

QUARTERLY REPORT

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

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

	QUARTER ENDED		CUMULATIVE 9 MONTHS ENDED	
	30 SEPT 2017	30 SEPT 2016	30 SEPT 2017	30 SEPT 2016
	RM '000	RM '000	RM '000	RM '000
Revenue	215,350	333,494	708,460	887,656
Other operating (expense) / income	<u>(3,769)</u>	<u>20,126</u>	<u>(484)</u>	<u>6,404</u>
Operating profit / (loss)	17,081	(1,653)	(9,275)	(5,640)
Share of results of joint ventures	(1,292)	(579)	(6,004)	(2,754)
Profit / (Loss) before taxation	<u>15,789</u>	<u>(2,232)</u>	<u>(15,279)</u>	<u>(8,394)</u>
Taxation	<u>431</u>	<u>(1,845)</u>	<u>574</u>	<u>(6,167)</u>
Profit / (Loss) after taxation	<u>16,219</u>	<u>(4,077)</u>	<u>(14,705)</u>	<u>(14,561)</u>
Other comprehensive (expense)/ income:				
Fair value (loss) / gain on cash flow hedges	<u>(851)</u>	<u>(802)</u>	<u>7,006</u>	<u>(2,114)</u>
Total comprehensive income / (loss) for the period	<u>15,368</u>	<u>(4,879)</u>	<u>(7,699)</u>	<u>(16,675)</u>
Profit / (Loss) attributable to:				
Equity holders of the Company	16,409	(4,533)	(13,899)	(14,630)
Non-controlling interests	<u>(189)</u>	<u>456</u>	<u>(805)</u>	<u>69</u>
	<u>16,219</u>	<u>(4,077)</u>	<u>(14,705)</u>	<u>(14,561)</u>
Total comprehensive income / (loss) attributable to:				
Equity holders of the Company	15,558	(5,335)	(6,893)	(16,744)
Non-controlling interests	<u>(189)</u>	<u>456</u>	<u>(805)</u>	<u>69</u>
	<u>15,368</u>	<u>(4,879)</u>	<u>(7,699)</u>	<u>(16,675)</u>
Earnings / (Loss) per share attributable to equity holders of the Company:				
(i) Basic (sen)	1.0	(0.3)	(0.9)	(0.9)
(ii) Dilutive (sen)	1.0	(0.3)	(0.9)	(0.9)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

	30 SEPT 2017 RM '000	31 DEC 2016 RM '000
Non-current assets		
Property, plant and equipment	1,522,267	1,544,724
Land use rights	218,126	223,447
Investment in joint ventures	2,162	8,166
Deferred tax assets	79,720	79,691
Other receivables	-	1,500
	<u>1,822,275</u>	<u>1,857,528</u>
Current assets		
Inventories	8,085	10,747
Trade & other receivables	875,648	1,052,111
Derivatives	104	-
Tax recoverable	13,584	11,007
Cash and bank balances	614,898	671,128
	<u>1,512,319</u>	<u>1,744,993</u>
TOTAL ASSETS	<u>3,334,594</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	445	(6,561)
Retained earnings	910,015	923,915
	<u>2,528,723</u>	<u>2,535,617</u>
Non-controlling interests	2,195	3,000
Total equity	<u>2,530,918</u>	<u>2,538,617</u>
Current liabilities		
Trade & other payables	785,650	1,022,412
Derivatives	-	6,655
Provisions	18,026	14,837
Borrowings	-	20,000
	<u>803,676</u>	<u>1,063,904</u>
TOTAL EQUITY AND LIABILITIES	<u>3,334,594</u>	<u>3,602,521</u>

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

	30 SEPT 2017	30 SEPT 2016
	RM '000	RM '000
Loss before taxation	(15,279)	(8,394)
Adjustments for:		
Property, plant and equipment		
- depreciation	57,159	57,844
- write off	120	99
Amortisation of land use rights	5,321	5,320
Net allowance / (reversal) for impairment loss on trade receivables	4,530	(1,168)
Interest income	(9,910)	(15,364)
Net fair value loss on derivatives	247	180
Net unrealised loss on foreign exchange	21,116	53,617
Inventories written back	293	-
Share of results of joint ventures	6,004	2,754
Operating profit before working capital changes	69,601	94,888
Inventories	2,369	(1,324)
Trade and other receivables	151,995	(36,561)
Trade and other payables	(232,738)	(215,242)
Cash generated used in operations	(8,773)	(158,239)
Tax paid	(2,083)	(6,167)
Net cash used in operations activities	(10,856)	(164,406)
Purchase of property, plant and equipment	(34,822)	(44,987)
Interest received	9,844	15,364
Net cash used in investments activities	(24,978)	(29,623)
(Repayment) / Drawdown on Sukuk Murabahah credit facilities	(20,000)	20,000
Interest paid	(658)	-
Net cash (used in)/ generated from financing activities	(20,658)	20,000
Net change in cash & cash equivalents	(56,492)	(174,029)
Cash & cash equivalents at the beginning of the year	671,128	860,175
Cash & cash equivalents at the end of the period	614,636	686,146

