Adapting to a New
NORMAL

ANNUAL REPORT 2015

M H B

COVER RATIONALE

ADAPTING TO A NEW NORMAL

MHB has evolved from a ship building yard in 1973 into a diversified group with world class facilities and resources. Today, MHB is Southeast Asia's largest offshore construction, conversion and marine repair facility building structures according to international specifications and standards. The significance of MHB's past is not just the 42 years of longevity it has achieved, but the transformation the Company has undergone to be what and where it is today.

In 2015, we took the opportunity to renew focus on our objectives, projects and performance and on accelerating our efficiency to improve our project delivery. MHB completed safe and timely delivery of major projects for our clients. We continued to secure contracts, albeit smaller jobs, to enhance our order book. We implemented faster turnaround cycles and made history by operating at full capacity, repairing and refurbishing 15 vessels simultaneously for the 2nd consecutive year.

In the current low oil price scenario and economic downturn, and in a reality where business as usual is no longer sustainable; MHB is adapting to a new normal.

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OUR VISION

A Leading Marine and Heavy Engineering Organisation of Choice

OUR
VALUES

PASSION to Excel
RESPONSIBLE at Work
INTEGRITY – the Power of Trust
DEDICATED to our Customers' Success
ENTERPRISING as a Team

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

GROUP FINANCIAL REVIEW

SHAREHOLDERS' EQUITY

Shareholders' equity increased to RM2,676.6 million as at 31 December 2015 from RM2,632.9 million as at 31 December 2014.

The increase in shareholders' equity was contributed by total comprehensive income attributable to equity holders of the Company amounting to RM43.7 million.

FINANCIAL POSITION

The total assets of the Group decreased by 3.2% or RM144.8 million to RM4,320.1 million as at 31 December 2015 from RM4,464.9 million as at 31 December 2014.

The decrease in the Group's total assets was mainly due to lower trade and other receivables as at financial year end.

The Group's total receivables of RM1,474.7 million as at 31 December 2015, registered a 20.3% decrease in total receivables from RM1,850.8 million as at 31 December 2014. This is in tandem with the high number of projects at tail end or have sailed away.

The Group's saw a decrease of RM189.1 million in total liabilities from RM1,828.8 million as at 31 December 2014 to RM1,639.7 million as at 31 December 2015, mainly due to settlement of borrowing during the year.

CASH FLOW

The Group's cash and bank balances increased to RM860.2 million as at 31 December 2015 from RM589.2 million as at 31 December 2014, as a result of higher cash generated from operations in FYE 2015.

The Group's net cash inflow from operating activities was higher by RM429.4 million at RM674.8 million as compared to net cash inflow of RM245.4 million in the corresponding year as a result of improved collections for the year under review.

Net cash outflow from investing activities was lower by RM27.2 million at RM134.3 million in line with lower purchase of plant, property and equipment as most investments under the Yard Optimisation programme have been completed.

Net cash outflow from financing activities was higher by RM151.6 million at RM269.5 million as compared to net cash outflow of RM117.9 million due to higher repayment made for revolving credit facilities during the year under review.

REVENUE

Group revenue of RM2,459.0 million for FY2015 was 8.9% lower than RM2,700.5 million in FY2014 as most Offshore projects in hand are at the tail end or have sailed away, whereas the Marine segment recorded significant growth in revenue due to the higher value of repair works during the year under review.

OPERATING PROFIT

Group operating profit of RM128.2 million was 5.3% lower than RM135.4 million in FY2014 at the back of lower revenue generated during the year.

RM
128.2
MILLION
FY15

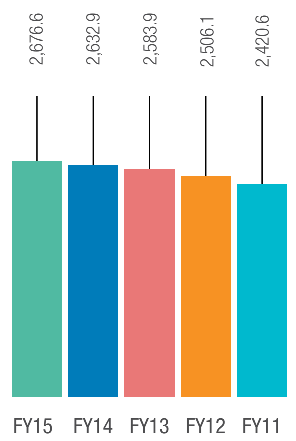
RM
43.9
MILLION
FY15

EARNINGS PER SHARE (SEN)

Year on year Basic Earnings Per Share ("EPS") decreased to 2.7 sen in FYE 2015 from 8.1 sen in the corresponding year due to lower profit attributable to the equity holders of the Group at RM43.9 million in FYE 31 December 2015 as compared to RM129.9 million in the corresponding year.

5-YEAR FINANCIAL HIGHLIGHTS

SHAREHOLDERS' EQUITY
(RM'MILLION)

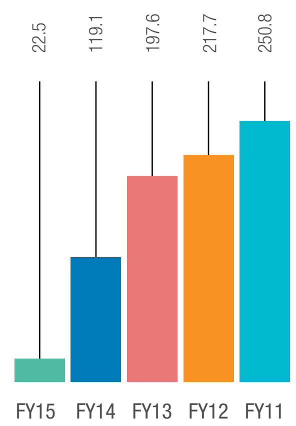


REVENUE
(RM'MILLION)

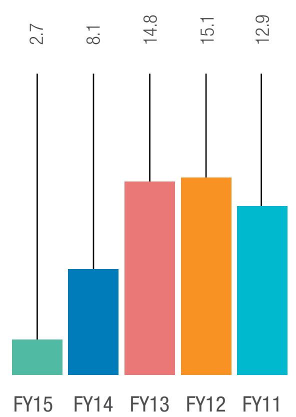
2,459.0
FY15

2,700.5
FY14

PROFIT BEFORE TAX
(RM'MILLION)



EARNINGS PER SHARE
(SEN)

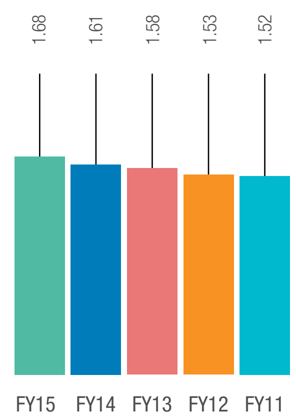


DIVIDENDS
(RM'MILLION)

-
FY15

80.0
FY14

NTA PER SHARE
(SEN)



BUSINESS POTENTIAL

MHB SECURED OFFSHORE STRUCTURE FABRICATION WORKS, AND PIPING & PLATE FABRICATION CONTRACTS WORTH RM760 MILLION	MHB MADE HISTORY BY OPERATING AT FULL CAPACITY, REPAIRING & REFURBISHING 15 VESSELS SIMULTANEOUSLY FOR THE 2ND CONSECUTIVE YEAR

PASSION

Passion To Excel : We strive to be the best and work hard to exceed expectations, thriving on challenges and lifelong learning

CORPORATE PROFILE

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (MHB)

is a globally trusted energy industry and marine solutions provider for a wide range of offshore facilities and vessels. MHB has a 40-year track record of delivering integrated and complex solutions, including deep water support services to international oil & gas clients.

We are equally recognised for our global expertise in offshore conversion services and LNG carrier repair and dry docking.

MHB also owns and operates a regional Centre of Excellence - a state-of-the-art training campus that produces technically expert workers for the industry.

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

FULL RANGE EPCIC SERVICES FOR OFFSHORE & ONSHORE CONSTRUCTION

CORPORATE PROFILE


The only yard in Malaysia that has constructed deepwater oil & gas structures

Deepwater mega structure facilities, i.e. spars and semi-submersibles

- Integrated platforms
- Wellhead platforms
- Compression, dehydration & water injection modules
- Topsides and hulls
- Jackets
- Living quarters
- Turrets and mooring buoys
- Enhanced Oil Recovery facilities


The only yard in Malaysia that has completed FPSO & FSO conversions


The only yard in Malaysia catering to a wide range of vessels and rigs

OFFSHORE CONVERSION WORKS IN ONE LOCATION

- FPSOs
- FSOs
- MOPUs
- FSUs

COMPREHENSIVE MARINE REPAIR SERVICES

- ULCCs/VLCCs
- Crude oil tankers
- LNG carriers
- LPG tankers
- Offshore support vessels
- Offshore rigs

CORPORATE PROFILE

CORPORATE HISTORY

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

The history of MHB dates back to the incorporation of its wholly-owned subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) in May 1973, under the name of Malaysia Shipyard and Engineering Sdn Bhd (MSE). MSE was established by the Government to advance Malaysia's maritime industrialization 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.

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (MHB) IS A LEADING MARINE AND HEAVY ENGINEERING SERVICES PROVIDER IN MALAYSIA. FOCUSED PRIMARILY ON THE OIL AND GAS SECTOR. IT OFFERS A WIDE SPECTRUM OF ENGINEERING AND CONSTRUCTION, MARINE CONVERSION AND MARINE REPAIR SERVICES AT TWO YARDS IN PASIR GUDANG, MALAYSIA.

One of MHB's proudest achievements 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.

A milestone achievement was the completion of the Gumusut-Kakap semi-submersible floating production system (FPS). It is the largest such 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. MMHE East and MMHE West are 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 and gas related structures, and to cater to EPCIC works. The acquisition has significantly increased MHB's Pasir Gudang yard capacity from 69,700 MT to 129,700 MT, making MHB the largest fabricator in Malaysia today in terms of yard size and capacity. In conjunction with the acquisition, MMHE's yard in Jalan Pekeliling was renamed "MMHE West", while the acquired yard is known as "MMHE East". There are approximately 4,000 operations and services support staff working at both yards in Pasir Gudang as well as in the Group Corporate Office in Menara Dayabumi, Kuala Lumpur on any given day.

CORPORATE PROFILE

WORLD CLASS FACILITIES

Workshop 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	390,000dwt	
Cranes	4 x 250T Crawler Cranes 80T x 50T Rough Terrain Cranes 80MT Luffing Crane 2 x 600T Goliath Cranes	


2 fully equipped yards in Pasir Gudang, Johor, Malaysia:
- MMHE West
- MMHE East

'Superlift' facility for heavy structures

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: 142 tonnes/m
Shiplift	199.4m x 33.8m x 8m	Capacity: 50,000MT
7 Quays/Berths	470m	
LNGC repair facilities	• Cryogenic workshop (750m² area) • Invar welding centre • Global test control rooms • Acoustic and helium testing equipment	

CORPORATE INFORMATION

(As at 19 February 2016)

BOARD OF DIRECTORS

CHAIRMAN, NON-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

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

NON-INDEPENDENT EXECUTIVE DIRECTOR

Dato' Haji Abu Fitri bin Abdul Jalil

BOARD AUDIT COMMITTEE

Dato' Halipah binti Esa (Chairperson)

Heng Heyok Chiang @ Heng Hock Cheng

Yong Nyan Choi @ Yong Guan Choi

Choy Khai Choon

Bernard Rene Francois di Tullio

Syed Hashim bin Syed Abdullah

NOMINATION & REMUNERATION COMMITTEE

Heng Heyok Chiang @ Heng Hock Cheng (Chairman)

Dato' Halipah binti Esa

Choy Khai Choon

Yee Yang Chien

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

Yee Yang Chien

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 under the Companies Act 1965, and converted into a public company limited by shares on 14 June 2010.

STOCK EXCHANGE LISTING

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

PLACE OF INCORPORATION AND DOMICILE

Malaysia

GROUP STRUCTURE

(As at 19 February 2016)

- Subsidiary
- Jointly Controlled Entity

MHB

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD

100%

MMHE

MALAYSIA MARINE AND HEAVY ENGINEERING SDN BHD

Provision of oil and gas engineering and construction works and marine conversion and repair services

100%

MMHE INTERNATIONAL

MMHE INTERNATIONAL SDN BHD

Dormant

50%

TMH

TECHNIP MHB HULL ENGINEERING SDN BHD

Builds and develops hull engineering and engineering project management capacities

100%

TISB

TECHNO INDAH SDN BHD

Sludge disposal management

70%

MMHE | SAMSUNG

MMHE-SHI LNG SDN BHD

Provision of repair services and drydocking of liquefied natural gas carriers

60%

MMHE | Technip

MMHE-TPGM SDN BHD

Provision of engineering, procurement, construction, installation and commissioning services

40%

MMHE-ATB

MMHE-ATB SDN BHD

Manufacturing of pressure vessels and tube heat exchangers

PROFILE OF DIRECTORS

01

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

02

DATO' HALIPAH BINTI ESA
Independent Non-Executive Director

03

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

04

CHOY KHAI CHOON
Independent Non-Executive Director

05

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

06

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

07

YEE YANG CHIEN
Non-Independent Non-Executive Director

08

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

09

DATO' HAJI ABU FITRI BIN ABDUL JALIL
Managing Director & Chief Executive Officer Non-Independent Executive Director

PROFILE OF DIRECTORS

Chairman, Non-Independent Non-Executive Director

DATUK NASARUDIN MD IDRIS

Datuk Nasarudin Md Idris, a Malaysian, aged 60, was appointed as Chairman of the Board of MHB on 15 June 2010.

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

Independent Non-Executive Director

DATO' HALIPAH BINTI ESA

Dato' Halipah binti Esa, a Malaysian, aged 66, was appointed to the Board of MHB on 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, Malaysia Deposit Insurance Corporation and Securities Industry Dispute Resolution Centre.

BOARD COMMITTEE MEMBERSHIP

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

PROFILE OF DIRECTORS

Independent Non-Executive Director

HENG HEYOK CHIANG @ HENG HOCK CHENG

Mr Heng Hock Cheng, a Malaysian, aged 66, was appointed to the Board of MHB on 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 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 is a Director of AET Tankers Holdings Sdn Bhd, AET Shipmanagement (Malaysia) Sdn Bhd and AET Shipmanagement (Singapore) Pte Ltd. He is also the Lead Independent Director of Otto Marine Limited (Singapore) and sits on all three of its Board Committees.

BOARD COMMITTEE MEMBERSHIP

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

PROFILE OF DIRECTORS

Independent Non-Executive Director

CHOY KHAI CHOON

Mr Choy Khai Choon, a Malaysian, aged 58, was appointed to the Board of MHB on 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 a member of the Nomination & Remuneration Committee and Board Audit Committee.

PROFILE OF DIRECTORS

Independent Non-Executive Director

YONG NYAN CHOI @ YONG GUAN CHOI

Mr Yong Nyan Choi, a Malaysian, aged 63, was appointed to the Board of MHB on 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.

PROFILE OF DIRECTORS

Non-Independent Non-Executive Director

BERNARD RENE FRANCOIS DI TULLIO

Mr Bernard di Tullio, a French, aged 66, was appointed to the Board of MHB on 22 November 2010.

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Bernard 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.

PROFILE OF DIRECTORS

Non-Independent Non-Executive Director

YEE YANG CHIEN

Mr Yee Yang Chien, a Malaysian, aged 48, was appointed to the Board of MHB on 1 April 2008.

QUALIFICATION, SKILLS AND EXPERIENCE

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

Mr Yee is currently Group President & Chief Executive Officer 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 MISC 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 Berhad 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 Human Resource 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.

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 is also the Chairman of several other major subsidiaries within the MISC Group and is Deputy Chairman of AET Tanker Holdings Sdn Bhd.

Additionally, Mr Yee is a Board Member of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UK P&I Club) and an Executive Committee member of the International Tankers Owners' Association (INTERTANKO).

BOARD COMMITTEE MEMBERSHIP

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

PROFILE OF DIRECTORS

Non-Independent Non-Executive Director

SYED HASHIM BIN SYED ABDULLAH

Tuan Syed Hashim bin Syed Abdullah, a Malaysian, aged 59, was appointed to the Board of MHB on 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 Program at INSEAD in 2004.

Tuan Syed Hashim is presently the Vice President, Offshore Business in MISC Berhad. 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 as General Manager, JV Operations.

OTHER COMMITMENTS

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

BOARD COMMITTEE MEMBERSHIP

Tuan Syed Hashim is a member of the Nomination and Remuneration Committee as well as a member of the Board Audit Committee.

PROFILE OF DIRECTORS

Managing Director & Chief Executive Officer
Non-Independent Executive Director

DATO' HAJI ABU FITRI BIN ABDUL JALIL

Dato' Haji Abu Fitri bin Abdul Jalil, a Malaysian, aged 51, was appointed to the Board of MHB as a Non-Independent Non-Executive Director on 1 February 2015. He assumed the position as Managing Director & Chief Executive Officer of MHB with effect from 1 March 2015.

QUALIFICATION, SKILLS AND EXPERIENCE

Dato' Haji Abu Fitri graduated with a Bachelor of Science Degree in Chemical Engineering from California State University, United States of America in 1987.

Prior to joining MHB, Dato' Haji Abu Fitri was the Vice President, Offshore Business in MISC Berhad, a position he held since 16 March 2013. He was also a board member of several subsidiaries and joint venture companies within the MISC Group. Dato' Haji Abu Fitri joined PETRONAS in 1991 and had served in various senior positions both in Malaysia and overseas including as Senior General Manager of the Petroleum Operations Management and Head of Peninsular Malaysia Operations in PETRONAS Carigali Sdn Bhd.

OTHER COMMITMENTS

Dato' Haji Abu Fitri is the Chairman 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. None of the Directors have convictions for offences within the past ten years.
3. The details of Directors' attendance at Board Meetings held in the financial year ended 31 December 2015 are set out in the Statement on Corporate Governance on page 80 of the Annual Report.

PROFILE OF MANAGEMENT COMMITTEE

Dato' Haji Abu Fitri bin Abdul Jalil

Managing Director & Chief Executive Officer
(Please refer to page 23 for his profile)

Ahmad Zaki Abd Malik
Senior General Manager,
Marine Repair Business Unit

Stephane Denoun
Senior General Manager,
Offshore Business Unit

Nornisham Zainuddin
Chief People Officer

Foo Kee Eng
Senior General Manager,
Production Service Unit

Wan Mashitah Wan Abdullah Sani
Chief Financial Officer

Ausmal Kardin
Senior General Manager,
Legal and Corporate Secretarial Affairs

PROFILE OF MANAGEMENT COMMITTEE

Ahmad Zaki Abd Malik

Senior General Manager
Marine Repair Business Unit

Encik Ahmad Zaki Abd Malik, a Malaysian, aged 54, was appointed as the Senior General Manager, Operations of Malaysia Marine and Heavy Engineering Sdn Bhd on 1 April 2010 and his position was redesignated as Senior General Manager, Marine Repair Business Unit in April 2012.

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.

He 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.

OTHER COMMITMENTS

En Ahmad Zaki sits as a board member of MMHE-ATB Sdn Bhd and in several subsidiaries within the MHB Group.

Wan Mashitah Wan Abdullah Sani

Chief Financial Officer

Cik Wan Mashitah Wan Abdullah Sani, a Malaysian, aged 49, was appointed as the Chief Financial Officer ("CFO") of MHB on 30 June 2010.

