RESHAPING OUR LANDSCAPE

ANNUAL REPORT 2016

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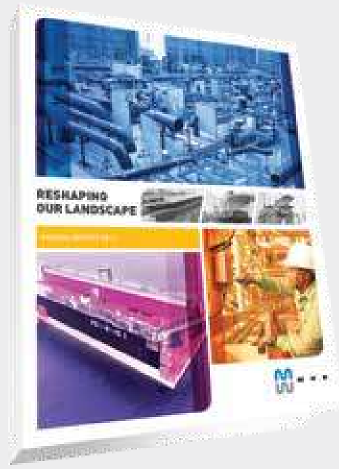

RESHAPING OUR LANDSCAPE

Amidst challenging economic headwinds, we are Reshaping Our Landscape to adapt to a new norm. Our diversification strategy looks beyond offshore and marine related industries to harness opportunities and to mitigate the current oil & gas environment.

This strategy has resulted in secured projects in piping, mechanical and structural works for onshore segments, hook-up & commissioning as well as facilities maintenance projects. As we look ahead, we will power through with resilience and accelerate further efficiencies and productivity.

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ABOUT THIS REPORT

Here in MHB, we produce a comprehensive reporting publication to cater to the diverse needs of our broad stakeholder base. Our Annual Report 2016, which comes together with our Sustainability Statement embedded inside, is tailored to meet our readers' specific information requirements.

	Objective	Frameworks applied	Cross-referencing
Annual Report 2016	• Provides a comprehensive discussion of the Group's performance	• Bursa Malaysia Securities Main Market Listing Requirements	MHB's website www.mhb.com.my
Sustainability Statement 2016	• Present a balanced and comprehensive analysis of the Group's sustainability practices and performance in relation to issues material to our stakeholders	• Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines • Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Statement in Annual Reports	

We value your views and aim for continuous improvements based on your feedback. For further inquiries on our report, please contact us at:

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (178821-X)

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Jalan Sultan Hishamuddin
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OUR VISION

A Leading Marine and Heavy Engineering Organisation of Choice

OUR BRAND PILLARS

PERFORMANCE
We aim to be a high performance company that delivers engineering solutions to help our customers stay ahead

PROFESSIONALISM
We take pride in what we do, working as a team to always make a difference

PEOPLE
We are committed to nurturing our people who make us great, never compromising on their wellbeing at all times

OUR SHARED VALUES

Loyalty
Loyal to corporation

Integrity
Honest and upright

Professionalism
Strive for excellence

Cohesiveness
United, trust and respect for each other

GROUP FINANCIAL REVIEW

SHAREHOLDERS' EQUITY

Shareholders' equity decreased to RM2,535.6 million as at 31 December 2016 from RM2,676.6 million as at 31 December 2015.

The decrease in shareholders' equity was contributed by total comprehensive loss attributable to equity holders of the Company amounting to RM134.3 million and loss on cash flow hedge amounting to RM6.9 million.

FINANCIAL POSITION

The total assets of the Group decreased by 16.6% or RM717.6 million to RM3,602.5 million as at 31 December 2016 from RM4,320.1 million as at 31 December 2015.

The decrease in the Group's total assets was primarily attributable to impairment of property, plant and equipment, lower trade and other receivables and cash and bank balances as at financial year end.

The Group's total receivables of RM1,052.1 million as at 31 December 2016 registered a 28.7% decrease from RM1,474.7 million as at 31 December 2015 at the back of more than 50% contraction in revenue during the financial year.

Similarly, in a period with reduced operating activities, the Group's total liabilities dropped by 37.1% to RM1,063.9 million from RM1,639.7 million from a year earlier.

CASH FLOW

The Groups's cash and bank balances decreased to RM671.1 million as at 31 December 2016 from RM860.2 million as at 31 December 2015 due to higher outflow to vendors against collection from clients for the year under review.

The Group's net outflow from operating activities was RM107.0 million as compared to net inflow of RM674.8 million in the corresponding year due to higher outflow to vendors against collection from clients.

Net cash outflow from investing activities was lower by RM32.5 million at RM101.8 million in line with lower capital investments.

Financing activities registered a positive inflow of RM44.7 million mainly contributed by SUKUK Murabahah and bank deposits drawdown.

REVENUE

Group revenue of RM1,191.3 million for FY2016 was 51.6% lower than RM2,459.0 million in FY2015 attributable to fewer and lower project backlog and order intake resulted from the oil and gas industry downturn.

OPERATING PROFIT

FY16

RM13.3 million

Group recorded a 90% drop in its operating profit to RM13.3 million against RM128.2 million in FY2015. The contraction is in line with the downward movement in Heavy Engineering revenue.

EARNINGS PER SHARE (SEN)

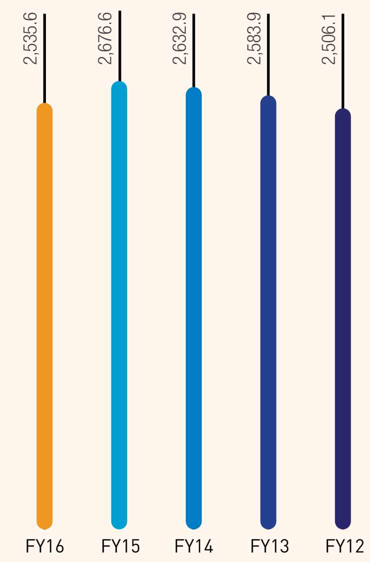
FY16

RM134.3 million

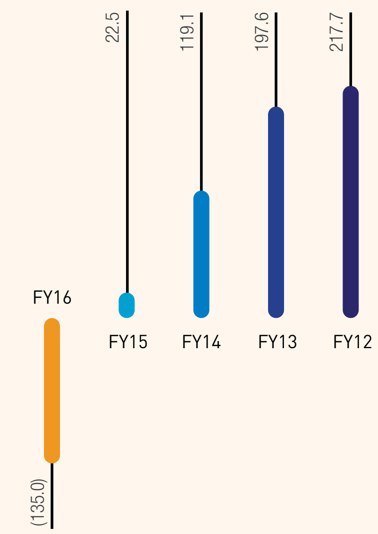
Year on year Basic Earnings Per Share ("EPS") swing to negative 8.4 sen in FY2016 from a positive 2.7 sen in the corresponding year due to loss attributable to the equity holders of RM134.3 million in FY ended 31 December 2016 as compared to RM43.9 million in the corresponding year.

5-YEAR FINANCIAL HIGHLIGHTS

SHAREHOLDERS' EQUITY
(RM'MILLION)



PROFIT BEFORE TAX
(RM'MILLION)



REVENUE
(RM'MILLION)

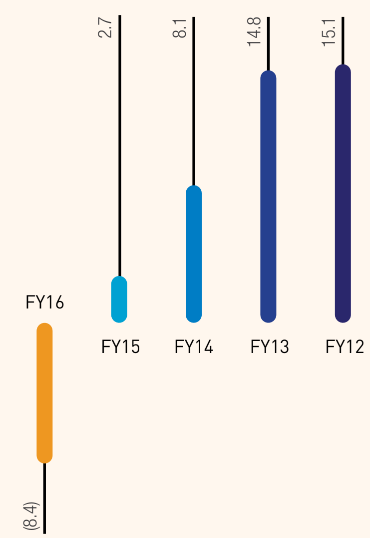
FY15

2,459.0

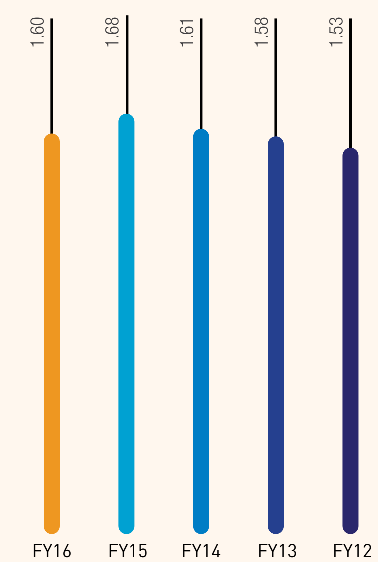
FY16

1,191.3

EARNINGS PER SHARE
(SEN)



NTA PER SHARE
(SEN)



DIVIDENDS
(RM'MILLION)

FY15

NIL

FY16

NIL

LOOKING
beyond the horizon

CORPORATE PROFILE

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (MHB) IS A **GLOBALLY TRUSTED HEAVY ENGINEERING** AND **MARINE SOLUTIONS PROVIDER** FOR A WIDE RANGE OF OFFSHORE & ONSHORE FACILITIES AND VESSELS. MHB HAS OVER 40 YEARS TRACK RECORD OF DELIVERING **INTEGRATED AND COMPLEX SOLUTIONS**, INCLUDING DEEPWATER SUPPORT SERVICES TO INTERNATIONAL OIL & GAS CLIENTS.

MMHE West

MMHE East

We are equally recognised for our global expertise in offshore conversion services and LNG vessel repair and dry docking. Backed by an exceptional track record, a highly skilled workforce and world-class facilities, MHB is able to provide innovative solutions to meet the complex demands of the energy industry – safely, on time and within cost.

FULL RANGE EPCIC SERVICES for offshore and onshore construction

COMPLETE CONVERSION WORKS in one location

Comprehensive **MARINE REPAIR, REFURBISHMENT, UPGRADING AND LIFE EXTENSION** of vessels and rigs

Malikai tension leg platform

MEGA STRUCTURE, DEEPWATER AND CONVERSION SPECIALIST FOR FLOATERS

We provide EPCIC solutions for broad range of floating platforms for deepwater application including:

- Spar
- Semi-submersible
- Tension leg platform

FPSO MaMPU 1

Our solid experience in marine conversions capable of serving wide range of conversion projects to cater global oil & gas industry demand. We do conversions for:

- FPSO
- FSO
- FSU
- MOPU/MODU
- FOIS

SK316

SOLID EXPERIENCE IN BROAD RANGE OF FIXED PLATFORM CONSTRUCTIONS

Our full range of EPCIC solutions include:

- Integrated platform
- Wellhead platform
- Compression, dehydration and water injection module
- Topside and hull
- Jacket
- Living quarter
- Turret and mooring buoy
- Enhanced oil recovery facility


RAPID project (ongoing)

COMPLETE PROCESS MODULES SOLUTION

We optimise overall fabrication and construction configuration including process modules, leveraging full range of EPCC expertise.

- Offshore process module
- Onshore process module


Sea Beijing

COMPREHENSIVE MARINE REPAIR SOLUTIONS

We have built our core capabilities from standard to complex vessel repairs and marine solutions to meet the industry demand. Our expertise includes:

- Vessel and dry docking repair
- Refurbishment and upgrading
- Jumboisation
- Modification and lengthening
- Conversion
- Jack up repair and upgrading

Our proven track record ranges from LNG vessels to various type of vessels:

- Gas carrier
- VLCC/ULCC/tanker
- Offshore support vessel
- Bulk carrier
- Container ship
- Mobile offshore unit


Facilities improvement project

EFFECTIVE HOOK UP & COMMISSIONING AND MAINTENANCE SERVICES

We provide specialist support to our clients during integration, mechanical completion, commissioning as well as topside major maintenance and refurbishment/rejuvenation services;

- Select method based on suitability
- Smooth execution through proper planning
- Speedy hand over and commissioning
- Working with experienced professionals

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 & 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 2006 to 2007 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. 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.

The proud moments were then followed with the completion of the Gumusut-Kakap semi-submersible floating production system (FPS). It is the largest of such a facility in the world to have been fully built and integrated on land. The FPS left MMHE West in Pasir Gudang, Johor on 13 May 2013. MHB then treads further with Malaysia's third deepwater project, Malikai tension leg platform that sailed away from MMHE water on 11 July 2016. MMHE is the only fabrication yards in Southeast Asia to have constructed deepwater facilities in Malaysia for its international oil and gas clients.

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 & gas related structures, to cater to EPCIC works. The acquisition has significantly increased MHB's Pasir Gudang yard capacity from 69,700MT to 129,700MT, 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 acquired yard is known as "MMHE East".

CORPORATE PROFILE

WORLD CLASS FACILITIES

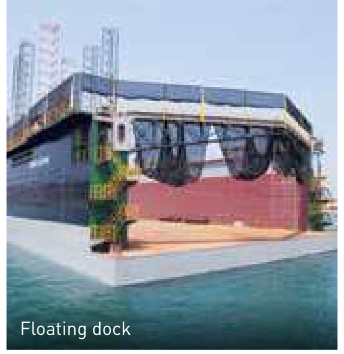
FACILITIES	INFORMATION & DIMENSIONS	
Annual Fabrication Capacity	129,700MT	
Fabrication Area	542,380m²	
Workshops	• Automated Cutting & Assembly Workshop • Centralised Piping Workshop • Exotic Piping Workshop • Auto-Blast & Primer Workshop • Centralised Chemical Cleaning Workshop • Centralised Scheduled Waste Storage	
Skid Tracks & Bulkheads	**MMHE West** 55,000MT 40,000MT 12,000MT	**MMHE East** 25,000MT 2 x 15,000MT 5,000MT
West Finger Pier	300 (L) x 25 (W)	390,000dwt
Cranes	4 x 250T Crawler Cranes 8 x 50T Rough Terrain Cranes 80T Luffing Crane 1 x 600T Goliath Crane No 1 1 x 600T Goliath Crane No 2 in-progress	


Automated Cutting & Assembly Workshop


8 x 50T Rough Terrain Cranes


Centralised Piping Workshop


Goliath Crane No 1


Floating dock


LNG cargo membrane repair tank


Dry docks 1 & 2

SHIP REPAIR FACILITIES

FACILITIES	INFORMATION & DIMENSIONS	
Dry dock 1	385m x 80m x 14m	Capacity: 450,000dwt
Dry dock 2	270m x 46m x 12.5m	Capacity: 140,000dwt
Land berth 1	345m	Capacity: 142 tonnes/m
Land berth 2	345m	Capacity: 125 tonnes/m
Shiplift	188m x 33.8m x 8m	Capacity: 50,000dwt
7 Quays/Berths	7 quays up to 369m	7m draft average
LNG Repair Facilities	• Cryogenic workshop (750m² area) • Invar welding centre • Global test control rooms • Acoustic and helium testing equipment • Mobile cargo tanks monitoring instruments console • 16 yard level-luffing cranes (up to 80T) • 6 crawler cranes (up to 450T)	
Floating Dock (Kemaman Base)	116m x 24m x 9m	Capacity: 6,500MT

CORPORATE INFORMATION

(As at 20 February 2017)

BOARD OF DIRECTORS

Chairman, Independent Non-Executive Director

- Datuk Nasarudin Md Idris

Independent Non-Executive Directors

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

Non-Independent Non-Executive Directors

- Bernard Rene Francois di Tullio
- Yee Yang Chien
- Syed Hashim bin Syed Abdullah
- Rozainah binti Awang

Managing Director & Chief Executive Officer Non-Independent Executive Director

- Wan Mashitah binti Wan Abdullah Sani

BOARD AUDIT COMMITTEE

Choy Khai Choon (Chairman)
Dato' Halipah binti Esa
Heng Heyok Chiang @ Heng Hock Cheng
Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio
Rozainah binti Awang

NOMINATION & REMUNERATION COMMITTEE

Dato' Halipah binti Esa (Chairperson)
Heng Heyok Chiang @ Heng Hock Cheng
Choy Khai Choon
Syed Hashim bin Syed Abdullah

BOARD BID COMMITTEE

Heng Heyok Chiang @ Heng Hock Cheng (Chairman)
Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio
Syed Hashim bin Syed Abdullah

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 7849 0777
Facsimile : +603 7841 8151 / +603 7841 8152

FORM OF LEGAL ENTITY

Incorporated on 18 February 1989 as a private company limited by shares 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 20 February 2017)

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD

- 100% **MALAYSIA MARINE AND HEAVY ENGINEERING SDN BHD**
  Provision of oil and gas engineering and construction works and marine conversion and repair services
  - 100% **TECHNO INDAH SDN BHD**
    Sludge disposal management
  - 100% **MMHE LNG SDN BHD** *(FORMERLY KNOWN AS MMHE-SHI LNG SDN BHD)*
    Dormant
  - 70% **MMHE EPIC MARINE & SERVICES SDN BHD**
    Provision of repair services and dry docking of marine vessels at the ship repair facilities located in Kemaman, Terengganu
  - 60% **MMHE-TPGM SDN BHD**
    Provision of engineering, procurement, construction, installation and commissioning services
  - 40% **MMHE-ATB SDN BHD**
    Manufacturing of pressure vessels and tube heat exchangers
- 100% **MMHE INTERNATIONAL SDN BHD**
  Dormant
- 50% **TECHNIP MHB HULL ENGINEERING SDN BHD**
  Builds and develops hull engineering and engineering project management capacities

● Subsidiary

● Jointly Controlled Entity

PROFILE OF DIRECTORS

YEE YANG CHIEN
Non-Independent
Non-Executive Director

DATUK NASARUDIN MD IDRIS
Chairman,
Independent
Non-Executive Director

CHOY KHAI CHOON
Independent
Non-Executive Director

SYED HASHIM BIN SYED ABDULLAH
Non-Independent
Non-Executive Director

DATO' HALIPAH BINTI ESA
Independent
Non-Executive Director

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

ROZAINAH BINTI AWANG
Non-Independent
Non-Executive Director

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

BERNARD RENE FRANCOIS DI TULLIO
Non-Independent
Non-Executive Director

WAN MASHITAH BINTI WAN ABDULLAH SANI
Non-Independent Executive Director
Managing Director &
Chief Executive Officer

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Left to Right:

YEE YANG CHIEN
Non-Independent Non-Executive Director

DATO' HALIPAH BINTI ESA
Independent Non-Executive Director

DATUK NASARUDIN MD IDRIS
Chairman, Independent Non-Executive Director

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

SYED HASHIM BIN SYED ABDULLAH
Non-Independent Non-Executive Director

Left to Right:

BERNARD RENE FRANCOIS DI TULLIO
Non-Independent Non-Executive Director

CHOY KHAI CHOON
Independent Non-Executive Director

WAN MASHITAH BINTI WAN ABDULLAH SANI
Non-Independent Executive Director
Managing Director & Chief Executive Officer

ROZAINAH BINTI AWANG
Non-Independent Non-Executive Director

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

Name	DATUK NASARUDIN MD IDRIS
Position	Chairman, Independent Non-Executive Director
Age	61
Gender	Male
Nationality	Malaysian
Appointed	15 June 2010

On 20 February 2017, Datuk Nasarudin's position was redesignated as an Independent Non-Executive Director of MHB.

QUALIFICATION, SKILLS AND EXPERIENCE

Datuk Nasarudin 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.

He joined PETRONAS in 1978 and had held various positions within the PETRONAS Group including as President/Chief Executive Officer of MISC Berhad; 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.

OTHER COMMITMENTS

Datuk Nasarudin is currently a Director of MISC Berhad and Bintulu Port Holdings Berhad.

PROFILE OF DIRECTORS

Name	DATO' HALIPAH BINTI ESA
Position	Independent Non-Executive Director
Age	67
Gender	Female
Nationality	Malaysian
Appointed	1 April 2007

QUALIFICATION, SKILLS AND EXPERIENCE

Dato' Halipah 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 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.

OTHER COMMITMENTS

Currently, Dato' Halipah serves on the boards of MISC Berhad, KLCC Property Holdings Berhad, KLCC REIT Management Sdn Bhd, Cagamas Berhad, S P Setia Berhad and Securities Industry Dispute Resolution Centre.

BOARD COMMITTEE MEMBERSHIP

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

Name	HENG HEYOK CHIANG @ HENG HOCK CHENG
Position	Independent Non-Executive Director
Age	67
Gender	Male
Nationality	Malaysian
Appointed	15 June 2010

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Heng holds a Bachelor of Science (Honours) Degree in Chemical Engineering from the University of Birmingham, United Kingdom in 1972.

He 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, amongst others, as Manufacturing Superintendent of Lutong Refinery, Engineering Manager and Technical Director of Sarawak Shell Berhad/Sabah Shell Petroleum Co. Ltd, Managing Director of Shell Gas & Power Malaysia and Chairman of Shell China based in Beijing.

OTHER COMMITMENTS

Mr Heng currently sits on the boards of PETRONAS Gas Berhad, Shell Refining Company Berhad, AET Tankers Holdings Sdn Bhd, AET Shipmanagement (Malaysia) Sdn Bhd and AET Shipmanagement (Singapore) Pte Ltd.

BOARD COMMITTEE MEMBERSHIP

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

PROFILE OF DIRECTORS

Name	CHOY KHAI CHOON
Position	Independent Non-Executive Director
Age	59
Gender	Male
Nationality	Malaysian
Appointed	5 February 2013

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Choy 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 Certified Practising Accountants Australia and a member of the Malaysian Institute of Accountants.

He 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.

OTHER COMMITMENTS

Mr Choy is currently a Director of Deutsche Bank (Malaysia) Berhad, RAM Rating Services Berhad, Zurich Malaysia Insurance Berhad and Asian Banking School Sdn Bhd.

BOARD COMMITTEE MEMBERSHIP

Mr Choy is the Chairman of the Board Audit Committee and a member of the Nomination & Remuneration Committee.

Name	YONG NYAN CHOI @ YONG GUAN CHOI
Position	Independent Non-Executive Director
Age	64
Gender	Male
Nationality	Malaysian
Appointed	14 January 2011

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Yong 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. In 1976, he joined Konsortium Malaysia, Kuching as an Executive Engineer. He moved to 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.

BOARD COMMITTEE MEMBERSHIP

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

Name	BERNARD RENE FRANCOIS DI TULLIO
Position	Non-Independent Non-Executive Director
Age	67
Gender	Male
Nationality	French
Appointed	22 November 2010

QUALIFICATION, SKILLS AND EXPERIENCE

Mr di Tullio graduated with a Masters Degree from the Ecole Spècial de Mècanique d'Èletricitè (ESME) Paris as a Graduate Engineer in Mechanical/Electrical in 1974 and DESS (post-graduate degree) in Management from the Institut d' Administration des Enterprise Paris in 1978.

He has been with Technip Group for 37 years, having served 24 years in Technip Geoproduction (M) Sdn Bhd ("TPGM"). 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).

OTHER COMMITMENTS

Mr Bernard di Tullio is currently the Advisor to the Chairman and Chief Executive Officer of Technip, a role he has served since November 2011.

BOARD COMMITTEE MEMBERSHIP

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

Name	YEE YANG CHIEN
Position	Non-Independent Non-Executive Director
Age	49
Gender	Male
Nationality	Malaysian
Appointed	1 April 2008

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Yee is currently the Group President & CEO of MISC Berhad, a position he has held since January 2015. He is responsible for providing strategic, planning, commercial, financial and business leadership to the Group and its subsidiaries.

He joined MISC Berhad in 2001 as Senior Manager of Research and Evaluation in the Corporate Planning and Development Unit before moving to MISC's petroleum tanker subsidiary, AET, as Group Vice President of Corporate Planning in June 2005. He transferred back to MISC in April 2008 as Vice President of Corporate Planning and Development, focusing on strategic planning, budget development, risk management and investments for the Group. He was subsequently appointed Chief Operating Officer (July 2013 – December 2014) which included oversight of Group Finance and HR as well as the Chemical Tanker Business Unit.

Prior to his career with MISC, Mr Yee held various positions as an auditor and also in equity research and investment banking work with various local and international financial institutions.

He holds a BA (Hons) in Financial Accounting/Management and Economics from the University of Sheffield, United Kingdom.

OTHER COMMITMENTS

Mr Yee was appointed as the Chairman of Malaysia Marine and Heavy Engineering Sdn Bhd, a wholly-owned subsidiary of MHB on 1 January 2015. He also serves as a board member of several subsidiaries and joint venture companies within the MISC Group.

PROFILE OF DIRECTORS

Name	SYED HASHIM BIN SYED ABDULLAH
Position	Non-Independent Non-Executive Director
Age	60
Gender	Male
Nationality	Malaysian
Appointed	1 January 2016

QUALIFICATION, SKILLS AND EXPERIENCE

Tuan Syed Hashim graduated with a Diploma in Industrial Chemistry from the Institute Technology Mara. He had attended the Senior Management Development Programme at INSEAD in 2004.

Tuan Syed Hashim is presently the Vice President, Offshore Business in MISC. Prior to his current position, he was the General Manager, Asset Management of Offshore Business since 1 December 2014 in MISC. He has more than thirty (30) years of experience in the upstream oil & gas industry business chain serving under various roles covering exploration, development and production. He has acquired not only in-depth technical knowledge, capability in operations, safety and project management but also management competencies in strategic planning, PSC Management, problem solving and decision making in addition to human resource development and management. He commenced his career in 1978 as Production Superior/ Planner with Hewlett Packard Malaysia and left in 1982 to join PETRONAS Carigali Sdn Bhd ("PCSB") as Production Specialist and was with PCSB until 2011 where his last position held was a General Manager, JV Operations.

OTHER COMMITMENTS

Tuan Syed Hashim sits as a board member in several subsidiaries and joint venture companies within MISC Group.

BOARD COMMITTEE MEMBERSHIP

Tuan Syed Hashim is a member of the Nomination & Remuneration Committee and the Board Bid Committee.

Name	ROZAINAH BINTI AWANG
Position	Non-Independent Non-Executive Director
Age	48
Gender	Female
Nationality	Malaysian
Appointed	16 June 2016

QUALIFICATION, SKILLS AND EXPERIENCE

Puan Rozainah is presently the Vice President, Finance of MISC. She holds the Chartered Institute of Management Accountants (CIMA) qualification in 1991. She is also an Associate Member of CIMA (ACMA) as well as a member of the Malaysian Institute of Accountants (MIA).

She had held various positions within MISC including as General Manager Finance & Project Services for Offshore Business and General Manager Strategic Planning. In addition to her responsibilities within MISC, she was also involved in the Economic Transformation Plan by PEMANDU. She has more than 20 years of professional experience in management accounting, strategic planning as well as cost control which include working with multinationals such as ALCOM (M) Bhd and Colgate Palmolive.

OTHER COMMITMENTS

Puan Rozainah sits as a board member in several subsidiaries and joint venture companies within MISC Group.

BOARD COMMITTEE MEMBERSHIP

Puan Rozainah is a member of the Board Audit Committee.

Name	WAN MASHITAH BINTI WAN ABDULLAH SANI
Position	Managing Director & Chief Executive Officer Non-Independent Executive Director
Age	50
Gender	Female
Nationality	Malaysian
Appointed	1 January 2017

QUALIFICATION, SKILLS AND EXPERIENCE

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.

Prior to joining the MISC Group, Cik Wan Mashitah was a professional accountant at Grant Thornton, Malaysia. She joined MISC Berhad in 2002 and had served in various capacities including as the General Manager, Finance before being seconded to Malaysia Marine and Heavy Engineering Sdn Bhd and was subsequently appointed as Chief Financial Officer of MHB on 30 June 2010. Cik Wan Mashitah took up the position as Acting Chief Executive Officer of MHB and has been responsible for overseeing the business operations of MHB since May 2016.

OTHER COMMITMENTS

Cik Wan Mashitah sits on the board of several subsidiaries and jointly controlled entities within the MHB Group.

ADDITIONAL INFORMATION:

1. None of the Directors have any family relationship with any other Directors and/or major shareholders of the Company or have any conflict of interest with the Company.
2. Other than traffic offences, none of the Directors have convictions for offences within the past five years and any public sanctions or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2016.
3. The details of Directors' attendance at Board Meetings held in the financial year ended 31 December 2016 are set out in the Statement on Corporate Governance on page 91 of the Annual Report.

PROFILE OF MANAGEMENT COMMITTEE

WAN MASHITAH WAN ABDULLAH SANI

Managing Director & Chief Executive Officer
Please refer to page 27 for her profile

AHMAD ZAKI ABD MALIK

Chief Operating Officer

IR. HISHAM HARON

Senior General Manager, Marine & Regional Heavy Engineering Business

STEPHANE DENOUN

Senior General Manager, International Heavy Engineering Business

HAZRIN HAJI HATIM

Acting Chief Financial Officer

AUSMAL KARDIN

Senior General Manager, Legal, Corporate Secretarial Affairs & Human Resource

PROFILE OF MANAGEMENT COMMITTEE

WAN MASHITAH WAN ABDULLAH SANI
Managing Director & Chief Executive Officer
Please refer to page 27 for her profile

AHMAD ZAKI ABD MALIK
Chief Operating Officer

STEPHANE DENOUN
Senior General Manager,
International Heavy Engineering Business

IR. HISHAM HARON
Senior General Manager,
Marine & Regional Heavy Engineering Business

HAZRIN HAJI HATIM
Acting Chief Financial Officer

AUSMAL KARDIN
Senior General Manager,
Legal, Corporate Secretarial
Affairs & Human Resource

AHMAD ZAKI ABD MALIK
Chief Operating Officer

Malaysian, Age 55, Male

Appointed as the Chief Operating Officer on 16 July 2016

QUALIFICATION, SKILLS AND EXPERIENCE

En Ahmad Zaki graduated from South Shield Marine and Technical College, South Shield, England with a Diploma in Marine Engineering in 1984. He obtained his First Class Marine Engineer Certificate of Competency from the United Kingdom.

En Ahmad Zaki joined MISC Berhad in December 2000 and had held various positions with his last position as General Manager, Maintenance of Fleet Management Services prior to his appointment in Malaysia Marine and Heavy Engineering Sdn Bhd. On 1 April 2010, he was appointed as the Senior General Manager, Operations of Malaysia Marine and Heavy Engineering Sdn Bhd and his position was subsequently redesignated as Senior General Manager, Marine Repair Business Unit in April 2012.

STEPHANE DENOUN
Senior General Manager, International Heavy Engineering Business

French, Age 49, Male

Appointed as Senior General Manager of Malaysia Marine and Heavy Engineering Sdn Bhd on 1 January 2015 and his position was redesignated as Senior General Manager, International Heavy Engineering Business on 16 July 2016

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Denoun holds a Bachelor of Engineering (Honours) Degree in Mechanical Engineering from the Institut National des Sciences Appliquées de Toulouse in France. He has attended the executive management programmes at ESSEC France and INSEAD Singapore.

Mr Denoun has 25 years of extensive international working experience in the oil and gas industry covering general management, business development as well as project management for both subsea and offshore projects (shallow and deepwater). He had worked in South East Asia, West Africa, The Netherlands, The Emirates, USA, Colombia and Switzerland. Prior to joining the MHB Group, he was the Asia-Pacific Deputy Chief Operating Officer & Vice President Subsea Business Unit of Technip Asia Pacific based in Kuala Lumpur, Malaysia.

