

**QUARTERLY REPORT**

This is a quarterly report on consolidated results for the period ended 31 March 2014  
The figures have not been audited.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2014**

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 31 MAR 2014 RM '000	PRECEDING YEAR CORRESPONDING QUARTER 31 MAR 2013 RM '000	CURRENT YEAR TO DATE 31 MAR 2014 RM '000	PRECEDING YEAR TO DATE 31 MAR 2013 RM '000
Revenue	671,458	921,826	671,458	921,826
Other operating income	<u>22,510</u>	<u>15,924</u>	<u>22,510</u>	<u>15,924</u>
Operating profit	34,568	55,702	34,568	55,702
Share of (loss)/profit of joint ventures	(481)	1,052	(481)	1,052
Profit before taxation	<u>34,087</u>	<u>56,754</u>	<u>34,087</u>	<u>56,754</u>
Taxation	458	(6,124)	458	(6,124)
Profit after taxation	<u>34,545</u>	<u>50,630</u>	<u>34,545</u>	<u>50,630</u>
<b>Other comprehensive income:</b>				
Fair value gain/(loss) on cash flow hedges	<u>2,114</u>	<u>(3,141)</u>	<u>2,114</u>	<u>(3,141)</u>
<b>Total comprehensive income for the period</b>	<u><u>36,659</u></u>	<u><u>47,489</u></u>	<u><u>36,659</u></u>	<u><u>47,489</u></u>
<b>Profit attributable to:</b>				
Equity holders of the Company	34,631	50,595	34,631	50,595
Non-controlling interests	<u>(86)</u>	<u>35</u>	<u>(86)</u>	<u>35</u>
	<u>34,545</u>	<u>50,630</u>	<u>34,545</u>	<u>50,630</u>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Company	36,745	47,454	36,745	47,454
Non-controlling interests	<u>(86)</u>	<u>35</u>	<u>(86)</u>	<u>35</u>
	<u>36,659</u>	<u>47,489</u>	<u>36,659</u>	<u>47,489</u>
Earnings per share attributable to equity holders of the Company:				
(i) Basic (sen)	2.2	3.2	2.2	3.2
(ii) Dilutive (sen)	2.2	3.2	2.2	3.2

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014**

	AS AT END OF CURRENT QUARTER 31 MAR 2014 RM '000	AS AT PRECEDING FINANCIAL YEAR END 31 DEC 2013 RM '000
<b>Non-Current Assets</b>		
<i>Property, Plant and Equipment</i>	1,549,915	1,512,284
<i>Prepaid Land Lease Payments</i>	243,286	244,730
<i>Investment in Joint Ventures</i>	20,115	20,596
<i>Goodwill</i>	62,783	62,783
<i>Deferred Tax Assets</i>	62,066	61,208
	<u>1,938,165</u>	<u>1,901,601</u>
<b>Current Assets</b>		
<i>Inventories</i>	12,974	12,582
<i>Trade &amp; Other Receivables</i>	2,463,923	2,480,835
<i>Derivatives</i>	2,905	1,918
<i>Cash and Cash Equivalents</i>	676,865	623,184
	<u>3,156,667</u>	<u>3,118,519</u>
<b>Current Liabilities</b>		
<i>Trade &amp; Other Payables</i>	2,119,296	2,128,096
<i>Derivatives</i>	385	574
<i>Provisions</i>	1,653	1,653
<i>Borrowings</i>	333,000	290,000
<i>Provision for Taxation</i>	17,460	13,418
	<u>2,471,794</u>	<u>2,433,741</u>
<b>Net Current Assets</b>	<u>684,873</u>	<u>684,778</u>
	<u><u>2,623,038</u></u>	<u><u>2,586,379</u></u>
<b>Equity attributable to equity holders of the Company</b>		
<i>Share Capital</i>	800,000	800,000
<i>Share Premium</i>	818,263	818,263
<i>Cash Flow Hedge Reserve</i>	3,492	1,378
<i>Retained Earnings</i>	998,841	964,210
	<u>2,620,596</u>	<u>2,583,851</u>
<b>Non-controlling interests</b>	2,442	2,528
<b>Total equity</b>	<u>2,623,038</u>	<u>2,586,379</u>
	<u><u>2,623,038</u></u>	<u><u>2,586,379</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2014**

