

QUARTERLY REPORT

This is a quarterly report on consolidated results for the period ended 30 June 2014
The figures have not been audited.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2014

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 30 JUN 2014 RM '000	PRECEDING YEAR CORRESPONDING QUARTER 30 JUN 2013 RM '000	CURRENT YEAR TO DATE 30 JUN 2014 RM '000	PRECEDING YEAR TO DATE 30 JUN 2013 RM '000
Revenue	980,916	786,720	1,652,374	1,708,546
Other operating income	5,888	16,408	21,006	32,332
Operating profit	23,210	53,007	57,778	108,709
Share of profit/(loss) of joint ventures	2,485	(352)	2,004	700
Profit before taxation	25,695	52,655	59,782	109,409
Taxation	14,328	(4,766)	14,786	(10,890)
Profit after taxation	40,023	47,889	74,568	98,519
Other comprehensive income:				
Fair value (loss)/gain on cash flow hedges	(1,559)	714	555	75
Total comprehensive income for the period	38,464	48,603	75,123	98,594
Profit attributable to:				
Equity holders of the Company	39,731	47,552	74,362	98,147
Non-controlling interests	292	337	206	372
	40,023	47,889	74,568	98,519
Total comprehensive income attributable to:				
Equity holders of the Company	38,172	48,266	74,917	98,222
Non-controlling interests	292	337	206	372
	38,464	48,603	75,123	98,594
Earnings per share attributable to equity holders of the Company:				
(i) Basic (sen)	2.5	3.0	4.6	6.1
(ii) Dilutive (sen)	2.5	3.0	4.6	6.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	AS AT END OF CURRENT QUARTER 30 JUN 2014 RM '000	AS AT PRECEDING FINANCIAL YEAR END 31 DEC 2013 RM '000
Non-Current Assets		
<i>Property, Plant and Equipment</i>	1,564,794	1,512,284
<i>Prepaid Land Lease Payments</i>	241,843	244,730
<i>Investment in Joint Ventures</i>	22,600	20,596
<i>Goodwill</i>	62,783	62,783
<i>Deferred Tax Assets</i>	76,865	61,208
	<u>1,968,885</u>	<u>1,901,601</u>
Current Assets		
<i>Inventories</i>	13,548	12,582
<i>Trade & Other Receivables</i>	2,577,517	2,480,835
<i>Derivatives</i>	1,766	1,918
<i>Cash and Cash Equivalents</i>	737,908	623,184
	<u>3,330,739</u>	<u>3,118,519</u>
Current Liabilities		
<i>Trade & Other Payables</i>	2,341,502	2,128,096
<i>Derivatives</i>	528	574
<i>Provisions</i>	1,653	1,653
<i>Borrowings</i>	358,000	290,000
<i>Provision for Taxation</i>	16,439	13,418
	<u>2,718,122</u>	<u>2,433,741</u>
Net Current Assets	<u>612,617</u>	<u>684,778</u>
	<u><u>2,581,502</u></u>	<u><u>2,586,379</u></u>
Equity attributable to equity holders of the Company		
<i>Share Capital</i>	800,000	800,000
<i>Share Premium</i>	818,263	818,263
<i>Cash Flow Hedge Reserve</i>	1,933	1,378
<i>Retained Earnings</i>	958,572	964,210
	<u>2,578,768</u>	<u>2,583,851</u>
Non-controlling interests	<u>2,734</u>	<u>2,528</u>
Total equity	<u><u>2,581,502</u></u>	<u><u>2,586,379</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2014

	CUMULATIVE	
	CURRENT YEAR TO DATE 30 JUN 2014 RM '000	PRECEDING YEAR TO DATE 30 JUN 2013 RM '000
Profit before taxation	59,782	109,409
Adjustments for:		
Property, plant and equipment		
- depreciation	31,880	31,728
- write off	29	97
Amortisation of land use rights	2,887	4,392
Provision for warranty	22,421	5,311
Net reversal of impairment loss of trade receivables	-	(1,994)
Interest income	(7,445)	(10,004)
Change in fair value of hedging derivatives	661	823
Net unrealised foreign exchange (gain)/loss	(5,738)	1,602
Finance cost	5,904	597
Inventories written back	(234)	(33)
Share of profit of joint ventures	(2,004)	(700)
Operating profit before working capital changes	108,143	141,228
Inventories	(732)	(121)
Trade and other receivables	(90,354)	(338,351)
Trade and other payables	189,238	(6,814)
Cash generated from/(used in) operations	206,295	(204,058)
Tax paid	(2,140)	(9,251)
Refund from tax	5,447	-
Net Cash Flow generated from/(used in) Operating Activities	209,602	(213,309)
Purchase of property, plant and equipment	(84,419)	(73,534)
Interest received	7,445	10,004
Net Cash Flow used in Investing Activities	(76,974)	(63,530)
Interest paid	(5,904)	(597)
Dividends paid on ordinary shares	(80,000)	-
Drawdown on revolving credit facilities	68,000	190,000
Net Cash Flow (used in)/generated from Financing Activities	(17,904)	189,403
Net Change in Cash & Cash Equivalents	114,724	(87,436)
Cash & Cash Equivalents at the beginning of the year	623,184	890,288
Cash & Cash Equivalents at the end of the period	737,908	802,852