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.

She joined MISC Berhad in 2002 and had served in various capacities with her last position being the General Manager, Finance before being seconded to Malaysia Marine and Heavy Engineering Sdn Bhd as the CFO in May 2010. Prior to joining the MISC Group, she was a professional accountant at Grant Thornton, Malaysia.

OTHER COMMITMENTS

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

Ausmal Kardin

Senior General Manager
Legal and Corporate Secretarial Affairs

En Ausmal Kardin, aged 45, a Malaysian, was appointed to his current position as Senior General Manager, Legal & Corporate Secretarial Affairs on 1 March 2015 with added responsibilities covering human resource until August 2015. He also serves as the Company Secretary of MHB since 30 June 2010.

QUALIFICATION, SKILLS AND EXPERIENCE

Encik 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 MHB on 30 June 2010.

OTHER COMMITMENTS

En Ausmal is the Company Secretary of the subsidiaries and jointly controlled entities within the MHB Group.

PROFILE OF MANAGEMENT COMMITTEE

Foo Kee Eng

Senior General Manager
Production Service Unit

Mr Foo Kee Eng, aged 62, a Singaporean, was appointed as the Senior General Manager, Production Service Unit of Malaysia Marine and Heavy Engineering Sdn Bhd with effect from 1 January 2015.

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Foo graduated from the University of Malaya with a Bachelor of Engineering (Honours) Degree in Mechanical Engineering in 1977.

Mr Foo has extensive engineering and management experience in the oil and gas industry. His 37 years of working experience extends from undertaking projects in Southeast Asia to China, Australia, India, Brazil and the Middle East region.

Prior to joining the MHB Group, Mr Foo was the Director, Business Development of Kencana HL Sdn Bhd and was also involved in its yard operations on an advisory role.

Stephane Denoun

Senior General Manager
Offshore Business Unit

Mr Stephane Denoun, aged 48, a French, was appointed as Senior General Manager of Malaysia Marine and Heavy Engineering Sdn Bhd on 1 January 2015.

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 24 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.

Nornisham Zainuddin

Chief People Officer

Pn Nornisham, aged 54, a Malaysian, was appointed as Chief People Officer ("CPO") of MHB on 1 March 2015 and a member of the Management Committee on 1 September 2015.

QUALIFICATION, SKILLS AND EXPERIENCE

Pn Nornisham holds a Master of Business Administration from the Universiti Teknologi MARA and a Diploma in Public Administration from the Institut Teknologi MARA.

Pn Nornisham has a wide span of experience in PETRONAS in the areas of Human Resource and the Downstream Business. During her stint in the Downstream Business, Pn Nornisham led in the setting up of PETRONAS Dagangan Berhad's Cards Business as well as the introduction of the Customer Loyalty Programme. Her last assignment prior to joining MHB was as the Head of HR Centralised Services, Group Human Resource Management where she was instrumental in setting-up of the Global Shared Services Centre for Human Resource in PETRONAS.

STATISTICS ON SHAREHOLDINGS
AS AT 19 FEBRUARY 2016

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

ANALYSIS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	67	0.73	704	0.00
100 – 1,000	1,786	19.50	1,574,568	0.10
1,001 – 10,000	5,284	57.69	24,385,958	1.53
10,001 – 100,000	1,777	19.40	52,352,019	3.27
100,001 to less than 5% of issued shares	242	2.65	224,024,451	14.00
5% and above of issued shares	3	0.03	1,297,662,300	81.10
TOTAL	**9,159**	**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	-	-

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	-	-

STATISTICS ON SHAREHOLDINGS
AS AT 19 FEBRUARY 2016

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 - 978,800 shares held through Asian Islamic Investment Management Sdn. Bhd.	97,662,300	6.10	-	-

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	96,683,500	6.04
4	LEMBAGA TABUNG ANGKATAN TENTERA	54,696,900	3.42
5	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	23,999,900	1.50
6	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	22,215,990	1.39
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	AMANAHRAYA TRUSTEES BERHAD AS 1 MALAYSIA	5,000,000	0.31
10	MUHAMAD ALOYSIUS HENG	4,576,500	0.29
11	TAN ENG @ TAN CHIN HUAT	4,415,200	0.28
12	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR AFFIN HWANG AIIMAN GROWTH FUND (4207)	3,518,700	0.22
13	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	3,479,671	0.22
14	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	3,467,400	0.22
15	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	3,455,000	0.22
16	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SECTOR SELECT FUND	3,235,400	0.20
17	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	3,077,000	0.19

30 LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	% of Issued Share Capital
18	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	2,784,300	0.17
19	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	2,450,600	0.15
20	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	2,078,997	0.13
21	HONG LEONG ASSURANCE BERHAD AS BENEFICIAL OWNER (LIFE PAR)	1,932,600	0.12
22	HSBC NOMINEES (ASING) SDN BHD HSBC-FS FOR INTEGRAL ASIA VALUE FUND	1,808,700	0.11
23	ANG HEN HING	1,700,000	0.11
24	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	1,627,200	0.10
25	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAID (4389)	1,623,100	0.10
26	LEE KEK MING	1,500,000	0.09
27	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	1,309,500	0.08
28	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG	1,171,400	0.07
29	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD ASIAN ISLAMIC INVESTMENT MANAGEMENT SDN BHD FOR LEMBAGA TABUNG HAJI	978,800	0.07
30	LIM HUI HUAT & LIM HOOI CHANG	940,000	0.06
	TOTAL	**1,469,456,593**	**91.84**

INTEGRITY

The Power Of Trust : We are honest and fair in what we say and do, because trust is the foundation of our business

MAKING PROGRESS

WITH AN **EXCELLENT TRACK RECORD, A HIGHLY SKILLED WORKFORCE AND WORLD-CLASS FACILITIES,** MHB PROVIDES **INNOVATIVE SOLUTIONS SAFELY, ON TIME AND WITHIN COST.**	**A 2015 MILESTONE** WAS THE SAFE SAIL AWAY OF THE SK316 CPP TOPSIDE WHICH **WEIGHED 13,696 MT & RECORDED 8,359,290 MAN-HOURS WITHOUT LTI**

CHAIRMAN'S STATEMENT

ECONOMIC OUTLOOK

The global economy remained challenging in 2015 as economic growth slowed to an estimated 2.4% compared to 2.6% in 2014. The sluggish outlook is not expected to improve much in 2016 as China is expected to slow further whilst Russia and Brazil will remain in recession.

The oil and gas sector continued to be in the doldrums. Crude oil prices which started its decline in mid-2014 fell further to an 11-year low of USD 36 a barrel as OPEC took the stance of defending its market share while Russia pumped out crude at record levels. The lifting of sanctions on Iran will weigh down further on the oil market.

Most oil companies including PETRONAS have cut their capital budget and operating expenditure and oil service companies will be affected. While our company, Malaysia Marine And Heavy Engineering Holdings Berhad (MHB) had taken steps to be more efficient and cost competitive through our transformation initiatives, the current down cycle will surely test our fortitude and resolve towards becoming a leader in the industry.

FINANCIAL HIGHLIGHTS

For the financial year ended 31 December 2015, the Group posted a net profit after tax and minority interest of RM43.9 million on the back of RM2.46 billion in revenue. Both revenue and net profit declined compared to the previous financial year due to the slowdown in the oil and gas industry affecting our order intake for new offshore projects.

Nonetheless, MHB's balance sheet remained strong with an improved cash balance of RM860.2 million. During these difficult times, conserving cash is imperative as we compete for new jobs and look for new opportunities to ensure the sustainability of the company.

CORPORATE DEVELOPMENTS

Despite the tough market conditions, we remained committed in maintaining an efficient and productive operation and delivering projects safely to our clients. During the year, we saw the on-time sailaway of the jackets and topside of the SK316 central processing platform

I BELIEVE, IF WE WEATHER THIS STORM, WE WILL EMERGE STRONGER AND MORE RESILIENT, POISED TO TAKE OUR PLACE AS AN INDUSTRY LEADER, DELIVERING PROJECTS TO THE SATISFACTION OF OUR CUSTOMERS AND DELIVERING VALUE FOR OUR STAKEHOLDERS.

CHAIRMAN'S STATEMENT


SK316 CPP Topside


MAMPU 1

(CPP), completion of repair works on the world's largest ore carrier 'Sea Beijing', delivery of our fourth conversion work for the year i.e. MAMPU-1 FSO vessel which was ahead of schedule; as well as completing a major milestone in the deepwater Malikai Tension Leg Platform project with the safe completion of the superlift activity of the topside over its hull.

On the contracting front, we made reasonably good progress despite the demanding business environment by securing projects such as the F12 Kumang Cluster well head platform (WHP), Baronia CPP-B, and the Kanowit Facilities Improvement Project. We also secured four packages for the piping and structural fabrication works from the main contractors of the Refinery and Petrochemical Integrated Development (RAPID) project.

Our Marine Business Unit made inroads by securing enbloc agreements from clients in South Korea, Canada, Indonesia, Taiwan and Malaysia; some with bookings schedule right up to the year 2020. Contracts for a major FSO vessel conversion, repair services for a number of LNG and LPG carriers as well as other diversified vessel types signify our industry competitiveness and strong customer relationship as we complete another stellar year in the marine segment.

FUTURE OUTLOOK

Crude oil prices are anticipated to remain weak much longer than initially expected and oil companies will continue to tighten their spending. Malaysia is not spared with PETRONAS announcing further cutback in capital expenditure.

The downturn in the oil and gas industry is expected to prolong and this will impact our offshore segment as clients reevaluate the viability of new projects and continue to drive costs down. Replenishment of our order book will be a huge challenge moving forward. Large projects would be few and far in between whilst small projects would be highly contested. During these difficult times, efficiency, productivity and flawless delivery of projects to clients are crucial in order for us to secure jobs and ensure sustainability of the Company. A relentless drive to cut down costs is also required in order to remain competitive and earn a decent margin.

Whilst the offshore segment of our business is facing a severe downturn, our marine segment is expected to remain strong and will help to cushion the impact of the decline. Nonetheless, we need to double our efforts and work diligently to ensure that very little is left to chance. We cannot waver in our transformation journey and we will continue with our corporate and business initiatives to ensure that we remain resilient in the face of adversity. Resource optimisation remains the key focus, amidst intensifying our efforts to pursue more projects and look into new streams for income.

Whilst the downturn posed a real challenge, it also provides the impetus for us to relook and adopt new strategies and business processes. I believe, if we weather through this storm, we will emerge stronger and poised to take our place as an industry leader, delivering projects to the satisfaction of our customers and delivering value for our stakeholders.

APPRECIATION

On behalf of the Board of Directors, I would like to express our deepest gratitude to all 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 to steer the company through these difficult times.

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

Finally, I would like to thank 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

MD & CEO'S REPORT

2015 WAS A CHALLENGING YEAR FOR US.

Crude oil prices dropped to an 11-year low of USD36 per barrel and the continued sluggish outlook adversely affected our offshore business in terms of project deferment and cost drive-down measures by clients. Despite the tough operating condition, we made considerable achievements in securing new businesses from clients.

From the initiatives that started in 2014, our effort bore the desired result as we achieved a breakthrough in securing several work packages, in particular the Refinery and Petrochemical Integrated Development ("RAPID") project. MHB was also awarded the fabrication of sub-structures for the Baronia central processing platform (CPP) from Hyundai Heavy Industries and the Facilities Improvement Project as well as the engineering, procurement, construction and commissioning (EPCC) of the F12 Kumang Cluster wellhead platform (WHP) structures from PETRONAS.

MHB also made a significant progress for its marine repair business. Year 2015 saw us making further inroads by securing enbloc agreements from clients in 5 different countries. New contracts such as a major FSO vessel conversion, high amount of repair and refurbishment works for LNG and LPG carriers as well as other diversified vessel types completed an outstanding year for the marine segment.

In 2015, we safely loaded out two jacket structures and sailed away the topside of the SK316 CPP. MHB also achieved a major milestone for the Malikai deepwater TLP with the successful 'superlift' activity for the integration of the topside onto the hull. The marine repair business meanwhile recorded excellent performance in ensuring smooth and safe project delivery such as the MAMPU-1 FSO conversion, EP7 MOPU conversion and the major repair works for a number of LNG vessels among others. It also recorded the second successive year of having a full occupancy of 15 vessels repaired simultaneously.

Despite the encouraging amount of work secured, moving forward, the environment is expected to worsen further. We however will remain committed to continue executing the strategic plan and initiatives laid out earlier to navigate through the challenging operating environment. The ongoing transformation initiatives and yard optimisation with the key focus on new market ventures, cost management, improved process and productivity measures will help us to be more competitive and penetrate into related and sustainable businesses.

OFFSHORE BUSINESS UNIT (OBU)

As at 31 December 2015, our OBU orderbook stood at RM989 million. Among the key projects carried out during the year are: SK316 CPP for PETRONAS; Malikai deepwater TLP for Sabah Shell Petroleum Company; Besar-A topside and jacket for PETRONAS; and WHP, jackets and connecting bridge for the North Malay Basin (NMB) Bergading Complex for Hyundai Heavy Industries.

For the year under review, we safely completed the SK316 gas development project. Jackets for the WHP and CPP were loaded out in March and April. The final structure being the CPP topside, which took 20 months to complete from the first steel cut; smoothly sailed away on 1st September from MMHE East Yard to its location offshore Sarawak, East Malaysia. The project, totaling 33,500 MT, was the largest offshore contract awarded by PETRONAS in 2013. SK316 was a major collaboration with Technip that went on to record 8,359,290 manhours with zero Lost Time Injury (LTI) as of 1st September 2015.

We also achieved a major milestone for the Malikai deepwater TLP with the smooth integration of the topside onto the hull. The 'superlift' technique, a record-breaking jacking and skidding feat at this scale, involved the lifting of the 13,800 MT topside to a-40 metre height and moving it 90 metres across to be lowered down onto the hull. It was safely completed within 11 days. Malikai TLP is another joint venture project with Technip together with its clients PETRONAS and Shell. We remain as Malaysia's only yard

MD & CEO'S REPORT

with deepwater fabrication capability with Malikai TLP adding on to past projects namely Kikeh spar and Gumusut-Kakap semi-submersible FPS. The integrated platform, the first of its kind in Malaysia, weighs 27,500 MT and will be deployed offshore Sabah, East Malaysia in water depth of around 500 metres.

Other ongoing project is Besar-A which involves the procurement, construction and commissioning of a WHP topside and the associated host tie-in work. The 5,100 MT project was secured in Nov 2014 with the jacket having been loaded-out in August 2015. The topside is scheduled to be delivered in June 2017. The other key project entails the fabrication of WHP topside and jacket, CPP jacket and bridge for the North Malay Basin Bergading complex. The aggregate 14,800 MT structure is expected to be delivered to the ultimate client, HESS E&P Malaysia by the middle of 2016, about 12 months after the first cut of steel.

For our offshore business, we secured an estimated RM760 million worth of new contracts in 2015. Baronia CPP is one of the major projects that were secured in May 2015. It involves the fabrication of jacket, bridge, piles, appurtenance and relevant auxiliaries totaling 11,000 MT. The project is for the integrated Baram Delta Gas Gathering II and Baronia EOR work offshore East Malaysia which was secured from Hyundai Heavy Industries with the ultimate client being PETRONAS. The first cut of steel took place in October 2015 and is scheduled for delivery in March 2017.

MHB reached a major milestone when it was awarded a series of piping, mechanical and structural subcontract works for the RAPID project within the second half of the year. The four packages secured were Package-5 for the centralised piping fabrication for a steam cracker complex and the piping and steel structure work for the refinery of gas area, both of which are from Toyo Engineering; Package-3 electro-mechanical, piping and structural work from Technicas Reunidas (in a consortium with China's Huanqiu Contracting & Engineering Corporation); and Package-22 plate structure fabrication work from Punj Lloyd.

MHB was also awarded the EPCC of the WHP topside and jacket and the system tie-ins of the new F12 platform as well as system tie-ins modification of the existing platform. The F12 facilities are located in the Kumang Cluster gas fields, 180 km offshore Bintulu, Sarawak. The project, which was awarded by PETRONAS, is scheduled for

MD & CEO'S REPORT

LNG carrier drydocking in MMHE

Installation of SK316 CPP Topside offshore

THE TRANSFORMATION INITIATIVES AND YARD OPTIMISATION, WITH KEY FOCUS ON NEW MARKET VENTURES, COST MANAGEMENT, IMPROVED PROCESSES AND PRODUCTIVITY MEASURES; WILL HELP US TO BE MORE COMPETITIVE AND TO PENETRATE RELATED AND SUSTAINABLE BUSINESSES.

delivery within 12 months from the signing of the letter of acceptance. Other notable OBU projects secured for the year are the Facilities Improvement Project from PCSB, Kanowit Hook-Up and Commissioning and NMB External Turret.

MARINE BUSINESS UNIT (MBU)

2015 was another busy year for MBU. Following our initiatives to increase MHB's competitiveness, we have successfully expanded the marine repair business. MBU recorded substantially higher revenue of RM464.3 million in 2015 compared to RM252.8 million in the preceding year.

This was due to higher value of work per vessel secured, namely the conversion and refurbishment of FSOs and MOPU projects and the major repair works of LNG vessels, among others. Key projects during the year include repair and/or life extension for LNG Ecopia for Hyundai, LNG Puteri Intan, LNG Puteri Delima and LNG Puteri Nilam for MISC Berhad, EP7 MOPU conversion for a Singapore-based client and FSO MAMPU-1 conversion and FPSO Cendor refurbishment for MISC Berhad.

MD & CEO'S REPORT

Projects in Marine Repair Business Unit

We made further breakthrough by securing enbloc agreements from clients in South Korea, Canada, Indonesia, Taiwan as well as Malaysia. Some of the bookings for the 23 vessels are scheduled until year 2020. New contracts for a major FSO conversion, repair works on LNG and LPG carriers as well as other diversified vessel types completed an outstanding year for the marine segment.

For the second successive year in 2015, MBU recorded a full occupancy of 15 vessels repaired simultaneously. On top of the work completion on 12 LNG carriers which included the repair life extension for the three MISC Berhad's vessels, the marine business also secured and delivered international clients' refurbishment projects i.e. Knutsen OAS Shipping AS (Denmark), Hyundai Ocean Service Co. Ltd. (Korea) and SK Shipping Co. Ltd. (Korea). The year saw a healthy dose of 27 returning and 16 new clients.