	CUMULATIVE	
	CURRENT YEAR TO DATE 31 MAR 2014 RM '000	PRECEDING YEAR TO DATE 31 MAR 2013 RM '000
Profit before taxation	34,087	56,754
Adjustments for:		
Property, plant and equipment		
- depreciation	15,757	15,398
- write off	9	60
Amortisation of land use rights	1,444	2,254
Provision for warranty	-	4,042
Net reversal of impairment loss of trade receivables	-	(1,994)
Interest income	(3,997)	(6,002)
Change in fair value of hedging derivatives	938	605
Net unrealised foreign exchange (gain)/loss	(10,668)	1,893
Finance cost	2,693	-
Inventories written back	(234)	(36)
Share of loss/(gain) of joint ventures	481	(1,052)
Operating profit before working capital changes	40,510	71,922
Inventories	(158)	(540)
Trade and other receivables	26,619	(120,519)
Trade and other payables	(8,000)	(167,020)
Cash generated from/(used in) operations	58,971	(216,157)
Tax paid	(1,644)	(4,726)
Refund from tax	5,447	-
Net Cash Flow generated from/(used in) Operating Activities	62,774	(220,883)
Purchase of property, plant and equipment	(53,397)	(25,276)
Interest received	3,997	6,002
Net Cash Flow used in Investing Activities	(49,400)	(19,274)
Interest paid	(2,693)	-
Drawdown on revolving credit facilities	43,000	-
Net Cash Flow generated from Financing Activities	40,307	-
Net Change in Cash & Cash Equivalents	53,681	(240,157)
Cash & Cash Equivalents at the beginning of the year	623,184	890,288
Cash & Cash Equivalents at the end of the period	676,865	650,131

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 MARCH 2014.

	<-----Equity attributable to equity holders of the Company----->						
	Share Capital RM '000	Share Premium RM '000	Distributable Retained Earnings RM '000	Cash flow Hedge Reserve RM '000	Total RM '000	Non-controlling Interests RM '000	Total Equity RM '000
<b>3 MONTHS ENDED 31 MARCH 2014</b>							
At 1 January 2014	800,000	818,263	964,210	1,378	2,583,851	2,528	2,586,379
Total comprehensive income	-	-	34,631	2,114	36,745	(86)	36,659
<b>At 31 March 2014</b>	<b>800,000</b>	<b>818,263</b>	<b>998,841</b>	<b>3,492</b>	<b>2,620,596</b>	<b>2,442</b>	<b>2,623,038</b>
<b>3 MONTHS ENDED 31 MARCH 2013</b>							
At 1 January 2013	800,000	818,263	887,736	83	2,506,082	4,816	2,510,898
Total comprehensive income	-	-	50,595	(3,141)	47,454	35	47,489
<b>At 31 March 2013</b>	<b>800,000</b>	<b>818,263</b>	<b>938,331</b>	<b>(3,058)</b>	<b>2,553,536</b>	<b>4,851</b>	<b>2,558,387</b>

## **NOTES TO THE CONDENSED FINANCIAL REPORT**

The figures have not been audited.

### **A1. CORPORATE INFORMATION**

Malaysia Marine and Heavy Engineering Holdings Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 6 May 2014.

### **A2. BASIS OF PREPARATION**

The condensed consolidated interim financial statements (Condensed Report) have been prepared under the historical cost convention.

These condensed consolidated interim financial statements, for the period ended 31 March 2014 have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirement of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The condensed report should be read in conjunction with the audited financial statements for financial year ended 31 December 2013. The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2013.

### **A3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the quarterly condensed report are consistent with those of the audited financial statement for the year ended 31 December 2013 except for the adoption of the new standards and interpretation which are mandatory for the annual financial period beginning on or after 1 January 2014 and 1 July 2014, noted below:

#### **MFRS and amendments effective for annual periods beginning on or after 1 January 2014:**

Amendments to MFRS 10: Consolidated Financial Statements  
Amendments to MFRS 12: Disclosure of Interests in Other Entities  
Amendments to MFRS 127: Consolidated and Separate Financial Statements  
Amendments to MFRS 132: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities  
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-financial Assets  
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

#### **MFRS and amendments effective for annual periods beginning on or after 1 July 2014:**

Amendments to MFRS 2: Share-based Payment  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 3: Business Combinations  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 3: Business Combinations  
(Annual Improvements 2011-2013 Cycle)  
Amendments to MFRS 8: Operating Segments  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 13: Fair Value Measurement  
(Annual Improvements 2011-2013 Cycle)  
Amendments to MFRS 116: Property, Plant and Equipment  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions  
Amendments to MFRS 124: Related Party Disclosures  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 138: Intangible Assets  
(Annual Improvements 2010-2012 Cycle)  
Amendments to MFRS 140: Investment Property  
(Annual Improvements 2011-2013 Cycle)

**A4. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the financial statements for the year ended 31 December 2013 was not qualified.

