

**QUARTERLY REPORT**

This is a quarterly report on consolidated results for the period ended 30 June 2020  
The figures have not been audited.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2020**

	QUARTER ENDED		CUMULATIVE 6 MONTHS ENDED	
	30 JUN 2020	30 JUN 2019	30 JUN 2020	30 JUN 2019
	RM '000	RM '000	RM '000	RM '000
Revenue	155,308	276,449	501,747	479,559
Other operating (loss)/income	<u>(9,596)</u>	<u>8,141</u>	<u>(1,524)</u>	<u>12,710</u>
Operating loss	(100,238)	(8,585)	(94,592)	(37,890)
Impairment loss	(300,000)	-	(300,000)	-
Finance cost	-	(203)	-	(403)
Share of results of joint ventures	-	-	-	-
Loss before taxation	<u>(400,238)</u>	<u>(8,788)</u>	<u>(394,592)</u>	<u>(38,293)</u>
Taxation	<u>(101)</u>	<u>(374)</u>	<u>(201)</u>	<u>(629)</u>
Loss after taxation	<u>(400,339)</u>	<u>(9,162)</u>	<u>(394,793)</u>	<u>(38,922)</u>
<b>Other comprehensive income/(loss):</b>				
Fair value through other comprehensive income:				
Changes in fair value	<u>(5,346)</u>	<u>-</u>	<u>3,965</u>	<u>-</u>
<b>Total comprehensive loss for the period</b>	<u>(405,685)</u>	<u>(9,162)</u>	<u>(390,828)</u>	<u>(38,922)</u>
<b>(Loss)/profit attributable to:</b>				
Equity holders of the Company	(397,023)	(9,475)	(390,892)	(38,840)
Non-controlling interests	<u>(3,316)</u>	<u>313</u>	<u>(3,901)</u>	<u>(82)</u>
	<u>(400,339)</u>	<u>(9,162)</u>	<u>(394,793)</u>	<u>(38,922)</u>
<b>Total comprehensive (loss)/income attributable to:</b>				
Equity holders of the Company	(402,369)	(9,475)	(386,927)	(38,840)
Non-controlling interests	<u>(3,316)</u>	<u>313</u>	<u>(3,901)</u>	<u>(82)</u>
	<u>(405,685)</u>	<u>(9,162)</u>	<u>(390,828)</u>	<u>(38,922)</u>
Loss per share attributable to equity holders of the Company:				
(i) Basic (sen)	(24.8)	(0.6)	(24.4)	(2.4)
(ii) Dilutive (sen)	(24.8)	(0.6)	(24.4)	(2.4)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	30 JUN 2020 RM '000	31 DEC 2019 RM '000
Non-current assets		
Property, plant and equipment	1,454,164	1,704,460
Right-of-use assets	220,929	228,002
Investment in joint ventures	9,099	9,099
Deferred tax assets	93,293	93,293
	<u>1,777,485</u>	<u>2,034,854</u>
Current assets		
Inventories	4,412	4,356
Trade & other receivables	493,996	504,102
Derivatives	2,405	-
Tax recoverable	751	751
Cash and bank balances	641,223	673,914
	<u>1,142,787</u>	<u>1,183,123</u>
<b>TOTAL ASSETS</b>	<b><u>2,920,272</u></b>	<b><u>3,217,977</u></b>
Equity attributable to equity holders of the Company		
Share capital	1,618,263	1,618,263
Cash flow hedge reserve	2,405	(1,560)
Retained earnings	364,673	755,565
	<u>1,985,341</u>	<u>2,372,268</u>
Non-controlling interests	5,269	9,170
Total equity	<u>1,990,610</u>	<u>2,381,438</u>
Non-current liabilities		
Borrowing	208,607	178,871
Lease liabilities	9,121	8,600
	<u>217,728</u>	<u>187,471</u>
Current liabilities		
Trade & other payables	711,442	645,503
Lease liabilities	492	2,005
Derivatives	-	1,560
	<u>711,934</u>	<u>649,068</u>
Total liabilities	<u>929,662</u>	<u>836,539</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>2,920,272</u></b>	<b><u>3,217,977</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2020**