IR. HISHAM HARON
Senior General Manager,
Marine and Regional Heavy
Engineering Business

Malaysian, Age 50, Male

Appointed as Senior General Manager, Marine and Regional Heavy Engineering Business on 16 July 2016

QUALIFICATION, SKILLS AND EXPERIENCE

En Hisham holds a Bachelor of Engineering Degree in Marine Engineering from State University of New York (SUNY), Maritime College, Ft Schuyler, New York, USA. He is also registered as a Professional Engineer in Marine Engineering with the Board of Engineers Malaysia.

En Hisham has a wide span of experiences in the business of marine repair and conversion. He joined Malaysia Marine and Heavy Engineering Sdn Bhd in August 2005 as the Head of Division Planning, Marine Repair Division ("MRD") and subsequently, he was promoted as the General Manager of MRD in February 2007. In May 2010, he was given the responsibility to overall manage the newly merged division as the General Manager of Marine Repair and Conversion Division ("MRCD") and subsequently he has taken up the position as the General Manager, Commercial of Marine Repair Business Unit ("MBU") in June 2012.

Prior to joining MMHE, En Hisham was with Penang Shipbuilding & Construction Group, holding various positions in planning, project management, commercial and business development & administration. Initially upon graduation in 1988, he was in service with the Royal Malaysian Navy for 10 years as a Marine Engineering Officer assigned on board vessels, naval technical training institution and involved in the naval ship newbuilding project in Glasgow, Scotland.

OTHER COMMITMENTS

En Hisham Haron sits as a board member of MMHE EPIC Marine & Services Sdn Bhd. He is also a Chief Executive Officer of MMHE LNG Sdn Bhd (formerly known as MMHE-SHI LNG Sdn Bhd).

HAZRIN HAJI HATIM
Acting Chief Financial Officer

Malaysian, Age 44, Male

Appointed as Acting Chief Financial Officer of Malaysia Marine and Heavy Engineering Holdings Berhad on 1 January 2017

QUALIFICATION, SKILLS AND EXPERIENCE

Encik Hazrin Haji Hatim is a Chartered Accountant and a member of the Malaysian Institute of Accountant. He graduated from the International Islamic University Malaysia with a Bachelor of Accounting and holds a Master of Business Administration in Corporate Strategy & Business Management from the University of Strathclyde, United Kingdom.

En Hazrin Haji Hatim joined MHB in 2012 with his last position being the General Manager, Finance. He has extensive experience in financial management and was the Chief Financial Officer of Prestariang Berhad before joining MHB. Prior to that, he had held various senior positions with Putrajaya Holdings Sdn Bhd and Arthur Andersen.

OTHER COMMITMENTS

En Hazrin Haji Hatim is an Alternate Director to Cik Wan Mashitah Wan Abdullah Sani in several subsidiaries and jointly controlled entities within the MHB Group.

PROFILE OF MANAGEMENT COMMITTEE

AUSMAL KARDIN
Senior General Manager,
Legal, Corporate Secretarial Affairs &
Human Resource

Malaysian, Age 46, Male

Appointed as the Senior General Manager, Legal & Corporate Secretarial Affairs on 1 March 2015 and his position was redesignated as Senior General Manager, Legal, Corporate Secretarial Affairs & Human Resource on 1 May 2016. He also serves as the Company Secretary of MHB since 30 June 2010

QUALIFICATION, SKILLS AND EXPERIENCE

En Ausmal Kardin holds a Bachelor's Degree in Law from the University of Wales, Aberystwyth and is a licensed Company Secretary.

He started his career with MISC Berhad in 1994 where he had held various positions within its Legal & Corporate Secretarial Affairs Division. He was the Senior Manager, Maritime Legal Services in MISC Berhad before joining Bumi Armada Berhad as Vice President, Legal & Secretarial in 2005. In March 2010, he took up the position as General Manager, Legal & Administration at Malaysia Marine and Heavy Engineering Sdn Bhd and was subsequently appointed as General Manager, Legal, Corporate Secretarial and Administration of the MHB Group on 30 June 2010.

OTHER COMMITMENTS

En Ausmal Kardin is the Company Secretary of the subsidiaries and jointly controlled entities within the MHB Group. He is also a board member of MMHE-TPGM Sdn Bhd.

ADDITIONAL INFORMATION:

1. None of the Management Committee members have any family relationship with any other Directors and/or major shareholders of the Company or have any conflict of interest with the Company.

2. Other than traffic offences, none of the Management Committee members have convictions for offences within the past five years and any public sanctions or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2016.

STATISTICS ON SHAREHOLDINGS
As at 20 February 2017

ANALYSIS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	68	0.79	843	0.00
100 – 1,000	1,745	20.17	1,522,012	0.10
1,001 – 10,000	4,987	57.64	22,751,862	1.42
10,001 – 100,000	1,619	18.71	48,821,199	3.05
100,001 to less than 5% of issued shares	230	2.66	224,289,484	14.02
5% and above of issued shares	3	0.03	1,302,614,600	81.41
TOTAL	**8,652**	**100.00**	**1,600,000,000**	**100.00**

DIRECTORS' INTERESTS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS

Directors' Interest in the Company

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Datuk Nasarudin Md Idris	10,000	0.00	-	-
Dato' Halipah binti Esa	10,000	0.00	10,000	0.00
Heng Heyok Chiang @ Heng Hock Cheng	10,000	0.00	-	-
Yong Nyan Choi @ Yong Guan Choi	20,000	0.00	-	-
Wan Mashitah binti Wan Abdullah Sani	4,000	0.00	-	-

Directors' Interests in Related Corporations

MISC Berhad

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Dato' Halipah binti 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	-	-

PETRONAS Gas Berhad

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Datuk Nasarudin Md Idris	3,000	0.00	-	-

PETRONAS Chemicals Group Berhad

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Datuk Nasarudin Md Idris	10,000	0.00	-	-
Dato' Halipah binti Esa	10,000	0.00	13,100	0.00
Heng Heyok Chiang @ Heng Hock Cheng	20,000	0.00	4,000	0.00

KLCC Property Holdings Berhad and KLCC Real Estate Investment Trust ("KLCC REIT")

Name	Direct		Indirect	
	No. of Stapled Securities*	%	No. of Stapled Securities*	%
Datuk Nasarudin Md Idris	5,000	0.00	-	-
Heng Heyok Chiang @ Heng Hock Cheng	60,000	0.00	9,000	0.00

* *Ordinary shares of KLCC Property Holdings Berhad are stapled together with units of KLCC REIT ("Stapled Securities")*

SUBSTANTIAL SHAREHOLDERS ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

No	Name	Direct		Indirect	
		No. of shares	%	No. of shares	%
1	MISC Berhad	1,064,000,000	66.50	-	-
2	Technip - shares held through HSBC Nominees (Asing) Sdn Bhd	136,000,000	8.50	-	-
3	Lembaga Tabung Haji - 1,452,800 shares held through Asian Islamic Investment Management Sdn Bhd	104,067,400	6.50	-	-

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	102,614,600	6.41
4	LEMBAGA TABUNG ANGKATAN TENTERA	46,194,700	2.89
5	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	23,999,900	1.50
6	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	20,742,290	1.30
7	PERTUBUHAN KESELAMATAN SOSIAL	9,154,500	0.57
8	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	6,575,735	0.41
9	MUHAMAD ALOYSIUS HENG	6,449,300	0.40
10	AMANAHRAYA TRUSTEES BERHAD AS 1 MALAYSIA	5,092,000	0.32
11	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (AMUNDI)	4,000,000	0.25
12	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	3,888,471	0.24
13	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR EASTSPRING INVESTMENTSSMALL - CAP FUND	3,519,600	0.22
14	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	3,467,400	0.22
15	TAN ENG @ TAN CHIN HUAT	3,456,900	0.22
16	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	2,961,700	0.19
17	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	2,942,000	0.18
18	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	2,930,500	0.18
19	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	2,898,300	0.18
20	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	2,784,300	0.17
21	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	2,532,300	0.16
22	HONG LEONG ASSURANCE BERHAD AS BENEFICIAL OWNER (LIFE PAR)	2,492,600	0.16
23	DB MALAYSIA NOMINEE (ASING) SDN BHD DEUTSCHE BANK AG SINGAPORE FOR DB SINGAPORE AC INTEGRAL ASIAVALUE FUND	2,248,700	0.14
24	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD CIMB BANK BERHAD (EDP 2)	1,980,000	0.12
25	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (KIB)	1,955,400	0.12
26	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAID (4389)	1,848,100	0.12
27	MAYBANK NOMINEES (TEMPATAN) SDN BHD ETIQA INSURANCE BERHAD (BALANCE FUND)	1,795,000	0.11
28	ANG HEN HING	1,700,000	0.11
29	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (F. TEMISLAMIC)	1,511,700	0.09
30	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD AIIMAN ASSET MANAGEMENT SDN BHD FOR LEMBAGA TABUNG HAJI	1,452,800	0.09
	TOTAL	**1,473,188,796**	**92.07**

POWER
through with
resilience

CHAIRMAN'S STATEMENT

DATUK NASARUDIN MD IDRIS
Chairman, Independent Non-Executive Director


Bergading CPP jacket

ECONOMIC OUTLOOK

The global economy remained sluggish in 2016 with low commodity prices, weak global trade and diminishing capital flows.

The oil and gas sector is still in the doldrums as crude oil prices tumbled to an 11-year low in the early part of the year. The lifting of sanctions on Iran exacerbated the problem, whilst major oil exporters continued to defend their market share. On the local front, the Ringgit declined further from RM4.29/USD to a low of RM4.49/USD as at 31 December 2016, impacting local businesses.

The outlook for 2017 does not show any respite as economic policies, geopolitical factors, bond and currency markets around the world are expected to remain uncertain and volatile. The impact from 'Brexit' and Donald Trump's policy stance as the new US President may only unfold in the medium to long term.

Whilst our company, Malaysia Marine and Heavy Engineering Holdings Berhad (MHB) had taken various counter measures to remain cost competitive and survive in these difficult times, the bleak economic outlook and weak oil and gas sector will continue to test our resolve and fortitude as a Company.


Load out of Malikai tension leg platform

FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2016, the Group posted a net loss of RM134 million on the back of RM1.19 billion in revenue. These poor results were largely due to a contraction in the oil and gas industry, leading to a scarcity of new major offshore projects being offered, thus impacting our order book. In addition, the Group recorded an impairment of RM141 million in view of the dire economic outlook.

Nonetheless, MHB's balance sheet remained healthy with a cash balance of RM671 million. During these difficult times, conserving cash is imperative as we compete for new jobs and look for new opportunities to ensure sustainability of the Company.

CORPORATE DEVELOPMENTS

Whilst the market remained soft, it is an opportune time for us to consolidate our business and refocus our priorities. As of 1 January 2017, Cik Wan Mashitah Wan Abdullah Sani has been appointed as the new Managing Director and Chief Executive Officer (MD & CEO) of the Group. Operational activities are now headed by a Chief Operating Officer, responsible for overall operations and delivery of projects which will eliminate redundancies. Our business focus was also reviewed to address the new markets that we have identified, namely onshore development projects and maintenance services.

Despite significant challenges that we faced in 2016, we have also chalked several major milestones and achieved some measure of success in our operations. On 11 July 2016, we witnessed the successful sail away of the Malikai tension leg platform (TLP), the first-of-its-kind in Malaysia and our third deepwater mega structure. In the second quarter of the year, we delivered the topside, jackets and bridge structures for the Bergading North Malay Basin project on-time, whilst the safe integration of the external turret to the FSO Bergading vessel was completed in October 2016.

First cut for Dangote CALM Buoy mooring system project

On the contracting front, we secured two (2) onshore sub-contract work packages for the Refinery and Petrochemical Integrated Development (RAPID) project from PetroVietnam Engineering (Malaysia) Sdn Bhd and a PETRONAS unit. In addition, we also secured the engineering, procurement and construction (EPC) contract for five (5) Dangote CALM buoy mooring system and Benchamas 2 external turret, both from SOFEC Inc, and the supply and installation of offshore wellhead platforms from Vestigo Petroleum Sdn Bhd. As of 31 December 2016, the order book for the Heavy Engineering division stood at an estimated RM881 million.

The Marine division continued to outperform with the delivery of a major repair life extension of LNG vessel Puteri Zamrud, and the conversion and integration of FPSO MaMPU 1, both for MISC Berhad (MISC). The division has also secured contracts for works on FSU Tenaga Satu and FSU Tenaga Empat from MISC. In January 2017, MISC awarded the FSO Benchamas 2 conversion project to MHB. The Marine division's order book stood at RM177 million as at the end of the year.

In August 2016, MHB formed a joint venture (JV) company with Eastern Pacific Industrial Corporation Berhad known as MMHE EPIC Marine & Services Sdn Bhd (MEMS). The JV, in which MHB holds a 70% equity interest, provides ship repair services at the Kemaman facilities via a floating dock. It will cater to the needs of mainly East Coast Peninsular Malaysia based offshore support vessels (OSV), and there are plans in the future to attract other OSVs and smaller vessels operating in the Gulf of Thailand. MEMS commenced its operation in the fourth quarter of 2016.

FUTURE OUTLOOK

While OPEC countries and other major oil producers have agreed to restrict oil output beginning this year to balance supply and demand and mitigate the decline in oil prices, it remained to be seen whether these countries will diligently honour their commitment.

The global economy and oil market will remain volatile, and a meaningful recovery in the near term is doubtful. New demand for offshore structures are not expected to pick up until year 2018 at the earliest. Replenishment of order book for many industry players will remain a challenge as oil majors and national oil companies continue to defer or scale down upstream projects. During these difficult times, we must remain resolute in our focus to improve efficiency, productivity and cost competitiveness. Whatever projects that we have in hand must be delivered to clients on time and with quality to create the confidence among the oil fraternity on our capability to deliver.

Cost management, resource optimisation and capability development will remain our key focus areas. The Company is taking the right step in enhancing its competitiveness to be on par with the regional and international players. I am confident that if we remain resolute in our focus, we will build the resilience to survive during these trying times and ensure our sustainability moving forward.

APPRECIATION

On behalf of the Board of Directors, I would like to express our deepest gratitude to our esteemed shareholders for their unwavering loyalty and confidence in us.

To my fellow board members, I would like to thank them for their wise counsel and guidance. Their experience, knowledge and wisdom have been invaluable in helping us steer the Company through this challenging period.

My appreciation goes to our previous MD & CEO, Dato' Haji Abu Fitri Abdul Jalil who was called back into the service of PETRONAS on 30 April 2016, and I would like to welcome Cik Wan Mashitah Wan Abdullah Sani as the new MD & CEO with effect from 1 January 2017.

I would also like to record my appreciation to our valued clients, business partners, vendors and associates for their cooperation and unrelenting support to us.

Above all, I would like to commend the efforts and commitment of the Management and staff of MHB who have always strived their best for the Company.

DATUK NASARUDIN MD IDRIS
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

> The Company will continue to focus on the internal cost drive initiative, ongoing capability development as well as resource and asset optimisation programmes to improve our efficiency and productivity.

WAN MASHITAH WAN ABDULLAH SANI
Managing Director and Chief Executive Officer

2016 remained a challenging year for the Company with the continued volatility of the oil price that created turmoil and uncertainty on the oil and gas service industry. This has resulted in significant offshore project cancellations and deferments which have impacted our business.

Despite the tough operating environment, we continued to leverage on our capabilities and facilities to ensure safe delivery of projects. We also implemented initiatives on cost and manpower optimisations, process productivity improvement and expand our business focus areas.

From the efforts that commenced in 2014, our initiatives yielded the desired outcome as we secured further works for the Refinery and Petrochemical Integrated Development (RAPID) project in 2016, following a breakthrough in the year before. Other than the two (2) RAPID work packages secured, MHB's Heavy Engineering division was also awarded the engineering, procurement and construction (EPC) contracts for five (5) CALM buoys, Benchamas 2 external turret and the supply and installation of offshore wellhead facilities.

Goliath Crane No 1

We demonstrated our ability to deliver despite these critical times with the achievement of several major milestones. Our team completed the delivery of the Malikai tension leg platform (TLP), North Malay Basin (NMB) Bergading structures, Kanowit hook-up and commissioning (HUC) project and the integration of Bergading external turret.

MHB's Marine division achieved an improved profitability albeit recording slightly lower revenue in 2016 compared to the year before. The Marine division completed a number of key projects throughout the year in addition to delivering several en-bloc and ad-hoc work requests from various clients for a variety class of vessels. The division was awarded a major floating storage and offloading unit (FSO) conversion project in January 2017, having seen through much of the preparation work in 2016.

HEAVY ENGINEERING DIVISION

Heavy Engineering revenue of RM747 million in 2016 was 62 percent lower compared to the year before due to fewer and lower value of projects in progress. The division recorded an operating loss in line with the revenue contraction and the impairment on under utilised assets. The division's orderbook stood at RM881 million as at 31 December 2016 with backlog mainly coming from RAPID work packages, F12 Kumang, wellhead platform, Baronia centralised processing platform (CPP) jacket and bridge as well as several offshore facilities improvement projects.

Offshore projects during the year include Malikai TLP for Sabah Shell Petroleum Company, NMB Bergading structures for Hyundai Heavy Industries, Besar-A topside and jacket for PETRONAS, NMB Bergading turret for SOFEC Inc, Baronia CPP jacket and bridge for Hyundai Heavy Industries and F12 Kumang wellhead platform (WHP) for PETRONAS. Major onshore projects carried out were RAPID works for Package 5 on centralised piping fabrication for Toyo Engineering & Construction Sdn Bhd, Package 3 on electro-mechanical works for Tecnicas Reunidas Malaysia Sdn Bhd and Package 3 on piping pre-fabrication for PetroVietnam Engineering (Malaysia) Sdn Bhd.

In the face of significant challenges during the year, we successfully sailed away our third deepwater mega project i.e. Malikai TLP in July 2016, reaffirming our position as Malaysia's only yard that has constructed deepwater structures for the oil and gas industry. The 27,500MT integrated platform, the first of such in Malaysia, was delivered to our client Sabah Shell Petroleum Company. It made a 1,400km journey to the site 100km off Sabah coast operating at water depth of up to 500 metres. Malikai TLP produced its first oil in December 2016.

NMB Bergading structures were delivered to Hyundai Heavy Industries within schedule in the second quarter of the year. Weighing an overall 14,800MT, it comprised of jackets for the WHP and CPP, a bridge and a topside for the WHP. The topside, being the last of the structures delivered, sailed away 13 months after the project's first cut of steel to the ultimate client Hess Exploration & Production Malaysia B.V.

Heavy Engineering division also completed the construction of an external turret and safely integrates the external turret built for SOFEC Inc to the FSO Bergading, marking it as the 18th turret built by MHB. The turret and FSO conversion teams successfully surpassed a combined 2 million manhours with zero LTI at the integration phase. The turret's single mooring point enables the FSO vessel to make a 360-degree circumference under challenging operating conditions.


Crude tanker to be converted into FSO vessel, Benchamas 2

Despite the depressed market outlook, the division succeeded to secure new order intake and change order for the onshore and offshore sectors for a maximum estimated value of RM679 million for the year.

On the onshore sector, MHB was awarded the construction and commissioning of steel structure, piping, mechanical and electrical for the facilities under RAPID Package 14 by PRPC Utilities and Facilities Sdn Bhd, a subsidiary of PETRONAS. The other RAPID project secured was for Package 3 for PetroVietnam. Since 2015, MHB has secured a total of six (6) separate contract and sub-contract works from the RAPID projects.

For the offshore sector, the Company was awarded the EPC contracts of five (5) CALM buoy mooring system for the Dangote oil refinery project and the external turret mooring system for Benchamas 2, both from SOFEC Inc. MHB was also awarded the EPCIC of up to five (5) offshore wellhead facilities by PETRONAS' subsidiary Vestigo Petroleum Sdn Bhd on a call-out contract basis.

MARINE DIVISION

Marine division registered a revenue of RM445 million in 2016 against RM464 million the year before. The contraction in revenue was attributable to the focus on optimising the yard's marine facilities on high value projects. As a result, despite lower revenue, operating profit was 14 percent higher at RM88.2 million due to higher profit contributed by liquefied natural gas (LNG) vessel segment and floating production, storage and offloading unit (FPSO) conversion works, which offer better margin.

The division continued to churn out exemplary work quality and commitment as it delivered substantial projects on LNG vessel repair life extension (RLE) and FPSO conversion. Dry docking repair works on other LNG and liquefied petroleum gas (LPG) vessels remained healthy, whilst notably higher service demand for offshore support vessels (OSV) were also recorded. For the third consecutive year in 2016, Marine division recorded a full occupancy of 15 vessels repaired simultaneously which was achieved in the third quarter of the year. Year 2016 saw a healthy dose of 18 new and 18 returning clients.

Marine division completed one of its most significant RLE works in recent times for MISC Berhad's (MISC) LNG vessel Puteri Zamrud. The 73,519dwt vessel underwent a 3-month major repair and maintenance service before it was handed back to MISC. The team did an excellent job on the FPSO vessel, MaMPU 1 conversion and integration project that was delivered one (1) month ahead of schedule to MISC. The FSO Bergading conversion project for client E.A. Technique (M) Berhad is close to completion, which should be achieved by early second quarter of 2017.

MHB has also established a ship repair business at the Kemaman facility from a joint venture (JV) with Eastern Pacific Industrial Corporation Berhad (EPIC) to undertake the repair service via a floating dock facility.

A total of 59 vessel businesses were secured throughout the year. For major businesses secured, other than the LNG vessel Puteri Zamrud RLE work, MHB was also awarded the engineering, procurement, construction and commissioning (EPCC) for the RLE and conversion of a 105,788dwt crude tanker into an FSO vessel Benchamas 2 by MISC in early January 2017. The Marine division marked another achievement with several en-bloc contract awards for works on two (2) floating storage units (FSU) from MISC.

MANAGEMENT DISCUSSION & ANALYSIS

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Technip MHB Hull Engineering Sdn Bhd (TMH)

TMH is a 50:50 JV between MHB and Technip that is involved in the building and development of hull engineering and engineering project management, providing its services as sub-contractors to the Group's projects as well as third parties. Over recent years, TMH has expanded its capabilities in the area of marine systems design, enabling it to make a unique offering of multi-disciplined skills in the offshore hull and marine engineering. For the year under review, TMH was involved in engineering support works for Malikai TLP, Benchamas 2 FSO conversion and PETRONAS Sabah ADP projects. With the downturn in the upstream segment, TMH has incurred a loss of RM1.4 million. Current focus of TMH is on cost and manpower optimisation to minimise the losses.

MMHE-ATB Sdn Bhd

MMHE-ATB Sdn Bhd is a JV between MHB (40%) and ATB Riva Calzoni (ATB) (60%), an Italian manufacturer of pressure vessels and other thick-walled equipment used in extreme pressure and temperature conditions and handling of corrosive products. Leveraging on MMHE's position and ATB's expertise, the JV company has secured jobs on the RAPID projects, given its strategic location near the project site at Pengerang, Johor. MMHE-ATB's orderbook as at 31 December 2016 is RM27.1 million. Given ATB's manufacturing technology and expertise, the JV also pursues opportunities in other industries such as hydroelectric power and steelwork industries.

MMHE EPIC Marine & Services Sdn Bhd (MEMS)

In August 2016, MHB established the JV company with Eastern Pacific Industrial Corporation Berhad (EPIC). The JV, in which MHB holds a 70% equity interest, undertakes ship repair services at the Kemaman facilities via a floating dock. EPIC is a Terengganu state government linked corporation that was incorporated in 1981. Via its subsidiaries, EPIC provides support services to the oil and gas services industry which include supplying base services to the oil and gas offshore industry in West Malaysia; port management; pipe threading and fabrication; and property development and management. The JV caters for mainly East Coast Malaysia based OSVs, with the future plan to also attract other OSVs and smaller vessels operating in the Gulf of Thailand. MEMS has commenced its operation by late 2016.

YARD OPTIMISATION (YO)

The Company's cumulative YO capital expenditure as at December 2016 was RM1.3 billion, with RM56.5 million spent in the financial year 2016. Notable projects completed during the year are as per listed below:

- In October 2016, the Goliath Crane No 1 was completed and became fully operational. The crane has a lifting capacity of 600MT with a hook height of 100 metres and dimension of 150 metres length span. A second equivalent unit is under construction and will be completed in 2017. The facility, located at MMHE West, will ultimately enable us to deliver projects at lower cost and higher productivity.

- Phase 2 of the Blasting & Painting Workshop that entailed bay equipment and machineries was completed in July 2016. The works comprised of air compressors, dehumidifiers, guns blasting equipment, dust collector system, paint arrestor system and paint spray equipment. The workshop replaced the previous work practice that was conducted in uncontrolled or temporary environment, thus ensuring zero compromise on quality, reducing paint wastage and enabling the recycle of blasting material.

- In June 2016, the mechanical & electrical utilities at Idemitsu land was completed. The works entailed the construction of electrical supply and distribution system, air compressor plant and distribution system at the land in order to provide permanent supply to various development inclusive of warehouse, autoblast workshop, blasting & painting workshop and fabrication areas.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

At MHB, occupational safety is paramount to us. We are creating a safe working environment where no one is harmed and which minimises our impact on the natural and social landscapes. Our stringent safety standard is one of the core values that determines the business success or failure of MHB. For the financial year 2016, our Total Recordable Cumulative Frequency (TRCF) stood at 0.48, which was favourably below the targeted 0.55, whilst LTI Frequency (LTIF) of 0.14 was slightly above 0.12 targeted.


RAPID project (ongoing)

INTEGRITY

Our business is built on trust and relationships; and our success lies in earning the trust of our stakeholders, by managing our business responsibly and upholding the highest standards of governance. The actions that we take to help realise the Company's and the stakeholders' goals are anchored by a shared set of values focusing on loyalty, integrity, professionalism and cohesiveness. In promoting a culture of integrity and ethical values, we have put in place a set of Code of Conduct and Business Ethics (CoBE), which includes the Whistleblowing Policy and the No Gift Policy. The CoBE is applicable to all Directors and employees within the Group as well as third parties performing works or services for and on behalf of the Company.

OUTLOOK AND PROSPECT

Since late November 2016, when OPEC countries and other major oil producers agreed to restrict oil output beginning 1 January 2017 to reduce the supply glut, Brent crude oil price has been steadily hovering at USD54-USD57 per barrel. However, it remained uncertain whether all participants to the agreement will keep to the commitment or how long the price will be sustained. National and international oil companies are more likely to adopt a prolonged 'wait-and-see' stance before actually committing for improved drilling or production programme and investment during the year, if at all.

For this reason as well as the geopolitical risk factor, we believe the crude oil prices may remain volatile in 2017. Any meaningful recovery in the demand for new offshore structures may likely be pushed into 2018. However, MHB had already started to focus on diversifying its source of income by venturing into related businesses that leverage on our existing industrial knowledge and expertise.

The Group will continue to develop its capability on the onshore segment catering to RAPID and several other identified projects, which we are evaluating its potentials. The Group will also continue to focus on the offshore segment services namely HUC and facilities/platform improvement and maintenance which we have gained a foothold of since 2014.

With the set-up of MEMS, which is equipped with a floating dock, we believe our clients will take advantage to dock in the Kemaman facility given the savings from bunker costs against docking in our Pasir Gudang yard. This will free up the yard's marine facilities to focus on refurbishment and specialised works on vessels as well as ad-hoc and en-bloc job requests which typically fetch better margins. As a long term initiative to offer to our marine vessel clients and safeguard our market share, we are evaluating the potential to expand our capacity via a proposed new third dry dock.

The Company will continue to focus on the internal cost drive initiative, ongoing capability development as well as resource and asset optimisation programmes to improve our efficiency and productivity. Whilst the oil and gas sector downturn has posed a real challenge, it has provided the opportunity for us to relook and adopt new strategies. The achievement of the above factors are the prerequisites for MHB to become more competitive and be more at par with the regional players.

APPRECIATION

I wish to express my sincere gratitude to the Board of Directors for their trust and confidence in me in my appointment as MHB's Managing Director and Chief Executive Officer effective 1 January 2017. I look forward to working more closely with the Board as well as the Management team in bringing the Company forward during this challenging period.

2016 has had a significant impact on us, but I would like to thank our clients, each and every one of MHB's employees as well as our suppliers for their unwavering support and dedication during these critical times.

2017 and the year ahead will bring its own waves of challenges but I am reasonably optimistic that we will be able to sustain and forge ahead by being resilient, keeping focus on our priorities and delivering to our stakeholders' - customers, partners and shareholders - expectations alike.

WAN MASHITAH WAN ABDULLAH SANI
Managing Director and Chief Executive Officer

ACCELERATE
efficiency and productivity

BUSINESS HIGHLIGHTS

8 JANUARY

Signing of MoU between MMHE and HQC in Shanghai

MHB via its subsidiary MMHE signed an MoU with China Huanqiu Contracting & Engineering Corporation (HQC) in expanding the cooperation between the two companies, combining HQC's expertise in petrochemical plant and MMHE's yard facilities for fabrication of modules.

Prior to this MoU, MMHE in a consortium with HQC has been awarded with the electro-mechanical works for RAPID Package 3 by Tecnicas Reunidas which was expected to be completed in 2017.

18 APRIL

MHB Hosts its 27th AGM

MHB held its 27th Annual General Meeting at One World Hotel, Bandar Utama, where shareholders reviewed the Group's annual performance.

Close to 400 shareholders and proxies attended the MHB AGM this year to vote on and approve the resolutions tabled.

3 JUNE

MHB Delivers Bergading Works

MHB via its subsidiary MMHE successfully delivery the topside for Bergading-A wellhead platform (WHP) on 3 June 2016 after completing the WHP's jacket two months earlier in 25 April 2016 and Bergading central processing platform (CPP)'s jacket on 4 May 2016. The 1,276.7MT topside will be integrated with its jacket, at Block PM 302, approximately 150km North East of Kota Bharu within the North Malay Basin.

Hess Exploration & Production Malaysia B.V. (Hess) and PETRONAS Carigali Sdn Bhd will be holding 50% participating interest each for the said block and Hess will be the operator for the Bergading-A WHP.

Bergading-A Wellhead Platform is a four (4) leg, twelve (12) slot facility bridge-linked to the Bergading Central Processing Platform (CPP).

FACTS & FIGURES OF BERGADING WORKS:

- Weight for Bergading-A WHP's components:
  - a. Topside : 1,118MT
  - b. Jacket : 961MT
  - c. Piles : 824MT
  - d. Bridge : 211MT
- Weight for Bergading CPP's components:
  - a. Jacket : 7,993MT
  - b. Piles : 3,748MT

11 JULY

Sail Away of Malikai TLP

The Malikai Tension Leg Platform (TLP) safely sailed away from MMHE on 11 July 2016 and completed its 1,400km journey to the site 100km offshore Sabah.

On 10 June 2016, MHB's joint venture entity, Technip-MMHE Joint Venture (TMJV), together with clients PETRONAS and Shell, concluded the onshore fabrication and commissioning of Malikai Tension Leg Platform (TLP) with a ceremony.