**A5. SEASONALITY OR CYCLICALITY OF OPERATIONS**

The businesses of the Group are subject to fluctuations in level of activities in the oil and gas and shipping industries.

**A6. EXCEPTIONAL ITEMS**

There were no exceptional items during the quarter ended 31 March 2014.

**A7. CHANGES IN ESTIMATES**

There were no material changes in estimates reported in the current period or prior financial period.

**A8. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES**

There were no issuance or repayment of debt and equity securities, share buy-backs, share cancellation or shares held as treasury shares and resale of treasury shares during the quarter ended 31 March 2014.

**A9. DIVIDEND PAID**

There were no dividend payment in the current financial period to date.

**A10. SEGMENT REPORT**

Segmental analysis for the current financial period to date is as follows:

	<b>Offshore</b>	<b>Marine</b>	<b>Others</b>	<b>Eliminations</b>	<b>Total</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>REVENUE AND RESULT</b>					
<b>Revenue</b>					
Total Revenue - External	609,418	62,040	-	-	671,458
Inter-Segment	-	15,425	9	(15,434) *	-
	<u>609,418</u>	<u>77,465</u>	<u>9</u>	<u>(15,434)</u>	<u>671,458</u>
<b>Result</b>					
Operating profit	<u>22,355</u>	<u>7,777</u>	<u>10,354</u> **	<u>(5,918)</u> *	34,568
Share of results of joint ventures					(481)
<b>Profit before taxation</b>					<u>34,087</u>

\* Inter-segment revenue and transactions are eliminated on consolidation.

\*\* Comprise of net foreign exchange gains and interest income.

There has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

**A11. VALUATION OF PROPERTY**

The valuations of land and buildings have been brought forward without any amendments from the most recent annual audited financial statements as no revaluation has been carried out since 31 December 2013.

**A12. GOODWILL**

	<b>31 Mar 2014</b>	<b>31 Dec 2013</b>
	<b>RM'000</b>	<b>RM'000</b>
Cost	<u>62,783</u>	<u>62,783</u>

Goodwill is tested for impairment on annual basis (31 December) or when circumstances indicate that the carrying value may be impaired. The Group's impairment test is a comparison of the goodwill's carrying value against its value-in-use (calculated using forecast on Earnings before Interest, Taxation, Depreciation and Amortisation ("EBITDA") based on approved financial budget covering a five-year period).

**A13. SUBSEQUENT MATERIAL EVENT**

There was no material event subsequent to the current financial quarter to date.

**A14. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no material changes in the composition of the Group.

**A15. CONTINGENT LIABILITIES**

Contingent liabilities of the Group comprise the following :-

	<b>31 Mar 2014</b>	<b>31 Dec 2013</b>
	<b>RM '000</b>	<b>RM '000</b>
<b><i>Unsecured</i></b>		
Bank guarantees extended to third parties	<u>273,070</u>	<u>259,954</u>

**A16. CAPITAL COMMITMENTS**

	<b>31 Mar 2014</b>	<b>31 Dec 2013</b>
	<b>RM '000</b>	<b>RM '000</b>
Approved and contracted for	204,153	158,687
Approved but not contracted for	<u>134,175</u>	<u>571,451</u>
	<u>338,328</u>	<u>730,138</u>

The outstanding capital commitments relate to the infrastructure upgrading works under the Yard Optimisation Programme and other investment projects.

**A17. FAIR VALUE HIERARCHY**

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Input that are based on observable market data, either directly or indirectly
- Level 3 - Input that are not based on observable market data

The derivatives of the Group amounting to RM2,520,000 in debit (31.12.2013: RM1,344,000 in debit) are measured at Level 2 hierarchy.

