MHB

ANNUAL REPORT **2012**

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD

TRANSFORMATION
for Success

CONTENTS

THE THEME
'TRANSFORMATION FOR SUCCESS'
REFLECTS HOW MHB'S FINANCIAL YEAR 2012 HAS BEEN A YEAR OF HEIGHTENED AMBITION, CHALLENGE AND CHANGE, STRUCTURAL AND SOCIAL INTEGRATION, AND ENHANCED PRODUCTIVITY.

OUR TRANSFORMATION JOURNEY CONTINUES AS WE STRIVE TO ATTAIN AND SUSTAIN A CULTURE OF PRIDE IN HIGH PERFORMANCE.

VISION

A LEADING MARINE AND HEAVY ENGINEERING ORGANISATION OF CHOICE

MISSION

WE ARE AN INTERNATIONAL BUSINESS ENTITY

Our core businesses are:

- *Offshore Construction*
- *Offshore Conversion*
- *Marine repair*

We provide quality products at a competitive price.

We conduct all our activities in a manner that safeguards health, safety and the environment.

Our employees are our greatest asset and we uphold our shared values in everything we do.

SHARED VALUES

LOYALTY

Loyal to the nation and corporation

INTEGRITY

Honest and upright

PROFESSIONALISM

Committed, innovative, proactive and always striving for excellence

COHESIVENESS

United in purpose and fellowship

GROUP FINANCIAL REVIEW

OPERATING PROFIT

Year on year for Financial Year Ended 31 December 2012 ("FYE 2012"), the Group operating profit increased by 19.0% to RM242.8 million due to higher contribution from other operating income as compared to the corresponding period. This cushioned the lower gross profit generated in the FYE from the recognition of a higher than expected cost to complete an on-going conversion project.

EARNINGS PER SHARE (SEN)

Year on year Basic Earnings Per Share ("EPS") increased to 15.1 sen in FYE 2012 from 12.9 sen in corresponding period due to higher profit attributable to the equity holders of the Group. Profit attributable to the equity holders of the Group was RM242.0 million in Financial Period Ended 31 December 2012 ("FPE 2012") as compared to RM205.6 million in corresponding period.

DIVIDENDS

The Group paid a 10 sen per share tax exempt single-tier final dividend in respect of corresponding financial year, totalling RM160.0 million in 4 July 2012.

Upon Shareholders' Approval, the proposed final single-tier dividend of 10 sen per ordinary share amounting to RM160.0 million will be paid on 2 July 2013 to shareholders registered at the close of business on 14 June 2013.

BALANCE SHEETS

The total assets of the Group increased by 7.95% or RM354.8 million to RM4,817.3 million as at 31 December 2012 from RM4,462.5 million as at 31 December 2011. The increase in the Group's total assets was mainly due to higher property, plant and equipment, and trade and other receivables, which is in tandem with the lower cash and bank balances.

The Group's cash and bank balances reduced to RM890.3 million as at 31 December 2012 from RM2,085.6 million as at 31 December 2011, as a result of cash used in operating and investing activities for FYE 2012.

The Group's total receivables of RM2,114.4 million as at 31 December 2012, registered a 86.9% increase in total receivables from RM1,131.3 million as at 31 December 2011.

The Group's saw an increase of RM268.1 million in total liabilities from RM2,038.3 million as at 31 December 2011 to RM2,306.4 million as at 31 December 2012, mainly due to increase in trade and other payables.

SHAREHOLDERS' EQUITY

Shareholders' equity increased to RM2,506.1 million as at 31 December 2012 from RM2,420.6 million as at 31 December 2011.

The increase in shareholders' equity was contributed by total comprehensive income attributable to equity holders of the Company of RM245.5 million; and offset against the payment of final dividend in respect of corresponding financial period of RM160.0 million.

5-YEAR FINANCIAL HIGHLIGHTS

REVENUE

31.12.12	3,329.8
31.12.11	2,137.0
31.03.11	4,435.4
31.03.10	6,147.0
31.03.09	4,201.1

3,329.8
RM MILLION

DIVIDENDS

31.12.12	160.0
31.12.11	80.0
31.03.11	300.0
31.03.10	
31.03.09	

160.0
RM MILLION

SHAREHOLDERS' EQUITY

31.12.12	2,506.1
31.12.11	2,420.6
31.03.11	2,298.4
31.03.10	1,198.4
31.03.09	919.2

2,506.1
RM MILLION

PROFIT BEFORE TAX

31.12.12	217.7
31.12.11	250.8
31.03.11	424.0
31.03.10	377.2
31.03.09	349.0

217.7
RM MILLION

EARNINGS PER SHARE

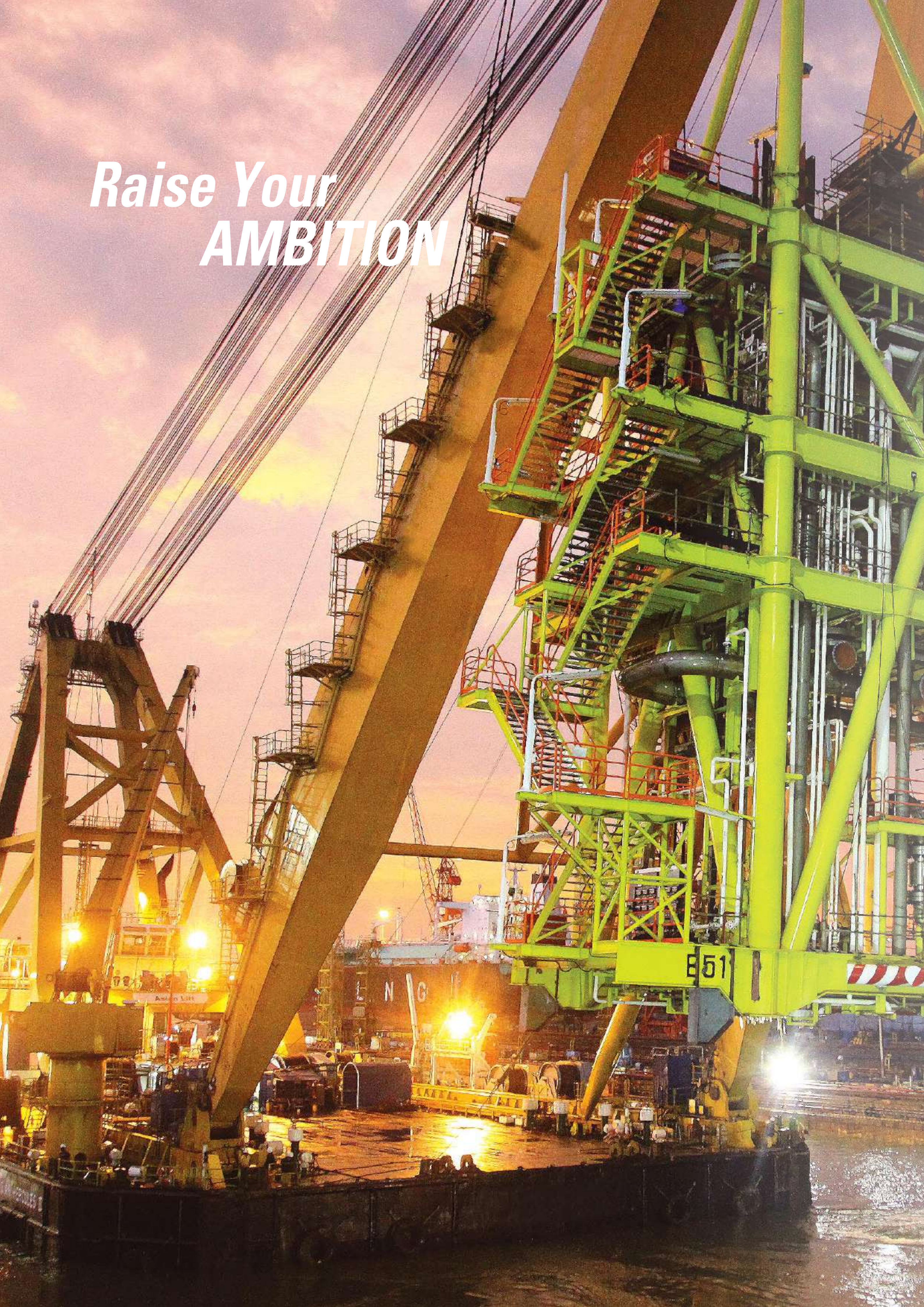
31.12.12	15.1
31.12.11	12.9
31.03.11	31.1
31.03.10	20.9
31.03.09	20.8

15.1
SEN

NTA PER SHARE

31.12.12	1.57
31.12.11	1.52
31.03.11	1.59
31.03.10	0.91
31.03.09	0.70

1.57
SEN


Raise Your
AMBITION
B51

The blueprint for success lies in our ability to analyse the way forward

CORPORATE PROFILE

Malaysia Marine and Heavy Engineering Holdings Berhad (MHB) is a leading offshore and marine services provider in Malaysia, focused primarily on the oil and gas sector. It offers a wide spectrum of offshore construction, offshore conversion and marine repair services at two yards in Pasir Gudang, Malaysia.

Over the span of 40 years, MHB has grown organically while enhancing its capabilities and service offering through strategic partnerships with global leaders such as Technip SA of France, Samsung Heavy Industries of South Korea and ATB Riva of Italy. Today, the Group has a track record of delivering integrated and complex services, including deepwater oil and gas support services, to local and international oil and gas clients. It is also recognised for its expertise in LNG carrier repair and dry docking, and as a one-stop centre for offshore conversion.

CORE BUSINESSES

Offshore Construction

MHB offers a full range of construction and engineering services for the offshore and onshore oil and gas industry, from detailed engineering design and procurement to construction, installation, hook-up and commissioning (EPCIC). Projects include the construction of production topsides, process modules, turrets, floating production systems, mooring buoy systems and mobile offshore storage units.

Offshore Conversion

MHB is a one-stop centre for converting vessels such as VLCCs, Aframax tankers, offshore oil rigs and LNG carriers into floating structures i.e: floating production, storage and offloading units (FPSOs), floating storage and offloading units (FSOs), MOPUs, MODUs and floating storage units (FSUs). Its comprehensive offshore conversion services range from engineering design to fabrication, installation and commissioning of these structures. The MMHE's West yard is the only yard in Malaysia that has completed FPSO and FSO conversion projects.

MMHE West Yard

Marine Repair

MHB has built upon its core capabilities in general vessel repairs to focus on more complex and higher value repair and refurbishment projects such as those for LNG carriers and offshore oil rigs. Its marine repair services include repair, refit and refurbishment of a wide range of vessels, with a focus on energy-related vessels such as ULCCs, VLCCs, petroleum tankers, chemical tankers, offshore oil rigs, gas carriers and other offshore support vessels. Other services include the construction of new built structures such as tender barges, and 'jumboisation' works, which are complex engineering operations to increase the size of a vessel.

CORPORATE HISTORY

MHB was incorporated in Malaysia in 1989 as a private limited company, under the name MSE Holdings Sdn Bhd. In June 2010, when MSE Holdings was converted into a public company, its name was changed to Malaysia Marine and Heavy Engineering Holdings Berhad (MHB). On 29 October 2010, MHB was successfully listed on the Main Market of Bursa Malaysia Securities Berhad, with its Initial Public Offering (IPO) raising of RM2.03 billion. The IPO was the first in Malaysia to be conducted with an international strategic investor, Technip SA of France, a renowned player in project management, engineering and construction in the oil and gas industry.

The history of MHB dates back to the incorporation of its wholly-owned subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) in May 1973, under the name of Malaysia Shipyard and Engineering Sdn Bhd (MSE). MSE was established by the Government to advance Malaysia's maritime industrialisation programme. It was subsequently privatised and in 2006, became a wholly-owned subsidiary of MISC Berhad. Being within the MISC Group of companies enabled the two organisations to align their goals and objectives to create greater synergies.

One of MHB's proudest achievements to-date in September 2006 was the completion of the FPSO Kikeh and the Kikeh Truss SPAR for the Kikeh field, Malaysia's first deepwater project. FPSO Kikeh was the first deepwater FPSO in Malaysia and the SPAR platform was the first to be installed outside of the Gulf of Mexico.

Another milestone was achieved in 2007 when the MHB Group ventured abroad to operate and manage the Kiyanly yard, the only fabrication yard in Turkmenistan, on behalf of PETRONAS Carigali (Turkmenistan) Sdn Bhd.

In April 2012, through the yard optimisation initiative, MHB expanded its yard size and capacity with the acquisition of new land for the fabrication of offshore oil and gas related structures, to cater to EPCIC works. The acquisition has significantly increased MHB's Pasir Gudang yard capacity from 69,700 MT to 129,700 MT, making MHB the largest fabricator in Malaysia today in terms of yard size and capacity. In conjunction with the acquisition, MMHE's yard in Jalan Pekeliling was renamed "MMHE West", while the newly acquired yard is now known as "MMHE East". There are approximately 4,000 operations and services support staff working at both yards in Pasir Gudang as well as in the Group Corporate Office in Menara Dayabumi, Kuala Lumpur on any given day.

CORPORATE PROFILE (cont'd)

FACILITIES IN PASIR GUDANG, JOHOR, MALAYSIA

MMHE WEST YARD

The MMHE West yard is the single largest fabrication yard by annual tonnage capacity in Malaysia. It also boasts one of the largest dry docks in South East Asia.

Key Highlights

- The only yard in Malaysia that has constructed deepwater structures for the oil and gas industry
- The only yard in Malaysia that has completed FPSO/FSO conversions, the first being the FPSO Perintis completed in March 1999
- Pioneered the construction of Malaysia's first deepwater project namely the FPSO Kikeh, which boasts the biggest and heaviest external turret on any FPSO worldwide

WEST YARD		
Capacities	Ability to construct large marine structures with a total tonnage of 69,700 MT per year	
Total Area	150.6 hectare (372 acres) complex with 1.8 km seafront	
Fabrication Area	7 fabrication and assembly areas totaling 488,560 m^2	
Workshops	36 fully equipped service and production workshops covering an area of 102,450 m^2	
Skid Tracks	Skidding facilities that are able to cater up to 55,000 MT	
Docking Facilities	• 2 dry docks accommodating vessels up to 450,000 dwt • Has one of the world's largest shiplift systems that is able to cater up to 50,000 dwt **Others** LNG Carrier Repair Facilities • 3 Global Test Control Rooms • 1 Cryogenic Workshop (560 m^2) • Invar Welding Training Centre • In-house Invar Welders/Fitters	
Landberths	**Land Berth [1]** Length : 345 m Capacity : 142 tonnes/m	**Land Berth [2]** Length : 345 m Capacity: 125 tonnes/m

MMHE EAST YARD

MHB started to operate in MMHE East yard in April 2012 following the acquisition of the yard.

EAST YARD	
Capacities	Ability to construct large marine structures with a total tonnage of 60,000 MT per year
Total Area	46.8 hectare (116 acres) complex with 480 metres seafront
Fabrication Area	3 fabrication and assembly areas totaling 200,700 m^2
Workshops	9 fully equipped service and production workshops covering an area of 19,590 m^2
Skid Tracks	Skidding facilities that are able to cater up to 25,000 MT

MMHE East Yard

CORPORATE INFORMATION

As at 9 April 2013

BOARD OF DIRECTORS

Datuk Nasarudin Md Idris
Chairman,
Non-Independent Non-Executive Director

Dato' Halipah binti Esa
Heng Heyok Chiang @ Heng Hock Cheng
Yong Nyan Choi @ Yong Guan Choi
Choy Khai Choon
Independent Non-Executive Directors

Bernard Rene Francois di Tullio
Yee Yang Chien
Captain Rajalingam a/l Subramaniam
Non-Independent Non-Executive Directors

Dominique de Soras
Managing Director & Chief Executive Officer
Non-Independent Executive Director

BOARD AUDIT COMMITTEE

Dato' Halipah binti Esa
Chairperson

Heng Heyok Chiang @ Heng Hock Cheng
Yong Nyan Choi @ Yong Guan Choi
Choy Khai Choon
Bernard Rene Francois di Tullio

NOMINATION & REMUNERATION COMMITTEE

Heng Heyok Chiang @ Heng Hock Cheng
Chairman

Dato' Halipah binti Esa
Choy Khai Choon
Yee Yang Chien
Captain Rajalingam a/l Subramaniam

BOARD BID COMMITTEE

Heng Heyok Chiang @ Heng Hock Cheng
Chairman

Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio

COMPANY SECRETARIES

Fadzillah binti Kamaruddin (LS 0008989)
Ausmal bin Kardin (LS 0009383)

REGISTERED OFFICE

Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur, Malaysia
Telephone : +603 2273 0266
Facsimile : +603 2273 8916
Email : enquiries@mmhe.com.my
Homepage : www.mhb.com.my

AUDITORS

Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur, Malaysia
Telephone : +603 7495 8000
Facsimile : +603 2095 5332

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Block D13, Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Telephone : +603 7841 8000
Facsimile : +603 7841 8151 / +603 7841 8152

FORM OF LEGAL ENTITY

Incorporated on 18 February 1989 as a private company limited by shares under the Companies Act 1965, and converted into a public company limited by shares on 14 June 2010.

STOCK EXCHANGE LISTING

Listed on the Main Market of Bursa Malaysia Securities Berhad since 29 October 2010.
Stock Code 5186
Stock Name MHB

PLACE OF INCORPORATION AND DOMICILE

Malaysia

GROUP STRUCTURE

As at 9 April 2013

MHB

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD

MMHE

100%

MALAYSIA MARINE AND HEAVY ENGINEERING SDN BHD
Provision of oil and gas engineering and construction works and marine conversion and repair services

TISB

100%

TECHNO INDAH SDN BHD
Sludge disposal management

MMHE SAMSUNG

70%

MMHE-SHI LNG SDN BHD
Provision of repair services and dry docking of liquefied natural gas carriers

MMHE Technip

60%

MMHE-TPGM SDN BHD
Provision of engineering, procurement, construction, installation and commissioning services

MMHE ATB

40%

MMHE-ATB SDN BHD
Manufacturing of pressure vessels and tube heat exchangers

MTSB

100%

MALAYSIA MARINE AND HEAVY ENGINEERING (TURKMENISTAN) SDN BHD
Dormant

TMH

50%

TECHNIP MHB HULL ENGINEERING SDN BHD
Build and develop hull engineering and engineering project management capacities

Subsidiary

Jointly Controlled Entity

BOARD OF DIRECTORS

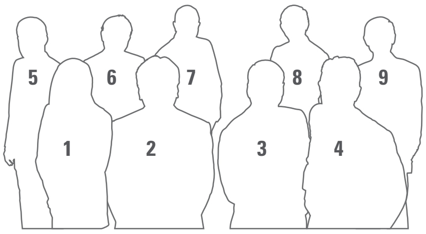
Front row from the left :

1. **DATO' HALIPAH BINTI ESA**
   Independent Non-Executive Director

2. **DATUK NASARUDIN MD IDRIS**
   Chairman,
   Non-Independent Non-Executive Director

3. **BERNARD RENE FRANCOIS DI TULLIO**
   Non-Independent Non-Executive Director

4. **DOMINIQUE DE SORAS**
   Managing Director & Chief Executive Officer
   Non-Independent Executive Director



Back row from the left :

5. CHOY KHAI CHOON
Independent Non-Executive Director

6. YONG NYAN CHOI @ YONG GUAN CHOI
Independent Non-Executive Director

7. CAPTAIN RAJALINGAM SUBRAMANIAM
Non-Independent Non-Executive Director

8. YEE YANG CHIEN
Non-Independent Non-Executive Director

9. HENG HEYOK CHIANG @ HENG HOCK CHENG
Independent Non-Executive Director

PROFILE OF DIRECTORS

DATUK NASARUDIN MD IDRIS
Chairman, Non-Independent Non-Executive Director

Datuk Nasarudin Md Idris, a Malaysian, aged 57, was appointed as the Chairman of the Board of MHB on 15 June 2010. He graduated from the University of Malaya with a Bachelor of Arts (Honours) Degree, and holds a Masters Degree in Business Administration from Henley-The Management College (Brunel University), United Kingdom. He had also attended the Stanford Executive Programme at Stanford University, United States of America.

Datuk Nasarudin is currently the President and Chief Executive Officer of MISC Berhad, a subsidiary of Petroliam Nasional Berhad (PETRONAS). He joined PETRONAS in 1978, and had held various positions within the PETRONAS Group including as Vice President, Corporate Planning and Development; Group Chief Executive Officer of KLCC Holdings Berhad; Senior General Manager, Corporate Planning and Development Division; Executive Assistant to the President; General Manager, Marketing of PETRONAS Dagangan Berhad; General Manager, Corporate Development; and General Manager, Group Strategic Planning.

Datuk Nasarudin is the Chairman of several major subsidiaries within MISC Group including AET Tanker Holdings Sdn Bhd, Malaysian Maritime Academy Sdn Bhd, and MISC Integrated Logistics Sdn Bhd. He is also a Management Committee member of PETRONAS and a Director of Bintulu Port Holdings Berhad and NCB Holdings Berhad.

DATO' HALIPAH BINTI ESA

Independent Non-Executive Director

Dato' Halipah Esa, a Malaysian, aged 63, was appointed to the Board of MHB on 1 April 2007. She received her Bachelor of Arts (Honours) Degree in Economics and a Master of Economics from the University of Malaya. She also holds Certificates in Economic Management from the IMF Institute, Washington and the Kiel Institute for World Economics, Germany as well as a Certificate in Advanced Management Programme from Adam Smith Institute, London.

She started her career with the Administrative and Diplomatic Services in 1973 in the Economic Planning Unit (EPU) of the Prime Minister's Department. During her tenure in EPU, she served in various capacities in the areas of infrastructure, water supply, energy, health, housing, telecommunications, urban services, human resource development, macro economy, international economy, environment, regional development and distribution. She held various senior positions in the EPU and was the Director General before retiring in 2006. She had also served in the Ministry of Finance as Deputy Secretary General.

She is currently the Chairperson of Cagamas SME Bhd and serves on the boards of MISC Berhad, KLCC Property Holdings Berhad, Northport (Malaysia) Bhd, Malaysia Deposit Insurance Corporation and the Securities Industry Dispute Resolution Centre.

She was previously the Chairman of Pengurusan Aset Air Berhad and had also served on the boards of Petroliam Nasional Berhad, Employees Provident Fund, Inland Revenue Board, FELDA and UDA Holdings Berhad. She was a consultant to the World Bank and United Nations Development Programme in advising the Royal Kingdom of Saudi Arabia on economic planning, and had also provided technical advice to planning agencies in Vietnam, Cambodia, Indonesia and several African countries.

Dato' Halipah chairs the Board Audit Committee and is a member of the Nomination & Remuneration Committee of the Board.

PROFILE OF DIRECTORS (cont'd)

HENG HEYOK CHIANG @ HENG HOCK CHENG
Independent Non-Executive Director

Mr Heng Hock Cheng, a Malaysian, aged 63, was appointed to the Board of MHB on 15 June 2010. He holds a Bachelor of Science (Honours) Degree in Chemical Engineering from the University of Birmingham, United Kingdom in 1972.

Mr Heng is a Director of AET Tankers Holdings Sdn Bhd, AET Shipmanagement (Malaysia) Sdn Bhd and AET Shipmanagement (Singapore) Pte Ltd. He is also a member on the Board of Employees Provident Fund (EPF) and an Independent Director of Otto Marine Limited (Singapore).

Mr Heng retired from Shell in October 2006 after 34 years of service, spanning Upstream, Downstream and Gas & Power divisions. He had served with various Shell entities in Malaysia, United Kingdom, Holland and China, holding positions including the Technical Director of Sarawak Shell Berhad/Sabah Shell Petroleum Co. Ltd, the Managing Director of Shell Gas & Power Malaysia and the Chairman of Shell China based in Beijing.

Mr Heng is the Chairman of the Nomination & Remuneration Committee and the Board Bid Committee. He is also a member of the Board Audit Committee.

YONG NYAN CHOI @ YONG GUAN CHOI

Independent Non-Executive Director

Mr Yong Nyan Choi, a Malaysian, aged 60, was appointed to the Board of MHB on 14 January 2011. He was awarded a Master's Degree in Business Administration in 1995 and a Bachelor of Science Degree in Civil Engineering in 1976, both from the University of Strathclyde, Glasgow, United Kingdom. He obtained his Diploma in Civil Engineering from Technical College, Kuala Lumpur in 1972.

He began his career in 1972 as Engineering Assistant at Public Works Department Sarawak, Executive Engineer, Konsortium Malaysia, Kuching and joined Shell in 1978 where he held various positions in Malaysia and abroad before being appointed as the General Manager of Shell China Sourcing in China until his retirement in 2008. Currently, he manages his own management consultancy business.

Mr Yong is a member of the Board Audit Committee and the Board Bid Committee.

PROFILE OF DIRECTORS (cont'd)

CHOY KHAI CHOON

Independent Non-Executive Director

Mr Choy Khai Choon, a Malaysian, aged 55, was appointed to the Board of MHB on 5 February 2013. He graduated from the University of New South Wales, Australia with a Bachelor of Commerce and holds a Master in Business Administration from Oklahoma City University, United States of America. He has attended the General Management Programme at INSEAD, France over a period of 2 years from 2001 to 2002. He is a fellow of the Australian CPA and a member of the Malaysian Institute of Accountants.

Mr Choy has extensive experience in the financial sector and had served as the President/Chief Executive Officer of Cagamas Berhad for 6 years before retiring in March 2012. Prior to that, he was the Senior General Manager, Group Head, Business Reengineering with RHB Banking Group and had held various senior positions with Aviva Insurance Group and Credit Corporation Malaysia Berhad. Mr Choy is currently a Director of Deutsche Bank (Malaysia) Berhad.

He is a member of the Board Audit Committee and the Nomination & Remuneration Committee.

BERNARD RENE FRANCOIS DI TULLIO

Non-Independent Non-Executive Director

Mr Bernard di Tullio, a French, aged 63, was appointed to the Board of MHB on 22 November 2010. He graduated from the Ecole Special De Mecanique D'eletricite (ESME) Paris as a Graduate Engineer in Mechanical/Electrical in 1974 and from the Institute D'administration Des Enterprise Paris Dess in Management in 1978.

Mr di Tullio was appointed as Advisor to the Chairman and Chief Executive Officer of Technip in November 2011. He has been with Technip Group for 37 years, having served 24 years in Technip Geoproduction (M) Sdn Bhd (TPGM). Prior to his current position, he was the President & Chief Operating Officer of Technip (2005-2011); President & Chief Executive Officer, Asia Pacific, Technip Group (1998 – 2005); President & Chief Operating Officer of TPGM and the Managing Director, Technip Far East Sdn Bhd (1986 – 2005).

Mr di Tullio is a member of the Board Audit Committee and the Board Bid Committee.

PROFILE OF DIRECTORS (cont'd)

CAPTAIN RAJALINGAM SUBRAMANIAM

Non-Independent Non-Executive Director

Captain Rajalingam Subramaniam, a Malaysian, aged 47, was appointed to the Board of MHB on 15 June 2010. He holds a Master's Degree in Business Administration from Universiti Utara Malaysia and a Master Certificate of Competency – Foreign Going from Akademi Laut Malaysia (ALAM), a wholly-owned subsidiary of MISC Berhad.

Captain Rajalingam gained admission into ALAM as a cadet officer in 1983 and subsequently sailed on MISC vessels as a Sea Going Officer. Between 1996 and 2008, he was assigned various responsibilities in MISC Berhad and AET Shipmanagement (Singapore) Pte Ltd. He was then appointed as Vice President of Fleet Management Services in 2008. In November 2009, he was appointed as Honorary Commander of the Royal Malaysian Navy in recognition of MISC's support to the Naval Reservist Program and his role as Patron of MISC's Naval Reservist. Captain Rajalingam was elected as the Vice Chairman of the International Tanker Owners' Association (INTERTANKO) in 2012 and was appointed as a Director of The London P & I Club in 2010.

He also sits as board member of Malaysia Marine and Heavy Engineering Sdn Bhd, a wholly-owned subsidiary of the Company, as well as several subsidiaries and joint venture companies within the MISC Berhad Group.

Captain Rajalingam is a member of the Nomination & Remuneration Committee of the Board.

YEE YANG CHIEN

Non-Independent Non-Executive Director

Mr Yee Yang Chien, a Malaysian, aged 45, was appointed to the Board of MHB on 1 April 2008. He holds a Degree in Financial Accounting/Management and Economics from the University of Sheffield, United Kingdom.

Mr Yee is the Vice President, Corporate Planning and Development of MISC Berhad. He was an auditor prior to being involved in the equity research and investment banking arena with various local and international financial institutions such as HLG Capital Berhad and Merrill Lynch (Malaysia) over a span of 10 years. He had since focused mainly on corporate planning work with emphasis on strategic planning, mergers and acquisitions and risk management. He had also served MISC Berhad for 2 years since 2003 in which he was involved in the acquisition of the current MISC Berhad's subsidiary, AET Group (AET). He had also served as Group Vice President of Corporate Planning, AET from June 2005 prior to rejoining MISC Berhad.