	<b>30 JUN 2020</b>	<b>30 JUN 2019</b>
	<b>RM '000</b>	<b>RM '000</b>
Loss before taxation	(394,592)	(38,293)
Adjustments for:		
Property, plant and equipment		
- depreciation	36,012	36,614
- write offs	40	99
- impairment loss	297,698	-
Right-of-use assets		
- amortisation	4,771	3,670
- impairment loss	2,302	-
Allowance/ (reversal) for impairment loss on trade receivables	12,735	(1,144)
Interest income	(7,475)	(7,887)
Net unrealised gain on foreign exchange	(232)	(1,920)
Finance cost	-	403
Operating loss before working capital changes	<u>(48,741)</u>	<u>(8,458)</u>
Inventories	(56)	623
Trade and other receivables	(2,168)	(18,925)
Trade and other payables	64,718	14,850
Cash generated from/(used in) operations	<u>13,753</u>	<u>(11,910)</u>
Tax paid	(201)	(629)
Tax refund	-	2,292
Net cash generated from/(used in) operating activities	<u>13,552</u>	<u>(10,247)</u>
Purchase of property, plant and equipment	(83,454)	(91,621)
Purchase of land use rights	-	(13,837)
Interest received	7,475	7,887
Net cash used in investing activities	<u>(75,979)</u>	<u>(97,571)</u>
Drawdown on long term borrowings	29,736	51,324
Interest paid	-	(403)
Net cash generated from financing activities	<u>29,736</u>	<u>50,921</u>
Net change in cash & cash equivalents	(32,691)	(56,897)
Cash & cash equivalents at the beginning of the year	673,914	601,544
<b>Cash &amp; cash equivalents at the end of the year</b>	<b><u>641,223</u></b>	<b><u>544,647</u></b>
Cash at banks and in hand	85,200	6,000
IFSSC bank balance	450,328	457,980
Deposits with licensed banks	117,877	92,849
	<u>653,405</u>	<u>556,829</u>
Less: Cash pledged with the bank - restricted	(12,182)	(12,182)
	<b><u>641,223</u></b>	<b><u>544,647</u></b>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2020

	←-----Attributable to equity-----> holders of the Company			Total RM '000	Non-controlling Interests RM '000	Total Equity RM '000
	Share Capital RM '000	Distributable Retained Earnings RM '000	Fair Value through OCI Reserve RM '000			
<b>6 MONTHS ENDED 30 JUNE 2020</b>						
<b>At 1 January 2020</b>	1,618,263	755,565	(1,560)	2,372,268	9,170	2,381,438
Fair value through other comprehensive income:						
Changes in fair value	-	-	3,965	3,965	-	3,965
Loss for the period	-	(390,892)	-	(390,892)	(3,901)	(394,793)
<b>At 30 JUNE 2020</b>	<b>1,618,263</b>	<b>364,673</b>	<b>2,405</b>	<b>1,985,341</b>	<b>5,269</b>	<b>1,990,610</b>
<b>6 MONTHS ENDED 30 JUNE 2019</b>						
<b>At 1 January 2019</b>	1,618,263	788,808	-	2,407,071	(259)	2,406,812
Effect of the adoption of pronouncements	-	(556)	-	(556)	(238)	(794)
<b>At 1 January 2019 (Restated)</b>	<b>1,618,263</b>	<b>788,252</b>	<b>-</b>	<b>2,406,515</b>	<b>(497)</b>	<b>2,406,018</b>
Loss for the period	-	(38,840)	-	(38,840)	(82)	(38,922)
<b>At 30 JUNE 2019</b>	<b>1,618,263</b>	<b>749,412</b>	<b>-</b>	<b>2,367,675</b>	<b>(579)</b>	<b>2,367,096</b>

## **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 22 July 2020.

### **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 2020 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 2019. 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 financial year ended 31 December 2019.

### **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 the financial year ending 31 December 2020 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for the financial year ended 31 December 2019.

At the beginning of the current financial year, the Group and the Company adopted new MFRS, 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 2020**

Amendments to MFRS 3: Business Combinations (Definition of a Business)  
Amendments to MFRS 7: Financial Instruments - Disclosure (Interest Rate Benchmark Reform)  
Amendments to MFRS 9: Financial Instruments (Interest Rate Benchmark Reform)  
Amendments to MFRS 101: Presentation of Financial Statements (Definition of Material)  
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)

The adoption of these pronouncements did not have a significant impact to the financial statements of the Group and the Company.

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

The auditors issued an unqualified report on the financial statements for the financial year ended 31 December 2019.

### **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 period under review other than as disclosed in these condensed consolidated interim financial statements.

**A7. CHANGES IN ESTIMATES**

There were no material changes in estimates reported in the current period or prior financial year other than as disclosed in the condensed consolidated statement of comprehensive income.

**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 period ended 30 June 2020.

**A9. INTEREST BEARING LOANS AND BORROWINGS**

The tenure of Group borrowings are as follows:

	30 Jun 2020 RM '000	31 Dec 2019 RM '000
Long term borrowings		
Secured	208,607	178,871
Unsecured	-	-
	<u>208,607</u>	<u>178,871</u>

The Group made a RM29.7 million drawdown on a 12 year term loan meant to fund the construction of Dry Dock No. 3 in the current period.

**A10. DIVIDEND PAID**

The company has not paid any dividends during the period ended 30 June 2020.