Present at the ceremony were Datuk Wan Zulkiflee Wan Ariffin, President and Group Chief Executive of PETRONAS, Datuk Nasarudin Md Idris, Chairman of MHB, Datuk Anuar Taib, Senior Vice President of Malaysia Petroleum Management PETRONAS, Mr Bill Bullock, Asia Pacific and Middle East President of ConocoPhillips, Mr Arnaud Pieton, Technip Asia Pacific President, En Zamri Jusoh, Vice President of Malaysia Petroleum Management PETRONAS and Cik Wan Mashitah Wan Abdullah Sani, Acting MD & CEO of MHB.

The 27,500MT structure is MHB's third deepwater project after Kikeh Spar and Gumusut-Kakap Semi-sub Floating Production System. Malikai TLP will help to boost the country's national oil & gas industry and its position as a regional deepwater hub.

FACTS & FIGURES OF MALIKAI TLP:

- Loaded out on : 18 March 2016
- Award date : 12 November 2012
- First cut date
  - a. Hull : April 2013
  - b. Topside : June 2013
- Water depth : 500m (1,640ft)
- Reservoir : Kinarut and Kamunsu-2
- Average Peak Annual Production : 60,000bbl/d

15 JULY

MMHE is now Integrated Management System (IMS) Certified

MMHE, a subsidiary of MHB is officially recognised as a certified Integrated Management System (IMS) company for ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 by Bureau Veritas (BV). Both MMHE East and MMHE West were certified by BV for multiple scopes:

- Repair, construction, refurbishment and conversion of ships and marine vessels.
- Fabrication, hook up, testing, commissioning and maintenance of onshore and offshore production system and its facilities.
- Design and manufacture of pressure vessels and other heavy industrial process equipment.
- Treatment of sludge and slop oils.

More info can be obtained from Sustainability Report on page 66

14 AUGUST

Marine Division Records Full Occupancy for Three Consecutive Years

MHB via its subsidiary MMHE successfully achieved full occupancy of its yard with 15 vessels being simultaneously repaired. This is the third time for Marine division to achieve full occupancy for three consecutive years. The 15 vessels in the yard during the full occupancy were:

1. Sea Beijing
2. LNG Puteri Zamrud
3. LNG Tenaga Empat
4. Nautica Pagoh
5. Tanjung Sari
6. JM Sutera 1
7. Tanjung Pinang 1
8. Aries Sun
9. FSO Abu
10. KM Langkawi
11. MaMPU 1
12. Nautica Renggam
13. FSO Bergading
14. Energy Producer 7
15. FSO Cendor

16 AUGUST

MMHE Signs a Joint Venture Agreement with EPIC

MHB via its subsidiary MMHE signed a joint venture (JV) agreement with Terengganu's state-owned company Eastern Pacific Industrial Corp Bhd (EPIC), forming a new JV company, MMHE EPIC Marine & Services (MEMS).

The principal objective of the JV company is to provide world-class repair services of marine vessels which include dry docking repair, refit, refurbishment, maintenance and technical solutions at the ship repair facilities located in Kemaman, Terengganu. MMHE is the majority shareholder with 70% shares and EPIC with 30% shares in MEMS.

Fully leveraging on the strength of both companies, the JV has the combination of MMHE's existing expertise in marine and oil & gas services and EPIC's integrated facilities in Kemaman. MMHE has the capability in ship repairs, dry docking upgrading, conversions, modifications and other shipyard-related business activities and able to provide full engineering, procurement, construction, installation and commissioning for the offshore oil & gas industry.

Meanwhile, EPIC is in the business of service and facilities provider for the marine and oil & gas industries, comprising of an integrated customs bonded supply base, fabrication, threading, shut down and maintenance services.

To support the JV company's business, MMHE and EPIC have acquired a floating dock from Yeisu Ocean Co Ltd, South Korea, which was completed on 19 July 2016. The approximate 5,000 tonne floating dock has been delivered to Kemaman on 30 July 2016.

2 SEPTEMBER

MHB Completes Works on World's Largest Ore Carrier

MHB via its subsidiary MMHE has concluded the major repair, refurbishing and upgrading works of the world's largest ore carrier, Sea Beijing within a month after its arrival into MMHE West.

This 199,959T vessel owned by Pan Ocean Company, safely sailed away from MMHE on 2 September 2016.

FACTS & FIGURES OF SEA BEIJING:

- Length : 361m
- Height : 28m
- Breath : 65m
- Deadweight : 404,389dwt

29 SEPTEMBER

Sail Away of MaMPU 1 Marginal Fields FPSO

MHB via its subsidiary MMHE has successfully delivered a Marginal Marine Production Unit 1, a fit-for-purpose FPSO for the development of marginal fields for client MISC Berhad.

The first deployment of MaMPU 1 will be at Anjung Kecil oil field, offshore Sarawak, which is currently being operated by Vestigo Petroleum Sdn Bhd on behalf of PETRONAS Carigali Sdn Bhd (PCSB).

The sail away ceremony was attended by MISC's Vice President of Offshore Business Unit, Tuan Syed Hashim Syed Abdullah, Mr Keith Collins – CEO, Vestigo Petroleum Sdn Bhd, En Hisham Haron – SGM Regional Heavy Engineering Business MMHE as well as management and representatives from PETRONAS, MISC and NGL Tech Sdn Bhd.

FACTS & FIGURES OF MaMPU 1:

- Converted from an oil tanker
- Capacity: 318,000 barrel (15,000b/d)
- Gas Handling Capacity: 25MMscfd
- Reservoir: Anjung Kecil oil field, offshore Sarawak.
- Operator: Vestigo Petroleum Sdn Bhd (On behalf of PCSB)

8 OCTOBER

Repair and Life Extension Works on Puteri Zamrud

MHB via its subsidiary MMHE has successfully completed repair and life extension works on LNG vessel Puteri Zamrud, the fourth out of five sisters in Puteri Class owned by client MISC Berhad.

The 73,519dwt vessel arrived at MMHE west on 11 July 2016 and left the yard 3 months later on 8 October 2016.

13 OCTOBER

Hand Over of Goliath Crane No 1

MHB via its subsidiary MMHE officially received its Goliath Crane No 1 from Jiangsu Huacheng Heavy Industries Co Ltd.

The completion of this facility is a significant achievement for MMHE as it saves assembly/erection cost, allows higher utilisation of space, safer and stable operation in comparison to multiple crawler cranes working in tandem and easier lifting work operation. Each of the Goliath Crane covers a fabrication area of 150m x 460m with its hook height of 100m, giving enormous lifting capability and can be effectively used for fabrication of jackets, topsides, wellhead platforms and various hull structures.

BUSINESS HIGHLIGHTS

15 OCTOBER

MHB Safely Integrates External Turret for FSO Bergading

MHB via its subsidiary MMHE successfully integrated the external turret for FSO Bergading, one of E.A. Technique (M) Sdn Bhd's vessels.

The turret for this 113,041dwt vessel will allow the vessel to benefit from Tandem Mooring System, providing safe and efficient tandem mooring operation between the FSO and shuttle tankers.

ONGOING PROJECTS as at 20 February 2017

Refinery and Petrochemical Integrated Development (RAPID) Project

a	**Package 3 Area 2** **Client - Tecnicas Reunidas**	Material identification, material collection, piping pre-fabrication & site erection, pipe support fabrication & site erection, blasting & painting, structural steel site erection, electrical & instrumental Works and mechanical works.
b	**Package 3 Area 3** **Client- PetroVietnam**	Material receiving, piping pre-fabrication, pipe supports fabrication, blasting & painting and delivery to site.
c	**Package 5 Steam Cracker Complex (SCC)** **TOYO** **Client - Engineering Corporation**	Piping pre-fabrication, pipe supports fabrication, blasting, painting and delivery to site.
d	**Package 5 Refinery of Gas (ROG)** **Client - TOYO Engineering Corporation**	Erection of steel structures, piping and touch-up painting.
e	**Package 22** **Client - Punj Llyod Sdn Bhd**	Plate rolling, structure fabrication and blasting & painting.
f	**Package 14 (0805)** **Client - PETRONAS Refinary and Petrochemical Corporatio (PRPC) Utilities and Facilities Sdn Bhd**	Material identification, material collection, piping pre-fabrication & erection, pipe support fabrication & erection, blasting & painting, structural steel erection, electrical & instrumental Works and mechanical works.

Baronia CPP-B | Client - Hyundai Heavy Industries

Fabrication of the substructures for the Baronia CPP-B (jacket, piles, appurtenance and auxiliaries).

F12 Wellhead Platform | Client -PETRONAS Carigali Sdn Bhd

Fabrication of the F12 Kumang Cluster gas field development wellhead platform's topside, jacket and the associated system tie-ins.

ONGOING PROJECTS as at 20 February 2017

FSO Nautica Bergading | Client - E.A. Technique (M) Berhad

Repair, Life Extension and Conversion (RLEC) of MT Sark into FSO Nautica Bergading.

Catenary Anchor Leg Mooring (CALM) Buoy & Pipeline End Manifold (PLEM) | Client - SOFEC Inc

Fabrication engineering, procurement, construction, testing & pre-commissioning and load out of 5 CALM Buoys, 5 PLEM and piles.

PFLNG 2 Turret | Client - SOFEC Inc

Detailed engineering, procurement & construction.

FSO Benchamas | Client - Chevron Offshore Thailand Ltd (COTL)

Repair, Life Extension and Conversion (RLEC) of Bunga Kelana 5 into FSO Benchamas 2.

Besar-A Wellhead Platform | Client - PETRONAS Carigali Sdn Bhd

Procurement, construction and commissioning of Besar-A Wellhead platform topside.

FSO Benchamas 2 External Turret | Client - Chevron Offshore Thailand Ltd (COTL)

Detailed engineering, procurement & construction.

SHARE PERFORMANCE

MONTH	VOLUME	PRICE
Jan-17		
Dec-16	6,558,400	0.915
Nov-16	7,382,300	0.860
Oct-16	6,742,700	1.000
Sep-16	8,656,900	1.010
Aug-16	25,469,900	1.040
Jul-16	8,340,300	1.050
Jun-16	21,686,300	1.150
May-16	26,026,000	1.110
Apr-16	50,935,100	1.120
Mar-16	17,912,800	1.050
Feb-16	20,687,200	1.010
Jan-16	8,004,700	0.960

FINANCIAL CALENDAR

Financial Year 2017

07 FEB 2017, Tuesday

FYE 2016 FULL YEAR RESULTS ANNOUNCED

19 APR 2017, Wednesday

ANNUAL GENERAL MEETING

Financial Year 2016

27 APR 2016, Wednesday

Q1 FYE 2016 RESULTS ANNOUNCED

01 AUG 2016, Monday

Q2 FYE 2016 RESULTS ANNOUNCED

27 OCT 2016, Thursday

Q3 FYE 2016 RESULTS ANNOUNCED

SUSTAINABILITY STATEMENT

THIS STATEMENT REFLECTS MHB'S ACTIVITIES FROM 1 JANUARY 2016 TO 31 DECEMBER 2016 (UNLESS STATED OTHERWISE) AND OUR PROGRESS TOWARDS OUR GOALS IN SUSTAINABILITY.

ABOUT THIS STATEMENT

This Statement reflects MHB's activities from 1 January 2016 to 31 December 2016 (unless stated otherwise) and our progress towards our goals in sustainability. The Statement has been prepared in accordance with Amendments to the Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Statement in Annual Reports. Where possible, we have provided quantitative and qualitative data for the required indicators. In order to quantify progress, we have compared the date against previous years wherever possible.

SCOPE

The scope of this Sustainability Statement follows the scope and the boundary of the Annual Report. Some activities are conducted by MMHE, a wholly-owned subsidiary of MHB that provides heavy engineering and construction works, marine conversion and repair services.

This Statement does not cover the activities of our suppliers. However, we recognise the impact that suppliers may have on our economic, environmental and social integrity and require them to comply with our Code of Conduct and Business Ethics. Hence, we have included information on our activities that are related to advocating towards a more sustainable supply chain.

INTRODUCTION

As the leading oil & gas and marine integrated solutions provider in Malaysia, MHB takes pride in ensuring our business is conducted responsibly. We acknowledge our responsibility to address the requirements of all our stakeholders and ensuring the wellbeing of our employees, community, industry and the environment.

2016 was a challenging year for the oil & gas industry. We responded to the changed operational environment by implementing an organisational restructuring, with the objective of realigning and refocusing our priorities and making our operations leaner and more streamlined. In a situation where business as usual is no longer sustainable, we continue to dedicate our full attention and resources to improving our operational performance and project delivery by focusing on cost and efficiency. We continue to ensure that our projects are delivered safely, on time and on budget – as expected by our stakeholders.

FTSE4Good

Malaysia Marine and Heavy Engineering Holdings Bhd confirmed by Bursa Malaysia as a FTSE4Good constituent

2015 Targets	2016 Progress
Set up a cross-functional sustainability committee that will help in operationalising sustainability-related targets (for reporting purpose)	Achieved
Undertake a robust non-financial materiality assessment to identify the important issues to target	Ongoing
Disclose more comprehensive quantitative data to allow year-on-year comparisons	Achieved
Publish a stand-alone sustainability report to enhance transparency and accountability	Ongoing

We began thinking about sustainability of our operations in a more holistic way in 2014, and published our first Sustainability Statement in 2015. We follow the direction of Petroliam Nasional Berhad ("PETRONAS") in adhering to Environmental, Governance and Social ("ESG") practices that are of particular significance to the oil & gas industry. We remain as one of the companies on the FTSE4Good Bursa Malaysia Index in 2016, and were included in the List of Top 100 Companies with Good Disclosure. We have made progress in some areas of sustainability, but the downturn of the industry has slowed down achieving our targets in other areas.

OUR COMMITMENT

To ensure accountability in our reporting, our 2016 Sustainability Statement was approved by the Board of Directors. The Board of Directors has entrusted the Board Audit Committee ("BAC") with the responsibility of risk management oversight. We have a systematic risk management framework, adopted from the PETRONAS Risk Governance Framework that we use to identify, evaluate and manage principal risks for the Company. The BAC is supported by the Risk Council ("RC"), responsible for governance and risk oversight and coordinating the risk management framework. The RC is chaired by the MD & CEO and consists of selected members of management. Responsibility for any disciplinary processes, sanctions and emergency response also lies with the RC. It coordinates with the Corporate Planning and Risk Management Department to identify and solve potential or existing issues. Please refer to page 102 of Statement on Risk Management and Internal Control for information on accountability of risk management matters at MHB.

The MHB Board develops strategies to promote and strengthen sound HSE culture across the Group and support longer term sustainability. The board bears the ultimate responsibility over the effectiveness of the health, safety and environment risk management practices. The Health, Safety and Environment Management Committee ("HSE MC") oversees the operational aspect. Chairman of the HSE MC is the MD & CEO of the Company and members are nominated from top management. Key responsibilities of the HSE MC are setting the overall direction on health, safety and environment vision, mission, values, objectives, strategies, action plans, goals and resources; ensuring legal compliance and managing client expectations, standards alignments and industry best practices. Please refer to page 102 of the Statement on Risk Management and Internal Control for more details on how health and safety issue is managed at MHB.

Corporate Communications Department currently helps collate sustainability practices in MHB and reports on sustainability matters directly to the MD & CEO.

POLICIES AND SYSTEMS

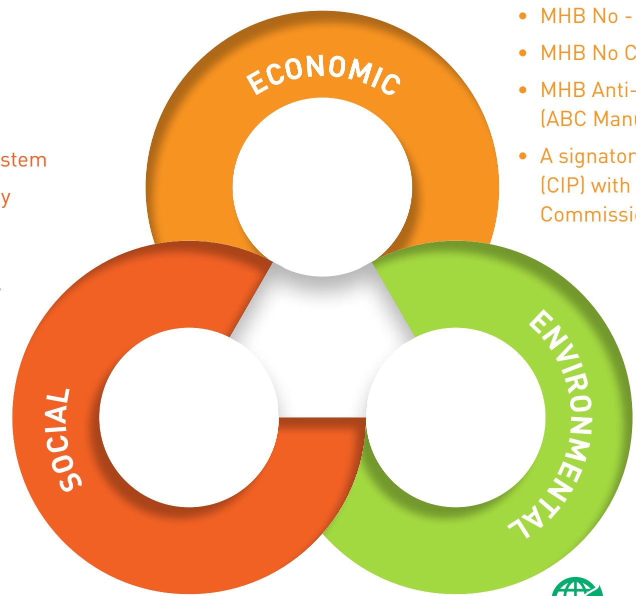
We are guided by our strong code of conduct and business ethics. We have comprehensive policies and systems in place to manage material sustainability matters:

Social

- Collective Agreement
- Drug and Alcohol Policy
- HSE Policy
- Stop Work Policy
- Performance Management System
- ISO 9001:2008 Certified Quality Management Systems
- OHSAS 18001:2007 Certified Occupational Health & Safety Management Systems
- General Conditions of Subcontract for Labour Only Subcontract Work
- MMHE 10 Safety Rules
- Employee Handbook

Economic

- MHB Code of Conduct and Business Ethics (CoBE)
- MHB Whistleblowing Policy
- MHB No - Gift Policy
- MHB No Conflict of Interest Policy
- MHB Anti-Bribery and Corruption Manual (ABC Manual)
- A signatory to the Corporate Integrity Pledge (CIP) with the Malaysian Anti- Corruption Commission (MACC)



Environmental

- ISO 14001:2004 Certified Environmental Management Systems
- Purchasing Manual

*For more detailed information on some of our policies and systems, please refer to www.mhb.com.my

SUSTAINABILITY STATEMENT

CODE OF CONDUCT AND BUSINESS ETHICS ("CoBE")

MHB's CoBE follows the example set by PETRONAS. It is applicable to all employees and third parties including contractors, agents, intermediaries or joint venture partners that perform works or provide services for or on behalf of the Company. Benchmarked against international standards and laws, it was modified to fit Malaysian legislation on matters such as anti-trust, money laundering and whistleblowing. The CoBE and the Anti-Bribery and Corruption Manual have been endorsed by the Board of Directors.

The CoBE covers four areas:

- Core values and culture
- Duties of good faith, fidelity, diligence and integrity
- Workplace culture and environment
- Discipline, disciplinary process and sanctions

and/or participated in the following:

- MISC Annual Director's Training on Ethics and Compliance
- An internal ethics and compliance programme for business units and service units
- Training on integrity and anti-corruption for MMHE Management
- Legal Sharing Day 2016 (Legal Talk, Legal Aid and Legal Exhibition), a collaboration programme with government bodies, NGOs and other stakeholders
- Participated in the PETRONAS Contractors Forum
- Integrity Talk 2016, an annual collaboration programme with an external training consultant
- External ethics and integrity programme:
  a) Transparency International Talk TM Best Practice
  b) Seminar Integriti organised by MACC

En Hazrin, MHB's Acting, Chief Financial Officer with En Azizan Abd Malik, Senior Manager, Legal & Corporate Secretarial Affairs division at MHB Legal Sharing session

SOLICITATION, BRIBERY AND CORRUPTION

The Board oversees our anti-corruption policy. We have a zero tolerance policy on all forms of bribery and corruption. MHB is a signatory to the Corporate Integrity Pledge of the Malaysian Anti-Corruption Commission ("MACC"). All employees are provided with a copy of the MHB Anti-Bribery and Corruption Manual that can also be accessed through our online e-Portal. In 2016, we arranged the annual Integrity Talk 2016 on 'Combating Corruption: Upholding Integrity'. While early this year, MMHE has been selected by MACC to impart our experience and practice on challenges in implementing the integrity programme throughout the company in a forum entitled "Pengukuhan Integriti Dalam Tadbir Urus Organisasi – Cabaran dan Sinergi".

In October 2016, we have been recognised by MACC for our high commitment and dedication in upholding the "5 Pillars of Anti-Corruption" through an audit assessment for selected CIP signatories for private sector.

Our employees engaging a member of Malaysian Anti-Corruption Commission

PUBLIC POLICY POSITION

We do not allow any political contributions or the use of MHB's facilities, resources or equipment for any political activities, campaigns or functions. Employees are prohibited from using their position in MHB to seek or influence political contributions and support.

WHISTLEBLOWING

We have a whistleblowing mechanism in place. No retaliation, reprisal or punishment will be taken against whistleblowers. All whistleblowers can raise their concerns through email, mail, online submission via MHB's website, or in person to the General Manager/Chief People Officer of Human Resources.

HSE POLICY

We set and maintain necessary standards of health and safety management to ensure the wellbeing of our employees and others who may be affected by our activities, and to minimise losses (financial and reputational) to our business from ill health and injury. Every employee is responsible for upholding our HSE policies and ensuring a safe workplace.

ISO 9001:2008 QUALITY MANAGEMENT SYSTEMS

We use ISO 9001:2008 Quality Management Systems to manage and streamline our business operations. We perform periodic self-assessment exercises to ensure compliance with all quality standards.

Results of self-assessment for Compliance to ISO 9001:2008 Quality Management Systems in 2016 (%)

79.2%

MEASURING THE PRICE OF NON-CONFORMANCE ("PONC")

Reliable information on the current state of affairs is a prerequisite for a strong culture of quality in our business. This requires collection of information throughout the organisation. We use PONC as a tool to identify problem areas in quality management as well as to prioritise improvements, including cost-saving measures. Major non-conformance cases will be brought to the Management through the Divisional Dashboard meeting. Selected cases are shared as case studies for future reference. As a result we can create awareness of quality on all levels of the Company.

INTEGRATED MANAGEMENT SYSTEM

We restructured our Quality and HSE procedures into an Integrated Management System ("IMS") in 2015. MMHE was certified with the ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 by Bureau Veritas (BV) in July 2016. This milestone reflects our aspiration for improving our management systems further. The certification process has been a major undertaking for the organisation requiring strategic operational reviews, significant changes and new processes and procedures to be embedded into the organisation.

Our Integrated management System now encompasses four levels: QHSE Manual, System Compliance, Specific Procedures and Standard Guidelines. Integrated audits are more efficient in terms of audit man-days and save costs. We conducted 16 internal audits across divisions and departments in the past year to verify the implementation of various systems covering Quality Management System (QMS) and Health, Safety, and Environmental Management System (HSEMS) in accordance to ISO 9001:2008, OHSAS 18001:2007 and ISO 14001:2004. The audits also recommended appropriate improvements. 96% of findings were rectified and closed within the given timeline.

Moving forward, MMHE will continue enhancing the quality of services. Our target is to be certified with the newly released ISO 9001:2015, ISO 14001:2015 and ISO 45001 for Occupational Safety and Health Management Systems.

SUSTAINABILITY STATEMENT

STAKEHOLDER ENGAGEMENT

Engaging with our stakeholders is a critical process that helps us understand our key environmental and social impacts, identify risks and develop innovative ways to solve key problems. We encourage two-way communications with all stakeholders and use various tools to ensure our stakeholders' voices are heard.

OUR ENGAGEMENT WITH STAKEHOLDERS

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Employees	• Meeting • Survey • Training • Campaign • Town Hall Session • Event • Talk Session • Walkabout	**Meeting** • Management Meetings - HSE Walkabout: Providing an avenue for knowledge sharing on best practices and lesson learnt between the managements **Survey** • Annual Employee Engagement Survey: Serves to identify employees' level of satisfaction and provide a channel for them to voice out their opinions **Training/Drill/Workshop** • Conducted 6 sessions on GST talks to educate employees on the new GST ruling by the government • Training session for the managerial level employees on the Art of Managing Impossible Employees across 3 + 1 generations • Tier 1 medium and tier 2 oil spill drill in collaboration with Petroleum Industry of Malaysia Mutual Aid Group (PIMMAG), MISC and Maritime Operation Team Marine division respectively • Emergency drill in managing communicable diseases at work to test our response plan in with the help of Ministry of Health **Campaign** • Quality Awareness Campaign: Quizzes, competitions and road show to increase awareness on work quality among employees, inculcating the culture of "Doing it Right the First Time" • Bicycle Awareness Campaign: Making sure that all bicycles in MMHE yards are properly tracked and maintained for the safety of the employees • Innovation Excellence Award: A competition to encourage exchange of best practices, ideas and methodologies towards achieving higher productivity, safety, cost reduction and efficiency for the Company • Forklift Safety Awareness Campaign: A campaign that highlights that proper usage and handling of forklifts to save energy and time as well as reducing occurrence of incidents during handling goods and materials

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Employees		**Campaign** • MMHE 10 Safety Rules Campaign: A campaign aspires to inculcate the 10 MMHE's common safety practices with the slogan "Hand in hand, nobody gets hurt" among the employees • Personal Protective Equipment Awareness Campaign: Raising the awareness on the proper way to wear safety equipment and the proper methods of maintaining the equipment **Town Hall Session** • Town hall with MD & CEO involving all staff **Event** • Sambutan Maulidur Rasul, Solat Hajat & Doa Selamat with employees in Pasir Gudang • Majlis Doa Selamat with MD & CEO • MHB Rumah Terbuka Aidilfitri for both Corporate Office in Kuala Lumpur and Pasir Gudang • Workers Appreciation Day for Baronia Project • MMHE's Trainers' Appreciation Day • Buddhist and Hindu safety prayers to ensure everything goes well throughout the year • MHB Long Service Award 2016: Celebrating and appreciating the loyalty of MHB's employees for their longstanding services • PFLNG 2nd Appreciation Day for the workers of the project • Baronia CPP-B Jacket, Piles and Bridge Workers' Appreciation Day. • NMB Bergading FSO Appreciation Day for employees **Talk Session** • Talk session on the Tort of Sexual Harassment to educate employees on the ways to prevent sexual harassment • Legal Sharing Day 2016 (Legal Talk, Legal Aid and Legal Exhibition) for all employees, a collaboration programme with government bodies, NGOs and other stakeholders • Integrity Talk 2016 for all employees, an annual collaboration programme with external training consultant • Occupational Health Industrial Hygiene walkabouts and health talks to observe and improve the work practices in MHB

SUSTAINABILITY STATEMENT

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Clients • PETRONAS • Shell • MISC Berhad • MMEA (Malaysian Maritime Enforcement Agency) • SOFEC • COTL (Chevron Offshore Thailand Ltd) • Bumi Armada Bhd • Dangote	• Client Feedback Exercise • Ceremonies • Visits • Trade Exhibition • Events	**Client Feedback:** • Marine division: Complaints about shortage of manpower have been adequately addressed • Heavy Engineering division: Surveys are conducted less regularly as projects are long and the response rate is low **Quick Fact:** • 99% of Marine Division projects are completed within the agreed time frame as per scheduled with the client **Trade Exhibition** • Offshore Technology Conference Asia at Kuala Lumpur Convention Centre: Showcase our capacities and experiences to the public and specifically to our existing and potential clients via an exhibition **Sail Away** • Malikai TLP Sail Away: Celebrating the conclusion of Malikai Tension Leg Platform's onshore fabrication, commissioning and the sail away of MHB's third deepwater structure for client Shell • MaMPU 1 Sail Away: Celebrating the completion of MaMPU 1's conversion work and its sail away for client MISC Berhad **Welcoming Ceremony** • KM Langkawi Welcoming Ceremony: A welcoming ceremony for Malaysian Maritime Enforcement Agency's (MMEA) patrol vessel, KM Langkawi which is docked at MMHE yard for major re-fit work **1st Cut Ceremony** • Dangote CALM Buoy & PLEM: Commemorating the commencement of fabrication work for the CALM Buoy & PLEM with the intermediate client SOFEC and the ultimate client Dangote • Benchamas External Turret Project: Commemorating the commencement of fabrication work for FSO Benchamas 2 External Turret with the client Chevron Offshore Thailand Ltd (COTL)

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Clients		**Visit** • Bumi Armada Berhad Visit: Delegates from Bumi Armada Berhad visited MMHE to familiarise themselves with MMHE's FPSO conversion capabilities and exploring joint potential business in future • Management HSE Visit by PETRONAS SK Gas to F12 Project: Delegates from PETRONAS SK Gas visited MMHE to get live update on the development of PETRONAS projects in MMHE's yard • MISC 2016 Annual Directors Training and Visit: Showcases MHB's strength and capabilities while providing an interactive platform between the senior management of MHB and directors of MISC • PETRONAS' Public Affairs, Southern Region Regional Office Visit: Engagement with communication personnel in MHB **Event** • Hari Raya Aidilfitri Celebration with Employees and Stakeholders: Embracing the festivity of Aldilfitri while strengthening the ties & fostering the relationship among MHB's staff and the government/local authorities • World's Maritime Day 2016: Participated under MISC Berhad in an exhibition on the World's Maritime Day 2016, allowing MHB to showcase its capability to current and potential clients as well as expanding its business network • MISC Group Aidilfitri Open House: Participated under MISC Berhad, the event was to commemorate Aidilfitri while enhancing ties with clients and other external stakeholders
Trade Unions • MMHE UNION	• Meeting	• Biannual MMHE UNION Annual General Meeting: Serves as a platform for members to voice out ideas and suggestions while in the same time to elect committee members for the next term • Monthly face-to-face meetings: Monthly meeting sessions with the members of UNION to ensure harmonious and sustainable working environment
Business Partners	• Vendor and Sub-contractor Engagement • Joint Venture	• Handover Ceremony – Goliath Crane No 1: Celebrating the handover of MHB Goliath Crane No 1 from Jiangsu Huacheng Heavy Industry Co Ltd to MMHE • MMHE Vendors & Sub-contractors Engagement 2016: Serves as a platform for constructive disscussion with our partners for mitigation plan of major issue arise towards a strategic alliance • Formed a Joint-venture company named MMHE EPIC Marine Services (MEMS) between MMHE and a government-linked company, Eastern Pacific Industrial Corporation Sdn Bhd

SUSTAINABILITY STATEMENT

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Shareholders	• Corporate Website (www.mhb.com.my) • Report • Road Show • Annual General Meeting (AGM) • Meeting	• Corporate Website: Providing a real-time report on MHB's share price, presentations, annual reports, announcements and press releases to the shareholders • Quarterly Investor Relations Report: Yard visit by analysts and fund managers • Company's Analyst Briefings: Informing stakeholders on the changing dynamics in the industry • Road Shows (e.g. Asian Sharia Investor Conference organised by RHB Investment Bank): One-on-one and group meetings, as well as yard tours to the investment community • 27th Annual General Meeting: Providing a platform for the shareholders to review the Group's annual performance and to vote and approve on any resolutions tabled
Communities	• Community Development Programme • Fundraise	• MHB Knights of Nature Sustainability Camps: A medium to enhance the understanding of sustainable lifestyles among students in a fun and creative ambience while developing positive qualities such as teamwork, leadership, time management and problem solving skills in the same time • MHB Art of Science: A programme that aspires to create the spark of interest for students in science and technology, especially those that are related to MHB's business • Information and Technology Department's Used Computer Sales: Collecting funds to be donated to support MHB's Corporate Social Responsibility activities for FY 2016
Civil Societies • Malaysian Oil & Gas Services Council (MOGSC) • Malaysian Offshore Contractors Association (MOCA) • Malaysia Gas Association (MGA) • Malaysian Oil & Gas Engineering Council (MOGEC)	• Community Engagement Programme • Face-to-face meeting • Event	• Contributions to Underprivileged: Funds and contributions towards various underprivileged communities with the vicinity of MHB's operation • Various meetings with community members of MOCA, MGA, MOGSC & MOGEC as platforms to exchange knowledge and past experiences • Raya Aidilfitri Celebration with members of MOGSC • MGA & MOGSC industry Gala Dinner 2016 • Site visit to Pengerang Integrated Complex, Johor with the rest of MOGSC members • Bowling Tournament between MOGSC members at IOI Putrajaya • MGA & MOGSC industry Gala Dinner 2016 • 'Meet the Members' Programme with MOGSC members to establish rapport and expanding networks among the members

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Government • Malaysian Investment Development Authority (MIDA) • Malaysia External Trade Development Corporation (MATRADE) • Department of Occupational Safety and Health (DOSH) • Department of Environment (DOE) • Pasir Gudang Municipal Council • Marine Department Malaysia • Fire and Rescue Department of Malaysia • Construction Industry Development Board (CIDB) • Malaysian Anti-Corruption Commission (MACC) • Royal Malaysian Customs Department	• Event • Visit • Sponsorship	• MMHE Invitational Futsal Tournament 2016 with state government agencies • National Environmental Day – State Level: Johor: Inculcating responsibility towards nature and surroundings among employees and ultimately everybody nationwide • Visit by a delegate from the Malaysia Investment Development Authority (MIDA) • Participated in a forum on potential business participation in Johor Forest City Country Garden, organised by MIDA • MATRADE engagement via international visit in seeking business opportunity
Media • Local media (print, TV, Radio, Online etc) • International media (print, TV, Radio, Online etc) • Trade media (print, TV, Radio, Online etc)	• Press release • Publication • Interview • Visit	• Quarterly press releases on MHB's current standing to public • Press releases on MHB's development and updates to publics e.g. project secured, formed joint venture et cetera • Conduct press conference during MHB's Annual General Meeting • Participated in media interviews • Answering ad-hoc enquiries by the media

Stakeholder Group	Engagement Platform	2016 Highlight/Issues Raised
Academic • Politeknik Ibrahim Sultan • Universiti Teknologi PETRONAS (UTP) • Universiti Malaysia Terengganu (UMT) • Institut Latihan Perindustrian Terengganu (ILP) • Universiti Teknologi Mara (UiTM) • Universiti Teknologi Malaysia (UTM)	• Academic visit • Sponsorship	• Politeknik Ibrahim Sultan visit to MMHE in Pasir Gudang • Universiti Teknologi PETRONAS visit to MMHE in Pasir Gudang • Universiti Malaysia Terengganu visit to MMHE in Pasir Gudang • Institut Latihan Perindustrian Kuala Terengganu (ILP) visit to MMHE in Pasir Gudang • Universiti Teknologi Mara visit to MMHE in Pasir Gudang • Universiti Teknologi Malaysia visit to MMHE in Pasir Gudang • Sponsoring students to attend the Offshore Technology Conference (OTC) Asia 2016 at Kuala Lumpur Convention Centre

MATERIAL SUSTAINABILITY ISSUES

The analysis of material issues is based on internal discussions and analysis of our non-financial impacts as well as broader industry issues. We have compiled the list of material sustainability matters based on the GRI G4 Sustainability Reporting Guidelines and Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia. The parameters of our core business remain the same, and we did not conduct a materiality analysis in 2016.