## B1. REVIEW OF PERFORMANCE

	Individual Quarter Ended		Cumulative Period Ended	
	31 Mar 2014 RM '000	31 Mar 2013 RM '000	31 Mar 2014 RM '000	31 Mar 2013 RM '000
<b>Revenue</b>				
Offshore	609,418	866,564	609,418	866,564
Marine	77,465	61,831	77,465	61,831
Others	9	15	9	15
Eliminations/Adjustments	(15,434)	(6,584)	(15,434)	(6,584) *^
	<u>671,458</u>	<u>921,826</u>	<u>671,458</u>	<u>921,826</u>
<b>Operating Profit</b>				
Offshore	22,355	36,815	22,355	36,815
Marine	7,777	12,730	7,777	12,730
Others	10,354	6,157	10,354	6,157
Eliminations/Adjustments	(5,918)	-	(5,918)	- *#
	<u>34,568</u>	<u>55,702</u>	<u>34,568</u>	<u>55,702</u>

\* Inter-segment revenue and transactions are eliminated on consolidation.

^ Inter-segment revenue elimination

Marine	15,434	6,584	15,434	6,584
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# Inter-segment operating profit elimination

Offshore	5,173	-	5,173	-
Marine	745	-	745	-

### Performance of current quarter against the corresponding quarter

The Group's operating profit is lower at RM34.6 million against RM55.7 million in the corresponding quarter. The variance is segmentally analysed as follows:

#### Offshore

Revenue for Offshore is lower as most of the projects in hand are nearing completion with relatively lower value of progress billings remaining and new projects are in the early stage of the contract. During the quarter, the Group has successfully delivered FPSO Cendor to MISC Berhad.

Offshore also registered lower operating profit against the corresponding quarter's profit which was caused by higher than expected cost from an ongoing projects. The Group is currently in negotiation with clients through claims of Change Order for work done which will improve its future results as cost has been provided for in the quarter.

#### Marine

Marine's revenue is higher when compared against the corresponding quarter mainly due to life extension work performed for an LNG vessel during current quarter.

However, operating profit for Marine is lower due to relatively lower margin from repair work performed against the corresponding quarter.

#### Group

The Group produced a lower profit before tax of RM34.1 million for the current quarter against RM56.8 million in the corresponding quarter resulted from lower operating profit from Offshore for current period.

## B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's registered lower profit before taxation of RM34.1 million against the preceding quarter's performance of RM47.0 million. The variance was mainly due to lower contribution from Offshore segment.



### B3. CURRENT YEAR PROSPECTS

Three major projects will be delivered during the current financial year. Operationally, a lesser number of ongoing projects are in progress as compared to the previous financial year. There is potential residual revenue and profit to be recognised from some of the recently completed or delivered projects, upon approval of outstanding Variation Orders by the respective clients.

The Offshore business unit is currently active in various stages of bidding process for numerous number of potential projects. The awards of these projects, if and when secured, would come in the later part of the financial year.

The Marine business unit faces competition from increased vessel repair capacity in the region but medium term prospects remained favourable as the continued growth in the number of shipping vessels would provide a growing need for dry docking and marine repair services.

### B4. VARIANCE OF ACTUAL RESULTS COMPARED WITH FORECASTED AND SHORTFALL IN PROFIT GUARANTEE

The Company did not provide any profit forecast or profit guarantee in any public document.

### B5. TAXATION

	31 Mar 2014 RM '000	31 Mar 2013 RM '000
Taxation for the period comprises the following charge:		
Income tax charge		
- current period	400	292
- prior year	-	816
Deferred taxation	<u>(858)</u>	<u>5,016</u>
	<u>(458)</u>	<u>6,124</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

### B6. STATUS OF CORPORATE PROPOSALS

The status of utilisation of proceeds raised from corporate proposals as at 5 May 2014 (being a date not earlier than 7 days from the date of issue of the quarterly report) is as follows:

Purpose	Proposed Utilisation RM '000	First Revision on 4 April 2012	Second Revision on 21 February 2014	Actual Utilisation To Date RM '000	Intended Timeframe for Utilisation	Deviation Amount RM '000
		RM '000	RM '000			
Yard Optimisation Programme	833,780	445,830	555,830	386,150	Within 48 months upon listing	-
Capital expenditure in Turkmenistan	110,000	110,000	-	-	Within 48 months upon listing	-
Acquisition of PG Yard from SDE	-	393,433	393,433	393,433	Immediate	-
Listing expenses	37,000	31,517	31,517	31,517	Within 3 months upon listing	-
<b>Total</b>	<u>980,780</u>	<u>980,780</u>	<u>980,780</u>	<u>811,100</u>		<u>-</u>

Note:

- The full amount of RM110 million has been reallocated to Yard Optimisation Programme.
- As the actual listing expenses were lower than the estimated amount, the unutilised balance of RM5,483,000 was allocated for the Yard Optimisation Programme as per disclosure in the Company's Prospectus dated 6 October 2010.
- The purchase consideration for the Acquisition amounting RM393,433,000 was utilised from the allocation for the Yard Optimisation Programme as it forms part and parcel of the Yard Optimisation Programme.