**A11. SEGMENT REPORT**

Segmental analysis for the current financial period is as follows:

	Heavy Engineering*	Marine	Others	Eliminations	Total
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>REVENUE AND RESULTS</b>					
<b>Revenue</b>					
External	<u>338,839</u>	<u>162,908</u>	<u>-</u>	<u>-</u>	<u>501,747</u>
<b>Results</b>					
Operating (loss)/profit	<u>(68,545)</u>	<u>(31,474)</u>	<u>5,265</u> ***	<u>162</u> **	<u>(94,592)</u>
Impairment loss					(300,000)
Finance costs					-
<b>Loss before taxation</b>					<u><u>(394,592)</u></u>

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

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

\*\*\* Comprise mainly interest income.

#### A12. LOSS FOR THE PERIOD

	Quarter Ended		Cumulative 6 Months Ended	
	30 Jun 2020 RM '000	30 Jun 2019 RM '000	30 Jun 2020 RM '000	30 Jun 2019 RM '000
<b>Loss for the period is arrived at after charging:</b>				
Right-of-use assets				
- amortisation	2,385	3,670	4,771	3,670
- impairment loss	2,302	-	2,302	-
Net unrealised loss on foreign exchange	3,888	-	-	-
Finance cost	-	203	-	403
Property, plant and equipment				
- depreciation	17,814	16,993	36,012	36,614
- write offs	40	-	40	99
- impairment loss	297,698	-	297,698	-
Allowance for impairment loss on trade receivables	11,799	-	12,735	-
<b>after (crediting):</b>				
Net income from scrap disposal	(438)	(799)	(1,036)	(799)
Interest income	(3,702)	(4,690)	(7,475)	(7,887)
Net unrealised gain on foreign exchange	-	(36)	(232)	(1,920)
Net reversal of impairment loss on trade receivables	-	-	-	(1,144)
Rental income				
- land	(189)	(178)	(397)	(514)
- building	(80)	(398)	(199)	(351)
- equipments	-	(73)	(71)	(130)

#### A13. 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 2019.

#### A14. SUBSEQUENT MATERIAL EVENTS

There were no material events subsequent to the period end date.

#### A15. CHANGES IN THE COMPOSITION OF THE GROUP

Malaysia Marine and Heavy Engineering Sdn. Bhd. ("MMHE"), a wholly-owned subsidiary of the Company, had on 27 February 2020 incorporated a new subsidiary, MHS Integrated Engineering Sdn. Bhd. ("MHSI"), under the Malaysian Companies Act 2016 for the purpose of providing plant turnaround and shutdown maintenance services. MHSI is a 90% owned subsidiary of MMHE.

#### A16. CONTINGENT LIABILITIES

Contingent liabilities of the Group comprise the following :-

	30 Jun 2020 RM '000	31 Dec 2019 RM '000
<b>Unsecured</b>		
Bank guarantees extended to: -		
- Related companies	313,647	326,181
- Third parties	57,880	58,013
	<u>371,527</u>	<u>384,194</u>

## A17. CAPITAL COMMITMENTS

	30 Jun 2020 RM '000	31 Dec 2019 RM '000
Approved and contracted for	140,531	132,701
Approved but not contracted for	57,617	79,862
	<u>198,148</u>	<u>212,563</u>

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 Jun 2020 RM '000	30 Jun 2019 RM '000	30 Jun 2020 RM '000	30 Jun 2019 RM '000
<b>Revenue</b>				
Heavy Engineering	112,054	151,894	338,839	277,320
Marine	43,254	124,555	162,908	202,239
	<u>155,308</u>	<u>276,449</u>	<u>501,747</u>	<u>479,559</u>
<b>Results</b>				
Heavy Engineering	(69,772)	(19,804)	(68,545)	(43,658)
Marine	(30,023)	8,606	(31,474)	1,150
Others	(521)	2,674	5,265	4,739
Eliminations/Adjustments	78	(61)	162	(121) <sup>*#</sup>
<b>Operating loss</b>	<u>(100,238)</u>	<u>(8,585)</u>	<u>(94,592)</u>	<u>(37,890)</u>
Impairment loss	(300,000)	-	(300,000)	-
Finance cost	-	(203)	-	(403)
Share of results of joint ventures	-	-	-	-
<b>Loss before taxation</b>	<u>(400,238)</u>	<u>(8,788)</u>	<u>(394,592)</u>	<u>(38,293)</u>
<sup>*</sup> Inter-segment revenue and transactions are eliminated on consolidation.				
<sup>#</sup> Inter-segment operating profit/(loss) elimination				
Heavy Engineering	(45)	49	(93)	98
Marine	(33)	12	(69)	23

### Performance of current quarter against the quarter ended 30 June 2019 ("corresponding quarter").

The Group recorded revenue of RM155.3 million in the current quarter, decreased by 43.8% from revenue of RM276.4 million in the corresponding quarter mainly due to lower revenue in both segments.

