

QUARTERLY REPORT

This is a quarterly report on consolidated results for the period ended 30 September 2016  
The figures have not been audited.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2016

	INDIVIDUAL QUARTER		CUMULATIVE	
	CURRENT YEAR QUARTER 30 SEPT 2016 RM '000	PRECEDING YEAR CORRESPONDING QUARTER 30 SEPT 2015 RM '000	CURRENT YEAR TO DATE 30 SEPT 2016 RM '000	PRECEDING YEAR TO DATE 30 SEPT 2015 RM '000
Revenue	333,494	436,254	887,656	1,737,893
Other operating income	<u>20,126</u>	<u>65,037</u>	<u>6,404</u>	<u>95,054</u>
Operating (loss) / profit	(1,653)	20,468	(5,640)	73,248
Share of (loss) / profit of joint ventures	(579)	(710)	(2,754)	(916)
(Loss) / profit before taxation	<u>(2,232)</u>	<u>19,758</u>	<u>(8,394)</u>	<u>72,332</u>
Taxation	<u>(1,845)</u>	<u>(3,086)</u>	<u>(6,167)</u>	<u>(1,568)</u>
(Loss) / profit after taxation	<u>(4,077)</u>	<u>16,672</u>	<u>(14,561)</u>	<u>70,764</u>
<b>Other comprehensive income:</b>				
Fair value loss on cash flow hedges	<u>(802)</u>	<u>(1,164)</u>	<u>(2,114)</u>	<u>(2,212)</u>
<b>Total comprehensive income for the period</b>	<u>(4,879)</u>	<u>15,508</u>	<u>(16,675)</u>	<u>68,552</u>
<b>Profit attributable to:</b>				
Equity holders of the Company	(4,533)	16,965	(14,630)	71,018
Non-controlling interests	<u>456</u>	<u>(293)</u>	<u>69</u>	<u>(254)</u>
	<u>(4,077)</u>	<u>16,672</u>	<u>(14,561)</u>	<u>70,764</u>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Company	(5,335)	15,801	(16,744)	68,806
Non-controlling interests	<u>456</u>	<u>(293)</u>	<u>69</u>	<u>(254)</u>
	<u>(4,879)</u>	<u>15,508</u>	<u>(16,675)</u>	<u>68,552</u>
Earnings per share attributable to equity holders of the Company:				
(i) Basic (sen)	(0.3)	1.1	(0.9)	4.4
(ii) Dilutive (sen)	(0.3)	1.1	(0.9)	4.4

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016**

	AS AT END OF CURRENT QUARTER 30 SEPT 2016 RM '000	AS AT PRECEDING FINANCIAL YEAR END 31 DEC 2015 RM '000
<b>Non-Current Assets</b>		
<i>Property, Plant and Equipment</i>	1,629,198	1,642,154
<i>Prepaid Land Lease Payments</i>	225,220	230,541
<i>Investment in Joint Ventures</i>	12,969	15,724
<i>Deferred Tax Assets</i>	79,915	79,915
	<u>1,947,302</u>	<u>1,968,334</u>
<b>Current Assets</b>		
<i>Inventories</i>	13,426	12,102
<i>Trade &amp; Other Receivables</i>	1,457,900	1,474,702
<i>Derivatives</i>	-	635
<i>Tax recoverable</i>	4,147	4,146
<i>Cash and Cash Equivalents</i>	686,146	860,175
	<u>2,161,619</u>	<u>2,351,760</u>
<b>Current Liabilities</b>		
<i>Trade &amp; Other Payables</i>	1,410,435	1,626,592
<i>Derivatives</i>	1,769	110
<i>Provisions</i>	12,970	12,970
	<u>1,425,174</u>	<u>1,639,672</u>
<b>Net Current Assets</b>	<u>736,445</u>	<u>712,088</u>
	<u>2,683,747</u>	<u>2,680,422</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>	(1,758)	356
<i>Retained Earnings</i>	1,043,395	1,058,025
	<u>2,659,900</u>	<u>2,676,644</u>
<b>Non-controlling interests</b>	<u>3,847</u>	<u>3,778</u>
<b>Total equity</b>	<u>2,663,747</u>	<u>2,680,422</u>
<b>Non-Current Liabilities</b>		
<i>Long Term Loan</i>	20,000	-
	<u>20,000</u>	<u>-</u>
	<u>2,683,747</u>	<u>2,680,422</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

