredging and reclamantion business.

The liabilities directly associated with the disposal group classified as held-for-sale stood at \$30,000 being 3rd party payables.

Non-current liabilities

The non-current liabilities rose by \$137.1 million, from \$8.6 million as at 31 December 2017 to \$145.7 million as at 30 September 2018. The Company had on 8th May 2018 received a letter from one of our principal bankers on our non-compliance in financial covenants. The bank has accommodated the said breach on a one-off basis for 2017 and 2018 financial year. As at 30 September 2018, the Company had reclassified approximately \$138.6 million of its borrowings from current to non-current liabilities.

REVIEW OF STATEMENT OF CASH FLOWS

Cash and cash equivalents for the Group were approximately \$10.0 million for reporting periods as at 30 September 2018/30 September 2017 respectively. The Group reported a net cash inflow from operating activities of \$8.6 million in 9M2018 due mainly to its operating income before changes in working capital of \$7.7 million.

Net cash used in investing activities of \$2.1 million was mainly due to the purchase of fixed assets of \$5.6 million, of which \$2.9 million was related to the purchase of a vessel by the Group's new dredging and reclamation business in 3Q2018 and the balance amount of \$2.7 million was incurred on rectification works for the Group's 42A Penjuru property over the period 9M2018 (3Q2018 : \$0.9 million). This was offset by the release of a \$2.0 million fixed deposits pledged and net proceeds from disposal of fixed assets of \$1.4 million.

Net cash used in financing activities of \$8.5 million as at 30 September 2018 was mainly a result of repayments of term loans, finance lease liabilities and payment of interests of approximately \$20.4 million, offset by proceeds from bank borrowings of \$12.8 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 revenue growth of approximately 22% for 9M2018. The level of customer enquiries across the Group's business segments is generally improving.

Notwithstanding the improved conditions in the marine and offshore, oil and gas industry, the Group expects market conditions to be competitive and pressure on margins will persist. As such, the Group is cautious over its industry outlook.

The Group has outstanding orders amounting to approximately \$44.8 million as at 30 September 2018. Deliveries for these orders are expected to spread over the next 24 months.

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 nine months ended 30 September 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 nine months ended 30 September 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 September 2018, the Group remained in a net current liabilities position of \$27.6 million (FY2017: \$166.8 million) even though it had reclassified a significant portion of its current borrowings of \$138.6 million to non-current liabilities (as explained in paragraph 8 – non-current liabilities).

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

On non-core asset divestment plan of Honghua Changshu, it remained on track albeit a slight downward revision in the consideration from RMB49 million to RMB45.8 million, as announced on 1st November 2018.

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 September 2018.

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

BY ORDER OF THE BOARD

Sim Soon Ngee Glennle
Executive Chairman and Chief Executive Officer

5 November 2018