Mr Yee also sits on the board of Malaysia Marine and Heavy Engineering Sdn Bhd, a wholly-owned subsidiary of the Company, as well as several subsidiaries and joint venture companies within the MISC Berhad Group.

Mr Yee is a member of the Nomination & Remuneration Committee of the Board.

PROFILE OF DIRECTORS (cont'd)

DOMINIQUE DE SORAS
Managing Director & Chief Executive Officer

Mr Dominique de Soras, a French, aged 56, was appointed to the Board of MHB on 1 February 2011. He graduated with an Engineering Degree and MSc in Mechanical Engineering from Ecole catholique de Arts et Metiers (ECAM) in Lyon, France.

Mr de Soras has 21 years of experience in the oil and gas industry which covers areas of petroleum engineering, operations management, commercial and major projects in the oil and gas industry. He has broad experience in senior executive roles within the contracting oil and gas industry in business development, acquisitions and major project delivery and in general management of asset base organisation with large capital expenditure budget, implying definition of a clear strategic objective to maintain and grow the asset base. Prior to joining the Company, Mr de Soras was the President, Subsea Division of Technip (2007 – 2010), Executive Vice President, Oil and Gas Division of Technip (2006 – 2007) and Vice President, Offshore Resources Profit Unit of Technip Offshore UK Limited (2001 – 2006). He was also a member of Technip's Executive Committee. He has worked with the Conflexip Group since 1982 until 2006, having held various senior positions.

Mr de Soras is the Chairman of several subsidiaries and jointly controlled entities of the MHB Group.

ADDITIONAL INFORMATION:

1. *None of the Directors has any family relationship with any other Directors and/or major shareholders of the Company or has any conflict of interest with the Company.*

2. *None of the Directors has convictions for offences within the past ten years.*

3. *The details of Directors' attendance at Board Meetings held in the financial year ended 31 December 2012 are set out in the Statement on Corporate Governance on page 68 of the Annual Report.*

MANAGEMENT COMMITTEE

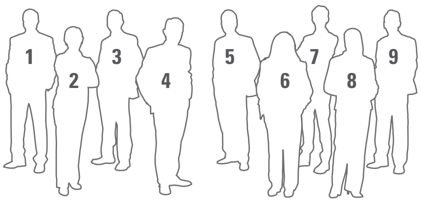
From the left :

1. **CAPTAIN SELVA KUMAR VEERAPPAN**
   Chief Transformation Officer

2. **WAN MASHITAH WAN ABDULLAH SANI**
   Chief Financial Officer

3. **AHMAD ZAKI ABD MALIK**
   Senior General Manager,
   Marine Repair Business Unit

4. **DOMINIQUE DE SORAS**
   Managing Director & Chief Executive Officer



5. AUSMAL KARDIN
General Manager, Legal

6. ROOYAHAITI YAKUB
General Manager, Human Resource

7. MATHIAS BRUNEAU
Senior General Manager, Offshore Business Unit

8. HASINAH KAMRUDIN
General Manager, Supply Chain Management

9. MANOEL FRANCISCO AVELINO GOMES
General Manager, Business Development & Special Projects

PROFILE OF MANAGEMENT COMMITTEE

MATHIAS BRUNEAU

Senior General Manager, Offshore Business Unit

Mr Mathias Bruneau was appointed as the Senior General Manager, Offshore Business Unit in Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE") on 10 October 2012. Prior to joining MMHE, Mr Bruneau was the Chief Operating Officer of the Offshore Business Unit of Technip North America, covering in particular the management of the Pori SPAR Fabrication Yard in Finland. He has 20 years of working experience in the international offshore industry, lived and worked in Europe, America, Africa and Asia.

AHMAD ZAKI ABD MALIK

Senior General Manager,
Marine Repair Business Unit

Encik Ahmad Zaki Abd Malik was appointed as the Senior General Manager, Operations of Malaysia Marine and Heavy Engineering Sdn Bhd on 1 April 2010 and his position was redesignated as Senior General Manager, Marine Repair Business Unit in April 2012. He joined MISC Berhad in December 2000 and had held various positions with his last position as General Manager, Maintenance of Fleet Management Services. In 1984, he graduated from South Shield Marine and Technical College, South Shield, England with a Diploma in Marine Engineering. He obtained his First Class Marine Engineer Certificate of Competency from the United Kingdom. He is a Director of Techno Indah Sdn Bhd, a subsidiary of the Company.

WAN MASHITAH WAN ABDULLAH SANI

Chief Financial Officer

Cik Wan Mashitah Wan Abdullah Sani was appointed as the Chief Financial Officer (CFO) of MHB on 30 June 2010. She was the CFO of Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) since May 2010. She joined MISC Berhad in 2002 and held various positions with her last position being the General Manager, Finance before being seconded to MMHE. Her former experience before joining the MISC Group was as a professional accountant at Grant Thornton, Malaysia. Cik Wan Mashitah is an accountant by profession. She is a fellow of the Chartered Association of Certified Accountants, United Kingdom and a member of the Malaysian Institute of Accountants (MIA). Cik Wan Mashitah sits on the board of several subsidiaries and jointly controlled entities of the MHB Group.

CAPTAIN SELVA KUMAR VEERAPPAN

Chief Transformation Officer

Captain Selva Kumar Veerappan was appointed as the Chief Transformation Officer of MHB on 1 May 2012. He joined the MISC Group in 1980 and has 32 years of experience in the LNG, petroleum and chemical tanker transportation sector. He has vast international experience in the same sectors, having worked in Holland, Nigeria and the UK on commercial assignments. Prior to this appointment with MHB, Captain Selva was the General Manager of Ship Management Audit MISC. Captain Selva holds a Diploma in Applied Science (Shipmaster) and Master Mariner Certificate of Competency (Master Class 1 (1990)) from the Australian Maritime College in Tasmania.

MANOEL FRANCISCO AVELINO GOMES

General Manager, Business Development & Special Projects

Mr Manoel Francisco Avelino Gomes was appointed as the General Manager, Marketing & Sales on 30 June 2010 and in April 2012, his position was redesignated as General Manager, Business Development & Special Projects. He began his career with Jurong Engineering Pte Ltd, Singapore in 1976 before joining Malaysia Marine and Heavy Engineering Sdn Bhd in 1981 as Head of Projects, Shipbuilding and rose to Senior Manager and later Director of Shipbuilding & Conversion. Mr Manoel Gomes holds a Master's Degree in Business Administration from Brunel University, United Kingdom and a Bachelor of Engineering (Mechanical) Degree from the University of Singapore. He is a member of the Institute of Engineers, Malaysia and also a registered Professional Engineer (Mechanical) with the Board of Engineers, Malaysia (BOEM).

He is also Member and Chartered Marine Engineer of The Institute of Marine Engineering, Science and Technology United Kingdom. He is a Director of a subsidiary and several jointly controlled entities of the MHB Group.

AUSMAL KARDIN

General Manager, Legal

Encik Ausmal Kardin was appointed as the General Manager, Legal, Corporate Secretarial & Administration and also the Company Secretary of MHB on 30 June 2010. His position was redesignated as General Manager, Legal in April 2012. He joined Malaysia Marine and Heavy Engineering Sdn Bhd in March 2010 as General Manager, Legal & Administration. He started his career with MISC Berhad in 1994 where he held various positions within the Legal & Corporate Secretarial Affairs Division. His last position in MISC Berhad was as Senior Manager, Maritime Legal Services before joining Bumi Armada Berhad as Vice President, Legal & Secretarial in 2005. Encik Ausmal graduated with a Bachelor Degree in Law from the University of Wales, Aberystwyth and is also a licensed Company Secretary. Encik Ausmal is also the Company Secretary of the subsidiaries and jointly controlled entities of the MHB Group.

ROOYAHAITI YAKUB

General Manager, Human Resource

Puan Rooyahaiti Yakub joined Malaysia Marine and Heavy Engineering Sdn Bhd in July 2010 as the General Manager, Human Resource. She has worked in various industries namely, manufacturing, telecommunication, engineering and construction holding positions within the human resource management and development. She holds a Master's Degree specialising in Human Resource Development from the University of Hull, United Kingdom.

HASINAH KAMRUDIN

General Manager, Supply Chain Management

Puan Hasinah Kamrudin joined Malaysia Marine and Heavy Engineering Sdn Bhd in October 2011 as the General Manager, Procurement Division. The Division was subsequently re-organized to become Supply Chain Management Division following the integration exercise. Puan Hasinah graduated with a Bachelor of Science in Quantity Surveying at Central England University in Birmingham, United Kingdom. She has now acquired a Professional Certificate in Management (PETRONAS) from the University of Melbourne. She began her career in Malaysia in PETRONAS whereby she spent 12 years in various positions. Mainly her roles revolve in executing and managing the contracting and procurement services for project management. She had been assigned to work in major EPCC Contractors' offices in United Kingdom, Germany and India. The later part of her stint in PETRONAS revolve around contracting and procurement governance while posted to the Group. She then moved to head the contracting and procurement department of Total E&P Malaysia, the country office for Total SA, France, where she oversaw the exploration drilling contracting and procurement activities. Prior to joining MMHE, she served Sapura Crest Petroleum Berhad as the General Manager, Subcontracting Services; mainly managing a team to oversee the supply of services for offshore installation operation.

STATISTICS ON SHAREHOLDINGS

As at 9 April 2013

Authorised Share Capital	: RM2,500,000,000.00 divided into 5,000,000,000 ordinary shares of RM0.50 each
Issued and Paid-up Share Capital	: RM800,000,000.00 divided into 1,600,000,000 ordinary shares of RM0.50 each
Class of Shares	: Ordinary shares of RM0.50 each
Voting Rights	: One vote per ordinary share

ANALYSIS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	43	0.63	427	0.00
100 – 1,000	2,001	29.44	1,799,276	0.11
1,001 – 10,000	3,868	56.92	15,134,038	0.95
10,001 – 100,000	729	10.73	21,229,221	1.33
100,001 to less than 5% of issued shares	152	2.24	277,447,038	17.34
5% and above of issued shares	3	0.04	1,284,390,000	80.27
Total	**6,796**	**100.00**	**1,600,000,000**	**100.00**

DIRECTORS' INTERESTS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS

Shares held in the Company

Name of Directors	No. of Shares		% of Issued Share Capital
	Direct Interest	Deemed Interest	
Datuk Nasarudin Md Idris	10,000	-	0.00
Dato' Halipah Esa	10,000	10,000	0.00
Heng Heyok Chiang @ Heng Hock Cheng	10,000	-	0.00
Yong Nyan Choi @ Yong Guan Choi	10,000	-	0.00
Captain Rajalingam Subramaniam	10,000	-	0.00
Dominique de Soras	10,000	-	0.00

Shares held in the related companies

Name of Directors	No. of Shares		% of Issued Share Capital
	Direct Interest	Deemed Interest	
Shares held in MISC Berhad			
Dato' Halipah Esa	-	10,000	0.00
Heng Heyok Chiang @ Heng Hock Cheng	20,000	-	0.00
Yong Nyan Choi @ Yong Guan Choi	10,000	-	0.00
Shares held in KLCC Property Holdings Berhad			
Datuk Nasarudin Md Idris	5,000	-	0.00
Heng Heyok Chiang @ Heng Hock Cheng	40,000	-	0.00
Shares held in PETRONAS Gas Berhad			
Datuk Nasarudin Md Idris	3,000	-	0.00
Shares held in PETRONAS Chemicals Group Berhad			
Datuk Nasarudin Md Idris	10,000	-	0.00
Dato' Halipah Esa	10,000	13,100	0.00

SUBSTANTIAL SHAREHOLDERS ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

No.	Name of Substantial Shareholders	No. of Shares	% of Issued Share Capital
1	MISC Berhad	1,064,000,000	66.50
2	Technip (Held through HSBC Nominees (Asing) Sdn Bhd)	136,000,000	8.50
3	Lembaga Tabung Haji (226,600 shares held by AmIslamic Fund Management Sdn Bhd)	84,616,600	5.29

STATISTICS ON SHAREHOLDINGS (cont'd)

30 LARGEST SHAREHOLDERS

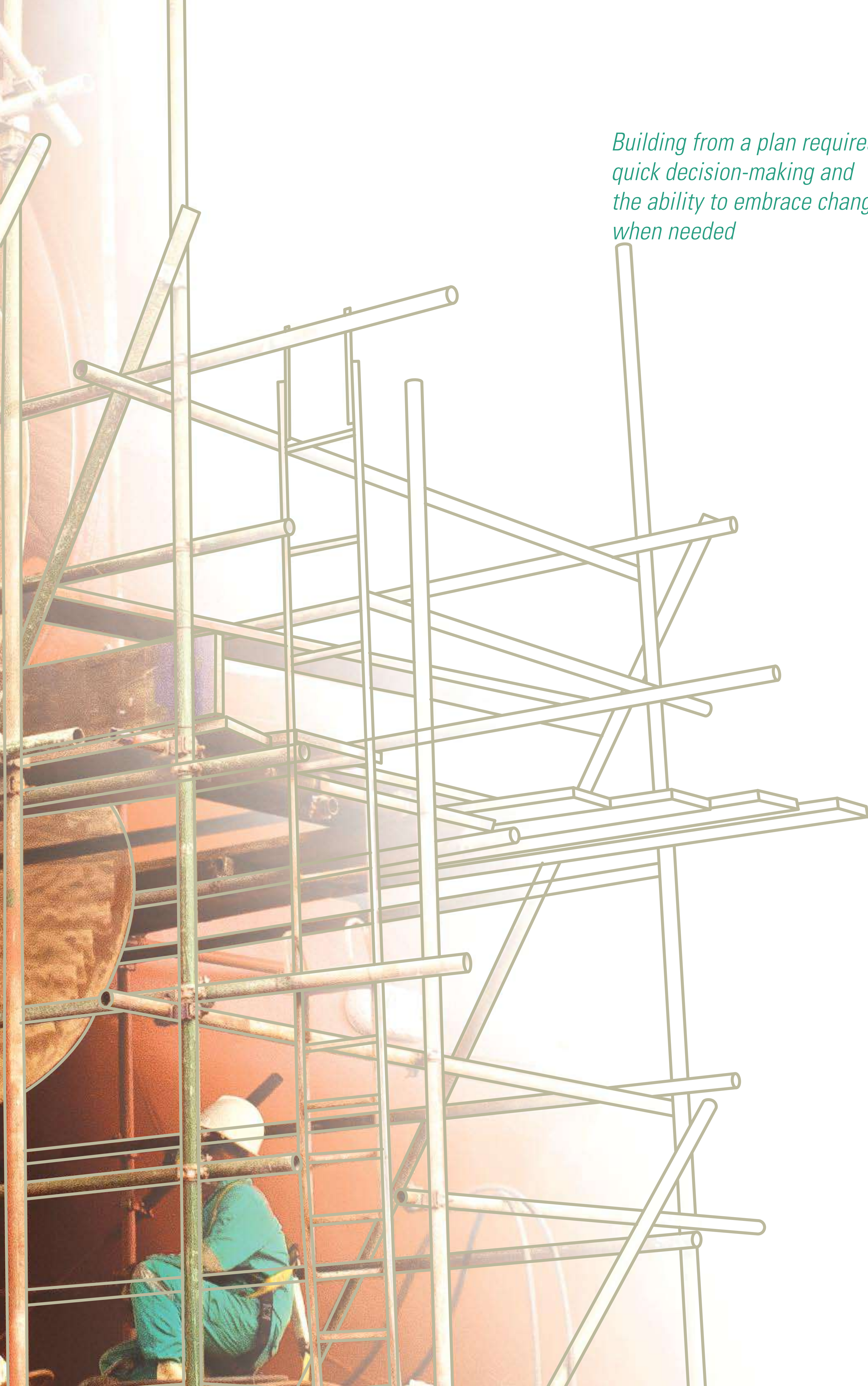
No.	Name of Shareholders	No. of Shares	% of Issued Share Capital
1	MISC Berhad	1,064,000,000	66.50
2	HSBC Nominees (Asing) Sdn Bhd Technip	136,000,000	8.50
3	Lembaga Tabung Haji	84,390,000	5.27
4	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	53,312,800	3.33
5	Amanahraya Trustees Berhad Skim Amanah Saham Bumiputera	38,706,900	2.42
6	Valuecap Sdn Bhd	14,987,900	0.94
7	Cartaban Nominees (Asing) Sdn Bhd Exempt AN For State Street Bank & Trust Company (West CLT OD67)	14,903,000	0.93
8	Lembaga Tabung Angkatan Tentera	14,043,500	0.88
9	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	12,739,200	0.80
10	Kumpulan Wang Persaraan (Diperbadankan)	12,563,900	0.79
11	HSBC Nominees (Asing) Sdn Bhd BBH And Co Boston For Vanguard Emerging Markets Stock Index Fund	9,416,435	0.59
12	Amanahraya Trustees Berhad AS 1Malaysia	9,365,900	0.58
13	HSBC Nominees (Asing) Sdn Bhd Exempt AN For JPMorgan Chase Bank, National Association (U.A.E.)	5,299,320	0.33
14	Cartaban Nominees (Asing) Sdn Bhd Government Of Singapore Investment Corporation Pte Ltd For Government Of Singapore (C)	4,450,842	0.27
15	Pertubuhan Keselamatan Sosial	4,121,000	0.26
16	Amanahraya Trustees Berhad Sekim Amanah Saham Nasional	3,816,800	0.24
17	HSBC Nominees (Asing) Sdn Bhd BNY Brussels For City Of New York Group Trust	3,619,700	0.23
18	Permodalan Nasional Berhad	3,438,200	0.21

30 LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholders	No. of Shares	% of Issued Share Capital
19	Amanahraya Trustees Berhad Public Islamic Equity Fund	3,367,400	0.21
20	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Nomura)	2,977,300	0.19
21	AMSEC Nominees (Tempatan) Sdn Bhd AMTrustee Berhad For CIMB Islamic Dali Equity Growth Fund (UT-CIMB-DALI)	2,938,300	0.18
22	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	2,866,400	0.18
23	HSBC Nominees (Asing) Sdn Bhd Exempt AN For JPMorgan Chase Bank, National Association (U.S.A.)	2,728,068	0.17
24	Amanahraya Trustees Berhad Public Islamic Dividend Fund	2,684,300	0.17
25	Citigroup Nominees (Asing) Sdn Bhd Legal & General Assurance (Pensions Management) Limited (A/C 1125250001)	2,027,100	0.13
26	HSBC Nominees (Asing) Sdn Bhd Exempt AN For J.P. Morgan Bank (Ireland) Public Limited Company	1,817,378	0.11
27	Cartaban Nominees (Asing) Sdn Bhd SSBT Fund ZVMY For Malaysia MSCI Index Common Trust Fund	1,749,100	0.11
28	Amanahraya Trustees Berhad Public Islamic Select Enterprises Fund	1,661,100	0.10
29	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (AM INV)	1,546,000	0.10
30	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chocolate Sales & Supplies Sdn Bhd	1,500,000	0.09
	Total	**1,517,037,843**	**94.81**


Leverage Your
STRENGTH

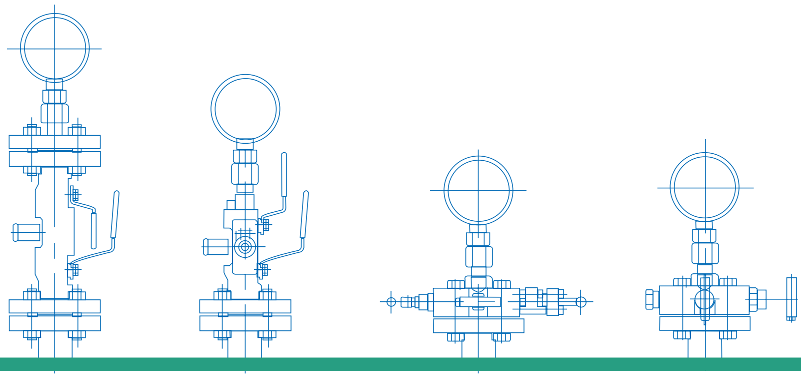
Building from a plan requires quick decision-making and the ability to embrace change when needed



CHAIRMAN'S STATEMENT

THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 HAS BEEN A YEAR OF CONSOLIDATION FOR MHB. IT HAS BEEN A YEAR WHEREBY WE FOCUSED ON STRENGTHENING THE CORE FOUNDATIONS OF OUR BUSINESS IN OUR QUEST TO BECOMING ONE OF THE LEADING HEAVY AND MARINE ENGINEERING SERVICES PROVIDER IN THE REGION.

DATUK NASARUDIN MD IDRIS
Chairman, Non-Independent Non-Executive Director



Dear Shareholders,

The year under review saw stagnating growth in the world's major economies, with few signs that a sustained global economic recovery is within reach.

The US economy faced a potential fiscal cliff towards the end of the year following a stalemate in fiscal and monetary policy decisions, while in Europe central banks battled over regulatory changes to stabilise the faltering Eurozone economies plagued by debts. Meanwhile, the mighty Chinese economy grappled with the risk of overheating and a slowdown had to be engineered. In the Middle East, social unrest and geo-political instability continued to dominate headlines.

Despite the uncertain global economic environment, the fundamentals of the oil and gas sector remained sound. Sustained and robust demand for hydrocarbon resources spurred healthy levels of E&P investments in both the domestic and global markets during the year. This augured well for service providers in oil and gas developments.

However, the financial year ended 31 December 2012 has been a year of consolidation for Malaysia Marine and Heavy Engineering Holdings Berhad (MHB). It has been a year whereby we focused on strengthening the core foundations of our business in our quest to becoming one of the leading heavy and marine engineering services provider in the region.

A key part of the past year's effort was to complete the integration of the former Sime Darby Engineering (SDE)'s yard in order for us to reap the synergies of operating two fabrication yards and drive the economies of scale that will make us more cost competitive. In conjunction with the integration exercise, we continued with the rollout of our group-wide transformation programme designed to raise our operating and engineering standards while building our key institutional capabilities. Such large-scale transformation programme requires commitment and patience and we are hopeful that the results will manifest themselves in the coming years as we continue to evolve towards realising our corporate ambitions.

During the year, we continued our focus on the completion and delivery of key projects within the Group. Given the technical complexities of some of these projects, our resources have been stretched and challenged in many instances. However, we have remained resolute in our goal in delivering our promises to our customers.

FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2012, the Group posted a net profit after tax of RM243.2 million on the back of RM3.3 billion in revenue. During the year, we were able to benefit from the utilisation of allowable tax exemptions under the Investment Tax Allowance granted by the Government that had further improved our net of tax financial performance.

CHAIRMAN'S STATEMENT (cont'd)

As at 31 December 2012, MHB's balance sheet remained healthy with a cash balance of RM890.3 million. The Group will continue to deploy this cash resources effectively for our ongoing yard optimisation programme and transformation initiatives that are designed to take the Group to the next level of heavy and marine engineering excellence. For the financial year ended 31 December 2012, RM168 million had been utilised for our ongoing yard optimisation programme.

DIVIDEND

Taking into consideration the financial performance of the Group for the financial year ended 31 December 2012, the Board of Directors has recommended a final single tier dividend of 10 sen per share, amounting to RM160 million. This proposed dividend, if approved by the shareholders, will be paid on 2 July 2013 to shareholders registered at the close of business on 18 June 2013.

CORPORATE DEVELOPMENT

A key major milestone achieved in the financial year was completion of the integration of the former SDE's fabrication yard located in Pasir Gudang which we proudly renamed the "East Yard", while our existing yard was renamed the "West Yard". Today, our workforce in both the East and West Yards interacts and operates efficiently as one team, while the different business segments leverage on a common pool of experience and expertise. The roll out of a new organisation structure which standardised core operations, processes and procedures for both yards has led to greater cost efficiencies and productivity. The transformation journey that we have embarked on since the previous financial year is also progressing well. Key initiatives that had taken place include the review of the Group's performance reward mechanism, the enhancement of supervisor performance and cross-yard equipment optimisation – all of which have enhanced our performance through stronger project execution effectiveness.

During the year, MHB also secured 2 major contracts. Through a joint-venture between our wholly owned subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) and Technip Geoproduction (M) Sdn Bhd (TPGM), we have been awarded an engineering, procurement and construction contract for the tension leg platform (TLP) Malikai Deepwater Project by Sabah Shell Petroleum Company Ltd (SSPC) after undergoing a competitive bidding process. This 50:50 joint venture, to be known as Technip MMHE (Malikai) Joint Venture (TMMJV), will fully leverage on the core strengths of both companies. This contract marks MMHE's first TLP contract and it will add to our suite of engineering and fabrication capabilities within the deepwater floating production systems segment.

In addition, we also secured the Damar project from ExxonMobil, awarded to MMHE, following two existing projects we have with ExxonMobil, namely the Telok Gas Development and the Tapis Enhanced Oil Recovery (EOR) project.

FUTURE OUTLOOK

With the robust prospects of the global oil and gas sector in general, and especially so in Malaysia with PETRONAS's forecast capital spending of up to RM300 billion in the next five years in new and existing developments, opportunities are abound for the MHB Group. To capitalise on such opportunities, it is imperative that we enhance our capability to undertake engineering projects effectively, and to succesfully deliver such projects to the satisfaction of our customers.

With the completion and smooth integration of the Group's enlarged fabrication yard, complemented by the various transformation initiatives we have put in place, I am confident that we will reap the benefits in the coming years.

APPRECIATION

On behalf of the Board of Directors, I would like to express our deepest sympathies and condolences to Datin Jenny Chua Liang Suan and family on the passing of the late Datuk Khoo Eng Choo. A friend and respected colleague who had served as MHB Independent Non-Executive Director since June 2010, his wise counsel and professionalism will be greatly missed.

The Board also extends a warm welcome to Mr Steven Choy Khai Choon, who joined the MHB Board on 5 February 2013 as an Independent Non-Executive Director. With more than 20 years of experience in the financial sector, we look forward to Mr Choy's invaluable contribution to the Group for many years to come as MHB continues on its journey to becoming one of the leading heavy and marine engineering services company in the region.

I would also like to record my heartfelt gratitude to all the other members of the Board for their tireless efforts in helping to steer the Group and their constant sharing of their collective wisdom and counsel with the management.

I would like to convey my utmost appreciation to all our customers, business partners and associates for their support and cooperation, especially in dealing with key challenges faced by the Group during the year. Their support and understanding has helped the Group to achieve many successful milestones.

To all our employees, I would like to thank you for your efforts and contributions throughout the year, without which, a lot of successes of the Group may not be achievable. And I urge you to continue giving your unwavering support and dedication to the tasks and goals that lie ahead of us in the coming year.

Finally, let me express my sincere appreciation to all our shareholders for their steadfast confidence and continuous support to the MHB Group.

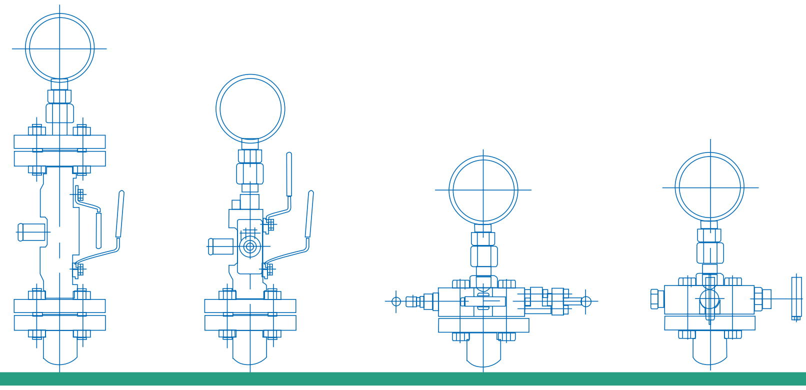
Datuk Nasarudin Md Idris
Chairman

MD & CEO'S REPORT

2012 SAW A NUMBER OF PROJECTS COMPLETED SUCCESSFULLY AND IN SOME INSTANCES, INCLUSIVE OF DELIVERY.

MHB GROUP CONTINUED TO MAKE STEADY PROGRESS IN ITS TRANSFORMATION PROGRAMME.

DOMINIQUE DE SORAS
Managing Director & Chief Executive Officer



Dear Shareholders,

In 2012, the price of crude oil has generally traded above USD100 per barrel based on Brent Crude. The favorable price and strong demand for oil and gas has supported the growth of production domestically. As a result, an expected acceleration in CAPEX spent will see a boost in upstream and downstream activities in Malaysia.

The oil and gas environment had a positive impact on the MHB Group for the financial year 2012. During this financial year, the company secured new order intake worth RM1.7 billion. The encouraging order intake demonstrated the continued success of our capabilities in delivering high quality service and more importantly, the ability to compete for bids that attract not only regional but international participation.