SUSTAINABILITY STATEMENT

SUSTAINABILITY PERFORMANCE ON MATERIAL ISSUES

MARINE AND HEAVY ENGINEERING DIVISIONS SATISFACTION INDEX STOOD AT 7.9 & 7.84 RESPECTIVELY

CONDUCTED ASSESSMENT EXERCISES WITH 141 SUBCONTRACTORS AND VENDORS

0 FATALITY

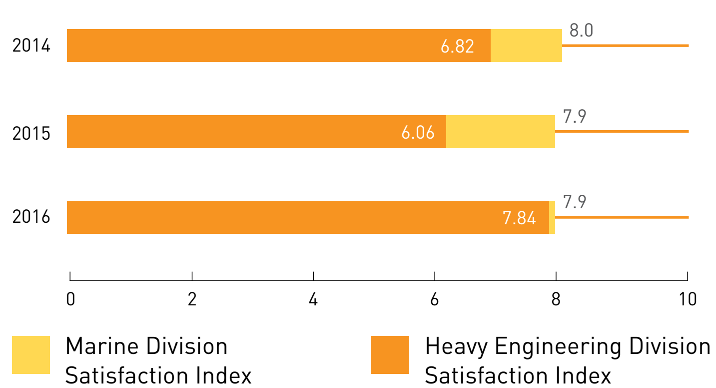
DISCLOSURE OF QUANTITATIVE ENVIRONMENTAL DATA ON GREENHOUSE GAS EMISSIONS, ENERGY AND WATER CONSUMPTION, AND WASTE MANAGEMENT

CONTINUED TO CONDUCT OUR COMMUNITY PROGRAMMES: MHB KNIGHTS OF NATURE SUSTAINABILITY CAMP AND MHB ART OF SCIENCE

FOCUS ON CLIENT NEEDS

MHB works with a variety of businesses and organisations, both upstream and downstream of the global oil & gas and marine sectors. We listen to our clients and evolve with them to ensure that our services are tailored to their needs and meet industry standards. In 2016, we conducted client feedback exercises in both Marine and Heavy Engineering divisions. The results were used to improve on the overall client experience and business performance. In 2016, a database was developed in Marine division to manage and retain client information in a more accessible and organised manner which in turn will improve customer satisfaction. We are also looking to improve the management of client information in Heavy Engineering division.

Client Satisfaction Index



SUPPLY CHAIN THAT OUR CLIENTS TRUST

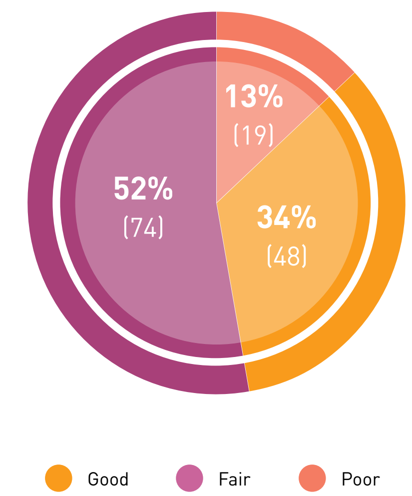
We engage with our business partners to make sure our supply chain is efficient. Transparent selection processes ensure equal opportunities to all vendors and subcontractors. Appropriate counterparty due diligence is conducted to understand the business and background of the prospective business partners. These checks include an assessment of elements of corruption.

We expect all third parties acting for us or on our behalf to share our values and ethical standards at all times. We encourage other business entities, including joint ventures and associated companies that MHB does not have operational control over, to adopt our CoBE or relevant principles and standards of it.

Performance management is an integral part of supply chain management. Annual performance assessments are conducted for our key subcontractors and vendors to ensure that they are meeting the contractual obligations regarding service levels and quality of services and products. In 2016, MHB Supply Chain Management conducted assessment exercises with 141 subcontractors and vendors, some were assessed more than once. The companies are assessed once they exceed the threshold of purchase order or service orders.

The assessments are also used as a means to seek room for improvement. Non-performing subcontractors and vendors will receive suspension notices or warning letters. Corrective and preventive actions will be taken to address the identified gaps from the previous assessment in order to improve their overall performance.

2016 Subcontractor and Vendor Assesment Result by Packages



Towards Strategic Alliances

One of the most important ways of engaging with our subcontractors and vendors in 2016 was the **MMHE Vendors and Subcontractors Engagement event, themed "Towards Strategic Alliance"**. It is an opportunity to exchange feedback and get updates on the progress of issues discussed during previous events. We also use it as a platform to inform partners on sustainable environmental, economic and social practices as new supply chain standards. The event was **attended by 32 vendors and subcontractors.** Issues discussed this year included: equipment and tools inspection, management of scheduled waste, foreign workers management and safety, particular hand and finger injuries and their prevention. We will continue organising similar forums in the future on annual basis.

En Syed Shaharum, General Manager, Supply Chain Management, wraps up issues addressed in the dialogue in heading Towards Strategic Alliance

SUSTAINABILITY STATEMENT

THE BEST FOR OUR PEOPLE

Our goal is to maintain a productive organisation, accelerate development of our people, strengthen our leadership capabilities, and enhance employee performance through strong engagement. Our people are fundamental to meeting our strategic goals. We strive to make sure our people are healthy and always safe at workplace. In 2016, we performed well in environment, health and safety management.

The low oil price impacted our earnings, and like many in our industry we have had to rethink our outgoings. We responded by reducing operating expenditure.

HEALTH AND SAFETY

We are a company whose operations involve heavy machinery and large structures, hence safety is paramount in all our operations. We want to make sure that all employees, clients and contractors come to work safely and return home safely. Just as integrity is embedded in our work culture, occupational safety is paramount to us. Our long-standing health and safety target is Nobody Gets Hurt. All employees and third party partners are expected to adhere to this target as well as MHB's health and safety standards. We dedicate significant resources for ensuring our employees are protected at all times.

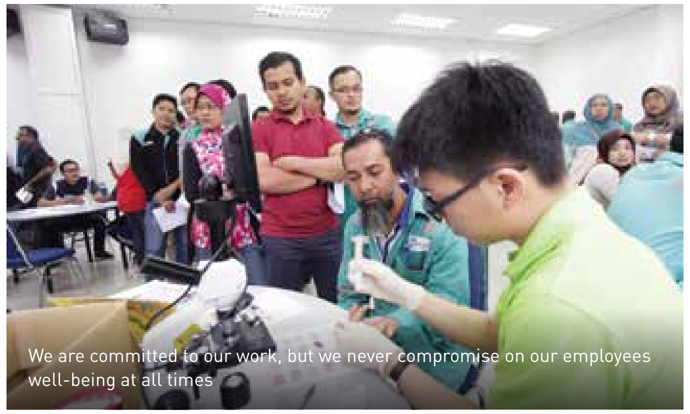
We firmly believe in creating a healthy work environment to nurture a healthy workforce. To ensure our employees' well-being, we protect them from work-related illnesses and encourage the adoption of a healthy lifestyle.

In 2016 MMHE conducted various initiatives to help employees deal with work related stress, including:

- Awareness session by our occupational health doctor related to work stress and wellbeing
- Counselling session by our occupational health doctor and in-house doctor
- Health screening tests, physical fitness challenge activities and physiotherapy consultations
- Lifestyle coaching by a health advisor
- MMHE Sihat Programme
- Zumba Fitness Session

We comply with all applicable Health and Safety laws and regulations. The requirements, measures, work rules and standard operating procedures set out in manuals, handbooks and documents issued by MHB are reviewed and updated regularly. We have an OHSAS 18001:2007 certified Occupational Health and Safety Management System.

We make sure employees are aware of health and safety issues through various training programmes and initiatives. We share best practices, challenges and interventions to further enhance HSE management and performance. We also share information on incidents, accidents and lessons learnt to all HSE employees, and provide suggestions to prevent similar incidents from reoccurring. In 2016, we organised a total of 29 health and safety enforcement activities.



We are committed to our work, but we never compromise on our employees well-being at all times

As peers and partners in this industry, we need to set high standards and stretch targets. Stringent QHSE standard should be a core value and included in KPIs that determine the business success or failure of MMHE. Optimum performance is equally critical to ensure our survival especially during these difficult times.

Cik Wan Mashitah Wan Abdullah Sani

Managing Director and Chief Executive Officer

In 2016 we organised a variety of programmes, including:

- Two First Aid refresher courses for 80 first aiders through the First Aid Box Management campaign. First aiders have to undergo competency courses and refresher training every 3 years
- Bicycle Awareness Campaign
- Quality Awareness Campaign 2016 to enforce our culture of "Doing it Right the First Time" with the tagline "Quality is Our Priority"
- MISC Group HSE Managers Meeting 2016
- HSE Stand-down at work site
- Forklift Safety Awareness Campaign for all forklift operators from MMHE and subcontractors highlighted that proper usage and handling of forklifts can save energy and time as well as reduce occurrence of incidents during handling goods and materials. 50 forklift operators participated in the Safety Talk and "Learn & Lunch" session
- MMHE 10 Safety Rules Campaigns
- Tier 1 Medium Spill Table Top Exercise in collaboration with Petroleum Industry of Malaysia Mutual Aid Group, (PIMMAG) and MISC
- Tier 2 Oil Spill drill in collaboration with Maritime Operation Team of MMHE

With bicycle as a main transportation for our employees to go around and about the yard, it is imperative for employees to know that their bicycles are safe

MHB's Chief Operating Officer addressing the criticality of "Doing it Right the First Time" to the employees

PERSONAL PROTECTIVE EQUIPMENT AWARENESS CAMPAIGN

In 2016, we highlighted the importance of the 10 MMHE Safety Rules through a campaign on personal protective equipment – crucial in many jobs within the company. Through this campaign **we wanted to give a breath of fresh air to our safety rules: raise awareness on wearing personal protective equipment right and ways of taking appropriate care of them**. We have different standards for different parts of the operations and to follow up on this campaign, mini campaigns will be conducted by each unit.

We conduct stringent evaluation on health and safety compliance of potential partners during the tender evaluation stage to ensure that we work with subcontractors with solid health and safety practices.

The MMHE employees and subcontractors in certain fields need to undergo health and safety training in order to qualify for the required work trade competency cards. Health and safety training is also obligatory for example for Operator Passes, Tradesman Passes and Fire Watchman Passes, as well as workers in welding, blasting and painting. MMHE employees and subcontractors in certain areas are also required to attend quality control training. A total of 3 loss time injury incidents were recorded and no occupational illnesses and diseases were recorded in 2016.

Total man-hours without Loss Time Injury (LTI)

9,652,372

As per Scorecard 2017 targets:

- Fatality = 0
- LTIF = 0.11
- TRCF = 0.50
- Non-personnel major incident = 0

Year	2012	2013	2014	2015	2016
Man-hours (millions)	30.32	32.01	20.15	27.82	20.72
Lost Time Injury Frequency (LTIF)	0.20	0.19	0.10	0.11	0.14
Total Recordable Case Frequency (TRCF)	0.49	0.69	0.69	0.43	0.48

Year	2014	2015	2016
Total recorded fatalities	1	0	0
Number of health and safety enforcement activities	-	62	29
Number of emergency practice drills conducted	62	79	90

2ND ENVIRONMENT, HEALTH AND SAFETY (EHS) DAY, BERGADING

The Bergading project team for Bergading central processing platform (CPP) and WHP jackets, WHP topside and bridge held its second Environment, Health and Safety (EHS) Day to celebrate reaching 1 million man-hours work without Lost Time Injury. A total of 1,650 attendees from Hess Corporation, Hyundai Heavy Industries (HHI), MMHE and various subcontractors attended the ceremony. The celebration was held to recognise the contributions of the project team and the subcontractors towards EHS and to reassess lessons learnt from past incidents.

FSO Nautica Bergading

- 3rd **EHS milestone** achievement of **2 million** man-hours in July 2016
- **1,300 MMHE employees, subcontractors** and **guests** attended the celebration

Emergency Response Team (ERT)

In our line of business, operators need to be ready to manage incidents and emergency situations at any given time. Hence emergency preparedness across our operations is crucial. Our Emergency Response Team acts as the first line of defence during emergencies.

The MMHE ERT team consists of first line responder and second line responders from HSE project team, Auxiliary Rescue Squad, building wardens, paramedics and security officers. In 2016, 72 members from the ERT team successfully completed their basic training for civil defence by Malaysia Civil Defence Force. In 2016, five cases of spill/loss of primary containment were mitigated by the ERT. Contaminated soil was removed and sent to the designated facility for final disposal.

OIL SPILL EMERGENCY EXERCISE

We regularly test the readiness of the ERT. In 2016, MMHE Corporate QHSE conducted a mid-oil spill exercise Level 1 at the Emergency Control Centre, MMHE West. The exercise covered scenarios of incidents at the yard but did not involve any real assets. Teams were given challenges in line with the sequence on the actual oil spill incident.

Occupational Health Industrial Hygiene

We implemented several occupational health programmes in 2016, including inspection of Engineering Control (Local Exhaust Ventilation System and General Exhaust Ventilation), Health Surveillance Programme, drug and alcohol testing and audiometric testing.

A series of Occupational Health Industrial Hygiene (OHIH) walkabouts and health talks were conducted to observe the work practices in MMHE and to recommend action for improvement. The exercises were led by MMHE's occupational health doctor.

EMERGENCY DRILL ON MANAGING COMMUNICABLE DISEASES AT WORK

Handling infectious diseases requires proactive planning, proper training and equipment. We held an initial communication and engagement session with representatives from Ministry of Health (MOH) and PETRONAS in early 2016 to help us evaluate effectiveness of the communicable disease procedure.

We got valuable feedback and reviewed the Management of Communicable Disease Drill Procedure in accordance with MOH's guidelines. An emergency drill was organised to test our communicable disease management response plan in November 2016.

12 MMHE employees attended a planned training on the Intercoustics AS216 lightweight screening audiometer and qualified as technical operators for conducting audiometric testing. Audiometric testing focuses on workers who are exposed to noise in the workplace. Audiometric testing not only monitors the sharpness and acuity of an employee's hearing over time, but also provides an opportunity for employers to educate employees about their hearing and the need to protect it.

We make sure our employees' health is monitored by using medical examinations and surveys in order to minimise occupational illnesses.

A COMMITTED WORKFORCE

People are our asset. As of 31 December 2016, we had 2,835 employees. We respect and promote diversity and offer equal opportunities to all employees. We recognise the contributions of each individual employee through performance-based pay. We made every effort to manage the reorganisation with minimal impact to our employees. We hired less new employees and refrained from contract extension.

Our industry has been traditionally male dominated due to the nature of our business. We have 449 female employees, equivalent to 15.8% of our total workforce, a slight reduction from 2015. Currently, three out of ten Directors on the Board and one of our six Management Committee members are female. We believe that any new appointments should be based on merit and capability.

EMPLOYEE BREAKDOWN

Description	2014	2015	2016
Total number	3,220	3,112	2,835
Turnover rate	-	33.18%	17.14%
Percentage of employees by gender			
Female	19.66%	18.06%	15.84%
Male	80.34%	81.94%	84.16%
Percentage of employees by job type			
Permanent	-	-	59.58%
Temporary	-	-	42.42%

Description	2014	2015	2016
Number of women by employee category			
Board of Directors	-	-	3
Management*	-	-	30
Executive	-	-	218
Percentage of employees by age group			
<20	-	1.35%	1.41%
21-30	-	33.93%	30.23%
31-40	-	34.61%	38.24%
41-50	-	18.99%	18.55%
51-60	-	10.70%	10.72%
>61	-	0.42%	0.85%

*Managerial level and above

SUSTAINABILITY STATEMENT

EMPLOYEE ENGAGEMENT

We encourage open dialogue within the organisation and value the opinions of our employees. One of the most important methods for employee engagement at MHB is the annual employee engagement survey. In 2016, 71% of employees graded N-4 and above took part in the survey. Participant satisfaction was rated on average as 6 out of 10 for all areas covered. We note that the drop in participation is due to the timeliness given for the feedback session and will endeavour to improve our process next year.

Year	2015	2016
Percentage of employees (N-4 grade and above) who took part in the HR Survey (target: 70%)	76%	71%
Participant satisfaction score	7/10	6/10

We believe that any new appointments should be based on merit and capability. We want to create a culture where employees strive for better performance every day. The performance of our employees is assessed twice a year. The individual performance process in MMHE covers three key areas: Individual Performance Contract, Mid-Year Review and Year-End Review. These are supported by ongoing feedback and coaching sessions.

Innovation Excellence Award

We held an Innovation Excellence Award (IEA) competition in 2016. The competition was aimed at encouraging exchange of best practices, ideas and methodologies towards achieving higher productivity, safety, cost reduction and efficiency for the Company. A total of 32 ideas were submitted and 11 ideas were chosen as finalists. The top honour went to the Weld Numbering Programme. This new method will improve accuracy and quality of piping engineering as well as construction works. Four ideas were successfully implemented within MMHE.

Among the employee engagement events in 2016:

- The EPCC F12 Facilities project team's first HSE Appreciation Day
- MMHE Trainers' Appreciation Day 2016
- Festive events for Aidil Fitri at MHB and MMHE
- PMU Staff Engagement Day
- Religious events Sambutan Maulidur Rasul, Solat Hajat and Doa Selamat
- GST Talks
- MMHE UNION Annual General Meeting (AGM)

MMHE UNION AGM, a platform for members to voice out ideas and suggestions to ensure harmonious and sustainable working environment

Appreciating employees

We recognise our employees for long service with an annual grand dinner, certificates and token of appreciation.

MHB Long Service Award's total recipent in 2016:

89 employees awarded

HUMAN RIGHTS

We support and respect our employees' rights to form unions and bargain collectively. The Collective Agreement ("CA") is reviewed every three years and includes grievance procedures. The 12th CA is in effect until December 2017 and covers 380 employees, 13.4% of all workforce. Grievances can be reported by submitting a complaint through existing whistleblowing channels or if covered by CA, through the Complaint Form.

We do not tolerate any form of discrimination at work, as clearly stated in our CoBE. We follow all local legislation on child labour, forced labour, minimum wage and working hours. We only hire employees who are 18 years old and above. Employees are given proper appointment letters with terms that comply with or are beyond the Employment Act 1955.

TRAINING AND DEVELOPMENT

Succession planning is central to business continuity. We provide our employees with development programmes to ensure they have the opportunity to develop their skills and advance in their career if they so wish. A Talent Council conducts talent reviews and "talent conversations" with the employees to monitor talent progression and provide regular feedback to further enhance our programmes. 100% of employees received regular performance reviews in 2016.

We recognise the value in continuously enhancing the skills and competency of our employees in various technical and professional disciplines critical to our operations and future success. We spent a total of RM1,831,041.02 on employee training and career development in 2016.

Description	2014	2015	2016
Total hours of employee training	79,618	78,869	53,277
Average hours of training per year per employee	28.6	30	21

* Restatement of 2014 and 2015 data

Our internal high potential employee training programme, called 'Hi-Po' is designed to retain talent within the Company through career development review, competency building, mentoring, coaching and job rotation. Through this programme we want to realise the potential in our internal talent and prepare them for senior leadership roles in the Company. In 2016, 42 employees took part in this programme. Our management trainee programme, Epsilon, that was launched in 2013 was discontinued due to economic challenges and reduced hiring.

MMHE Centre of Excellence ("COE")

Our COE provides a variety of industry-related training programmes. This integrated training facility was opened in 2015 and is located at Pasir Gudang, Johor. This first-of-its kind facility is a learning centre that provides training, competency development and hands-on technical programmes.

Since 2015 we have collaborated with Ministry of Youth and Sports and Institut Kemahiran Belia Negara ("IKBN") in providing short courses in safety and craft skills to meet the ongoing demand of oil & gas stakeholders, particularly the Pengerang Integrated Petroleum Complex.

The COE is also available to our partner vendors, subcontractors and clients as part of the Company's corporate and professional responsibility to its stakeholders. The 4-acre training complex is equipped with training facilities such as simulators for confined space, scaffolding and an auditorium. It offers short courses in four key areas: business skills, project management, various safety and craft trainings. There were also courses on Scheduled Waste Management, Problem Solving & Decision Making, Overhead Crane Operation and Civil Defense ERT.

Total number of MMHE employees trained in the following programmes at the COE:

Year	2015	2016
Leadership programmes	1,739	1,387
Functional / technical programmes	4,091	2,461
Total	5,830	3,848

Note:
- Some employees attended multiple programmes

BETTER ENVIRONMENTAL PERFORMANCE

We monitor all our activities to ensure compliance with regulations on environmental management and the requirements of the PETRONAS Technical Standard. This year we disclose more quantitative environmental data related to our water and electricity usage, waste management and greenhouse gas emissions.

In 2016:

- All MMHE operations complied with the Environment Quality Act 1974 and we had no reported cases of non-compliance with regard to statutory requirements
- We had no incidents of major environmental spillage
- We had no summons from authorities related to environment control
- We had no complaints from the public related to environmental issues

CORPORATE QUALITY, HEALTH, SAFETY AND ENVIRONMENT (CQHSE)

We have an environmental monitoring programme in place to track the conditions in the surroundings of MMHE's yard. Samples of marine water, industrial effluent, sewage effluent, final water discharge, air emissions and boundary noise are studied by an accredited laboratory on a monthly basis.

We also run a number of environmental awareness campaigns and other initiatives. In 2016, we spent RM258,470 on environmental initiatives and monitoring.

MMHE ENVIRONMENT AWARENESS CAMPAIGN 2016

In 2016 we raised awareness on how MMHE can sustain a better work-life environment and help change the employees' attitude towards environmental conservation. **The campaign was themed 'Control Pollution is The Best Solution'** and it was well received by MMHE's employees and subcontractors who attended the talks and exhibition.

MANAGING GREENHOUSE GAS EMISSIONS

We have reported on our greenhouse gas (GHG) data to MISC Berhad since 2014. We track emissions based on The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition) in scopes 1 and 2. In 2016, MMHE also monitored air emissions from chimneys in operation, in relation to seeking approval from Malaysian Department of Environment ("DOE") for specific bag filters.

"**Ignorance towards the environmental issues will lead to no other than our own destruction.**"

Encik Ahmad Zaki Abd Malik
Chief Operating Officer

Incidences in 2016:

We had five minor spills/loss of primary containment with a total volume of 675 litres. The spills were mitigated by Emergency Response Team and the contaminated soil was sent to the designated facility for final disposal.

We are also required to monitor the compliance status of Environmental Quality (Clean Air) Regulations 2014 at each of our operation area, and have reviewed our compliance action plan. Two verification exercises were conducted in 2016 by MISC Berhad.

Year	2015	2016
Scope 1 emissions* (tonnes)	11,000 (approximate)	15,926
Scope 2 emissions** (tonnes)	39,000 (approximate)	41,132
Ozone-depleting substances (ODS) (tonnes)***	N/A	763
NOx (tonnes)	14	12.12
SOx (tonnes)	4	6.20
Particulate Matter (PM10) (tonnes)	2	2.04

*Petrol, diesel and gas combustion
**Electricity
***R22 refrigerant consumption for air conditioners

ENERGY

Our yard operations involve activities that require high-energy consumption such as use of heavy machinery and welding. Hence, we are mindful of our energy use as lower energy consumption can contribute to both cost savings and reduced environmental footprint.

Year	2015	2016
Electricity consumption (MWh)	58,039	60,134
Energy consumption (terajoules)	371	N/A
Petrol consumption (litre)	47,601	47,333
Diesel consumption (litre)	4,278,160	5,152,794

WATER

Water is an important issue for the offshore construction industry. We also operate in water-stressed environments.

In 2016, we consumed 862,583 m³ of water.

CQHSE ensures we comply with all requirements. We have a three-year plan for water quality monitoring as part of our Environmental Monitoring Programme. In 2016, MMHE completed the Environmental Site Assessment (ESA) Phases 1 and 2 at MMHE West for soil and groundwater monitoring. Our target is to ensure no pipes are leaking. In response to incidences of pipe leakages that occurred in 2016, we reported to the service department and collaborated with Syarikat Air Johor.

Year	2015	2016
Volume of water consumption (m3)	1,059,000 (approximate)	862,583

WASTE MANAGEMENT

Waste management is one of the most pressing environmental issues at MMHE. The large quantities of waste from our operations and financial and technical constraints make it a significant environmental challenge for us. Our scheduled waste is partly hazardous and poses substantial threats to public health and the environment if not managed carefully. Almost 100% of spent lubricating oil, spent hydraulic oil, electric/electronic and acid battery waste were sent for recovery as valued waste in 2016.

Our target is to reduce the amount of non-scheduled and scheduled waste that ends up in landfill. In 2016 we paid special attention on our scheduled waste management. Recycling is one of the methods to achieve this target. We improved our recycling methods by improving on-site treatment of spent garnet. We have improved our systems to ensure compliance to the Environmental Quality (Scheduled Wastes) Regulations 2005 in managing temporary storage of scheduled waste at the yard before it gets sent out for recycling, treatment or final disposal.

Spent Garnet

We have significantly improved the management of the spent materials from the blasting process. Spent blasting materials are viable to be used by cement industries as sand replacement in blended cement. Blasting and spray painting activities are now carried out in enclosed workshops in a chamber equipped with dust extraction and a filtration system to reduce the release of dust into the environment. The process also enables us to recycle abrasive material such as spent steel grit, spent copper slag and spent garnet. New autoblast workshop has been built to improve the quality of the product and the process is now more environmentally friendly.

We have been treating spent garnet on-site since 2015. The treated garnet is known as Garnet-R, and can be used as an abrasive in water jet cutting. In addition to reducing resource use, we minimise the amount of waste sent to final disposal sites. Our new treatment plant was fully operational in May 2016 after getting the approval for 'Special Management of Scheduled Waste' from Malaysian DOE to treat spent garnet from blasting activities. An audit focused on compliance to DOE's approval conditions was conducted in 2016 to ensure the effectiveness of the process.

On-site Recovery Plant

Our subsidiary, Techno Indah Sdn. Bhd. operates an on-site recovery facility in which its scheduled waste code license was extended by the Malaysian DOE in 2015. Some of the unrecoverable petroleum and natural gas from oil sludge, ship tanks and refinery and petrochemical plants were incinerated. Instead of being released into the surrounding environment as waste heat, the heat released during the combustion process is harnessed by a turbine to produce electricity for a shipyard.

Scheduled Waste Compliance

Code	Waste category	2016
SW 308	Oil tanker sludges	1,675.18MT
SW 314	Oil or sludge from oil refinery plant maintenance operation	366.52MT

Description	2016
Total recycled and treated scheduled waste recycled	24,918.94MT
Total non- scheduled and scheduled waste to landfill	9,871.84MT

CARING FOR OUR COMMUNITIES

Our community programmes focus on empowering communities, education, environment and charitable giving. Corporate Social Responsibility ("CSR") unit implements community programmes in MMHE with support from staff from all levels. Activities are funded by profit from business operations, funds raised by employees and partnerships with other institutions. In 2016, we spent a total of RM127,621.80 on community programmes.

We have formed a strategic partnership with EcoKnights, an environmental non-governmental organisation ("NGO"), to develop community engagement programmes that create positive impacts for the community and the environment.