At the operating profit level, the Group reported an operating loss of RM100.2 million compared to RM8.6 million loss in the corresponding quarter mainly due to lower revenue, additional cost provision and associated higher unabsorbed overheads from COVID-19 impact of RM90 million recognised in the current quarter.

The Group's loss before tax for the current quarter widened to RM400.2 million against RM8.8 million in the corresponding quarter mainly due to recognition of impairment loss amounting to RM300.0 million. This is attributable to the collapse in demand for oil and energy owing to the COVID-19 pandemic resulting in most oil and gas companies deferring their upstream projects and cutting their capital spend. Moreover, the impairment is deemed necessary in anticipation of a prolonged recovery in the industry resulting from these exceptional events.

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

#### Heavy Engineering

Revenue of RM112.1 million decreased by 26.2% from RM151.9 million revenue reported in the corresponding quarter, mainly due to lower revenue from ongoing projects as progress was affected by the yard shutdown during the Movement Control Order ("MCO") period.

In tandem with lower revenue, additional cost provision and related higher unabsorbed overheads from COVID-19 pandemic, the segment reported an operating loss of RM69.8 million in the current quarter compared to an operating loss of RM19.8 million in the corresponding quarter.

#### Marine

Marine segment posted RM43.3 million revenue compared to RM124.6m revenue in the corresponding quarter mainly due to lower number of secured vessels as the segment was badly impacted by the yard shutdown during MCO period coupled with pandemic global lockdown measures; restricting the docking of international clients' vessels into the yard.

The segment swung to an operating loss of RM30.0 million from an operating profit of RM8.6 million in the corresponding quarter as the COVID-19 impact had resulted in much lower revenue and higher unabsorbed overheads.

#### Share of results of joint ventures

The Group has not recorded any share of profit in joint ventures in the current quarter as all joint ventures have become dormant.



## B1. REVIEW OF PERFORMANCE (CONT'D.)

### Performance of current year against financial period ended 30 June 2019 ("prior period")

Group revenue of RM501.7 million was 4.6% higher than the prior period revenue of RM479.6 million mainly contributed by an increase in the Heavy Engineering segment's revenue.

The Group posted an operating loss of RM94.6 million; against an operating loss of RM37.9 million in the prior period mainly due to provision made for COVID-19 impact and the associated higher unabsorbed overheads amounting to RM90 million.

The Group recorded loss before tax of RM394.6 million compared to a loss of RM38.3 million in the prior period mainly resulting from impairment loss amounting to RM300.0 million recognised during the period. This is due to the slump in demand for oil and energy arising from the COVID-19 pandemic resulting in most oil and gas companies postponing their upstream projects and slashing their capital spend. Moreover, the impairment is required in light of the expected prolonged recovery in the industry.

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

#### Heavy Engineering

Notwithstanding the progress slippage from the pandemic impact, the segment reported higher revenue of RM338.8 million compared to RM277.3 million in the prior period mainly due to higher revenue from ongoing projects.

The segment registered a higher operating loss of RM68.5 million against RM43.7 million loss in the prior period mainly contributed by additional cost provision and associated higher unabsorbed overheads arising from the COVID-19 pandemic.

#### Marine

Revenue of RM162.9 million was RM39.3 million lower than the prior period revenue of RM202.2 million, mainly contributed by the lower dry docking services following the yard shutdown during the MCO and the Government's border restriction ruling which prohibits international clients from coming to the yard arising from the COVID-19 pandemic.

The segment recorded an operating loss of RM31.5 million against an operating profit of RM1.2 million in the prior period in tandem with the lower revenue and higher unabsorbed overheads.

#### Share of results of joint ventures

The Group has not recorded any share of profit in joint ventures in the current period as all joint ventures have become dormant.

## B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS

	Quarter Ended	
	30 Jun 2020	31 Mac 2020
	RM '000	RM '000
<b>Revenue</b>		
Heavy Engineering	112,054	226,785
Marine	43,254	119,654
	<u>155,308</u>	<u>346,439</u>
<b>Results</b>		
Heavy Engineering	(69,772)	1,227
Marine	(30,023)	(1,451)
Others	(521)	5,786
Eliminations/Adjustments	78	84
<b>Operating (loss)/profit</b>	<u>(100,238)</u>	<u>5,646</u>
Impairment loss	(300,000)	-
Finance cost	-	-
Share of results of joint ventures	-	-
<b>(Loss)/profit before taxation</b>	<u>(400,238)</u>	<u>5,646</u>

The Group's revenue of RM155.3 million was 55.2% lower than the preceding quarter's revenue of RM346.4 million, mainly due to lower revenue from both Heavy Engineering and Marine segments, as a result of the yard suspension during MCO and border restrictions affecting Marine business.