	CURRENT YEAR TO DATE 30 SEPT 2016 RM '000	CUMULATIVE PRECEDING YEAR TO DATE 30 SEPT 2015 RM '000
(Loss) / profit before taxation	(8,394)	72,332
Adjustments for:		
Property, plant and equipment		
- depreciation	57,844	54,890
- write off	99	581
- impairment loss	-	30
Amortisation of land use rights	5,320	5,320
Net provision / (reversal) for warranty	-	(1,653)
Net (reversal) / impairment loss on trade receivables	(1,168)	2,392
Interest income	(15,364)	(11,340)
Change in fair value of hedging derivatives	180	(1,966)
Net unrealised foreign exchange loss / (gain)	53,617	(41,554)
Finance cost	-	4,503
Inventories written back	-	36
Share of loss of joint ventures	2,754	916
Operating profit before working capital changes	94,888	84,487
Inventories	(1,324)	(583)
Trade and other receivables	(36,561)	336,228
Trade and other payables	(215,242)	113,712
Cash (used in) / generated from operations	(158,239)	533,844
Tax paid	(6,167)	(9,182)
Refund from tax	-	11,060
Net Cash Flow (used in) / generated from Operating Activities	(164,406)	535,722
Purchase of property, plant and equipment	(44,987)	(98,574)
Interest received	15,364	11,340
Net Cash Flow used in Investing Activities	(29,623)	(87,234)
Interest paid	-	(4,503)
Drawdown on Sukuk Murabahah credit facilities	20,000	-
Drawdown on revolving credit facilities	-	91,000
Repayment on revolving credit facilities	-	(356,000)
Net Cash Flow used in Financing Activities	20,000	(269,503)
Net Change in Cash & Cash Equivalents	(174,029)	178,985
Cash & Cash Equivalents at the beginning of the year	860,175	589,228
Cash & Cash Equivalents at the end of the period	686,146	768,213

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2016

<-----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>9 MONTHS ENDED 30 SEPTEMBER 2016</b>							
At 1 January 2016	800,000	818,263	1,058,025	356	2,676,644	3,778	2,680,422
Total comprehensive income	-	-	(14,630)	(2,114)	(16,744)	69	(16,675)
At 30 September 2016	800,000	818,263	1,043,395	(1,758)	2,659,900	3,847	2,663,747
<b>9 MONTHS ENDED 30 SEPTEMBER 2015</b>							
At 1 January 2015	800,000	818,263	1,014,139	501	2,632,903	3,219	2,636,122
Total comprehensive income	-	-	71,018	(2,212)	68,806	(254)	68,552
At 30 September 2015	800,000	818,263	1,085,157	(1,711)	2,701,709	2,965	2,704,674

## **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 27 October 2016.

### **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 September 2016 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 2015. 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 2015.

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

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2016 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2015.

As of 1 January 2016, the Group have adopted the following revised MFRSs and Amendments to MFRSs that have been issued by the MASB:

#### **MFRS and amendments effective for annual period beginning on or after 1 January 2016:**

Annual Improvements to MFRSs 2012 - 2014 Cycle  
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation  
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants  
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations  
Amendments to MFRS 127: Equity Method in Separate Financial Statements  
Amendments to MFRS 101: Disclosure Initiatives  
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception  
MFRS 14 Regulatory Deferral Accounts

#### **MFRS and amendments effective for annual period beginning on or after 1 January 2018:**

MFRS 15 Revenue from Contracts with Customers  
MFRS 9 Financial Instruments

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

The auditors' report on the financial statements for the year ended 31 December 2015 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 September 2016.

#### 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

MHB has successfully made its inaugural issuance of RM20.0 million in nominal value Sukuk Murabahah under the Sukuk Murabahah Programme with a tenure of one year during the quarter ended 30 September 2016. The proceeds raised from the Sukuk Murabahah shall be utilised by MHB to finance its capital expenditure, working capital requirements and/or other general corporate purposes in a Shariah compliant manner and for Shariah compliant purposes.

#### 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>Heavy Engineering*</b>	<b>Marine</b>	<b>Others</b>	<b>Eliminations</b>	<b>Total</b>
<b>REVENUE AND RESULT</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Revenue</b>					
Total Revenue - External	573,851	313,805	-	-	887,656
Inter-Segment	-	-	414	(414) **	-
	<u>573,851</u>	<u>313,805</u>	<u>414</u>	<u>(414)</u>	<u>887,656</u>
<b>Result</b>					
Operating (loss) / profit	<u>(73,270)</u>	<u>39,116</u>	<u>29,505</u> ***	<u>(991)</u> **	(5,640)
Share of results of joint ventures					(2,754)
<b>Loss before taxation</b>					<u><u>(8,394)</u></u>

\* Heavy Engineering segment comprise of offshore and onshore oil and gas works.

\*\* 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 2015.

