

QUARTERLY REPORT

This is a quarterly report on consolidated results for the period ended 30 June 2017
The figures have not been audited.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2017

	QUARTER ENDED		CUMULATIVE 6 MONTHS ENDED	
	30 JUNE 2017	30 JUNE 2016	30 JUNE 2017	30 JUNE 2016
	RM '000	RM '000	RM '000	RM '000
Revenue	257,266	297,442	493,110	554,162
Other operating gain/ (loss)	10,801	(11,656)	3,285	(13,722)
Operating loss	(10,305)	(492)	(25,900)	(3,987)
Finance cost	(229)	-	(456)	-
Share of results of joint ventures	(2,913)	(329)	(4,712)	(2,175)
Loss before taxation	(13,447)	(821)	(31,068)	(6,162)
Taxation	(833)	(1,700)	143	(4,322)
Loss after taxation	(14,280)	(2,521)	(30,925)	(10,484)
Other comprehensive (expense)/ income:				
Fair value (loss)/ gain on cash flow hedges	(1,150)	(2,822)	7,857	(1,312)
Total comprehensive loss for the period	(15,430)	(5,343)	(23,068)	(11,796)
(Loss)/ Profit attributable to:				
Equity holders of the Company	(13,701)	(2,559)	(30,309)	(10,135)
Non-controlling interests	(579)	38	(616)	(349)
	(14,280)	(2,521)	(30,925)	(10,484)
Total comprehensive (loss)/ income attributable to:				
Equity holders of the Company	(14,851)	(5,381)	(22,452)	(11,447)
Non-controlling interests	(579)	38	(616)	(349)
	(15,430)	(5,343)	(23,068)	(11,796)
Loss per share attributable to equity holders of the Company:				
(i) Basic (sen)	(0.9)	(0.2)	(1.9)	(0.6)
(ii) Dilutive (sen)	(0.9)	(0.2)	(1.9)	(0.6)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	30 JUNE 2017 RM '000	31 DEC 2016 RM '000
Non-current assets		
Property, plant and equipment	1,533,386	1,544,724
Land use rights	219,900	223,447
Investment in joint ventures	3,454	8,166
Deferred tax assets	79,720	79,691
Other receivables	1,500	1,500
	<u>1,837,960</u>	<u>1,857,528</u>
Current assets		
Inventories	12,991	10,747
Trade & other receivables	835,716	1,052,111
Tax recoverable	13,152	11,007
Cash and bank balances	682,342	671,128
	<u>1,544,201</u>	<u>1,744,993</u>
TOTAL ASSETS	<u>3,382,161</u>	<u>3,602,521</u>
Equity attributable to equity holders of the Company		
Share capital	1,618,263	800,000
Share premium	-	818,263
Cash flow hedge reserve	1,296	(6,561)
Retained earnings	893,606	923,915
	<u>2,513,165</u>	<u>2,535,617</u>
Non-controlling interests	2,384	3,000
Total equity	<u>2,515,549</u>	<u>2,538,617</u>
Current liabilities		
Trade & other payables	819,635	1,022,412
Derivatives	1,673	6,655
Provisions	25,304	14,837
Borrowings	20,000	20,000
	<u>866,612</u>	<u>1,063,904</u>
TOTAL EQUITY AND LIABILITIES	<u>3,382,161</u>	<u>3,602,521</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2017

	30 JUNE 2017 RM '000	30 JUNE 2016 RM '000
Loss before taxation	(31,068)	(6,162)
Adjustments for:		
Property, plant and equipment		
- depreciation	41,351	38,586
- write off	-	110
Amortisation of land use rights	3,547	3,547
Net provision for warranty	-	3,560
Allowance for impairment loss on trade receivables	1,011	1,157
Interest income	(5,484)	(9,853)
Net fair value loss on derivatives	2,875	413
Net unrealised loss on foreign exchange	17,675	50,903
Finance cost	456	-
Inventories written back	(3)	-
Share of results of joint ventures	4,712	2,176
Operating profit before working capital changes	35,072	84,437
Inventories	(2,241)	(5,915)
Trade and other receivables	197,310	187,567
Trade and other payables	(192,355)	(302,139)
Cash generated from/ (used in) operations	37,786	(36,050)
Tax paid	(2,083)	(4,236)
Net cash generated from/ (used in) operations activities	35,703	(40,286)
Purchase of property, plant and equipment	(30,013)	(24,329)
Interest received	5,935	9,853
Net cash used in investments activities	(24,078)	(14,476)
Interest paid	(411)	-
Net cash used in financing activities	(411)	-
Net change in cash & cash equivalents	11,214	(54,762)
Cash & cash equivalents at the beginning of the year	671,128	860,175
Cash & cash equivalents at the end of the period	682,342	805,413