SUBSIDIARIES, ASSOCIATES AND JOINT-VENTURES (JVS)

Technip MHB Hull Engineering Sdn Bhd (TMH)

For the year under review, TMH was primarily focused on providing engineering support to the Malikai TLP project. Responding to market needs, we expanded our capabilities and capacity in the area of marine systems design, enabling the Company to make a unique offering of multi-disciplined skills in the offshore hull and marine engineering market. It also provided MHB with direct access to engineering solutions required to execute projects for floating production facilities such as FPSOs, FSOs, TLPs, semi submersibles and SPARs.

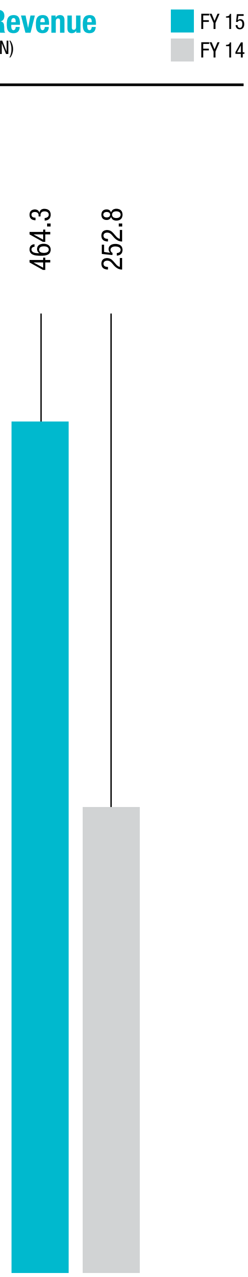
MMHE-ATB Sdn Bhd

MMHE-ATB Sdn Bhd is a joint venture between MHB (40%) and ATB Riva Calzoni (ATB) (60%), an Italian manufacturer of pressure vessels and other thick-walled equipment that are used in extreme pressure and temperature conditions and handling of corrosive products. The joint venture company mainly fabricates pressure vessels and related process equipment. Its strategic location near the project site at Pengerang, Johor has improved MHB's prospects of obtaining fabrication contracts for RAPID projects. Given ATB's manufacturing technology and expertise, the joint venture is seeking opportunities in other industries such as hydroelectric power and steelwork industries.

BUSINESS TRANSFORMATION

On 16 February 2015, MHB launched its new integrated training facility known as the Centre of Excellence ("COE"), located at Pasir Gudang, Johor. The Company's first-of-its-kind facility was developed with the objective to provide training and competency development and on applying hands-on technical programmes. The Management

Total Revenue
(RM'MILLION)



MARINE BUSINESS UNIT (MBU)

MD & CEO'S REPORT

MBU HAS RECORDED SUBSTANTIALLY HIGHER REVENUE OF RM 464.3 MILLION IN 2015 COMPARED TO RM 252.8 MILLION IN THE PRECEDING YEAR.

recognises the value in continuously enhancing the workforce skill and competency in various technical and professional disciplines which are critical to our operations and future success.

The COE is a significant accomplishment for developing the company's human capital. In addition, it has been made 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 state-of-the-art training facilities such as simulators for confined space, scaffolding, and an auditorium.

YARD OPTIMISATION (YO)

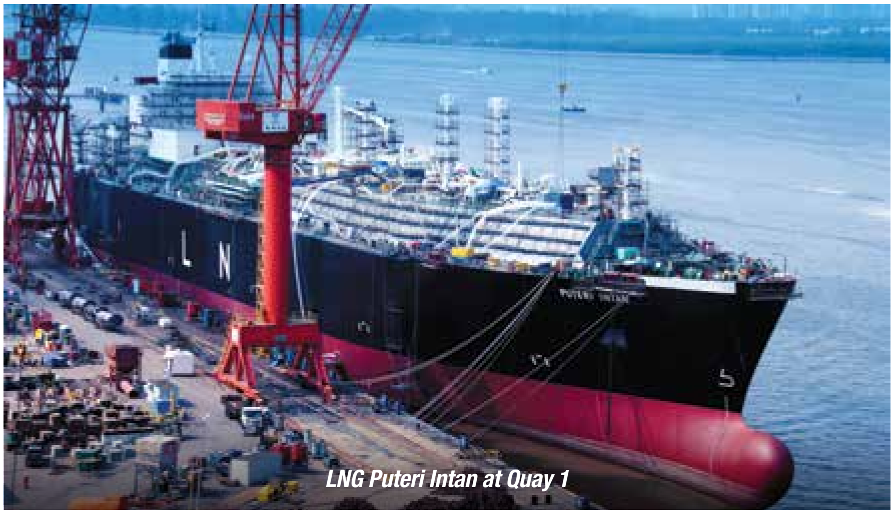
The Company's cumulative YO capital expenditure as at December 2015 was RM1.25 billion, with RM99.0 million spent in the financial year 2015. Notable projects completed in 2015 include:

- In July 2015, a Centralised Piping Workshop Phase II was completed. It was for the conversion of Workshop 1 and 2 for Carbon Steel Pipe Spool Blasting and Painting Workshop which is equipped with air compressor and piping system, blasting and painting equipment, dehumidifier and dust collector and paint arrestor systems. The cost saving to be derived from this is in the form of reduction in unit cost per diameter inch for pipe spool pre-fabrication.

- The new Centralised Warehouse consisting of Warehouse 1 to 5, Office and the Paint and Chemical Store were completed in stages up to October 2015. With the new warehouse, the Company has eliminated the need for the rental of external warehouse, thus reducing transportation and logistics costs. Enhanced project productivity is also anticipated from the expedited work between supply chain management and warehouse.

- In October 2015, a new Blasting and Painting Chamber Structure with an aggregate built-up area of 11,184 square meters was completed. The new facility replaces the previous work practice in an uncontrolled or temporary environment, thus ensuring zero compromise on quality and wastage as well as enabling the recycling of blasting material. The new Blasting and Painting Workshop now has a capacity of 5,500 MT per month.

TLP Malikai Project



LNG Puteri Intan at Quay 1

MD & CEO'S REPORT

Shiplift facilitiy at MMHE West

- Whilst most of our YO projects are related to our core business activities, we also completed several projects that enhance the working conditions and the competency of our over 3,000 warga MHB. This includes a new Recreational Building that houses a central canteen and indoor sports arena that were completed in August 2015. The energy-efficient building is set in an ambient condition of natural air ventilation. Finally, as mentioned in the earlier section, the COE was completed and utilised for training purposes during the year.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

HSE remains MHB's top priority. We are creating a safe working environment where no one is harmed and which minimises our impact on the natural and social landscapes. Our HSE policies, developed according to international industry standards and best practices, reflect our unwavering emphasis on safety, reliability and operational effectiveness.

In the financial year 2015, we recorded 27.82 million manhours. Our Total Recordable Case Frequency (TRCF) stood at 0.43 which was an improvement from 0.69 in the year before. Our LTI Frequency (LTIF) of 0.11 was below the 0.12 targeted.

OUTLOOK AND PROSPECT

World oil prices are projected to remain depressed well into 2017. At the time of writing, the Brent crude oil price slumped to well below USD30 per barrel, a level not seen in 12 years, with no sign of recovery foreseen. National oil companies and international oil majors such as Shell, BP and ExxonMobil are expected to slash their spending more aggressively. As a result, contracting and servicing companies in the upstream segment will continue to be adversely affected by way of further project deferments and cost cutting measures by clients.

PETRONAS is expected to undergo another round of cuts in its capital and operating expenditure by as much as RM50 billion over the next four years, starting with RM15-20 billion in 2016. Despite the cutback, a number of projects may be accorded higher priority due to their crucial long-term impact such as the RAPID project and selective others, including the Pacific Northwest LNG project in Canada. We are also increasingly focusing on the onshore segment as well as on the smaller segment within the relevant oil and gas sector value chain. MHB will also critically evaluate potential diversification opportunities as it sees fit.

Our marine business is projected to remain vibrant. The shipping segment will continue to benefit from low oil prices. The strong tanker rates as a result of stockpiling activity of crude oil coupled with low bunker cost for vessel will translate into positive business volume for our repair and refurbishment business. To a certain extent, the expected growth of our marine segment will mitigate the slowdown of the offshore unit.

APPRECIATION

I wish to express my sincere gratitude to the Board of Directors for their guidance and support to the Management team. To my Management colleagues whom I value, the downturn has provided us the opportunity to embark on a new strategy which we had earlier identified as well as to enhance our business process and initiatives.

My appreciation goes to the commitment and perseverance shown by our employees, without whom we would not have made the positive stride to what we are now. To all our partners, customers and shareholders, I appreciate your loyalty and confidence in us.

We face an uncertain period in the future. With our concerted effort, I am sure that MHB is well-positioned to face the challenges as well as exploit new opportunities and deliver value in the long term to all the stakeholders concerned.

DATO' HAJI ABU FITRI ABDUL JALIL
Managing Director and Chief Executive Officer

BUSINESS OVERVIEW

12 JANUARY

MHB Secures En Bloc Contract from Pan Ocean

MHB was awarded an en bloc contract by South Korean company, Pan Ocean, to dry dock and repair six very large ore carrier (VLOC) vessels over 2015

10 FEBRUARY

World's Largest Ore Carrier Docks at West Yard

MMHE completed repair works on the world's largest ore carrier, Sea Beijing, on her first dock in West Yard, Pasir Gudang. Repair works were also done for inside water ballasting, cargo tank and motors, new installation of the panama chock and overhauling of her sea valve.

The VLOC is owned by STX Marine Services. Sea Beijing is also the first vessel to dock at MMHE under the en bloc contract signed with Pan Ocean.

INFORMATION ON SEA BEIJING:

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

BUSINESS OVERVIEW

16 FEBRUARY

MMHE Centre of Excellence is Launched

MHB, officially launched its new integrated training facility known as the MMHE Centre of Excellence (COE), located at Jalan Pekeliling in Pasir Gudang, Johor.

The Company's first-of-its-kind facility was developed to provide training and competency development in a safe environment and to apply hands-on technical programmes which are crucial in the real working environment.

The COE is available to partners, vendors, subcontractors and clients. The four-acre training complex is equipped with state of the art training facilities such as simulators for confined space, scaffolding, and an auditorium.

9 MARCH

Load out of WHP Jacket for SK316 Project

On 8 March, MHB completed the load out of the SK316 well head platform jacket and piles for the development of two gas fields in Block SK316; located about 180km north of Bintulu, Sarawak at a water depth of 104 metres.

On the next day, the shifting of the 2,418 MT jacket and piles took place and were successfully maneuvered into position, crossed over onto the barge and reached its final position.

BUSINESS OVERVIEW

15 APRIL

SPIKE visits MMHE West for Repair Works

MHB completed the repair and maintenance works on an oil product tanker, SPIKE, during her stopover at MMHE West.

Owned by Genel Denizcilik Nakliyati AS of Turkey, work on the oil tanker included hull cleaning, blasting and painting, dismantling and overhaul of sea valves and cargo valves, load testing of provision crane and accommodation ladder, propeller dismounting, polishing and dye penetration test, stern tube seal replacement, overhaul and inspection of main engine and repair of the damage heating coil inside the cargo tank.

INFO ON SPIKE

Length : 250m
Breath : 44m
Draft : 21m

Gross tonnage : 61341T
Deadweight : 115,897T

BUSINESS OVERVIEW

30 APRIL

Refurbished Nautica Tembikai Sets Sail as a FOIS

MHB held a sail away ceremony for Floating Offshore Installation Ship (FOIS) Nautica Tembikai at MMHE West, Pasr Gudang, Johor.

The event was graced by the Chief Minister of Johor, YAB Dato' Seri Mohamed Khaled Nordin. Other VIPs present at the ceremony were Dato' Kamaruzzaman Abu Kassim, President & CEO Johor Corporation, Tuan Haji Ahamad Mohamad, Chairman of E.A. Technique Berhad, En Emry Hisham Yusoff, Senior General Manager, PETRONAS Resource Development, Malaysia PETRONAS Management, Mr Keith Collins, CEO Vestigo Petroleum Sdn Bhd and Dato' Haji Abu Fitri Abdul Jalil, MD & CEO MHB.

Belonging to local shipping company E.A. Technique (EAT), the vessel arrived at MMHE West for repair and refurbishment work including installation of new items such as a helideck, lifeboat, hose platform, deck sheave, spread mooring anchor stoppers and man riding crane. EAT engaged Bureau Veritas (BV) as a classification society, in compliance with classification rule and international regulations. MT FOIS Nautica Tembikai is currently chartered by Vestigo Petroleum Sdn Bhd as a storage oil tanker with offloading facility.

The FOIS project was completed safely and on schedule, recording a total of 202,171 man-hours without any lost-time incidents.

INFO ON FOIS NAUTICA TEMBIKAI

Length : 182m
Breath : 32m
Draft : 19m

Gross tonnage : 28,433T
Deadweight : 47,172T

BUSINESS OVERVIEW

5 MAY

Handover & Naming Ceremony of Mobile Sea Base

MHB and its parent company MISC hosted the hand over and naming ceremony of the mobile sea base 'Tun Azizan'. The name 'Tun Azizan' was chosen for the vessel as a tribute to the late Tun Azizan bin Zainul Abidin who was PETRONAS President, CEO and Chairman from 1988 to 2004. The mobile sea base was named by the Lady Sponsor Toh Puan Noor Ainee Che Teh, wife of the late Tun Azizan.

Repair works included the engineering, procurement, construction, installation and commissioning (EPCIC) contract to refurbish and convert the cargo vessel to be the first sea base concept in Malaysia and South East Asia.

The project was completed within a very tight deadline of 161 days and it recorded over 199,000 man-hours.

HIGHLIGHTS

- The vessel is the first sea base concept in Malaysia and South East Asia
- Able to accommodate up to 99 passengers
- Other facilities include comfort rooms and sick bay, meeting rooms & offices, and firefighting and life-saving equipment
- All features and equipment are fitted according to the technical requirements of the Malaysian Armed Forces (MAF)

BUSINESS OVERVIEW

6 MAY

MHB Bags 2-Year Contract for 6 Vessels & Commitment for Docking Works

MHB achieved another milestone by signing its first en bloc contract with a Canadian shipping company, Expedo Ship Management Company (Canada) Ltd - known to many as one of the toughest markets to enter.

The Marine Repair Business Unit sealed a contract for 6 vessels for year 2014/2015 as well as succeeded in securing a commitment for future docking works for year 2019-2020.

These achievements showcased the capabilities of our yard, our people and the clients' trust in MMHE. It provided MMHE the window of opportunity to obtain more clients from the North American region.

25 MAY

MHB Hosts its 26th AGM

MHB held its 26th Annual General Meeting (AGM) at the One World Hotel, Bandar Utama, where shareholders reviewed the Group's annual performance. Close to 400 shareholders and proxies attended the AGM to vote on and approve the resolutions tabled.

BUSINESS OVERVIEW

15 JUNE

MMHE unit wins RM324mil contracts

KUALA LUMPUR: Malaysia Marine and Heavy Engineering Holdings Bhd's (MMHE) wholly-owned unit, Malaysia Marine and Heavy Engineering Sdn Bhd, has secured RM324mil worth of contracts from Petronas Carigali Sdn Bhd, Hyundai Heavy Industries Co Ltd, MISC Bhd and EA Technique (M) Bhd.

The contracts are for offshore structural component fabrication work, hook up and commissioning and related topside construction work for facilities improvement project as well as for marine repair and conversion works.

MMHE managing director and chief executive officer Abu Fitri Abdul Jalil said the company had already secured close to RM400mil worth of projects year-to-date.

But, it was still reasonably optimistic of building up its order book and actively bidding for a number of sanctioned projects domestically and internationally.

"The award of these projects is also a reflection of our commitment to project execution and delivery that are critical in the upstream oil and gas sector.

"MMHE continues to place emphasis on quality and cost within our core business segments as part of our ongoing transformation initiatives," he said in a statement yesterday.

The first contract was from Hyundai Heavy Industries for the fabrication of substructure and bridge for the Baronia CPP-B project, off shore Miri in Sarawak.

The second contract saw MMHE appointed as Petronas Carigali's contractor for the Facilities Improvement Project Package C Peninsular Malaysia offshore operations.

The third contract is a repair life extension project and dry-docking for two liquefied natural gas carrier vessels for MISC namely *Puteri Intan* and *Puteri Delima*.

The last contract is for the conversion of a vessel into a floating, storage and offloading facility for EA Technique. – Bernama

MMHE secures RM324m worth of contracts

MHB's unit bags four jobs worth RM324m

MHB Secures Fabrication Contracts and Marine Repair, Conversion Works Worth RM324 Million

MHB via its wholly owned subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE), has secured contracts worth RM324 million which involve offshore structural component fabrication works; hook up and commissioning and related topside construction work for facilities improvement projects as well as for marine repair and conversion works.

The first contract is for the fabrication of substructures and bridge for the Baronia CPP-B project. The substructure consists of jacket, piles, appurtenance and relevant auxiliaries and services where MHB will be the subcontractor for Hyundai Heavy Industries Co Ltd. The CPP project is for the Integrated Baram Delta Gas Gathering II (Bardegg II) and Baronia enhanced oil recovery (EOR) project offshore East Malaysia. The total estimated weight of these structural components under MHB's scope is 10,736 metric tonnes and are due for load out and sail away to the ultimate client, PETRONAS Carigali Sdn Bhd (PCSB) in March 2017.

For the second contract, MHB has been confirmed as the contractor for PCSB – Facilities Improvement Project Package C: Peninsular Malaysia offshore operations. MHB will provide facilities improvement work that entails hook up and commissioning, major construction such as topside modification, structural and mechanical retrofit and other related works and services. The contract tenure is for two years from June 2015 until June 2017 with the option of a 1-year extension.

The third project is a repair life extension project and dry-docking for two LNG carrier vessels for MISC, namely 'Puteri Intan' and 'Puteri Delima'. The scope of work involves reinforcement work, retrofitting and boiler repair among others. Both vessels, each at 73,519 deadweight tonnage, are scheduled to arrive in June and complete by early September this year.

The final contract is the conversion of a vessel into a FSO facility for E.A. Technique (M) Berhad that entails demolition, refurbishment and installation works. The vessel arrived at the yard in July 2015 and is targeted for sail away by end June 2016. Upon conversion and delivery, the FSO Nautica Bergading will be deployed for a full field development project for the North Malay Basin (NMB).

- Fabrication of the Baronia jacket, bridge, piles and appurtenance for central processing platform (CPP)
- Facilities improvement project for offshore operations
- Vessel repair and dry-docking for liquefied natural gas (LNG) carriers
- Vessel conversion to floating, storage and offloading (FSO) facility

BUSINESS OVERVIEW

16 JUNE

MHB Secures Local 2-year En Bloc Contract

MHB secured a 2-year en bloc contract for four vessels with a local shipping company, Chong Fui Shipping & Forwarding Sdn Bhd, for 2015-2016.