#### A12. SUBSEQUENT MATERIAL EVENT

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

#### A13. CHANGES IN THE COMPOSITION OF THE GROUP

MHB's wholly owned subsidiary, Malaysia Marine and Heavy Engineering Sdn. Bhd. ("MMHE") has, on 16 August 2016, established a 70% owned subsidiary known as MMHE EPIC Marine & Services Sdn. Bhd. ("MEMS") by the subscription of 7.0 mil ordinary shares of RM1.00 each for cash consideration amounting to RM7.0 mil in MEMS.

MEMS is formed pursuant to a Joint Venture Agreement dated 16 August 2016 between MMHE and Eastern Pacific Industrial Corporation Berhad ("EPIC") to undertake repair services of marine vessels which include dry docking repair, refit, refurbishment, maintenance and technical solutions at the ship repair facilities located in Kemaman, Terengganu.

MEMS has an authorised capital of RM25,000,000 divided into 25,000,000 ordinary shares of RM1.00 each and an issued and paid-up share capital of RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each. MMHE holds 70% of the equity capital in MEMS and EPIC holds the remaining 30%.

#### A14. CONTINGENT LIABILITIES

Contingent liabilities of the Group comprise the following :-

	<b>30 Sept 2016</b>	<b>31 Dec 2015</b>
	<b>RM '000</b>	<b>RM '000</b>
<b><i>Unsecured</i></b>		
Bank guarantees extended to: -		
- Related companies	142,071	154,915
- Third parties	<u>315,984</u>	<u>301,826</u>
	<u><u>458,055</u></u>	<u><u>456,741</u></u>

#### A15. CAPITAL COMMITMENTS

	<b>30 Sept 2016</b>	<b>31 Dec 2015</b>
	<b>RM '000</b>	<b>RM '000</b>
Approved and contracted for	78,340	52,897
Approved but not contracted for	<u>20,448</u>	<u>59,976</u>
	<u><u>98,788</u></u>	<u><u>112,873</u></u>

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

#### A16. 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 RM1,769,000 in credit (31.12.2015: RM525,000 in debit) are measured at Level 2 hierarchy.

## B1. REVIEW OF PERFORMANCE

	Individual Quarter Ended		Cumulative Period Ended	
	30 Sept 2016 RM '000	30 Sept 2015 RM '000	30 Sept 2016 RM '000	30 Sept 2015 RM '000
<b>Revenue</b>				
Heavy Engineering (Note 1)	219,693	302,291	573,851	1,379,614
Marine	113,801	133,963	313,805	360,681
Others	177	-	414	110
Eliminations/Adjustments	(177)	-	(414)	(2,512) <sup>*^</sup>
	<u>333,494</u>	<u>436,254</u>	<u>887,656</u>	<u>1,737,893</u>
<b>Operating Profit / (Loss)</b>				
Heavy Engineering	(21,562)	(24,296)	(73,270)	(16,397)
Marine	19,896	24,714	39,116	59,105
Others	343	25,294	29,505	48,147
Eliminations/Adjustments	(330)	(5,244)	(991)	(17,607) <sup>*#</sup>
	<u>(1,653)</u>	<u>20,468</u>	<u>(5,640)</u>	<u>73,248</u>

Note 1: The "Heavy Engineering" unit is the business segment in the Group which caters for Offshore and Onshore EPCIC and other related services. Previously it was known as "Offshore" business segment.

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

^ Inter-segment revenue elimination

Marine	-	-	-	2,402
Others	177	-	414	110

# Inter-segment operating profit elimination

Heavy Engineering	267	3,884	803	14,216
Marine	63	1,360	188	3,391

### Performance of current quarter against the corresponding quarter

The Group registered an operating loss of RM1.7 million against RM20.5 million profit in the corresponding quarter, which is segmentally analysed as follows:

#### Heavy Engineering

Heavy Engineering's revenue fell by 27% on the back of fewer and lower value of projects in progress. However operating loss reduced slightly from RM24.3m to RM21.6m as corresponding quarter included additional cost provisions for ongoing projects.

#### Marine

Marine's revenue and operating profit was lower against corresponding quarter mainly due to lower number of vessels and lower value of LNG, rig repairs and conversion work in current quarter.

#### Group

The Group registered a loss before tax of RM2.2 million on the back of fewer and lower value projects in progress against profit before tax of RM19.8 million in the corresponding quarter.

### Performance of current period against the corresponding period

The Group registered an operating loss at RM5.6 million against RM73.2 million profit in the corresponding period, which is analysed as follows:

#### Heavy Engineering

Heavy Engineering registered lower revenue during the current period as a result of fewer and lower value projects in progress.

Heavy Engineering recorded an operating loss of RM73.3 million compared to RM16.4 million loss in the corresponding period, as lower revenue and contribution recorded are insufficient to absorb the current group's overheads.