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2017

	<-----Attributable to equity holders of the Company----->						Total Equity RM '000
	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	
6 MONTHS ENDED 30 JUNE 2017							
At 1 January 2017	800,000	818,263	923,915	(6,561)	2,535,617	3,000	2,538,617
Total comprehensive income	-	-	(30,309)	7,857	(22,452)	(616)	(23,068)
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017 ^{Note a}	818,263	(818,263)	-	-	-	-	-
At 30 JUNE 2017	1,618,263	-	893,606	1,296	2,513,165	2,384	2,515,549
6 MONTHS ENDED 30 JUNE 2016							
At 1 January 2016	800,000	818,263	1,058,025	356	2,676,644	3,778	2,680,422
Total comprehensive income	-	-	(10,135)	(1,312)	(11,447)	(349)	(11,796)
At 30 JUNE 2016	800,000	818,263	1,047,890	(956)	2,665,197	3,429	2,668,626

Note a:

Pursuant to Section 74 of the Companies Act, 2016 ('the act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with the transitional provision set out in section 618 of the Act, any amount standing to the credit of the share premium account become part of the Company's share capital. Companies have 24 months upon the commencement of the Act to utilise the credit.

There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition. During the financial period, the Company has not utilised any of the credit in the share premium account which are now part of share capital.

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.

These condensed consolidated interim financial statements were approved by the Board of Directors on 2 August 2017.

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 2017 have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirement of Bursa Malaysia. 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 2016. 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 2016.

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 2017 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2016.

As of 1 January 2017, the Group and the Company have adopted the following revised MFRSs and Amendments to MFRSs that have been issued by the MASB:

MFRS and amendments effective for annual periods beginning on or after 1 January 2017:

Amendments to MFRS 12: Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)

Amendments to MFRS 107: Statement of Cash Flows: Disclosure Initiative

Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the above pronouncements has no material financial impact to the Group.

A4. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors issued an unqualified report on the financial statements for the year ended 31 December 2016.

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 2017.

A7. CHANGES IN ESTIMATES

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

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 2017.

A9. DIVIDEND PAID

The company has not paid any dividends in the current financial quarter.

A10. SEGMENT REPORT

Segmental analysis for the current financial period is as follows:

	Heavy Engineering*	Marine	Others	Eliminations	Total
REVENUE AND RESULTS	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue					
Total Revenue - External	311,420	181,690	-	-	493,110
Inter-Segment	-	-	419	(419) **	-
	<u>311,420</u>	<u>181,690</u>	<u>419</u>	<u>(419)</u>	<u>493,110</u>
Result					
Operating (loss) / profit	<u>(46,470)</u>	<u>23,727</u>	<u>(2,916) ***</u>	<u>(241) **</u>	(25,900)
Finance cost					(456)
Share of results of joint ventures					(4,712)
Loss before taxation					<u>(31,068)</u>

* Heavy Engineering segment comprises mainly offshore and onshore oil and gas works.

