MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
(Company No.: 178821-X)

QUARTERLY REPORT

This is a quarterly report on consolidated results for the period ended 30 June 2018
The figures have not been audited.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

	QUARTER ENDED		CUMULATIVE 6 MONTHS ENDED	
	30 JUNE 2018	30 JUNE 2017	30 JUNE 2018	30 JUNE 2017
	RM '000	RM '000	RM '000	RM '000
Revenue	223,039	257,266	411,314	493,110
Other operating income	29,159	10,801	31,750	3,285
Operating loss	(49,461)	(10,305)	(74,301)	(25,900)
Finance cost	-	(229)	-	(456)
Share of results of joint ventures	(240)	(2,913)	(766)	(4,712)
Loss before taxation	(49,701)	(13,447)	(75,067)	(31,068)
Taxation	(105)	(833)	(415)	143
Loss after taxation	(49,806)	(14,280)	(75,482)	(30,925)
Other comprehensive income:				
Fair value (loss) / gain on cash flow hedges	-	(1,150)	-	7,857
Total comprehensive loss for the period	(49,806)	(15,430)	(75,482)	(23,068)
Loss attributable to:				
Equity holders of the Company	(49,481)	(13,701)	(74,754)	(30,309)
Non-controlling interests	(325)	(579)	(728)	(616)
	(49,806)	(14,280)	(75,482)	(30,925)
Total comprehensive loss attributable to:				
Equity holders of the Company	(49,481)	(14,851)	(74,754)	(22,452)
Non-controlling interests	(325)	(579)	(728)	(616)
	(49,806)	(15,430)	(75,482)	(23,068)
Loss per share attributable to equity holders of the Company:				
(i) Basic (sen)	(3.09)	(0.86)	(4.67)	(1.89)
(ii) Dilutive (sen)	(3.1)	(0.9)	(4.7)	(1.9)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2017)

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
(Company No.: 178821-X)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	30 JUNE 2018 RM '000	31 DEC 2017 RM '000 RESTATED (NOTE A3)
Non-current assets		
Property, plant and equipment	1,556,283	1,524,860
Land use rights	212,805	216,353
Investment in joint ventures	4,160	4,927
Deferred tax assets	93,425	93,293
	1,866,673	1,839,433
Current assets		
Inventories	4,612	2,399
Trade & other receivables	669,705	819,278
Tax recoverable	20,450	20,864
Cash and bank balances	561,038	674,968
	1,255,805	1,517,509
TOTAL ASSETS	**3,122,478**	**3,356,942**
Equity attributable to equity holders of the Company		
Share capital	1,618,263	1,618,263
Retained earnings	838,730	961,484
	2,456,993	2,579,747
Non-controlling interests	485	1,213
Total equity	2,457,478	2,580,960
Current liabilities		
Trade & other payables	665,000	775,982
	665,000	775,982
TOTAL EQUITY AND LIABILITIES	**3,122,478**	**3,356,942**

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2017)

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
(Company No.: 178821-X)

Malaysia Marine and Heavy Engineering Holdings Berhad

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2018

	30 JUNE 2018 RM '000	30 JUNE 2017 RM '000
Loss before taxation	(75,067)	(31,068)
Adjustments for:		
Property, plant and equipment		
- depreciation	38,860	41,351
- write off	545	-
Amortisation of land use rights	3,548	3,547
Net (reversal) / allowance for impairment loss on trade receivables	(4,027)	1,011
Interest income	(5,380)	(5,484)
Change in fair value of hedging derivatives	-	2,875
Net unrealised (gain) / loss on foreign exchange	(7,892)	17,675
Inventories written back	-	(3)
Finance costs	-	456
Share of results of joint ventures	767	4,712
Operating (loss) / profit before working capital changes	(48,646)	35,072
Inventories	(2,213)	(2,241)
Trade and other receivables	162,725	197,310
Trade and other payables	(112,348)	(192,355)
Cash (used in) / generated from operations	(482)	37,786
Tax paid	-	(2,083)
Net cash (used in) / generated from operations activities	(482)	35,703
Purchase of property, plant and equipment	(70,828)	(30,013)
Interest received	5,380	5,935
Net cash used in investments activities	(65,448)	(24,078)
Dividends paid to equity holders of the Company	(48,000)	-
Interest paid	-	(411)
Net cash used in financing activities	(48,000)	(411)
Net change in cash & cash equivalents	(113,930)	11,214
Cash & cash equivalents at the beginning of the year	674,968	671,128
Cash & cash equivalents at the end of the period	561,038	682,342