Sabah-based Chong Fui Shipping & Forwarding Sdn Bhd is a major player in the shipping industry. This contract demonstrates the industry's trust and confidence in Malaysia's national fabrication and marine repair yard.

10 AUGUST

Conversion of MAMPU 1 Completed Ahead of Schedule

MHB safely completed its fourth conversion for 2015 with the delivery of MAMPU 1 ahead of schedule.

The ceremony was graced by the Lady Sponsor, Mrs Amanda Collins together with the guest of honour, Mr Keith Collins, the Chief Executive Officer of Vestigo Petroleum Sdn Bhd and Captain Rozali Hamzah (SGM, Operations, Offshore Business Unit, MISC Berhad).

Guests from the Malaysian Petroleum Management of PETRONAS and Vestigo were also present to witness the event where the product tanker was officially named by Mrs Amanda Collins.

MHB was awarded a contract by MISC in December 2014 to convert the container vessel into a marginal mobile production unit. Major works included the fabrication and installation of a helipad, flair tower, metering skid, crude oil separator unit, spread mooring platform, pedestal crane, forward & aft offloading platform and upgrading of the telecommunications system.

This project also recorded 320,000 man-hours with no lost time injury (LTI).

INFO ON MAMPU 1

Length : 182.5m
Breath : 32m
Draft : 12m

Gross tonnage : 26,912T
Deadweight : 47,297T

BUSINESS OVERVIEW

1 SEPTEMBER

SK316 CPP Topside Sail Away

The SK316 central processing platform (CPP) topside safely sailed away from MMHE East, witnessed by the SK316 project team, clients and subcontractors.

The CPP topside which weighed 13,696 MT, has recorded 8,359,290 man-hours without lost time injury (LTI).

FACTS & FIGURES OF SK316 NC3 GAS DEVELOPMENT PROJECT:

Load out on 27th August
Sail away on 1st September

Award date	:	7th November 2013
1st cut	:	16th December 2013
Client	:	PCSB

Bintulu Sarawak

Water depth	:	104m
Weight	:	Topside CPP 12387 MT ,WHP 1281 MT,
Jacket & piles	:	4179 MT (WHP) / 14665 MT (CPP)
Bridge	:	469 MT

- The project NC3 gas field is located in SK316 Block, approximately 200km offshore, north of Bintulu, Sarawak. The water depth in the NC3 field is around 104m-107m. The development of the NC3 field will be in a complex-type configuration.
- NC3 will be made the hub for the SK316 gas development which includes a future NC8 Wellhead platform. The NC3 Complex comprises a Central Processing Platform (CPP), a bridge-linked Wellhead Platform (WHP) and a future bridge-linked Compressor Platform.
- The platform facilities include piping, mechanical, electrical, instrument system, flowlines and interfield pipeline which shall be designed for 25 years. Design life for structural and trunkline are for 30 years.
- The NC3 CPP will be a manned platform with Living Quarters and a bridge linked to NC3 WHP and in future, to the NC3 Compression platform as well.

BUSINESS OVERVIEW

7 SEPTEMBER

MMHE & EPIC sign MoU for Drydocking & Fabrication Collaboration

MHB via its subsidiary, MMHE, signed a memorandum of understanding (MoU) with Terengganu's state-owned company, Eastern Pacific Industrial Corp Bhd (EPIC) to collaborate on specialised fabrication jobs and the maintenance of offshore and onshore facilities including maintenance work for topsides and petrochemical plants.

MMHE will provide dry docking and heavy engineering expertise, while EPIC will cater to specialised fabrication and shutdown services as well as the upgrading and maintenance of piping, columns and vessels.

The Terengganu Menteri Besar, Datuk Seri Ahmad Razif Abdul Rahman, was present to witness the signing ceremony.

11 SEPTEMBER

MHB Completes Major Milestone For Malikai Deepwater Project

MHB's Technip-MMHE Joint Venture (TMJV), together with its clients PETRONAS and Shell, have safely integrated the topsides of its Malikai deepwater platform onto its hull, at MMHE West, Pasir Gudang, Johor. This superlift technique, completed safely and on time, is the world's first jacking and skidding at this scale. This is the first Tension Leg Platform (TLP) designed and fabricated in Malaysia and helps realise Malaysia's aspiration to be the main hub for deepwater development in this region. This joint venture also allows transfer of knowledge, technology and capability to Malaysian yards.

In July, a platform was manoeuvred at a record-breaking height. Specially-built structures lifted the 13,800 MT topside – which includes production equipment and living quarters – to a height of 40 metres before moving 90 metres across and lowering down onto the hull. The operation was completed in just 11 days, followed by weeks of integrating systems and testing. In total, the integrated platform – the first of its kind in Malaysia – weighs 27,500 MT.

FACTS & FIGURES OF MALIKAI DEEPWATER TLP

Location : 100 km off Sabah, Malaysia
Total weight : 27,500 MT
Water depth : Around 500 metres (1,640 feet)
Average peak annual production : 60,000 bbl/d

BUSINESS OVERVIEW

22 DECEMBER

MMHE secures RM527mil contracts

PETALING JAYA: Malaysia Marine and Heavy Engineering Holdings Bhd (MMHE) has secured a contract for offshore structure fabrication works in the Kumang Cluster gas field in Sarawak, as well as several works packages for the Refinery and Petrochemical Integrated Development (Rapid) project totalling RM527mil.

The first contract was awarded by Petronas Carigali Sdn Bhd to Malaysia Marine and Heavy Engineering Sdn Bhd, a wholly owned subsidiary of MMHE.

The group said in a statement that the first

MHB secures fabrication deals worth RM527m

MHB Secures F12 Wellhead Platform, and Piping and Plate Fabrication Contracts Worth RM527 Million

MHB via its subsidiary, MMHE, has secured contracts worth RM527 million for offshore structure fabrication works and the Refinery and Petrochemical Integrated Development (RAPID) electro-mechanical, piping and structural works.

The first contract entails the engineering, procurement, construction and commissioning (EPCC) of the WHP topside and jacket, telecommunication and instrumentation system tie-ins of the new F12 platform and telecommunication and instrumentation system tie-ins modification of the existing platform. The F12 facilities is located in the Kumang Cluster gas fields, 180km north-west of Bintulu, Sarawak in a water depth of 101m. The project, which was awarded by PETRONAS Carigali Sdn Bhd, is scheduled for delivery within 12 months of the signing of the Letter Of Award.

Earlier in August, MHB had secured two contracts for the RAPID project from Toyo Engineering Corporation. The first involves centralised piping fabrication for the Package-5 steam cracker complex. The primary fabrication work is expected to end in December 2016 and the overall completion in April 2017. The subsequent contract is the piping and steel structure work for a steam cracker complex at the refinery of gas (RoG) area.

For the fourth contract, MHB, in a consortium with China Huanqiu Contracting & Engineering Corporation (HQC), has been awarded the electro-mechanical works for RAPID Package-3. The project is inclusive of pipe rack, flare tower, mechanical, piping electrical & instrument and insulation. The contract was awarded by Technicas Reunidas and is expected to commence in January 2016 and complete in July 2017.

MHB has also been awarded another RAPID subcontract work by Punj Lloyd Sdn Bhd for RAPID Package-22. The scope of work involves plate structure prefabrication, fabrication, painting, rolling and blasting. The contract is expected to commence in December 2015 and complete in 2016.

BUSINESS OVERVIEW

On-Going Projects
(as at 31st December 2015)

Sabah Shell Petroleum Company Limited

Fabrication of Malikai Deepwater Tension Leg Platform

Hyundai Heavy Industries Co. Ltd

Fabrication of well head platform and its jacket, the connecting bridge, and heavier jacket for the central processing platform for the North Malay Basin (NMB) Bergading Complex

Fabrication of the Baronia jacket, bridge, piles and appurtenance for central processing platform (CPP)

PETRONAS Carigali Sdn. Bhd.

Fabrication of the Besar–A well head platform and its jacket as well as the associated host tie-in work

Facilities Improvement Project Package C - Peninsular Malaysia offshore operations

Kanowit PFLNG 2 Tie In Project operations

E.A. Technique (M) Berhad

Conversion of a vessel into a FSO facility (FSO Nautica Bergading)

SOFEC, INC.

Fabrication of FSO North Malay Basin External Turret

SHARE PERFORMANCE

Month	Volume	Price
Jan-16	8,004,700	0.96
Dec-15	13,674,000	1.00
Nov-15	18,464,400	1.07
Oct-15	44,354,400	1.10
Sep-15	46,230,500	1.04
Aug-15	22,727,200	1.01
Jul-15	13,461,300	1.14
Jun-15	29,933,800	1.21
May-15	19,560,700	1.22
Apr-15	34,723,200	1.22
Mar-15	32,054,900	1.21
Feb-15	33,380,900	1.36
Jan-15	94,383,600	1.57

FINANCIAL CALENDAR

financial year

2015

27 APR 2015, MONDAY

Q1 FYE 2015
RESULTS ANNOUNCED

23 JUL 2015, THURSDAY

Q2 FYE 2015
RESULTS ANNOUNCED

3 NOV 2015, TUESDAY

Q3 FYE 2015
RESULTS ANNOUNCED

financial year

2016

3 FEB 2016, WEDNESDAY

FYE 2015 FULL YEAR
RESULTS ANNOUNCED

3 FEB 2016, WEDNESDAY

FINAL DIVIDEND
ANNOUNCED

18 APR 2016, MONDAY

ANNUAL GENERAL
MEETING

SUSTAINABLE PROGRESS

MHB IS A CONSTITUENT OF THE FTSE4GOOD BURSA MALAYSIA INDEX FOR DEMONSTRATING GOOD ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") PRACTICES AMONG MALAYSIAN PUBLIC LISTED COMPANIES.

MHB IS LISTED AT NUMBER 25 IN THE MALAYSIAN MINORITY SHAREHOLDER WATCHDOG GROUP ("MSWG")'S TOP 100 PUBLIC LISTED COMPANIES 2015.

ENTERPRISE

Enterprising As A Team : We are at our best when we work as a team, respecting each other while pushing the boundaries of innovation

ABOUT
THIS STATEMENT

ABOUT THIS STATEMENT

MHB HAS VOLUNTARILY TAKEN THE CORPORATE INTEGRITY PLEDGE WITH THE MALAYSIAN ANTI-CORRUPTION COMMISSION.

Throughout this Statement, MHB provides an insight into the way we address sustainability across the business, the challenges we face and the progress that we have made. Each year, we strive to continuously apply new and innovative solutions and gradually embed sustainability within our management. Our approach to sustainability underpins our commitment to act in a responsible and ethical way. This Statement reflects MHB's activities from January 1, 2015 to December 31, 2015 (unless otherwise stated) and our progress towards our goals.

This Statement has been prepared in accordance with 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 to describe the required indicators. Our focus has been on issues that are material to our business which best describe our impact and challenges. We have much to learn and will continue to improve the level of disclosure in our future reports. In order to quantify the progression of our sustainability commitment, the achievements in 2015 have been compared against previous years where possible.

SCOPE

The scope of this Sustainability Statement follows the scope and the boundary of this 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 our suppliers. We understand the business impacts that they may have on our economic, environmental and social integrity and require them to comply with our Code of Conduct and Business Ethics. We will be looking into how to incorporate more supplier-related information in the coming year.

SUSTAINABILITY AT MHB

Camp participants with MMHE staff volunteers and EcoKnights team in MHB Knights of Nature programme

INTRODUCTION

WE OPERATE IN A LANDSCAPE OF RISKS AND CHALLENGES.

If we are to build a strong and trusted business, we must more than weather the circumstances to emerge successful. Now is a good opportunity to evaluate and implement a holistic approach to the economic, environmental and social integrity of our business.

We are thus refining our overall approach and corresponding processes. Some areas such as health and safety are

SUSTAINABILITY AT MHB

reasonably well established in the organisation. Some new performance areas are more ambitious, especially as we will also be reviewing our environmental impacts. We will be able to report more extensively in 2016 with regard to these performance areas.

Underlying our direction is trust-building – we are honest and fair in what we say and do, because trust is the foundation of our business. Sustainability must be business as usual if we believe in the organisation and what it stands for.

Making Progress

We began thinking about sustainability of our operations in a more holistic way in 2014. However, as we weathered the downturn of our industry, our progress across performance areas has been challenging. 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 and gas industry.

Our efforts in managing our ESG performance were recognised through our inclusion in the FTSE4Good Bursa Malaysia Index in December 2015.

MHB was one of the Minority Shareholder Watchdog Group's (MSWG) Top 100 Public Listed Companies 2015. Over 850 Malaysian public-listed companies were rated based on disclosures using the ASEAN Corporate Governance Scorecard Methodology. This is a significant achievement for MHB as we are ranked the highest among the PETRONAS' direct and indirect public listed subsidiaries.

As we are impacted by global trends in the oil and gas industry, we are aware of the need to start conversations across the business about our sustainable practices and the need to incorporate more robust targets around resource efficiency, waste and energy consumption.

This means that we need to incorporate processes that can weather the technical, infrastructural and commercial challenges of our business environment. Such a focus is particularly important because doing business sustainably sets us apart from our competitors. Moving forward, we will disclose against the Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Statements in Annual Reports with an overview of risks and opportunities.

SUSTAINABILITY GOVERNANCE FRAMEWORK

Our systematic risk management framework, adopted from the PETRONAS Risk Governance Framework, is used to identify, evaluate and manage the principal risks of the Company and implement appropriate internal control systems to manage these risks.

The Board of Directors has entrusted the Board Audit Committee ("BAC") with the responsibility of risk management oversight. The BAC is supported by the Risk Council ("RC"). The RC is responsible for governance and risk oversight and co-ordinating 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

FTSE4Good

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

Our Total Recordable Case Frequency ("TRCF") reduced from 0.69 in 2014 to

0.43

in 2015

Underlying our direction is trust-building – we are honest and fair in what we say and do, because trust is the foundation of our business.

We need to start conversations across the business about our sustainable practices and the need to incorporate more robust targets around resource efficiency, wastage and energy consumption.

SUSTAINABILITY AT MHB

Subcontractor and vendor representatives pledged to fight corruption

responses also lies with the RC. The RC co-ordinates with the Group Corporate Planning and Development to identify and solve potential or existing issues.

The MHB 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. The 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 ("HSE") vision, mission, values, objectives, strategies, action plans, goals and resources; ensuring legal compliance and managing client expectations, standards alignments and industry best practices.

Group Corporate Communications currently helps oversee the implementation of sustainability practices in MHB and reports on sustainability matters directly to the MD & CEO. We plan to set up a cross-functional sustainability committee in 2016 in order to encourage more dialogue and discussions as we look to embed sustainability in a more integrated way in the organisation.

Our policies and systems in place to manage material sustainability matters

Category	Relevant Policies and Systems*
Economic	• MHB Anti-Bribery and Corruption Manual • Signatory to the Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission • Whistle-blowing Policy • Code of Conduct and Business Ethics • No Gift Policy
Environmental	• ISO 14001:2004 Certified Environmental Management Systems • Purchasing Manual
Social	• 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

* For more detailed information on some of our policies and systems, please refer to our website (http://www.mhb.com.my/EN/page/policies-guidelines/).

SUSTAINABILITY AT MHB

Code of Conduct and Business Ethics (“CoBE”)

MHB’s CoBE is adopted from PETRONAS. The CoBE 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 whistle-blowing.

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

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 2015, MHB conducted several integrity and awareness programmes for the employees such as:

- Corruption Risk Assessment (“CRA”) seminar was organised to understand corruption risk inherent in our operations. The input from the seminar with feedback from our Business Units and Service Units will be analysed and introduced as Red Flag or Corruption Risk Indicators (“CRI”)
- Roundtable Discussion on Embedding Integrity into the Corporate Culture in collaboration with PETRONAS
- Integrity Campaign and Vendor Integrity Programme in collaboration with PETRONAS for MMHE management and subcontractors
- Best Practices Anti-Corruption Awareness Programme by Malaysian Anti-Corruption Commission (“MACC”) and MHB
- Integrity Talk in collaboration with Malaysian Anti-Corruption Commission (“MACC”)

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.

Whistle-blowing

We have a whistle-blowing mechanism in place. No retaliation, reprisal or punishment will be taken against whistle-blowers. All whistle-blowers 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

Every individual in the Company is responsible for upholding our HSE policies and ensuring a safe workplace. Our aim is to set and maintain sensible and proportionate standards of health and safety management to ensure the well-being 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.

MMHE & CIO PETRONAS Integrity Campaign

SUSTAINABILITY AT MHB

Measuring the Price of Non-Conformance ("PONC")

Linking quality to customer satisfaction, continuous improvement and the Company's overall risk management strategy will be a focus for further development in 2016. In order to build a strong culture of quality in our business, we need first to be informed of the current state of affairs which in turn requires collection of information throughout the organisation.

PONC measurements act as tools to identify problem areas in quality management as well as how to prioritise improvements including cost-saving measures. Major non-conformance cases will be brought up to the Management through the Divisional Dashboard meeting. Some selected cases will be shared as case studies for future reference.

The outcome is to ensure awareness of quality to all levels throughout the Company and also acts as evidence of leadership in quality management.

Moving Towards an Integrated Management System

Restructuring of the previously disparate Quality and HSE procedures to a single structure known as Integrated Management System ("IMS") was led by Corporate QHSE in 2015. Quality procedures now encompass four levels including QHSE Manual, System Compliance, Specific Procedures and Standard Guidelines. The focus of this exercise was to revisit all existing 600 procedures and find ways to eliminate redundancy, streamline minimum compliance standards as well as to integrate or combine procedures that are similar in nature. As of December 2015, 75% of procedures have been reviewed and resolved.

Moving forward, external certification audits will also be approached as integrated audits so that it is more efficient in terms of audit man-days and saves costs. We anticipate Stage 1 and Stage 2 IMS audits by Bureau Veritas ("BV") to be conducted in the first quarter of 2016 with a target of obtaining the new IMS certification by early second quarter of 2016.