The Group reported an operating loss of RM100.2 million against an operating profit of RM5.6 million in the preceding quarter, mainly due to lower revenue and associated cost impact from COVID-19 of RM90 million recognised in the current quarter.

**B3. REVIEW OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As at 30 Jun 2020 RM '000	As at 31 Dec 2019 RM '000	Variance %
Total assets	2,920,272	3,217,977	-9.3%
Total equity attributable to equity holders of the Company	1,985,341	2,372,268	-16.3%
Total liabilities	929,662	836,539	11.1%

The Group's total assets decreased by RM297.7 million or 9.3%, mainly due to the impairment loss of RM300.0 million coupled with lower cash and bank balances by RM32.7 million.

The decrease in total equity attributable to equity holders by RM386.9 million or 16.3% was due to loss recognised in the current period.

The increase in the Group's total liabilities by RM93.1 million or 11.1% was contributed by higher payables and higher borrowings from the additional disbursement of loan for Dry Dock No. 3.

**B4. REVIEW OF CONSOLIDATED STATEMENT OF CASH FLOWS**

	Cumulative 6 Months Ended		Variance
	30 Jun 2020 RM '000	30 Jun 2019 RM '000	%
Net cash generated from/ (used in) operating activities	13,552	(10,247)	>100%
Net cash used in investing activities	(75,979)	(97,571)	22%
Net cash generated from financing activities	29,736	50,921	-42%
Net change in cash & cash equivalents	(32,691)	(56,897)	43%

The Group generated net cash from operating activities of RM13.6 million compared to net cash used in operating activities of RM10.2 million in the prior period mainly due to higher collection from customers in the current period.

Net cash used in investing activities was lower by RM21.6 million, contributed by lower capital spending in the current period.

Net cash generated from financing activities was lower by RM24.2 million mainly due to lower term loan drawdown in the current period of RM29.7 million.

## B5. CURRENT YEAR PROSPECTS

Whilst the Group has resumed its yard operations from April 2020, its activities are still constrained to the "new normal" with restrictions imposed to ensure that the COVID-19 pandemic is kept under control. The Group is also vigilant on the happenings around the world, mainly in the countries where the Group sourced its supply given the recent resurgence of COVID-19 cases globally, which could have an impact on the progress of its ongoing and bid projects.

The Group sees that the oil price has rebounded modestly on further OPEC+ production cuts and resumption of economic activity from the easing of worldwide COVID-19 pandemic lockdowns. However, the Group expects the oil market revival to be slow and gradual with oil demand not expected to reach pre-pandemic levels for the foreseeable future. Given the prolonged oil market recovery outlook, the Group expects postponement of upstream projects and capital spending cuts by oil majors to persist and thus remains cautious on the prospect of securing new orders for the remainder of the year.

Global LNG demand and trade which are contributing factors to the Group's marine repair activity are also not spared from the ramifications of the COVID-19 pandemic. The slump in LNG demand is being driven by lockdown measures and the negative economic outlook for a number of Asian LNG importers, stemming from the COVID-19 pandemic. Moreover, steeper competition posed by competitors from China and Singapore vying for the limited number of jobs available amidst the current situation would further affect the Group's marine business. As such, the Group expects Marine business to remain uncertain for the rest of the year.

In line with the current challenging industry landscape and outlook, the Group continues to focus on cost management to optimise operating costs. The Group is also prioritising execution and safe delivery of ongoing projects. Additionally, the Group continues to intensify the pursuit of business opportunities in other segments in an effort to replenish its order book.

## B6. 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.

## B7. TAXATION

	30 Jun 2020 RM '000	30 Jun 2019 RM '000
Taxation for the period comprises the following:		
Income tax charge		
- current period	201	255
	<u>201</u>	<u>255</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.

## B8. CHANGES IN MATERIAL LITIGATION

### i) Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE") and E.A. Technique (M) Berhad ("EAT")

MMHE, a wholly owned subsidiary of the Company, and EAT are parties to a contract entered in June 2015 for the Provision of Demolition, Refurbishment and Conversion of Donor Vessel into a Floating, Storage and Offloading Facility for Full Development Project, North Malay Basin (hereinafter referred to as the "Contract").

Disputes and differences have arisen between parties, amongst others, in relation to MMHE's entitlement to payment for additional works completed under the Contract pursuant to the Additional Work Orders ("AWOs"), as well as in relation to a Letter of Undertaking dated 22 June 2018 ("LOU").

A Notice of Arbitration was filed by EAT on 27 September 2018 claiming for the sum of USD21,656,198 being (a) alleged over-payment; (b) refund of sums paid by EAT to MMHE under the LOU; (c) certain costs incurred under the Contract as well as (d) a declaration that MMHE is not entitled to payment for the AWOs.