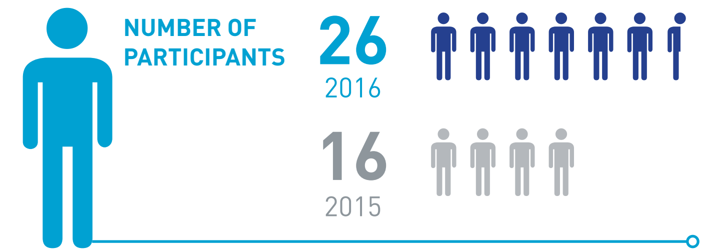
MHB Cares, our three-year collaboration with EcoKnights, Johor Bahru District Office and Jabatan Kebajikan Orang Asli Johor started in 2013 and ended in 2015. We did not conduct activities in 2016, but we are currently reviewing MHB Cares and will resume the programme in 2017.

MHB KNIGHTS OF NATURE SUSTAINABILITY CAMP

The nature camps, organised in collaboration with EcoKnights, have been running since 2013. The camps are designed to increase environmental awareness through hands-on activities, indoor and outdoor lectures, field trips, community engagement, and offering the young participants a chance to discuss possible solutions to various threats to the environment.

The camps are open to young family members of MHB employees and youth residing or studying in Johor. They enhance understanding of sustainable lifestyles in a fun and creative ambience and develop positive qualities like teamwork, leadership, time management and problem solving skills.

In 2016 the camp was held at Universiti Teknologi Malaysia, Skudai Johor. It included a trip to a nearby community-based river rehabilitation programme in Anak Sungai Sebulong. The participants learnt from the people of Anak Sungai Sebulong about ways to turn food waste into organic compost, planting of herbs and plants and making mud balls, that are used by the community to rehabilitate the river. Our monetary contribution to this programme in 2016 was RM50,000.



MHB ART OF SCIENCE

MHB Art of Science is an annual series of educational events and activities that we have organised since 2013. It aims to stimulate students' interest in creative science and technology. It is an opportunity for us to share some of our knowledge related to exploration of science and technology in our daily life. In 2016 we organised two programmes with the help of MMHE's volunteers. Our monetary contribution for this programme was RM44,052. In 2017 we are planning to run two MHB Art of Science programmes for the children of MMHE employees as well as students in Pasir Gudang area.

Year	2015	2016
Number of participants	122	104


Students pushing their creativity to the limit in getting their task done


Food supplies are distributed to help ease the burden of Aidilfitri preparation for the local unprivileged residents

CHARITABLE CONTRIBUTIONS

MHB has established a good rapport with the local community in Pasir Gudang through our longstanding outreach programmes. We will continue to run outreach activities to strengthen those ties and give back to the community we operate in.

In 2016 we helped ease the burden of preparation for the Aidilfitri festive season and distributed food supplies and cash donation for 23 underprivileged residents in Taman Cendana, Kg Pasir Putih, Taman Air Biru, Kota Masai and Kg Perigi Acheh. In addition we channeled donations to Persatuan Kebajikan Darul Hanan, Asrama Kebajikan Ar-Rayyan, and Rumah Seri Kenangan. A monetary contribution of RM7,930 was donated by employees matched 'one for one' by management bringing the total contribution to RM15,800. 23 MMHE employees volunteered during this time.


Our volunteer handing cash donation to help ease their burden


One of the local unprivileged residents receiving donation from our volunteers

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") and its subsidiaries/jointly controlled entities ("Group"). The Board recognises the importance of good corporate governance in building sustainable growth and maximising shareholder value.

This statement sets out the Group's corporate governance processes and practices applied during the financial year with reference to the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 ("Code"). As a public company listed on Bursa Malaysia Securities Berhad ("Bursa Securities"), MHB conforms with the requirements of corporate governance set out in the Main Market Listing Requirements ("MMLR") and the Corporate Governance Guide issued by Bursa Securities.

THE BOARD

1. Board Charter

The Board's roles and responsibilities are documented in the Board Charter which reflects the corporate governance structure and practices of the MHB Group. The Charter also outlines, amongst others, the role of the Managing Director & Chief Executive Officer ("MD & CEO"), the role of the Company Secretary, Board processes, Board functions and Board development. The Board Charter is reviewed regularly to ensure it remains relevant to the current laws and practices consistent with the Board's objective and is available on MHB's website at www.mhb.com.my.

In addition to the Board Charter, the governance framework of MHB is supported by the MHB Group Limits of Authority which defines further the matters as well as the applicable limits specifically reserved for the Board's approval and those delegated to the MD & CEO and Management. MHB Group Limits of Authority had recently been revised with effect from 27 October 2016 to reflect the new organisation structure pursuant to the re-organisation exercise conducted in the middle of 2016.

2. 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, annual budget and performance reviews;
- major investments, expansions, divestments, funding proposals and diversification of business;
- major human resource issues vis-à-vis talent development;
- risk management; and
- corporate governance practices.

Some of the key responsibilities of the Board are further elaborated below.

2.1 Strategic and Business Plan

The Board plays an active role in the development of the Company's strategies and business plan. A dedicated Special Board Meeting is held in the third quarter each year to consider the broad plans of the Company for growth and Management's proposed strategic initiatives covering short-term, medium-term and long-term scenarios. Based on the guiding parameters provided by the Board and inputs obtained from the External Environment Analysis, Management develops the Company's business plan and budget as well as scorecard for the next financial year which are presented to the Board at another Special Board Meeting held before the end of the year. In the deliberations on the proposed business plans, budget and scorecard of the Company, the Board members will challenge Management's perspectives and assumptions applied in formulating the plan to ensure the best outcomes are achieved.

STATEMENT ON CORPORATE GOVERNANCE

2.2 Sustainability Management

The Board places emphasis on the formulation of strategies to promote sustainable developments in areas covering health, safety and environment as well as social and economic progress. Further information on MHB's approach towards sustainability is provided in the Sustainability Statement on pages 63 to 88 of the Annual Report.

2.3 Risk Management and 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 102 to 105 of the Annual Report.

2.4 Ethics and Compliance

In keeping with the principles of sound corporate governance, the Board is committed to promote a culture of integrity and ethical values. MHB has put in place its set of Code of Conduct and Business Ethics ("CoBE"), which includes the Whistleblowing Policy and the No Gift Policy. The CoBE is applicable to all Directors and employees within the Group as well as third parties performing works or services for and on behalf of the Company. It governs the desired standard of behaviour and ethical conduct expected from each individual to whom the CoBE applies.

On 10 February 2014, the Board had approved the adoption of an Anti-Bribery and Corruption Manual ("ABC Manual") as adopted by MISC which applies to all Directors and employees of the Group as well as the Group's agents and contractors. The ABC Manual supplements the CoBE and provides the basis on which the Company will be able to defend itself against any corruption charges that may be brought by any parties against the Company.

The Board has also approved the setup of Compliance Department whose roles and responsibilities include:-

- compliance and ethics function;
- management of the Policies & Manual; and
- management of the ethical risk assessment.

Additional details on these codes and policies can be found in the Sustainability Statement on pages 64 to 66 of the Annual Report.

3. Board Composition

The Board consists of ten (10) Directors, all of whom are non-executive, except for the MD & CEO. Of the nine (9) non-executive Directors, five (5) are independent Directors, which exceeds the requirement for one-third (1/3) of the Board members to be independent as set out under the MMLR.

The Chairman of MHB is the former President & Chief Executive Officer of MHB's holding company, MISC and his position has been re-designated as a non-independent Non-Executive Director of MISC with effect from 1 January 2015. Pursuant to Paragraph 1.01 of MMLR, the Chairman has not been an officer of the MHB's group of companies within last two (2) years and he therefore has fulfilled the requirement to act as an independent Director. The Board had on 20 February 2017 approved the re-designation of the Chairman from a non-independent non-executive Director to an independent non-executive Director of the Company.

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.

On 14 June 2016, Puan Rozainah binti Awang was appointed as a non-independent non-executive Director of MHB as well as a member of the Board Audit Committee in place of Tuan Syed Hashim bin Syed Abdullah.

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, engineering and construction, corporate finance and accounting, oil and gas industry, procurement 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. The profile of each Director is presented on pages 18 to 27 of the Annual Report.

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.

Cik Wan Mashitah binti Wan Abdullah Sani was appointed as the Acting Chief Executive Officer of MHB on 1 May 2016. Subsequently, she was appointed as a non-independent executive Director and the MD & CEO of MHB with effect from 1 January 2017, to succeed YBhg Dato' Abu Fitri bin Abdul Jalil, who had been called back into the service of PETRONAS pursuant to the group-wide transformation exercise undertaken by PETRONAS.

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. None of the independent non-executive Directors has exceeded the tenure of a cumulative term of nine years.

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 Director shall notify the Chairman of the Board and the notification shall include an indication of time that will be spent on the new appointment.

4. 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 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 2016, fourteen (14) Board meetings were held.

All Directors complied with the requirements of Paragraph 15.05(3)(c) of the MMLR which stipulates a minimum of 50% attendance of the Board meetings held in a financial year.

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)	14 out of 14
Dato' Halipah binti Esa	14 out of 14
Heng Heyok Chiang @ Heng Hock Cheng	14 out of 14
Yong Nyan Choi @ Yong Guan Choi	14 out of 14
Choy Khai Choon	14 out of 14
Bernard Rene Francois di Tullio	14 out of 14
Yee Yang Chien	11 out of 14
Syed Hashim bin Syed Abdullah *Appointed on 1 January 2016*	13 out of 14
Rozainah binti Awang *Appointed on 16 June 2016*	6 out of 6*
Dato' Abu Fitri bin Abdul Jalil *Ceased with effect from on 30 April 2016*	7 out of 7*

* *Reflects the number of meetings held during the time the Director held office as a member of the Board.*

All Board meetings follow an agenda which, together with a set of Board papers containing information 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. The Directors have direct access to the Management and unrestricted access to any information relating to the Company and its Group in discharging their duties.

Each scheduled Board meeting includes review of financial and non-financial information covering amongst others, strategic, operational, regulatory, 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.

STATEMENT ON CORPORATE GOVERNANCE

It is a practice at all MHB Board and Board Committee meetings that in the event any Director is interested in a particular matter to be considered in the meeting, the Director is required to declare the nature of his interest prior to the deliberation. The interested Director is required to abstain from deliberation and voting on the particular matter. Where necessary, he or she may also excuse himself or herself from the meeting during the deliberation of the matter concern.

Minutes of the Board meetings which include a record of the decisions and resolutions of the Board meetings are properly maintained by the Company Secretaries.

5. Company Secretaries

To ensure the effective functioning of the Board, all Directors have direct access to the advice and services of the Company Secretaries. The Company Secretaries play an advisory role to the Board in relation to compliance with relevant laws, rules, regulations and governance best practices, boardroom effectiveness and Directors' duties and responsibilities.

The Company Secretaries ensure that deliberations at meetings of the Board and Board Committees are properly captured, minuted and communicated to Management for necessary action.

Both Company Secretaries of MHB possess legal qualifications and comply with the requirements of the Section 235 of the Companies Act, 2016 to act as Company Secretaries.

6. Appointment and Re-election of Directors

The Nomination & Remuneration Committee is responsible for making recommendations for the appointment of Directors to the Board including the election/re-election of retiring Directors. In making these recommendations, the Nomination & Remuneration Committee considers the required mix of skills, experience, knowledge, competencies and other necessary qualities including gender diversity to the Board.

While the Board supports the philosophy of gender diversity and recognises the benefits that it can bring, the Board believes that any new appointments should be based on merits and capability. Currently, MHB has three (3) female Directors on the Board and has met the target of achieving 30% women representation on the Board of MHB (being an element of the New Economic Model 2011) to support the Malaysian Government's aspiration to champion diversity.

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 MMLR. 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 ("AGM") of the Company and shall then retire and be eligible for election by the shareholders.

7. Directors' Remuneration

The Nomination & Remuneration Committee is responsible for reviewing and recommending to the Board, the Directors' remuneration in line with the responsibilities and contributions made for the year. In line with the Code, the Company aims to set remuneration for Directors at levels which are sufficient to attract and retain persons of calibre to guide the Group, taking into consideration the workload and responsibilities involved.

The level of remuneration for non-executive Directors reflects the level of responsibilities undertaken and contributions made by them. With effect from 1 July 2016, all payments of Directors' fees for executives of MISC with the positions of Vice Presidents and above are treated as management fees and are paid directly to MISC. As such, the Directors' fees and meeting attendance allowances for Mr Yee Yang Chien, Tuan Syed Hashim Syed Abdullah and Puan Rozainah Awang for the amount of RM174,000 were paid to MISC during the financial year ended 31 December 2016.

With the exception of the MD & CEO, the remaining Directors are paid Directors' fees and meeting allowances which are subsequently approved by the shareholders at the AGM. For the financial year ended 31 December 2016, 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 Allowance (RM)	Total (RM)
Datuk Nasarudin Md Idris (Chairman)	108,000	56,000	-	164,000
Dato' Halipah binti Esa	72,000	42,000	44,000	158,000
Heng Heyok Chiang @ Heng Hock Cheng	72,000	42,000	51,000	165,000
Yong Nyan Choi @ Yong Guan Choi	72,000	42,000	20,000	134,000
Choy Khai Choon	72,000	42,000	36,000	150,000
Bernard Rene Francois di Tullio	72,000	42,000	20,000	134,000
*Yee Yang Chien	36,000	18,000	8,000	62,000
*Syed Hashim bin Syed Abdullah	36,000	24,000	20,000	80,000
*Rozainah binti Awang *Appointed on 16 June 2016*	3,000	-	-	3,000
TOTAL	**543,000**	**308,000**	**199,000**	**1,050,000**

* *Amounts provided are before tax and excludes RM174,000 paid directly to MISC as management fees.*

As an executive Director, the MD & CEO is not entitled to Directors' fee and meeting allowance as she 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 NRC and approved by the Board and is fixed for the duration of her 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 allowances and a company car.

The aggregate remuneration of the Directors categorised into appropriate components are set out in the Financial Statements on pages 155 to 156 of the Annual Report.

8. Directors' Training

Pursuant to the MMLR, a newly appointed Director is required to attend the Mandatory Accreditation Programme ("MAP") within four (4) months of his or her appointment. Cik Wan Mashitah Wan Abdullah Sani, who was appointed as a Director of MHB on 1 January 2017 will complete the MAP within the stipulated time. All the other Directors have attended the MAP.

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

Training programmes, conferences and seminars deemed beneficial to the Directors are identified on an on-going basis and the Company allocates a training budget to support the continuous development of the Directors. In addition, an in-house training programme on topics of relevance for the Directors based on the specific training needs of the Directors is jointly organised with the parent company, MISC Berhad, on an annual basis.

Training programmes, conferences and forums attended by the Directors during the financial year under review among others, were as follows:-

Name of Director	Programme Title	Organised by	Date
Datuk Nasarudin Md Idris	1. MISC Annual Planning Forum 2016	MISC Berhad	13 July 2016
Dato' Halipah binti Esa	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers - Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. Corporate Governance Breakfast Series – Improving Board Risk Oversight Effectiveness with COSO	Bursa Malaysia	26 February 2016
	3. Board Education Session on Recovery and Resolution Plan	Perbadanan Insurans Deposit Malaysia	21 March 2016
	4. Sustainability Engagement Series – Customised Programmes for Directors/ Chief Executive Officers of Listed Issuers	Bursa Malaysia	31 March 2016
	5. Audit Committee Seminar for the Public & Private Sectors 2016 "Improving Audit Effectiveness"	Federation of Public Listed Companies Bhd	16 & 17 May 2016
	6. Practioners & Board of Directors Guide to the Effective & Practical Implementation of ISO 31000 & Related Standards	Institute of Enterprise Risk Practioners	19 & 20 May 2016
	7. Sustainability Engagement Series for Directors/ Chief Executive Officers of Listed Issuers	Bursa Malaysia	2 June 2016
	8. 5th PETRONAS BAC Forum	PETRONAS	16 August 2016
	9. How Effective Boards Engage in Succession Planning for the CEO & Top Management by Beverly Behan	Permodalan Nasional Berhad	18 August 2016
	10. Global Conference 2016 on Enterprise Risk Management & Power of Disruption	Institute of Enterprise Risk Practioners	8 & 9 November 2016
	11. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016

Name of Director	Programme Title	Organised by	Date
Heng Heyok Chiang @ Heng Hock Cheng	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers -Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. MISC Annual Planning Forum 2016	MISC Berhad	13 July 2016
	3. 5th PETRONAS BAC Forum	PETRONAS	16 August 2016
	4. Directors' Continuing Education Programme 2016	British American Tobacco (Malaysia) Berhad	8 November 2016
	5. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016
Choy Khai Choon	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers -Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. MISC Annual Planning Forum 2016	MISC Berhad	13 July 2016
	3. 5th PETRONAS BAC Forum	PETRONAS	16 August 2016
	4. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016
Yong Nyan Choi @ Yong Guan Choi	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers -Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. Sustainability Engagement Series – Customised Programmes for Directors/ Chief Executive Officers of Listed Issuers	Bursa Malaysia	31 March 2016
	3. Governance Breakfast Series - The Strategy, the Leadership, the Stakeholders and the Board	Bursa Malaysia	6 May 2016
	4. MISC Annual Planning Forum 2016	MISC Berhad	13 July 2016
	5. 5th PETRONAS BAC Forum	PETRONAS	16 August 2016
Bernard Rene Francois di Tullio	1. The Role of Corporate ASEAN in driving the Sustainable Development Goals	Security Industry Development Coporation	27 April 2016
	2. Sustainability Engagement Series for Directors/ Chief Executive Officers of Listed Issuers	Bursa Malaysia	2 June 2016
	3. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016

Name of Director	Programme Title	Organised by	Date
Yee Yang Chien	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers -Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016
Syed Hashim bin Syed Abdullah	1. Companies Bill • Directors and Officers Liability Insurance • Outlook of Offshore Business • Tankers & Gas Carriers -Trends & Technology Impacting Future of Shipping	MISC Berhad	14 January 2016
	2. Corporate Governance Breakfast Series – Improving Board Risk Oversight Effectiveness with COSO	Bursa Malaysia	26 February 2016
	3. Mandatory Accreditation Programme (MAP)	The Iclif Leadership And Governance Centre (Iclif)	6 & 7 April 2016
	4. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016
Rozainah binti Awang	1. Mandatory Accreditation Programme (MAP)	The Iclif Leadership And Governance Centre (Iclif)	7 & 8 November 2016
	2. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016
Wan Mashitah binti Wan Abdullah Sani	1. MISC Annual Directors Training 2016	MISC Berhad	11 November 2016

All directors have attended relevant training programmes and seminars organised by relevant regulatory and professional bodies during the financial year.

THE BOARD COMMITTEES

The Board is supported by the following Board Committees whose compositions are in accordance with the best practices as prescribed by the Code to ensure the Board's effectiveness and to efficiently discharge its duties and responsibilities. Each Board Committee operates within its terms, which clearly define its functions and responsibilities. Minutes of Board Committee meetings are circulated at Board Meetings.

1. Board Audit Committee ("BAC")

The BAC assists the Board in ensuring integrity of financial reporting and the existence of a sound internal control system within the Group. Its main responsibilities are to ensure that there are effective risk monitoring and compliance procedures in place 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 as well as the summary of its activities are as set out in the BAC Report on pages 106 to 109 of the Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

2. Nomination & Remuneration Committee

The Nomination & Remuneration Committee ("NRC") consists of four (4) members. The members of the NRC and their attendance at meetings held during the financial year ended 31 December 2016 are as follows:

Members	Position	No. of meetings attended
Dato' Halipah binti Esa (Independent Non-Executive Director)	Chairperson	11 out of 11
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Member	11 out of 11
Choy Khai Choon (Independent Non-Executive Director)	Member	11 out of 11
Syed Hashim bin Syed Abdullah (Non-Independent Non-Executive Director)	Member	11 out of 11
Yee Yang Chien (Non-Independent Non-Executive Director) *Resigned on 16 June 2016*	Member	4 out of 5*

** Reflects the number of meetings held during the time the Director held office as a member of the NRC.*

On 16 June 2016, Dato' Halipah binti Esa, an independent non-executive Director and existing member of the NRC, had been appointed as the new Chairperson of the NRC whilst Mr Heng Hock Cheng had ceased to be the Chairman of the NRC but remains as a member of the NRC.

Mr Yee Yang Chien had tendered his resignation as a member of the NRC and had ceased to be a member of the NRC with effect from 16 June 2016 but remains as a Board member of MHB.

The terms of reference of the NRC were revised to formalise some of the existing practices of the NRC and to provide more clarity on its duties. The revised terms of reference of the NRC were approved by the Board on 3 December 2015.

The terms of reference of the NRC include the following:-

(i) to make appropriate recommendations on matters of appointment to the Board and Board Committees;

(ii) 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;

(iii) 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;

(iv) to review the training needs and recommend suitable development programmes for the Directors;

(v) to make recommendations to the Board for the appointment or renewal of contracts of employment of the MD & CEO and the Management Committee members;

(vi) to review and implement sound succession planning for the Board, MD & CEO and Management Committee members including the development plans;

(vii) 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.

STATEMENT ON CORPORATE GOVERNANCE

During the financial year ended 31 December 2016, the key activities carried out by the NRC are summarised as follows:

(i) The NRC conducted the annual assessment of the performance of the Board Committees and the Board as a whole for the year ended 31 December 2016 against a set of approved Board key performance indicators ("KPIs"). Arising therefrom, several actions were identified to improve Board operations. This included further review to improve the effectiveness of Management's responsibilities in supporting the Board to perform its role in overseeing risk management. The other area was on the implementation of a proper investor relations programme which the Board had been updated subsequently as to the Company's communication strategy to the investing community.

Further, in line with Recommendation 3.1 of the MCCG 2012 to undertake an annual assessment of the Independent Directors, the NRC was satisfied with the level of independence demonstrated by all the Independent Directors on board of MHB.

(ii) The NRC had also considered the key human resource issues such as the initiative of manpower optimisation to achieve a more efficient organization structure, the review of the job grades for the top management and the executive positions.

(iii) The NRC had also considered and recommended the appointments of the Chief Operating Officer and the Senior General Manager, Marine and Regional Heavy Engineering Business as part of the re-organisation structure exercise.

(iv) The NRC had, at its sitting in February 2016, assessed the performance of the Company in respect of the financial year 2015 against the agreed scorecard and recommended the annual salary increment and performance bonus for the employees of the MHB Group including the members of the Management Committee and the MD & CEO.

(v) The NRC had duly considered the nomination of Cik Wan Mashitah binti Wan Abdullah Sani to succeed YBhg Dato' Abu Fitri bin Abdul Jalil as the MD & CEO and had subsequently recommended her appointment for the Board's approval. Another nomination to the Board was the appointment of Puan Rozainah binti Awang to the Board as a non-independent non-executive Director of MHB as well as a member of the Board Audit Committee in place of Tuan Syed Hashim bin Syed Abdullah with effect from 16 June 2016. Apart from the qualifications and competencies of the candidates, the NRC's review on the proposed appointments as Directors takes into account the mix of skills and experience the new appointments bring to the Board.

(vi) The NRC had agreed to adopt the same methodology which had been adopted in FY2014 and FY2015, whereby the assessment of individual Directors is performed by reflecting on the deliberations made pertaining to a selected topic which was of a strategic nature. The feedback obtained during the evaluation could be applied constructively towards improving the quality of contribution and interaction of each Board member which ultimately improves Board's dynamics and effectiveness. An agenda had been dedicated at a Special Board Meeting for the conduct of the evaluation. The Chairman of the Board had led and moderated the performance evaluation based on a recommended set of questions and the evaluation results were recorded in the minutes accordingly.

(vii) Other matters considered by the NRC were the MHB FY2016 Corporate Scorecard, the re-election of Directors retiring by rotation and the remuneration for the non-executive Directors for shareholders' approval at the Company's Annual General Meeting held in April 2016.

The annual review of the Board composition (including its mix of skills, experience and independence) had been discussed at the NRC meeting convened in February 2017.

3. Board Bid Committee

The Board Bid Committee ("BBC") was established with the responsibility of reviewing any proposed bid submission by the MHB Group of a certain threshold, which threshold will be reviewed by the Board periodically. 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 and their attendance at meetings held during the financial year ended 31 December 2016 are as follows:

Members	Position	No. of meetings attended
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Chairman	4 out of 4
Yong Nyan Choi @ Yong Guan Choi (Independent Non-Executive Director)	Member	4 out of 4
Bernard Rene Francois di Tullio (Non-Independent Non-Executive Director)	Member	4 out of 4
Syed Hashim bin Syed Abdullah (Non-Independent Non-Executive Director) *Appointed on 16 June 2016*	Member	2 out of 2*
Yee Yang Chien (Non-Independent Non-Executive Director) *Resigned on 16 June 2016*	Member	0 out of 2*

* *Reflects the number of meetings held during the time the Director held office as a member of the BBC.*

On 16 June 2016, Tuan Syed Hashim bin Syed Abdullah, a non-independent non-executive Director, was appointed as a member of the BBC in place of Mr Yee Yang Chien.

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 MMLR, the Company will hold a poll voting whenever general meetings to decide on related party transactions are held.

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 the Company's investor relations activities are provided on page 111 of the Annual Report.

ACCOUNTABILITY AND AUDIT

1. 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.

2. 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.

3. 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.

STATEMENT ON CORPORATE GOVERNANCE

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) On-going awareness sessions with employees and stakeholders to ensure sufficient knowledge on RPTs/RRPTs in order to comply with the MMLR;

(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.

(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 abovementioned procedures are insufficient to ensure that RPTs/RRPTs are undertaken on an arm's length basis 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 2016 are set out below:-

Nature of Transaction	Transacting Party	Related Party
a) 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]
b) Provision of dry docking and repairs of vessels	• MISC	MISC[2]
c) Purchase of oil products from PETRONAS Group	• PETRONAS Dagangan Berhad • PETRONAS Smartpay Centre Sdn Bhd	PETRONAS[1]
d) Provision of services/sale of equipment & materials	• Prime Sourcing International Sdn Bhd • PETRONAS Management Training Sdn Bhd • Industrial Gas Solutions Sdn Bhd	PETRONAS[1]
	• MISC	MISC[2]
e) 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*

This statement is made in accordance with the resolution of the Board of Directors duly passed on 20 February 2017.

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 (LR) of Bursa Malaysia Securities Berhad ("Bursa Securities"), 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 2016 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 risk management oversight to the Board Audit Committee ("BAC"). The BAC is supported by the Risk Council ("RC"). The Group 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 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 commensurate with the cost of risk mitigation.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework ("RMF") includes risk management policy, risk management manual, generic risk assessment guidelines and project risk assessment guidelines.

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 in order to minimise foreseeable disruption to operations, harm the people and damage to environment and property. The policy stresses the importance of protecting the interest of stakeholders and to comply with all statutory and legal requirements.

- **Risk Governance Structure**
  The RC was established to assume the role of risk oversight and governance responsibilities.

  The RC is chaired by Managing Director & Chief Executive Officer ("MD & CEO") and consists of selected 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 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 processes across the Group.

The RC meets on a regular basis to update any risk management issues to the Management Committee ("MC"), MD & CEO and Board of Audit Committee ("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 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").

- **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, PRAs on specific project was conducted to identify the projects' risks in advance and implementing controls either to reduce or eliminate the risk impact. Risk assessment and monitoring was also carried out along the project execution.

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 review 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 **Board Bid Committee ("BBC")** and the **Bid Approval Committee ("BiAC")** are 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 will propose bid approach method and negotiation strategy for bid during the assessment. They will also ensure the bid proposal is fair and reasonable and likely to allow the company to make a reasonable profit margin which commensurates with the project risk. All BiAC members are MC members. In the event the value of the bid is above a certain threshold, the proposal shall be escalated to the BBC which comprise of the Non-Executive Directors. The BBC was set up to review, deliberate and recommend the bid to the Board for this category.

4. **Senior Management** sets the tone for an effective control environment and culture in the organization through the **Group's vision, mission and brand pillars** developed to focus on the importance of these four key values:
   - **L**oyalty – Loyal to corporation
   - **I**ntegrity – Honest and upright
   - **P**rofessionalism – Strive for excellence
   - **C**ohesiveness – United, trust and respect for each other

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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. Staff are required to strictly adhere to CoBE in performing their duties **and in their interface and engagements with external parties and stakeholders.**

5. The **Health, Safety and Environment 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 programmes which are reviewed annually.

   Every employee of MHB is obligated to work safely, to co-operate and act responsibly in preventing injury to himself / herself and to others.

   Our Health, Safety and Environment ("HSE") objectives shall bear equal importance with our fundamental business objectives.

   In pursuance of this policy and in adherence to all legislative and other requirements with the commitment to achieve continual improvement, MHB will endeavour to:
   - Prevent all accidents, occupational diseases and fire
   - Prevent damage to plant, equipment and property
   - Protect and preserve the environment
   - Implement safe system of work
   - Promote HSE awareness and provide training to MHB employees to achieve our HSE objectives
   - Provide forum to employees, customers and contractors to actively participate in our HSE programmes
   - Safeguard the interest of the general public and surrounding community
   - Ensure that appropriate contingency measures are in place to deal with emergencies

6. The **Corporate Security Department ("CSD")** 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 Code for the Security of Ships and of Port Facilities (ISPS 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 sound and timely corporate decision making at the appropriate level in the organization's hierarchy.

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 analysed and reported monthly and quarterly to the Group's MC.

4. The Group had implemented the **PETRONAS Financial Control Framework ("FCF")** initiative. 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 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.

   To ensure the integrity of financial risk management, the Corporate Finance Unit continues to monitor and ensure effective and robust execution of financial risk management through implementation of **PETRONAS Corporate Financial Policy ("CFP")**. The CFP supports the delivery of consistent approach in financial and risk management discipline across the Group. The CFP is supplemented with Guidelines in the areas of Integrated Financial Shared Services Centralisation, Liquidity Management, Capital Structure and Financing, Cash Repatriation, Investment, Banking, Foreign Exchange Management, Credit, Asset Liability Management, Tax and Integrated Financial Risk Management.

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. **Contract Award Committee ("CAC")** is a review committee whose role is to ensure that overall contracting and purchasing strategy for new projects and CAPEX with value more than RM3.0 million are conducted in an effective, transparent, and fair manner in the interest of the Group. CAC members are of multi-discipline background to ensure balanced composition to provide different perspective and views.

   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. Tendering activities are facilitated by a central Supply Chain Management ("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 SCM and Business/ Service units to ensure balanced perspectives for decision on purchasing transactions.

7. The professionalism and competency of employees 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 behaviour indicators to review and measure employees' performance and conduct or work related behaviour. Action plans to address employees developmental requirements are prepared and implemented in a timely manner. This is to ensure that employees are able to deliver the expected performances in order for the Group to achieve its plans and targets. Upgrading and promotion is conducted by the **Management Development Committee** for Senior Managerial grade and above, whereas the upgrading and promotion for Managerial grade and below is performed by the **Executive Development Committee**.

   The Board does not regularly review the internal control system of its joint ventures, 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 joint ventures, placement of management staff as key employees of the jointly ventures 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 joint ventures.