SUSTAINABILITY AT MHB

level I

QHSE MANUAL

System Fundamentals

- QHSE Manual – MMHE/QHSEM

level II

SYSTEM COMPLIANCE

System Compliance

- Quality and HSE Core Elements for yardwide compliance
- Provide minimum standard to be followed by respective business units and service units

level III

SPECIFIC PROCEDURES

Quality & HSE Specific Procedures

- General Procedures for respective processes in departments/projects
- HSE Procedures for specific activity or operation by Business Units and Service Units

level IV

STANDARD GUIDELINES

Guideline/Best Practice

- Guidelines to be followed as reference

MMHE INTEGRATED MANAGEMENT SYSTEM

Integrated Management System 2015

STAKEHOLDER ENGAGEMENT

We encourage two-way communications with all stakeholders and use various tools to ensure effective communications. In 2015, the Investor Relations team continued regular meetings with analysts, fund managers and shareholders to foster a constructive dialogue with the investment community.

We continued to actively engage with our customers and manage customer relationships, for example through courtesy meetings and yard visits. Several events open to customers were organised in 2015 such as Hari Raya celebration and friendly sporting matches. MHB took part in several exhibitions in our focus market segments that specifically target the oil and gas and marine industries. Some of the exhibitions MHB participated include:

- May 2015: Asia Oil & Gas Conference (AOGC) at Kuala Lumpur Convention Centre, Kuala Lumpur, Malaysia
- September 2015: Asia Oil & Gas Fiesta at Danga Bay, Johor Bahru, Malaysia
- October 2015: Asia Marine and Offshore Expo at Putra World Trade Centre, Kuala Lumpur, Malaysia
- October 2015: OTC Brasil 2015 at Riocentro, Rio de Janeiro, Brazil
- November 2015: Abu Dhabi International Petroleum Exhibition and Conference 2015 at Abu Dhabi National Exhibition Centre (ADNEC), United Arab Emirates

We maintained an open dialogue with our vendors and subcontractors and continued regular face-to-face engagement sessions with both groups in 2015. These meetings served also as a channel to share information concerning quality, HSE and necessary improvements. We also hosted a one-day event with selected vendors and subcontractors for both parties to raise and discuss practical concerns. The event, themed Towards Sustainable Partnership, helped us to reach mutual agreement on a range of matters. One of the highlights of the event was the discussion on enhancing HSE culture that received positive feedback and support from stakeholders.

SUSTAINABILITY AT MHB

Main engagement platforms in 2015

Stakeholder group	Engagement methods
Shareholders	• Quarterly Investor Relations Report • Company's Analyst Briefings • Corporate portal (www.mhb.com.my) • Roadshows (E.g. Asian Sharia Investor Conference organised by RHB Investment Bank) • Annual General Meeting (AGM) • One-on-one meetings • Research reports
Employees	• Goods and Services Tax (GST) Training • Handling disciplinary talks • Investor Relations workshops • Employee engagement exercise
Clients	• Client feedback exercise
Business partners	• Subcontractor assessments/evaluations • Supplier assessments/evaluations • Vendor dialogues
Communities	• Surveys • Town hall meetings • Community engagement programmes • Press releases
Trade union	• Town hall meetings • Face-to-face meetings
Civil society	• Community engagement programmes • Press releases • Face-to-face meetings
Government	• Town hall meetings

MATERIAL SUSTAINABILITY ISSUES

At present, 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 a list of material sustainability matters based on the GRI G4 Sustainability Reporting Guidelines and Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia. We will be performing a more thorough materiality exercise in the coming year which will enable us to identify and address some of our key sustainability issues.

SUSTAINABILITY PERFORMANCE ON MATERIAL ISSUES

Focused on Client Needs

We evolve with our clients and ensure that our services are tailored to their needs as well as meet industry standards. In 2015, we conducted a client feedback exercise to measure client satisfaction. The results were used to improve on the overall client experience and business performance.

At MHB, we work with a vast network of businesses and organisations, both upstream and downstream of the global oil and gas and marine sectors. As such, we are currently developing a structured client database to manage and retain client information in a more accessible and organised manner.

Supply chains that our customers trust

In 2015, the most important issue across our supply chain is efficient management. Our supply chain needs to deliver the best, within the required timelines whilst meeting all expected deliverables. The performance-driven culture works two ways – we need to be efficient internally in order for our supply chain to respond in the same way.

An efficient supply chain is fostered through greater engagement with our business partners. We conduct appropriate counterparty due-diligence to understand the business and background of our prospective business

SUSTAINABILITY AT MHB

partners. Amongst those checks is an assessment on elements of corruption. We expect all third parties acting for or on our behalf to share our values and ethical standards at all times.

Other business entities including joint ventures and associated companies that MHB does not have operational control over are encouraged to adopt the CoBE or relevant principles and standards. Transparent selection processes ensure equal opportunities to all vendors and subcontractors. MHB continued to enhance the transparency of the procurement processes and strengthen procurement capabilities.

We use ISO 9001:2008 Quality Management Systems to streamline our business operations. We perform periodic self-assessment exercises to ensure compliance with all quality standards. In 2015, three cycles of self-assessment were conducted with ratings of 78.3%, 83.1% and 83.9%. The self-assessment results showed that the MHB Quality Management Systems were satisfactory. Our ISO 9001:2008 certificate was renewed in 2015 without any non-conformance. Our Supply Chain Management Division has embarked on several initiatives to build strategic partnerships with key subcontractors and vendors, such as factory visits and development of strategic procurement partnerships with several suppliers and manufacturers in China and Korea.

Performance management is an integral part of supply chain management. The annual performance assessments of our key subcontractors and vendors are to ensure that they are meeting the contractual obligations regarding service levels and quality of services and products. The assessments are also used for seeking 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.

WE USE ISO 9001:2008 QUALITY MANAGEMENT SYSTEMS TO STREAMLINE OUR BUSINESS OPERATIONS. WE PERFORM PERIODIC SELF-ASSESSMENT EXERCISES TO ENSURE COMPLIANCE WITH ALL QUALITY STANDARDS.

The Best for Our People

Health and Safety

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. As a company whose operations involve heavy machinery and large structures, safety continues to be our first priority and we dedicate significant resources for ensuring our employees are protected at all times.

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 a certified management system in place, OHSAS 18001:2007 Occupational Health & Safety Management System.

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. 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 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.

Our awareness programmes and measures are showing results – with a reduction in the number of incidents resulting in injury during 2015 in comparison with previous years. Overall, no fatality was recorded in 2015. Our Total Recordable Case Frequency ("TRCF") improved to 0.43 from 0.69 in 2014. Our Loss Time Injury Frequency ("LTIF") of 0.11 met the target of 0.12 we had set for 2015. Despite our efforts, we still need to do more to improve overall safety management and regret that three Loss Time Injury ("LTI") cases were reported in 2015.

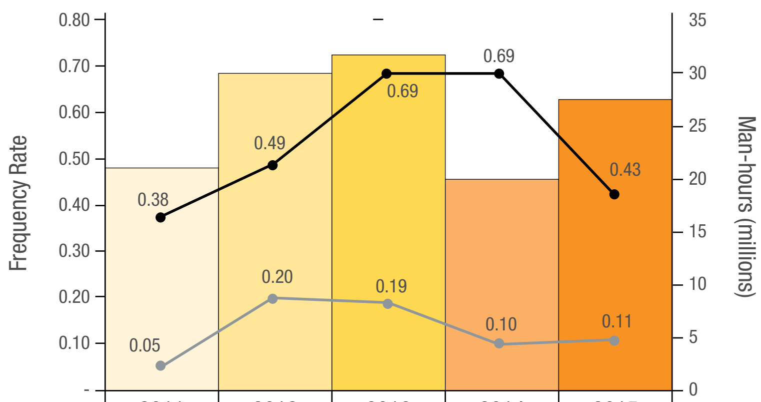
SUSTAINABILITY AT MHB

Major health and safety achievements

Recipients	Achievement	Projects / Vessel
MBU	10 marks for HSE rating / assessment	Sea Qiangdao, Kanaga Island, New Conquest, New Champion, New Confidence, Sea Tubarao, MAMPU, LNG SK Splendor, New Constellation
OPP	44,339 man-hours without LTI	Kanowit PFLNG Tie In Project
MHB	HSE Performance Excellence Award 2014	MHB by Offshore Business Unit MISC Berhad in conjunction with QHSE Day
OPP	500,000 man-hours without LTI	Besar-A Wellhead Project
OPP	500,000 man-hours without LTI	SK316 NC3 Gas Development Project
OPP	1.5 million man-hours without LTI	SK316 NC3 Gas Development Project
OPP	3 million man-hours without LTI	SK316 NC3 Gas Development Project
OPP	400,000 man-hours without LTI	NMB External Turret & Bergading FSO Project
OPP	5 million man-hours without LTI	Malikai TLP Deepwater Project
OPP	7 million man-hours without LTI	Malikai TLP Deepwater Project
OPP	2015 Safety Recognition for Hurt Free Operations by ExxonMobil Exploration and Production Malaysia Inc.	Tapis Enhanced Oil Recovery Project

Note-
MBU-Marine Business Unit
OPP-Offshore Business Unit, Project Service Unit, Project Management Unit

MALAYSIA MARINE AND HEAVY ENGINEERING SDN. BHD.
LOST TIME INJURY FREQUENCY (LTIF) AND TOTAL RECORDABLE CASE FREQUENCY (TRCF) AGAINST MAN-HOURS (2011 TO 2015)

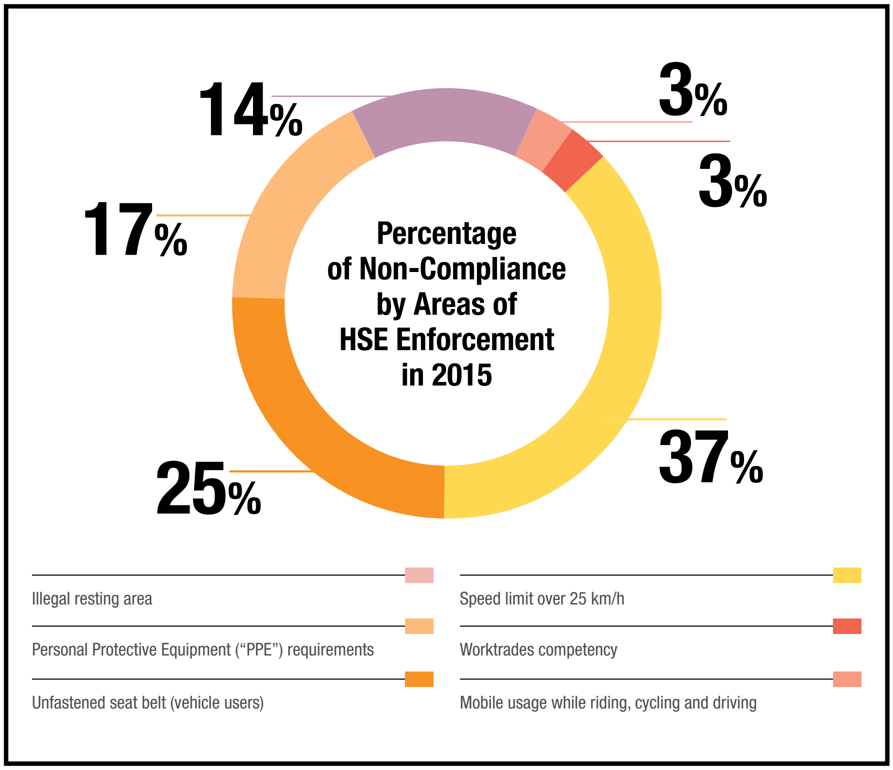


		2011	2012	2013	2014	2015
	Man-hours (millions)	21.04	30.32	32.01	20.15	27.82
	LTIF	0.05	0.20	0.19	0.10	0.11
	TRCF	0.38	0.49	0.69	0.69	0.43

SUSTAINABILITY AT MHB

Health and Safety Enforcement at MHB

In 2015, we recorded a total of 62 health and safety enforcement activities at MHB. Compliance to our MMHE 10 Safety Rules, Drug and Alcohol Policy as well as legislative requirements have been identified as key areas for enforcement. We track data on these areas and in 2015 most of the non-compliance issues in the yard were related to road safety. As a way forward, the HSE team has identified areas of improvement for employees as well as subcontractors through the HSE Culture Enhancement programmes. The programmes helped maintain a safe and healthy workplace as well as the value chain.



Occupational Health Industrial Hygiene - Chemical Exposure Monitoring

We conducted monitoring of chemical exposure on a yard-wide scale in 2015. The exercise covered employees who were exposed to inhalable dust, xylene, toluene, ethylbenzene, iron, nickel, chromium, aluminium and volatile organic compounds. The purpose of the monitoring exercise is to ensure that the level of airborne contaminants are within the limits specified by Occupational Safety and Health (Use and Standards of Exposure of Chemicals Hazardous to Health) Regulations 2000. We found our current control measures to be adequate. However, continuous efforts are needed to maintain the levels, including in the areas of signage, personal protective equipment and training.

In 2015, we also conducted the following health and safety awareness programmes:

- Chemical Management Campaign to create awareness among employees on our progress in implementing the Occupational Safety and Health (Classification, Labelling and Safety Data Sheet of Hazardous Chemicals) Regulations 2013 ("CLASS Regulations"). These Regulations ensure that suppliers of hazardous chemicals provide sufficient information on the hazards of the chemicals that they supply and mitigate the risk of accidents happening in the workplace
- Occupational Health Industrial Hygiene Walkabout and Health Talk led by MMHE Occupational Health Doctor ("OHD") Advisor, Dr. Kamaruzaman

Health and Safety Awareness

Emergency Response Team ("ERT")

Emergency preparedness is crucial due to the nature of our business as we need to be ready to manage incidents and emergency situations at any given time, across our operations. Our ERT acts as the first line of defence during emergencies.

In 2015, we conducted a total of 79 emergency practice drills on MMHE fixed assets, offshore projects as well as vessels. Various emergency scenarios were introduced, including firefighting, high-angle rescue, confined space rescue and medical emergency rescue. MMHE Tier-2 emergency drill was organised twice this year with the assistance of government authorities, Fire and Rescue Department of Malaysia and medical authorities. These two important emergency drills received positive responses from Fire and Rescue Department of Malaysia for good communication, collaboration, teamwork and ideas in co-ordinating the drill.

We also enhanced capabilities of our ERT through training. 70 employees attended the Civil Defence Emergency Response Team (Basic) training by the Malaysia Civil Defence Department. This cohort will strengthen our second-line response during emergencies. Participants received comprehensive training on basic firefighting and first aid. As recognition, MHB was awarded "Anugerah Organisasi Pasukan Keselamatan Kebakaran Terbaik 2015".

SUSTAINABILITY AT MHB

Sustaining Competent Internal Auditors

Our Auditor Development Programme ("ADP") ensures that we have capable internal auditors for our Quality, Health, Safety and Environment Management System. 14 employees attended an in-house lead assessor course which led to a certified qualification, through the International Register of Certificated Auditors. To support the ADP, we also organised Integrated Management System ("IMS") workshops. In 2015, several auditors had improved their achievements with four new auditors upgraded to "intermediate" level and six auditors upgraded to "experienced".

In 2015, 26 internal audits were conducted to verify quality assurance and compliance. 85% of all the findings were responded and closed within the timeline. We are working to improve the delivery response in the coming year.

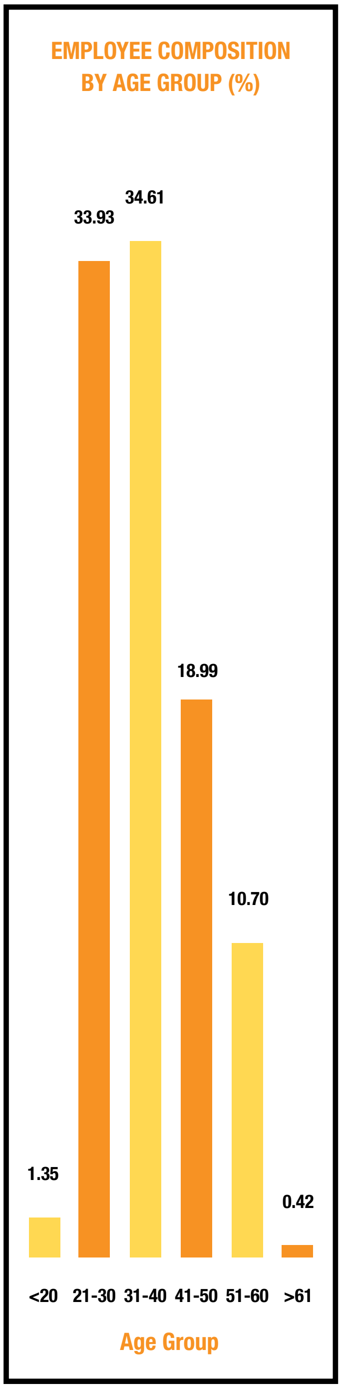
A Committed Workforce

We continue to place emphasis on human capital development by building the necessary capabilities and competencies as well grooming future leaders of the Company. When our employees grow, so does MHB.

As of 31 December 2015, we had 3,112 employees. We respect and promote employee diversity while practicing equal opportunity and recognize the contributions of each individual employee.

We operate in an industry that has been traditionally male dominated. We have 562 female employees, equivalent to 18.06% of our total workforce. Currently, one of the directors on the Board and two our Management Committee members are female. We believe that any new appointments should be based on merit and capability.

The turnover rate of our permanent employees stood at 33.18% in 2015.



SUSTAINABILITY AT MHB

78,169 hours of training,

particularly in the areas of leadership development, craft and safety

25 HOURS OF TRAINING PER EMPLOYEE

SOME TRAINING PROGRAMMES ORGANISED IN 2015:

- Business Acumen
- Understanding GST
- Maintaining and Retaining Gen Y
- Permit to Work
- Authorised Entrant & Standby Person ("AESP") for Confined Space

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. Our internal high potential employee training programme, called 'Hi- Po' is designed to retain talent within the Company through 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. A Talent Council ("TC") conducts talent reviews and "talent conversations" with the employees to monitor talent progression and provide regular feedback to further enhance our programmes our programmes further. In 2015, suitable internal candidates were identified for 29 critical positions in the Company.

Scaling New Heights Through Epsilon

We seek to attract the best graduates from the global talent pool and train them to be future leaders of MHB through our management trainee programme, 'Epsilon' that was launched in 2013. In 2015, 26 trainees who took part in this programme in 2013 successfully completed their training. They were offered full-time positions and are now permanent employees in different departments of MHB. Another 35 graduates comprising 30 Epsilon trainees and five Marine Accelerated Specialist Training ("MAST") trainees joined the Company in 2014. They are currently undergoing intensive job rotation and attend structured workshops to prepare themselves for greater challenges and responsibilities.