2012 also saw a number of projects completed successfully and in some instances, inclusive of delivery. They include the topside and jacket for Telok A, the topside and jacket for Tapis Q, Kinabalu non-associated gas (NAG) topside, which was previously fabricated in our yard and was also the first high pressure high temperature (HPHT) platform in Malaysia, and the floating storage unit (FSU) Tenaga Satu.

MHB Group continued to make steady progress in its transformation programme by implementing initiatives designed to transform the MHB Group to become a more competitive engineering, procurement, construction, installation and commissioning (EPCIC) service provider. A structured communication and leadership engagement plan is currently underway to ensure positive momentum is maintained along the change journey.

Our acquisition of Sime Darby Engineering Sdn Bhd (SDE) yard in Pasir Gudang (re-named as MMHE East Yard) is now well integrated with ongoing yard optimisation programmes. We have also standardised processes and procedures between the two yards. In parallel, we broadened our management team's expertise and enhanced our capabilities in order to facilitate the smooth integration.

Going forward, we continue to give full attention and dedicate resources to improve our operational performance and project delivery to accelerate our effectiveness as a leading fabricator in Malaysia and in the region. 2013 is the year we will sustain this fast track momentum by measuring our performance and achievements against strict delivery targets.

OFFSHORE BUSINESS UNIT (OBU)

MHB's backlog for OBU projects stood at RM1.7 billion as at 31 December 2012.

Projects in the financial year 2012 include; the Gumusut-Kakap floating production system (FPS) project, the Telok Gas Development project, the Tapis

MD & CEO'S REPORT (cont'd)

Enhanced Oil Recovery (EOR) project, the Kebabangan Production, drilling, Utilities and Quarters (PdUQ) project, the FPSO Cendor conversion project, the OSX-3 FPSO external turret project, the Damar project and the F14/F29 project which consists of topside, sub-structure & process modules.

During the financial year under review, the **Gumusut-Kakap FPS project** is nearing completion and the targeted load-out of the 41,000 MT structure is slated for early second quarter of 2013. We are proud to inform you that this will be one of Asia's first deepwater FPS - which belongs to Gumusut-Kakap Semi-Floating Production System (L) Limited, that will operate the FPS off the coast of Sabah for Sabah Shell Petroleum Company. It is expected to produce an average of 150,000 barrels a day. A major achievement was the successful completion of Gumusut-Kakap's superlift where a 21,00 MT topside was lifted to a height of 47.3 metres while four major hull segments weighing almost 20,000 MT were skidded underneath. Eventually, the topside was lowered to merge with the placed hulls to form a fully integrated FPS.

The **Telok Gas Development project** consists of two topsides and two corresponding four legged jackets with a combined total weight of 11,160 MT. More than 80% of the project has been completed as of December 2012. The Telok A topside and jacket were loaded out and sailed away in August 2012. Telok A jacket was successfully installed underwater at a depth of about 63 metres, some 200 kilometres offshore Kerteh. The Telok B topside and jacket are under construction in 2012 and progessing towards completion in 2013.

The **Tapis EOR project** is the first large-scale full-field implementation of an EOR process for ExxonMobil Exploration and Production Malaysia Inc (EMEPMI) in Malaysia. This notable project comprises two topsides (Tapis Q riser platform and Tapis R integrated deck), one jacket and two inter-platform bridges. The 2,300 MT Tapis Q riser platform was loaded out towards the end of September 2012 and subsequently sailed away in October 2012. The much larger Tapis R integrated deck weighing in at 18,000 MT is 65% completed as of December 2012.

The **FPSO Cendor conversion project** represents MHB's 11th FPSO-FSO conversion project and it has reached 78% completion as of December 2012. Upon its completion, FPSO Cendor will be deployed by MISC Berhad to Petrofac Berhad at the Cendor Field Phase 2 Area, in Peninsular Malaysia.

As of December 2012, the **OSX-3 FPSO external turret project**, which marks the Group's 17th turret project, was progressing well towards completion and delivery to our client Sofec Inc. Once installed on the FPSO, it will be deployed at the offshore of Campos Basin in Brazil. We expect to complete the OSX-3 FPSO external turrent by February 2013.

Meanwhile, at the MMHE East Yard, the 18,000 MT single integrated **Kebabangan PdUQ** project was more than 60% completed as of December 2012. The RM1 billion contract was novated from SDE on April 2, 2012. When the Kebabangan PdUQ platform is installed and fully commissioned to our client Kebabangan Petroleum Operating Company (KPOC), it will produce about 130 to 140 million barrels of oil equivalent per day (MBOED).

During the financial year 2012, we secured two new projects; the Damar project and the F14/F29 project. ExxonMobil awarded the **Damar project** to MMHE in recognition of the good work progress we achieved with two of ExxonMobil's current projects, namely the Telok Gas Development and Tapis EOR. The scope of work involves engineering, procurement, fabrication, testing, onshore pre-commissioning/ commissioning, load-out and tie-down; and offshore hook-up and commissioning of the Damar platform, which comprises two structures –an integrated deck or 1,800 MT satellite platform and a four-legged steel piled structure or 3,866 MT jacket.

We are honoured to be awarded the **F14/F29 project** which comprises three structures by Sarawak Shell Berhad (SSB). The first is the procurement, fabrication and yard pre-commissioning of the F14DR-A topside, which would weigh 2,024 MT when completed. The second is the procurement, fabrication and yard pre-commissioning of the F14/F29 process module that would weigh 1,731 MT when completed. The third structure that MHB will fabricate is the F14DR-A jacket. As of December 2012, the project stands at 35% completion. The F14/F29 project will enhance gas production in Sarawak.

Last but not least, the Technip MMHE (Malikai) Joint Venture will be involved in the fabrication of Malaysia's first tension leg platform (TLP) for **the Malikai Deepwater development project**. This project marks a strategic EPC contract awarded to MHB in early 2013 by the client, Sabah Shell Petroleum Company Malaysia. The TLP comprises a topside designed to process 60,000 barrels per day of oil and 50 million standard cubic feet (mscf) per day of gas. When completed, the 12,000 MT hull will be fastened and attached to the seabed at a water depth of about 500 metres, approximately 110 kilometres offshore Sabah, Malaysia.

We believe Malikai TLP project will enhance MHB's local and regional credentials in the complex and challenging deepwater arena; having safely completed two of Malaysia's floating oil and gas structures, namely Kikeh Single Point Anchor Reservoir (SPAR) and Gumusut-Kakap FPS. We are currently constructing Malaysia's third deepwater facility, the Malikai TLP in MMHE's West Yard, Pasir Gudang.

MARINE BUSINESS UNIT (MBU)

The marine repair environment continues to be challenging for the industry which is experiencing a slump in tanker charters. Nevertheless, the Group managed to record a higher revenue of RM348.5 million for the financial year ended 31 December 2012 due to a higher value in our repair work for LNG carriers.

In the financial year 2012, marine repair revenue was derived mostly from LNG carriers and oil rigs while the balance came from other vessels such as bulk carriers, containers and chemical tankers.

Marine repair is an important business and delivers steady revenue to the Group. It is striving to capture more complex engineering operations in repair and refurbishment vessels that will deliver a higher value to the company.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (JV)S

Technip MHB Hull Engineering Sdn Bhd (TMH)

A joint venture between MHB and Technip through a co-controlled entity, TMH was established in July 2011 and was subsequently launched in November 2011. TMH is leveraging on Technip's design engineering capability to complement MHB's fabrication expertise. This is a strategic move to capitalise on the expected growth in demand for more efficient and innovative floating structures to serve increased E&P activity in deepwater and unconventional offshore fields. TMH will be involved in the upcoming Malikai TLP project for the hull engineering design.

MMHE-SHI LNG Sdn Bhd

Our strategic collaboration with Samsung Heavy Industries (SHI) has been rewarding, with profit contribution from international LNG carriers. We believe this reflects an upward trend and will maintain a positive momentum going forward. We expect to harness a positive synergy in our partnership with SHI considering the potential of joint business in the LNG carriers' arena with favourable opportunities in the future.

MMHE-ATB Sdn Bhd

We have also derived positive synergy from our joint venture with ATB in terms of the fabrication of pressure vessels and related process equipment. In early 2012, MMHE-ATB was awarded the contract to manufacture a 'Reel and Cradle 96' by Asiaflex Products Sdn Bhd. The purpose was to complete a unit which would qualify MMHE-ATB as a certified supplier for (Technip) Asiaflex Products Sdn Bhd, a new flexible pipe manufacturer located

MD & CEO'S REPORT (cont'd)

in Tanjung Langsat Industrial Complex, Pasir Gudang, Johor. The Reel and the Cradle were completed after 19,105 hours without lost time injury (LTI) and was successfully delivered to Asiaflex Products Sdn Bhd on 19 November 2012. Moving forward, we anticipate that our strategic partnership will position the company to capitalise on the upcoming PETRONAS Refinery and Petrochemical Integrated Development (RAPID) project.

BUSINESS TRANSFORMATION

Since 2012, we have embarked on a structured transformation programme with identified initiatives spanning across Procurement, Construction, Project Management, Business Development & Commercial, Engineering and Programme Management Office. We have launched almost half of the initiatives last year. Underpinning all these initiatives are ongoing communication and leadership engagement sessions, to ensure positive momentum is maintained along the transformation journey.

As part of the change effort, MHB has successfully inked agreements with five local structural sub-contractors to enable all parties to realise the value of better cost control. By utilising the frame agreement, MHB has the benchmark for the cost of services resulting in a more competitive cost structure for MHB.

Subsequently, MHB has also signed price agreements with strategic partners for the supply of structure, piping, and electrical and instrumentation materials. The partners were selected based on their supply capability, proven track record and experience in their respective supply areas. The agreements signified the establishment of a mutually beneficial partnership that will thrive and continue between both parties.

More operational improvement initiatives will be launched in 2013. We need to embed and integrate more high performing processes across the MMHE West and East yards.

The transformation programme is targeted to span over a three-year period. We target that by the end of 2014, MHB will emerge as a high performing organisation of choice for our clients. This will allow MHB to fully leverage on our expanded capacity and enhanced facilities to capitalise on new business opportunities across the region.

As a member of the PETRONAS Group, we have also launched the Code of Business Ethics (CoBE) at the end of 2012 to uphold and enforce integrity in our business practices. With CoBE in place, we hope that this will provide assurance to our stakeholders that our business is conducted in a proper and competitive manner.

YARD OPTIMISATION

The Group's cumulative yard optimisation (YO) CAPEX as at December 2012 was RM900 million where we have spent RM168 million in the financial year 2012. Most of the CAPEX was incurred for the MMHE West Yard due to our ongoing YO programme which we committed to before the acquisition of MMHE East Yard.

The notable projects that have been completed in the past one year include:

- 132 KV power supply, in order to improve capacity and reduce our electricity expenses;
- Infrastructure work at Idemitsu Land, inclusive of the roads, street lights, fence, and a new fabrication area number 6 has been completed. In the future, we plan to have a blasting and painting workshop and a centralised warehouse in this area;

- A 55,000 MT skid-track. The bulkhead is expected to be completed by mid- 2013;
- A 40 MT luffing crane has been commissioned in lieu of inspected by Department of Occupational Safety and Health (DOSH). This crane is to serve quay 6 and the area near the 55,000 MT bulkhead. The crane is planned to be used for marine repair, conversion, berthing and unloading & loading work in that area;
- 25,000 MT bulkhead and wharf modification at MMHE East Yard. Construction work for this project is expect to be completed by end 2013.

HEALTH, SAFETY AND ENVIRONMENT

Stringent safety compliance is of utmost priority to MHB – it is essential for the prevention of injury to our people and the preservation of our assets. We continuously upgrade our Health, Safety and Environment (HSE) policies according to industry best practice, and we monitor our performance against international benchmarks.

In the financial year 2012, we recorded a total of 30.32 million manhours. Our total recordable injury frequency (TRIF) stood at 0.49% and our lost time injury frequency (LTIF) was 0.20%.

OUTLOOK AND PROSPECTS

While the global economic environment is expected to experience an extended period of slow growth, the demand for hydrocarbon energy will still remain strong in the near to mid-term future as a result of growing demand from emerging economies. Correspondingly, we anticipate an accelerated E&P spending especially in the domestic market, which should benefit service providers such as MHB.

With a promising pipeline of upstream and downstream development activities, engineering and construction services are expected to gain momentum to replenish the backlog. However, it will be a more challenging environment in terms of cost competitiveness among the players. With the transformation initiatives undertaken and strategically formulated to focus on delivery at cost, on time and with high quality; we believe that we have made improvement in competitiveness in all areas of project execution and deliveries.

With our expertise, experience and track record, we are optimistic that our OBU will excel in the upcoming years.

Increasing demand for LNG and gas has continued to be a bright spot in the lackluster shipping industry and we have strategically shifted our focus to this opportunity. With the exception of LNG carriers, over-capacity of vessels coupled with low freight rates continues to weigh down the marine repair market. Nevertheless, we believe that our yards' strategic location, strong network of partners, strategic collaborations with long term customers; as well as our business focus on energy vessels will continue to serve us well. This is proven by our financial results for the financial year 2012.

APPRECIATION

On behalf of the management of MHB, I would like to extend my appreciation to our valued clients for their support and loyalty, and to our numerous partners for their integrity, reliability and high level of professionalism in working towards common goals.

As for our shareholders, I would like to assure you that you are foremost in our minds and that we are continuing the journey of transformation to deliver our promised bottom line and shared value to you.

Also, I would like to express my heartfelt gratitude to our Chairman, Datuk Nasarudin Md Idris, the Board of Directors and the various Board Committees for their guidance that has brought MHB and me this far.

I take this opportunity to express my deepest condolence and heartfelt sympathy to the family of the late Datuk Khoo Eng Choo. I would also like to warmly welcome Mr Choy Khai Choon who was appointed to the board as an Independent Non-Executive Director.

Finally, I thank all our staff, for their continuous dedication and commitment to the Group. With an increasingly high performance work culture in place, I firmly believe that we will achieve better results in the coming years.

Dominique de Soras
Managing Director & Chief Executive Officer

BUSINESS OVERVIEW

MARCH

Gumusut–Kakap Superlift Successfully Completed

During the last financial year, MHB has successfully undertaken the superlift for the Gumusut-Kakap floating production system (FPS) project.

The integration of the topside and the hull using the superlift technique marked a major milestone towards completion of the project last year. The superlift technique involves having the 21,000 metric tonnes (MT) topside structure lifted to a height of 473 metres while 4 major hull segments weighing almost 20,000 MT were skidded underneath. Eventually the topside was lowered to merge with the placed hulls to form a fully integrated FPS. The superlift technique was the first to be deployed in this region and the second in Asia Pacific.

The 41,000 MT Gumusut-Kakap FPS is the second deepwater facility for Malaysia and it is also the biggest structure ever undertaken by MMHE. The project, which was commissioned by Sabah Shell Petroleum Company (SSPC) has completed in MMHE's yard in Pasir Gudang, Johor, and is expected to be delivered in May 2013.

Note: The Gumusut-Kakap FPS is the largest offshore operating facility in South East Asia

Gumusut-Kakap FPS

MHB Completed the Acquisition of Sime Darby Engineering's Pasir Gudang Yard

In March 2012, through the yard optimisation initiative, MHB expanded its yard size and capacity with the acquisition of new land from Sime Darby Engineering's (SDE) yard to cater to the fabrication of offshore oil and gas related structures. The acquisition has significantly increased MHB's Pasir Gudang yard capacity from 69,700 MT to 129,700 MT, making MHB the largest fabricator in Malaysia today in terms of yard size and capacity.

APRIL

Renaming MHB's Yards to MMHE East and West

1 April 2012 marked another milestone in our history book as MHB expanded its offshore fabrication and marine repair capacity and capability through the successful acquisition of SDE's yard in Pasir Gudang.

To commemorate the achievement of Legal Day 1, an official ceremony was held on 2 April 2012 to rename the two yards. MHB's yard on Jalan Pekeliling was renamed 'MMHE West', while the new yard on Jalan Suasa is now known as 'MMHE East'.

Legal Day 1 officially renames the two yards in Pasir Gudang

MHHE Wins the Grand Award in EMEPMI Chairman's Safety Award

It was a proud moment for MHB when, MD & CEO, Mr Dominique de Soras, received the Grand Award from ExxonMobil Exploration and Production Malaysia Inc's (EMEPMI) at the Chairman's Safety Award ceremony.

The Grand Award was presented to MHB's subsidiary, MMHE, by Dato' Wee Yiaw Hin, EVP, Exploration and Production of PETRONAS and Mr J. Hunter Farris, Chairman of EMEPMI Subsidiaries in Malaysia; in recognition of the Company's uncompromising commitment to safety in undertaking the Telok and Tapis projects.

MHB MD & CEO receiving the Grand Award at the EMEPMI Chairman's Safety Award ceremony

BUSINESS OVERVIEW (cont'd)

MAY

Kinabalu Non-Associated Gas Topside Load Out Successfully Completed

The Kinabalu non-associated gas (NAG) topside team has successfully performed the load out operations of 9 structures across a 10-day duration. The topside is for the Kinabalu NAG development for client Petronas Carigali Sdn Bhd. The load out operation began on 26 April 2012 and ended on 5 May 2012.

The first barge carrying the module support frame – the drilling (MSF-D) and module support frame – south (MSF-S) of the topside sailed away on 4 May 2012, followed by the second and third barge safely leaving MMHE shore on 6 and 9 May respectively. The final barge sailed away on 12 May 2012 marking the overall completion of the topside fabrication.

The load out of Kinabalu non-associated gas topside

FSU Tenaga Satu

Delivery Ceremony for FSU Tenaga Satu

Delivery ceremony for floating storage unit (FSU) Tenaga Satu was successfully held at Quay 3, onboard FSU Tenaga Satu at MMHE West yard, Pasir Gudang. MHB was responsible for increasing the life extension and conversion (RLEC) of Tenaga Satu, a liquefied natural gas (LNG) vessel, into a FSU facility. The signing delivery ceremony of FSU Tenaga Satu was held on 25 May 2012 in attendance of client, MISC Berhad.

The FSU will be deployed at Malaysia's first LNG Regasification Terminal project in Sungai Udang, Melaka.

MHB's 23rd Annual General Meeting

JUNE

MHB Successfully Hosts the 23rd AGM

MHB successfully held its 23rd Annual General Meeting (AGM) on 6 June 2012 at the InterContinental Kuala Lumpur where the shareholders attended the meeting to review the Group's annual performance. The AGM was attended by 374 shareholders and proxies.

MHB Awarded F14/F29 Topsides, Substructure and Process Module Contract by Shell

MHB, though MMHE, has successfully bid for the F14/F29 project award which comprises three structures by Sarawak Shell Berhad (SSB). The combined contract value of the project is RM278 million.

The first is the procurement, fabrication and yard pre-commissioning of the F14DR-A topside, which would weigh 2,024 MT when completed. The F14DR-A is a 9-slot unmanned satellite drilling riser platform and will initially consist of three gas producing wells. The topside will be fabricated with the added flexibility of producing up to five gas producing wells in the future.

F14 topside under construction in MMHE West, Pasir Gudang

The second is the procurement, fabrication and yard pre-commissioning of the F14/F29 process module that will weigh 1,731 MT. The process module will separate the gas produced by F14DR-A and F29 Subsea system, and it will be installed on a Module Structure Frame deck level of the existing F23R-A platform.

The third structure that MHB will fabricate is the F14DR-A jacket. The 4-legged, 5 bay jacket concept substructure will support the F14DR-A topside. With piles and conductor, the entire jacket will weigh approximately 6,400 MT.

BUSINESS OVERVIEW (cont'd)

AUGUST

Sail Away of Telok A Topside and Jacket for ExxonMobil

MHB has successfully delivered the Telok A jacket and topside for Telok Gas Development project by ExxonMobil Exploration and Production Malaysia Inc (EMEPMI). The topside is tied back to the existing Guntong E gas platform and is expected to produce 450 million standard cubic foot (MSCF) of gas per day in the Telok field offshore Peninsular Malaysia. The project is also recognised by the Malaysian Government as one of the Entry Point Projects under the Economic Transformation Programme.

Telok A topside

Telok Q jacket

OCTOBER

Sail Away of Tapis Q Topside and Jacket for ExxonMobil

MHB has successfully delivered Tapis Q topside and jacket which are part of the Tapis Enhanced Oil Recovery (EOR) project by ExxonMobil Exploration and Production Malaysia Inc (EMEPMI).The Tapis EOR project is one of several upstream investments highlighted by Prime Minister Dato' Sri Najib Tun Razak under Malaysia's Economic Transformation Program in 2011.

OCTOBER

MMHE Bagged Contractor Award under Service Provider Category

Another proud achievement recorded by MHB when MD & CEO, Mr Dominique de Soras represented the Company to receive the Contractor Award from Dato' Wee Yiaw Hin, PETRONAS Executive Vice President E&P Business during the PETRONAS E&P HSE Recognition Award 2012.

MHB's subsidiary, MMHE, was one of the top four winners among nine companies that have been nominated under Service Provider Category for Tapis/Telok Project with ExxonMobil.

NOVEMBER

Completed the Reel and Cradle 96 Project Supply to (Technip) Asiaflex Products Sdn Bhd

MMHE-ATB, a joint venture company between MMHE and ATB Riva Calzoni of Italy, has completed this project after 19,105 hours without Lost Time Injury (LTI). The project was successfully delivered to (Technip) Asiaflex Products Sdn Bhd. The work included the completion of a unit which qualified MMHE-ATB as a certified supplier for (Technip) Asiaflex Products - a new flexible pipe manufacturer located in Tanjung Langsat Industrial Complex, Pasir Gudang, Johor.

Reel and cradle 96 supplied to (Technip) Asiaflex Products

DECEMBER

MMHE Awarded Damar Platform Project by ExxonMobil

MHB's subsidiary MMHE has been awarded the Damar platform project by ExxonMobil Exploration and Production Malaysia Inc (EMEPMI). The project has a contract value of RM165 million.

MMHE's scope of work includes engineering, procurement, fabrication, testing, onshore pre-commissioning/commissioning, load-out and tie-down, offshore hook-up and commissioning of the Damar platform,which comprises two structures.

The Damar topside is an integrated deck or satellite platform, housing wellheads, utilities and other production facilities. When completed and commissioned, the platform is capable of accommodating up to 20 well slots. Equipped with a helideck, it would weigh approximately 1,800 MT.

Damar platform project signing ceremony

ON-GOING PROJECTS

Construction of Gumusut-Kakap floating production system (FPS) project for MISC Berhad.

Conversion of FPSO Cendor for MISC Berhad

Fabrication of topside for the Kebabangan Petroleum Operating Company (KPOC).

Construction of Telok B topside for ExxonMobil Exploration and Production Malaysia Inc (EMEPMI).

Construction of integrated deck unit (topside) of Tapis R for ExxonMobil Exploration and Production Malaysia Inc (EMEPMI).

Fabrication of F14/F29 topside, substructure and process module for Sarawak Shell Berhad.

Construction of the topside and jacket for Damar platform project for ExxonMobil Exploration and Production Malaysia Inc (EMEPMI).

Construction of topside and hull for Tension Leg Platform (TLP) Malikai Deepwater Project for Sabah Shell Petroleum Company Ltd (SSPC).

OPERATIONAL HIGHLIGHTS

With 40 years of experience in servicing the oil and gas and marine industries, MHB takes pride in efforts to create sustainable ways of operating our business.

To ensure our business sustainability objectives are met, we continuously embed best practices across the Group to improve our way of doing things. Our operations initiatives cover the following key areas, which are crucial to all our public, industry and environmental stakeholders:

QUALITY
HEALTH, SAFETY AND ENVIRONMENT
SUPPLY CHAIN MANAGEMENT
HUMAN CAPITAL DEVELOPMENT

QUALITY

Enhancing Quality Awareness of Employees and Contractors at All Levels

The last financial year saw MHB launch its annual Good Quality Practice Campaign (GQPC) on 26 November 2012 to instill quality awareness among employees and contractors. Quality programmes conducted were:

- Walkabouts/Surveys & Inspections
- Quality Talks
- Quizzes
- Quality Workshops
- Distribution of Quality Pocket Books

The Quality Pocket Book derived from this campaign is regularly used as handout and reference for employees during the Quality Orientation and Quality Refresher Programme, aimed at providing basic quality knowledge to staff directly involved in operations or supporting activities.

Employees will benefit from the handbook for easy reference to information related to the Company's quality objectives, basic quality practices, common quality standards and most used quality improvement tools. The Quality Orientation and Quality Refresher

NOVEMBER

MMHE LAUNCH GOOD QUALITY PRACTICE CAMPAIGN

The aim of this campaign is to promote awareness on good quality practice among MHB staff as well as subcontractors. Approximately 120 staff attended the launch of 'Good Quality Practice Campaign' which was held at MMHE West. The campaign was held from 26 November until 26 December 2012.

Programme will be fully implemented for all employees by 2013.

MHB has conducted an important training for Quality Assurance/Quality Control (QA/QC) personnel specifically in improving knowledge related to Non-Destructive Tests (NDT) covering the most used NDT methodologies in MHB such as Radiography (RT), Ultrasonic (UT), Magnet Particle (MPI) and Dye Penetrant (DPI). The first NDT training session was completed and attended by 188 QA/QC personnel and was conducted by a MHB Level 3 NDT competent personnel.

Compliance

In line with the new organisation structure, MHB introduced the business and service units reporting approach where the units are required to monitor their key performance index and submit the actual performance to the Central QHSE division for reviewing purposes. Central QHSE will then coordinate improvement initiatives for any identified areas of weakness.

In FYE 2012, 20 audits were conducted in all divisions to verify the quality assurance compliance. The audit findings were subsequently presented to management for follow up action. In addition, MHB has also successfully implemented the centralised companywide document control to manage and maintain the quality aspects in content to comply with MHB and customer requirements.

Improving Competency Levels

MHB consistently strives to improvise employees' competency levels in relation to quality, through competency trainings conducted by an internal personnel or external trainers. Critical competency programmes that were conducted in the last financial year were:

- Certification Scheme for Welding Inspector Personnel (CSWIP)
- National Association Corrosion Engineer (NACE) level 1, level 2 or level 3 for Blasting/Painting Inspector
- Welding Electrode Controller Competency Programme
- Other internationally or nationally recognised competency programmes

MHB developed the Welding Electrode Controller Competency programme internally with the main objective of are ensuring proper welding preparations are in place and in accordance with relevant welding standards. The competency programme covered most of the critical control of welding electrode such as:

- Correct heat treatment
- Optimised cost control of welding electrode
- Issuance and return of welding electrode
- Knowledge of welding standard

By the end of 2012, 37 personnel were trained and passed this competency programme.

Increase Subcontractor Quality Compliance

MHB has audited 12 subcontractors in the last financial year and anticipate 26 subcontractors will be audited in 2013 covering all work disciplines. The effort is to continuously maintain the subcontractor understanding and to comply with MHB's requirements.

MHB has also successfully conducted an engagement session with relevant subcontractors in December 2012. During the session, the audit outcomes were shared and performance expectations from the subcontractors were clearly emphasised.

Gain and increase customer satisfaction

MHB initiated a proactive approach to face challenges in maintaining customer satisfaction levels and committed to providing better support to clients.
Among the activities:

- Project Management Teams to frequently discuss relevant issues with customers and propose recommended solutions
- The critical customer issues to be highlighted to Management in a timely manner for decision making or resource support
- Improve customer feedback mechanism by issuing Corrective Action Report (CAR) to Project Management Teams for the required improvement areas

Sustaining Competent Internal Auditors

MHB successfully developed 50 internal auditors for Quality, Health, Safety and Environment Management System (QHSEMS). The auditors recorded 918 manhours in 2012 for audit activities covering identified areas as per the annual audit plan.

The auditors completed full appropriate sessions as listed in the structured programme such as offsite training, on the-job training, training by internal or external trainers and two engagement sessions.

The programme was incorporated in the 2013 quality plan to assure that MHB requirements were understood and complied by all levels of employees.

OPERATIONAL HIGHLIGHTS (cont'd)

HEALTH, SAFETY AND ENVIRONMENT

Certified OHSAS 18001:2007 and ISO 14001:2004 for its Health, Safety and Environment (HSE) Management System, MHB's HSE continues to be the focus in our daily operations. Recognising that safe practices and a high regard for the environment are essential to our continued success, we take every effort to ensure that stringent HSE practices are inculcated among our employees and contractors in ensuring that the safety of our people, customers and the communities within which we operate is continuously upheld.

HSE through Leadership & Commitment

MHB Senior Management is committed to continuously improving and enforcing the HSE Management System by demonstrating their commitment through HSE Management Committee meetings and walkabout. The HSE Management Committee meets quarterly to monitor the Group's HSE performance, provide input on HSE related issues as well as reinforce a HSE culture among employees.