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

*** Comprise of net foreign exchange loss 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. PROFIT FOR THE PERIOD

	Quarter ended		Cumulative 6 months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	RM '000	RM '000	RM '000	RM '000
Profit for the period is arrived at after charging:				
Amortisation of land use rights	1,773	1,773	3,547	3,547
Net unrealised loss on foreign exchange	6,480	13,741	17,675	50,903
Net fair value loss on derivatives	-	1,575	2,875	413
Finance costs	229	-	456	-
Property, plant and equipment				
- depreciation	22,910	17,875	41,351	38,586
- written off	-	-	-	110
Allowance for impairment loss on trade receivables	1,011	1,157	1,011	1,157
after (crediting):				
Net income from scrap disposal	(464)	(1,526)	(1,294)	(5,371)
Interest income	(3,065)	(5,613)	(5,484)	(9,853)
Inventories written back	-	-	(3)	-
Net fair value gain on derivatives	(2,583)	-	-	-
Rental income				
- land	(18)	(14)	(43)	(29)
- building	(2,460)	(259)	(3,293)	(586)
- equipments	(131)	(120)	(245)	(274)

A12. 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 2016.

A13. SUBSEQUENT MATERIAL EVENT

There was no material event subsequent to the quarter end 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 June 2017 RM '000	31 Dec 2016 RM '000
<i>Unsecured</i>		
Bank guarantees extended to: -		
- Related companies	170,288	134,961
- Third parties	174,940	241,235
	<u>345,228</u>	<u>376,196</u>

A16. CAPITAL COMMITMENTS

	30 June 2017 RM '000	31 Dec 2016 RM '000
Approved and contracted for	50,040	16,914
Approved but not contracted for	486,116	7,752
	<u>536,156</u>	<u>24,666</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 in 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 RM1,673,000 in credit (31.12.2016: RM6,655,000 in credit) are measured at Level 2 hierarchy.

B1. REVIEW OF PERFORMANCE

	Quarter Ended		Cumulative 6 months ended	
	30 June 2017 RM '000	30 June 2016 RM '000	30 June 2017 RM '000	30 June 2016 RM '000
Revenue				
Heavy Engineering	157,969	217,778	311,420	354,158
Marine	99,297	79,664	181,690	200,004
Others	306	42	419	237
Eliminations/Adjustments	(306)	(42)	(419)	(237) *^
	<u>257,266</u>	<u>297,442</u>	<u>493,110</u>	<u>554,162</u>
Result				
Heavy Engineering	(22,411)	(25,572)	(46,470)	(51,708)
Marine	14,371	4,206	23,727	19,220
Others	(1,934)	21,205	(2,916)	29,162
Eliminations/Adjustments	(331)	(331)	(241)	(661) *#
Operating loss	<u>(10,305)</u>	<u>(492)</u>	<u>(25,900)</u>	<u>(3,987)</u>
Finance cost	(229)	-	(456)	-
Share of results of joint ventures	(2,913)	(329)	(4,712)	(2,175)
Loss before taxation	<u>(13,447)</u>	<u>(821)</u>	<u>(31,068)</u>	<u>(6,162)</u>
* Inter-segment revenue and transactions are eliminated on consolidation.				
^ Inter-segment revenue elimination				
Marine	-	-	-	-
Others	306	42	419	237
# Inter-segment operating profit elimination				
Heavy Engineering	268	268	195	535
Marine	63	63	46	126

Performance of current quarter against the quarter ended 30 June 2016 ("corresponding quarter").

The Group's revenue of RM257.3 million was 13% lower than RM297.4 million in the corresponding quarter with operating loss widening to RM10.3 million from RM0.5 million loss in the corresponding quarter.

Segmental review of performance against the corresponding quarter is analysed as follows:

Heavy Engineering

Revenue of RM158.0 million was 27% lower than RM217.8 million in the corresponding quarter, mainly due to lower revenue as most on-going projects are nearing completion.

However operating loss of RM22.4 million was RM3.2 million lower than RM25.6 million loss in the corresponding quarter, mainly due to recognition of change orders and finalisation of completed projects in the current quarter.

Marine

Revenue rose by 25% to RM99.3 million on the back of higher conversion work, negated by lower LNG vessel repairs.

Operating profit of RM14.4 million was RM10.2 million higher than corresponding quarter's profit of RM4.2 million, mainly due to the increase in revenue as well as finalisation of completed projects in the current quarter.