MMHE disputed EAT's claims and counter claims, amongst others, for the sum of USD49,095,096 being payment for the AWOs, prolongation costs and additional costs incurred due to variations to the original scope of work.

The evidential hearing for the Arbitration was concluded on 6 November 2019. Following the aforesaid, parties were directed to, and have complied with, the filing of written legal submissions whereby the latest written submissions were filed on 2 March 2020. The Arbitral Tribunal has requested that an oral clarification be fixed and this clarification, initially fixed on 31 March 2020, was re-scheduled to, and took place on 16 June 2020 in view of the extended MCO, as announced by the Government. Thereafter, the Tribunal declared the close of proceedings on 10 July 2020.

The Group has and will continue to rigorously defend the claims made by EAT and pursue its counterclaims in the course of the said oral clarification as well as in any other clarifications that the Tribunal may seek.

In parallel to the Arbitration, MMHE also referred part of its claim in the Arbitration to Adjudication proceedings pursuant to the Construction Industry Payment and Adjudication Act 2012 ("CIPAA"). The First Adjudication proceeding was in relation to MMHE's claim for the sum of USD30,211,301 for additional works performed by MMHE pursuant to the Contract in the form of the AWOs. In particular, MMHE seeks payment for invoices raised in Batch 1-34, 36 and 37 in respect of the AWOs, in which MMHE was successful via an Adjudication Decision dated 27 May 2019 ("1st Adjudication Decision"). In the 1st Adjudication Decision, the Adjudicator awarded MMHE, amongst others, the sum of USD21,520,006.

EAT has applied to set aside and/or stay the 1st Adjudication Decision in the High Court of Malaya at Kuala Lumpur ("1st Setting Aside and/or Stay Application"). In turn, MMHE applied to register and enforce the Adjudication Decision ("1st Enforcement Application"). The High Court, on 1 June 2020, dismissed EAT's 1st Setting Aside and/or Stay Application and allowed MMHE's 1st Enforcement Application with costs payable by EAT to MMHE. The 1st Stay Application was part-heard on 13 July 2020. The Hearing is scheduled to continue on 24 August 2020. In the meantime, the High Court Judge has given certain directions relating to further affidavits to the Parties.

On 2 July 2020, EAT served on MMHE sealed Notices of Appeal to the Court of Appeal dated 26 June 2020, seeking to appeal against the High Court's decision in dismissing the 1st Setting Aside Application and allowed MMHE's 1st Enforcement Application.

The Second Adjudication proceeding was in relation to MMHE's claim for the sum of USD6,096,791.91, also for additional works performed by MMHE pursuant to the Contract in the form of AWOs. In particular, MMHE seeks payment for the invoices raised in Batch 38 as well as for a set of works known to Parties as Tank Treatment works. MMHE was successful in this Claim via an Adjudication decision dated 2 December 2019 ("2nd Adjudication Decision"). In the 2nd Adjudication Decision, the Adjudicator awarded MMHE, amongst others, the full claim sum.

MMHE has filed an application on 9 December 2019 to enforce the 2nd Adjudication Decision in the High Court of Malaya at Johor Bahru ("2nd Enforcement Application") whereas EAT has filed an application on 31 December 2019 to set aside and/or stay the 2nd Adjudication Decision ("2nd Setting Aside and/or Stay Application") in the High Court of Malaya at Kuala Lumpur. Affidavits have been exhausted in respect of the Enforcement Application and 2nd Setting Aside and/or Stay Application.

In relation to the 2<sup>nd</sup> Enforcement Application, hearing is fixed on 23 July 2020.

In relation to the 2nd Setting Aside and/or Stay Application, on 25 February 2020, EAT filed an application to consolidate the 1st Setting Aside and/or Stay Application with that of the 2nd Setting Aside and/or Stay Application or, in the alternative, transfer the 2nd Setting Aside and/or Stay Application from Kuala Lumpur Construction Court No. 2 to Kuala Lumpur Construction Court No. 1 ("1st Transfer Application"). MMHE has objected to this Application.

On or about 10 June 2020, EAT subsequently informed Kuala Lumpur Construction Court No. 2 that it intends to withdraw the 1st Transfer Application and will instead seek to transfer the 2nd Setting Aside and/or Stay Application from Kuala Lumpur Construction Court No. 2 to the High Court of Johor Bahru in order for it to be heard together with the 2nd Enforcement Application ("2nd Transfer Application"). MMHE is opposing the 2nd Transfer Application as it will delay the disposal of the 2nd Enforcement Application. Parties are currently exchanging affidavits in relation to the 2nd Transfer Application and a case management has been fixed on 5 August 2020.