HEALTH

The health of our employees' is of utmost priority. The Kelab Sukan Rekreasi MMHE was established as a medium for employees to lead a healthy life. In addition, employees' health and medical benefits were reviewed in consideration of their wellbeing.

Recognising the occupational health risks in MHB operations through risk assessment is essential to us. We have developed and managed health programmes to reduce and minimise the risks and exposure to employees. Detailed noise and chemical exposure monitoring were conducted in areas identified during the risk assessment. Health surveillance, including audiometric tests were performed on employees who reside in the exposure group.

A Health & Wellness Week campaign was organised with the aim of increasing health awareness among our employees. It was launched during the MHB Family Day with the purpose of extending the awareness to family members. A series of health talks on occupational and general health were carried out throughout the week. MHB collaborated with MAKNA during the week to create awareness on early detection of cancer that could save lives.

MHB has also successfully organised sports and recreational events and blood donation drives to fuel a health-conscious culture amongst employees.

JANUARY

MMHE CONTRACTORS' HSE DAY

The 'MMHE Contractors' HSE Day' was held on 13 January 2012 in Pasir Gudang, Johor. Initiated by MHB's MD & CEO Mr Dominique de Soras, the 'MMHE Contractors' HSE Day' was aimed at gathering feedback and brainstorming for new ideas to improve performance, productivity and discipline of the workforce.

SAFETY

The year under review saw us continuing our efforts to enhance HSE Management System through a series of HSE initiatives and programmes as follows:

APRIL

MHB LAUNCHED 'MMHE 10 SAFETY RULES'

MD & CEO, Mr Dominique de Soras launched MHB's own set of safety rules named 'MMHE 10 Safety Rules'. With the tag line 'Hand in hand, nobody gets hurt', these rules are to serve as a key tool in strengthening safety commitment, compliance and subsequently prevent dangerous occurrence and injury within MHB's operations.

- *Compliance Enhancement through MMHE 10 Safety Rules*

  This initiative was developed with the objectives to enhance safety compliance and to reduce the number of incidents related to high risk activities. The initiative was launched yard-wide in Q2 & Q3 of FYE 2012 including communicating and educating the workforce on the safety requirements of the MMHE 10 Safety Rules.

- *Contractors Management Engagement*

  The engagement of MMHE Contractors Management was initiated with the purpose of sharing ideas and practices for improving HSE performance, identifying changes towards meeting MHB's expectations, deliberating on HSE issues, and making individual pledges towards achieving excellence.

- *Permit To Work (PTW) System Enhancement*

  With the objective of improving the PTW issuance process flow and maintaining the consistencies of PTW implementation at the work site, MHB has come up with the enhanced system which is practical for site implementation and complies with legal requirements.

- *Near Miss Reporting Enhancement*

  In MHB, we strongly believe that proper management of a near miss incident will prevent a major incident occurrence. Thus, we encourage the workforce to report near miss incidents regardless of whether it is a low, medium or high potential and reward the notifier as a token of appreciation. As a result, the reporting of near miss incidents increased by 300% as compared to the previous financial year. The initiative will be continued and treated as a leading HSE indicator.

- *Safety Campaigns*

  In FYE 2012, three safety campaigns were launched, with the objective of instilling awareness and enhancing greater involvement among the workforce in promoting HSE. The campaigns were:

  a) No Mobile Phone Campaign
  b) Crash Helmet for Motorcyclist Campaign
  c) Forklift Safety Campaign

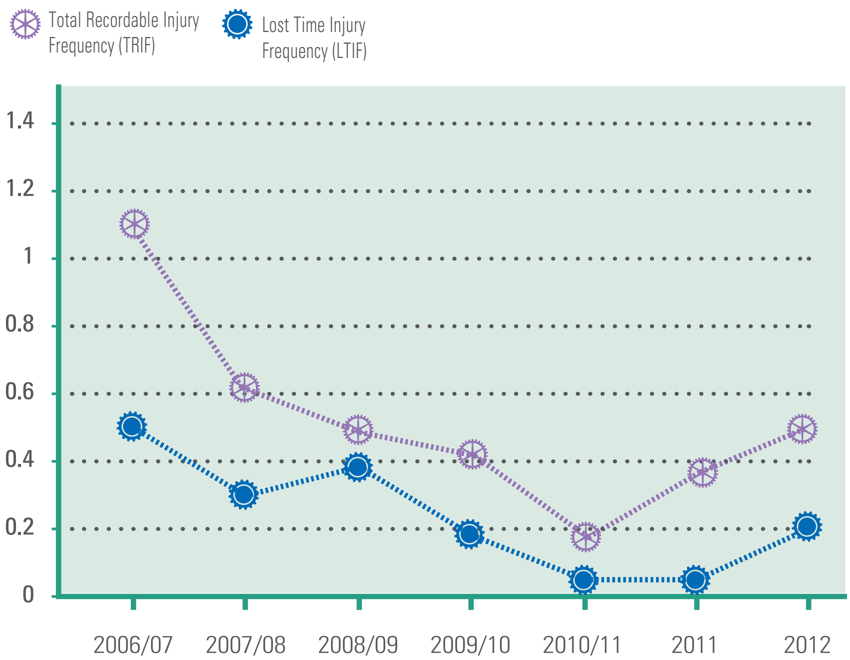
- *Emergency Response*

  With the purpose of creating awareness on emergency response procedures among the workforce and assessing the Emergency Response Team capability during emergencies, 48 drills have been conducted in and on MHB premises and projects. Various scenarios were tested during the drills from evacuation to fire fighting.

In FYE 2012, however, we experienced several incidents that reinforced the need to stay vigilant and to maintain our focus on the safety of our operation. The Lost Time Injury Frequency (LTIF) of 0.20 and Total Reportable Case Frequency (TRCF) of 0.49 were recorded in FYE 2012 as compared to 0.05 and 0.38 respectively in FYE 2011.

OPERATIONAL HIGHLIGHTS (cont'd)

7 Years HSE Performance



ENVIRONMENT

In line with our policy on environmental sustainability, protection and conservation, MHB remains committed to operating in and environmentally responsible manner in compliance with local and international environmental best practices and legislation. Our ISO 14001:2004 Environmental Management System (EMS) certification demonstrates how determined we are to protect the environment. The certification reflects the implementation of a proactive Environmental Management System, increased commitment towards recycling and reusing resources, the monitoring of pollution and waste minimisation. Constant monitoring and adherence helps reduce operating liabilities, manufacturing and compliance costs and the risk of regulatory violations.

MHB's Environmental Management Program (EMP) initiatives to date include emission air monitoring activities, water sampling for wastewater and effluents discharge as well as spill containment facilities. MHB activities also cover the construction of bund walls for oil, paint, waste storage facilities and industrial effluent treatment system (IETS). We also ensure the placement of filtration and dust collectors for all auto blast machines to eliminate the release of contaminated particles. Blasting and spray-painting activities are now carried out in an enclosed workshop/chamber equipped with dust extraction and a filtration system to reduce the release of dust into the environment and promote the use of recyclable steel abrasive. For scheduled waste, we have put in place an effective segregation, storage and disposal system. Disposal or treatment of MHB's scheduled waste is done in accordance with legislative requirements while licensed contractors undertake all collection and disposal activity.

MHB's environmental conservation focuses on reducing the environmental impact of our business unit activities, through environmental awareness campaigns and programmes related to waste management and pollution control. In the year under review, MHB conducted various campaigns to promote environmental awareness among staff.

In 2012, we played our part in contributing to the preservation of the environment by embarking on an environmental conservation initiative which carried the theme "Our Environment, Our Home" under the 3R Programme (Reduce, Recovery and Recycle) targeted at MHB's operation/activity. The highlight of the campaign was the re-awareness programme for the color-coded waste bins yardwide. The objective of the programme was to re-emphasise the color-coding system which had been implemented yardwide. These bins have been color coded according to the waste type.

The disposal method initiatives embarked by MHB under the 3R concept were:

- ***Reuse of Spent Copper Slag and Used Garnet***

  A key environmental initiative was to manage the spent blasting materials from the blasting process. Spent blasting materials are viable to be used by cement industries as sand replacement in blended cement. With approval from Department of Environment, MMHE signed an agreement with local cement companies, to transport the spent blasting to be recycled by cement companies.

- *Recycling of Used Paint Containers & Expired/Discarded Paint*

  Almost 100% of used paint containers and expired paint is sent for recycling. Contaminated rags/ filter are partially recycled while solid paint waste is sent for incineration by licensed contractors of the Department of Environment.

- *Recovering Value of Scheduled Wastes*

  Almost 100% of Spent Lubricating, Spent Hydraulic, Electric/Electronic and acid battery waste in the MMHE yard are sent for recovery as value waste, while paint waste is sent for incineration by licensed contractors of the Department of Environment.

This resulted in a savings of approximately RM0.8 million in treatment process costs by an external contractor licensed with the Department of Environment while creating a value for the waste.

We continuously seek to mitigate the environmental impact of our operations by reducing emissions, discharges and waste. As we continue to improve and maintain a solid business performance, we are well on our way to achieve environmental conservation excellence.

SUPPLY CHAIN MANAGEMENT

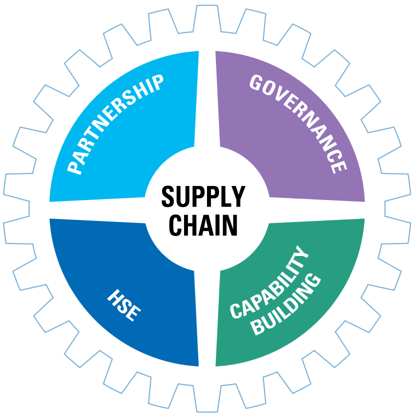
2012 marked a new chapter in Supply Chain Management with the merged entities of two yards. Indepth studies been conducted to adopt best practices of both entities to form more robust and value added processes to the business units. Merging of talents from both organisations has formed an SCM organisation which is business centric with more efficient delivery as a primary objective. On top of enhancing processes and tapping on best talents, 2012 was a year to focus on four key the fundamentals of supply chain.

OCTOBER

MMHE SCM VENDORS & CONTRACTORS DAY 2012

3 October 2012: The Supply Chain Management (SCM) division successfully organised the MMHE SCM Vendors & Contractors Day 2012 at Amansari Residence Resort in Johor Bahru. With the theme ‘SCM Transformation for Success’, the programme was held to build long term relationships and strengthen communications with our vendors and contractors. The event was enlivened with the active participation of more than 250 vendors and contractors from all over Malaysia.

OPERATIONAL HIGHLIGHTS (cont'd)



Partnership

MHB is a key industry player in Malaysia and we value our vendors and subcontractors as partners in our business. The success of MHB is heavily dependent on the strength of the support services surrounding the heavy engineering and marine industry in Malaysia and the region. To bond with our supporting partners, quarterly dialogue sessions were conducted and intensified in 2012 when MMHE held the inaugural Vendors and Subcontractors Day. The much anticipated event attracted a crowd of more than 500 industry players who are interested in partnering MHB. Through this event, MHB shared the vision and mission, the industry landscape and how vendors and contractors can support MHB in its quest to become a more prominent global player in the oil and gas and marine industry.

Establishing the Material Price Agreement and Subcontractor Frame Agreement had brought MHB to the attention of selected players in selected categories to allow more focused development of our partners' capabilities to enhance MHB's competitiveness. Only through a more intense partnership, mutual objectives for securing more success can be accomplished.

Governance

For a complex business with multiple stakeholders, good governance is essential for MHB's business success and sustainability. 2012 marked a new chapter in MHB's journey towards supporting the national agenda of nurturing citizens with high integrity. The launch of The Code of Conduct and Business Ethics (COBE) was timely and much called for. COBE has clearly enlightened good business conduct and ethics in the areas of No Gift Policy, Whistle Blowing Policy and Data Integrity and Protection. MHB's Supply Chain is the ultimate party to benefit from this policy.

COBE is now included as a section in all tenders and contracts with no compromise.

HSE (Health, Safety and Environment) Compliance

Supply Chain talents and MHB's partners are expected to comply with MHB's HSE rules and regulations. Contractual terms are very specific in outlining MHB's expectations on standard levels and key deliverables for HSE. A campaign was also conducted specifically on equipment maintenance to create more awareness on the importance of scheduled inspection and preventive maintenance to ensure the equipment is fit for use at all times. Good upkeep of equipment saves lives and directly contributes to the productivity of MHB's projects.

Capability Building in Supply Chain

SCM values its talents as they drive the success of MHB primarily in providing technically qualified and highly competitive partners to support our business in delivering on time and at cost. For fresh talents, a programme (PROCEED – Procurement Executive Development Programme) was designed and implemented to develop key skills in procurement and contract management through classroom training and practical exercise via attachments in selected units in supply chain for a predetermined period before placement to a specific SCM unit. For continuous sharpening of the skills of existing talents, Procurement Academy was designed and initiated to enrich knowledge and acquire more expertise in critical areas of the supply chain.

While developing the Material Price Agreement and Subcontractor Frame Agreement, SCM talents have also benefited from the learning-by-doing approach from experts who have guided the process in detail and shared in depth knowledge on strategic sourcing and partnership.

HUMAN CAPITAL DEVELOPMENT

At MHB people are recognised as the most important asset in positioning the Company as the regional hub for oil and gas construction, offshore conversion and marine repair. Continuous development of this important asset is, thus, an area that has been given great emphasis. In 2012, considerable resources were spent on competency enhancement activities particularly in the area of leadership development, technical, non-technical and Health, Safety and Environment (HSE) training programmes.

One area of importance was the development of fresh graduates as the future leaders of MHB particularly in the areas of engineering, procurement and contract. With a meticulously-structured framework, these new graduates were exposed to intensive on the-job and classroom training to accelerate their development. Started in 2011, the first batch completed their training last year with a total of 65 fresh graduates. In view of continued needs for talents in engineering and project management, the initiative will be sustained in 2013.

Going forward, learning and development activities will continue to be strategically focused and aligned with business needs. Identified areas include Frontline Supervision development, Project Execution, Supply Chain Management, Engineering Development, Business Development and Leadership/ Management Development.

Another major initiative is the identification and development of talent within the organisation. The 'talent pool' numbering about 600 would include employees from the executive to managerial levels. They will be developed in functional and management skills with a target of at least 70 manhours of training per person. 2013 will be a busy year for talent development at MHB.

SHARE PERFORMANCE

Year 2012	Closing Price	Volume Traded
December	4.40	14,485,400
November	4.41	14,084,700
October	4.83	16,834,300
September	4.76	16,917,200
August	4.78	11,258,700
July	5.31	14,032,800
June	5.30	9,200,100
May	4.98	19,283,500
April	5.04	13,922,400
March	5.49	30,874,000
February	5.33	25,093,100
January	5.36	17,239,000

FINANCIAL CALENDAR

2012

9 May 2012	2 August 2012	20 November 2012
Q1 FYE 2012 results announced	Q2 FYE 2012 results announced	Q3 FYE 2012 results announced

2013

21 February 2013	21 February 2013	18 June 2013
FYE 2012 full year results announced	Final dividend announced	Annual General Meeting

2 July 2013

Final Dividend payable

CORPORATE SOCIAL RESPONSIBILITY

MHB supports contributions that help people improve their livelihood while empowering them with new knowledge and skills to sustain them. In MHB, we have a caring culture of employees who give their time and effort for the enrichment of the community in which we operate.

Together with our employees, we have contributed to stakeholder welfare across the nation through social engagements and development programmes in the communities in which we operate. We strive to build relationships and maintain good rapport with our social industrial neighbours.

In the FYE 2012, we conducted the following programmes :

MHB Road Safety Programmes

MHB has successfully organised the MHB Road Safety Programme in collaboration with PETROSAINS. The programmes were held on 19 May 2012 and 8 November 2012 at Sekolah Kebangsaan Pasir Gudang 2 and Sekolah Kebangsaan Taman Rinting 2 respectively. This programme is aimed at educating school students on basic safety rules and regulations of road use and traffic order, civic responsibility skills, identifying traffic hazards and practical accident avoidance measures.

Spreading the Spirit of Holy Ramadan

In sharing the true spirit of Ramadan, MHB treated 43 orphans and underprivileged children from the Ar-Rayan Welfare Home to a sumptuous Ramadan meal in Johor Bahru. The breaking of fast was the Company's initiative to bring cheer to the children as well as lend a hand to the less fortunate in the community.

MHB Charity Drive

MHB has successfully raised RM 26,000.00 through a donation drive for the needy residents around the Pasir Gudang area. A total of 62 residents at Kampung Pasir Gudang Baru and Kampung Pasir Putih received food supplies worth RM320 and RM100 cash each. This programme is part of MHB's corporate social responsibility activities aimed at enhancing the company's relations with local communities.

Children's Back-to-School Sale

MHB contributes to staff welfare by also extending a hand to their family members. This Children's Back-to-School Sale was organised to help ease employees' financial constraints by subsiding their school uniforms and stationeries. The programme is an annual activity in MHB.

Internship Programme

MHB has also provided on-the-job training opportunities to undergraduates from local and foreign universities. Undergraduate and vocational interns were attached to both operations and corporate divisions and were assigned mentors to guide them in their learning process.

Contributions

MHB had extended contributions to numerous charitable causes such as orphanages, charities, non-governmental organisations, institutions of higher learning and government agencies.

The contributions were channelled towards:

- Terry Fox Run Kuala Lumpur 2012
- Majlis Kanser Nasional (MAKNA)
- Kelab Sukan dan Kebajikan, Bahagian Pelupusan, Pejabat Tanah Johor Bahru
- Malaysian Association Help for the Poor & Terminally Ill
- Royal Malaysian Navy Golf Tournament 2012
- Sekolah Kebangsaan Bandar Seri Alam
- World Kite Festival organised by the Pasir Gudang Municipal Council

Meet Your CHALLENGE

Transforming vision into reality requires a sphere of influence that fuels growth

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Malaysia Marine and Heavy Engineering Holdings Berhad ("Board") is committed to continually strive for the highest standard of corporate governance to be applied throughout Malaysia Marine and Heavy Engineering Holdings Berhad ("MHB") Group ("Group") which is essential in maximising shareholder value and building sustainable growth.

This statement sets out the Group's corporate governance processes and activities during the financial year with reference to the principles and recommendations on good governance as set out in the Malaysian Code on Corporate Governance 2012 ("Code").

THE BOARD

(a) Principal Responsibilities Of The Board

The main task of the Board is to oversee the overall strategy and business direction of the Group to assure the shareholders that their interests are being met in the best possible manner. The Board deals with and decides on Group related issues including:-

- the Group's strategies and business plan;
- business conduct and key operational initiatives;
- financial plans and annual budget and performance reviews;
- major investments, divestments and funding proposals;
- major human resource issues vis a vis talent development;
- risk management; and
- corporate governance practices.

As part of the Group's on-going effort to enhance the application of high standards of governance, the Board had, on 18 July 2012, reviewed and approved the revised Limits of Authority for the MHB Group, which define matters specifically reserved for the Board and those delegated to Management.

The Board has approved a Board Charter on 9 April 2013 which outlines its various responsibilities, functions and aspects concerning the Board. Generally, the Board Charter consists of the following components:

- Board roles and responsibilities in terms of composition and roles of Board, Board Committees, Directors, Chairman, Managing Director & Chief Executive Officer ("MD&CEO") and the Company Secretary.
- Board processes which include meetings, financial and non-financial reporting, decision making and performance monitoring.
- Board functions in the areas of policy and strategy, ethics and compliance, risk management, health, safety, security and environment as well as investor relations.
- Board development covering aspects on succession planning, performance assessment, remuneration and training needs of the Directors.

(b) Board Composition

The Board consists of nine (9) Directors, all of whom are non-executive, except for the MD&CEO. Of the eight (8) non-executive Directors, four (4) are independent Directors, which exceeds the requirement for one-third (1/3) of the Board members to be independent as set out under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

Although the Board does not comprise a majority of independent Directors as advocated under Recommendation 3.5 of the Code where the Chairman is not an independent Director, the balance of power and authority is maintained as the number of independent Directors exceeds the number of representatives of any single substantial shareholder. The size and composition of the Board are reviewed annually, taking into account the scope, nature and diversity of the business operations of the Group.

The profile of each Director is presented on pages 16 to 24 of the Annual Report.

The Board consists of members with a balance of skills, attributes, knowledge and experience. They are industry leaders and professionals who possess the background and expertise in specialised fields such as strategic planning, corporate finance and accounting, oil and gas industry, engineering and construction, procurement and contracts and management which are critical to the Group's business and growth. Each Director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

In line with the recommendation of the Code, the roles of the Chairman and the MD&CEO are kept separate to ensure an appropriate balance of power, increased accountability and capacity of the Board for independent decision making. The Board is headed by the Chairman who leads and ensures effective and comprehensive Board discussion including strategic issues and business development, planning and execution. The primary role of the MD&CEO is to effectively manage and supervise the day-to-day business operations of the Group in accordance with the Group's strategies and policies.

The independent non-executive Directors are independent of management and free from any business or other relationships that could materially interfere with their independent judgement in deliberating matters of the Board.

The non-executive Directors have the ability and business insights to ensure that the strategies proposed by the Management are fully deliberated and examined in the long-term interest of the Group, as well as the shareholders and other stakeholders.

Each individual member of the Board is expected to devote sufficient time to the Company in carrying out his or her duties and responsibilities. The current Board members are committed in serving the interest of the Company and ultimately the interest of the shareholders. Prior to acceptance of any new directorship not within the Group, the Directors shall notify the Chairman of the Board and the notification shall include an indication of time that will be spent on the new appointment.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

(c) Board Meetings And Supply Of Information

To assist the Directors in planning for their attendance at Board meetings as well as Annual General Meeting ("AGM"), the meetings are scheduled in advance of any new financial year. The Board meets on a scheduled basis, at least four (4) times a year in conjunction with the release of the Group's quarterly financial results to Bursa Securities. Additional meetings are held as and when required.

During the financial year ended 31 December 2012, eleven (11) Board meetings were held. Details of the attendance of the Directors in office during the financial year under review are as follows:-

Members	No. Of Meetings Attended
Datuk Nasarudin Md Idris (Chairman)	11 out of 11
Dato' Halipah binti Esa	11 out of 11
Late Datuk Khoo Eng Choo *(Passed away on 23 September 2012)*	8 out of 8
Heng Heyok Chiang @ Heng Hock Cheng	11 out of 11
Yong Nyan Choi @ Yong Guan Choi	10 out of 11
Bernard Rene Francois di Tullio	10 out of 11
Yee Yang Chien	10 out of 11
Captain Rajalingam Subramaniam	10 out of 11
Dominique de Soras	11 out of 11

All Board meetings follow an agenda, which together with a set of Board papers containing documentation for each item on the agenda, is distributed to the Board members prior to the Board meeting to ensure that Directors have sufficient time to evaluate the matters and be prepared for discussion at the meetings. However, sensitive matters may be tabled at the meeting itself. Members of senior management who may provide additional insights into the matters at hand will be present at the relevant time during the Board meeting.

Each scheduled Board meeting includes review of financial and non-financial information covering amongst others, strategic, operational, regulating, governance and human resource issues. Minutes of Board Committees Meetings are presented to the Board and the respective Committees' chairpersons brief the Board on major issues deliberated by each Board Committee. There are matters reserved specifically for the Board's decision, including the approval of the Group's plans and budget, major investments, acquisitions and divestments, appointment of key management positions, corporate scorecard, performance evaluation as well as establishment of key policies and procedures.

Minutes of the Board meetings which include a record of the decisions and resolutions of the Board meetings are properly maintained by the Company Secretary. The Directors have full access to the advice and services of the Company Secretary who is responsible for ensuring that Board meeting procedures are followed and that applicable rules and regulations are complied with.

(d) Appointment And Re-Election Of Directors

The Nomination & Remuneration Committee recommends to the Board, candidates for directorships to be filled in the Company by considering the following factors:-

- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- in the case of candidates for the position of independent non-executive Directors, the ability to discharge such responsibilities/functions as expected of an independent non-executive Director.

The Nomination & Remuneration Committee also make appropriate recommendations to the Board on the renewal or extension of Directors' appointment and re-election of retiring Directors.

The Company's Articles of Association provides that all Directors shall submit themselves for re-election at least every three (3) years in compliance with the Listing Requirements. The Articles of Association also provides that at least one-third (1/3) of the Directors who are longest in office shall retire from office and shall be eligible for re-election. Directors who are newly appointed by the Board shall hold office until the next Annual General Meeting of the Company and shall then retire and be eligible for election by the shareholders. Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with the Companies Act, 1965.

(e) The Board Committees

The Board is supported by the following Committees established by the Board to ensure the Board's effectiveness and to efficiently discharge its duties and responsibilities. Each Board Committee operates within its terms of reference, which clearly define its functions and responsibilities. Minutes of Board Committee meetings are circulated at Board Meetings.

Board Audit Committee ("BAC")

The BAC assists the Board in ensuring integrity of financial reporting and that there is in place sound internal control systems. Its main responsibilities are to ensure that there are effective risk monitoring and compliance procedures and to act in the interest of the shareholders in respect of matters or issues that affect the financial performance of the Group. The composition and the key functions of the BAC and the summary of its activities are as set out in the BAC Report on pages 84 to 88 of the Annual Report.

Nomination & Remuneration Committee ("NRC")

On 5 February 2013, the Board approved the merger of the Nomination Committee ("NC") and the Remuneration Committee ("RC") as a single committee known as the Nomination & Remuneration Committee. The members of the NRC are as follows:

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Name	Position
Heng Heyok Chiang @ Heng Hock Cheng	Chairman
Dato' Halipah binti Esa	Member
Choy Khai Choon	Member
Captain Rajalingam Subramaniam	Member
Yee Yang Chien	Member

The primary duties and responsibilities of the NRC include the following:-

- to make appropriate recommendations to the Board on matters of appointment to the Board and Board Committees;
- to conduct an annual review of the Board's required mix of skills and experience and other qualities, including core competencies which non-executive Directors should bring to the Board;
- to implement a process for assessing the effectiveness of the Board as a whole, the Board Committees and also the contribution of each individual Director to the effective decision making of the Board, through an evaluation process;
- to make recommendations to the Board on the appointment or extension of the employment of the members of the Management Committee; and
- to recommend to the Board the remuneration and compensation of the non-executive Directors, the MD&CEO, the members of the Management Committee and the bonus quantum for the Group.

Collectively, prior to the merger, the NRC had held eleven (11) meetings for the financial year ended 31 December 2012.

Since the end of the previous financial period, the NRC had reviewed the results of the evaluation on the performance of the Board for the financial year ended 31 December 2011 and outlined the key performance indicators to be prioritised for implementation in the year 2012. The annual review on the required mix of skills and experience of the Directors was conducted and a skills map was presented to ensure the Board has the required mix of skills and experience in line with the Group's objectives. Other matters deliberated by the NRC were the proposed new appointments to the Board and Management Committee, the proposed formulation of the Board Charter, the MHB corporate scorecard for the financial year ending 2013, the proposed revised remuneration package for the members of the Management Committee and the proposed performance rewards mechanism for the Group.

Board Bid Committee ("BBC")

The BBC was established on 19 November 2012 with the responsibility of reviewing any proposed bid submission by the MHB Group with an estimated value above RM2 billion. The primary duties and responsibilities of the BBC are to ensure that the bid proposals are comprehensive and in the best interest of the Group to allow the Group to make a reasonable profit margin which commensurate with the project risks.

The BBC's recommendation of any bid proposals will be based on, amongst others, Management's confirmation that proper risk assessments have been done and mitigation factors are identified, that the Group has the technical capabilities and competencies to meet potential technical challenges and the financial position of the Group is sufficiently adequate to undertake the projects.

The members of the BBC are as follows:

Name	Position
Heng Heyok Chiang @ Heng Hock Cheng	Chairman
Yong Nyan Choi @ Yong Guan Choi	Member
Bernard Rene Francois di Tullio	Member

(f) Directors' Remuneration

With the exception of the MD&CEO, all non-executive Directors are paid Directors' fees which shall be subsequently approved by the shareholders at the AGM. For the financial year under review, the breakdown of fees and meeting attendance allowances received by each Director are as listed below:-

Name of Directors	Annual Fees (RM)	Board Meeting Attendance Allowance (RM)	Board Committees Meeting Attendance Allowance (RM)	Total (RM)
Datuk Nasarudin Md Idris	108,000	44,000	-	152,000
Dato' Halipah binti Esa	72,000	33,000	42,000	147,000
Late Datuk Khoo Eng Choo *(Passed away on 23 September 2012)*	54,000	24,000	18,000	96,000
Heng Heyok Chiang @ Heng Hock Cheng	72,000	33,000	32,000	137,000
Yong Nyan Choi @ Yong Guan Choi	72,000	30,000	14,000	116,000
Bernard Rene Francois di Tullio	72,000	30,000	10,000	112,000
Yee Yang Chien	72,000	30,000	10,000	112,000
Captain Rajalingam a/l Subramaniam	72,000	30,000	12,000	114,000
Total	**594,000**	**254,000**	**138,000**	**986,000**

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The MD&CEO is not entitled to Directors' fee as he is remunerated as a member of Management. The MD&CEO's remuneration package comprised the following:-

i. Basic Salary

The basic salary for the executive Director was recommended by the RC and approved by the Board and is fixed for the duration of his contract.

ii. Variable Bonus

The bonus payable to the MD&CEO is measured against agreed targets and key performance indicators.

iii. Benefits-In-Kind

The MD&CEO is entitled to housing allowance and a company car.