#### B7. GROUP BORROWINGS

The tenure of Group borrowings as at 31 March 2014 classified as short term as well as unsecured categories are as follows: -

	31 Mar 2014 RM '000	31 Dec 2013 RM '000
<b>Short Term Borrowings</b>		
Unsecured	<u>333,000</u>	<u>290,000</u>

#### B8. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments for the quarter ended 31 March 2014.

#### B9. CHANGES IN MATERIAL LITIGATION

There were no material litigation involving the Group as at 31 March 2014.

#### B10. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 31 March 2014.

#### B11. DERIVATIVES

The Group entered into forward foreign currency contracts to manage the exposure to foreign exchange risk when it enters into transactions that are not denominated in their functional currencies.

Details of the Group's derivative financial instruments outstanding as at 31 March 2014 are as follows:

	Contract/ Notional Amount as at 31 Mar 2014 (in RM '000)	Fair Value gain/(loss) (in RM '000)
Forward foreign currency contracts	67,667	2,520

During the year, the Group has recognised a net gain of RM2,114,000 in its statement of comprehensive income mainly due to settlement of the forward foreign currency contracts in the current year, and a net unrealised gain of RM3,492,000 in its equity in relation to fair value of the spot component of the hedged instrument.

#### B12. EARNINGS PER SHARE

In respect of earnings per share :-

- i) The amount used as numerator for the calculation of basic earnings per share is RM34.6 million in credit for the first quarter ended 31 March 2014 which is the same as the profit attributable to the equity holders of the Company as shown in the condensed consolidated statement of comprehensive income.
- ii) The weighted average number of ordinary shares used as the denominator in calculating the basic earnings per share and dilutive earnings per share for the first quarter ended 31 March 2014 is 1,600.0 million.

The Group does not have any financial instrument or other contract that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

### B13. REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group as at 31 March 2014 and 31 December 2013 into realised and unrealised profits is presented in accordance with the directives issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and 20 December 2010, prepared in accordance with *Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits and Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by Malaysian Institute of Accountants.

	31 Mar 2014 RM '000	31 Dec 2013 RM '000
Total retained profits of the Company and its subsidiaries:		
- Realised	829,419	788,231
- Unrealised	21,749	27,758
	<u>851,168</u>	<u>815,989</u>
Total share of retained profits from jointly controlled entities:		
- Realised	5,356	6,157
- Unrealised	320	67
	<u>5,676</u>	<u>6,224</u>
Add: Consolidation adjustments	141,997	141,997
Total Group retained profits as per consolidated accounts	<u>998,841</u>	<u>964,210</u>

All retained profits for the Company level are realised profits.

### B14. PROFIT FOR THE PERIOD

	Individual Quarter Ended		Cumulative Period Ended	
	31 Mar 2014 RM '000	31 Mar 2013 RM '000	31 Mar 2014 RM '000	31 Mar 2013 RM '000
<b>Profit for the period is arrived at after charging/(crediting):</b>				
Property, plant and equipment				
- Depreciation and amortisation	15,757	15,398	15,757	15,398
- written off	9	60	9	60
Amortisation of land use rights	1,444	2,254	1,444	2,254
Net reversal of impairment loss on trade receivables	-	(1,994)	-	(1,994)
Change in fair value of hedging derivatives	938	605	938	605
Net unrealised foreign exchange (gain)/loss	(10,668)	1,893	(10,668)	1,893
Inventories written back	(234)	(36)	(234)	(36)
Interest income	(3,997)	(6,002)	(3,997)	(6,002)
Finance costs	2,693	-	2,693	-
Rental income	(137)	(107)	(137)	(107)
Income from scrap disposal	(3,391)	(3,521)	(3,391)	(3,521)