   The Board has received the assurance from the Managing Director and Chief Executive Officer ("MD & CEO") and Chief Financial Officer ("CFO") that the risk management and internal control system of the Company and its subsidiaries for the year under review up to the date of approval of the statement 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 2016, 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 intended to be included in the annual report is not prepared, in all material respects, in accordance with disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or that the statement is factually inaccurate.

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 on-going 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 20 February 2017.

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 2016.

COMPOSITION AND MEETINGS

The BAC consists of six (6) members, all of whom are non-executive Directors with four (4) being independent Directors and two (2) non-independent Directors.

The composition of the BAC complies with Paragraph 15.09(1) of the Main Market Listing Requirements ("MMLR"). Both Mr Choy Khai Choon and Puan Rozainah binti Awang are members of the Malaysian Institute of Accountants. Therefore, the requirement of paragraph 15.09(1)(c) of the MMLR where at least one (1) member of the BAC must be a qualified accountant has been complied with.

During the financial year, six (6) BAC meetings were held. The BAC members and the details of their attendance at the BAC meetings are as follows:-

Members	Designation	No. of meetings attended
Choy Khai Choon (Independent Non-Executive Director)	Chairman	6 out of 6
Dato' Halipah binti Esa (Independent Non-Executive Director)	Member	6 out of 6
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Member	6 out of 6
Yong Nyan Choi @ Yong Guan Choi (Independent Non-Executive Director)	Member	6 out of 6
Bernard Rene Francois di Tullio (Non-Independent Non-Executive Director)	Member	6 out of 6
Rozainah binti Awang (Non-Independent Non-Executive Director) *Appointed on 16 June 2016*	Member	2 out of 2*
Syed Hashim bin Syed Abdullah (Non-Independent Non-Executive Director) *Ceased with effect from 16 June 2016*	Member	4 out of 4*

* *Reflects the number of meetings held during the time the Director held office as a member of the BAC.*

On 16 June 2016, Mr Choy Khai Choon, an independent non-executive Director and existing member of the BAC, had been appointed as the new Chairman of the BAC whilst Dato' Halipah binti Esa had ceased to be the Chairperson of the BAC but remains as a member of the BAC.

Pn Rozainah binti Awang was appointed as a member of the BAC in place of Tuan Syed Hashim bin Syed Abdullah with effect from 16 June 2016.

TERMS OF REFERENCE

The terms of reference of the BAC were reviewed during the year to provide more clarity on the responsibilities of the BAC and the new terms of reference were approved by the Board on 7 December 2016.

The terms of reference of the BAC are as follows:

(a) Composition

- The BAC shall be appointed by the Board from amongst its non-executive Directors and shall consist of not less than three (3) members with the majority being independent Directors.
- At least one (1) member of the BAC must be a member of the Malaysian Institute of Accountants or have at least three (3) years working experience and must 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 BAC.
- In the event of any vacancy in the BAC resulting in the non-compliance with Paragraph 15.09(1) of the MMLR, the vacancy shall be filled within three (3) months or within such extension of time as approved by Bursa Malaysia Securities Berhad.

(b) Chairman

- The members of the BAC shall elect a Chairman from among the members who shall be an independent non-executive Director.

(c) Meetings

- Meetings shall be held not less than four (4) times a year. The quorum for each meeting shall be two (2) members who shall both be independent Directors. The external auditors may request a meeting if they consider it necessary.
- The BAC shall sit with the external auditors at least twice a year without the presence of any executive member of the Board.
- The proceedings of the BAC meetings shall be recorded and maintained by the Secretary to the BAC. The Company Secretary of MHB or any other person appointed by the BAC shall be the Secretary of the BAC.
- The Managing Director & Chief Executive Officer, the Chief Financial Officer and the Head of Group Internal Audit ("GIA") shall normally attend the meetings. Other representatives of Management and representatives of the external auditors may be invited to attend the meetings on matters relevant to them.

(d) Authority

The BAC is empowered by the Board with the following authorities to investigate any matters within its terms of reference at the cost to be borne by MHB:

- Full and unrestricted access to resources and information which are required to perform its duties. This includes authority to seek information from any employees. Employees subjected to such requisition are directed to co-operate with the BAC;
- Direct communication channels with the external auditors and person(s) carrying out the internal audit functions and activities;
- Right to obtain independent professional advice or other advices. The BAC may also invite external independent professionals to its meetings if it considers necessary;
- Right to convene meetings with the external auditors, the internal auditors or both, without the presence of other Directors and representatives of Management of the Group, if necessary; and
- Where the BAC is of the view that a matter reported to the Board has not been satisfactorily resolved resulting in a breach of the MMLR, the BAC shall be obliged to report such matter to Bursa Malaysia Securities Berhad.

(e) Functions

The BAC's functions are to review, evaluate, report and make appropriate recommendations to the Board on the following matters:

(i) In relation to External Auditors:

- Appointment of external auditors, the audit fees payable to the external auditors and any questions of resignation and dismissal;
- Formulation of policies and procedures to assess the suitability and independence of external auditors;
- Review with the external auditors the nature and scope of the audit plan, the system of internal control and the audit report, including the external auditors' management letter and Management's response;
- Assistance and co-operation rendered by the Group's employees to the external auditors;

(ii) In relation to the Group Internal Auditors:

- Adequacy of GIA's resources, its appropriate competency and authority within the Group;
- Identification of the Head of GIA who reports directly to the BAC, and in consultation with the Management;

- GIA's annual internal audit plan, processes and findings/reports generated by GIA and whether appropriate action is taken on the recommendations of GIA;

(iii) In relation to other matters:

- The quarterly results and annual financial statements, focusing particularly on:
  - any changes in or implementation of accounting policy and practices;
  - significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events arising from the audit or transactions, and how these matters are addressed; and
  - compliance with accounting standards and other legal requirements;
- Adequacy and effectiveness of the Group's accounting policies and procedures, risk management framework and internal control system;
- Any related party transaction and situation of conflict of interest that may arise within the Group including any transaction, procedure or course of action that raises questions of management integrity;
- Issuance of guidance and instructions for further actions to be taken by Management; and
- Any other topics as defined by the Board.

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 ended 31 December 2016:-

(a) Financial and Annual Reporting

- Reviewed the unaudited quarterly financial statements, the related press releases and announcements, in particular the change in accounting policies, significant matters in relation to financial issues, going concern assumption, compliance with accounting standards and other regulatory requirements for recommendation to the Board for approval before release to Bursa Malaysia Securities Berhad.
- Reviewed the annual audited financial statements of the Company and the Group to ensure the statements comply with the financial reporting standards.
- Reviewed the significant judgments made by Management and significant matters highlighted by the auditors on accounting and auditing matters.
- Reviewed and discussed with Management on the Memorandum of Suggestions for improvement in the accounting procedures and internal control measures identified during the course of audit by the external auditors.
- Reviewed and recommended for Board's approval, the Statement on Corporate Governance, the Statement on Risk Management and Internal Control and the BAC Report for inclusion in the Annual Report.

(b) Internal audit

- Reviewed the long term and annual internal audit strategy and plan to ensure adequate scope and comprehensive coverage over the activities of the Group.
- Reviewed the internal audit reports issued by GIA on the effectiveness and adequacy of governance, risk management, operational and compliance processes.
- Reviewed the adequacy and effectiveness of agreed corrective actions taken by the Management on all significant and secondary audit issues raised and ensure all major findings raised are properly investigated.
- Reviewed the effectiveness and adequacy of the audit process, manpower of GIA and the resource requirements on financial budget to execute audit exercises.
- Assessed the performance of GIA on half yearly basis in term of experience and technical knowledge of internal auditors, objectivity of GIA, quality of audit findings and recommendation made on corrective actions, adequacy of assurance to the Board in respect of governance and internal controls and the relevancy of audit findings to the business operations of the Company.
- The Chairperson held private sessions with the Head of GIA on audit reports and any internal audit related matters when there were issues of concern.

(c) External Audit

- Reviewed the external auditors' terms of engagement, audit plan and strategy and scope of work for the financial year.
- Reviewed the results and significant issues on accounting and auditing matters arising from the external audit for the financial year, among others, the impairment assessment on goodwill and assets of MHB Group, assessment of liquidated ascertained damages for construction contracts and the resolution of issues highlighted in their report to the BAC and Management's response.

BOARD AUDIT COMMITTEE REPORT

- Assessed the performance, effectiveness and independence or objectivity of the external auditors, and made recommendations to the Board on their appointment and audit fee.
- Met with the external auditors twice during the year 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.

(d) Risk Management

- Received and reviewed quarterly reports from Management on key strategic and operational risks to ensure these were being managed effectively.

(e) Related Party Transactions

- Reviewed the related party transactions entered into by the Group on a quarterly basis and ensure all transactions are carried out on arm's length basis.

INTERNAL AUDIT FUNCTIONS AND ACTIVITIES

The BAC is supported by the MHB Group Internal Audit ("GIA") Division 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 meetings 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 2016 was RM1.62 million.

BAC STATEMENT ON RECURRENT RELATED PARTY TRANSACTIONS (RRPTs)

The BAC has reviewed the RRPTs mentioned on page 101 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 commercial terms consistent with prevailing market conditions 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 20 February 2017.

DIRECTORS' RESPONSIBILITY STATEMENT

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 end 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 2016, 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.

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 20 February 2017.

INVESTOR RELATIONS REPORT

The financial period under review is a twelve-month period which ended on 31st December 2016. Throughout the year, MHB was committed to provide complete, transparent and timely information to the market about its business operations, its financial condition, strategies and future prospects.

The objective is to convey a fair and accurate representation of MHB, so that shareholders and investors can make properly informed investment decisions, while other stakeholders can formulate a balanced understanding of MHB and its future prospects.

Some of the investor relations (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.

- Quarterly IR Reports and slide presentations shown during the Company's analyst briefing events were being uploaded on the corporate portal, www.mhb.com.my, to enable simultaneous and instantaneous dissemination of information to all of the Company's stakeholders.

- Analyst briefings for the half-year and full-year result periods were conducted by the previous MD & CEO, CFO and the serving Acting CEO to provide a comprehensive review of MHB's financial performance, operations, initiatives and strategies going forward for the Group.

- The analyst briefings conducted included updates on projects that have been completed or delivered such as the Malikai TLP, Bergading topsides and jackets and MaMPU 1 FPSO conversion. MHB also provided updates to the investment community and our shareholders on the transformation initiatives that have been implemented in 2016 and also the Company's ongoing yard optimisation programme.

- MHB organised two visits to our Pasir Gudang yards in Johor during the period under review to provide members of the financial community a better understanding and appreciation of the nature of MHB's operations.

- MHB conducted its 27th Annual General Meeting (AGM) at One World Hotel, Bandar Utama, Petaling Jaya, where the shareholders attended the meeting to review the Group's annual performance. The AGM was presided by MHB Chairman, Datuk Nasarudin Md Idris accompanied by previous MHB MD & CEO, Dato' Haji Abu Fitri Abdul Jalil and the Board of Directors of MHB. The shareholders were briefed on the business activities, yard optimisation programme, strategy and initiatives going forward.

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

- Regular one-on-one and small group sessions with analysts, fund managers and shareholders were carried out by the IR team to maintain an effective two-way communications with the investment community.

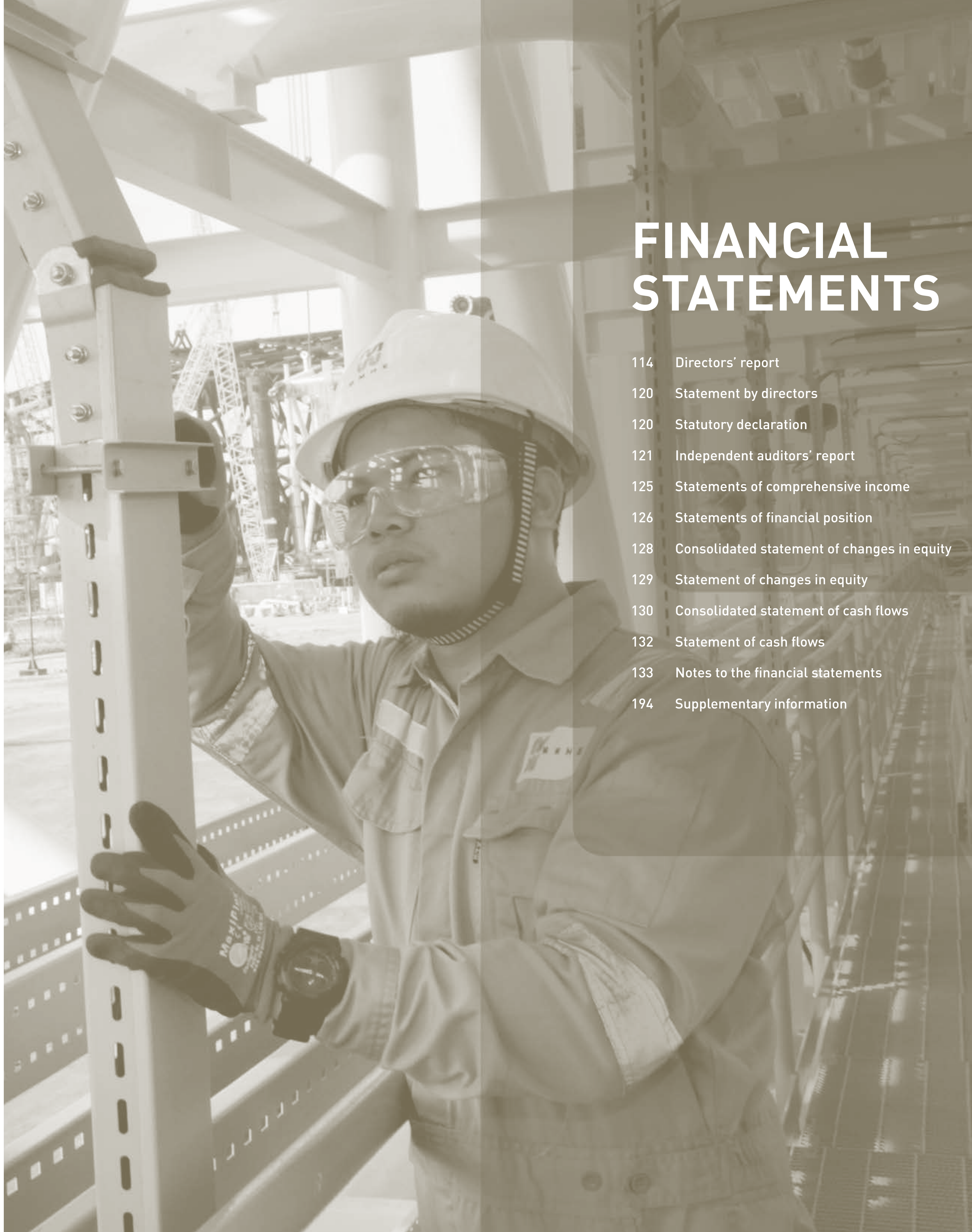
As at 30th November 2016, MHB remained a constituent stock in Bursa Malaysia's FTSE4Good Index, being one of the companies with leading corporate responsibility demonstrating strong Environmental, Social and Governance (ESG) practices.

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. **MATERIALS 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.

2. **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 2016 was RM33,000 (RM49,000 for the financial year ended 31 December 2015).



FINANCIAL STATEMENTS

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

RESULTS

	Group RM'000	Company RM'000
(Loss)/Profit for the year	(134,563)	9,360
(Loss)/Profit attributable to:		
Equity holders of the Company	(134,302)	9,360
Non-controlling interests	(261)	-
	(134,563)	9,360

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 except for impairment of property, plant and equipment amounting to RM140,529,000 as disclosed in Note 6 to the financial statements.

DIVIDENDS

No dividend has been paid, declared or proposed by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividends for the financial year ended 31 December 2016.

DIRECTORS

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

Datuk Nasarudin bin Md Idris
Dato' Halipah binti Esa
Heng Heyok Chiang @ Heng Hock Cheng
Yong Nyan Choi @ Yong Guan Choi
Choy Khai Choon
Bernard Rene Francois di Tullio
Yee Yang Chien
Syed Hashim Syed Abdullah
Rozainah binti Awang (Appointed on 16 June 2016)
Wan Mashitah binti Wan Abdullah Sani (Appointed on 1 January 2017)
Dato' Abu Fitri bin Abdul Jalil (Ceased with effect from 30 April 2016)

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 year, no director has received or become entitled to receive a benefit (other than 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 8 to the financial statements) 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.

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:

	Number of ordinary shares of RM0.50 each			
	1 January 2016	Acquired	Sold	31 December 2016
The Company				
- Malaysia Marine and Heavy Engineering Holdings Berhad				
Direct				
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	20,000	-	-	20,000
Indirect				
Dato' Halipah binti Esa	10,000	-	-	10,000

	Number of ordinary shares of RM1 each			
	1 January 2016	Acquired	Sold	31 December 2016
Immediate holding company				
- MISC Berhad				
Direct				
Heng Heyok Chiang @ Heng Hock Cheng	20,000	-	-	20,000
Yong Nyan Choi @ Yong Guan Choi	10,000	-	-	10,000
Indirect				
Dato' Halipah binti Esa	10,000	-	-	10,000
Fellow subsidiary				
- PETRONAS Gas Berhad				
Direct				
Datuk Nasarudin bin Md Idris	3,000	-	-	3,000

DIRECTORS' REPORT

DIRECTORS' INTERESTS (CONT'D.)

	Number of ordinary shares of RM1 each stapled with KLCC Real Estate Investment Trust Units (Stapled Securities)			
	1 January 2016	Acquired	Sold	31 December 2016
Fellow subsidiary				
- KLCC Property Holdings Berhad				
Direct				
Datuk Nasarudin bin Md Idris	5,000	-	-	5,000
Heng Heyok Chiang @ Heng Hock Cheng	60,000	-	-	60,000
Indirect				
Heng Heyok Chiang @ Heng Hock Cheng	9,000	-	-	9,000

	Number of ordinary shares of RM0.10 each			
	1 January 2016	Acquired	Sold	31 December 2016
Fellow subsidiary				
- PETRONAS Chemicals Group Berhad				
Direct				
Datuk Nasarudin bin Md Idris	10,000	-	-	10,000
Dato' Halipah binti Esa	10,000	-	-	10,000
Heng Heyok Chiang @ Heng Hock Cheng	20,000	-	-	20,000
Indirect				
Dato' Halipah binti Esa	13,100	-	-	13,100
Heng Heyok Chiang @ Heng Hock Cheng	4,000	-	-	4,000

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.

DIRECTORS' REPORT

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 all known bad debts had been written off 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) the amount written off for 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.

(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) 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.

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 2017.

Datuk Nasarudin bin Md Idris

Wan Mashitah binti Wan Abdullah Sani

STATEMENT BY DIRECTORS

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

We, Datuk Nasarudin bin Md Idris and Wan Mashitah binti Wan Abdullah Sani, 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 133 to 193 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 2016 and of their financial performance and cash flows for the year then ended.

The information set out in Note 35 on page 194 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 2017.

Datuk Nasarudin bin Md Idris

Wan Mashitah binti Wan Abdullah Sani

STATUTORY DECLARATION

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

I, Hazrin bin Haji Hatim, 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 133 to 194 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 Hazrin bin Haji Hatim
at Kuala Lumpur in the
Federal Territory on 20 February 2017

Hazrin bin Haji Hatim

Before me,

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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 2016 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 notes to the financial statements, including a summary of significant accounting policies as set out on pages 133 to 193.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Key audit matters	How we addressed the key audit matters
IMPAIRMENT OF NON-CURRENT ASSETS *(Refer to Note 12 – Property, plant and equipment to the financial statements)* The Group is required to perform an impairment test on cash generating units ("CGUs") whenever there is an indication that the CGU may be impaired. Due to the continued depressed oil and gas industry, the Group had recorded a decline in revenue and profits for the current financial year, thereby indicating that the carrying amount of the related property, plant and equipment may be impaired. Accordingly, the Group estimated the recoverable amount of the property, plant and equipment using the value-in-use method based on cash flow projections derived from financial projections covering a five year period. Estimating the value-in-use involves estimating the future cash inflows and outflows and discounting them at an appropriate discount rate. The aforementioned impairment review gave rise to an impairment loss of property, plant and equipment of the Group of RM140.3 million for the year ended 31 December 2016. This impairment review was significant to our audit because the assessment process is complex and is based on assumptions that are highly judgmental.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and projected cash flows for the CGU. The areas that involved significant audit effort and judgment were the assessment of the probability of securing the revenue contracts, possible variations in the amount and timing of cash flows and the determination of an appropriate discount rate. Our procedures to assess management's impairment testing included the following: a) enquired with the project teams to obtain an understanding of the status of negotiations and the likelihood of securing the significant revenue contracts; b) evaluated the reasonableness of the estimated profits to be derived from those significant revenue contracts by comparing the estimated profits with the actual profits derived from similar completed contracts in previous years; and c) assessed the appropriateness of the discount rate used to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset. In addition, we also evaluated the adequacy of the Group's disclosures of each key assumption on which the Group has based its cash flow projections and to which the CGU's recoverable amount is most sensitive, as disclosed in Note 12 to the financial statements.
RECOGNITION OF REVENUE AND COST OF CONSTRUCTION AND MARINE PROJECTS – *(Refer to Note 4 - Revenue and Note 20- Amount due from/(to) customers on contracts to the financial statements)* The Group's revenues and profits are derived from long-term construction and marine projects which span more than one accounting period. The Group uses the percentage-of-completion method in accounting for these long-term contracts. The stage of completion is measured by reference to the physical completion of the contracts. We focused on this area because management applies significant judgement and estimation uncertainties in determining the stage of physical completion in respect of marine projects and in estimating total estimated project costs.	In addressing this area of audit focus, we obtained an understanding of the relevant internal controls over the accuracy and timing of revenue and cost recognised in the financial statements, including controls performed by the management in estimating total project costs, profit margin and percentage-of-completion of projects. In addition, we also performed the following: a) read all key contracts to obtain an understanding of the specific terms and conditions; b) agreed contract revenue to the original signed customer contracts and/or approved change orders; c) reviewed management meeting minutes to obtain an understanding of the performance and status of the key projects; d) assessed the reasonableness of assumptions applied in the determination of percentage-of-completion in light of supporting evidence such as engineers' reports in relation to marine projects; and e) considered the historical accuracy of management's budgeted project margins in assessing the reasonableness of estimated margins of similar projects.

INDEPENDENT AUDITORS' REPORT
To the members of Malaysia Marine and Heavy Engineering Holdings Berhad (Incorporated in Malaysia

Information Other than the Financial Statements and Auditor's Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's 2016 Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that 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 of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 material to the consolidated financial statements 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 35 on page 194 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

Ismed Darwis Bin Bahatiar
No. 2921/04/18(J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 February 2017

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Revenue	4	**1,191,298**	2,459,033	**-**	-
Cost of sales		**(997,691)**	(2,198,418)	**-**	-
Gross profit		**193,607**	260,615	**-**	-
Other operating income	5	**58,032**	88,723	**19,525**	26,740
Selling and distribution expenses		**(1,585)**	(1,261)	**(52)**	(13)
Administrative expenses		**(169,532)**	(178,013)	**(8,305)**	(9,596)
Other operating expenses		**(67,204)**	(41,894)	**(87)**	(127)
Impairment provisions		**(140,529)**	(99,800)	**-**	-
Finance costs		**(262)**	(4,509)	**(262)**	-
Share of results of joint ventures	16	**(7,559)**	(1,360)	**-**	-
(Loss)/Profit before taxation	6	**(135,032)**	22,501	**10,819**	17,004
Taxation	9	**469**	21,944	**(1,459)**	(3,633)
(Loss)/Profit for the year		**(134,563)**	44,445	**9,360**	13,371
Other comprehensive expense:					
Items that may be reclassified subsequently to profit or loss					
Fair value loss on cash flow hedges	23	**(6,917)**	(145)	**-**	-
Total comprehensive (loss)/income for the year		**(141,480)**	44,300	**9,360**	13,371
(Loss)/Profit attributable to:					
Equity holders of the Company		**(134,302)**	43,886	**9,360**	13,371
Non-controlling interests		**(261)**	559	**-**	-
		(134,563)	44,445	**9,360**	13,371
Total comprehensive (loss)/income attributable to:					
Equity holders of the Company		**(141,219)**	43,741	**9,360**	13,371
Non-controlling interests		**(261)**	559	**-**	-
		(141,480)	44,300	**9,360**	13,371
(Loss)/earnings per share attributable to equity holders of the Company (sen per share)					
Basic	10	**(8.39)**	2.74		
Diluted	10	**(8.39)**	2.74		

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**1,544,724**	1,642,153	**-**	-
Land use rights	13	**223,447**	230,541	**-**	-
Investment in subsidiaries	15	**-**	-	**664,132**	664,132
Investment in joint ventures	16	**8,166**	15,725	**3,000**	3,000
Deferred tax assets	18	**79,691**	79,915	**-**	-
Other receivables	19	**1,500**	-	**80,680**	218,560
		1,857,528	1,968,334	**747,812**	885,692
Current assets					
Inventories, at cost		**10,747**	12,102	**-**	-
Trade and other receivables	19	**1,052,111**	1,474,702	**839,764**	688,598
Tax recoverable		**11,007**	4,146	**6,832**	4,390
Derivatives	27	**-**	635	**-**	-
Cash and bank balances	21	**671,128**	860,175	**137,527**	125,813
		1,744,993	2,351,760	**984,123**	818,801
Total assets		**3,602,521**	4,320,094	**1,731,935**	1,704,493

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

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	22	**800,000**	800,000	**800,000**	800,000
Share premium	22	**818,263**	818,263	**818,263**	818,263
Cash flow hedge reserve	23	**(6,561)**	356	**-**	-
Retained earnings		**923,915**	1,058,025	**92,108**	82,748
		2,535,617	2,676,644	**1,710,371**	1,701,011
Non-controlling interests		**3,000**	3,778	**-**	-
Total equity		**2,538,617**	2,680,422	**1,710,371**	1,701,011
Current liabilities					
Trade and other payables	24	**1,022,412**	1,626,592	**1,564**	3,482
Provisions	25	**14,837**	12,970	**-**	-
Borrowings	26	**20,000**	-	**20,000**	-
Derivatives	27	**6,655**	110	**-**	-
		1,063,904	1,639,672	**21,564**	3,482
Total liabilities		**1,063,904**	1,639,672	**21,564**	3,482
Total equity and liabilities		**3,602,521**	4,320,094	**1,731,935**	1,704,493

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 2016

	← Attributable to equity holders of the Company				→		
	Share capital (Note 22) RM'000	Share premium (Note 22) RM'000	Cash flow hedge reserve (Note 23) RM'000	Distributable retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2016	**800,000**	**818,263**	**356**	**1,058,025**	**2,676,644**	**3,778**	**2,680,422**
Total comprehensive loss	**-**	**-**	**(6,917)**	**(134,302)**	**(141,219)**	**(261)**	**(141,480)**
Arising from increase in equity interest in a subsidiary	**-**	**-**	**-**	**192**	**192**	**(3,517)**	**(3,325)**
Acquisition of a subsidiary	**-**	**-**	**-**	**-**	**-**	**3,000**	**3,000**
At 31 December 2016	**800,000**	**818,263**	**(6,561)**	**923,915**	**2,535,617**	**3,000**	**2,538,617**
At 1 January 2015	800,000	818,263	501	1,014,139	2,632,903	3,219	2,636,122
Total comprehensive income	-	-	(145)	43,886	43,741	559	44,300
At 31 December 2015	800,000	818,263	356	1,058,025	2,676,644	3,778	2,680,422

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 2016

	Share capital (Note 22) RM'000	Share premium (Note 22) RM'000	Distributable retained earnings RM'000	Total equity RM'000
At 1 January 2016	**800,000**	**818,263**	**82,748**	**1,701,011**
Total comprehensive income	**-**	**-**	**9,360**	**9,360**
At 31 December 2016	**800,000**	**818,263**	**92,108**	**1,710,371**
At 1 January 2015	800,000	818,263	69,377	1,687,640
Total comprehensive income	-	-	13,371	13,371
At 31 December 2015	800,000	818,263	82,748	1,701,011

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 2016

	Group	
	2016 RM'000	2015 RM'000
Cash flows from operating activities		
(Loss)/Profit before taxation	**(135,032)**	22,501
Adjustments for:		
Property, plant and equipment		
- Depreciation	**78,481**	80,092
- Write-offs	**127**	332
Amortisation of land use rights	**7,094**	7,094
Net provision/(reversal) of warranty	**1,867**	(5,858)
(Recovery)/Allowance for impairment loss of trade receivables	**(1,794)**	2,120
Impairment loss of goodwill	**-**	62,783
Impairment loss of property, plant and equipment	**140,529**	37,017
Loss on disposal of non-current asset held for sale	**-**	2,721
Interest income	**(19,928)**	(14,389)
Finance costs	**262**	4,509
Realisation of gains on hedges	**(356)**	(501)
Net fair value loss/(gain) on derivatives	**94**	(169)
Net unrealised gain on foreign exchange	**(8,251)**	(56,960)
Inventories written off	**-**	1,924
Share of results of joint ventures	**7,559**	1,360
Operating profit before working capital changes	**70,652**	144,576
Inventories	**4,827**	(2,305)
Trade and other receivables	**414,567**	430,262
Trade and other payables	**(590,883)**	101,870
Cash (used in)/generated from operations	**(100,837)**	674,403
Tax refund	**-**	11,060
Tax paid	**(6,168)**	(10,710)
Net cash (used in)/generated from operating activities	**(107,005)**	674,753
Cash flows from investing activities		
Purchase of property, plant and equipment	**(121,708)**	(152,247)
Proceeds from disposal of non-current asset held for sale	**-**	3,561
Interest received	**19,928**	14,389
Net cash used in investing activities	**(101,780)**	(134,297)

	Group	
	2016 RM'000	2015 RM'000
Cash flows from financing activities		
Interest paid	**(262)**	(4,509)
Drawdown on Sukuk Murabahah credit facilities	**20,000**	-
Withdrawal of bank deposits	**25,000**	-
Drawdown on revolving credit facilities	**-**	91,000
Repayment on revolving credit facilities	**-**	(356,000)
Cash pledged with the bank - restricted	**(30)**	-
Net cash generated from/(used in) financing activities	**44,708**	(269,509)
Net change in cash and cash equivalents	**(164,077)**	270,947
Cash and cash equivalents at beginning of year	**835,175**	564,228
Cash and cash equivalents at end of year	**671,098**	835,175
Cash and cash equivalents at the end of the year comprise the following:-		
Cash at banks and on hand (Note 21)	**230,441**	483,535
IFSSC bank balance (Note 21)	**334,676**	257,584
Deposits with licensed banks (Note 21)	**106,011**	119,056
	671,128	860,175
Less: Deposits with maturity more than 90 days	**-**	(25,000)
Cash pledged with the bank - restricted	**(30)**	-
	671,098	835,175

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 2016

	Company	
	2016 RM'000	**2015 RM'000**
Cash flows from operating activities		
Profit before taxation	**10,819**	17,004
Adjustments for:		
Interest income	**(19,525)**	(26,740)
Interest expense	**262**	-
Operating loss before working capital changes	**(8,444)**	(9,736)
Trade and other receivables	**1,441**	4,228
Trade and other payables	**(2,180)**	2,287
Cash used in operations	**(9,183)**	(3,221)
Tax paid	**(3,901)**	(6,389)
Net cash used in operating activities	**(13,084)**	(9,610)
Cash flows from investing activities		
Interest received	**4,798**	4,063
Net cash generated from investing activities	**4,798**	4,063
Cash flows from financing activities		
Drawdown on Sukuk Murabahah credit facilities	**20,000**	-
Cash pledged with the bank - restricted	**(30)**	-
Net cash generated from financing activities	**19,970**	-
Net change in cash and cash equivalents	**11,684**	(5,547)
Cash and cash equivalents at beginning of year	**125,813**	131,360
Cash and cash equivalents at end of year	**137,497**	125,813
Cash and cash equivalents at the end of the year comprise the following:-		
Cash at banks and on hand (Note 21)	**88**	95
IFSSC bank balance (Note 21)	**117,260**	125,718
Deposits with licensed banks (Note 21)	**20,179**	-
	137,527	125,813
Less: Cash pledged with the bank - restricted	**(30)**	-
	137,497	125,813

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 2016

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 immediate and ultimate holding companies of the Company are MISC Berhad and Petroliam Nasional Berhad ("PETRONAS"), both of which are incorporated and domiciled in Malaysia. The immediate holding company is listed on the Main Market of Bursa Malaysia.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and joint ventures 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 dated 20 February 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

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"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

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.