SUSTAINABILITY AT MHB

Centre of Excellence

We launched our learning centre for oil and gas and marine industries in 2015. Our Centre of Excellence ("CoE") offers short courses in four key areas: business skills, project management, various safety and craft training. The CoE's mission is to improve the competency of both our own workforce as well as of employees of subcontractors working in MMHE yards. During its first year of operation, the CoE trained a total of 2,973 employees in various leadership programmes (407 employees) and functional/technical programmes (2,566 employees).

The CoE is a reflection of our commitment to provide quality training and development programs for our workforce in addition to quality training courses to support Malaysia's oil and gas and marine industries. We signed a Memorandum of Understanding ("MoU") with the Ministry of Youth and Sports in 2015 to provide various short courses in safety and craft skills to meet the ongoing demand of oil and gas stakeholders, particularly to supply to the development needs of the Pengerang Integrated Petroleum Complex. The courses under the partnership will be jointly executed by Institut Kemahiran Belia Negara ("IKBN") and MHB's CoE.

Employee Engagement

We are a performance-driven organisation. The performance of our employees is assessed twice a year.

The individual Performance Management process in MMHE covers three key areas: Individual Performance Contract ("IPC"), Mid-Year Review ("MYR") and Year-End Review ("YER"). These are supported by ongoing feedback and coaching sessions. In 2015, 76% of employees graded N-4 and above were also engaged in an employee engagement survey. The survey covered Recruitment, HR Services, Talent Engagement, Learning & Development and Industrial Relations. Participant satisfaction was rated on average as 7 out of 10 for all areas covered.

The employee engagement survey is an example of our attempt to create a workplace with open and constructive communications. We encourage dialogue between employees and the senior management through our regular town hall sessions. To provide updates on the Company's financial and operational performance, two town hall sessions were conducted in 2015. Other employee engagement activities in 2015 included:

- MD & CEO Challenge Trophy
- Lunch & Learn Series
- Rumah Terbuka Aidilfitri MMHE 2015
- Blood Donation Campaign
- Doa Selamat dengan MD & CEO
- Sambutan Maulidur Rasul

SUSTAINABILITY AT MHB

To encourage high performance, we also have measures to reward and recognise our employees achievements and spirit of innovation as well as that of their children's through:

- 76 employees were awarded the Long Service Awards:
    - 20 years of service – 12 recipients
    - 25 years of service – 29 recipients
    - 30 years of service – 10 recipients
    - 35 years of service – 25 recipients
- 32 ideas were submitted for the Innovation Excellence Awards which aims to sustain a culture of innovation in the Company. 11 ideas have been implemented
- 28 employees' children received the Academic Excellence Awards for their excellent results in the major examination in primary and secondary schools in 2015

Human rights

We support and respect our employees' rights to form unions and bargain collectively. The Collective Agreement ("CA") is reviewed every three years. Our grievance procedure mechanisms are also stated in the CA. 497 employees were governed under the Collective Agreement as of 15th February 2016.

We do not tolerate any forms of discrimination at work, as clearly stated in our CoBE. Means of reporting is either by way of submitting a complaint through existing whistle-blowing channels or for those covered under CA, the Complaint Form. We follow all local legislation with regards to 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.

Long Service Awards 2015

Better Environmental Performance

We aim to minimise the impact of our operations on the environment. We are on track in achieving better environmental performance. We monitor all our activities to ensure compliance with rules and regulations of the local regulations as well as meeting all the requirements of the Petronas Technical Standard. We have had no reported cases of non-compliance with regard to statutory requirements. We are also at the final stage of conforming to PTS 18.72.03 for soil and groundwater contamination and specific requirements that are covered in HSE Mandatory Control Framework ("MCF") Sub-element 3.5 Soil and Groundwater Management. The Environmental Site Assessment ("ESA") phases I and II were successfully carried out in 2015.

SUSTAINABILITY AT MHB


Sludge storage and treatment building


Techno Indah Plant

Managing Greenhouse Gas ("GHG") Emissions

We have reported on our GHG data to MISC Berhad since 2014. The methodology used to calculate emissions is based on The Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development. It includes emissions of CO_2, NO_x, SO_2, PM_{10} and ozone-depleting substance such as Hydrochlorofluorocarbon-22 ("R22"). The process of monitoring our emissions has helped us better understand where GHG emissions occur and has facilitated information sharing across the Company. Managing GHG emissions is still a learning curve and we will be able to report more comprehensively in 2016.

Waste Management

Scheduled waste management is an issue of concern at MMHE. The significant amount of waste from our operations and financial and technical constraints make it a huge 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 in the yards were sent for recovery as valued waste.

We significantly improved the management of the spent blasting materials from the blasting process. Spent blasting materials are viable to be used by cement industries as sand replacement in blended cement. 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.

In 2015, we were given an approval from the Department of Environment ("DOE"), Malaysia on the "Special Management of Scheduled Wastes (Spent Garnet)" which enabled on-site treatment. The process is to segregate the paint chips from the spent garnet used during blasting activities. The 99% of treated garnet known as Garnet-R is used as an abrasive material for the water jet cutting industry. In addition to reducing resource use, we minimise the amount of waste sent to final disposal sites.

SUSTAINABILITY AT MHB

On-Site Recovery Plant

Our subsidiary, Techno Indah Sdn. Bhd. operates an onsite recovery facility was approved by the Malaysian Department of Environment ("DOE") to extend their scheduled waste code license in 2015. Some of the unrecoverable petroleum and natural gas from oil sludge, ship tanks and refinery and petrochemical plants are incinerated. Instead of being released into the surrounding environment as waste heat, the heat released during the combustion process is harnessed via a turbine to produce electricity for a shipyard.

Scheduled waste compliance

Code	Waste category
SW 308	Oil tanker sludges
SW 310	Sludge from mineral oil storage tank
SW 311	Waste oil or oily sludge
SW 314	Oil or sludge from oil refinery plant maintenance operation
SW 315	Tar or tarry residues from oil refinery or petrochemical plant

Caring for our Communities

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 flagship community programme, MHB Cares, is a three-year collaboration between MHB, EcoKnights, Johor Bahru District Office and the Jabatan Kebajikan Orang Asli Johor. Launched in December 2013, MHB Cares focuses on helping the Orang Asal Seletar fishing community of Kampung Pasir Putih to meet their needs for basic education, promote a healthy lifestyle as well as safe living conditions. Orang Asal Seletar are one of the indigenous groups living in Southern Malaysia and Singapore who live close to the coast. The livelihood of the fishing community have been impacted by development and pollution.

In 2015, we focused on skills development for the indigenous children and entrepreneurial awareness for the adults of the community. The adults were assisted in obtaining training and licensing from the local authorities to open a seafood restaurant. With the assistance of EcoKnights, two aquaponics systems to farm fish and grow vegetables were installed in the village. Members of the community were trained on the use and maintenance of the aquaponics systems. Separately, water filtration systems were donated to 23 household and talks on water hygiene were conducted.

As part of our volunteer activities, 17 children from the Orang Asal Seletar indigenous community and 10 MHB staff volunteers participated in a play-and-learn experience at Playsmart, in Petrosains Johor Bahru where the children were exposed to learning through play.

WE FOCUSED ON SKILLS DEVELOPMENT FOR THE CHILDREN AND ENTREPRENEURIAL AWARENESS FOR THE ADULTS OF THE ORANG ASAL COMMUNITY.

En Ausmal Kardin (left) handing over an Aquaponic project unit to community leader, Tok Batin Entel (centre)

SUSTAINABILITY AT MHB


Tree planting exercise at MMHE yard

MHB Knights of Nature Sustainability Camp

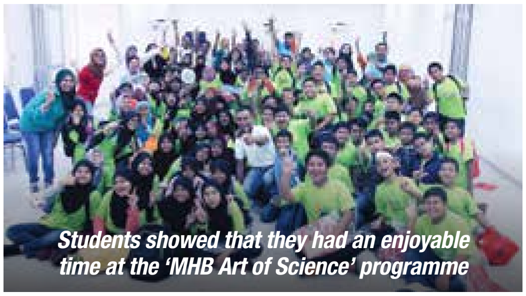
The MHB Knights of Nature Sustainability Camp is run in conjunction with the MHB Cares community programme. Open to young family members of MHB employees and for youth residing or studying in Johor, the sustainability camp aims to raise the level of environmental awareness; enhance understanding of sustainable lifestyles in a fun and creative ambience; and develop positive qualities like teamwork, leadership, time management and problem solving skills. The participants also learnt to implement sustainable actions in their daily lives.

In this year's camp, the participants used design-thinking as a methodology to address pressing issues that the Seletar community faces such as access to clean water, land rights and sustainable entrepreneurship. The programme was designed to bridge the gap between understanding indigenous issues and taking positive actions for these communities. In 2015, 52 students aged between 13 and 17 years participated in the two-day camp.

IN RESPONSE TO NATURAL DISASTER - MHB CONDUCTED A DONATION DRIVE IN JANUARY 2015 TO RAISE FUNDS FOR THE VICTIMS OF THE EAST COAST FLOODS.

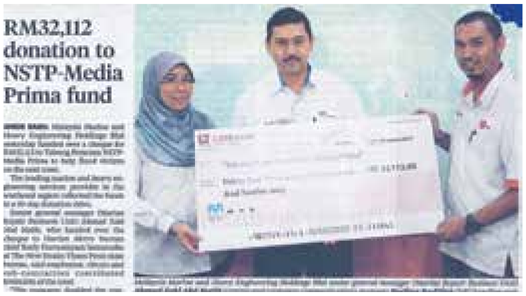
MHB Art of Science

MHB Art of Science is an annual series of educational events and activities that has been running since 2013. It aims to stimulate students' interest in science and technology. In organising the event for 2015, MHB collaborated with Petrosains Malaysia. Our employees' children in their fifth or sixth year of primary school took part in this programme in 2015.


Students showed that they had an enjoyable time at the 'MHB Art of Science' programme

Disaster Relief

In response to the flood disaster on the East Coast of Malaysia, MHB conducted a donation drive in January 2015 to raise funds for flood victims. Our employees, clients and subcontractors in Pasir Gudang and Kuala Lumpur donated RM16,056 and MHB further increased the donation to a total of RM32,122. The donation was directed to the affected communities through Media Prima's disaster relief fund.


RM32,112 donation to NSTP-Media Prima fund

SUSTAINABILITY AT MHB

Other community events in 2015:

- MMHE collaborated with Hospital Sultanah Aminah Johor Bahru to organise our annual blood donation drive at MMHE West. 157 employees and subcontractors took part and 102 pints of blood were collected
- We took part in the annual Environment Week of the Johor Department of Environment ("DOE") in Universiti Teknologi Malaysia ("UTM")
- We organised an iftar (breaking of fast) and a donation ceremony for 25 disadvantaged residents of Pasir Gudang together with Renaissance Hotel Johor Bahru
- MMHE's donation drive collected RM14,300.00 from its employees, clients and subcontractors in Pasir Gudang and Kuala Lumpur. The Company further increased the donation to a total of RM28,600 for the residents of Pasir Gudang, Asrama Kebajikan Ar-Rayyan, Rumah Seri Kenangan Old Folks' Home, Rumah Kebajikan Darul Hanan, Yayasan Pasir Gudang and some other local beneficiaries
- We contributed to the Pasir Gudang World Kite Festival 2015 that was organised by Majlis Perbandaran Pasir Gudang ("MPPG")
- We provided monetary support to the Futsal Tournament that was organised by Persatuan Pegawai Kanan Kastam Johor
- Contributed to Kesatuan Pekerja-Pekerja (trade union) Malaysia Marine and Heavy Engineering Sdn Bhd

WHAT'S NEXT FOR SUSTAINABILITY AT MHB

In 2016, we will be looking to:

SET UP A CROSS-FUNCTIONAL SUSTAINABILITY COMMITTEE
that will help in operationalising sustainability-related targets

UNDERTAKE A ROBUST
non-financial materiality assessment to identify the
IMPORTANT ISSUES TO TARGET

DISCLOSE MORE COMPREHENSIVE QUANTITATIVE DATA
to allow year-on-year comparisons

PUBLISH A STAND-ALONE
sustainability report to enhance transparency and accountability

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.

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 and annual budget and performance reviews;
- major investments, divestments and funding proposals;
- 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. The Board members also join the Management at the MISC Group wide annual session on External Environment Analysis ("EEA") & Sectorial Outlook whereby participants are presented with the macro-economic outlook and trends to facilitate understanding on the challenges and issues that lie ahead within the business environment in which the Group operates. Based on the guiding parameters provided by the Board and inputs obtained from the EEA session, 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 review and challenge Management's perspectives and assumptions applied in formulating the plan before endorsing the same to ensure the best outcomes are achieved.

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 58 to 77 of the Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

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 87 to 90 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 Whistle-blowing 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.

Additional details on these codes and policies can be found in the Sustainability Statement on pages 62 to 63 of the Annual Report.

3. Board Composition

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

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

On 1 January 2016, Tuan Syed Hashim bin Syed Abdullah was appointed as a non-independent non-executive Director of MHB as well as a member of the Board Audit Committee and the Nomination & Remuneration Committee in place of Captain Rajalingam a/l Subramaniam following the change of nominee director by MISC Berhad, the holding company of MHB.

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 14 to 23 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.

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 2015, eleven (11) Board meetings were held.

STATEMENT ON CORPORATE GOVERNANCE

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)	11 out of 11
Dato' Halipah binti Esa	11 out of 11
Heng Heyok Chiang @ Heng Hock Cheng	11 out of 11
Yong Nyan Choi @ Yong Guan Choi	11 out of 11
Choy Khai Choon	11 out of 11
Bernard Rene Francois di Tullio	11 out of 11
Yee Yang Chien	11 out of 11
Captain Rajalingam a/l Subramaniam	11 out of 11
Dato' Abu Fitri bin Abdul Jalil *Appointed on 1 February 2015*	10 out of 10*
Dominique de Soras *Ceased with effect from 28 February 2015*	2 out of 3*

- *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.

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 Section 139A of the Companies Act 1965 to act as Company Secretaries.

STATEMENT ON CORPORATE GOVERNANCE

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 one female Director on the Board.

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. Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with the Companies Act, 1965.

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 the exception of the MD&CEO, all non-executive 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 2015, the breakdown of fees and meeting attendance allowances received by each Director are as listed below:-

Name of Directors	Annual Fees (RM)	Board Meeting Attendance Allowance (RM)	Board Committees Meeting Attendance Allowance (RM)	Total (RM)
Datuk Nasarudin Md Idris	108,000	44,000	-	152,000
Dato' Halipah binti Esa	72,000	33,000	30,000	135,000
Heng Heyok Chiang @ Heng Hock Cheng	72,000	33,000	33,000	138,000
Yong Nyan Choi @ Yong Guan Choi	72,000	33,000	14,000	119,000
Choy Khai Choon	72,000	33,000	24,000	129,000
Bernard Rene Francois di Tullio	72,000	33,000	14,000	119,000
Yee Yang Chien	72,000	33,000	14,000	119,000
Captain Rajalingam a/l Subramaniam	72,000	33,000	20,000	125,000
TOTAL	612,000	275,000	149,000	1,036,000

As an executive Director, the MD&CEO is not entitled to Director's fee and meeting allowance. The MD&CEO is an employee of PETRONAS and is seconded to the Company. In consideration for the service, the Company is required to pay a management fee to cover all payroll related costs ordinarily incurred by him in the course of his employment. During the year, the Company paid a total of RM785,000 as management fee. The MD&CEO is provided additional benefits by the Company in terms of a company car and a fixed allowance as approved by the Board.

STATEMENT ON CORPORATE GOVERNANCE

The aggregate remuneration of the Directors categorised into appropriate components are set out in the Financial Statements on pages 137 to 138 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. Tuan Syed Hashim bin Syed Abdullah, who was appointed as a Director of MHB on 1 January 2016 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:-

Programme title	Organised by	Date
Audit Committee Conference	Malaysia Institute of Accountants in collaboration with the Federation of Public Listed Companies Bhd	24 March 2015
Zero Tolerance Policy towards Corruption	Malaysian Anti – Corruption Commission (MACC)	26 March 2015
Mandatory Accreditation Programme for Directors of Public Listed Companies	Bursatra Sdn Bhd	6 & 7 May 2015
18th Asia Oil & Gas Conference	PETRONAS	18 May 2015
External Environment Analysis (EEA)	MISC Berhad	5 August 2015
Briefing on FDDE Work Scope/ Processes and Pipe Spool Automation	Malaysia Marine and Heavy Engineering Holdings Berhad	6 August 2015
Nominating Committee Programme 2: Effective Board Evaluation	Bursa Malaysia & ICLIF Leadership and Governance Centre	5 October 2015
Handling Press Conferences, Media Interviews and Tricky Media Questions	Bursatra Sdn Bhd	28 October 2015

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 that there is in place sound internal control systems. 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 91 to 93 of the Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

2. Nomination & Remuneration Committee

The Nomination & Remuneration Committee ("NRC") consists of five (5) members. The members of the NRC and their attendance at meetings held during the financial year ended 31 December 2015 are as follows:

Members	Position	No. of meetings attended
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Chairman	6 out of 6
Dato' Halipah binti Esa (Independent Non-Executive Director)	Member	6 out of 6
Choy Khai Choon (Independent Non-Executive Director)	Member	6 out of 6
Yee Yang Chien (Non-Independent Non-Executive Director)	Member	6 out of 6
Captain Rajalingam a/l Subramaniam (Non-Independent Non-Executive Director)	Member	5 out of 6

On 1 January 2016, Tuan Syed Hashim bin Syed Abdullah, a non-independent non-executive Director, was appointed as a member of the NRC in place of Captain Rajalingam a/l Subramaniam following a change of nominee director by the holding company, MISC Berhad.

The terms of reference of the NRC were revised during the year 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 recommend the implementation of sound succession planning for the Board members, 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.

During the financial year ended 31 December 2015, 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 2014 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 overall effectiveness of the corporate 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, the NRC conducted its annual assessment of the independent Directors and made its recommendations to the Board. The Board was satisfied with the level of independence demonstrated by each and every one of the independent Directors on board of MHB.

(ii) The NRC had, at its sitting in February 2015, assessed the performance of the Company in respect of the financial year 2014 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.

(iii) The NRC had spent considerable time to deliberate the human resource issues of the Company particularly the on-going manpower rationalisation plan. Following the Board's review of the Group's current operating cost structures against the challenging economic outlook, the NRC deliberated on the strategies necessary to optimise the Group's general and administration costs in order to achieve a more sustainable level of competitiveness going forward.

STATEMENT ON CORPORATE GOVERNANCE

Other matters relating to the human resource management of the Group dealt with by the NRC included the succession plan for the Management Committee positions and the introduction of a Talent Council.