The aggregate remuneration of Directors categorised into appropriate components are set out in the Financial Statements on page 136 of the Annual Report.

(g) Directors' Training

Pursuant to the Main Market Listing Requirements, a newly appointed Director is required to attend the Mandatory Accreditation Programme ("MAP") within four (4) months of his or her appointment. Mr Choy Khai Choon, who was appointed as an Independent Non-Executive Director of the Company on 5 February 2013, will complete the MAP within the stipulated time. All the other Directors have attended the MAP.

The Directors are encouraged to attend continuous education programmes, talks, seminars, workshops, conferences and other training programmes to enhance their skills and knowledge and to ensure Directors keep abreast with new developments in the business environment.

During the financial year under review, the Directors have attended, among others, the following programmes:-

Programme Title	Organised By	Date
CEO HSSE Forum 2012	Shell Malaysia	21 March 2012
2012 ExxonMobil Development Company Contractor Safety Forum	ExxonMobil Development Company	20 May 2012
25th World Gas Conference – Gas : Sustaining Future Global Growth	WGC2012 National Organising Committee	4 - 6 June 2012
Offshore Technology Conference Asia	WGC2012 National Organising Committee	28 September 2012
CEO Breakfast Forum	Korn/Ferry International	18 October 2012
MISC Group Contractors HSE Forum 2012	MISC Berhad	21 – 22 October 2012
Twenty Conversations @ Harvard	Linkage Inc	22 – 26 October 2012
2012 BCG Leaders' Forum – Make Talent, Not War	The Boston Consulting Group	29 October 2012
17th Turkmenistan International Oil & Gas Conference	The Chamber of Commerce & Industry of Turkmenistan	14 – 16 November 2012
5th Edition of the Malaysian-French Oil & Gas Forum	French Trade Commission - UBIFRANCE	22 November 2012
Directors' Annual Training 2012 - MCCG 2012 : Implications & Challenges to the Board of Directors - Corporate Planning : Execute Effective Transformation Process - Management Succession and Related Talent Management Issues : Insight for the Board of Directors	MISC Berhad	5 December 2012

SHAREHOLDERS AND INVESTORS

The Board values its dialogue and engagement with both institutional shareholders and private investors and recognises the importance of providing timely and equal dissemination of relevant information to them.

The AGM is the principal forum of dialogue with the shareholders and also an avenue for the Chairman and Board members to respond personally to all queries and provide sufficient clarification on issues and concerns raised by the shareholders. Shareholders are encouraged to attend, speak and vote at the Company's general meetings. In compliance with the Code, the Company will hold a poll voting whenever general meetings to decide on related party transactions are held.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Other than the forum of the AGM, the other medium of communication between the Company and shareholders and/or investors are as follows:

- quarterly financial statements and annual reports;
- announcements on major corporate developments to Bursa Securities pursuant to the Listing Requirements;
- the Company's general meetings;
- the Company's website at www.mhb.com.my; and
- briefing sessions between the Company's senior management and analysts/investors.

Further details on our investor relations activities are provided on pages 90 to 91 of the Annual Report.

ACCOUNTABILITY AND AUDIT

(a) Financial Reporting

The Board aims to present a balanced and meaningful assessment of the Group's financial performance, position and prospects, primarily through the annual financial statements and quarterly announcements of results to the shareholders as well as the Chairman's Statement and MD&CEO's Report on the business segment review in the Annual Report. The Board is assisted by the BAC to oversee the Group's financial reporting processes and the quality of its financial reporting.

(b) Internal Control

The Board acknowledges its overall responsibility for continuous maintenance of a sound system of risk management and internal control to safeguard shareholders' investment and the Group's assets. This principle is further elaborated under the Statement on Risk Management and Internal Control by the Directors on pages 78 to 83 of the Annual Report.

(c) Relationship with the External Auditors

The Board ensures that there are formal and transparent arrangements for the maintenance of an objective and professional relationship with the external auditors. The BAC met with the external auditors twice during the financial year without the presence of the Management to discuss any matters that they may wish to present.

(d) Related Party Transactions

The Group has put in place procedures, guidelines and internal controls to ensure that related party transactions ("RPTs") and recurrent related party transactions ("RRPTs") are entered into on normal commercial terms and on terms which are or will not be more favourable to the related parties than those generally available to third parties dealing at arm's length and are not or will not be to the detriment of the Company's minority shareholders.

The BAC reviews, from time to time:

(i) any RPTs/RRPTs and conflicts of interests that may arise within the Group; and

(ii) the procedures set by the Company to monitor RPTs/RRPTs to ensure that these transactions are carried out on normal commercial terms not more favourable to the related parties than those generally available to third parties dealing at arm's length and are not to the detriment of the Company's minority shareholders.

The internal guidelines pertaining to the governance of RPTs and RRPTs are summarised as follows:

(i) Information on related parties and procedures applicable to all RPTs/RRPTs which involve interest, direct or indirect, of such related parties shall be disseminated to all MHB's business units, service units and MHB's subsidiaries from time to time, for their reference in ensuring that all transactions with such related parties are undertaken on arm's length basis and on normal commercial terms which are not or will not be more favourable to the related parties than those generally available to the public.

(ii) All operating divisions and MHB's subsidiaries review their existing information systems on an on-going basis to ensure that features are incorporated into the systems for capturing information on RPTs/RRPTs at source. All heads of departments in the Group are advised to report on all transactions with related parties.

(iii) Proper records shall be maintained to record all transactions with related parties which are entered into and a database which contains the information on all RRPTs within the Group is being maintained.

(iv) RPTs/RRPTs will only be undertaken by the Company and subsidiaries after the Company or the relevant subsidiary has ascertained that the transaction prices, rentals, terms and conditions, quality of products/services will be comparable with those prevailing in the market and will meet industry standards. The transaction prices will be based on the prevailing market rates/prices of the service or product or will otherwise accord with the normal commercial terms and applicable industry norms. The interests of non-interested shareholders will also be taken into account when entering into RPTs/RRPTs to ensure that their rights and interests are upheld.

(v) Where possible, other contemporaneous/similar transactions with unrelated third parties for similar products/services and/or quantities will be used as comparison to determine whether the price and terms offered to/by the related parties are fair and reasonable and comparable to those offered to/by other unrelated third parties for the same or substantially similar type of products/services and/or quantities.

In the event that quotation or comparative pricing from unrelated third parties cannot be obtained, the transaction price will be based on prevailing market rates or prices that are agreed upon under similar commercial arrangements for transactions with third parties, business practices and policies and other methods of price comparison and on terms which are generally in line with industry norms in order to ensure that the RRPTs are not detrimental to the Company or the Group.

(vi) Ongoing awareness sessions with employees and stakeholders to ensure sufficient knowledge on RPTs/RRPTs in order to comply with the Listing Requirements;

(vii) Internal audit shall review the internal control process and records of RPTs/RRPTs within the affected scope during the course of audit engagements to verify that the relevant approvals have been obtained and procedures in respect of such transactions are adhered to. Any divergence will be reported to the BAC.

(viii) The BAC shall review the audit reports and any other reports required from time to time to ascertain that the procedures established to monitor RPTs/RRPTs have been complied with.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

(ix) In the event that a member of the BAC or Board has an interest and/or deemed interest in any particular RPT/RRPT, he or she shall declare his or her interest therein and will have to refrain from any deliberation and also abstain from voting on the matter at the BAC meeting or Board meeting in respect of that transaction.

(x) MHB's Limits of Authority also reflect the relevant thresholds for the approval of RPT/RRPT. A process flow is defined to articulate the necessary steps of the process.

(xi) If the BAC is of the view that the above mentioned procedures are insufficient to ensure that RPTs/RRPTs are undertaken on an arm's length basis and on normal commercial terms and on terms that are not more favourable to the transacting party than those generally available to third parties dealing at arm's length during their periodic review of the procedures, the BAC has the discretion to request for additional procedures to be imposed on the RPTs/RRPTs.

Details of the RRPTs entered into by the Group during the financial year ended 31 December 2012 are set out below:-

Nature of Transaction	Transacting Party	Related Party
Fabrication and construction of oil and gas offshore structures	• PETRONAS Carigali Sdn Bhd • Kebabangan Petroleum Operating Company Sdn Bhd	Petroliam Nasional Berhad ("PETRONAS")[1]
	• MISC Berhad ("MISC")	MISC[2]
Provision of dry docking and repairs of vessels	• MISC	MISC[2]
Provision of conversion, life extension of vessels into Floating, Production, Storage and Offloading ("FPSO")/ Floating, Storage and Offloading ("FSO")	• MISC	MISC[2]
Purchase of oil products from PETRONAS Group	• PETRONAS Dagangan Berhad • PETRONAS Smartpay Centre Sdn Bhd	PETRONAS[1]
Provision of services/sale of equipment & materials	• Prime Sourcing International Sdn Bhd • PETRONAS Management Training Sdn Bhd • PETRONAS Carigali Sdn Bhd • Industrial Gas Solutions Sdn Bhd	PETRONAS[1]
	• MISC Agencies (Singapore) Pte Ltd	MISC[2]
Provision of logistics solution	• MISC Integrated Logistics Sdn Bhd	MISC[2]

[1] *PETRONAS is a major shareholder of the Company, being the holding company of MISC.*
[2] *MISC is a major shareholder of the Company*

CODE AND POLICIES

The existing MHB Code of Conduct has been superseded by a new MHB Code of Conduct and Business Ethics ("CoBE") approved by the Board on 25 September 2012. The CoBE is benchmarked to international standards and contains detailed policy statements on the standards of behaviour and ethical conduct expected of all employees and Directors within the Group. Generally, it is separated into four (4) parts as follows:

- Part I – Core Values and Culture
- Part II – Duties of Good Faith, Fidelity, Diligence and Integrity
- Part III – Workplace Culture and Environment
- Part IV – Discipline, Disciplinary Process and Sanctions.

To complement the objectives of the CoBE, the Board had also approved the following policies:

(a) No Gift Policy which prohibits the receiving and offering of gifts to prevent unethical practice. Improper solicitation, bribery and other forms of facilitation deemed as corrupt are also prohibited under the policy.

(b) Whistleblowing Policy which provides an avenue for employees and members of the public to disclose any improper conduct within the Group.

This statement is made in accordance with the resolution of the Board of Directors duly passed on 9 April 2013.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Malaysian Code on Corporate Governance 2012 requires the Board of Directors ("the Board") to establish a sound risk management framework and internal controls system, and disclose in the annual report the main features of this risk management framework and internal controls system.

Further, pursuant to Paragraph 15.26(b) of the Bursa Securities Listing Requirements, the Board is also required to include in the company's annual report, 'a statement about the state of internal controls of the listed issuer as a group'.

The Board of Directors ("the Board") is pleased to provide the following statement which outlines the nature and scope of internal control of the Group during the financial year ended 31 December 2012 and is committed to continuously improve the Group's system of internal control.

ACCOUNTABILITY OF THE BOARD

The Board recognises its principal responsibility of establishing a sound risk management framework and internal control system, as manifested in Recommendation 6.1 of the Malaysian Code on Corporate Governance 2012.

Accordingly, the Board has entrusted the responsibility of managing risks to the Board Audit Committee (BAC). The BAC via the Risk Council (RC), has put in place a systematic risk management framework adopted from the PETRONAS Risk Governance Framework to identify, evaluate and manage the principal risks of the Group and implement appropriate internal control system to manage these risks, of which details are set-out in the following pages.

In dealing with risks, the Board understands that it is not always possible or cost effective to manage or eliminate risk all together. Accordingly, these internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss, or the occurrence of unforeseeable circumstances. Thus, the Board adopts a cost-benefit approach to ensure the returns must commensurate with the risks taken and reduce cost of risk controls.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework (RMF) was endorsed by BAC on 3 May 2012, which includes risk management policy, risk management manual, generic guidelines and project guidelines. RMF is adopted in MHB thereafter.

In addition, the management has leveraged on the PETRONAS Risk Governance Framework to ensure all business risks are prudently identified, evaluated and managed in accordance with acceptable international standards, principles and guidelines on risk management.

The framework of risk management encompasses the following key elements:

- **Risk Management Policy**

  The Group adopts the PETRONAS Enterprise Risk Management ("ERM") policy in identifying, assessing, reporting and monitoring the ever changing risks facing the Group and take specific measures to mitigate these risks. The policy stresses the importance of balancing between risk and reward in making business decisions to protect key stakeholders' interests, and to comply with all statutory and legal requirements. In addition, MHB leverages on PETRONAS ERM approaches, standards and current initiatives in implementing ERM.

- **Risk Governance Structure**

  The RC was established in 2011 to assume the role of risk oversight and governance responsibilities.

  The RC which mainly consists of members of management is primarily responsible for driving the Risk Management framework and acts as the central platform of the Group to undertake the following key responsibilities:

  - Assist the Management in identifying principal risks at Group level and providing assurance that the ERM is implemented group-wide to protect and safeguard MHB interest;
  - Review and recommend frameworks and policies specifically to address enterprise risk inherent in all business operations and environment pertaining to the Group; and
  - To provide a reasonable assurance to the BAC that the Group's risks are being managed appropriately.

  The implementation of risk management activities are undertaken at corporate and business units/subsidiaries level and risk reports are reviewed and monitored by the Risk Management Unit ("RMU") on regular intervals prior to escalation to RC. Each appointed risk focal person owns the responsibility for risk management activities in their specific department/unit to ensure consistent implementation of risk management across the Group.

  The RC meets on a regular basis to update any risk management issues to the Management Committee ("MC"), Managing Director and Chief Executive Officer ("MD & CEO") and BAC which then updates the Board.

RISK MANAGEMENT PROCESS

The risk management process in MHB requires management to identify business risks at strategic, operational and tactical levels, and assess these risks in terms of likelihood and magnitude of impact, as well as to identify and evaluate the adequacy of mechanisms in place to manage these risks. This process involves assessments at business unit process level before being examined on a Group / strategic perspective.

The following summarizes the key risk management activities undertaken during the year in review:

- **Enterprise Risk Management**

  The board acknowledges the significance of managing key risks events to sustain the achievement of business objectives. RMU had worked closely with Business Units (BU), and Service Units (SU) to reassess their respective risk profiles and address MHB's key risk events via Generic Risk Assessment (GRA). GRAs determine the severity of risks in Enterprise Risk Management (ERM).

- **Project Risk Assessment**

  Project Risk Assessment (PRA) is conducted for capital intensive projects to ensure that the project returns commensurate with the level of risk taken and the controls in place.

  During the year in review, RMU had undertaken PRAs on specific projects, to identify the projects' risks in advance and implementing controls either to reduce or eliminate the risk impact. In addition, PRAs are used to develop the projects portfolio profile for MHB.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

KEY PROCESSES OF GROUP'S SYSTEM OF INTERNAL CONTROL

The process of governing the effectiveness and integrity of the system of internal control is carried throughout the various areas as follows:

1. The **BAC** operates within its terms of reference in ensuring that there is effective risk monitoring, internal control and corporate governance to provide the level of assurance required by the Board.

2. **MHB Group Internal Audit Division ("GIA")**, which is functionally reporting directly to the BAC, performs independent planned approved audits and initiatives within the Group in evaluating and assessing the effectiveness of risk management, internal control and governance processes. GIA also conducts additional assurance assignments, and special reviews arising from any potential irregularities upon request by the Management or BAC. The BAC reviews, deliberates and endorses the annual and long term audit plan and strategy including scope of work and resources. Results of the audit engagement are presented and deliberated during quarterly BAC meetings.

   The Group focuses on disciplined execution of audit plans, submission of audit findings, recommendations on audit issues and close follow-up of the Agreed Corrective Actions ("ACAs") which are encompassed in the audit reports. GIA monitors the status of implementation of these ACAs through the Quarterly Audit Status Report of which they are recorded and analysed. The consolidated reports are submitted and presented to the BAC for deliberations and endorsement on quarterly basis.

   In addition, BAC conducts half yearly and yearly review and assessment on the adequacy of GIA's scope of work, functions and resources including its annual plan and strategy. The conducts of internal audit work is governed by the Internal Audit Charter and the Internal Audit Charter Memorandum.

3. The **Bid Approval Committee ("BiAC")** is responsible to ensure various project-related risks are identified and evaluated during the bidding stage. The risk assessment activities include review on the bid proposal, proposed contract terms and conditions as well as bid clarifications. The BiAC also will propose bid approach method and negotiation strategy for bid during the assessment. All **BiAC** members are members of the **Management Committee ("MC")**.

4. **Senior Management** sets the tone for an effective control environment and culture in the organization through the Group's shared values, developed to focus on the importance of these four key values:
   - Loyalty
   - Integrity
   - Professionalism
   - Cohesiveness

   The importance of the shared values is manifested in the adoption of the **MHB Code of Conduct & Business Ethics ("CoBE")** applicable and issued to all staff upon joining. Employees are required to strictly adhere to the CoBE in performing their duties.

5. The **HSE Management Committee ("HSE MC")** is responsible for setting the overall direction on HSE vision, mission, values, objectives, strategies, action plans, goals and resources; to continuously meet legal compliance, client expectations, standards alignments and industry best practices. **HSE MC** also **drives Value-added Performance Measurements** to ensure HSE risks are managed to As Low As Reasonably Practicable ("ALARP") by carrying out mitigation programs which are reviewed annually.

6. There is also a **Corporate Security Department ("CSD")** which maintains a clear policy, procedures and framework with the aim to continuously monitor adherence to established industry security standards as well as international security standards applicable under the International Ship & Port Facility Security (ISPS) 2002 code.

OTHER SIGNIFICANT ELEMENTS OF INTERNAL CONTROL SYSTEMS

1. The Board reviews quarterly reports from Management on key operating performance, legal, environmental and regulatory matters. Financial performance is deliberated by the MC and also tabled to the BAC and Board on a quarterly basis.

2. **Limits of Authority ("LOA")** manual provides a sound framework of authority and accountability within the organization and facilitates quality and timely corporate decision making at the appropriate level in the organization's hierarchy. The Board has approved the revised LOA on 18 July 2012 to further enhance the decision making process to suit with the current organizational structure.

3. The Group performs a comprehensive annual planning and budgeting exercise which involves the development of business strategies for the next five years to achieve the Group's vision. The long term strategies are supported by initiatives to be accomplished in the upcoming year, and for effective implementation, the initiatives are tied to specific measurable indicators which will be evaluated against the relevant business/service units and subsidiaries' deliverables. The Group's strategic directions are then reviewed annually taking into account current progress level and other indicators such as latest development in the industry, changes in market conditions and significant business risks. In addition to that, the Group's business plan is translated into budgetary numbers for the next five years and is presented to the Board annually for deliberation and approval. During the year, financial performance is analyzed and reported monthly and quarterly to the Group's MC.

4. The Group had implemented the **PETRONAS Financial Control Framework ("FCF")** initiative of which the principal objective is to enhance the quality of the Group's financial reports through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Group at all times. FCF requires among others, documentation of process workflows, key controls, remediation of control gaps as well as a regular conduct of testing of control operating effectiveness.

   On a semi-annual basis, each key process owner at various management levels is required to complete and submit a Letter of Assurance which provides confirmation of compliance to key controls for the areas of the business for which they are accountable.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

5. There is a clear procedure for **investment appraisal** for equity investment or divestment or capital expenditure. In relation to Yard Optimisation programme, a specific review will be conducted by **Technical Review Committee** for the technical aspects of the programme and the commercial feasibility of the programme will be deliberated by Management during the Management Committee meeting before submission to the Board for approval to implement.

6. **Procurement process is governed by a series of policies and guidelines** to ensure that a sound framework of authority and accountability within the organization and facilitates quality and timely corporate decision making at the appropriate level in the organization's hierarchy. These guidelines and policies are aligned with the LOA to support the objective of project-centric organization with improved accountability and efficient delivery of projects. High purchase tendering activities are facilitated by a central SCM Tender Secretariat to reinforce the objective of doing transactions in effective, transparent and fair manner in the interest of the Group. Recommending bodies and approving authorities consist of members from Supply Chain Management ("SCM") and Business/Service Units to ensure balanced perspectives for decision on purchasing transactions.

7. The professionalism and competency of staff are enhanced through structured development programmes and potential entrants or candidates are subject to a stringent recruitment process. A **Performance Management System ("PMS")** has been established with performance and behavior indicators to review and measure staff performance and conduct or work-related behavior. Action plans to address staff developmental requirements are prepared and implemented in a timely manner. This is to ensure that staff are able to deliver the expected performances in order for the Group to achieve its plans and targets. The review of the staffs' performance, upgrading and promotion is conducted by **Management Development Committee** for Managerial grade and above, whereas the performance, upgrading and promotion for Executive grade and below is performed by **Executive Development Committee**. Both committees convene on a quarterly basis during the year under review.

   The Board does not regularly review the internal control system of its jointly controlled entities, as the Board does not have direct control over their operations. Notwithstanding, the Group's interests are served through representation on the board of the respective jointly controlled entities, placement of management staff as key employees of the jointly controlled entities and receipt and review of management accounts and inquiries thereon. These representations also provide the Board with information for timely decision making on the performance of the Group's investments of the jointly controlled entities.

   The Board has received the assurance from the Managing Director and Chief Executive Officer ("MD & CEO") and Chief Financial Officer ("CFO") that with the exception of its jointly controlled entities, the Group's risk management and internal control system is operating adequately and effectively in all material aspects based on the risk management and internal control system of the Group.

REVIEW BY EXTERNAL AUDITORS

The external auditors, Messrs Ernst & Young, have reviewed this Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2012, in compliance with Paragraph 15.23 of the Listing Requirements in accordance with guidelines issued by the Malaysian Institute of Accountants, and reported to the Board that nothing has come to their attention to cause them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

For the financial year under review, based on enquiry, information and assurance provided, the Board is satisfied that the system of internal control was generally satisfactory. Measures would continuously be taken to ensure ongoing adequacy and effectiveness of internal controls, and to safeguard the Group's assets and shareholders' investment.

This statement is made in accordance with the resolution of the Board of Directors dated 9 April 2013.

BOARD AUDIT COMMITTEE REPORT

The Board of Directors of Malaysia Marine and Heavy Engineering Holdings Berhad is pleased to present the Board Audit Committee ("BAC" or "the Committee") Report for the year ended 31 December 2012.

COMPOSITION AND MEETINGS

The BAC consists of four (4) independent and one (1) non-independent Directors. The late Datuk Khoo Eng Choo who was a member of the Malaysian Institute of Accountants ("MIA"), had passed away on 23 September 2012. Mr Choy Khai Choon, who is a member of MIA, was appointed on 5 February 2013 as an Independent Non-Executive Director of the Board and a member of the BAC.

During the financial year, seven (7) BAC meetings were held. The BAC members and their details of attendance at the BAC meetings are as follows:-

Members	Designation	No. of meetings attended
Dato' Halipah binti Esa (Independent Non-Executive Director)	Chairperson	6 out of 7
The late Datuk Khoo Eng Choo (Independent Non-Executive Director)	Member	6 out of 6
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Member	7 out of 7
Yong Nyan Choi @ Yong Guan Choi (Independent Non-Executive Director)	Member	7 out of 7
Bernard Rene Francois di Tullio (Non-Independent Non-Executive Director)	Member	5 out of 7

THE TERMS OF REFERENCE

Composition

The Committee shall be appointed by the Board from amongst its Directors and shall consist of not less than three (3) members with the majority being independent Directors. At least one (1) member of the Committee must be a member of the MIA or have at least three (3) years working experience and have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967 or be a member of one of the associations of accountants specified by Part II of the 1st Schedule of the Accountants Act 1967.

No alternate Director can be appointed as a member of the Committee. The members of the Committee shall elect a Chairman from among the members who shall be an Independent Non-Executive Director.

Meetings

Meetings shall be held not less than four (4) times a year. The quorum shall be two (2) members. The external auditors may request a meeting of the Committee if they consider it necessary.

At least twice a year, the Committee shall sit with the external auditors without any executive Board Member present. The Secretary of the Committee shall be the Company Secretary or any other person appointed by the Committee. The Managing Director & Chief Executive Officer, the Chief Financial Officer, Head of Group Internal Audit Division and representative of the external auditors shall normally attend the meetings of the Committee.

At the conclusion of each meeting, recommendations are made for the Management to improve the internal controls, procedures and systems of the Group, wherever applicable.

Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference and may obtain external legal or independent professional advice if it considers necessary.

Duties and Responsibilities

The duties of the Committee shall include the following and other duties as may be determined by the Board from time to time:-

Review, appraise, report and make appropriate recommendations to the Board of Directors on:-

a. the audit plan, evaluation of the system of internal controls and the internal audit report with the internal and external auditors;
b. the assistance and co-operation given by the employees of the Group to the external auditors;
c. the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
d. the internal audit programme, processes and the results of the internal audits or investigation undertaken and whether or not appropriate action has been taken on the recommendations of the internal audit functions;
e. the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
    - changes in or implementation of major accounting policy changes;
    - significant and unusual events; and
    - compliance with accounting standards and other legal requirements;
f. any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raise questions of management integrity;
g. the quality and effectiveness of the entire accounting and internal control system of the Group;
h. the accounting policies adopted by Management and accepted by the external auditors, where alternatives are also acceptable;
i. the effects of any change in accounting principles or of any development emanating from the accounting profession or any statutory authority;
j. the adequacy of the disclosure of information essential for a fair and full presentation of the financial affairs of the Group;
k. any significant difficulties encountered or material discoveries and findings made by the internal or external auditors; and
l. the firm of external auditors retained by the Group and the fees payable to the external auditors and any change in their fees, and recommendation, if any, to retain or replace such firm in the ensuing year.

BOARD AUDIT COMMITTEE REPORT (cont'd)

SUMMARY OF ACTIVITIES

In line with the terms of reference of the BAC, the following activities were carried out by the Committee during the financial year:-

i. Financial and Annual Reporting

(a) Reviewed and recommended for Board's approval, the quarterly financial statements and the necessary announcements relating to the Group's financial results to Bursa Malaysia.

(b) Reviewed and recommended for Board's approval, the annual audited financial statements.

(c) Reviewed and recommended for Board's approval, the Statement on Corporate Governance, the Statement on Internal Control and the BAC Report for inclusion in the Annual Report.

(d) Reviewed the implications on the adoption of the Malaysian Financial Reporting Standards to the MHB Group.

ii. Internal Audit

(a) Reviewed the long term and annual internal audit strategy and plan to ensure adequate scope and comprehensive coverage over the activities of the Group.

(b) Reviewed the internal audit reports issued by the internal audit division on the effectiveness and adequacy of governance, risk management, operational and compliance processes.

(c) Reviewed the adequacy and effectiveness of agreed corrective actions taken by the Management on all significant and secondary audit issues raised.

(d) Reviewed the effectiveness and adequacy of audit process, resource requirements and assessed the performance of the internal audit team on half yearly basis.

(e) Prior to the Committee meetings, the Chairperson held private sessions and discussions with the Head of the internal audit division on audit reports and any internal audit related matters.

(f) Reviewed and recommended for Board's approval, the formation of MHB Group Internal Audit Division and the cessation of outsourcing the internal audit functions to Group Internal Audit of MISC Berhad.

(g) Reviewed and endorsed the revision to the MHB Internal Audit Charter and the Internal Audit Charter Memorandum.

iii. External Audit

(a) Reviewed the external auditors' terms of engagement, audit plan and strategy and scope of work for the financial year.

(b) Reviewed the results and issues arising from the external audit for the financial year and the resolution of issues highlighted in their report to the BAC and Management's response.

(c) Assessed the performance and effectiveness of the external auditors and made recommendations to the Board on their appointment and audit fee.

(d) Met with the external auditors without the presence of Management to ensure there were no restrictions on the scope of their audit and to discuss any matters that they may wish to present.

iv. Risk Management

(a) Reviewed the progress of the risk management functions and its on-going activities for identifying, evaluating, monitoring and managing risks.

(b) Received and reviewed quarterly reports from Management on key strategic and operational risks to ensure these are being managed effectively.

(c) Reviewed and endorsed the MHB Risk Management Policy, Manual and Guidelines.

v. Related Party Transactions

(a) Reviewed the related party transactions entered into by the Group on a quarterly basis.