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

	<-----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
9 MONTHS ENDED 30 SEPTEMBER 2017							
At 1 January 2017	800,000	818,263	923,915	(6,561)	2,535,617	3,000	2,538,617
Total comprehensive (loss) / income	-	-	(13,899)	7,006	(6,893)	(805)	(7,699)
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 September 2017	1,618,263	-	910,016	445	2,519,186	2,195	2,530,918
9 MONTHS ENDED 30 SEPTEMBER 2016							
At 1 January 2016	800,000	818,263	1,058,025	356	2,676,644	3,778	2,680,422
Total comprehensive (loss) / 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

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 becomes 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 is 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 30 October 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 September 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 September 2017.

A7. CHANGES IN ESTIMATES

There were no material changes in estimates reported in the current period 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 September 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	429,047	279,413	-	-	708,460
Inter-Segment	-	-	417	(417) **	-
	<u>429,047</u>	<u>279,413</u>	<u>417</u>	<u>(417)</u>	<u>708,460</u>
Result					
Operating (loss) / profit	<u>(48,267)</u>	<u>40,707</u>	<u>(1,144) ***</u>	<u>(571) **</u>	(9,275)
Share of results of joint ventures					(6,004)
Loss before taxation					<u>(15,279)</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 9 months ended	
	30 Sept 2017	30 Sept 2016	30 Sept 2017	30 Sept 2016
	RM '000	RM '000	RM '000	RM '000
Profit / (Loss) for the period is arrived at after charging:				
Amortisation of land use rights	1,774	1,774	5,321	5,321
Net unrealised loss on foreign exchange	3,441	2,714	21,116	53,617
Inventories written off	296	-	293	-
Net fair value loss on derivatives	-	-	247	180
Property, plant and equipment				
- depreciation	15,808	19,258	57,159	57,844
- written off	120	-	120	99
Allowance for impairment loss on trade receivables	3,519	-	4,530	-
after (crediting):				
Net income from scrap disposal	(484)	(3,284)	(1,778)	(8,655)
Interest income	(4,882)	(5,511)	(9,910)	(15,364)
Net fair value gain on derivatives	(2,628)	(233)	-	-
Net reversal of impairment loss on trade receivables	-	(2,325)	-	(1,168)
Rental income				
- land	(19)	(25)	(62)	(54)
- building	(577)	(509)	(3,870)	(1,095)
- equipments	(107)	(120)	(352)	(394)

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 Sept 2017 RM '000	31 Dec 2016 RM '000
Unsecured		
Bank guarantees extended to: -		
- Related companies	149,116	134,961
- Third parties	190,733	241,235
	<u>339,849</u>	<u>376,196</u>

A16. CAPITAL COMMITMENTS

	30 Sept 2017 RM '000	31 Dec 2016 RM '000
Approved and contracted for	314,440	16,914
Approved but not contracted for	214,084	7,752
	<u>528,524</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 RM104,000 in debit (31.12.2016: RM6,655,000 in credit) are measured at Level 2 hierarchy.

B1. REVIEW OF PERFORMANCE

	Quarter Ended		Cumulative 9 months ended	
	30 Sept 2017 RM '000	30 Sept 2016 RM '000	30 Sept 2017 RM '000	30 Sept 2016 RM '000
Revenue				
Heavy Engineering	117,627	219,693	429,047	573,851
Marine	97,723	113,801	279,413	313,805
Others	(2)	177	417	414
Eliminations/Adjustments	2	(177)	(417)	(414) *^
	<u>215,350</u>	<u>333,494</u>	<u>708,460</u>	<u>887,656</u>
Result				
Heavy Engineering	(1,797)	(21,562)	(48,267)	(73,270)
Marine	16,980	19,896	40,707	39,116
Others	2,228	343	(1,144)	29,505
Eliminations/Adjustments	(330)	(330)	(571)	(991) *#
Operating profit/(loss)	<u>17,081</u>	<u>(1,653)</u>	<u>(9,275)</u>	<u>(5,640)</u>
Share of results of joint ventures	(1,292)	(579)	(6,004)	(2,754)
Profit/ (Loss) before taxation	<u>15,789</u>	<u>(2,232)</u>	<u>(15,279)</u>	<u>(8,394)</u>
* Inter-segment revenue and transactions are eliminated on consolidation.				
^ Inter-segment revenue elimination				
Marine	-	-	-	-
Others	(2)	177	417	414
# Inter-segment operating profit elimination				
Heavy Engineering	267	267	462	803
Marine	63	63	109	188

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

The Group recorded an operating profit of RM17.1 million compared to an operating loss of RM1.7 million in the corresponding quarter. This is achieved despite a lower revenue of RM215.4 million against RM333.5 million in the corresponding quarter.