(The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the Annual Financial Statements for the year ended 31 December 2017)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

	<-----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 2018 (RESTATED - NOTE A3)							
At 1 January 2018	1,618,263	-	961,484	-	2,579,747	1,213	2,580,960
Total comprehensive loss	-	-	(74,754)	-	(74,754)	(728)	(75,482)
Dividends paid to equity holders of the Company	-	-	(48,000)	-	(48,000)	-	(48,000)
At 30 June 2018	1,618,263	-	838,730	-	2,456,993	485	2,457,478
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 (loss) / 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

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 1 August 2018.

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 2018 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 2017. 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 2017.

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 2018 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2017.

At the beginning of the current financial year, the Group and the Company adopted new MFRSs, Amendments to MFRSs and an IC Interpretation (collectively referred to as "pronouncements") that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 2: Shared-based Payment: Classification and Measurement of Share-based Payment Transactions
MFRS 9: Financial Instruments
MFRS 15: Revenue from Contracts with Customers
Amendments to MFRS 140 Investment Property: Transfer of Investment Property
Annual Improvements to MFRS Standards 2014-2016 Cycle
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The adoption of these pronouncements did not have a significant impact to the financial statements of the Group and the Company except as mentioned below:

(a) MFRS 15: Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111: Construction Contracts, MFRS 118: Revenue, IC Interpretation 13: Customer Loyalty Programmes, IC Interpretation 15: Agreements for Construction of Real Estate, IC Interpretation 18: Transfer of Assets from Customers and IC Interpretation 131: Revenue - Barter Transactions involving Advertising Services. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group has decided to apply MFRS 15 retrospectively with cumulative effect on initially applying this standard as an adjustment to the opening balance of retained earnings as at the date of initial application. Under this transition method, the Group applies this standard retrospectively, only to revenue contracts that are not completed at the date of initial application (i.e. 1 January 2017).

The effect of adopting MFRS 15 is, as follows:

Impact on Statement of Financial Position (increase / (decrease)) as at 31 December 2017:

	RM '000
Current assets	
Trade & other receivables	(27,774)
TOTAL ASSETS	**(27,774)**
Equity attributable to equity holders of the Company	
Retained earnings	3,336
Total equity	3,336
Current liabilities	
Trade & other payables	(31,110)
TOTAL EQUITY AND LIABILITIES	**(31,110)**

Impact on Statement of Profit or Loss (increase / (decrease)) as at 31 December 2017:

	RM '000
Revenue	(27,774)
Cost of Sales	31,110
Total Comprehensive Income for the Period	3,336
Attributable to:	
Equity holders of the parent	3,336

(b) MFRS 9: Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments:

• classification and measurement;
• impairment; and
• hedge accounting.

With the exception of hedge accounting, the Group has applied MFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group does not have other financial assets other than Contract assets and Trade and other receivables, for which the Group has applied the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment in which the business is operating in.

The impact upon application of the new impairment model was not material in relation to the opening balance of the Group as at 1 January 2018.

A4. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors issued an unqualified report on the financial statements for the year ended 31 December 2017.

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 2018.

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 June 2018.

A9. DIVIDEND PAID

The Company paid the following dividends during the period ended 30 June 2018 and year ended 31 December 2017:

	30 June 2018		**31 December 2017**	
	Sen/Share	**RM million**	**Sen/Share**	**RM million**
Final tax exempt dividend in respect of:				
- Financial year ended 31 December 2017 on 8 March 2018	3.0	48.0	-	-

A10. SEGMENT REPORT

Segmental analysis for the current financial period is as follows:

REVENUE AND RESULTS	**Heavy Engineering* RM '000**	**Marine RM '000**	**Others RM '000**	**Eliminations RM '000**	**Total RM '000**
Revenue					
External	249,022	162,292	-	-	411,314
Result					
Operating loss	(36,520)	(32,766)	(4,354) ***	(661) **	(74,301)
Share of results of joint ventures					(766)
Loss before taxation					(75,067)