As of 1 January 2016, the Group and the Company had adopted new and amended MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standard Board ("MASB") as described in Note 2.3.

2.2 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

In the Company's separate financial statements, investment in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

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

(ii) Basis of consolidation

Business combinations

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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, all intra-group balances, income and expenses and unrealised gains or losses resulting from intra-group transactions are eliminated in full. Uniform accounting policies are applied to like transactions and events in similar circumstances.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree, over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interests

Non-controlling interests at the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and other comprehensive income for the year between the non-controlling interests and shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (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.)

Non-controlling interests (cont'd.)

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(b) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as a joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. Whilst, a joint arrangement is classified as a joint venture when the Group has rights only to the net assets of the arrangements.

(i) Joint ventures

Investment in joint ventures is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in joint ventures 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 joint ventures. The Group's share of the profit or loss of the joint ventures is recognised in profit or loss. Where there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of such changes.

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

Goodwill relating to a joint venture 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 joint ventures' 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 joint ventures' profit or loss in the year in which the investments are acquired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Joint arrangements (cont'd.)

(i) Joint ventures (cont'd.)

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

The most recent available audited financial statements of the joint ventures 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.

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group as a joint operator recognises in relation to its interest in a joint operation:

(i) its assets, including its share of any assets held jointly;
(ii) its liabilities, including its share of any liabilities incurred jointly;
(iii) its revenue from the sale of its share of the output arising from the joint operation;
(iv) its share of the revenue from the sale of the output by the joint operation; and
(v) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the MFRSs applicable to the particular assets, liabilities, revenues and expenses.

Profits and losses resulting from transactions between the Group and its joint operation are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the joint operation.

(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 component is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial year in which they are incurred.

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

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

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

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	7% - 10%
Buildings, dry docks and waste plant	2% - 10%
Plant, machinery and electrical installations	4% - 20%
Vehicles and transport equipment	10% - 20%
Furniture and office equipment	5% - 20%
Loose tools	5%

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 or based on technical milestones defined under the contracts, and taking into account the nature of activities and its associated risk.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(e) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject only to terms that are usual and customary.

Immediately before classifications as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable MFRS. Then, on initial classification as held for sale, non-current assets are measured in accordance with MFRS 5, Non-Current Assets Held for Sale and Discontinued Operations that is, at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

(f) 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.

An asset's recoverable amount is the higher of the 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.

(g) Inventories

Inventories which comprise spares, raw materials and consumables are held for own consumption and are stated at the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(h) Financial assets

Initial recognition:

Financial assets within the scope of MFRS 139 are classified as "financial assets at fair value through profit or loss", "loans and receivables", "held-to-maturity investments", "available-for-sale financial assets", or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Company determines the classification of its financial assets at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace concerned (regular way purchases) are recognised on the trade date, i.e. the date that the Group and the Company commits to purchase or sell the asset.

Subsequent measurement:

The subsequent measurement of financial assets depends on their classification as follows:

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in profit or loss.

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

(ii) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest rate method.

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

The Group and the Company's loans and receivables comprise trade and other receivables and cash and cash equivalents.

(iii) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group and the Company has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(h) Financial assets (cont'd.)

(iii) Held-to-maturity investments (cont'd.)

Held-to-maturity investments with maturity exceeding twelve months after the reporting date are classified as non-current assets. Those having maturity within twelve months after the reporting date are classified as current.

The Group and the Company have not designated any financial assets as held-to-maturity investment.

(iv) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held-for-trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains and losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

The Group and the Company have not designated any financial assets as available-for-sale financial assets.

Derecognition of financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset has expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and

- either (a) the Group has transferred substantially all the risk and rewards of the assets, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control of the assets.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" agreement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(h) Financial assets (cont'd.)

Derecognition of financial assets (cont'd.):

When continuing involvement takes the form of a written and/or purchased option (including cash settled options or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option (including cash settled options or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(i) Financial liabilities

Initial recognition:

Financial liabilities are classified as "financial liabilities at fair value through profit or loss", "loans and borrowings" or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Company determine the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loan and borrowings, fair value, net of directly attributable transaction costs.

Subsequent measurement:

The subsequent measurement of financial liabilities depends on their classification as follows:

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

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in profit or loss.

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

(ii) Loans and borrowings

Subsequent to initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

The Group and the Company's loans and borrowings comprise trade and other payables and borrowings.

Derecognition of financial liabilities:

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial liabilities (cont'd.)

Derecognition of financial liabilities (cont'd.):

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.

(j) 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.

(k) Offsetting of financial instruments

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

(l) Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

(ii) Non-financial assets

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(m) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

(n) 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.

(o) 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 uncollectable, it is written off against the allowance account.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(o) Impairment of financial assets (cont'd.)

(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.

(p) Income tax

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or tax loss; and
- in respect of taxable temporary differences associated with investment in subsidiaries, branches and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(p) Income tax (cont'd.)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable rights exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) 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.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

(r) 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").

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after reporting date are discounted to present value.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(s) 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 currency using the exchange rates prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated to RM 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 year.

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

(t) 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) Revenue from Heavy Engineering Segment

Revenue from Heavy Engineering Segment construction contracts is accounted for in accordance with the policy described in Note 2.2(d).

(ii) Revenue from Marine Segment

Revenue from Marine Segment is accounted for when ship repairs are completed or the amount of revenue can be measured reliably.

(iii) Interest income

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

(iv) Rental income

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

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Revenue recognition (cont'd.)

(v) Dividend income

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

(u) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. 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 in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(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 and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. The accounting policy for rental income is set out in Note 2.2(t)(iv).

(v) Equity investments

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

(w) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institution, 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.

(x) 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

2. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

2.2 Summary of significant accounting policies (cont'd.)

(x) Hedge accounting (cont'd.)

- 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.

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.

(y) Land use rights

Land use rights are initially measured at cost. Subsequent to 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.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

2. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

2.2 Summary of significant accounting policies (cont'd.)

(z) Intangible asset

Goodwill

Goodwill is initially measured at cost. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating unit ("CGU") 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 off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative fair values of the operations disposed off and the portion of the CGU retained.

(aa) Goods and services tax ("GST")

The net amount of GST, being the difference between output and input of GST, payable to or receivable from the respective authorities at the reporting date, is included in other receivables or other payables in the statements of financial position.

2.3 Changes in accounting policies

On 1 January 2016, the Group and the Company adopted the following pronouncements mandatory for annual financial periods beginning on or after 1 January 2016:

- Amendments to MFRS 5: Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 7: Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, 12 and 128: Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11: Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 101: Presentation of Financial Statements: Disclosure Initiative
- Amendments to MFRS 116 and 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and 141: Agriculture: Bearer Plants
- Amendments to MFRS 119: Employee Benefits (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 127: Separate Financial Statements: Equity Method in Separate Financial Statements
- Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)
- MFRS 14: Regulatory Deferral Accounts.

The adoption of the above pronouncements did not have any significant financial impact to the Group and the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective

The standards and amendments to standards that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards and amendments to standards, if applicable, when they become effective.

Effective for annual period beginning on or after 1 January 2017:

- Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative
- Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to MFRS 12: Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014–2016 Cycle)

Effective for annual period beginning on or after 1 January 2018:

- Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards
- Amendments to MFRS 2: Shared-based Payment: Classification and Measurement of Share-based Payment Transactions
- MFRS 9: Financial Instruments
- MFRS 15: Revenue from Contracts with Customers
- Amendments to MFRS 15: Revenue from Contracts with Customers: Clarifications
- Amendments to MFRS 140: Investment Property: Transfer of Investment Property
- IC Interpretation: Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2019:

- MFRS 16 Leases

Effective for a date yet to be confirmed

- Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impacts to the financial statements of the Group and the Company except as mentioned below:

(a) MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 replaces the guidance in MFRS 111: Construction Contracts, MFRS 118: Revenue, IC Interpretation 13: Customer Loyalty Programmes, IC Interpretation 15: Agreements for Construction of Real Estate, IC Interpretation 18: Transfers of Assets from Customers and IC Interpretation 131: Revenue–Barter Transactions Involving Advertising Services.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

(a) MFRS 15 Revenue from Contracts with Customers (cont'd.)

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

(b) MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical judgements made in applying accounting policies

The following are the judgements made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

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 internal specialists.

The information on construction contracts is disclosed in Note 20.

(b) Key sources of estimation uncertainty

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 5 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 disclosed in Note 12.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

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

(b) Key sources of estimation uncertainty (cont'd.)

(ii) Allowance for impairment loss of trade receivables

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

The information on allowance for impairment loss of trade receivables is disclosed in Note 31(b)(ii).

(iii) 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 disclosed in Note 25.

(iv) 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 disclosed in Note 18.

(v) Impairment of goodwill and property, plant and equipment

The Group determines whether goodwill is impaired on an annual basis. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

During the financial year, the Group has recognised impairment losses in respect of the property, plant and equipment. The Group carried out the impairment test based on estimation of the value in use ("VIU") of the cash-generating unit ("CGU") to which the property, plant and equipment are allocated. Estimating the VIU requires the Group to make an estimate of the expected future cash flows from the CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the impairment losses recognised for the property, plant and equipment are disclosed in Note 14 and Note 12 respectively.

4. REVENUE

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Heavy Engineering segment	**746,666**	1,994,742	**-**	-
Marine segment	**444,632**	464,291	**-**	-
	1,191,298	2,459,033	**-**	-

5. OTHER OPERATING INCOME

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Rental income	**1,434**	1,134	**-**	-
Interest income:				
- Deposits with licensed banks	**19,928**	14,389	**4,798**	4,063
- Loan to subsidiary	**-**	-	**14,727**	22,677
Net gain on foreign exchange:				
- Unrealised	**8,251**	56,960	**-**	-
Income from scrap disposal	**9,790**	9,999	**-**	-
Gain on litigation settlement	**6,904**	-	**-**	-
Withholding tax refund	**8,121**	-	**-**	-
Others	**3,604**	6,241	**-**	-
	58,032	88,723	**19,525**	26,740

6. PROFIT BEFORE TAXATION

Profit before taxation are derived after charging/(crediting):

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Auditors' remuneration:				
- Statutory audit	**291**	272	18	17
- Others	**33**	49	17	17
Staff costs (Note 7)	**264,165**	290,935	4,452	4,702
Management fee in relation to services of key management personnel	**844**	1,409	844	1409
Property, plant and equipment (Note 12):				
- Depreciation	**78,481**	80,092	-	-
- Write-offs	**127**	332	-	-
Loss on disposal of non-current asset held for sale	**-**	2,721	-	-
Amortisation of land use rights (Note 13)	**7,094**	7,094	-	-
Hire of tugboat, pushers and barges	**7,215**	6,741	-	-
Rental of:				
- Buildings	**2,211**	1,984	1,759	1,524
- Vehicles	**370**	65	6	2
- Office equipment	**2,397**	2,894	32	15
- Plant and machinery	**27,013**	38,342	-	-
Inventories written off	**-**	1,924	-	-
Net allowance for impairment (recovery)/loss:				
- Trade receivables (Note 31(b)(ii)(b))	**(1,794)**	2,120	-	-
- Other receivables (Note 31(b)(iii))	**1,322**	2,742	-	
- Property, plant and equipment (Note 12)	**140,529**	37,017	-	-
- Goodwill (Note 14)	**-**	62,783	-	-
Net loss on foreign exchange:				
- Realised	**43,621**	19,263	-	-
Interest expense on loans	**262**	4,509	262	-
Net provision/(reversal) of warranty (Note 25)	**1,867**	(5,858)	-	-
Realisation of gains on hedges (Note 23)	**(356)**	(501)	-	-
Net fair value loss/(gain) on derivatives	**94**	(169)	-	-

7. STAFF COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Wages and salaries	**198,212**	238,492	**3,627**	3,335
Social security costs	**1,529**	1,708	**13**	17
Contributions to a defined contribution plan	**22,681**	27,913	**442**	484
Termination benefits	**7,423**	-	**-**	-
Other staff related expenses	**34,320**	22,822	**370**	866
	264,165	290,935	**4,452**	4,702

Included in staff costs of the Group and the Company are executive directors' salaries and other emoluments amounting to RM69,000 (2015: RM790,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

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

	Group and Company	
	2016 RM'000	2015 RM'000
Executive directors' remuneration:		
Salaries *	**-**	338
Other emoluments	**69**	452
Estimated money value of benefits-in-kind	**8**	27
Total executive directors' remuneration (including benefits-in-kind)	**77**	817
Non-executive directors' remuneration:		
Fees	**543**	612
Other emoluments	**507**	424
Total non-executive directors' remuneration	**1,050**	1,036
Total directors' remuneration (including benefits-in-kind) (Note 30(c))	**1,127**	1,853

8. DIRECTORS' REMUNERATION (CONT'D.)

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	
	2016	2015
Executive directors*:		
RM150,000 and below	1	1
RM600,001 - RM650,000	-	1
	1	2
Non-executive directors**:		
RM150,000 and below	6	7
RM150,001 - RM200,000	3	1
	9	8
	10	10

* Excludes an executive director of the Group who is paid directly by the ultimate holding company of the Group, PETRONAS.

** Excludes non-executive directors of the Group who are paid directly by the immediate holding company of the Group, MISC Berhad.

9. TAXATION

Major components of income tax expense

The major components of income tax expense are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current income tax:				
Malaysian income tax	**2,852**	7,504	**1,597**	3,428
(Over)/Underprovision in prior year:				
Malaysian income tax	**(3,545)**	(30,135)	**(138)**	205
	(693)	(22,631)	**1,459**	3,633
Deferred tax (Note 18):				
Relating to origination and reversal of temporary differences	**(22,159)**	(27,387)	**-**	-
Underprovision in prior year	**22,383**	28,074	**-**	-
	224	687	**-**	-
Taxation	**(469)**	(21,944)	**1,459**	3,633

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

9. TAXATION (CONT'D.)

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:

	2016 RM'000	2015 RM'000
Group		
(Loss)/Profit before taxation	**(135,032)**	22,501
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	**(32,408)**	5,625
Effect of income not subject to tax	**(3,427)**	(1,707)
Effect of expenses not deductible for tax purposes	**8,925**	28,274
Utilisation of current year's investment tax allowances	**-**	(19,657)
Deferred tax assets recognised on unutilised investment tax allowances	**-**	(32,336)
Deferred tax assets not recognised	**5,789**	258
Underprovision of deferred tax in prior year	**22,383**	28,074
Overprovision of Malaysian tax expense in prior year	**(3,545)**	(30,135)
Effect of share of results of joint ventures	**1,814**	(340)
Income tax credit for the year	**(469)**	(21,944)
Company		
Profit before taxation	**10,819**	17,004
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	**2,597**	4,251
Effect of income not subject to tax	**(1,142)**	(872)
Effect of expenses not deductible for tax purposes	**142**	49
(Over)/Underprovision of Malaysian tax expense in prior year	**(138)**	205
Income tax expense for the year	**1,459**	3,633

10. (LOSS)/EARNINGS PER SHARE

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

	Group	
	2016	2015
(Loss)/Profit attributable to equity holders of the Company (RM'000)	**(134,302)**	43,886
Number of ordinary shares in issue ('000)	**1,600,000**	1,600,000
Basic/Diluted (loss)/earnings per share (sen)	**(8.39)**	2.74

The Company does not have any financial instruments which may dilute its basic (loss)/earnings per share.

11. DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividends for the financial year ended 31 December 2016 (2015: nil).

12. PROPERTY, PLANT AND EQUIPMENT

	Cost				
	At 1.1.2016 RM'000	Additions RM'000	Transfers RM'000	Write-offs RM'000	At 31.12.2016 RM'000
Group - 31 December 2016					
Boats	168	-	-	(30)	138
Buildings, dry docks and waste plant	1,547,483	391	54,852	(1,637)	1,601,089
Plant, machinery and electrical installations	647,720	29,368	57,288	(82,530)	651,846
Vehicles and transport equipment	16,632	1,076	-	(3,279)	14,429
Furniture and office equipment	81,944	429	1,048	(29,860)	53,561
Loose tools	7,715	-	-	-	7,715
Construction-in-progress	100,819	90,444	(113,188)	-	78,075
	2,402,481	121,708	-	(117,336)	2,406,853

	Accumulated depreciation/Impairment losses					Net carrying amount
	At 1.1.2016 RM'000	Charge for the financial year RM'000	Impairment losses RM'000	Write-offs RM'000	At 31.12.2016 RM'000	At 31.12.2016 RM'000
Group - 31 December 2016						
Boats	127	24	-	(30)	121	17
Buildings, dry docks and waste plant	314,953	36,379	140,529	(1,527)	490,334	1,110,755
Plant, machinery and electrical installations	352,136	32,922	-	(82,517)	302,541	349,305
Vehicles and transport equipment	11,631	1,424	-	(3,279)	9,776	4,653
Furniture and office equipment	68,803	7,732	-	(29,856)	46,679	6,882
Loose tools	7,711	-	-	-	7,711	4
Construction-in-progress	4,967	-	-	-	4,967	73,108
	760,328	78,481	140,529	(117,209)	862,129	1,544,724

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

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

	Cost				
	At 1.1.2015 RM'000	Additions RM'000	Transfers RM'000	Write-offs RM'000	At 31.12.2015 RM'000
Group - 31 December 2015					
Boats	585	-	-	(417)	168
Buildings, dry docks and waste plant	1,376,312	12,011	159,408	(248)	1,547,483
Plant, machinery and electrical installations	591,102	14,774	54,485	(12,641)	647,720
Vehicles and transport equipment	15,304	1,742	8	(422)	16,632
Furniture and office equipment	77,943	675	3,619	(293)	81,944
Loose tools	7,715	-	-	-	7,715
Construction-in-progress	195,294	123,045	(217,520)	-	100,819
	2,264,255	152,247	-	(14,021)	2,402,481

	Accumulated depreciation/Impairment losses					Net carrying amount
	At 1.1.2015 RM'000	Charge for the financial year RM'000	Impairment losses RM'000	Write-offs RM'000	At 31.12.2015 RM'000	At 31.12.2015 RM'000
Group - 31 December 2015						
Boats	521	23	-	(417)	127	41
Buildings, dry docks and waste plant	280,698	34,339	-	(84)	314,953	1,232,530
Plant, machinery and electrical installations	291,777	35,842	37,017	(12,500)	352,136	295,584
Vehicles and transport equipment	10,596	1,436	-	(401)	11,631	5,001
Furniture and office equipment	60,638	8,452	-	(287)	68,803	13,141
Loose tools	7,711	-	-	-	7,711	4
Construction-in-progress	4,967	-	-	-	4,967	95,852
	656,908	80,092	37,017	(13,689)	760,328	1,642,153

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

(a) Included in the property, plant and equipment are fully depreciated assets which are still in use, with their carrying costs as follows:

	Group	
	2016 RM'000	2015 RM'000
Buildings, dry docks and waste plant	**37,494**	2,247
Plant, machinery and electrical installations	**159,112**	170,129
Other property, plant and equipment	**41,172**	55,630
	237,778	228,006

(b) The Group has performed a review of the recoverable amount of the Group's cash generation unit ("CGU") consisting of property, plant, equipment and land use rights. The review led to the recognition of impairment losses on the Group's property, plant and equipment amounting to RM140,529,000 (2015: RM37,017,000). The impairment recognised in the current financial year was based on the recoverable amount of approximately RM1.7 billion. Details of the key assumptions used in the value in use ("VIU") calculation are disclosed below:

Key assumptions used in VIU calculations

For the purpose of impairment testing, the recoverable amount of the CGU is determined based on value in use calculations using cash flow projections based on financial budgets approved by management covering a five-year period. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the CGU:

(i) Revenue
Revenue are estimated based on existing order book and anticipated future projects.

(ii) Budgeted gross margins
Gross margins are estimated based on forecast margins for order book, management's expectation and past experience.

(iii) Discount rate
The discount rate reflects specific risk relating to the CGU. The discount rate used is 10.3% (2015: 10.3%).

(iv) Growth rate
Cash flow beyond the five-year period is extrapolated using a growth rate of 2.5% (2015: 2.8%).

13. LAND USE RIGHTS

	Group	
	2016 RM'000	2015 RM'000
Cost		
At 1 January/31 December	**292,552**	292,552
Accumulated amortisation		
At 1 January	**62,011**	54,917
Amortisation for the year (Note 6)	**7,094**	7,094
At 31 December	**69,105**	62,011
Net carrying amount at 31 December	**223,447**	230,541
Amount to be amortised:		
- Not later than one year	**7,094**	7,135
- Later than one year but not later than five years	**28,376**	28,540
- Later than five years	**187,977**	194,866

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	
	2016 RM'000	2015 RM'000
Cost		
At 1 January	**-**	62,783
Recognised in profit or loss (Note 6)	**-**	(62,783)
At 31 December	**-**	-

Details of the key assumptions used in the impairment assessment is detailed in Note 12.

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2016 RM'000	2015 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	Principal activities	% of ownership interest held by the Group		% of ownership interest held by non-controlling interest	
		2016	2015	2016	2015
Malaysia Marine and Heavy Engineering Sdn. Bhd. ("MMHE")	Oil and gas engineering and construction works and marine conversion and repair	**100%**	100%	**-**	-
Malaysia Marine and Heavy Engineering (International) Sdn. Bhd.	Dormant	**100%**	100%	**-**	-
Subsidiaries of MMHE:					
MMHE LNG Sdn. Bhd. (formerly known as MMHE-SHI LNG Sdn. Bhd.)	Dormant	**100%**	70%	**-**	30%
Techno Indah Sdn. Bhd.	Sludge disposal management	**100%**	100%	**-**	-
MMHE-EPIC Marine & Services Sdn. Bhd.	Repair and maintenance of vessel	**70%**	-	**30%**	-

(i) Acquisition of a subsidiary company

On 16 August 2016, MMHE subscribed for 70% of the issued and paid-up ordinary share capital of MMHE-EPIC Marine & Services Sdn. Bhd., comprising 7,000,000 ordinary shares of RM1.00 each for a cash consideration of RM7,000,000.

(ii) Acquisition of additional equity interest in a subsidiary

On 1 December 2016, MMHE acquired the remaining 30% equity interest in MMHE LNG Sdn. Bhd. from Samsung Heavy Industries Co. Ltd., comprising 300,000 ordinary shares of RM3.70 each for a cash consideration of RM3,325,000.

The effects of the above acquisition of additional equity interest in MMHE LNG Sdn.Bhd. is disclosed as transactions with non-controlling interests in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

15. INVESTMENT IN SUBSIDIARIES (CONT'D.)

(ii) Acquisition of additional equity interest in a subsidiary (cont'd.)

The following is the detail of the Groups's additional equity interest in MMHE LNG Sdn. Bhd.:

	TOTAL RM'000
Cash consideration paid to non-controlling shareholders	**3,325**
Carrying value of the additional equity interest in the subsidiary	**(3,517)**
Difference recognised in retained earnings	**(192)**

16. INVESTMENT IN JOINT VENTURES

	Company		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares at cost	**14,372**	14,372	**3,000**	3,000
Share of post-acquisition reserves	**(6,206)**	1,353	**-**	-
	8,166	15,725	**3,000**	3,000

(a) Details of the Group's joint ventures, all of which are incorporated in Malaysia, are as follows:

Name	% of ownership interest held by the Group		Nature of relationship
	2016	2015	
Technip MHB Hull Engineering Sdn. Bhd.	**50%**	50%	Note (i)
MMHE-TPGM Sdn. Bhd.	**60%**	60%	Note (ii)
MMHE-ATB Sdn. Bhd.	**40%**	40%	Note (iii)

(i) Technip MHB Hull Engineering Sdn. Bhd. builds and develops hull engineering and engineering project management capacities. It provides its services as subcontractors to the Group's projects as well as third parties.

(ii) MMHE-TPGM Sdn. Bhd. provides engineering, procurement, construction, installation and commissioning services for the Group's activities in Turkmenistan. The entity is considered dormant.

(iii) MMHE-ATB Sdn. Bhd. is engaged in the manufacturing of pressure vessels and tube heat exchangers. It provides its services as subcontractors to the Group's projects as well as third parties.

The above joint arrangements are structured via separate entities and provide the Group with the rights to the net assets of the entities under the arrangements. Therefore, these entities are classified as joint ventures of the Group.

These joint ventures have the same reporting period as the Group. No quoted market prices are available for the shares of the Group's joint ventures as these companies are private companies.

16. INVESTMENT IN JOINT VENTURES (CONT'D.)

(b) As none of the Group's joint ventures are individually material to the Group, the summarised financial information for the aggregated assets, liabilities and results of the joint ventures are as follows:

(i) Summarised statements of financial position

	2016 RM'000	2015 RM'000
Non-current assets	**28,243**	22,561
Cash and cash equivalents	**23,109**	14,360
Other current assets	**53,969**	40,290
Total current assets	**77,078**	54,650
Total assets	**105,321**	77,211
Current liabilities	**(79,201)**	(61,862)
Non-current liabilities	**(3,943)**	(229)
Total liabilities	**(83,144)**	(62,091)
Net assets	**22,177**	15,120

(ii) Summarised statements of comprehensive income

	2016 RM'000	2015 RM'000
Revenue	**86,166**	63,475
Depreciation and amortisation	**(1,183)**	(1,110)
Interest income	**53**	53
Interest expense	**(517)**	(661)
Loss before tax	**(6,743)**	(1,378)
Income tax expense	**(6,495)**	(1,090)
Loss after tax	**(13,238)**	(2,468)

The Group's share of net assets is equivalent to the carrying value of the Group's interest in joint ventures.

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17. JOINT OPERATIONS

Details of the Group's joint operations is as follows:

	% of ownership interest held by the Group	
Name	**2016**	**2015**
Technip MMHE (Malikai) Joint Venture	**50%**	50%
Technip MMHE (SK316) Joint Venture	**50%**	50%

Technip MMHE (Malikai) Joint Venture and Technip MMHE (SK316) Joint Venture are unincorporated joint ventures between the Company's subsidiary, MMHE and Technip Geoproduction (M) Sdn. Bhd. to undertake specific engineering, procurement, construction, installation and commissioning projects.

18. DEFERRED TAX

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**(79,915)**	(80,602)
Recognised in profit or loss (Note 9)	**224**	687
At 31 December	**(79,691)**	(79,915)

Presented after appropriate offsetting as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Deferred tax assets	**46,028**	73,286
Deferred tax liabilities	**(125,719)**	(153,201)
	(79,691)	(79,915)

18. DEFERRED TAX (CONT'D.)

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 2016	**73,286**
Recognised in profit or loss	**(27,258)**
At 31 December 2016	**46,028**
At 1 January 2015	68,860
Recognised in profit or loss	4,426
At 31 December 2015	73,286

Deferred tax assets of the Group:

	Unutilised reinvestment allowance RM'000	Provisions RM'000	Unutilised investment tax allowance RM'000	Others RM'000	Total RM'000
At 1 January 2016	**(1,548)**	**(3,113)**	**(128,242)**	**(20,298)**	**(153,201)**
Recognised in profit or loss	**-**	**(448)**	**23,699**	**4,231**	**27,482**
At 31 December 2016	**(1,548)**	**(3,561)**	**(104,543)**	**(16,067)**	**(125,719)**
At 1 January 2015	(1,612)	(4,707)	(124,938)	(18,205)	(149,462)
Recognised in profit or loss	64	1,594	(3,304)	(2,093)	(3,739)
At 31 December 2015	(1,548)	(3,113)	(128,242)	(20,298)	(153,201)

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

18 DEFERRED TAX (CONT'D.)

Deferred tax assets have not been recognised in respect of the following items:

	Group 2016 RM'000	Group 2015 RM'000
Unutilised tax losses	**17,245**	16,035
Unabsorbed capital allowances	**29,773**	29,540
Unutilised tax allowances	**127,422**	-

The availability of the unused tax lossess, unabsorbed capital allowances and unutilised tax allowances for offsetting against future taxable profits of the Group of companies are subject to no substantial change in shareholdings of the Group of companies under Section 44(5A) and Paragraph 75A, Schedule 3 of the Income Tax Act, 1967 ("the Act"). However, the Minister of Finance has exercised his powers under Section 44(5D) and Paragraph 75C, Schedule 3 of the Act to exempt all companies except dormant companies from the provision of Section 44(5A) and Paragraph 75A, Schedule 3 of the Act respectively.