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 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
6 MONTHS ENDED 30 JUNE 2014							
At 1 January 2014	800,000	818,263	964,210	1,378	2,583,851	2,528	2,586,379
Total comprehensive income	-	-	74,362	555	74,917	206	75,123
Transaction with equity holders of the Company							
Dividend on ordinary shares	-	-	(80,000)	-	(80,000)	-	(80,000)
At 30 June 2014	<u>800,000</u>	<u>818,263</u>	<u>958,572</u>	<u>1,933</u>	<u>2,578,768</u>	<u>2,734</u>	<u>2,581,502</u>
6 MONTHS ENDED 30 JUNE 2013							
At 1 January 2013	800,000	818,263	887,736	83	2,506,082	4,816	2,510,898
Total comprehensive income	-	-	98,147	75	98,222	372	98,594
At 30 June 2013	<u>800,000</u>	<u>818,263</u>	<u>985,883</u>	<u>158</u>	<u>2,604,304</u>	<u>5,188</u>	<u>2,609,492</u>

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 4 August 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 30 June 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 30 June 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 30 June 2014.

A9. DIVIDEND PAID

The Company paid a final dividend of 5 sen per share on 16 June 2014 in respect of the 2013 financial period, totalling RM80.0 million (2013: RM160.0 million).

A10. SEGMENT REPORT

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

	Offshore	Marine	Others	Eliminations	Total
REVENUE AND RESULT	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Total Revenue - External	1,517,607	134,767	-	-	1,652,374
Inter-Segment	-	29,545	75	(29,620) *	-
	<u>1,517,607</u>	<u>164,312</u>	<u>75</u>	<u>(29,620)</u>	<u>1,652,374</u>
Result					
Operating profit	<u>37,845</u>	<u>16,537</u>	<u>14,865</u> **	<u>(11,469)</u> *	57,778
Share of results of joint ventures					2,004
Profit before taxation					<u>59,782</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

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
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 :-

	30 Jun 2014 RM '000	31 Dec 2013 RM '000
Unsecured		
Bank guarantees extended to: -		
- Related companies	133,681	126,439
- Third parties	140,179	133,515
	<u>273,860</u>	<u>259,954</u>

A16. CAPITAL COMMITMENTS

	30 Jun 2014 RM '000	31 Dec 2013 RM '000
Approved and contracted for	284,582	158,687
Approved but not contracted for	53,746	571,451
	<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 RM1,238,000 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	
	30 Jun 2014 RM '000	30 Jun 2013 RM '000	30 Jun 2014 RM '000	30 Jun 2013 RM '000
Revenue				
Offshore	908,189	715,063	1,517,607	1,581,627
Marine	86,847	104,946	164,312	166,777
Others	66	-	75	15
Eliminations/Adjustments	(14,186)	(33,289)	(29,620)	(39,873) *^
	<u>980,916</u>	<u>786,720</u>	<u>1,652,374</u>	<u>1,708,546</u>
Operating Profit				
Offshore	15,490	38,637	37,845	78,586
Marine	8,760	15,840	16,537	28,701
Others	4,511	1,616	14,865	7,773
Eliminations/Adjustments	(5,551)	(3,086)	(11,469)	(6,351) *#
	<u>23,210</u>	<u>53,007</u>	<u>57,778</u>	<u>108,709</u>

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

^ Inter-segment revenue elimination

Marine	14,120	33,289	29,545	39,873
Others	66	-	75	-

Inter-segment operating profit elimination

Offshore	4,682	2,809	9,855	5,943
Marine	869	277	1,614	408

Performance of current quarter against the corresponding quarter

The Group's operating profit is lower at RM23.2 million against RM53.0 million in the corresponding quarter. The variance is segmentally analysed as follows:

Offshore

Offshore registered higher revenue mainly due to progress attained from the SK316 project. During the quarter, the Group has successfully delivered Tapis R Topsides to Exxon Mobil Exploration and Production Malaysia Inc. and Kebabangan Topsides to Kebabangan Petroleum Operating Company Sdn Bhd.

Offshore registered lower operating profit against the corresponding quarter which was caused by higher cost at the tail-end of the projects.

Marine

Marine's revenue is comparable with corresponding quarter.

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

Group

The Group produced a lower profit before tax of RM25.7 million for the current quarter against RM52.7 million in the corresponding quarter contributed by lower profit from Offshore and Marine segments.

Performance of current period against the corresponding period

The Group's operating profit is lower at RM57.8 million against RM108.7 million in the corresponding period. The variance is segmentally analysed as follows:

Offshore

Revenue for Offshore is relatively lower as most of the projects in hand are nearing completion with lower value of progress claims remaining. During the period, the Group has successfully delivered FPSO Cendor to MISC Berhad, Tapis R Topsides to Exxon Mobil Exploration and Production Malaysia Inc. and Kebabangan Topsides to Kebabangan Petroleum Operating Company Sdn Bhd.