* Heavy Engineering segment comprises mainly offshore and onshore oil and gas works.
** Inter-segment 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 2018 RM '000	30 June 2017 RM '000	30 June 2018 RM '000	30 June 2017 RM '000
Profit / (Loss) for the period is arrived at after charging:				
Amortisation of land use rights	1,774	1,773	3,548	3,547
Net unrealised loss on foreign exchange	-	6,480	-	17,675
Net fair value loss on derivatives	-	-	-	2,875
Finance costs	-	229	-	456
Property, plant and equipment				
- depreciation	19,346	22,910	38,860	41,351
- written off	545	-	545	-
Allowance for impairment loss on trade receivables	-	1,011	-	1,011
after (crediting):				
Net income from scrap disposal	(426)	(464)	(868)	(1,294)
Interest income	(3,947)	(3,065)	(5,380)	(5,484)
Inventories written back	-	-	-	(3)
Net fair value gain on derivatives	-	(2,583)	-	-
Net unrealised gain on foreign exchange	(5,172)	-	(7,892)	-
Net reversal of impairment loss on trade receivables	(6,810)	-	(4,027)	-
Rental income				
- land	(25)	(18)	(31)	(43)
- building	(689)	(2,460)	(1,973)	(3,293)
- equipments	(94)	(131)	(202)	(245)

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 2017.

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 2018 RM '000	31 Dec 2017 RM '000
Unsecured		
Bank guarantees extended to: -		
- Related companies	107,663	122,950
- Third parties	58,436	138,714
	166,099	261,664

A16. CAPITAL COMMITMENTS

	30 June 2018 RM '000	31 Dec 2017 RM '000
Approved and contracted for	350,597	301,543
Approved but not contracted for	194,015	212,748
	544,612	514,291

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

B1. REVIEW OF PERFORMANCE

	Quarter Ended		Cumulative 6 Months Ended		
	30 June 2018 RM '000	30 June 2017 RM '000	30 June 2018 RM '000	30 June 2017 RM '000	
Revenue					
Heavy Engineering	137,754	157,969	249,022	311,420	
Marine	85,285	99,297	162,292	181,690	
Others	-	306	-	419	
Eliminations/Adjustments	-	(306)	-	(419)	*^
	223,039	257,266	411,314	493,110	
Result					
Heavy Engineering	(23,736)	(22,411)	(36,520)	(46,470)	
Marine	(25,573)	14,371	(32,766)	23,727	
Others	179	(1,934)	(4,354)	(2,916)	
Eliminations/Adjustments	(331)	(331)	(661)	(241)	*#
Operating loss	(49,461)	(10,305)	(74,301)	(25,900)	
Finance cost	-	(229)	-	(456)	
Share of results of joint ventures	(240)	(2,913)	(766)	(4,712)	
Loss before taxation	(49,701)	(13,447)	(75,067)	(31,068)	

		Quarter 30 June 2018	Quarter 30 June 2017	Cumulative 30 June 2018	Cumulative 30 June 2017
*	Inter-segment revenue and transactions are eliminated on consolidation.				
^	Inter-segment revenue elimination				
	Others	-	306	-	419
#	Inter-segment operating loss elimination				
	Heavy Engineering	268	268	535	195
	Marine	63	63	126	46

Performance of current quarter against the quarter ended 30 June 2017 ("corresponding quarter").

The Group recorded a higher operating loss of RM49.5 million from RM10.3 million loss in the corresponding quarter, mainly due to a lower revenue of RM223.0 million against RM257.3 million in the corresponding quarter.

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

Heavy Engineering

Revenue of RM137.8 million was 13% lower than RM158.0 million reported in the corresponding quarter, mainly due to fewer ongoing projects in hand. The Group saw the sailaway of a wellhead platform in the current quarter.

Heavy Engineering recorded an operating loss of RM23.7 million against RM22.4 million loss following the decrease in revenue and additional cost provisions made in the current quarter. However, favourable judgement in arbitration claims for a project helped to cushion the losses for the quarter.

Marine

Revenue of RM85.3 million was lower than RM99.3 million recorded in the corresponding quarter, mainly due to lesser dry docking repair works secured in the current quarter as some ship owners have deferred their dry docking to a later period than planned and lesser revenue due to the sailaway of two (2) FSOs.

Marine recorded an operating loss of RM25.6 million against RM14.4 million profit in the corresponding quarter, mainly due to additional costs incurred on conversion work whilst revenue recognition is still pending verification and approval with clients. Lower dry docking revenue also contributed to the loss for the quarter.

Share of results of joint ventures

The Group recorded a lower share of loss in joint ventures of RM0.2 million against RM2.9 million loss in the corresponding quarter, mainly due to additional cost provisions made in the corresponding quarter.