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

Heavy Engineering

Revenue of RM117.6 million was 47% lower than RM219.7 million in the corresponding quarter, mainly due to a lower backlog following completion of offshore projects in the current financial year while ongoing onshore projects in the current quarter are nearing completion.

Notwithstanding the lower revenue, Heavy Engineering's operating loss of RM1.8 million was lower than the RM21.6 million loss posted in the corresponding quarter, mainly from finalisation of completed projects in the current quarter.

Marine

Revenue of RM97.7 million was 14% lower than RM113.8 million in the corresponding quarter, mainly due to lower value and number of vessels repaired.

Following the decrease in revenue, operating profit of RM17.0 million was RM2.9 million lower than the corresponding quarter's profit of RM19.9 million.

Share of results of joint ventures

Share of loss in joint ventures increased to RM1.3 million from RM0.6 mil in the corresponding quarter, mainly due to recognition of additional production costs and delays in ongoing projects.

Current cumulative 9 months performance against cumulative 9 months ended 30 September 2016 ("corresponding period")

Group revenue of RM708.5 million was 20% lower than RM887.7 million in the corresponding 9 months period, mainly due to lower revenue in Heavy Engineering following completion of several offshore projects in the current period. The Group recorded higher operating loss of RM9.3 million from RM5.6 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 the corresponding period is as follows:-

Heavy Engineering

Revenue of RM429.0 million was 25% lower than the corresponding period's revenue of RM573.9 million. The decrease is mainly due to completion of offshore projects in the current period while newly secured projects are still at early stages.

Notwithstanding the lower revenue, the segment posted a lower operating loss of RM48.3 million from RM73.3 million loss in the corresponding period, mainly from recognition of change orders and finalisation of completed projects in the current period.

Marine

Marine's revenue of RM279.4 million was 11% lower than the corresponding period's revenue of RM313.8 million, mainly due to lower contract value and number of LNG vessels repaired. Marine's operating profit of RM40.7 million was RM1.6m higher than the corresponding period, mainly due to recognition of approved change orders from on-going conversion projects.

Share of results of joint ventures

Share of loss in joint ventures of RM6.0 million was higher than the RM2.8 million loss in the corresponding period, mainly due to recognition of additional production costs and delays in ongoing projects.

B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's revenue of RM215.4 million was 16.3% lower than the preceding quarter's revenue of RM257.3 million, mainly due to lower revenue from post sail away projects and ongoing projects in Heavy Engineering are at their tail end. The Group reported profit before tax of RM15.8 million compared to loss before tax of RM13.5 million in the preceding quarter, mainly from finalisation of completed projects in the current quarter.

B3. CURRENT YEAR PROSPECTS

While crude oil prices have slightly improved following OPEC and non-OPEC members' production commitment, the oil and gas outlook remains uncertain with heightened geopolitical concerns. Robust shale production activities will keep the price of oil subdued over a prolonged period.

The Group remains committed to its strategy in managing costs, optimising its resources and improving operational efficiency to combat the challenging environment. Replenishment of order book from marine segment and offshore services are progressing and remain a priority.

While the Group has successfully secured several offshore fabrication projects during the period, the majority of the contribution will only be realized in 2018 and beyond.

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 2017 RM '000	30 Sept 2016 RM '000
Taxation for the year comprises the following charge:		
Income tax (credit) / charge		
- current period	408	6,167
- prior year	(953)	-
Deferred taxation	(29)	-
	<u>(574)</u>	<u>6,167</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 September 2017.

B7. CHANGES IN MATERIAL LITIGATION

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

B8. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 30 September 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 September 2017 are as follows:

	Contract/ Notional Amount as at 30 Sept 2017 (in RM '000)	Fair Value profit (in RM '000)
Forward foreign currency contracts	19,001	445

The Group recognised a net gain of RM7,006,000 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 9 months ended	
	30 Sept 2017	30 Sept 2016	30 Sept 2017	30 Sept 2016
Basic earning per share are computed as follows:				
Loss for the period attributable to equity holders of the Company (RM million)	16,409	(4,533)	(13,899)	(14,630)
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>1.0</u>	<u>(0.3)</u>	<u>(0.9)</u>	<u>(0.9)</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 September 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 Sept 2017	31 Dec 2016
	RM '000	RM '000
Total retained profits of the Company and its subsidiaries:		
- Realised	679,278	681,701
- Unrealised	43,739	66,188
	<u>723,017</u>	<u>747,889</u>
Total share of retained profits/ (losses) from joint ventures:		
- Realised	4,721	(6,686)
- Unrealised	(10)	480
	<u>727,728</u>	<u>741,683</u>
Add: Consolidation adjustments	<u>182,287</u>	<u>182,232</u>
Total Group retained profits as per consolidated accounts	<u><u>910,015</u></u>	<u><u>923,915</u></u>

All retained profits for the Company level are realised profits.