Current cumulative 6 months performance against cumulative 6 months ended 30 June 2016 ("corresponding period")

The Group's revenue of RM493.1 million was 11% lower than RM 554.2 million in the corresponding 6 months period, mainly due to lower revenue in Heavy Engineering from completion of some offshore projects in the current period. The Group recorded a higher operating loss of RM25.9 million from RM4.0 million loss in the corresponding period, mainly due to lower interest income in the current period and a one-off legal settlement recognised in the corresponding period.

Analysis of segmental performance against corresponding period is as follows:-

Heavy Engineering

Revenue of RM311.4 million was 12% lower than corresponding period as most major projects are nearing completion while newly secured projects are still at their early stages.

Notwithstanding lower revenue, the segment posted a lower operating loss of RM46.5 million from a loss of RM51.7 million in the corresponding period, mainly from recognition of change orders and finalisation of completed projects in the current period.

Marine

Marine's revenue of RM181.7 million was 9.2% lower than corresponding period, mainly due to lower value of LNG vessel repairs. Despite lower revenue, marine recorded 23.4% increase in profit, mainly due to improved margin from on-going conversion projects.

B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's revenue of RM257.3 million was 9.1% higher than preceding quarter's revenue of RM235.8 million, mainly due to an increase in marine revenue from on-going conversion projects. Loss before taxation narrowed to RM13.5 million from RM17.6 million in the preceding quarter, mainly from recognition of change orders and finalisation of completed projects in current quarter.

B3. CURRENT YEAR PROSPECTS

The outlook remains challenging for the Group with oil price not moving in line with the OPEC and non-OPEC voluntary cuts in production. Shale production activities is still robust resulting in a supply overload that will keep the price of oil subdued over the year and next. Deferment of upstream projects is expected to prolong and cost cutting measures will be enhanced further.

The Group remains committed to its strategy in managing cost, optimising its resources and improving operational efficiency in line with the challenging environment. While the Group has successfully secured several contracts during the period, it is mindful that majority of the contribution will only be realized in 2018 and beyond. Diversification into new revenue streams that provide recurring income is a priority while efforts to replenish the order book continues.

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 June 2017 RM '000	30 June 2016 RM '000
Taxation for the year comprises the following charge:		
Income tax (credit) / charge		
- current period	938	4,236
- prior year	(1,052)	-
Deferred taxation	(29)	86
	<u>(143)</u>	<u>4,322</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year. 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 June 2017.

B7. CHANGES IN MATERIAL LITIGATION

There were no material litigation involving the Group as at 30 June 2017.

B8. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 30 June 2017.

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 June 2017 are as follows:

	Contract/ Notional Amount as at 30 June 2017 (in RM '000)	Fair Value loss (in RM '000)
Forward foreign currency contracts	29,177	(1,296)

The Group recognised a net gain of RM9,007,000 in its statement of comprehensive income, mainly due to settlement of the forward foreign currency contracts in the current period.

B10. LOSS PER SHARE

	Quarter Ended		Cumulative 6 months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Basic earning per share are computed as follows:				
Loss for the period attributable to equity holders of the Company (RM million)	(13,701)	(2,559)	(30,309)	(10,135)
Weighted average number of ordinary shares in issue (million)	1,600,000	1,600,000	1,600,000	1,600,000
Basic earning per share (sen)	<u>(0.9)</u>	<u>(0.2)</u>	<u>(1.9)</u>	<u>(0.6)</u>

The Group does not have any financial instrument which may dilute its basic earnings per share.

B11. REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group as at 30 June 2017 and 31 December 2016 into realised and unrealised profits is presented in accordance with the directives issued by Bursa Malaysia 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 Listing Requirements, as issued by Malaysian Institute of Accountants.

	30 June 2017 RM '000	31 Dec 2016 RM '000
Total retained profits of the Company and its subsidiaries:		
- Realised	673,609	681,701
- Unrealised	49,408	66,188
	<u>723,017</u>	<u>747,889</u>
Total share of retained profits/ (losses) from joint ventures:		
- Realised	5,293	(6,686)
- Unrealised	(582)	480
	<u>727,728</u>	<u>741,683</u>
Add: Consolidation adjustments	165,878	182,232
Total Group retained profits as per consolidated accounts	<u><u>893,606</u></u>	<u><u>923,915</u></u>

All retained profits for the Company level are realised profits.