(iv) The NRC had duly considered the nomination of YBhg Dato' Abu Fitri Abdul Jalil to succeed Mr Dominique de Soras as the MD&CEO and had subsequently recommended his appointment for the Board's approval. Another nomination to the Board was the appointment of Tuan Syed Hashim Syed Abdullah to the Board and Board Committees in place of Captain Rajalingam a/l Subramaniam as nominee of MISC Berhad on the Board of MHB with effect from 1 January 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.

(v) The NRC had also considered and recommended the appointment of the Chief People Officer as a member of the Management Committee and the renewal/extension of employment contracts for two of the Management Committee members.

(vi) After having considered the various means of assessing individual Director's performance, the NRC had recommended that the new approach applied in the FY2014 assessment be adopted again for the FY2015 individual performance evaluation as 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 dynamics and effectiveness. As the basis of assessment, the Directors will evaluate their performance by reflecting on the deliberations made pertaining to a selected topic which was of a strategic nature. An agenda will be dedicated at a Special Board Meeting for the conduct of the evaluation. The Chairman of the Board shall lead and moderate the performance evaluation based on a recommended set of questions and the evaluation results recorded in the minutes accordingly.

(vii) The NRC had recommended for the Board's approval, the proposed refinements to its terms of reference to provide more clarity on some of its current roles and responsibilities by formalising them into the terms of reference.

(viii) Other matters considered by the NRC were the MHB FY2016 Corporate Scorecard, the Board KPIs for FY2016, the annual review of the Board composition (including its mix of skills, experience and independence), the revised terms to the 12th Collective Agreement with the workers' union, 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 May 2015.

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. 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 2015 are as follows:

Members	Position	No. of meetings attended
Heng Heyok Chiang @ Heng Hock Cheng (Independent Non-Executive Director)	Chairman	1 out of 1
Yong Nyan Choi @ Yong Guan Choi (Independent Non-Executive Director)	Member	1 out of 1
Bernard Rene Francois di Tullio (Non-Independent Non-Executive Director)	Member	1 out of 1
Yee Yang Chien (Non-Independent Non-Executive Director)	Member	1 out of 1

STATEMENT ON CORPORATE GOVERNANCE

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 95 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.

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

STATEMENT ON CORPORATE GOVERNANCE

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 2015 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 MHB, being the holding company of MISC.
2 MISC is a major shareholder of MHB

This statement is made in accordance with the resolution of the Board of Directors duly passed on 19 February 2016.

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 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 2015 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 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 BAC which then updates the Board.

RISK MANAGEMENT PROCESS

The risk management process in the Group 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 the Group'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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 five key values:

   - **P**assion to excel
   - **R**esponsible at work
   - **I**ntegrity – the power of trust
   - **D**edicated to our customers' success
   - **E**nterprising as a team

   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. Staffs 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 programs which are reviewed annually.

   Every employee of the Group 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, the Group 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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.

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 MC 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. High purchase 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 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 2015, 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 19 February 2016.

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 2015.

COMPOSITION AND MEETINGS

The BAC consists of six 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"). Mr Choy Khai Choon is a member of the Malaysian Institute of Accountants and a fellow of the Certified Practising Accountants ("CPA") Australia which meets 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.

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
Dato' Halipah binti Esa (Independent Non-Executive Director)	Chairperson	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
Choy Khai Choon (Independent Non-Executive Director)	Member	6 out of 6
Bernard Rene Francois di Tullio (Non-Independent Non-Executive Director)	Member	6 out of 6
Captain Rajalingam a/l Subramaniam (Non-Independent Non-Executive Director)	Member	5 out of 6

On 1 January 2016, Tuan Syed Hashim bin Syed Abdullah was appointed as a member of the BAC in place of Captain Rajalingam a/l Subramaniam following a change of nominee director by the holding company, MISC Berhad.

TERMS OF REFERENCE

The terms of reference of the BAC were reviewed in the year 2014 to provide more clarity on the responsibilities of the BAC and the new terms of reference were approved by the Board on 6 May 2014.

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.

BOARD AUDIT COMMITTEE REPORT

- 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 Main Market Listing Requirements ("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 and unusual events arising from the audit; 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 2015:-

(a) Financial and Annual Reporting

- Reviewed the unaudited quarterly financial statements and the related press releases and announcements to Bursa Malaysia Securities Berhad before recommending for Board's approval.
- Reviewed the annual audited financial statements of the Company and the Group to ensure the statements comply with the financial reporting standards before recommending for Board's approval.
- 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.

BOARD AUDIT COMMITTEE REPORT

- 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.
- Reviewed the effectiveness and adequacy of audit process, resource requirements and assessed the performance of GIA on half yearly basis.
- 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 issues arising from the external audit for the financial year and the resolution of issues highlighted in their report to the BAC and Management's response.
- Assessed the performance and effectiveness 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.

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 2015 was RM2.11 million.

BAC STATEMENT ON RECURRENT RELATED PARTY TRANSACTIONS (RRPTs)

The BAC has reviewed the RRPTs mentioned on page 86 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 19 February 2016.

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT ON PREPARATION OF FINANCIAL STATEMENTS

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

The Directors are also responsible to ensure that the annual audited financial statements of the Group and of the Company are prepared with reasonable accuracy from the financial records of the Group and of the Company so as to give a true and fair view of the state of affairs of the Group and of the Company as at the financial year 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 2015, 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 19 February 2016.

INVESTOR RELATIONS REPORT

The financial period under review is a twelve-month period which ended on 31st December 2015. 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 potential 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 briefings were being uploaded on the corporate portal, http://www.mhb.com.my, to enable simultaneous and instantaneous dissemination of information to all of the Company's stakeholders.

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

- The analyst briefings conducted included updates on projects that have been completed or delivered such as the SK316 CPP, MOPU EP7, FSO Mampu-1 and FSO Cendor. MHB also provided updates to the investment community and our shareholders on ongoing transformation initiatives that have been implemented in 2015 and also the Company's ongoing yard optimisation programme.

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

- MHB participated in two investor roadshows for the year. The first was a 'non-deal roadshow' organised by CIMB Investment Bank which was attended by its fund clients. For the second, MHB participated in the Asian Sharia Investor Conference organised by RHB Investment Bank. Both events took place in Kuala Lumpur.

- MHB participated in the 18th Asia Oil & Gas Conference (AOGC) 2015 which was held at Kuala Lumpur Convention Centre. Organised by PETRONAS, the event was established with the aim of providing a platform for networking opportunities and forging business partnerships among the oil and gas fraternity in the Asia Pacific region.

- MHB conducted its 26th 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 MHB Managing Director and Chief Executive Officer (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 views of the Company, which was used to manage market expectations; and

- The IR team conducted regular one-on-one meetings with analysts, fund managers and shareholders to maintain an effective two-way communications with the investment community.

As at 2015, MHB remained in Bursa Malaysia KLCI Index that is widely used as a benchmark by domestic and international institutional to measure the Malaysia equity market's performance.

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. Sanctions and/or Penalties

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

3. 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 2015 was RM77,000 (RM182,000 for the financial year ended 31 December 2014).

4. Share Buy-backs

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

5. Options, Warrants or Convertible Securities

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

6. Depository Receipt Programme

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

7. Profit Estimate, Forecast or Projection

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

8. Profit Guarantee

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

FINANCIAL STATEMENTS

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2015.

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
Profit for the year	44,445	13,371
Profit attributable to:		
Equity holders of the Company	43,886	13,371
Non-controlling interests	559	-
	44,445	13,371

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

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

DIVIDENDS

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 2015.

DIRECTORS' REPORT

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	
Dato' Abu Fitri bin Abdul Jalil	
Syed Hashim Syed Abdullah	(Appointed on 1 January 2016)
Dominique Marie Bruno Francois Veyre de Soras	(Ceased with effect from 28 February 2015)
Captain Rajalingam Subramaniam	(Ceased with effect from 1 January 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' REPORT

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 2015	Acquired	Sold	31 December 2015
The Company				
- Malaysia Marine and Heavy Engineering Holdings Bhd				
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	10,000	10,000	-	20,000
Captain Rajalingam Subramaniam	10,000	-	-	10,000
Indirect				
Dato' Halipah binti Esa	10,000	-	-	10,000

	Number of ordinary shares of RM1 each			
	1 January 2015	Acquired	Sold	31 December 2015
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 2015	**Acquired**	**Sold**	**31 December 2015**
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	6,000	3,000	-	9,000

	Number of ordinary shares of RM0.10 each			
	1 January 2015	**Acquired**	**Sold**	**31 December 2015**
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 there were no known bad debts and that adequate provision had been made for doubtful debts; and

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

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

(i) it necessary to write off any bad debts or the amount of the provision for doubtful debts 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.

DIRECTORS' REPORT

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 19 February 2016.

Datuk Nasarudin bin Md Idris **Dato' Haji Abu Fitri bin Abdul Jalil**

STATEMENT BY DIRECTORS

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

We, Datuk Nasarudin bin Md Idris and Dato' Abu Fitri bin Abdul Jalil, 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 107 to 174 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 2015 and of their financial performance and cash flows for the year then ended.

The information set out in Note 36 on page 175 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 19 February 2016.

Datuk Nasarudin bin Md Idris

Dato' Haji Abu Fitri bin Abdul Jalil

STATUTORY DECLARATION

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

I, Wan Mashitah binti Wan Abdullah Sani, being the officer primarily responsible for the financial management of Malaysia Marine and Heavy Engineering Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 107 to 175 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Wan Mashitah binti Wan
Abdullah Sani at Kuala Lumpur in the
Federal Territory on 19 February 2016.

Wan Mashitah binti Wan Abdullah Sani

Before me,

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the financial statements of Malaysia Marine and Heavy Engineering Holdings Berhad, which comprise statements of financial position as at 31 December 2015 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 107 to 174.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements

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

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

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

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

Other reporting responsibilities

The supplementary information set out in Note 36 on page 175 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Ahmad Zahirudin bin Abdul Rahim
No. 2607/12/16(J)
Chartered Accountant

Kuala Lumpur, Malaysia
19 February 2016

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2015

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	4	**2,459,033**	2,700,505	**-**	-
Cost of sales		**(2,198,418)**	(2,359,588)	**-**	-
Gross profit		**260,615**	340,917	**-**	-
Other operating income	5	**88,723**	66,372	**26,740**	32,116
Selling and distribution expenses		**(1,261)**	(2,766)	**(13)**	(12)
Administrative expenses		**(178,013)**	(225,545)	**(9,596)**	(11,422)
Other operating expenses		**(41,894)**	(43,610)	**(127)**	(87)
Impairment provisions		**(99,800)**	-	**-**	-
Finance costs		**(4,509)**	(12,745)	**-**	-
Share of loss after tax of joint ventures	16	**(1,360)**	(3,511)	**-**	-
Profit before taxation	6	**22,501**	119,112	**17,004**	20,595
Taxation	9	**21,944**	11,508	**(3,633)**	(5,849)
Profit for the year		**44,445**	130,620	**13,371**	14,746
Other comprehensive expense:					
Fair value loss on cash flow hedges	23	**(145)**	(877)	**-**	-
Total comprehensive income for the year		**44,300**	129,743	**13,371**	14,746
Profit attributable to:					
Equity holders of the Company		**43,886**	129,929	**13,371**	14,746
Non-controlling interests		**559**	691	**-**	-
		44,445	130,620	**13,371**	14,746
Total comprehensive income attributable to:					
Equity holders of the Company		**43,741**	129,052	**13,371**	14,746
Non-controlling interests		**559**	691	**-**	-
		44,300	129,743	**13,371**	14,746

	Note	2015	2014
Earnings per share attributable to equity holders of the Company (sen per share)			
Basic	10	**2.74**	8.12
Diluted	10	**2.74**	8.12

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**1,642,153**	1,607,347	**-**	-
Land use rights	13	**230,541**	237,635	**-**	-
Goodwill on acquisition	14	**-**	62,783	**-**	-
Investment in subsidiaries	15	**-**	-	**664,132**	664,132
Investment in joint ventures	16	**15,725**	17,085	**3,000**	3,000
Deferred tax assets	18	**79,915**	80,602	**-**	-
Other receivables	19	**-**	-	**218,560**	411,035
		1,968,334	2,005,452	**885,692**	1,078,167
Current assets					
Inventories, at cost		**12,102**	11,721	**-**	-
Trade and other receivables	19	**1,474,702**	1,850,780	**688,598**	477,674
Tax recoverable		**4,146**	1,055	**4,390**	1,634
Derivatives	27	**635**	364	**-**	-
Cash and bank balances	21	**860,175**	589,228	**125,813**	131,360
		2,351,760	2,453,148	**818,801**	610,668
Non-current asset held for sale	28	**-**	6,282	**-**	-
Total assets		**4,320,094**	4,464,882	**1,704,493**	1,688,835

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

		Group		Company	
		2015	2014	2015	2014
	Note	RM'000	RM'000	RM'000	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	**356**	501	**-**	-
Retained earnings		**1,058,025**	1,014,139	**82,748**	69,377
		2,676,644	2,632,903	**1,701,011**	1,687,640
Non-controlling interests		**3,778**	3,219	**-**	-
Total equity		**2,680,422**	2,636,122	**1,701,011**	1,687,640
Current liabilities					
Trade and other payables	24	**1,626,592**	1,525,625	**3,482**	1,195
Provisions	25	**12,970**	18,828	**-**	-
Income tax payable		**-**	19,189	**-**	-
Borrowings	26	**-**	265,000	**-**	-
Derivatives	27	**110**	118	**-**	-
		1,639,672	1,828,760	**3,482**	1,195
Total liabilities		**1,639,672**	1,828,760	**3,482**	1,195
Total equity and liabilities		**4,320,094**	4,464,882	**1,704,493**	1,688,835

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 2015

	← 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 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**
At 1 January 2014	800,000	818,263	1,378	964,210	2,583,851	2,528	2,586,379
Total comprehensive income	-	-	(877)	129,929	129,052	691	129,743
Transaction with equity holders of the Company							
Dividends on ordinary shares (Note 11)	-	-	-	(80,000)	(80,000)	-	(80,000)
Total transaction with equity holder of the Company	-	-	-	(80,000)	(80,000)	-	(80,000)
At 31 December 2014	800,000	818,263	501	1,014,139	2,632,903	3,219	2,636,122

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 2015

	Share capital (Note 22) RM'000	Share premium (Note 22) RM'000	Distributable retained earnings RM'000	Total equity RM'000
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**
At 1 January 2014	800,000	818,263	134,631	1,752,894
Total comprehensive income	-	-	14,746	14,746
Transaction with equity holders of the Company				
Dividends on ordinary shares (Note 11)	-	-	(80,000)	(80,000)
Total transaction with equityholders of the Company	-	-	(80,000)	(80,000)
At 31 December 2014	800,000	818,263	69,377	1,687,640

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 2015

	Group	
	2015 RM'000	**2014 RM'000**
Cash flows from operating activities		
Profit before taxation	**22,501**	119,112
Adjustments for:		
Property, plant and equipment		
- Depreciation	**80,092**	69,719
- Write-offs	**332**	2,045
Amortisation of land use rights	**7,094**	7,095
Net (reversal)/provision of warranty	**(5,858)**	17,175
Allowance for impairment loss of trade receivables	**2,120**	3,871
Impairment loss of goodwill	**62,783**	-
Impairment loss of property, plant and equipment	**37,017**	4,967
Loss on disposal of non-current asset held for sale	**2,721**	-
Interest income	**(14,389)**	(16,605)
Finance costs	**4,509**	12,745
Realisation of gains on hedges	**(501)**	(1,378)
Net fair value (gain)/loss on derivatives	**(169)**	255
Net unrealised gain on foreign exchange	**(56,960)**	(22,990)
Inventories written off	**1,924**	1,435
Share of loss after tax of joint ventures	**1,360**	3,511
Operating profit before working capital changes	**144,576**	200,957
Inventories	**(2,305)**	(574)
Trade and other receivables	**430,262**	650,479
Trade and other payables	**101,870**	(602,324)
Cash generated from operations	**674,403**	248,538
Tax refund	**11,060**	5,999
Tax paid	**(10,710)**	(9,170)
Net cash generated from operating activities	**674,753**	245,367
Cash flows from investing activities		
Purchase of property, plant and equipment	**(152,247)**	(178,076)
Proceeds from disposal of non-current asset held for sale	**3,561**	-
Interest received	**14,389**	16,605
Net cash used in investing activities	**(134,297)**	(161,471)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2015

	Group	
	2015 RM'000	**2014 RM'000**
Cash flows from financing activities		
Interest paid	**(4,509)**	(12,852)
Drawdown on revolving credit facilities	**91,000**	100,000
Repayment on revolving credit facilities	**(356,000)**	(125,000)
Dividends paid on ordinary shares	**-**	(80,000)
Net cash used in financing activities	**(269,509)**	(117,852)
Net change in cash and cash equivalents	**270,947**	(33,956)
Cash and cash equivalents at beginning of year	**564,228**	598,184
Cash and cash equivalents at end of year (Note 21)	**835,175**	564,228
Cash and cash equivalents at the end of the year comprise the following:-		
Cash at banks and on hand (Note 21)	**483,535**	313,264
IFSSC bank balance (Note 21)	**257,584**	143,855
Deposits with licensed banks (Note 21)	**119,056**	132,109
	860,175	589,228
Less: Deposits with maturity more than 90 days	**(25,000)**	(25,000)
	835,175	564,228

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 2015

	Company	
	2015 RM'000	2014 RM'000
Cash flows from operating activities		
Profit before taxation	**17,004**	20,595
Adjustments for:		
Interest income	**(26,740)**	(32,116)
Operating loss before working capital changes	**(9,736)**	(11,521)
Trade and other receivables	**4,228**	8,272
Trade and other payables	**2,287**	466
Cash used in operations	**(3,221)**	(2,783)
Tax paid	**(6,389)**	(8,315)
Net cash used in operating activities	**(9,610)**	(11,098)
Cash flows from investing activities		
Dividend income received	**-**	80,000
Interest received	**4,063**	7,642
Net cash generated from investing activities	**4,063**	87,642
Cash flows from financing activities		
Dividends paid on ordinary shares (Note 11)	**-**	(80,000)
Disbursement of intercompany loan to subsidiary	**-**	(169,680)
Net cash used in financing activities	**-**	(249,680)
Net change in cash and cash equivalents	**(5,547)**	(173,136)
Cash and cash equivalents at beginning of year	**131,360**	304,496
Cash and cash equivalents at end of year (Note 21)	**125,813**	131,360

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 2015

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 19 February 2016.