This segment also posted a comparatively lower operating profit in line with lower revenue generated during the period and higher cost at the tail-end of the projects.

Marine

Marine's revenue is higher when compared against the corresponding period mainly due to higher number of vessel repaired during the period.

However, operating profit for Marine is lower against the corresponding period due to relatively lower margin from repair work performed and closure of the dockgate for repair in the earlier part of the period.

Group

The Group produced a lower profit before tax of RM59.8 million for the current period against RM109.4 million in the corresponding period resulted from lower contribution from Offshore and Marine segments.

B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's registered lower profit before taxation of RM25.7 million against the preceding quarter's performance of RM34.1 million. The variance was mainly due to lower contribution from Offshore segment.

B3. CURRENT YEAR PROSPECTS

The Group has delivered three major projects that sailed away during the period under review. Operationally, a lesser number of ongoing projects are in progress as compared to the previous financial year. There is still residual revenue and profit to be recognised from some of the recently completed or delivered projects subject to approval of outstanding Variation Orders by the respective clients.

The Offshore business unit is currently active in various stages of the bidding process for several potential projects. Aggressive competition is expected for selected projects with participation of regional and international companies. The awards of these projects, if and when secured, would come in the latter part of the 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

	30 Jun 2014 RM '000	30 Jun 2013 RM '000
Taxation for the period comprises the following charge:		
Income tax charge		
- current period	871	5,011
- prior year	-	816
Deferred taxation	<u>(15,657)</u>	<u>5,063</u>
	<u>(14,786)</u>	<u>10,890</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 30 July 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	Second	Actual Utilisation To Date RM '000	Intended Timeframe for Utilisation	Deviation Amount RM '000
		Revision on 4 April 2012 RM '000	Revision on 21 February 2014 RM '000			
Yard Optimisation Programme	833,780	445,830	555,830	466,150	Within 48 months upon listing	-
Capital expenditure in Turkmenistan ¹	110,000	110,000	-	-	Within 48 months upon listing	-
Acquisition of PG Yard from SDE ²	-	393,433	393,433	393,433	Immediate	-
Listing expenses ³	37,000	31,517	31,517	31,517	Within 3 months upon listing	-
Total	<u>980,780</u>	<u>980,780</u>	<u>980,780</u>	<u>891,100</u>		<u>-</u>

Note:

- The full amount of RM110 million has been reallocated to Yard Optimisation Programme from capital expenditure in Turkmenistan.
- 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.
- 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.

B7. GROUP BORROWINGS

The tenure of Group borrowings as at 30 June 2014 classified as short term as well as unsecured categories are as follows: -

	30 Jun 2014 RM '000	31 Dec 2013 RM '000
Short Term Borrowings		
Unsecured	<u>358,000</u>	<u>290,000</u>

B8. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments for the quarter ended 30 June 2014.

B9. CHANGES IN MATERIAL LITIGATION

There were no material litigation involving the Group as at 30 June 2014.

B10. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 30 June 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 30 June 2014 are as follows:

	Contract/ Notional Amount as at 30 Jun 2014 (in RM '000)	Fair Value gain/(loss) (in RM '000)
Forward foreign currency contracts	75,143	1,238

During the year, the Group has recognised a net gain of RM555,000 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 RM1,933,000 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 RM74.4 million in credit for the second quarter ended 30 June 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 second quarter ended 30 June 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 30 June 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.

	30 Jun 2014 RM '000	31 Dec 2013 RM '000
Total retained profits of the Company and its subsidiaries:		
- Realised	768,495	788,231
- Unrealised	39,919	27,758
	808,414	815,989
Total share of retained profits from jointly controlled entities:		
- Realised	7,978	6,157
- Unrealised	183	67
	816,575	822,213
Add: Consolidation adjustments	141,997	141,997
Total Group retained profits as per consolidated accounts	958,572	964,210

All retained profits for the Company level are realised profits.

B14. PROFIT FOR THE PERIOD

	Individual Quarter Ended		Cumulative Period Ended	
	30 Jun 2014 RM '000	30 Jun 2013 RM '000	30 Jun 2014 RM '000	30 Jun 2013 RM '000
Profit for the period is arrived at				
after charging:				
Property, plant and equipment				
- Depreciation and amortisation	16,123	16,330	31,880	31,728
- written off	20	37	29	97
Amortisation of land use rights	1,443	2,138	2,887	4,392
Net unrealised foreign exchange loss	4,930	-	-	1,602
Inventories written off	-	3	-	-
Finance costs	3,211	597	5,904	597
Change in fair value of hedging derivatives	-	218	661	823
after (crediting):				
Interest income	(3,448)	(4,002)	(7,445)	(10,004)
Rental income	(127)	(109)	(264)	(216)
Income from scrap disposal	(1,085)	(2,323)	(4,476)	(5,844)
Change in fair value of hedging derivatives	(277)	-	-	-
Net unrealised foreign exchange gain	-	(291)	(5,738)	-
Inventories written back	-	-	(234)	(33)
Net reversal of impairment loss on trade receivables	-	-	-	(1,994)