19. TRADE AND OTHER RECEIVABLES

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Non-current				
Loan to joint venture	**1,500**	-	**1,500**	-
Loan to subsidiary	**-**	-	**79,180**	218,560
	1,500	-	**80,680**	218,560
Current				
Trade receivables				
Third parties	**310,714**	399,128	**-**	-
Purchases of project materials paid in advance and recoverable from vendors	**463**	1,287	**-**	-
Amount due from customers on contracts (Note 20)	**682,999**	1,041,990	**-**	-
	994,176	1,442,405	**-**	-
Less: Allowance for impairment losses (Note 31(b)(ii)(b))	**(14,927)**	(22,601)		-
Trade receivables, net	**979,249**	1,419,804	**-**	-

19. TRADE AND OTHER RECEIVABLES (CONT'D.)

	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Other receivables				
Due from:				
- Joint ventures	**19,595**	11,413	**-**	2
- Subsidiaries	**-**	-	**61,714**	46,134
Loan to subsidiary	**-**	-	**776,876**	642,163
Loan to joint venture	**509**	-	**509**	-
Deposits	**3,037**	2,701	**72**	72
Prepayments	**596**	62	**-**	-
Staff loans	**370**	410	**-**	-
Non-trade receivables	**5,344**	20,866	**-**	-
GST receivable	**45,053**	12,059	**378**	17
Insurance claims receivable	**-**	1,734	**-**	-
Other receivables	**3,532**	11,118	**215**	210
	78,036	60,363	**839,764**	688,598
Less: Allowance for impairment losses (Note 31(b)(iii))	**(5,174)**	(5,465)	**-**	-
Other receivables, net	**72,862**	54,898	**839,764**	688,598
Total trade and other receivables (current and non-current)	**1,053,611**	1,474,702	**920,444**	907,158
Less: Prepayments	**(596)**	(62)	**-**	-
Amount due from customers on contracts (Note 20)	**(682,999)**	(1,041,990)	**-**	-
Add: Cash and bank balances (Note 21)	**671,128**	860,175	**137,527**	125,813
Total loans and receivables	**1,041,144**	1,292,825	**1,057,971**	1,032,971

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19. TRADE AND OTHER RECEIVABLES (CONT'D.)

Included in the trade receivables of the Group are amounts due from:

	Group 2016 RM'000	Group 2015 RM'000
(i) Immediate holding company	**121,880**	124,694
(ii) Other related companies		
PETRONAS Carigali Sdn. Bhd.	**860**	6,963
PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	**150**	1,946
(iii) Joint venture		
MMHE-TPGM Sdn. Bhd	**7,167**	7,761

Included in the amount due from customers on contracts of the Group are amounts in respect of projects for:

	Group 2016 RM'000	Group 2015 RM'000
(i) Immediate holding company	**37,133**	184,810
(ii) Other related companies		
PETRONAS Carigali Sdn. Bhd.	**226,912**	415,252
Kebabangan Petroleum Operating Company Sdn. Bhd.	**-**	39,527

Credit terms of trade receivables for the Group, including trade receivables from related companies, range from 30 days to 45 days (2015: 30 days to 45 days).

The loan to subsidiary is unsecured, bears interest ranging from 4.05% to 5.05% (2015: 4.05% to 5.05%) per annum and repayable based on fixed quarterly repayments.

The loan to joint venture is unsecured, bears effective interest of 1.64% (2015: nil) per annum and repayable based on fixed quarterly repayments.

Credit terms of other receivables due from joint venture range from 30 days to 45 days (2015: 30 days to 45 days).

Further information on credit risk is disclosed in Note 31(b).

20. AMOUNT DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	2016 RM'000	2015 RM'000
Aggregate costs incurred and recognised profits (less recognised losses) to date	**14,678,602**	15,435,612
Less: Progress billings	**(14,014,075)**	(14,412,309)
	664,527	1,023,303
Amounts due from customers on contracts (Note 19)	**682,999**	1,041,990
Amounts due to customers on contracts (Note 24)	**(18,472)**	(18,687)
	664,527	1,023,303

21. CASH AND BANK BALANCES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash at banks and on hand	**230,441**	483,535	**88**	95
IFSSC bank balance	**334,676**	257,584	**117,260**	125,718
Deposits with licensed banks	**106,011**	119,056	**20,179**	-
Cash and bank balances	**671,128**	860,175	**137,527**	125,813

Since 1 July 2014, most of the Group and the Company's cash and bank balances are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre ("IFSSC") to allow for efficient cash management.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Deposits with licensed banks are made for varying periods between 1 day to 365 days (2015: 1 day to 365 days) depending on the immediate cash requirements of the Group and of the Company and earn interest rates ranging from 0.30% to 3.70% (2015: 0.10% to 4.30%) per annum. The maturity periods of the Group's deposits with licensed banks as at the reporting date ranged between 1 day to 66 days (2015: 4 days to 306 days).

The deposits with licensed banks of the Group and the Company of RM106,011,000 (2015: RM119,056,000) are placed with government related financial institutions.

Included in cash and bank balances of the Group and Company is monies held in a trustee reimbursement account, restricted for use amounting to RM30,000 (2015: nil).

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22. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	Group and Company			
	Number of ordinary shares of RM0.50 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised:				
At 1 January/ 31 December	**5,000,000**	5,000,000	**2,500,000**	2,500,000
Issued and fully paid:				
At 1 January/31 December	**1,600,000**	1,600,000	**800,000**	800,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Share premium

	Group and Company	
	2016 RM'000	2015 RM'000
At 1 January/31 December	**818,263**	818,263

23. CASH FLOW HEDGE RESERVE

	Group	
	2016 RM'000	2015 RM'000
At 1 January	**356**	501
Recognised in other comprehensive income:		
Fair value (loss)/gain on effective portion of cash flow hedge	**(6,561)**	356
Realisation of gains on hedges	**(356)**	(501)
At 31 December	**(6,561)**	356

The cash flow hedge reserve represents the effective portion of the net change in the fair value of the cash flow hedge instruments as at the reporting date being a loss of RM6,561,000 (2015: RM356,000 gain).

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade payables				
Third parties	**120,969**	314,134	-	-
Accruals	**707,009**	1,096,562	-	-
Retention monies	**39,705**	54,387	-	-
Amount due to customers on contracts (Note 20)	**18,472**	18,687	-	-
	886,155	1,483,770	**-**	-
Other payables				
Accruals	**129,636**	141,112	**-**	-
Others	**6,621**	1,710	**1,564**	3,482
	136,257	142,822	**1,564**	3,482
Total trade and other payables	**1,022,412**	1,626,592	**1,564**	3,482
Borrowings	**20,000**	-	**20,000**	-
Less: Amount due to customers on contracts (Note 20)	**(18,472)**	(18,687)	**-**	-
Total financial liabilities carried at amortised cost	**1,023,940**	1,607,905	**21,564**	3,482

Credit terms of trade payables granted to the Group range from 30 days to 60 days (2015: 30 days to 60 days).

Included in trade payables are amounts due to:

	Group	
	2016 RM'000	2015 RM'000
(i) Immediate holding company		
- MISC Bhd.	**120**	255

25. PROVISIONS

	Group	
	2016 RM'000	2015 RM'000
Warranty		
At 1 January	**12,970**	18,828
Arose during the year (Note 6)	**1,867**	10,670
Reversed during the year (Note 6)	**-**	(16,528)
At 31 December	**14,837**	12,970

The Group gives 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. Unutilised provisions are reversed upon expiry of the warranty period.

26. BORROWINGS

	Group and Company	
	2016 RM'000	2015 RM'000
Secured:		
Short term loan	**20,000**	-

On 19 September 2016, the Company made a drawdown of RM20,000,000 on its Sukuk Muharabah programme. The loan bears a fixed profit rate of 4.60% per annum. The profit is payable on a semi-annual basis, the first being due on 20 March 2017 and the balance to be paid along with the full principal amount on 19 September 2017.

The short term loan is secured by monies held in a trustee reimbursement account and is restricted for use as disclosed in Note 21.

27. DERIVATIVES

	2016		2015	
	Contract/ Notional amount RM'000	Fair value of assets/ (liabilities) RM'000	Contract/ Notional amount RM'000	Fair value of assets/ (liabilities) RM'000
Group				
Current				
Forward currency contracts:				
- Derivative assets	**-**	**-**	134,128	635
- Derivative liabilities	**63,550**	**(6,655)**	2,863	(110)
	63,550	**(6,655)**	136,991	525

27. DERIVATIVES (CONT'D.)

Foreign currency risk

At 31 December 2016, the Group held forward currency contracts designated as hedges of expected future receipts and payments denominated in United States Dollars. The forward currency contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

There was no ineffective portion recognised in profit or loss for the current year (2015: RM169,000 gain).

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 loss of RM6,561,000 (2015: RM356,000 gain), which includes the effective portion of the hedging relationship, is included in other comprehensive income.

28. CAPITAL COMMITMENTS

	Group	
	2016 RM'000	**2015 RM'000**
Capital expenditure:		
Property, plant and equipment:		
Approved and contracted for	**16,914**	52,897
Approved but not contracted for	**7,752**	59,976
	24,666	112,873

29. CONTINGENT LIABILITIES

	Group	
	2016 RM'000	**2015 RM'000**
Unsecured		
Performance bond on contract extended to customers	**376,196**	456,741

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30. RELATED PARTY DISCLOSURES

In addition to related party disclosures elsewhere in the financial statements, set out below are other significant related party transactions. The directors are of the opinion that unless otherwise stated, the transactions below have been entered into in the normal course of business at terms agreed between the parties during the financial year.

As the ultimate holding company is wholly owned by the Ministry of Finance ("MoF"), the Group is deemed to be related to entities that are controlled, jointly controlled or significantly influenced by the Government of Malaysia.

	Group	
	2016 RM'000	**2015 RM'000**
(a) Income:		
Provision of services for repairs, engineering and construction works, conversion of vessels and dry docking to		
- immediate holding company	**361,802**	632,465
- other related companies of ultimate holding company	**228,651**	1,003,110
(b) Expenses:		
Purchases from:		
- fellow subsidiaries of immediate holding company	**-**	3,060
- other related companies of ultimate holding company	**5,757**	19,244
- a joint venture	**-**	5,662
- a government-related entity	**27,691**	31,051

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30. RELATED PARTY DISCLOSURES (CONT'D.)

(c) Compensation of key management personnel

Key management personnel are defined as persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company, directly or indirectly, including any director of the Group and of the Company.

The remuneration of directors and other members of key management during the financial year was as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Short-term employee benefits	**7,387**	7,820
Management fees (Note 6) *	**844**	1,409
Post-employment benefits:		
Defined contribution plan	**451**	453
	8,682	9,682

	Company	
	2016 RM'000	**2015 RM'000**
Short-term employee benefits	**2,584**	3,284
Management fees (Note 6) *	**844**	1,409
Post-employment benefits:		
Defined contribution plan	**228**	240
	3,656	4,933

Included in the total remuneration of key management personnel are:

	Group and Company	
	2016 RM'000	**2015 RM'000**
Directors' remuneration (Note 8)	**1,127**	1,853

* Included in the remuneration of key management personnel are management fees in relation to services of one former executive director and one key management personnel who are employees of PETRONAS. Also included are management fees in relation to services of three non-executive directors who are employees of the immediate holding company of the Group, MISC Berhad.

31. 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 financial 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.

(i) Maximum credit risk exposure

The Group and the Company's maximum exposure to credit risk is represented by the carrying amounts as disclosed in Notes 19 and 21.

(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	
	2016 RM'000	**2015 RM'000**
Heavy Engineering Segment	**175,138**	296,818
Marine Segment	**135,576**	102,310
	310,714	399,128

31. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(ii) Trade receivables (cont'd.)

(b) Credit quality

The trade receivables that are neither past due nor impaired, past due but not impaired and impaired are disclosed below:

	Group	
	2016 RM'000	**2015 RM'000**
Neither past due nor impaired	**98,184**	19,871
1 to 30 days past due not impaired	**40,025**	156,661
31 to 60 days past due not impaired	**22,398**	61,769
61 to 90 days past due not impaired	**16,622**	61,698
More than 90 days past due not impaired	**118,558**	76,528
	197,603	356,656
Impaired	**14,927**	22,601
	310,714	399,128

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group.

Receivables that are past due but not impaired

The Group has trade receivables that are past due at the reporting date but not impaired amounting to RM197,603,000 (2015: RM356,656,000). These balances relate mainly to customers who have never defaulted on payments but are slow paymasters and hence, are periodically monitored.

31. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(ii) Trade receivables (cont'd.)

(b) Credit quality (cont'd.)

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Trade receivables		
- nominal amounts	**14,927**	22,601
Less: Allowance for impairment	**(14,927)**	(22,601)
	-	-

Significant financial difficulties of the debtors, probability that the debtors will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days ageing of trade receivable balances) are considered indicators that the trade receivable is impaired. An individual debtor is written off when management deems the amount to be uncollectable.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**22,601**	20,481
Bad debts written off	**(9,370)**	-
Net impairment (recovery)/loss recognised (Note 6)	**(1,794)**	2,120
Reclassed from other receivables	**1,613**	-
Unrealised foreign currency adjustment	**1,877**	-
At 31 December	**14,927**	22,601

The allowance made is for individually assessed and impaired receivables.

(c) Collateral

The Group's trade receivables are not secured by any collateral or bank guarantees.

31. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(iii) Other receivables

The Group's other receivables that are impaired at the reporting date are as follows:

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**5,465**	2,723
Net impairment loss recognised (Note 6)	**1,322**	2,742
Reclassed to trade receivables	**(1,613)**	-
At 31 December	**5,174**	5,465

The allowance made is for individually assessed and impaired receivables.

(iv) Other financial assets

With respect to credit risk arising from other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure represented by the carrying amount of these instruments.

Since 1 July 2014, cash and bank balances were held in the IHA managed by PETRONAS IFSSC. The centralisation of fund management allows for effective cash visibility, fund management for the Group and minimise exposure to counterparty credit risk. The beneficiary of these financial assets remain with the Group. PETRONAS IFSSC, which functions as treasury management platform, in turn, places all funds under management in licensed financial institutions with strong credit ratings globally and in Malaysia. In addition, the Group's deposits are placed with licensed banks with strong credit ratings in Malaysia.

(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 financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities.

As at 31 December 2016, the Group and the Company had at its disposal cash and cash equivalents amounting to RM671,098,000 (2015: RM835,175,000) and RM137,497,000 (2015: RM128,813) respectively.

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.

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31. FINANCIAL INSTRUMENTS (CONT'D.)

(c) Liquidity risk (cont'd.)

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	Carrying amount RM'000	Contractual cash flows RM'000	Maturity profile of the contractual cash flows Within 1 year RM'000
At 31 December 2016			
Trade and other payables	**1,023,940**	**1,023,940**	**1,023,940**
Borrowings	**20,000**	**20,919**	**20,919**
Derivatives	**6,655**	**6,655**	**6,655**
	1,050,595	**1,051,514**	**1,051,514**
At 31 December 2015			
Trade and other payables	1,607,905	1,607,905	1,607,905
Derivatives	110	110	110
	1,608,015	1,608,015	1,608,015

Company	Carrying amount RM'000	Contractual cash flows RM'000	Maturity profile of the contractual cash flows Within 1 year RM'000
At 31 December 2016			
Trade and other payables	**1,564**	**1,564**	**1,564**
Borrowings	**20,000**	**20,919**	**20,919**
	21,564	**22,483**	**22,483**
At 31 December 2015			
Trade and other payables	3,482	3,482	3,482

31. 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 ("EUR"), Singapore Dollar ("SGD") and Sterling Pound ("GBP").

Besides the cash flow hedge and derivatives described in Notes 23 and 27, 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 and other comprehensive income to a reasonably possible change in the USD, EUR, SGD and GBP exchange rates against the respective functional currencies of the Group's entities, with all other variables held constant:

	Change in currency rate	Effect on profit before taxation RM'000	Effect on other comprehensive income RM'000
31 December 2016			
USD	**+10%**	**4,609**	**(566)**
	-10%	**(4,609)**	**566**
EUR	**+10%**	**972**	**-**
	-10%	**(972)**	**-**
SGD	**+5%**	**30**	**-**
	-5%	**(30)**	**-**
GBP	**+10%**	**2,769**	**(95)**
	-10%	**(2,769)**	**95**
31 December 2015			
USD	+10%	33,953	(4)
	-10%	(33,953)	4
EUR	+10%	1,111	-
	-10%	(1,111)	-
SGD	+5%	1,405	-
	-5%	(1,405)	-
GBP	+10%	637	(34)
	-10%	(637)	34

32. 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.

The debt to equity ratio of the Group as at 31 December 2016 and 31 December 2015 are as follows:

	Note	2016 RM'000	2015 RM'000
Borrowings	26	**20,000**	-
Total equity		**2,538,617**	2,680,422
Gross debt equity ratio		**0.01**	-

The gearing ratio is not governed by the MFRS and it's definition and calculation may vary from one group/company to another.

33. 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 due to their short-term nature:

	Note
Cash and bank balances	21
Trade and other receivables	19
Trade and other payables	24
Borrowings	26

(ii) Derivatives

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including credit quality of counterparties, foreign exchange spot and forward rates.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(b) Fair value hierarchy

The table below analyses the Group's classified financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

i) Level 1 - Unadjusted quoted prices in active markets for identifical assets or liabilities.

ii) Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

iii) Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

		Fair value of assets and liabilities carried at fair value			
	Note	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2016					
Financial assets:					
Forward currency contract	27	-	(6,655)	-	(6,655)
At 31 December 2015					
Financial assets:					
Forward currency contract	27	-	525	-	525

34. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments based on the services provided as follows:

(i) Heavy Engineering Segment – provision of service for oil and gas engineering, construction and conversion works.

(ii) Marine Segment – provision of repair services and dry docking of liquefied natural gas carriers.

(iii) Others – comprise supporting divisions to the Group operations and sludge disposal management.

34. SEGMENT INFORMATION (CONT'D.)

	Heavy Engineering Segment RM '000	Marine Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2016							
Revenue							
External customers	746,666	444,632	-	1,191,298	-		1,191,298
Inter-segments	-	-	780	780	(780)	A	-
	746,666	444,632	780	1,192,078	(780)		1,191,298
Result							
Operating (loss)/profit	(92,906)	87,825	20,477	15,396	(2,079)	A	13,317
Impairment of property, plant and equipment				(140,529)	-		(140,529)
Share of results of joint ventures				(7,558)	-		(7,558)
Finance cost				(262)	-		(262)
Loss before taxation				(132,953)	(2,079)		(135,032)
Taxation				469	-		469
Loss for the year				(132,484)	(2,079)		(134,563)
Segment assets							
Due from customers on contracts	551,508	131,491	-	682,999			
Trade receivables	166,986	128,306	495	295,787			
Total segment assets	718,494	259,797	495	978,786	2,623,735	B	3,602,521

34. SEGMENT INFORMATION (CONT'D.)

	Heavy Engineering Segment RM '000	Marine Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2016							
Segment liabilities							
Due to customers on contracts	18,472	-	-	18,472			
Total segment liabilities	18,472	-	-	18,472	1,045,432	C	1,063,904
Included in operating profits are:							
Depreciation and amortisation	(64,854)	(18,668)	(731)	(84,253)	(1,322)		(85,575)
Recovery/(Impairment loss) - trade and other receivables	1,797	-	(1,325)	472	-		472
Net provision for warranty	(1,867)	-	-	(1,867)	-		(1,867)

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

34. SEGMENT INFORMATION (CONT'D.)

	Heavy Engineering Segment RM '000	Marine Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2015							
Revenue							
External customers	1,994,742	464,291	-	2,459,033	-		2,459,033
Inter-segments	-	-	171	171	(171)	A	-
	1,994,742	464,291	171	2,459,204	(171)		2,459,033
Result							
Operating profit	31,886	81,582	15,683	129,151	(981)	A	128,190
Impairment of goodwill and property, plant and equipment				(99,800)	-		(99,800)
Share of results of joint ventures				(1,360)	-		(1,360)
Finance cost				(4,509)	-		(4,509)
Profit before taxation				23,482	(981)		22,501
Taxation				21,944	-		21,944
Profit for the year				45,426	(981)		44,445
Segment assets							
Due from customers on contracts	901,322	140,668	-	1,041,990			
Trade receivables	291,287	84,813	427	376,527			
Total segment assets	1,192,609	225,481	427	1,418,517	2,901,577	B	4,320,094

34. SEGMENT INFORMATION (CONT'D.)

	Offshore Segment RM '000	Marine Repair Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2015 (cont'd)							
Segment liabilities							
Due to customers on contracts	18,687	-	-	18,687			
Total segment liabilities	18,687	-	-	18,687	1,620,985	C	1,639,672
Included in operating profits are:							
Depreciation and amortisation	(67,640)	(17,623)	(601)	(85,864)	(1,322)		(87,186)
Impairment loss - trade and other receivables	-	(2,120)	-	(2,120)	-		(2,120)
Inventories written off	(956)	(242)	(726)	(1,924)	-		(1,924)
Net provision for warranty	(5,858)	-	-	(5,858)	-		(5,858)

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

34. SEGMENT INFORMATION (CONT'D.)

Management monitors the assets and liabilities on a group basis and not by operating segments.

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:

	2016 RM'000	2015 RM'000
Total assets	**3,602,521**	4,320,094
Property, plant and equipment	**1,544,724**	1,642,153
Land use rights	**223,447**	230,541
Investment in joint ventures	**8,166**	15,725
Deferred tax assets	**79,691**	79,915
Derivatives	**-**	635
Inventories	**10,747**	12,102
Trade receivables	**463**	1,287
Other receivables	**74,362**	54,898
Cash and bank balances	**671,128**	860,175
Tax recoverable	**11,007**	4,146
Adjustments and eliminations to total assets	**2,623,735**	2,901,577
Total segment assets	**978,786**	1,418,517

The segment assets comprised:

Due from customers on contracts	**682,999**	1,041,990
Trade receivables	**295,787**	376,527
	978,786	1,418,517

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:

	2016 RM'000	2015 RM'000
Total liabilities	**1,063,904**	1,639,672
Trade and other payables	**1,003,940**	1,607,905
Provisions	**14,837**	12,970
Derivatives	**6,655**	110
Borrowings	**20,000**	-
Adjustments and eliminations to total liabilities	**1,045,432**	1,620,985
Total segment liabilities	**18,472**	18,687

The segment liabilities solely comprise of amount due to customers on contracts.

Geographical information

Substantially all the Group's revenue is derived locally and non-current assets are located within Malaysia.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2016

34. SEGMENT INFORMATION (CONT'D.)

Information about major customers

Breakdown of revenue from major customers are as follows:

	2016 RM'000	2015 RM'000
MISC Bhd, immediate holding company		
- Heavy Engineering Segment	**143,979**	380,730
- Marine Repair Segment	**217,823**	251,735
	361,802	632,465
Kebabangan Petroleum Operating Company Sdn. Bhd., a related company		
- Heavy Engineering Segment	**21,183**	64,772
Hyundai Heavy Industry Ltd.		
- Heavy Engineering Segment	**143,151**	125,513
Sabah Shell Petroleum Company Ltd.		
- Heavy Engineering Segment	**17,468**	399,719
ExxonMobil Exploration and Production Malaysia Inc.		
- Heavy Engineering Segment	**1,778**	24,903
PETRONAS Carigali Sdn. Bhd., a related company		
- Heavy Engineering Segment	**207,468**	938,338
EA Technique (M) Sdn. Bhd.		
- Marine Segment	**104,142**	24,024

35. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED EARNINGS INTO REALISED AND UNREALISED

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2016 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total retained earnings of the Company and its subsidiaries:				
- Realised	**681,701**	755,301	**92,108**	80,968
- Unrealised	**66,188**	123,760	**-**	-
Total share of retained earnings from joint ventures:				
- Realised	**(6,686)**	1,138	**-**	-
- Unrealised	**480**	215	**-**	-
	741,683	880,414	**92,108**	80,968
Add: Consolidation adjustments	**182,232**	177,611	**-**	-
Retained earnings as per financial statements	**923,915**	1,058,025	**92,108**	80,968

PROPERTIES OWNED BY MHB AND ITS SUBSIDIARIES

NO	LOCATION	DESCRIPTION	TENURE & YEAR LEASE EXPIRES	AREA IN SQ FT	EXISTING USE	AGE OF BUILDING/ LAND (YEARS)	APPROX NBV (RM'000)
1	PTD 22805 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/2072	13,115,306	Marine Repair, Marine Conversion, Heavy Engineering Fabrication Yard, Ancillary Facilities and Office Buildings	37	47,286
2	PTD 11549 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/2075	522,720	Marine Repair, Marine Conversion, Heavy Engineering Fabrication Yard, Ancillary Facilities and Office Buildings	41	902
3	PTD 101363 Mukim Plentong Johor Bahru	Land	Leasehold/2039	2,567,862	Storage Area	7	17,032
4	PTD 65615 Mukim Plentong Johor Bahru	Land	Leasehold/2044	698,266	Staff Quarters	33	2,265
5	PTD 65618 Mukim Plentong Johor Bahru	Land	Leasehold/2044	587,624	Staff Quarters	33	1,906
6	PTD 65619 Mukim Plentong Johor Bahru	Land	Leasehold/2044	128,502	Staff Quarters	33	417
7	PTD 65616 Mukim Plentong Johor Bahru	Land	Leasehold/2044	169,884	Vacant	33	551
8	PTD 65617 Mukim Plentong Johor Bahru	Land	Leasehold/2044	374,180	Vacant	33	1,214
9	Pasir Gudang Industrial Estate 81707 Pasir Gudang Johor (erected on land 1 & 2 above)	Warehouse, workshops and office building	Leasehold/2072/2075	1,956,881	Marine Repair, Marine Conversion, Heavy Engineering Fabrication Yard, Ancillary Facilities and Office Buildings	39	1,247,738

PROPERTIES OWNED BY MHB AND ITS SUBSIDIARIES

NO	LOCATION	DESCRIPTION	TENURE & YEAR LEASE EXPIRES	AREA IN SQ FT	EXISTING USE	AGE OF BUILDING/ LAND (YEARS)	APPROX NBV (RM'000)
10	Rumah Pangsa MMHE 81700 Pasir Gudang (erected on land 4 to 6 above)	4-storey residential flats	Leasehold/2044	383,559	Staff Quarters	38	3,734
11	PTD 71056 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/2045	1,524,600	Heavy Engineering Fabrication Yard, Ancillary Fabrication and Office Buildings	31	43,453
12	PTD 109040 Mukim Plentong Johor Bahru	Land	Leasehold/2053	217,800	Workshop, Ancillary Facilities and Site Office	23	6,644
13	PTD 200290 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/2052	2,424,158	Workshop, Ancillary Facilities and Office Buildings	8	76,803
14	PTD 22768 Mukim Plentong Johor Bahru	Land	Leasehold/2040	435,600	Storage Area	36	12,042
15	LOT 51611 Mukim Plentong Johor Bahru	Land	Leasehold/2045	173,514	Ancillary Facilities and Storage Area	20	4,945
16	PTD 110760 Mukim Plentong Johor Bahru	Land	Leasehold/2052	205,603	Workshop, Ancillary Facilities and Office Buildings	23	6,128
17	PTD 110758 Mukim Plentong Johor Bahru	Land	Leasehold/2052	59,242	Cabin Office and Warehouse	23	1,859

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 28th Annual General Meeting of Malaysia Marine and Heavy Engineering Holdings Berhad will be held at Ballroom 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, on Wednesday, 19 April 2017 at 11.00 a.m. for the following purposes:-

1. To receive the audited financial statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.

2. To elect the following Directors who retire pursuant to Article 112 of the Company's Articles of Association and who being eligible, have offered themselves for election:-
   i. Rozainah binti Awang **Resolution 1**
   ii. Wan Mashitah binti Wan Abdullah Sani **Resolution 2**

3. 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. Yong Nyan Choi @ Yong Guan Choi **Resolution 3**
   ii. Bernard Rene Francois di Tullio **Resolution 4**

4. To receive the retirement of Mr Heng Heyok Chiang @ Heng Hock Cheng who retires by rotation pursuant to Article 115 of the Company's Articles of Association.

5. To approve the payment of Directors' remuneration of RM1,050,000 for the financial year ended 31 December 2016. **Resolution 5**

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 6**

7. To transact any other ordinary business for which due notice has been given.

By Order of the Board
Fadzillah binti Kamaruddin (LS 0008989)
Ausmal bin Kardin (LS 0009383)
Company Secretaries
Kuala Lumpur
24 March 2017

NOTES ON PROXY FORM

1. Only depositors whose names appear in the Record of Depositors as at 12 April 2017 shall be entitled to attend, speak and vote at the meeting.

2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise all or any of his rights to attend, participate, speak and vote at the meeting.

3. A member may appoint not more than two proxies to attend the same meeting. 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. There shall be no restriction as to the qualification of the proxy.

4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint up to two (2) proxies 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.

5. 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.

   An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

6. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the Form of Proxy.

7. 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.

8. 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.

9. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all the resolutions set out in the Notice of AGM will be put to vote by poll.

Explanatory Notes

1. **Audited Financial Statements for the financial year ended 31 December 2016**

   This Agenda item is meant for discussion only as Section 340(1) of the Companies Act, 2016 does not require the Audited Financial Statements to be formally approved by the shareholders. Hence, this Agenda item is not put forward for voting.

2. **Retirement of Directors**

   Mr Heng Heyok Chiang @ Heng Hock Cheng has informed the Board in writing of his intention to retire as an Independent Non-Executive Director and therefore would not be seeking re-election at the AGM under Article 115 of the Articles of Association. Hence, he will retain office until the conclusion of this AGM in accordance with Article 115 of the Articles of Association.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Made pursuant to Paragraph 8.27(2) of the MMLR of Bursa Securities.

1. The Directors retiring and seeking election pursuant to Article 112 of the Company's Articles of Association at the 28th Annual General Meeting are :-
   i. Rozainah binti Awang
   ii. Wan Mashitah binti Wan Abdullah Sani

2. The Directors retiring and seeking re-election pursuant to Article 115 of the Company's Articles of Association at the 28th Annual General Meeting are :-
   i. Yong Nyan Choi @ Yong Guan Choi
   ii. Bernard Rene Francois di Tullio

3. The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 18 to 27 of this Annual Report. The details of the Directors' shareholdings in the Company are set out in the section entitled "Analysis of Shareholdings" on pages 34 to 35 of this Annual Report.

MHB

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

PROXY FORM

CDS Account No.	
No. of Shares Held	

I/We ______________________________ [NRIC/Passport No.______________________]
(Full name in block letters)

of____
(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 28th Annual General Meeting of the Company to be held at Ballroom 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Wednesday, 19 April 2017 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 elect Rozainah binti Awang who retires pursuant to Article 112 of the Company's Articles of Association.		
2.	To elect Wan Mashitah binti Wan Abdullah Sani who retires pursuant to Article 112 of the Company's Articles of Association.		
3.	To re-elect Yong Nyan Choi @ Yong Guan Choi who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
4.	To re-elect Bernard Rene Francois di Tullio who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
5.	To approve the payment of Directors' remuneration amounting to RM1,050,000 for the financial year ended 31 December 2016.		
6.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.		

(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____________2017

____
Signature/Common Seal of member(s)

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No. of shares	Percentage (%)
Proxy 1		
Proxy 2		
Total		

Notes:
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4. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint up to two (2) proxies 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.*
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8. *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.*
9. *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), all the resolutions set out in the Notice of AGM will be put to vote by poll.*

Please fold here to seal

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 (178821-X)
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