## B8. CHANGES IN MATERIAL LITIGATION (CONT'D.)

### ii) Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE") and Kebangsaan Petroleum Operating Company Sdn Bhd ("KPOC")

MMHE, a wholly owned subsidiary of the Company, received on 14 March 2019, via its solicitors, a Notice of Arbitration dated 13 March 2019 from KPOC in relation to claims arising from contracts known to parties as (a) Fabrication of KBB Topsides dated 20 September 2011 (Contract No. KPOC/COC/2009/015); and (b) Novation Agreement dated 30 March 2012, collectively hereinafter referred to as the "Contracts".

KPOC, in its Notice of Arbitration, claims that MMHE was and is in breach of the express and/or implied terms of the Contracts in respect of the supply of certain valves. KPOC has included an indicative amount of its alleged loss in the sum of approximately RM125.1 million in the Notice of Arbitration, and claims that it continues, allegedly, to suffer losses.

On 11 April 2019, MMHE, through its solicitors, filed its Response to the Notice of Arbitration dated 11 April 2019 ("Response"). In the Response, MMHE has denied owing any liability whatsoever to KPOC. MMHE will vigorously defend itself from the claims made by KPOC.

On 11 October 2019, KPOC, through its solicitors, filed the Statement of Claim dated 11 October 2019 ("SOC") and claimed, amongst others, an identified sum of RM93,191,304.29 (which differs from the amount claimed in the Notice of Arbitration i.e RM125.1 million, as previously announced by the Group on 18 March 2019) as loss and damage in respect of the valves procured by MMHE. KPOC further alleged in the SOC that such damage, arising from the procurement of valves, is continuing. MMHE has filed its Statement of Defence on 6 December 2019, following which, KPOC has subsequently filed its Statement of Reply on 17 January 2020. The latter filing marks the close of pleadings as no counterclaim is pursued by MMHE.

Parties have exchanged their respective request for documents and the Tribunal rendered its partial ruling in relation to the requests on 17 July 2020. Parties are currently attending to the Tribunal's rulings under Procedural Protocol No. 2 (Amended) dated 26 June 2020.

The Hearing is scheduled to take place between 17-20 and 30 November 2020, and 1 and 4 December 2020.

Apart from the Arbitration, MMHE reserves its right to pursue any other legal actions as may be permitted under the Malaysian laws, including, if appropriate, to seek indemnity from the ultimate supplier of the said valves.

Based on the parties' respective positions to date in the Arbitration and the evidence reviewed so far, MMHE has been advised by its solicitors that it has good grounds to defend the claim pursued by KPOC and therefore has not made any provisions in respect of this claim.

## B9. DIVIDEND PROPOSED

No dividend has been proposed for the period ended 30 June 2020.

## B10. DERIVATIVES

Details of the Group's derivative financial instruments outstanding as at 30 June 2020 are as follows:

	<b>Contract/ Notional Amount as at 30 Jun 2020 (in RM '000)</b>	<b>Fair Value gain (in RM '000)</b>
Forward foreign currency contracts	256,894	2,405

During the period, the Group recognised a net unrealised derivatives gain of RM3,965,000 in its equity, in relation to the fair value of the cash flow hedges.

## B11. LOSS PER SHARE

	<b>Quarter Ended</b>		<b>Cumulative 6 Months Ended</b>	
	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
Basic loss per share are computed as follows:				
Loss for the period attributable to equity holders of the Company (RM '000)	(397,023)	(9,475)	(390,892)	(38,840)
Weighted average number of ordinary shares in issue (thousand)	1,600,000	1,600,000	1,600,000	1,600,000
<b>Basic loss per share (sen)</b>	<b><u>(24.8)</u></b>	<b><u>(0.6)</u></b>	<b><u>(24.4)</u></b>	<b><u>(2.4)</u></b>

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

## B12. IMPACT OF COVID-19 PANDEMIC AND COLLAPSE IN OIL PRICES

MHB Group's business operations have been adversely impacted by the COVID-19 global pandemic and the measures taken to contain its spread. The Group's operations at its yard in Pasir Gudang were suspended effective 23 March 2020 to comply with the MCO and only resumed operations upon obtaining Government's approval on 16 April 2020, albeit on a slow and ramp-up mode in accordance with Standard Operating Procedures ("SOPs") issued by the Ministry of Health. The MCO and the constraints faced under the "new normal" upon yard resumption has resulted in delays in the execution and completion of the existing projects. The pandemic and measures taken worldwide to contain its spread has also contributed to a significant drop in demand for oil and energy. Coupled with the collapse in oil prices in March 2020, this has led to major oil and gas companies including PETRONAS to announce cuts to CAPEX spending which is expected to affect the Group's ability to secure new order intake in the future.