(b) Considered the report and findings of the Independent Adviser's review on the methods and procedures in determining the transaction prices of recurrent related party transactions of the MHB Group.

vi. Others

(a) Reviewed and recommended for Board's approval, the proposed revision to the Limits of Authority Manual for the Group.

INTERNAL AUDIT FUNCTIONS AND ACTIVITIES

The Group's internal audit functions had been outsourced to the Group Internal Audit of MISC Berhad until 15 May 2012 when it formed its own MHB Group Internal Audit Division ("GIA"). GIA assists the BAC in the discharge of its duties through independent scheduled audits to ensure there are effective risk monitoring, internal controls, governance process and compliance procedures to provide the level of assurance required by the Board.

In conducting their independent audits, GIA places emphasis on risk based auditing approach which forms an integral part of the audit plans. The key in solving lapses in internal control is the disciplined execution of the audit plans, submission of audit findings, recommendations on audit issues and close follow-up of the Agreed Corrective Actions which are encompassed in the audit reports. Such regular monitoring is essential to ensure the integrity and effectiveness of the Group's system of internal control.

GIA submits their findings and recommendations on audit issues to the Managing Director & Chief Executive Officer of the Company at audit close out meetings to share and agree on issues that may have arisen during such audits. Subsequently, the reports together with deliberations at the audit close out meetings are tabled at the BAC meetings for decisions.

At the Board of Directors' meetings, the Chairperson of the Committee highlights key audit issues and overall decisions and resolutions made during the BAC meeting to the Board members.

During the financial year, GIA had carried out audits according to the internal audit plan approved by the BAC. The total cost incurred for the internal audit function for the financial year ended 31 December 2012 was RM928,000.

BOARD AUDIT COMMITTEE REPORT (cont'd)

BAC STATEMENT ON RECURRENT RELATED PARTY TRANSACTIONS (RRPTs)

The BAC has reviewed the RRPTs mentioned on page 76 of the Annual Report and is of the view that the methods and procedures for determining the price and terms of the RRPTs of the MHB Group have not changed since the issuance of the Independent Adviser's opinion by PricewaterhouseCoopers Capital Sdn Bhd ("PwCC") dated 4 April 2012. The said letter of opinion from PwCC was published in the Company's Annual Report for the financial period ended 31 December 2011.

The BAC also confirmed that the methods and procedures as mentioned above are sufficient to ensure that the RRPTs will be carried out on normal commercial terms and are not to the detriment of the Company's minority shareholders.

This statement is made in accordance with the resolution of the Board of Directors duly passed on 9 April 2013.

DIRECTORS' RESPONSIBILITY STATEMENT
ON PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible to prepare annual audited financial statements of the Group and of the Company in accordance with the provisions of the Companies Act, 1965 and the requirements of the Malaysian Financial Reporting Standards ("MFRS") issued by the Malaysian Accounting Standards Board. The financial statements also comply with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The Directors are also responsible to ensure that the annual audited financial statements of the Group and of the Company are prepared with reasonable accuracy from the financial records of the Group and of the Company so as to give a true and fair view of the state of affairs of the Group and of the Company as at the financial year and of their financial performance and the cash flows for the financial year then ended.

In preparing the annual audited financial statements of the Group and of the Company for the financial year ended 31 December 2012, the Directors have ensured that the appropriate and relevant accounting policies were adopted and consistently applied, reasonable and prudent estimates were exercised and a going concern basis was adopted. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied.

The Directors have the overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Company to prevent and detect fraud and other irregularities.

This statement is made in accordance with the resolution of the Board of Directors dated 9 April 2013.

INVESTOR RELATIONS REPORT

The financial period under review is a twelve-month period and is now concurrent with the calendar year, which ended on 31 December 2012. Throughout the year, MHB has continued with active communication and dialogue with the investment community and our shareholders. The objective of MHB IR Programme is to ensure regular, fair, effective and timely communication with our stakeholders, including members of the financial community. The Company strives to ensure that members of the investment community have sufficient overall understanding of the Group's operations, financial performance and corporate strategies to make informed investment decisions.

Some of the IR programme highlights and initiatives during the year are as follows:

- Provide timely disclosure of information on quarterly results, corporate developments and all material announcements as required under Bursa Malaysia's Listing Requirements

- MHB has revamped its corporate portal and enhanced the user-friendliness and overall visual appeal of the Company's website. The dedicated IR section has been enhanced and most recent uploads are now displayed prominently. Quarterly IR Reports and slide presentations shown during the Company's Analyst Briefings were being uploaded on the corporate portal, http://www.mhb.com.my/, on the same day when the quarterly financial results are announced to Bursa Malaysia. This enables simultaneous and instantaneous dissemination of information to all of the Company's stakeholders

- Analyst briefings were conducted during the final quarter and six-month period by MD & CEO and CFO to provide a comprehensive review of MHB's financial performance, operations, initiatives as well as strategies going forward

- The analyst briefings conducted include an update on projects that have been completed or delivered such as the topside and jacket for Telok-A, the topside and jacket for Tapis-Q, and the 1st high pressure high temperature (HPHT) platform in Malaysia – the Kinabalu non-associated gas (NAG) topside and floating storage unit (FSU) Lekas. Newly secured and signed contracts for 2012 includes F14/F29 topsides, substructure and process module, Damar platform, hook-up and commissioning (HUC) of the Kinabalu NAG topside, the novation of the Kebabangan topside project and the LoA received for the TLP Malikai Deepwater Project. MHB also updated the investment community and our shareholders on ongoing transformation initiatives that have been implemented in 2012 and also broadly going to be implemented in 2013. Regular updates on the Company's ongoing yard optimisation programme were also provided

- MHB conducted a teleconference call for the 3rd Quarter 2012 financial results to promote greater transparency to the financial community. The teleconference call also accommodated some regional members of the financial community

- MHB participated and presented at Invest Malaysia 2012 in Kuala Lumpur. The conference was organised by Maybank Investment Bank and MHB was invited and given the privilege to update domestically-based as well as regional fund managers that attended the event

- MHB organised two visits to our Pasir Gudang yards in Johor Baru during the period under review. The first was organised in March 2012 to provide members of the investment community and fund managers a better understanding and appreciation of MHB's operations and structures that were currently being fabricated at the yards, particularly the Gumusut-Kakap project. The second visit was organised in collaboration with Maybank Investment Bank to promote and update stakeholder groups on MHB's business strategy and operations annual report 2012

- MD & CEO gave a presentation during the Company's 23rd Annual General Meeting in June 2012, giving minority shareholders, invited guests and representatives from the Minority Shareholder Watchdog Group (MSWG), an update on MHB's business operations, financial results, recently acquired contracts, strategic plans and initiatives

- Minority shareholders were also given the opportunity by MHB's Board of Directors to have their queries answered during the Company's 23rd Annual General Meeting

- Research reports written by analysts were compiled regularly. Feedback was compiled and summaries provided to senior management of MHB on the investment community's views of the Company, which was used to manage market expectations

- The IR team conducted regular one-on-one meetings with analysts, fund managers and shareholders. To maintain an effective two-way communications with the investment community, the IR team also co-arranged and hosted a lunch meeting with investment analysts and fund managers attended by MD & CEO and CFO. Enquiries were also attended to on a timely manner

In 2012, MHB was included in The Edge Billion Ringgit Club by The Edge Malaysia. Established in 2010, The Edge Billion Ringgit Club groups together companies with at least RM1,000,000,000 in market capitalisation as a testament to the efforts undertaken by these companies to grow shareholders' value. It reflects MHB's continuous impetus to achieve better performance, transparency and corporate governance.

As at 2012, MHB remained in both the Morgan Stanley Capital International (MSCI) Malaysia Index and FTSE Bursa Malaysia KLCI Index. These indices are widely used as benchmark by domestic and international institutional investors to measure the equity market's performance.

The following Management Personnel are responsible for IR activities:
Managing Director & Chief Executive Officer
Chief Financial Officer
Investor Relations

ADDITIONAL COMPLIANCE INFORMATION

The following information is provided in accordance with Paragraph 9.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as set out in Appendix 9C thereto.

1. STATUS OF UTILISATION OF PROCEEDS

As at 9 April 2013, the status of utilisation of proceeds raised from corporate exercise is as follows:

Members	Original Proposed Utilisation RM '000	Revised Proposed Utilisation RM '000	Actual Utilisation RM '000	Intended Timeframe for Utilisation	Deviation	
					Amount RM '000	%
Yard optimisation programme	833,780	445,830	386,150	Within 48 months upon listing	–	–
Capital Expenditure in Turkmenistan	110,000	110,000		Within 48 months upon listing	–	–
Listing Expenses	37,000	31,517	31,517[1]	Fully utilised	–	–
Acquisition of Pasir Gudang yard from Sime Darby Engineering Sdn Bhd (Acquisition)	–	393,433	393,433[2]	Fully utilised	–	–
Total	**980,780**	**980,780**	**811,100**		–	–

[1] As the actual listing expenses were lower than the estimated amount, the unutilised balance of RM5,483,000 was allocated for the yard optimisation programme as per disclosure in the Company's Prospectus dated 6 October 2010.

[2] The amount of RM393,433,000 which was utilised for the purchase consideration of the Acquisition forms part and parcel of the yard optimisation programme.

2. MATERIAL CONTRACTS

There were no material contracts entered into or subsisting between the Company and its Directors or major shareholders during the financial year except as disclosed in the audited financial statements of this Annual Report.

3. SANCTIONS AND/OR PENALTIES

During the financial year, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory body.

4. NON-AUDIT FEES

The amount of non-audit fees paid to the Company's external auditors or their affiliates for services rendered to the Group for the financial year ended 31 December 2012 was RM5,700 (RM5,570 for the financial period ended 31 December 2011).

5. SHARE BUY-BACKS

The Company did not purchase any of its own shares during the financial year.

6. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company did not issue any options, warrants or convertible securities during the financial year.

7. DEPOSITORY RECEIPT PROGRAMME

The Company did not sponsor any depository receipt programme during the financial year.

8. PROFIT ESTIMATE, FORECAST OR PROJECTION

The Company did not make any release on the profit estimate, forecast or projection for the financial year.

9. PROFIT GUARANTEE

The Company did not give any profit guarantee during the financial year.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and jointly controlled entities are described in Note 15 and Note 16 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

The results of the Group and of the Company for the financial year ended 31 December 2012 are as follows:

	Group RM'000	Company RM'000
Profit net of tax	243,196	178,387
Profit attributable to:		
Equity holders of the Company	242,008	178,387
Non-controlling interests	1,188	–
	243,196	178,387

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividend paid by the Company since 31 December 2011 was as follows:

	RM'000
In respect of the financial period ended 31 December 2011 as reported in the directors' report of that period:	
Final single tier dividend of 10 sen per share on 1,600,000,000 ordinary shares, paid on 4 July 2012	160,000

DIVIDENDS (CONT'D)

At the forthcoming Annual General Meeting, a final single tier dividend will be proposed for shareholders' approval in respect of the financial year ended 31 December 2012 of 10 sen per ordinary share on 1,600,000,000 ordinary shares, amounting to a dividend payable of RM160 million. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2013.

DIRECTORS

The names of the directors of the Company in office since the date of the last report are:

Datuk Nasarudin bin Md Idris	
Dato' Halipah binti Esa	
Heng Heyok Chiang @ Heng Hock Cheng	
Yong Nyan Choi @ Yong Guan Choi	
Bernard Rene Francois di Tullio	
Yee Yang Chien	
Captain Rajalingam Subramaniam	
Dominique Marie Bruno Francois Veyre de Soras	
Choy Khai Choon	(Appointed on 05.02.2013)
Datuk Khoo Eng Choo	(Passed away on 23.09.2012)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial period, no director has received or become entitled to receive any benefits by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, other than:

(a) benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 7 and Note 8 to the financial statements respectively; or

(b) benefits included in the aggregate amount of emoluments received or due and receivable as directors of related companies; or

(c) the fixed salary of a full-time employee of related companies.

DIRECTORS' REPORT (cont'd)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

	1 January 2012	Acquired	Sold	31 December 2012
Direct interest:				
Ordinary shares of RM0.50 each				
The Company				
Datuk Nasarudin bin Md Idris	10,000	–	–	10,000
Dato' Halipah binti Esa	10,000	–	–	10,000
Heng Heyok Chiang @ Heng Hock Cheng	10,000	–	–	10,000
Yong Nyan Choi @ Yong Guan Choi	–	10,000	–	10,000
Captain Rajalingam Subramaniam	10,000	–	–	10,000
Dominique Marie Bruno Francois Veyre de Soras	10,000	–	–	10,000
Ordinary shares of RM1.00 each				
MISC Berhad, a related company				
Heng Heyok Chiang @ Heng Hock Cheng	–	20,000	–	20,000
Yong Nyan Choi @ Yong Guan Choi	–	10,000	–	10,000
KLCC Property Holdings Berhad, a related company				
Datuk Nasarudin bin Md Idris	5,000	–	–	5,000
Heng Heyok Chiang @ Heng Hock Cheng	60,000	–	20,000	40,000
PETRONAS Gas Berhad, a related company				
Datuk Nasarudin bin Md Idris	3,000	–	–	3,000
Ordinary shares of RM0.10 each				
PETRONAS Chemicals Group Berhad, a related company				
Datuk Nasarudin bin Md Idris	10,000	–	–	10,000
Dato' Halipah binti Esa	10,000	–	–	10,000

DIRECTORS' INTERESTS (CONT'D)

	1 January 2012	Acquired	Sold	31 December 2012
Deemed interest:				
Ordinary shares of RM0.50 each				
The Company				
Dato' Halipah binti Esa	10,000	–	–	10,000
Ordinary shares of RM1.00 each				
MISC Berhad, a related company				
Dato' Halipah binti Esa	–	10,000	–	10,000
Ordinary shares of RM0.10 each				
PETRONAS Chemicals Group Berhad, a related company				
Dato' Halipah binti Esa	13,100	–	–	13,100

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

   (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

   (i) it necessary to write off any bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT (cont'd)

OTHER STATUTORY INFORMATION (CONT'D)

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

  (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

  (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

  (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

  (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENT

Details of the significant event are disclosed in Note 35 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2013

Datuk Nasarudin bin Md Idris

Dominique Marie Bruno Francois Veyre de Soras

STATEMENT BY DIRECTORS

Pursuant to section 169(15) of the Companies Act, 1965

We, Datuk Nasarudin bin Md Idris and Dominique Marie Bruno Francois Veyre de Soras, being two of the directors of Malaysia Marine and Heavy Engineering Holdings Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 104 to 170 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and the cash flows for the year then ended.

The information set out in Note 36 on page 171 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2013.

Datuk Nasarudin bin Md Idris

Dominique Marie Bruno Francois Veyre de Soras

STATUTORY DECLARATION

Pursuant to section 169(16) of the Companies Act, 1965

I, Wan Mashitah binti Wan Abdullah Sani, being the officer primarily responsible for the financial management of Malaysia Marine and Heavy Engineering Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 104 to 170 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Wan Mashitah binti Wan Abdullah Sani at Kuala Lumpur in the
Federal Territory on 20 February 2013.

Wan Mashitah binti Wan Abdullah Sani

Before me,

INDEPENDENT AUDITORS' REPORT

To the members of Malaysia Marine and Heavy Engineering Holdings Berhad
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Malaysia Marine and Heavy Engineering Holdings Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 104 to 170.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 36 on page 171 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Ahmad Zahirudin bin Abdul Rahim
No. 2607/12/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 February 2013

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2012

	Note	Group 1.1.2012 to 31.12.2012 RM'000	Group 1.4.2011 to 31.12.2011 RM'000	Company 1.1.2012 to 31.12.2012 RM'000	Company 1.4.2011 to 31.12.2011 RM'000
Revenue	4	3,329,773	2,137,034	160,000	160,000
Cost of sales		(2,991,914)	(1,773,602)	–	–
Gross profit		337,859	363,432	160,000	160,000
Other operating income	5	149,127	63,496	34,809	24,036
Selling and distribution expenses		(3,215)	(1,041)	(70)	(305)
Administrative expenses		(183,451)	(166,137)	(10,036)	(6,816)
Other operating expenses		(57,522)	(55,654)	(276)	(9)
Operating profit	6	242,798	204,096	184,427	176,906
Share of (loss)/profit of jointly controlled entities	16	(25,106)	46,752	–	–
Profit before taxation		217,692	250,848	184,427	176,906
Taxation	9	25,504	(44,921)	(6,040)	(4,459)
Profit net of tax		243,196	205,927	178,387	172,447
Other comprehensive income:					
Income/(loss) on cash flow hedges		3,490	(3,407)	–	–
Total comprehensive income for the year/period		246,686	202,520	178,387	172,447
Profit attributable to:					
Equity holders of the Company		242,008	205,601	178,387	172,447
Non-controlling interests		1,188	326	–	–
		243,196	205,927	178,387	172,447
Total comprehensive income attributable to:					
Equity holders of the Company		245,498	202,194	178,387	172,447
Non-controlling interests		1,188	326	–	–
		246,686	202,520	178,387	172,447
Earnings per share attributable to equity holders of the Company (sen per share)					
Basic	10	15.13	12.85		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2012

	Note	Group 31.12.2012 RM'000	31.12.2011 RM'000	1.4.2011 RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	1,441,037	1,090,619	1,030,256
Land use rights	13	253,513	65,569	67,114
Goodwill on acquisition	14	62,783	–	–
Investment in jointly controlled entities	16	34,291	61,037	35,019
Deferred tax assets	17	9,315	57	9,686
		1,800,939	1,217,282	1,142,075
Current assets				
Inventories, at cost		11,622	25,593	30,632
Trade and other receivables	18	2,114,377	1,131,282	2,303,972
Tax recoverable		–	2,724	2,453
Derivatives	26	104	–	–
Cash and cash equivalents	20	890,288	2,085,585	1,448,122
		3,016,391	3,245,184	3,785,179
Total assets		4,817,330	4,462,466	4,927,254
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Company				
Share capital	21	800,000	800,000	800,000
Share premium	21	818,263	818,263	818,263
Cash flow hedge reserve	22	83	(3,407)	–
Retained earnings		887,736	805,728	680,127
		2,506,082	2,420,584	2,298,390
Non-controlling interests		4,816	3,628	3,302
Total equity		2,510,898	2,424,212	2,301,692

STATEMENTS OF FINANCIAL POSITION (cont'd)
As at 31 December 2012

			Group	
	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.4.2011 RM'000
Non-current liabilities				
Deferred income	23	–	–	991
Deferred tax liabilities	17	–	26,675	–
		–	26,675	991
Current liabilities				
Trade and other payables	24	2,281,659	1,926,504	2,534,942
Provisions	25	7,101	61,625	61,327
Income tax payable		17,400	21,122	28,302
Derivatives	26	272	2,328	–
		2,306,432	2,011,579	2,624,571
Total liabilities		2,306,432	2,038,254	2,625,562
Total equity and liabilities		4,817,330	4,462,466	4,927,254

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

	Note	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.4.2011 RM'000
ASSETS				
Non-current assets				
Investment in subsidiaries	15	664,132	664,132	664,132
Investment in jointly controlled entities	16	3,000	3,000	–
Other receivables	18	251,483	–	–
		918,615	667,132	664,132
Current assets				
Trade and other receivables	18	235,137	165,709	92,038
Tax recoverable		1,127	–	–
Cash and cash equivalents	20	665,736	980,596	955,969
		902,000	1,146,305	1,048,007
Total assets		1,820,615	1,813,437	1,712,139
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Company				
Share capital	21	800,000	800,000	800,000
Share premium	21	818,263	818,263	818,263
Retained earnings		198,529	180,142	87,695
Total equity		1,816,792	1,798,405	1,705,958
Current liabilities				
Trade and other payables	24	3,823	12,334	5,478
Income tax payable		–	2,698	703
		3,823	15,032	6,181
Total liabilities		3,823	15,032	6,181
Total equity and liabilities		1,820,615	1,813,437	1,712,139

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2012

	<------------- Attributable to equity holders of the Company ------------->						
	Share capital (Note 21) RM'000	Share premium (Note 21) RM'000	Cash flow hedge reserve (Note 22) RM'000	Distributable retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2012	800,000	818,263	(3,407)	805,728	2,420,584	3,628	2,424,212
Total comprehensive income	–	–	3,490	242,008	245,498	1,188	246,686
Transaction with equity holders of the Company							
Dividends on ordinary shares (Note 11)	–	–	–	(160,000)	(160,000)	–	(160,000)
Total transactions with equity holders of the Company	–	–	–	(160,000)	(160,000)	–	(160,000)
At 31 December 2012	800,000	818,263	83	887,736	2,506,082	4,816	2,510,898
At 1 April 2011	800,000	818,263	–	680,127	2,298,390	3,302	2,301,692
Total comprehensive income	–	–	(3,407)	205,601	202,194	326	202,520
Transaction with equity holders of the Company							
Dividends on ordinary shares (Note 11)	–	–	–	(80,000)	(80,000)	–	(80,000)
Total transactions with equity holders of the Company	–	–	–	(80,000)	(80,000)	–	(80,000)
At 31 December 2011	800,000	818,263	(3,407)	805,728	2,420,584	3,628	2,424,212

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2012

	Share capital (Note 21) RM'000	Share premium (Note 21) RM'000	Distributable retained earnings RM'000	Total equity RM'000
At 1 January 2012	800,000	818,263	180,142	1,798,405
Total comprehensive income	–	–	178,387	178,387
Transaction with equity holders of the Company				
Dividends on ordinary shares (Note 11)	–	–	(160,000)	(160,000)
Total transaction with equity holders of the Company	–	–	(160,000)	(160,000)
At 31 December 2012	800,000	818,263	198,529	1,816,792
At 1 April 2011	800,000	818,263	87,695	1,705,958
Total comprehensive income	–	–	172,447	172,447
Transaction with equity holders of the Company				
Dividends on ordinary shares (Note 11)	–	–	(80,000)	(80,000)
Total transaction with equity holders of the Company	–	–	(80,000)	(80,000)
At 31 December 2011	800,000	818,263	180,142	1,798,405

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	Group	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	217,692	250,848
Adjustments for:		
Property, plant and equipment		
– depreciation	51,584	30,008
– write-off	7,266	5,020
Amortisation of land use rights	5,674	1,545
Provision for warranty	2,577	520
Reversal of provision for warranty	(724)	(222)
Reversal of provision for liquidated ascertained damages	(4,947)	–
Net (reversal of impairment loss)/impairment loss of trade receivables	(5,125)	4,303
Interest income	(40,697)	(43,954)
Change in fair value of hedging derivatives	1,330	(1,079)
Net unrealised foreign exchange (gains)/losses	(4,878)	2,657
Inventories written (back)/off	(174)	334
Share of loss/(profit) of jointly controlled entities	25,106	(46,752)
Operating profit before working capital changes	254,684	203,228
Inventories	14,145	4,705
Trade and other receivables	(978,887)	1,173,998
Trade and other payables	308,274	(624,026)
Cash (used in)/generated from operations	(401,784)	757,905
Tax paid	(11,427)	(16,068)
Net cash (used in)/generated from operating activities	(413,211)	741,837

	Group 1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(230,321)	(95,391)
Acquisition of business (Note 35):		
Fair value of assets acquired	(330,717)	–
Goodwill on acquisition	(62,783)	–
Purchase of land use rights	(41,848)	–
Interest received	42,943	50,283
Investment in a jointly controlled entity	–	(3,000)
Dividend income from jointly controlled entities	640	23,734
Net cash used in investing activities	(622,086)	(24,374)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on ordinary shares, representing net cash used in financing activities (Note 11)	(160,000)	(80,000)
Net change in cash and cash equivalents	(1,195,297)	637,463
Cash and cash equivalents at beginning of year/period	2,085,585	1,448,122
Cash and cash equivalents at end of year/period (Note 20)	890,288	2,085,585

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2012

	Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	184,427	176,906
Adjustments for:		
Interest income	(34,337)	(24,036)
Dividend income from subsidiaries	(160,000)	(160,000)
Operating loss before working capital changes	(9,910)	(7,130)
Trade and other receivables	9,973	(14)
Trade and other payables	(8,511)	6,857
Cash used in operations	(8,448)	(287)
Tax paid	(9,865)	(2,464)
Net cash used in operating activities	(18,313)	(2,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend income received	160,000	80,000
Interest received	33,534	30,378
Investment in a jointly controlled entity	–	(3,000)
Net cash generated from investing activities	193,534	107,378
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on ordinary shares (Note 11)	(160,000)	(80,000)
Proceeds from subsidiary for intercompany loan	43,677	–
Disbursement of intercompany loan to subsidiary	(373,758)	–
Net cash used in financing activities	(490,081)	(80,000)
Net change in cash and cash equivalents	(314,860)	24,627
Cash and cash equivalents at beginning of year/period	980,596	955,969
Cash and cash equivalents at end of year/period (Note 20)	665,736	980,596

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2012

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). The registered office of the Company is located at Level 31, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur.

The principal place of business is located at Pasir Gudang Industrial Estate, 81707 Pasir Gudang, Johor.

The immediate and ultimate holding companies of the Company are MISC Berhad and Petroliam Nasional Berhad, both of which are incorporated in Malaysia. The immediate and ultimate holding companies are listed on the Main Market of Bursa Malaysia.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and jointly controlled entities are described in Note 15 and Note 16 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 20 February 2013.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and the Companies Act, 1965 in Malaysia.

The financial statements also comply with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

For the periods up to and including the period ended 31 December 2011, the Group and the Company prepared its financial statements in accordance with Financial Reporting Standards ("FRS").

These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these financial statements are consistent with those of the audited financial statements for the period ended 31 December 2011.

At the beginning of the current financial year, the Group and the Company adopted new MFRS which are mandatory for financial periods beginning on or after 1 January 2012.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.1 Basis of preparation (cont'd)

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(a) Subsidiaries and basis of consolidation (cont'd)

(ii) Basis of consolidation (cont'd)

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

Subsidiaries are consolidated from the date of business combination, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

(b) Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in jointly controlled entities is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in jointly controlled entities is carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities. The Group's share of the net profit or loss of the jointly controlled entities is recognised in profit or loss. Where there has been a change recognised directly in the equity of the jointly controlled entities, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the jointly controlled entities. The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entities is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount in profit or loss. The jointly controlled entities are equity accounted for from the date the Group obtains joint control until the date the Group ceases to have joint control over the jointly controlled entities.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(b) Jointly controlled entities (cont'd)

Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the jointly controlled entities' identifiable assets, liabilities and contingent liabilities over the cost of the investments is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the jointly controlled entities' profit or loss in the year in which the investments are acquired.

When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entities, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

The most recent available audited financial statements of the jointly controlled entities are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting year. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(c) Property, plant and equipment, and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction-in-progress are not depreciated as these assets are not available for use. Depreciation of property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Boats	6.7% – 25%
Buildings, drydocks and waste plant	2% – 10%
Plant, machinery and electrical installations	4% – 20%
Vehicles and transport equipment	10% – 20%
Furniture and office equipment	5% – 20%

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(c) Property, plant and equipment, and depreciation (cont'd)

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

(d) Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of physical completion of the contract.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

When the total of costs incurred in construction contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is classified as amount due from customers on contracts. When the progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

(e) Impairment of non-financial assets

The carrying amounts of non-financial assets, other than construction contract assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs to.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(e) Impairment of non-financial assets (cont'd)

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(f) Inventories

Inventories are held for own consumption and are stated at lower of cost and net realisable value.

Cost is arrived at on the weighted average basis. The cost of raw materials and consumables comprises costs of purchase.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(g) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of the financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(g) Financial assets (cont'd)

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition.

Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term. The Group and the Company do not have any held for trading financial assets. The Group and the Company have not designated any financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are held primarily for trading purposes are presented as current whereas financial assets that are not held primarily for trading purposes are presented as current or non-current based on the settlement date.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Group's and the Company's loans and receivables include trade and other receivables and cash and cash equivalents.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(g) Financial assets (cont'd)

(iii) Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group and the Company have the positive intention and ability to hold the financial assets to maturity. The Group and the Company do not have any held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity financial assets are derecognised or impaired, and through the amortisation process.

Held-to-maturity financial assets are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group and the Company do not have available-for-sale financial assets.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be measured reliably are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group and the Company commit to purchase or sell the asset.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(h) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liability designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading includes derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities at fair value through profit or loss.

(ii) Other financial liabilities

The Group's and the Company's other financial liabilities include trade and other payables.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(i) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(j) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(k) Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(k) Impairment of financial assets (cont'd)

(i) Trade and other receivables and other financial assets carried at amortised cost (cont'd)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(l) Deferred income

Income from rendering of sludge cleaning services is deferred for untreated sludge.

Deferred income, which is recorded as sludge collection fees receivable net of direct expenses, will be recognised to profit or loss upon completion of the treatment or disposal process.