**Marine**

Marine's revenue and operating profit was lower against corresponding period mainly due to lower number of vessels and lower value of LNG, rig repairs and conversion work in current period.

**Group**

The Group registered a loss before tax of RM8.4 million against profit before tax of RM72.3 million in the corresponding period.

Other's operating profit was lower against corresponding period mainly due to higher forex gain recorded in the corresponding period.

**B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS**

The Group's registered a higher loss before taxation of RM2.2 million against the preceding quarter's loss before taxation of RM0.8 million. The variance was mainly due to recognition of approved variation orders for Malikai project in preceding quarter, offsetted partially by the favourable impact from the foreign currency fluctuation.

**B3. CURRENT YEAR PROSPECTS**

The continued downturn of the oil and gas industry is expected to impact the Group's business with significant offshore project cancellations and deferrals. This is expected to result in further decline in the Group's asset utilisation, currently being assessed for impairment which will significantly affect the current year financial result. Nevertheless, the Group continues its efforts on cost management and resource optimisation and has been successful so far in reducing its operating cost in line with the outlook of the industry. In addition, the Group is also intensifying its effort in realising the initiatives it had embarked upon to replenish its order book, namely from onshore segment, hook-up & commissioning and facilities improvement.

**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 Sept 2016 RM '000	30 Sept 2015 RM '000
Taxation for the period comprises the following charge:		
Income tax (credit) / charge		
- current period	6,167	4,640
- prior year	-	(2,186)
Deferred taxation	-	(886)
	<u>6,167</u>	<u>1,568</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

**B6. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instruments for the quarter ended 30 September 2016.

**B7. CHANGES IN MATERIAL LITIGATION**

There were no material litigation involving the Group as at 30 September 2016.

## B8. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 30 September 2016.

## B9. 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 September 2016 are as follows:

	<b>Contract/ Notional Amount as at 30 Sept 2016 (in RM '000)</b>	<b>Fair Value gain/(loss) (in RM '000)</b>
Forward foreign currency contracts	71,185	(22)

During the period, the Group has recognised a net loss of RM2,114,000 in its statement of comprehensive income mainly due to settlement of the forward foreign currency contracts in the current year.

## B10. EARNINGS PER SHARE

In respect of earnings per share :-

- i) The amount used as numerator for the calculation of basic earnings per share is RM14.6 million in debit for the third quarter ended 30 September 2016 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 third quarter ended 30 September 2016 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.

## B11. REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group as at 30 September 2016 and 31 December 2015 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.

	<b>30 Sept 2016 RM '000</b>	<b>31 Dec 2015 RM '000</b>
Total retained profits of the Company and its subsidiaries:		
- Realised	787,631	869,221
- Unrealised	73,790	9,840
	<u>861,421</u>	<u>879,061</u>
Total share of retained profits from joint ventures:		
- Realised	(2,559)	1,138
- Unrealised	(195)	215
	<u>858,667</u>	<u>880,414</u>
Add: Consolidation adjustments	184,728	177,611
Total Group retained profits as per consolidated accounts	<u><u>1,043,395</u></u>	<u><u>1,058,025</u></u>

All retained profits for the Company level are realised profits.

**B12. PROFIT FOR THE PERIOD**

	Individual Quarter Ended		Cumulative Period Ended	
	30 Sept 2016 RM '000	30 Sept 2015 RM '000	30 Sept 2016 RM '000	30 Sept 2015 RM '000
<b>Profit for the period is arrived at after charging:</b>				
Amortisation of land use rights	1,774	1,773	5,321	5,320
Net unrealised foreign exchange loss	2,714	-	53,617	-
Inventories written off	-	40	-	36
Change in fair value of hedging derivatives	-	-	180	-
Finance costs	-	-	-	4,503
Property, plant and equipment				
- depreciation and amortisation	19,258	18,758	57,844	54,890
- written off	-	105	99	581
- impairment loss	-	30	-	30
Net impairment loss on trade receivables	-	-	-	2,392
<b>after (crediting):</b>				
Net income from scrap disposal	(3,284)	(2,639)	(8,655)	(8,421)
Interest income	(5,511)	(3,952)	(15,364)	(11,340)
Change in fair value of hedging derivatives	(233)	(1,718)	-	(1,966)
Net unrealised foreign exchange gain	-	(41,757)	-	(41,554)
Net reversal of impairment loss on trade receivables	(2,325)	-	(1,168)	-
Rental income				
- land	(25)	(12)	(54)	(30)
- building	(509)	(267)	(1,095)	(685)
- equipments	(120)	(68)	(394)	(201)