Performance of current cumulative 6 months against cumulative 6 months ended 30 June 2017 ("corresponding period")

Group revenue of RM411.3 million was 17% lower than the RM493.1 million revenue reported in the corresponding period, mainly due to lower revenue in both Heavy Engineering and Marine segments. The Group recorded higher operating loss of RM74.3 million from RM25.9 million loss in the corresponding period in tandem with the decrease in revenue.

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

Heavy Engineering

Revenue of RM249.0 million was 20% lower than the corresponding period's revenue of RM311.4 million, mainly due to fewer ongoing projects in hand.

The segment posted an operating loss of RM36.5 million from RM46.5 million loss in the corresponding period, mainly due to lower revenue. However, recognition of change orders and finalisation of completed projects moderated the loss in the current period.

Marine

Revenue of RM162.3 million was 11% lower than the corresponding period's revenue of RM181.7 million, mainly due to lesser dry docking repair works secured as some ship owners have deferred their dry docking to a later period than planned and lesser revenue due to the sailaway of two (2) FSOs.

The segment recorded an operating loss of RM32.8 million from RM23.7 million profit in the corresponding period, mainly due to additional costs incurred on conversion works whilst revenue recognition are still pending verification and approval by clients. Lower dry docking revenue also contributed to the loss for the period.

Share of results of joint ventures

Share of loss in joint ventures of RM0.8 million was lower compared to the corresponding period's loss of RM4.7 million, mainly due to additional cost provisions made in the corresponding period.

B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

The Group's revenue of RM223.0 million was 18% higher than the preceding quarter's revenue of RM188.3 million with higher revenue from both Heavy Engineering and Marine segments. Commencement of new order intake and higher revenue from ongoing projects contributed to the increase in Heavy Engineering revenue, while higher dry docking activities contributed to the rise of marine revenue for the quarter. However, the Group reported a higher loss before tax of RM49.7 million against RM25.4 million in the preceding quarter, mainly due to additional costs incurred in the current quarter that are pending claims to be discussed and approved by clients.

B3. CURRENT YEAR PROSPECTS

The overall outlook for the second half of the year is not expected to show much improvement as market recovery continues to be slow and any meaningful opportunities can only be materialised in 2019.

The output cuts initiated by OPEC since 2017 has accelerated the oil market rebalancing and led to an oil price recovery to above USD70 per barrel. The sustained oil price recovery will eventually translate into higher capital expenditure spending by the oil and gas players in the coming years. While there is a growing optimism for an increase in offshore activities, these have yet to trickle down to real opportunities for the Heavy Engineering segment. As such, the Heavy Engineering segment performance is expected to remain under pressure in 2018.

Though emerging markets will lead to LNG demand growth, the opportunities stemming from final investment decision in new LNG projects and expansions to existing LNG projects are not expected to bear fruit immediately. For the second half of 2018, the Group expects improved activity in the marine repair business arising from the deferral of some dry docking activities during the first half of the year. However, the expected results improvement in the Marine segment for the second half of the year is unlikely to turnaround the full year performance of the segment.

The Group will focus on replenishing the order book and pursuing the various claims with clients to fruition.

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 2018 RM '000	30 June 2017 RM '000
Taxation for the year comprises the following:		
Income tax (credit) / charge		
- current period	415	938
- prior year	-	(1,052)
Deferred taxation	-	(29)
	415	(143)

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 2018.

B7. CHANGES IN MATERIAL LITIGATION

The Group had in 2015 initiated an arbitration proceeding for claims arising from the purchase of a land and subsequent novation agreement for a project.

The Asian International Arbitration Centre (AIAC) had in March 2018 decided in favour of the Group and the arbitration award was fully settled with the other party.

B8. DIVIDEND PROPOSED

No dividend has been proposed for the quarter ended 30 June 2018.

B9. DERIVATIVES

There is no derivative outstanding as at 30 June 2018.

B10. EARNING / (LOSS) PER SHARE

	Quarter Ended		Cumulative 6 Months Ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Basic earning per share are computed as follows:				
Loss for the period attributable to equity holders of the Company (RM '000)	(49,481)	(13,701)	(74,754)	(30,309)
Weighted average number of ordinary shares in issue (thousand)	1,600,000	1,600,000	1,600,000	1,600,000
Basic earning per share (sen)	**(3.1)**	**(0.9)**	**(4.7)**	**(1.9)**

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