(m) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(n) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(n) Income tax (cont'd)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as an income or an expense and is included in profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(q) Foreign currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(r) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Construction contracts

Revenue from Offshore Business Unit construction contracts is accounted for by the stage of completion method as described in Note 2.2(d).

Revenue from Marine Repair Business Unit construction contracts is accounted for when ship repairs are completed and the amount of revenue can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(r) Revenue recognition (cont'd)

(ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(iii) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

(iv) Dividend income

Dividend income is recognised when the Group's and the Company's right to receive payment is established.

(s) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Operating leases – the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land, the minimum lease payments or the up-front payments made represent land use rights.

(iii) Operating leases – the Group as lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.2 r(iii).

(t) Equity investments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(v) Hedge accounting

The Group uses derivatives to manage its exposure to foreign currency risk. The Group applies hedge accounting for certain hedging relationships which qualify for hedge accounting.

For the purpose of hedge accounting, hedging relationships are classified as:"

– Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);

– Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or

– Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges of the Group which meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income into cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income previously are reclassified from equity to profit or loss when the hedged transaction affects profit or loss, such as when the hedged interest income or interest expense is recognised or when a forecast sale occurs. Where the hedged item is a non-financial asset or a non-financial liability, the amounts recognised previously in other comprehensive income are removed and included in the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment affects profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.2 Summary of significant accounting policies (cont'd)

(v) Hedge accounting (cont'd)

(i) Cash flow hedges (cont'd)

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments.

(ii) Derivatives that are not designated or do not qualify for hedge accounting

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are directly recognised in profit or loss.

(w) Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

(x) Intangible asset

(i) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's CGUs that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the CGU retained.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.3 Changes in accounting policies and effects arising from adoption of new and revised MFRS

(i) Standards and Interpretations issued but not yet effective and have not been early adopted by the Group and the Company

At the date of authorisation of these financial statements, the following new and revised MFRS, Amendments to MFRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

	Description	Effective for annual periods beginning on or after
MFRS 101	Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3	Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investment in Associates and Joint Ventures	1 January 2013
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7	Disclosures: Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards – (Annual Improvements 2009-2011 Cycle)	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the financial year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.3 Changes in accounting policies and effects arising from adoption of new and revised MFRS (cont'd)

(i) Standards and Interpretations issued but not yet effective and have not been early adopted by the Group and the Company (cont'd)

	Description	Effective for annual periods beginning on or after
Amendments to MFRS 116	Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10	Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11	Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities	1 January 2014
MFRS 9	Financial Instruments	1 January 2015

The Group and the Company plan to adopt the above pronouncements when they become effective in the respective period or earlier if deemed necessary. These pronouncements are expected to have no significant impact on the financial statements of the Group and the Company upon initial application.

2.4 First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

The financial statements of the Group and of the Company have been prepared in accordance with MFRS. These financial statements are the Group's and the Company's first MFRS annual financial statements for the year ended 31 December 2012. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

2. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF MFRS 1 (CONT'D)

2.4 First-time adoption of Malaysian Financial Reporting Standards ("MFRS") (cont'd)

In preparing its opening MFRS statement of financial position as at 1 April 2011 (which is also the date of transition), the Group and the Company have considered the transition from FRS to MFRS and no adjustments were required to be made to the amounts previously reported in financial statements prepared in accordance with FRS. The transition from FRS to MFRS also, has not resulted in a material impact on the statements of financial position, statements of comprehensive income and statements of cash flows. Accordingly, the notes related to the statement of financial position as at date of transition to MFRS are not presented.

Exemptions applied

MFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain MFRS.

The Group and the Company have applied the following exemptions:

(i) Business Combinations

MFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for MFRS, or of interests in joint ventures that occurred before 1 April 2011. Use of this exemption means that the carrying amounts of assets and liabilities under FRS, which are required to be recognised under MFRS, is their deemed cost at the date of the acquisition.

(ii) Investments in subsidiaries and jointly controlled entities

Investments in subsidiaries and jointly controlled entities were carried in the separate statement of financial position prepared in accordance with FRS based on cost. The Group has elected to regard those values, which is the carrying amount under FRS as deemed cost, in its separate opening MFRS statement of financial position.

Estimates

The estimates at 1 April 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 April 2011, the date of transition to MFRS and as of 31 December 2011.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date.

There were no critical judgements made by management in the process of applying accounting policies that have significant effect on the amount recognised in the financial statements during the current financial year other than those discussed below.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment to be within 4 to 50 years. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The information on depreciation of property, plant and equipment is as disclosed in Note 12.

(ii) Construction contracts

The Group recognises revenue and expenses from construction contracts in the statement of comprehensive income by using the stage of completion method. The stage of completion is measured by reference to the proportion of physical completion of the contract work.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as the recoverability of the construction contract. In making the judgement, the Group's evaluation is based on past experience and by relying on the work of specialists.

The information on construction contracts is as disclosed in Note 19.

(iii) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the evaluation of the receivables on an individual basis and the amount of outstanding allowances. The customer's credit worthiness is evaluated by reviewing, among other matters, the Group's historical collection experience.

The information on allowance for doubtful debts is as disclosed in Note 30(b)(ii).

(iv) Provision for warranty

The Group grants warranties on certain construction contracts and undertakes to repair or replace items that fail to perform satisfactorily. Provision for warranty is made based on service histories to cover the estimated liability that may arise during the warranty period. Any surplus provision is written back at the end of the warranty period while additional provision is made as and when necessary.

The information on provision for warranty is as disclosed in Note 25.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(v) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unabsorbed capital allowances and unabsorbed investment tax allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The information on deferred tax assets is as disclosed in Note 17.

(vi) Impairment of goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use of the CGUs to which goodwill is allocated.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the carrying value, the key assumptions applied in the impairment assessment of goodwill and sensitivity analysis to changes in the assumptions are given in Note 14.

4. REVENUE

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Offshore business unit	2,981,313	1,907,894	–	–
Marine repair business unit	348,460	228,305	–	–
Dividend income	–	–	160,000	160,000
Others	–	835	–	–
	3,329,773	2,137,034	160,000	160,000

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

5. OTHER OPERATING INCOME

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Rental income	67,746	1,870	–	–
Interest income				
– deposits with licensed banks	40,697	43,954	23,501	24,036
– loan to subsidiary	–	–	10,836	–
Foreign exchange gains				
– realised	3,487	–	–	–
– unrealised	4,878	–	–	–
Income from scrap disposal	8,969	13,561	–	–
Reversal of impairment loss				
– trade receivables (Note 30(b)(ii)(b))	12,556	3	–	–
Reversal of provision for liquidated ascertained damages (Note 25)	4,947	–	–	–
Change in fair value of hedging derivatives	–	1,079	–	–
Others	5,847	3,029	472	–
	149,127	63,496	34,809	24,036

6. OPERATING PROFIT

The following amounts have been included in arriving at operating profit:

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Auditors' remuneration:				
– statutory audit	255	236	13	12
– others	5	5	5	5
Employee benefits expense (Note 7)	311,251	157,485	8,167	5,853
Property, plant and equipment (Note 12):				
– depreciation	51,584	30,008	–	–
– write-off	7,266	5,020	–	–
Amortisation of land use rights (Note 13)	5,674	1,545	–	–
Hire of tugboat, pushers and barges	7,207	7,977	–	–

6. OPERATING PROFIT (CONT'D)

The following amounts have been included in arriving at operating profit: (cont'd)

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Rental of:				
– buildings	2,845	2,945	1,274	104
– vehicles	405	75	2	–
– office equipment	1,934	5,242	19	–
– equipment	93,002	59,979	–	–
Inventories written (back)/off	(174)	334	–	–
Foreign exchange losses:				
– realised	–	7,751	–	–
– unrealised	–	2,657	–	–
Impairment loss:				
– trade receivables (Note 30(b)(ii)(b))	7,431	4,306	–	–
Provision for warranty (Note 25)	2,577	520	–	–
Reversal of provision for warranty (Note 25)	(724)	(222)	–	–
Change in fair value of hedging derivatives	1,330	–	–	–

7. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Wages and salaries	233,348	118,537	4,334	3,893
Social security costs	1,771	816	9	5
Contributions to a defined contribution plan	27,501	14,802	396	270
Other staff related expenses	48,631	23,330	3,428	1,685
	311,251	157,485	8,167	5,853

Included in employee benefits expense of the Group and the Company is an executive director's remuneration amounting to RM2,660,000 (31.12.2011: RM1,439,000) and RM2,634,000 (31.12.2011: RM1,418,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

8. DIRECTORS' REMUNERATION

The details of remuneration receivable by directors of the Company during the year are as follows:

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Executive director's remuneration:				
Salaries and other emoluments	2,636	1,421	2,634	1,418
Fees	24	18	–	–
Total executive director's remuneration (excluding benefits-in-kind)	2,660	1,439	2,634	1,418
Estimated money value of benefits-in-kind	15	–	11	–
Total executive director's remuneration (including benefits-in-kind) (Note 29(b))	2,675	1,439	2,645	1,418
Non-executive directors' remuneration:				
Fees	696	535	594	459
Other emoluments	400	339	392	329
Total directors' remuneration	3,771	2,313	3,631	2,206

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of directors	
	31.12.2012	31.12.2011
Executive directors:		
RM1,400,001 – RM1,450,000	–	1
RM2,650,001 – RM2,700,000	1	–
	1	1
Non-executive directors:		
RM50,001 – RM100,000	–	2
RM100,001 – RM150,000	5	6
RM150,001 – RM200,000	2	–
	7	8
	8	9

9. TAXATION

Major components of income tax expense

The major components of income tax expense are as follows:

	Group		Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Current income tax:				
Malaysian income tax	11,574	9,471	6,109	4,513
Overprovision in prior years:				
Malaysian income tax	(1,145)	(854)	(69)	(54)
	10,429	8,617	6,040	4,459
Deferred tax (Note 17):				
Relating to origination and reversal of temporary differences	(20,368)	41,225	–	–
Overprovision in prior years	(15,565)	(4,921)	–	–
	(35,933)	36,304	–	–
Total taxation	(25,504)	44,921	6,040	4,459

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (31.12.2011: 25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

9. TAXATION (CONT'D)

Reconciliation between tax expense and accounting profit

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Group		
Profit before taxation	217,692	250,848
Taxation at Malaysian statutory tax rate of 25% (31.12.2011: 25%)	54,423	62,712
Income not subject to tax	(860)	(678)
Expenses not deductible for tax purposes	7,658	3,653
Utilisation of current year's investment tax allowances	(31,436)	–
Deferred tax assets not recognised	458	118
Deferred tax assets recognised on unutilised investment tax allowances	(45,314)	(3,421)
Overprovision of deferred tax in prior years	(15,565)	(4,921)
Overprovision of Malaysian tax expense in prior years	(1,145)	(854)
Share of results of jointly controlled entities	6,277	(11,688)
Income tax expense for the year/period	(25,504)	44,921
Company		
Profit before taxation	184,427	176,906
Taxation at Malaysian statutory tax rate of 25% (31.12.2011: 25%)	46,107	44,227
Income not subject to tax	(40,118)	(40,000)
Expenses not deductible for tax purposes	120	286
Overprovision of Malaysian tax expense in prior years	(69)	(54)
Income tax expense for the year/period	6,040	4,459

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding during the financial year/period, as follows:

	Group	
	1.1.2012 to 31.12.2012	1.4.2011 to 31.12.2011
Profit attributable to equity holders of the Company (RM'000)	242,008	205,601
Number of ordinary shares in issue ('000)	1,600,000	1,600,000
Basic earnings per share (sen)	15.13	12.85

The Group has no potential ordinary shares in issue as at reporting date and therefore, diluted earnings per share has not been presented.

11. DIVIDENDS

	Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Dividend recognised in respect of financial year/ period ended 31 December 2012/2011:		
– Final (single-tier) dividend for 31.12.2011: 10 sen per share (31.3.2011 : 5 sen per share)	160,000	80,000

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2012 of 10 sen per share on 1,600,000,000 ordinary shares, amounting to a dividend payable of RM160 million will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

12. PROPERTY, PLANT AND EQUIPMENT

	At 1.1.2012 RM'000	Acquisition of business (Note 35) RM'000	Additions RM'000	Reclassification RM'000	Write-off RM'000	At 31.12.2012 RM'000
Group – 31 December 2012						
At cost:						
Boats	511	–	–	–	–	511
Buildings, drydocks and waste plant	829,816	171,659	–	89,740	(5,742)	1,085,473
Plant, machinery and electrical installation	385,341	7,288	10,596	40,948	(389)	443,784
Vehicles and transport equipment	9,731	–	1,603	4,596	(238)	15,692
Furniture and office equipment	44,595	–	1,998	24,436	(38)	70,991
Loose tools	7,715	–	–	–	–	7,715
Construction-in-progress	296,299	–	216,124	(159,720)	(7,102)	345,601
	1,574,008	178,947	230,321	–	(13,509)	1,969,767

	At 1.1.2012 RM'000	Charge for the year RM'000	Write-off RM'000	At 31.12.2012 RM'000	Net carrying amount at 31.12.2012 RM'000
Group – 31 December 2012					
Accumulated depreciation and impairment					
Boats	479	16	–	495	16
Buildings, drydocks and waste plant	208,503	22,300	(5,742)	225,061	860,412
Plant, machinery and electrical installation	222,108	20,747	(387)	242,468	201,316
Vehicles and transport equipment	7,163	1,012	(88)	8,087	7,605
Furniture and office equipment	37,832	7,509	(26)	45,315	25,676
Loose tools	7,304	–	–	7,304	411
Construction-in-progress	–	–	–	–	345,601
	483,389	51,584	(6,243)	528,730	1,441,037

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	At 1.4.2011 RM'000	Additions RM'000	Reclassification RM'000	Write-off RM'000	At 31.12.2011 RM'000
Group – 31 December 2011					
At cost:					
Boats	511	–	–	–	511
Buildings, drydocks and waste plant	822,712	–	13,913	(6,809)	829,816
Plant, machinery and electrical installation	363,695	1,457	28,944	(8,755)	385,341
Vehicles and transport equipment	10,018	592	–	(879)	9,731
Furniture and office equipment	40,929	87	5,059	(1,480)	44,595
Loose tools	7,868	–	–	(153)	7,715
Construction-in-progress	251,242	93,255	(47,916)	(282)	296,299
	1,496,975	95,391	–	(18,358)	1,574,008

	At 1.4.2011 RM'000	Charge for the period RM'000	Write-off RM'000	At 31.12.2011 RM'000	Net carrying amount at 31.12.2011 RM'000
Group – 31 December 2011					
Accumulated depreciation and impairment					
Boats	467	12	–	479	32
Buildings, drydocks and waste plant	198,355	13,503	(3,355)	208,503	621,313
Plant, machinery and electrical installation	215,692	14,063	(7,647)	222,108	163,233
Vehicles and transport equipment	7,480	562	(879)	7,163	2,568
Furniture and office equipment	37,287	1,868	(1,323)	37,832	6,763
Loose tools	7,438	–	(134)	7,304	411
Construction-in-progress	–	–	–	–	296,299
	466,719	30,008	(13,338)	483,389	1,090,619

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

13. LAND USE RIGHTS

	Group	
	31.12.2012 RM'000	**31.12.2011 RM'000**
Cost		
At 1 January 2012/1 April 2011	98,934	98,934
Acquisition of business (Note 35)	151,770	–
Additions	41,848	–
At 31 December 2012/2011	292,552	98,934
Accumulated amortisation		
At 1 January 2012/1 April 2011	33,365	31,820
Amortisation for the year/period (Note 6)	5,674	1,545
At 31 December 2012/2011	39,039	33,365
Net carrying amount at 31 December	253,513	65,569
Analysed as:		
Long term leasehold land	27,668	–
Short term leasehold land	225,845	65,569
	253,513	65,569
Amount to be amortised:		
– Not later than one year	7,032	2,059
– Later than one year but not later than five years	28,128	8,236
– Later than five years	218,353	55,274

The leasehold and foreshore land cannot be disposed, charged or subleased without the prior consent of the Johor State Government.

14. GOODWILL ON ACQUISITION

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Net carrying amount:		
At 1 January 2012/1 April 2011	–	–
Acquisition of business (Note 35)	62,783	–
At 31 December 2012/2011	62,783	–

(a) Impairment testing of goodwill

Goodwill arising from business combinations has been allocated to a single cash-generating unit ("CGU"), which is Offshore Business Unit ("OBU") for impairment testing.

The carrying amount of goodwill for the CGU is as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Goodwill on acquisition	62,783	–

Key assumptions used in value-in-use calculations

The recoverable amount of the CGU is determined based on value in use calculations using forecasts on Earnings Before Interests, Taxation, Depreciation and Amortisation ("EBITDA") based on financial budgets approved by management covering a five-year period. EBITDA for the five-year period is estimated based on anticipated future projects and profitability trends of OBU's projects. EBITDA forecast beyond the five-year period are extrapolated based on the five-year average figures into perpetuity, assuming no growth and using a pre-tax discount rate of 12.24%.

The calculations of value in use for the CGU are most sensitive to the following assumptions:

(i) Budgeted gross margins

Gross margins are estimated based on completed projects and budgeted margins of identified future contracts.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

14. GOODWILL ON ACQUISITION (CONT'D)

(a) Impairment testing of goodwill (cont'd)

Key assumptions used in value-in-use calculations (cont'd)

(ii) Growth rates

The forecasted growth rates are based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGUs.

Sensitivity to changes in assumptions

The calculations of value in use of the CGU is mainly sensitive to the following:

– Number and value of potential future projects secured.
– EBITDA achieved from the potential future projects.

Management believes that there will not be reasonable changes in key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount.

15. INVESTMENT IN SUBSIDIARIES

	Company	
	31.12.2012 RM'000	31.12.2011 RM'000
Unquoted shares in Malaysia, at cost	664,132	664,132

The subsidiaries, all of which are incorporated in Malaysia, are as follows:

Name of company	Equity interest 31.12.2012 %	Equity interest 31.12.2011 %	Principal activities
Malaysia Marine and Heavy Engineering Sdn. Bhd. ("MMHE")	100	100	Oil and gas engineering and construction works and marine conversion and repair
Malaysia Marine and Heavy Engineering (Turkmenistan) Sdn. Bhd.	100	100	Dormant
Subsidiaries of MMHE:			
MMHE-SHI LNG Sdn. Bhd.	70	70	Provision of repair services and dry docking of liquefied natural gas carriers
Techno Indah Sdn. Bhd.	100	100	Sludge disposal management

16. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Unquoted shares at cost	14,372	14,372	3,000	3,000
Share of post-acquisition reserves	19,919	46,665	–	–
	34,291	61,037	3,000	3,000

Details of jointly controlled entities, all of which are incorporated in Malaysia, are as follows:

Name of company	Principal activities	Effective Interest 31.12.2012 %	Effective Interest 31.12.2011 %
Technip MHB Hull Engineering Sdn. Bhd.	Build and develop hull engineering and engineering project management capacities	50	50
MMHE-TPGM Sdn. Bhd.	Provision of engineering, procurement, construction, installation and commissioning	60	60
MMHE-ATB Sdn. Bhd.	Manufacturing of pressure vessels and tube heat exchangers	40	40

The Group's aggregate share of the assets, liabilities and results of the jointly controlled entities are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Assets and liabilities		
Current assets	153,539	280,278
Non-current assets	9,043	9,027
Total assets	162,582	289,305
Current liabilities	(129,460)	(222,786)
Non-current liabilities	(3,652)	(6,091)
Total liabilities	(133,112)	(228,877)
Results		
Revenue	215,158	869,898
(Loss)/profit for the year/period	(25,106)	46,752

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
For the financial year ended 31 December 2012

17. DEFERRED TAX

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
At 1 January 2012/1 April 2011	26,618	(9,686)
Recognised in profit or loss (Note 9)	(35,933)	36,304
At 31 December 2012/2011	(9,315)	26,618

Presented after appropriate offsetting as follows:

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Deferred tax assets	(9,315)	(57)
Deferred tax liabilities	–	26,675
	(9,315)	26,618

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group:

	Property, plant and equipment RM'000
At 1 January 2012	47,688
Recognised in profit or loss	(1,123)
At 31 December 2012	46,565
At 1 April 2011	50,507
Recognised in profit or loss	(2,819)
At 31 December 2011	47,688

17. DEFERRED TAX (CONT'D)

Deferred tax assets of the Group:

	Receivables RM'000	Provisions RM'000	Unutilised investment tax allowance RM'000	Others RM'000	Total RM'000
At 1 January 2012	(1,304)	(1,370)	(8,384)	(10,012)	(21,070)
Recognised in profit or loss	1,304	(405)	(36,930)	1,221	(34,810)
At 31 December 2012	–	(1,775)	(45,314)	(8,791)	(55,880)
At 1 April 2011	(3,373)	(4,671)	(47,685)	(4,464)	(60,193)
Recognised in profit or loss	2,069	3,301	39,301	(5,548)	39,123
At 31 December 2011	(1,304)	(1,370)	(8,384)	(10,012)	(21,070)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Unutilised tax losses	16,046	14,216
Unabsorbed capital allowances	28,547	28,547

The unutilised tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Non-current				
Loan to subsidiary	–	–	251,483	–
Current				
Trade receivables	550,874	447,796	–	–
Purchases of inventory and project materials paid in advance and recharges back to vendors	24,619	34,471	–	–
Due from:				
– customers on contracts (Note 19)	1,465,419	627,317	–	–
– jointly controlled entities	–	12,733	–	–
Loan to subsidiary	–	–	71,843	–
Deposits	971	20,371	–	–
Prepayments	1	172	–	–
Staff loans	612	384	–	–
Dividend receivable	1,000	–	160,000	160,000
Accrued sales	51,534	4,190	–	–
Non-trade receivables	19,675	–	–	–
Other receivables	17,244	7,014	3,294	5,709
	2,131,949	1,154,448	235,137	165,709
Less: Allowance for impairment losses				
Trade receivables	(17,572)	(23,166)	–	–
	2,114,377	1,131,282	235,137	165,709
Total trade and other receivables (current and non-current)	2,114,377	1,131,282	486,620	165,709
Less: Prepayments	(1)	(172)	–	–
Due from customers on contracts	(1,465,419)	(627,317)	–	–
Add: Cash and cash equivalents (Note 20)	890,288	2,085,585	665,736	980,596
Total loans and receivables	1,539,245	2,589,378	1,152,356	1,146,305

18. TRADE AND OTHER RECEIVABLES (CONT'D)

Included in the trade receivables of the Group are amounts due from:

		Group	
		31.12.2012 RM'000	31.12.2011 RM'000
(i)	Immediate holding company	373,098	167,379
(ii)	Other related companies		
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	3,371	13,731
	PETRONAS Carigali Sdn. Bhd.	4,521	1,745
	Malaysia Offshore Mobile Production. (L) Ltd.	7,962	7,962
	Kebabangan Petroleum Operating Company Sdn. Bhd.	47,000	–
(iii)	Jointly controlled entity		
	MMHE-TPGM Sdn. Bhd.	47,085	131,871

Included in the amount due from customers on contracts of the Group are amounts due from:

		Group	
		31.12.2012 RM'000	31.12.2011 RM'000
(i)	Immediate holding company	157,216	72,217
(ii)	Other related companies		
	PETRONAS Carigali Sdn. Bhd.	155,409	180,914
	Kebabangan Petroleum Operating Company Sdn. Bhd.	193,445	–

Credit terms of trade receivables for the Group range from 30 days to 45 days (31.12.2011: 30 days to 45 days).

The amount due from immediate holding company, other related companies and jointly controlled entities are unsecured, interest free and repayable on demand.

The loan to subsidiary is unsecured, bears interest of 4.05% per annum and repayable based on fixed quarterly repayments.

Further information on credit risk is disclosed in Note 30(b).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

19. AMOUNT DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Aggregate costs incurred and recognised profits (less recognised losses) to date	11,113,244	8,524,552
Less: Progress billings	(9,762,916)	(8,113,606)
	1,350,328	410,946
Amounts due from customers on contracts (Note 18)	1,465,419	627,317
Amounts due to customers on contracts (Note 24)	(115,091)	(216,371)
	1,350,328	410,946
Advances received on contracts (Note 24)	(2,062)	(5,158)

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Cash at banks and on hand	36,420	29,259	17,830	574
Deposits with licensed banks	853,868	2,056,326	647,906	980,022
Cash and cash equivalents	890,288	2,085,585	665,736	980,596

The interest rates of deposits that are effective during the financial year range from 0.01% to 3.48% (31.12.2011: 0.05% to 3.48%) per annum. Deposits of the Group and the Company have an average maturity of 10 days (31.12.2011: 10 days) and 28 days (31.12.2011: 68 days) respectively at the reporting date.

21. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	Group and Company			
	Number of ordinary shares of RM0.50 each		Amount	
	31.12.2012 '000	31.12.2011 '000	31.12.2012 RM'000	31.12.2011 RM'000
Authorised				
At 1 April 2011/1 January 2012/ 31 December 2011/2012	5,000,000	5,000,000	2,500,000	2,500,000
Issued and fully paid				
At 1 April 2011/1 January 2012/ 31 December 2011/2012	1,600,000	1,600,000	800,000	800,000

(b) Share premium

	Group and Company	
	31.12.2012 RM'000	31.12.2011 RM'000
At 1 April 2011/1 January 2012/ 31 December 2011/2012	818,263	818,263

22. CASH FLOW HEDGE RESERVE

The cash flow hedge reserve contains the effective portion of the hedge instruments as at the reporting date of RM83,000 credit (31.12.2011: RM3,407,000 debit).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

23. DEFERRED INCOME

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Non-current		
At 1 January 2012/1 April 2011	–	991
Deferred income received	–	77
	–	1,068
Recognised in profit or loss	–	(1,068)
At 31 December 2012/2011	–	–

24. TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Trade payables	469,975	207,783	162	230
Accruals	1,511,699	1,375,081	–	–
Retention monies	85,228	57,160	–	–
Advances received on contracts (Note 19)	2,062	5,158	–	–
Due to:				
– customers on contracts (Note 19)	115,091	216,371	–	–
– subsidiaries	–	–	2,079	11,124
– jointly controlled entities	4,155	–	–	–
Other payables	93,449	64,951	1,582	980
	2,281,659	1,926,504	3,823	12,334
Total trade and other payables	2,281,659	1,926,504	3,823	12,334
Less: Due to customers on contracts	(115,091)	(216,371)	–	–
Total financial liabilities carried at amortised cost	2,166,568	1,710,133	3,823	12,334

Credit terms of trade payables granted to the Group range from 30 days to 60 days (31.12.2011: 30 days to 60 days).

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

24. TRADE AND OTHER PAYABLES (CONT'D)

Included in trade payables are amounts due to:

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000
(i) Fellow subsidiary		
– MISC Integrated Logistic Sdn. Bhd.	553	3,322
(ii) Other related companies		
– PETRONAS Dagangan Berhad	92	747

25. PROVISIONS

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000
Warranty		
At 1 January 2012/1 April 2011	5,248	4,950
Provision during the year/period (Note 6)	2,577	520
Reversal during the year/period (Note 6)	(724)	(222)
At 31 December 2012/2011	7,101	5,248
Liquidated ascertained damages		
At 1 January 2012/1 April 2011	56,377	56,377
Reversal during the year (Note 5)	(4,947)	–
Written off	(51,430)	–
At 31 December 2012/2011	–	56,377
Total provision for liabilities	7,101	61,625

Provision for warranty

The Group gives approximately one year warranty on certain construction contracts and undertake to repair or replace items that fail to perform satisfactorily. A provision has been recognised at the end of the financial year for expected warranty claims based on past experience of the level of repairs and returns.

Provision for liquidated ascertained damages

The provision for liquidated ascertained damages is based on the approved contract terms and is computed on the agreed penalty charges per delay multiplied by the number of days delayed.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

26. DERIVATIVES

Group	31.12.2012 Contract/ Notional Amount RM'000	31.12.2012 Fair value RM'000	31.12.2011 Contract/ Notional Amount RM'000	31.12.2011 Fair value RM'000
Current				
Cash flow hedges:				
– forward currency contracts				
– derivative assets	13,388	104	–	–
– derivative liabilities	31,931	(272)	103,197	(2,328)
	45,319	(168)	103,197	(2,328)

Foreign currency risk

At 31 December 2012, the Group held forward currency contracts designated as hedges of expected future receipts and payments denominated in United States Dollars, Singapore Dollars, Euro and Great Britain Pounds. The forward currency contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur. The ineffectiveness recognised as an expense in profit or loss for the current year was RM1,330,000 (31.12.2011: income of RM1,079,000) (Note 6 and Note 5 respectively).

The cash flow hedges of the expected future receipts and payments which are expected to occur within the next twelve months, were assessed to be highly effective and a net unrealised income of RM3,490,000 (31.12.2011: loss of RM3,407,000), which represents the effective portion of the hedging relationship, is included in other comprehensive income.