The impact of the pandemic to the Group's business segments is further detailed below:

- Heavy Engineering:
  - The Group experienced supply chain disruptions as a result of sea and air routes being suspended to and from pandemic countries.
  - Subcontractors and vendors performing jobs for the Group experienced severe cash flow problems and financial distress due to the halt in their business activities and required longer time to re-start their operations. This, to a large extent affected the project delivery timeline.
  - The Group is exposed to potential cost impact as a result of sourcing for alternative supply and acceleration activities to bring projects back on schedule.
- Marine:
  - The Group suffered loss of revenue as a result of resource challenges due to specialists and foreign clients being subjected to travel bans and border restrictions, thus restricting the docking of vessels into the yard.
  - Shipping activities were severely curtailed by ports' stringent measures and border restrictions compounded by the slowdown in vessel movement arising from the global lockdowns, further reducing the number of vessels into the yard.

To mitigate the impact of the above, the Group has taken the following measures:

- Activated alternative supply and continued to expand supply sources, diversified supply chains and critical vendors across different geographical locations.
- Embarked on digital transformation in supply chain processes i.e. online bid submission, digital signature and online approval, dedicated system for final documentation, online invoice processing and virtual meeting via digital platform to resolve any issues with vendors.
- Engaged with affected subcontractors and vendors to provide awareness on applicable stimulus packages to ease their financial burden.
- Entered into contractual discussion with clients on the costs exposure to the projects.
- Recommended to Marine segment's international clients to appoint local project management team to manage the dry-docking repair activities in the yard during the MCO.

### Impact on the Group's cash flows, liquidity, financial position and financial performance

- The yard closure and suspension of operations during MCO has resulted in loss of revenue and higher unabsorbed overheads to the Group in the current quarter, mainly from the lower progress for Heavy Engineering ongoing projects and the inability of Marine segment to secure new vessels.
- The COVID-19 pandemic is estimated to cost the Group RM90 million so far, mainly from the extended project duration, resulting claims from subcontractors and associated unabsorbed overheads.
- In light of the weakening oil demand from the COVID-19 pandemic, the Group has recognised an impairment loss amounting to RM300 million based on its latest business outlook.
- To weather the adverse financial impact, the Group has embarked on several cost reduction and optimisation initiatives as follows:-
  - Group wide austerity drive to reduce costs.
  - Marine subcontractors' costs optimisation via category management and effective tools to improve operational efficiency.
  - Resource optimization initiatives which include freezing the recruitment of all non-critical positions, reducing overtime costs and rationalising organisational activities and processes to adapt to the "new normal".
  - Productivity and efficiency improvement through implementation of capability improvement programs to up-skill the workforce and targeted operational improvement initiatives.
  - Digitalisation initiatives to improve operations which includes the development of the daily work checklist for Marine operations and 4D modelling for Heavy Engineering projects.
- In terms of cash flow and liquidity, the Group has not experienced any major delinquencies in its receivables account. Majority of the clients have been paying on time as per the due date and have not asked for any deferment on their dues.
- The Group's financial position remains healthy at the end of the current quarter with cash balance of RM641 million coupled with low gearing and sizeable order book as well as adequate working capital facilities to remain resilient in the current crisis. As a result, the Group does not anticipate any financial difficulties to meet its debt obligations in the foreseeable future as well as its ability to operate as a going concern. Notwithstanding this, the Group remains steadfast in its efforts to preserve cash through optimizing overheads and CAPEX spending by reducing and deferring all non-critical and non-essential spending.

## **B12. IMPACT OF COVID-19 PANDEMIC AND COLLAPSE IN OIL PRICES (CONT'D)**

### **Impact on the Group's business and earning prospects**

The Group expects the financial performance for the year to be adversely affected by the oil price crash in the first quarter and the ongoing pandemic which saw major oil and gas companies reducing or deferring their CAPEX spending. This has resulted in the project awards earlier planned by the Group for the remainder of the year to be deferred to future years.

Heavy Engineering segment will focus on completing the on-going projects in hand and will take necessary measures to catch-up on the project schedule slippage during the MCO. Marine segment will continue to experience loss of revenue opportunities despite the mitigating actions and is expected to recover once the border restriction is fully lifted by the Government.

In addition, the progress of the Group's ongoing projects which have been adversely affected by the yard shutdown during the MCO may be further hindered by the constraints imposed by the "new normal" coupled with the recent resurgence of COVID-19 globally.

### **COVID-19 health and safety measures at MHB Group facilities**

The Group has implemented all necessary COVID-19 mitigation measures in accordance with SOPs issued by the Ministry of Health such as social distancing at work, workplace segregation, staggered work hours and lunch break, flexible working arrangement including working from home, virtual meetings, temperature checks and regular workplace sanitisation. As part of COVID-19 safety measures, the Group had conducted its first virtual Annual General Meeting on 23 June 2020.