27. CAPITAL COMMITMENTS

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000
Capital expenditure:		
Property, plant and equipment:		
Approved and contracted for	170,366	143,658
Approved but not contracted for	436,154	162,783
	606,520	306,441

28. CONTINGENT LIABILITIES

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Bank guarantees extended to customers for performance bond on contracts	206,671	8,073

29. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Group	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Income:		
Provision of services for repairs, engineering and construction works, conversion of vessels and dry docking to immediate holding company	1,035,280	465,807
Provision of services for repairs, conversion of vessels and dry docking to fellow subsidiaries	16,326	17,379
Provision of services for repairs, engineering and construction works, conversion of vessels and dry docking to other related companies	809,284	408,840
Provision of services for repairs, engineering and construction works, conversion of vessels and dry docking to a jointly controlled entity	200,699	827,100

	Group	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Expenses:		
Purchase of materials from and provision for services rendered by:		
– other related companies	59,101	29,869
– fellow subsidiaries	1,541	83,045
– a jointly controlled entity	41,705	6,111

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

29. RELATED PARTY DISCLOSURES (CONT'D)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year: (cont'd)

	Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Income:		
Dividend income from a subsidiary	160,000	160,000

The directors are of the opinion that the transactions have been entered into in the normal course of business at terms agreed between the parties during the financial year.

(b) Compensation of key management personnel

The remuneration of executive directors and other members of key management during the year was as follows:

	Group	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Short-term employee benefits	6,590	3,947
Post-employment benefits:		
Defined contribution plan	494	266
	7,084	4,213

29. RELATED PARTY DISCLOSURES (CONT'D)

(b) Compensation of key management personnel (cont'd)

Included in the total remuneration of key management personnel are:

	Group	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Executive directors' remuneration (Note 8)	2,675	1,439

30. FINANCIAL INSTRUMENTS

(a) Financial risk management

The Group is exposed to various risks that are related to its core business of oil and gas engineering and construction works and marine conversion and repair. These risks arise in the normal course of the Group's businesses.

The Group's compliance to both MISC Berhad's Finance Risk Management Framework and Guidelines and PETRONAS Corporate Financial Policy sets the foundation for the establishment of effective risk management across the Group.

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses and management of financial risks exposures arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks as summarised below. It is, and has been throughout the year under review, the Group's policy that no speculative trading in derivative financial instruments shall be undertaken.

(b) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from its operating activities (primarily from trade receivables) and from its investing activities including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

(i) Maximum credit risk exposure

The Group's and the Company's maximum exposure to credit risk is represented by the carrying amounts as disclosed in Notes 18 and 20.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

30. FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

(ii) Trade receivables

(a) Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the industry sector profile of its receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date is as follows:

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Offshore Business Unit	484,230	329,983
Marine Repair Business Unit	66,323	117,439
Others	321	374
	550,874	447,796

(b) Credit quality

The trade receivables that are neither past due nor impaired, past due but not impaired and impaired are disclosed below:

	Group	
	31.12.2012 RM'000	31.12.2011 RM'000
Neither past due nor impaired	150,592	41,260
Past due 1 to 30 days not impaired	176,799	36,309
Past due 31 to 60 days not impaired	15,194	8,866
Past due 61 to 90 days not impaired	629	6,436
Past due more than 90 days not impaired	190,088	331,759
Impaired	17,572	23,166
	550,874	447,796

Trade receivables that are neither past due nor impaired are creditworthy trade receivables with good payment record with the Group.

30. FINANCIAL INSTRUMENTS (CONT'D)

(b) Credit risk (cont'd)

(ii) Trade receivables (cont'd)

(b) Credit quality (cont'd)

Significant financial difficulties of the trade receivables, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days aging of trade receivable balances) are considered indicators that the trade receivable is impaired. Individual trade receivable is written off when management deemed the amount to be not collectible.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

	Group	
	31.12.2012 RM'000	**31.12.2011 RM'000**
At 1 January 2012/1 April 2011	23,166	18,863
Impairment loss (Note 6)	7,431	4,306
Reversal of impairment loss (Note 5)	(12,556)	(3)
Written off	(469)	–
At 31 December 2012/2011	17,572	23,166

The allowance made is for individually assessed and impaired receivables. There were no allowance made for collective assessment.

(c) Collateral

The Group does not hold collateral as security.

(iii) Other receivables

Other receivables as at 31 December 2012 are creditworthy debtors with good payment record with the Group.

(iv) Cash and cash equivalents

Cash and deposits with licensed banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

30. FINANCIAL INSTRUMENTS (CONT'D)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdraft facilities.

As at 31 December 2012, the Group had at its disposal cash and cash equivalents amounting to RM890,288,000 (31.12.2011: RM2,085,585,000).

The Group's holding of cash and short term deposits, together with committed funding facilities and net cash flow from operations, are expected to be sufficient to cover its cash flow needs.

The table below summarises the maturity profile of the Group's financial liabilities as at the reporting date based on the undiscounted contractual payments:

Group:

			Maturity profile of the contractual cash flows
	Carrying amount RM'000	**Contractual cash flows RM'000**	**Within 1 year RM'000**
At 31 December 2012			
Trade and other payables	2,166,568	2,166,568	2,166,568
Derivatives	272	272	272
	2,166,840	2,166,840	2,166,840
At 31 December 2011			
Trade and other payables	1,710,133	1,710,133	1,710,133
Derivatives	2,328	2,328	2,328
	1,712,461	1,712,461	1,712,461

30. FINANCIAL INSTRUMENTS (CONT'D)

(d) Foreign currency risk

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollar ("USD"), Euro, Singapore Dollar ("SGD") and Great Britain Pound ("GBP").

Besides the cash flow hedge and derivatives described in Notes 22 and 26, the Group maintains a natural hedge, wherever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital expenditures and operational expenditures in the respective currencies.

(i) Foreign currency sensitivity

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD, Euro, SGD and GBP exchange rates against the respective functional currencies of the Group's entities, with all other variables held constant:

Group:	Change in currency rate	Effect on profit before taxation RM'000
31 December 2012		
USD	+5%	1,686
	-5%	(1,686)
Euro	+10%	2,924
	-10%	(2,924)
SGD	+5%	654
	-5%	(654)
GBP	+10%	(578)
	-10%	578
31 December 2011		
USD	+5%	2,047
	-5%	(2,047)
Euro	+9%	1,468
	-9%	(1,468)
SGD	+2%	1,143
	-2%	(1,143)
GBP	+10%	(390)
	10%	390

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

30. FINANCIAL INSTRUMENTS (CONT'D)

(d) Foreign currency risk (cont'd)

(i) Foreign currency sensitivity (cont'd)

	<------- Net financial assets/(liabilities) held in non-functional currencies ------->				
	USD RM'000	Euro RM'000	SGD RM'000	Others RM'000	Total RM'000
At 31 December 2012					
Ringgit Malaysia	34,320	29,997	13,050	(5,972)	71,395
At 31 December 2011					
Ringgit Malaysia	42,291	17,594	54,905	(4,742)	110,048

31. CAPITAL MANAGEMENT

The Group's capital management is defined as the process of managing the ratio of its equity and debt structure so as to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders value. The Group's approach in managing capital is set out in MISC Berhad's Corporate Financial Policy.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value

(i) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables (current)	18
Trade and other payables (current)	24

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, due to their short-term nature.

(ii) Derivatives

Forward currency contracts are valued using a valuation technique with market observable inputs. The applied valuation techniques include using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(b) Fair value hierarchy

Presented below is the Group's classified financial instruments carried at fair value by level of the following fair value measurement hierarchy:

i) Level 1 – Unadjusted quoted prices in active market for identical financial instrument

ii) Level 2 – Inputs other than quoted prices that are observable either directly or indirectly

iii) Level 3 – Inputs that are not based on observable market data

The derivatives of the Group amounting to RM168,000 (31.12.2011: RM2,328,000) are measured at Level 2 hierarchy.

33. COMPARATIVES

The Group and the Company changed its financial year end from 31 March to 31 December during the financial period ended 31 December 2011. Accordingly, the financial statements of the Group and the Company for the financial period ended 31 December 2011 cover a 9 months period. Thereafter, the financial year of the Group and the Company reverted to a 12 months period from 1 January to 31 December during the current financial year. Hence, the comparative amounts for the statements of comprehensive income, statements of changes in equity and statements of cash flows are not in respect of comparable periods.

34. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments based on the services provided as follows:

(i) Offshore Business Unit – provision of service for oil and gas engineering, construction and conversion works.

(ii) Marine Repair Business Unit – provision of repair services and drydocking of liquefied natural gas carriers.

(iii) Others – comprises supporting divisions to the Group operations and sludge disposal management.

Except as indicated above, none of the operating segments has been aggregated to form the above reportable operating segments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

34. SEGMENT INFORMATION (CONT'D)

31 December 2012	Offshore Business Unit RM'000	Marine Repair Business Unit RM'000	Others RM'000	Total RM'000	Adjustments or Eliminations RM'000	Note	Consolidated RM'000
Revenue							
External customers	2,981,313	348,460	–	3,329,773	–		3,329,773
Inter-segments	–	135,378	168	135,546	(135,546)	A	–
	2,981,313	483,838	168	3,465,319	(135,546)		3,329,773
Result							
Operating profit	163,154	68,700	21,317	253,171	(10,373)	A	242,798
Share of results of jointly controlled entities				(25,106)	–		(25,106)
Profit before tax				228,065	(10,373)		217,692
Taxation				25,504	–		25,504
Profit for the period				253,569	(10,373)		243,196
Segment assets							
Goodwill on acquisition	62,783	–	–	62,783			
Due from customers on contracts	1,385,470	79,949	–	1,465,419			
Trade receivables	484,230	48,751	321	533,302			
Total segment assets	1,932,483	128,700	321	2,061,504	2,755,826	B	4,817,330

34. SEGMENT INFORMATION (CONT'D)

31 December 2012	Offshore Business Unit RM'000	Marine Repair Business Unit RM'000	Others RM'000	Total RM'000	Adjustments or Eliminations RM'000	Note	Consolidated RM'000
Segment liabilities							
Advances received on contracts	1,373	689	–	2,062			
Due to customers on contracts	115,091	–	–	115,091			
Total segment liabilities	116,464	689	–	117,153	2,189,279	C	2,306,432
Included in operating profits are:							
Depreciation and amortisation	(40,429)	(16,415)	(414)	(57,258)	–		(57,258)
Inventories written back	–	–	174	174	–		174
Impairment loss – trade receivables	–	(7,431)	–	(7,431)	–		(7,431)
Reversal of							
– impairment loss – trade receivables	–	12,556	–	12,556	–		12,556
– liquidated ascertained damages	–	4,947	–	4,947	–		4,947
Provision for warranty	(2,577)	–	–	(2,577)	–		(2,577)
Reversal of provision for warranty	724	–	–	724	–		724

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

34. SEGMENT INFORMATION (CONT'D)

31 December 2011	Offshore Business Unit RM'000	Marine Repair Business Unit RM'000	Others RM'000	Total RM'000	Adjustments or Eliminations RM'000	Note	Consolidated RM'000
Revenue							
External customers	1,907,894	228,305	835	2,137,034	–		2,137,034
Inter-segments	–	51,734	235	51,969	(51,969)	A	–
	1,907,894	280,039	1,070	2,189,003	(51,969)		2,137,034
Result							
Operating profit	157,005	28,252	40,865	226,122	(22,026)	A	204,096
Share of results of jointly controlled entities				46,752	–		46,752
Profit before tax				272,874	(22,026)		250,848
Taxation				(44,921)	–		(44,921)
Profit for the period				227,953	(22,026)		205,927
Segment assets							
Due from customers on contracts	559,268	68,049	–	627,317			
Trade receivables	329,953	94,303	374	424,630			
Total segment assets	889,221	162,352	374	1,051,947	3,410,519	B	4,462,466

34. SEGMENT INFORMATION (CONT'D)

31 December 2011	Offshore Business Unit RM'000	Marine Repair Business Unit RM'000	Others RM'000	Total RM'000	Adjustments or Eliminations RM'000	Note	Consolidated RM'000
Segment liabilities							
Advances received on contracts	3,701	1,457	–	5,158			
Due to customers on contracts	216,371	–	–	216,371			
Total segment liabilities	220,072	1,457	–	221,529	1,816,725	C	2,038,254
Included in operating profits are:							
Depreciation and amortisation	(13,122)	(18,431)	–	(31,553)	–		(31,553)
Inventories written off	–	–	(334)	(334)	–		(334)
Impairment loss – trade receivables	–	(4,303)	–	(4,303)	–		(4,303)
Provision for warranty	(520)	–	–	(520)	–		(520)
Reversal of provision for warranty	222	–	–	222	–		222

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

34. SEGMENT INFORMATION (CONT'D)

Management monitors the assets and liabilities on a group basis and not by operating segments.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

Note

A Inter-segment revenues and transactions are eliminated on consolidation.

B The following items are deducted from total assets as reported in the statement of financial position to arrive at segment assets:

	31.12.2012 RM'000	31.12.2011 RM'000
Total assets	4,817,330	4,462,466
Property, plant and equipment	1,441,037	1,090,619
Land use rights	253,513	65,569
Investment in jointly controlled entities	34,291	61,037
Deferred tax assets	9,315	57
Derivatives	104	–
Inventories	11,622	25,593
Other receivables	115,656	79,335
Tax recoverable	–	2,724
Cash and cash equivalents	890,288	2,085,585
Adjustments and eliminations to total assets	2,755,826	3,410,519
Total segment assets	2,061,504	1,051,947
The segment assets comprised:		
Goodwill on acquisition	62,783	–
Due from customers on contracts	1,465,419	627,317
Trade receivables	533,302	424,630
	2,061,504	1,051,947

34. SEGMENT INFORMATION (CONT'D)

Note

C The following items are deducted from total liabilities as reported in the statement of financial position to arrive at segment liabilities:

	31.12.2012 RM'000	31.12.2011 RM'000
Total liabilities	2,306,432	2,038,254
Deferred tax liabilities	–	26,675
Trade and other payables	2,164,506	1,704,975
Provisions	7,101	61,625
Derivatives	272	2,328
Income tax payable	17,400	21,122
Adjustments and eliminations to total liabilities	2,189,279	1,816,725
Total segment liabilities	117,153	221,529
The segment liabilities comprised:		
Advances received on contracts	2,062	5,158
Due to customers on contracts	115,091	216,371
	117,153	221,529

Geographical information

The following table provides an analysis of the Group's revenue and carrying amount of non-current assets by geographical segments:

	Revenue RM'000	Non-current assets* RM'000
31 December 2012		
Malaysia	3,129,074	1,791,624
Turkmenistan	200,699	–
	3,329,773	1,791,624
31 December 2011		
Malaysia	1,309,934	1,217,225
Turkmenistan	827,100	–
	2,137,034	1,217,225

* Non-current assets other than deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the financial year ended 31 December 2012

34. SEGMENT INFORMATION (CONT'D)

Information about major customers

Breakdown of revenue from major customers are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Immediate holding company		
– Offshore Business Unit	825,104	307,635
– Marine Repair Business Unit	210,177	158,172
	1,035,281	465,807
MMHE-TPGM Sdn. Bhd., a jointly controlled entity		
– Offshore Business Unit	200,699	827,100
Kebabangan Petroleum Operating Company Sdn. Bhd., a related company		
– Offshore Business Unit	487,757	–
ExxonMobil Exploration and Production Malaysia Inc.		
– Offshore Business Unit	1,110,744	280,492

35. SIGNIFICANT EVENT

(a) On 31 March 2012, Malaysia Marine and Heavy Engineering Sdn. Bhd. ("MMHE"), a wholly-owned subsidiary of the Company had finalised the acquisition of a Pasir Gudang fabrication yard together with movable and immovable assets located thereon from Sime Darby Engineering Sdn. Bhd. ("SDE"), a government-related entity, for a purchase consideration of RM393,500,000, which was satisfied entirely in cash.

The acquisition is considered as a business combination and is accounted for using the acquisition method under MFRS 3 Business Combinations ("MFRS 3"). This includes recognising and measuring the separately identifiable assets acquired and liabilities assumed at their acquisition date fair values.

A purchase price allocation exercise was performed in measuring the fair value of the assets acquired at their acquisition date in accordance with MFRS 3. The acquired assets are valued at RM330,717,000 and a goodwill of RM62,783,000 was recognised as a result.

36. SUPPLEMENTARY INFORMATION – BREAKDOWN OF RETAINED PROFITS INTO REALISED AND UNREALISED

The breakdown of the retained profits of the Group and of the Company as at 31 December 2012 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Total retained profits of the Company and its subsidiaries:				
– Realised	741,865	662,921	198,529	180,142
– Unrealised	(30,657)	(67,207)	–	–
Total share of retained profits from jointly controlled entities:				
– Realised	19,707	44,751	–	–
– Unrealised	1,212	1,914	–	–
	732,127	642,379	198,529	180,142
Add: Consolidation adjustments	155,609	163,349	–	–
Retained profits as per financial statements	887,736	805,728	198,529	180,142

PROPERTIES OWNED BY MHB AND ITS SUBSIDIARIES

As at 31 December 2012

No.	Location	Description	Tenure & Year Lease Expires	Area In Sq Ft	Existing Use	Age of Building/ Land (years)	Approx Net Book Value (RM'000)
1	PTD 28805 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/ 2072	13,115,306	Marine repair, marine conversion, engineering & construction fabrication yard, ancillary facilities and office buildings	33	53,576
2	PTD 11549 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/ 2075	522,720	Marine repair, marine conversion, engineering & construction fabrication yard, ancillary facilities and office buildings	37	1,055
3	PTD 101363 Mukim Plentong Johor Bahru	Land	Leasehold/ 2039	2,567,862	Storage Area	3	18,912
4	PTD 65615 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	698,266	Staff Quarters	29	3,144
5	PTD 65618 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	587,624	Staff Quarters	29	2,645
6	PTD 65619 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	128,502	Staff Quarters	29	579
7	PTD 65616 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	169,884	Vacant	29	765
8	PTD 65617 Mukim Plentong Johor Bahru	Land	Leasehold/ 2044	374,180	Vacant	29	1,685

No.	Location	Description	Tenure & Year Lease Expires	Area In Sq Ft	Existing Use	Age of Building/ Land (years)	Approx Net Book Value (RM'000)
9	Pasir Gudang Industrial Estate 81707 Pasir Gudang Johor (erected on land 1 and 2 above)	Warehouse, workshops and office building	Leasehold/ 2072/2075	1,956,881	Marine repair, marine conversion, engineering & construction fabrication yard, ancillary facilities and office buildings	35	688,444
10	Rumah Pangsa MMHE 81700 Pasir Gudang (erected on land 4 to 6 above)	4-storey residential flats	Leasehold/ 2044	383,559	Staff Quarters	34	3,378
11	PTD 71056, Mukim Plentong Johor Bahru	Land, Yard	Leasehold/ 2045	1,524,600	Engineering & construction fabrication yard, ancillary fabrication and office buildings	27	49,606
12	PTD 109040, Mukim Plentong Johor Bahru	Land	Leasehold/ 2053	217,800	Workshop, ancillary facilities and site office	19	7,377
13	PTD 200290, Mukim Plentong Johor Bahru	Land, Yard	Leasehold/ 2052	2,424,158	Workshop, ancillary facilities, workshops and office buildings	4	85,518
14	PTD 22768, Mukim Plentong Johor Bahru	Land	Leasehold/ 2040	435,600	Storage area	32	14,114
15	LOT 51611, Mukim Plentong Johor Bahru	Land	Leasehold/ 2045	173,514	Ancillary facilities and storage area	16	5,645
16	PTD 110760, Mukim Plentong Johor Bahru	Land	Leasehold/ 2052	205,603	Workshop, ancillary facilities and office buildings	19	6,824
17	PTD 110758, Mukim Plentong Johor Bahru	Land	Leasehold/ 2052	59,242	Cabin office and warehouse	19	2,069

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 24th Annual General Meeting of Malaysia Marine and Heavy Engineering Holdings Berhad will be held at Ballroom 1, Level 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Tuesday, 18 June 2013 at 11.00 a.m. for the following purposes:-

1. To receive the audited financial statements for the financial year ended 31 December 2012 together with the Reports of the Directors and Auditors thereon. — Resolution 1

2. To declare a final single tier dividend of 10 sen per share in respect of the financial year ended 31 December 2012. — Resolution 2

3. To elect Choy Khai Choon who retires pursuant to Article 112 of the Company's Articles of Association and who being eligible, has offered himself for election. — Resolution 3

4. To re-elect the following Directors who retire by rotation pursuant to Article 115 of the Company's Articles of Association and who being eligible, have offered themselves for re-election:-
   i. Datuk Nasarudin Md Idris — Resolution 4
   ii. Dato' Halipah binti Esa — Resolution 5
   iii. Yee Yang Chien — Resolution 6

5. To approve the payment of Directors' fees of RM986,000 for the financial year ended 31 December 2012. — Resolution 7

6. To re-appoint Messrs Ernst & Young as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. — Resolution 8

7. As special business, to consider and if thought fit, to pass the following Special Resolution:

   Proposed Amendments to the Articles of Association of the Company
   "THAT the proposed amendments to the Articles of Association of the Company as set out in Appendix 1 of the Annual Report be and are hereby approved and in consequence thereof, the new set of Articles of Association incorporating the amendments be adopted AND THAT the Directors and Secretary be and are hereby authorised to carry out all the necessary steps to give effect to the amendments." — Resolution 9

8. To transact any other ordinary business for which due notice has been given in accordance with the Companies Act, 1965.

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN that subject to the approval of members at the 24th Annual General Meeting on 18 June 2013, a final single tier dividend of 10 sen per share in respect of the financial year ended 31 December 2012 will be paid on 2 July 2013 to depositors whose names appear in the Record of Depositors on 18 June 2013.

A depositor shall qualify for entitlement to the dividend only in respect of:-

i. shares transferred into the depositor's securities account before 4.00 p.m. on 18 June 2013 in respect of ordinary transfers; and
ii. shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

By Order of the Board
Fadzillah binti Kamaruddin (LS 0008989)
Ausmal bin Kardin (LS 0009383)
Company Secretaries
Kuala Lumpur
15 May 2013

Notes on Proxy Form

1. Only depositors whose names appear in the Record of Depositors as at 11 June 2013 shall be entitled to attend, speak and vote at the meeting.

2. A member of the Company (except if the member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991) shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

3. The Form of Proxy must be signed by the appointor of the proxy, or its attorney duly authorised in writing. In the case of a corporation, the Form of Proxy shall be executed under its common seal, or signed by its attorney duly authorised in writing or by a duly authorised officer on behalf of the corporation.

4. The Form of Proxy duly completed and executed, must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd (378993-D) at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than forty eight (48) hours before the time fixed for the holding of the meeting or any adjournment thereof.

EXPLANATORY NOTES ON SPECIAL BUSINESS

The Proposed Amendments to the Articles of Association of the Company is to comply with the amendments to the Main Market Listing Requirements ("MMLR") of Bursa Securities dated 22 September 2011 and to provide another venue for the lodgement of proxy forms.

APPENDIX 1

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

The details of the proposed amendments to the Articles of Association of the Company are as follows:

Articles	Existing Articles	Proposed Amendments	Rationale(s)
Article 88	Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.	Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint up to two (2) proxies ~~at least one (1) proxy~~ in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account and the number of shares to be represented by each proxy must be clearly indicated.	
Article 88A	*Nil*	(New provision) Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds. Where an exempt authorised nominee appoints more than one (1) proxy in respect of each Omnibus Account, the appointment shall not be valid unless the exempt authorised nominee specifies the proportion of the shareholding to be represented by each proxy.	To streamline the Articles with the amended Paragraph 7.21 of the MMLR.

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

APPENDIX 1

Articles	Existing Articles	Proposed Amendments	Rationale(s)
Article 88A (continued)		An exempt authorised nominee refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.	
Article 91	The instrument appointing an attorney or a notarially attested copy thereof and the instrument appointing a proxy or a representative as aforesaid and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Office not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting as the case may be, at which the person named in such instrument proposes to vote unless in the case of a power of attorney it has already been registered in the books of the Company and in default of such deposit or prior registration such instrument shall not be treated as valid.	The instrument appointing ~~an attorney or a notarially attested copy thereof and the instrument appointing~~ a proxy or a representative ~~as aforesaid~~ and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Office or at such other place within Malaysia as is specified for that purpose in the notice convening the meeting, not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting as the case may be, at which the person named in such instrument proposes to vote, unless in the case of a power of attorney it has already been registered in the books of the Company, and in default of such deposit or prior registration such instrument shall not be treated as valid.	To refine the sentence for better clarity and to provide for other venue for the lodgement of the proxy forms.

APPENDIX 1

Articles	Existing Articles	Proposed Amendments	Rationale(s)
Article 93	Any instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. A Member (except if the Member of the Company is an authorised nominee as defined under the Central Depositories Act) shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a Member appoints two (2) proxies the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.	Any instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Subject to Article 88 and 88A, a ~~A~~ Member ~~(except if the Member of the Company is an authorised nominee as defined under the Central Depositories Act)~~ shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a Member appoints two (2) proxies the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. There shall be no restriction as to the qualification of the proxy. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.	To comply with Paragraph 7.21A of the MMLR

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Made pursuant to Paragraph 8.27(2) of the MMLR of Bursa Securities.

1. The Director retiring and seeking election pursuant to Article 112 of the Company's Articles of Association at the 24th Annual General Meeting is:
   i. Choy Khai Choon

2. The Directors retiring and seeking re-election pursuant to Article 115 of the Company's Articles of Association at the 24th Annual General Meeting are :-
   i. Datuk Nasarudin Md Idris
   ii. Dato' Halipah binti Esa
   iii. Yee Yang Chien

3. The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 16 to 24 of this Annual Report. The details of the Directors' shareholdings in the Company are set out in the section entitled "Statistic on Shareholdings" on pages 30 to 31 of this Annual Report.

MHB

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (178821-X)

PROXY FORM

CDS Account No.	
No. of Shares Held	

I/We ______________________________ NRIC/Passport No. ______________________ of
(Full name in block letters)

____
(Address in full)

being a member/members of **MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (Company No. 178821-X),** do hereby appoint

______________________________ NRIC/Passport No. ______________________
(Full name in block letters)

of ____
(Address in full)

and/or failing him/her ______________________________ NRIC/Passport No. ______________________
(Full name in block letters)

of ____
(Address in full)

and failing the abovenamed proxies, the Chairman of the Meeting, as my/our proxy to attend and to vote for me/us on my/our behalf at the 24th Annual General Meeting of the Company to be held at Ballroom 1, Level 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Tuesday, 18 June 2013 at 11.00 a.m. and at any adjournment thereof. My/our proxy(ies) is/are to vote as indicated below:

No	Ordinary Resolution	For	Against
1.	To receive the audited financial statements for the financial year ended 31 December 2012 together with the Reports of the Directors and Auditors thereon.		
2.	To declare a final single tier dividend of 10 sen per share in respect of the financial year ended 31 December 2012.		
3.	To elect Choy Khai Choon who retires pursuant to Article 112 of the Company's Articles of Association.		
4.	To re-elect Datuk Nasarudin Md Idris who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
5.	To re-elect Dato' Halipah binti Esa who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
6.	To re-elect Yee Yang Chien who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
7.	To approve the payment of Directors' fees amounting to RM986,000 for the financial year ended 31 December 2012.		
8.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.		
	Special Resolution		
9.	Proposed Amendments to the Articles of Association of the Company		

(Please indicate with a cross (X) in the space whether you wish your votes to be cast for or against the resolutions. In the absence of such specific directions, your proxy will vote or abstain as he thinks fit).

Dated this ____________________ of ______________________ 2013.

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No of shares	Percentage (%)
Proxy 1		
Proxy 2		
TOTAL		

____
Signature/Common Seal of member(s)

NOTES:

1. Only depositors whose names appear in the Record of Depositors as at 11 June 2013 shall be entitled to attend, speak and vote at the meeting.
2. A member of the Company (except if the member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991) shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting and where a member appoints two proxies the appointment shall be invalid unless he specifies the proportion of his holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. The Form of Proxy must be signed by the appointor of the proxy, or its attorney duly authorised in writing. In the case of a corporation, the Form of Proxy shall be executed under its common seal, or signed by its attorney duly authorised in writing or by a duly authorised officer on behalf of the corporation.
4. The Form of Proxy duly completed and executed, must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd (378993-D) at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than forty eight (48) hours before the time fixed for the holding of the meeting or any adjournment thereof.

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Malaysia Marine and Heavy Engineering Holdings Berhad
Annual General Meeting

STAMP

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House, Block D13,
Pusat Dagangan Dana 1, Jalan PJU 1A/46,
47301 Petaling Jaya, Selangor Darul Ehsan,
Malaysia

Please fold here to seal

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
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