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 2015, the Group and the Company had adopted new and amended MFRSs and IC Interpretation (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standard Board ("MASB") as described fully 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.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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. Consistent 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 or debt equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(b) Joint arrangements (cont'd.)

(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;
(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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

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

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

(d) Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of physical completion or based on technical milestones defined under the contracts, and taking into account the nature 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 of costs incurred in construction contracts plus, recognised profits (less recognised losses) exceeds progress billings, the balance is classified as amount due from customers on contracts. When the progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(h) Financial assets (cont'd.)

Initial recognition: (cont'd.)

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 12 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.

Held-to-maturity investments with maturity exceeding 12 months after the reporting date are classified as non-current assets. Those having maturity within 12 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(h) Financial assets (cont'd.)

Subsequent measurement (cont'd.):

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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 determines 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, borrowings and derivative financial instruments.

Derecognition of financial liabilities:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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 failing due more than twelve months after reporting date are discounted to present value.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(s) Foreign currencies (cont'd.)

(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 Offshore Segment

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

(ii) Revenue from Marine Repair Segment

Revenue from Marine Repair 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.

(v) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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 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 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

- Hedges of a net investment in a foreign operation.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(x) Hedge accounting (cont'd.)

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 2015

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

(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 2015, the Group and the Company adopted the following pronouncements mandatory for annual financial periods beginning on or after 1 January 2015.

Effective for annual period beginning on or after 1 July 2014:

- Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions
- Annual Improvements to MFRSs 2010 - 2012 Cycle
- Annual Improvements to MFRSs 2011 - 2013 Cycle

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

2.4 Standards issued but not yet effective

The standards and interpretations 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, if applicable, when they become effective.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Effective for annual period beginning on or after 1 January 2016:

- Annual Improvements to MFRSs 2012 - 2014 Cycle
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants
- Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 127: Equity Method in Separate Financial Statements
- Amendments to MFRS 101: Disclosure Initiatives
- Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception
- MFRS 14 Regulatory Deferral Accounts

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

- MFRS 15 Revenue from Contracts with Customers
- MFRS 9 Financial Instruments

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 will supersede the current revenue recognition guidance including MFR 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

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.

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 no impact on the classification and measurement of the Group's financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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.

(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 credit worthiness 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 32(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

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

(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 goodwill and 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 goodwill and 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 goodwill and property plant and equipment are disclosed in Note 14 and Note 12 respectively.

4. REVENUE

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Offshore segment	**1,994,742**	2,447,656	**-**	-
Marine repair segment	**464,291**	252,849	**-**	-
	2,459,033	2,700,505	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

5. OTHER OPERATING INCOME

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Rental income	**1,134**	1,902	**-**	-
Interest income:				
- Deposits with licensed banks	**14,389**	16,605	**4,063**	7,563
- Loan to subsidiary	**-**	-	**22,677**	24,553
Net gain on foreign exchange:				
- Realised	**-**	3,365	**-**	-
- Unrealised	**56,960**	22,990	**-**	-
Income from scrap disposal	**9,999**	14,411	**-**	-
Others	**6,241**	7,099	**-**	-
	88,723	66,372	**26,740**	32,116

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

6. PROFIT BEFORE TAXATION

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

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Auditors' remuneration:				
- Statutory audit	**353**	279	**17**	16
- Others	**77**	182	**17**	17
Staff costs (Note 7)	**290,935**	358,782	**4,702**	8,185
Management fee in relation to services of key management personnel (Note 8)	**1,409**	-	**1,409**	-
Property, plant and equipment (Note 12):				
- Depreciation	**80,092**	69,719	**-**	-
- Write-offs	**332**	2,045	**-**	-
Loss on disposal of non-current asset held for sale	**2,721**	-	**-**	-
Amortisation of land use rights (Note 13)	**7,094**	7,095	**-**	-
Hire of tugboat, pushers and barges	**6,741**	6,871	**-**	-
Rental of:				
- Buildings	**1,984**	2,000	**1,524**	1,381
- Vehicles	**65**	226	**2**	8
- Office equipment	**2,894**	2,866	**15**	22
- Plant and machinery	**38,342**	32,701	**-**	-
Inventories written off	**1,924**	1,435	**-**	-
Allowance for impairment loss:				
- Trade receivables (Note 32(b)(ii)(b))	**2,120**	3,871	**-**	-
- Property, plant and equipment (Note 12)	**37,017**	4,967	**-**	-
- Goodwill (Note 14)	**62,783**	-	**-**	-
Net (reversal)/provision of warranty (Note 25)	**(5,858)**	17,175	**-**	-
Realisation of gains on hedges (Note 23)	**(501)**	(1,378)	**-**	-
Net fair value loss on derivatives (Note 27)	**(169)**	255	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

7. STAFF COSTS

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Wages and salaries	**238,492**	259,243	**3,335**	5,490
Social security costs	**1,708**	1,528	**17**	11
Contributions to a defined contribution plan	**27,913**	27,826	**484**	452
Termination benefits	**-**	25,649	**-**	-
Other staff related expenses	**22,822**	44,536	**866**	2,232
	290,935	358,782	**4,702**	8,185

Included in staff costs of the Group and the Company are executive directors' salaries and other emoluments amounting to RM790,000 (2014: RM2,357,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

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

	Group and Company	
	2015 RM'000	**2014 RM'000**
Executive directors' remuneration:		
Salaries *	**338**	2,056
Other emoluments	**452**	301
Estimated money value of benefits-in-kind	**27**	14
Total executive directors' remuneration (including benefits-in-kind)	**817**	2,371
Non-executive directors' remuneration:		
Fees	**612**	612
Other emoluments	**424**	514
Total non-executive directors' remuneration	**1,036**	1,126
Total directors' remuneration (including benefits-in-kind) (Note 31(c))	**1,853**	3,497

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

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	
	2015	**2014**
Executive directors:		
RM150,001 - RM200,000 *	**1**	-
RM600,001 - RM650,000	**1**	-
RM2,350,001 - RM2,400,000	**-**	1
	2	1
Non-executive directors:		
RM100,001 - RM150,000	**7**	6
RM150,001 - RM200,000	**1**	2
	8	8
	10	9

* Amounts exclude the remuneration for the services of Dato' Abu Fitri bin Abdul Jalil, which is paid to PETRONAS as disclosed in Note 31.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

9. TAXATION

Major components of income tax expense

The major components of income tax expense are as follows:

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Current income tax:				
Malaysian income tax	**7,504**	7,644	**3,428**	4,478
(Over)/underprovision in prior years:				
Malaysian income tax	**(30,135)**	242	**205**	1,371
	(22,631)	7,886	**3,633**	5,849
Deferred tax (Note 18):				
Relating to origination and reversal of temporary differences	**(27,387)**	(19,454)	**-**	-
Underprovision in prior years	**28,074**	60	**-**	-
	687	(19,394)	**-**	-
Taxation	**(21,944)**	(11,508)	**3,633**	5,849

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the financial year.

The domestic statutory tax rate will be reduced to 24% from the current year's rate of 25%, effective year of assessment 2016. The effect of the change in tax rate is reflected in the computation of deferred tax.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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:

	2015 RM'000	2014 RM'000
Group		
Profit before taxation	**22,501**	119,112
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	**5,625**	29,778
Income not subject to tax	**(1,707)**	(424)
Expenses not deductible for tax purposes	**28,274**	5,443
Deferred tax assets not recognised	**258**	279
Utilisation of current year's investment tax allowances	**(19,657)**	(22,199)
Deferred tax assets recognised on unutilised investment tax allowances	**(32,336)**	(25,565)
Underprovision of deferred tax in prior years	**28,074**	60
(Over)/underprovision of Malaysian tax expense in prior years	**(30,135)**	242
Share of results of joint ventures	**(340)**	878
Income tax credit for the year	**(21,944)**	(11,508)
Company		
Profit before taxation	**17,004**	20,595
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	**4,251**	5,149
Income not subject to tax	**(872)**	(706)
Expenses not deductible for tax purposes	**49**	35
Underprovision of Malaysian tax expense in prior years	**205**	1,371
Income tax expense for the year	**3,633**	5,849

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

10. EARNINGS PER SHARE

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

	Group	
	2015	**2014**
Profit attributable to equity holders of the Company (RM'000)	**43,886**	129,929
Number of ordinary shares in issue ('000)	**1,600,000**	1,600,000
Basic/diluted earnings per share (sen)	**2.74**	8.12

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

11. DIVIDENDS

	Company	
	2015 RM'000	**2014 RM'000**
Dividend recognised in respect of financial year ended 31 December 2015/2014:		
- Final (single-tier) dividend for 31.12.2014: Nil (31.12.2013: 5 sen per share)	**-**	80,000

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 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

12. PROPERTY, PLANT AND EQUIPMENT

	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, drydocks 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, drydocks 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

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

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

	Cost					
	At 1.1.2014 RM'000	Additions RM'000	Transfers RM'000	Reclasified as held for sale RM'000	Write-offs RM'000	At 31.12.2014 RM'000
Group - 31 December 2014						
Boats	511	74	-	-	-	585
Buildings, drydocks and waste plant	1,246,156	1,012	129,622	-	(478)	1,376,312
Plant, machinery and electrical installations	525,716	8,476	61,085	-	(4,175)	591,102
Vehicles and transport equipment	15,581	726	4	-	(1,007)	15,304
Furniture and office equipment	76,241	1,574	256	-	(128)	77,943
Loose tools	7,715	-	-	-	-	7,715
Construction-in-progress	226,329	166,214	(190,967)	(6,282)	-	195,294
	2,098,249	178,076	-	(6,282)	(5,788)	2,264,255

	Accumulated depreciation/Impairment losses					Net carrying amount
	At 1.1.2014 RM'000	Charge for the financial year RM'000	Impairment losses RM'000	Write-offs RM'000	At 31.12.2014 RM'000	At 31.12.2014 RM'000
Group - 31 December 2014						
Boats	510	11	-	-	521	64
Buildings, drydocks and waste plant	250,426	30,473	-	(201)	280,698	1,095,614
Plant, machinery and electrical installations	265,359	28,827	-	(2,409)	291,777	299,325
Vehicles and transport equipment	10,022	1,581	-	(1,007)	10,596	4,708
Furniture and office equipment	52,344	8,420	-	(126)	60,638	17,305
Loose tools	7,304	407	-	-	7,711	4
Construction-in-progress	-	-	4,967	-	4,967	190,327
	585,965	69,719	4,967	(3,743)	656,908	1,607,347

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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	
	2015 RM'000	2014 RM'000
Buildings, drydocks and waste plant	**2,247**	1,946
Plant, machinery and electrical installations	**170,129**	159,696
Other property, plant and equipment	**55,630**	64,962
	228,006	226,604

(b) The Group has performed a review of the recoverable amount of the CGU to which goodwill and property, plant and equipment are allocated. The review led to the recognition of impairment losses for the goodwill and property, plant and equipment of RM62,783,153 and RM37,016,847 respectively. Further details of the impairment losses are disclosed in Note 14.

13. LAND USE RIGHTS

	Group	
	2015 RM'000	2014 RM'000
Cost		
At 1 January/31 December	**292,552**	292,552
Accumulated amortisation		
At 1 January	**54,917**	47,822
Amortisation for the year (Note 6)	**7,094**	7,095
At 31 December	**62,011**	54,917
Net carrying amount at 31 December	**230,541**	237,635
Amount to be amortised:		
- Not later than one year	**7,135**	7,135
- Later than one year but not later than five years	**28,540**	28,540
- Later than five years	**194,866**	201,960

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14. GOODWILL ON ACQUISITION

	Group	
	2015 **RM'000**	**2014** **RM'000**
Cost		
At 1 January/31 December	**62,783**	62,783
Accumulated impairment loss		
At 1 January	**-**	-
Impairment for the year (Note 6)	**62,783**	-
At 31 December	**62,783**	-
Net carrying amount at 31 December	**-**	62,783

Impairment testing of goodwill

Key assumptions used in value in use calculations

For the purpose of impairment testing, the recoverable amount of a cash-generating unit ("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 goodwill:

(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, customer contract, management's expectation and past experience for new work.

(iii) Discount rate

The discount rate reflects specific risk relating to the CGU. The discount rate used is 10.3% (2014: 10.8%).

(iv) Growth rate

Cash flow beyond the five-year period is extrapolated using a growth rate of 2.8% (2014: 3%). The growth rate is based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGU.

Based on these calculations, an impairment loss was recognised to write down the entire carrying amount of goodwill of RM62,783,153 as well as property, plant and equipment of RM37,016,847.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2015 RM'000	2014 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	
		2015	2014	2015	2014
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-SHI LNG Sdn. Bhd.	Provision of repair services and dry docking of liquefied natural gas carriers	**70%**	70%	**30%**	30%
Techno Indah Sdn. Bhd.	Sludge disposal management	**100%**	100%	**-**	-

16. INVESTMENT IN JOINT VENTURES

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Unquoted shares at cost	**14,372**	14,372	**3,000**	3,000
Share of post-acquisition reserves	**1,353**	2,713	**-**	-
	15,725	17,085	**3,000**	3,000

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

(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
	2015	**2014**	
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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

	2015 RM'000	2014 RM'000
Non-current assets	**22,561**	23,500
Cash and cash equivalents	**14,360**	27,337
Other current assets	**40,290**	30,645
Total current assets	**54,650**	57,982
Total assets	**77,211**	81,482
Current liabilities	**(61,862)**	(49,687)
Non-current liabilities	**(229)**	(2,426)
Total liabilities	**(62,091)**	(52,113)
Net assets	**15,120**	29,369

(ii) Summarised statements of comprehensive income

	2015 RM'000	2014 RM'000
Revenue	**63,475**	57,686
Depreciation and amortisation	**(1,110)**	(971)
Interest income	**53**	150
Interest expense	**(661)**	(792)
Loss before tax	**(1,378)**	(6,192)
Income tax expense	**(1,090)**	(136)
Loss after tax	**(2,468)**	(6,328)

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

17. JOINT OPERATIONS

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

	% of ownership interest held by the Group	
Name	**2015**	**2014**
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	
	2015 RM'000	**2014 RM'000**
At 1 January	**(80,602)**	(61,208)
Recognised in profit or loss (Note 9)	**687**	(19,394)
At 31 December	**(79,915)**	(80,602)

Presented after appropriate offsetting as follows:

	Group	
	2015 RM'000	**2014 RM'000**
Deferred tax assets	**(79,915)**	(80,602)
Deferred tax liabilities	**-**	-
	(79,915)	(80,602)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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 2015	**68,860**
Recognised in profit or loss	**4,426**
At 31 December 2015	**73,286**
At 1 January 2014	47,758
Recognised in profit or loss	21,102
At 31 December 2014	68,860

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 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)**
At 1 January 2014	-	(413)	(99,378)	(9,175)	(108,966)
Recognised in profit or loss	(1,612)	(4,294)	(25,560)	(9,030)	(40,496)
At 31 December 2014	(1,612)	(4,707)	(124,938)	(18,205)	(149,462)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

18. DEFERRED TAX (CONT'D.)

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

	Group	
	2015 RM'000	2014 RM'000
Unutilised tax losses	**16,035**	15,208
Unabsorbed capital allowances	**29,540**	29,339

The unutilised tax losses and unabsorbed capital allowances of the Group are available indefinitely for offsetting against future taxable profits of the respective entities within the Group, subject to no substantial change in shareholdings of those entities under the Income Tax Act, 1967 and guidelines issued by the tax authority.

Deferred tax assets have not been recognised as they arise in a subsidiary with a recent history of losses.

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Non-current				
Loan to subsidiary	**-**	-	**218,560**	411,035
Current				
Trade receivables				
Third parties	**399,128**	624,950	**-**	-
Purchases of inventory and project materials paid in advance and recoverable from vendors	**1,287**	4,102	**-**	-
Due from customers on contracts (Note 20)	**1,041,990**	1,151,037	**-**	-
	1,442,405	1,780,089	**-**	-
Less: Allowance for impairment losses (Note 32(b)(ii)(b)	**(22,601)**	(20,481)	**-**	-
Trade receivables, net	**1,419,804**	1,759,608	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

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

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Other receivables				
Due from:				
- joint venture	**11,413**	6,230	**2**	-
- subsidiary	**-**	-	**46,134**	27,921
Loan to subsidiary	**-**	-	**642,163**	449,688
Deposits	**2,701**	2,242	**72**	65
Prepayments	**62**	632	**-**	-
Staff loans	**410**	483	**-**	-
Accrued sales	**-**	12,152	**-**	-
Non-trade receivables	**19,595**	47,471	**-**	-
GST receivable	**12,059**	-	**17**	-
Insurance claims receivables	**1,734**	17,389	**-**	-
Other receivables	**11,118**	6,025	**210**	-
	59,092	92,624	**688,598**	477,674
Less: Allowance for impairment losses	**(4,194)**	(1,452)	**-**	-
Other receivables, net	**54,898**	91,172	**688,598**	477,674
Total trade and other receivables (current and non-current)	**1,474,702**	1,850,780	**907,158**	888,709
Less: Prepayments	**(62)**	(632)	**-**	-
Due from customerson contracts (Note 20)	**(1,041,990)**	(1,151,037)	**-**	-
Add: Cash and cash equivalents (Note 21)	**860,175**	589,228	**125,813**	131,360
Total loans and receivables	**1,292,825**	1,288,339	**1,032,971**	1,020,069

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Included in the trade receivables of the Group are amounts due from:

		Group	
		2015 **RM'000**	**2014** **RM'000**
(i)	Immediate holding company	**124,694**	303,157
(ii)	Other related companies		
	PETRONAS Carigali Sdn. Bhd.	**6,963**	-
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	**1,946**	1,946
	Kebabangan Petroleum Operating Company Sdn. Bhd.	**-**	6,636
(iii)	Joint venture		
	MMHE-TPGM Sdn. Bhd.	**7,761**	5,116

Included in the amount due from customers on contracts of the Group are amounts in respect of projects for:

		Group	
		2015 **RM'000**	**2014** **RM'000**
(i)	Immediate holding company	**184,810**	255,000
(ii)	Other related companies		
	PETRONAS Carigali Sdn. Bhd.	**415,252**	336,354
	Kebabangan Petroleum Operating Company Sdn. Bhd.	**39,527**	129,167

Credit terms of trade receivables for the Group, including trade receivables from related companies, range from 30 days to 45 days (2014: 30 days to 45 days).

The loan to subsidiary is unsecured, bears interest ranges from 4.05% to 5.05% (2014: 4.05%) 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 (2014: 30 days to 45 days).

Further information on credit risk is disclosed in Note 32(b).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

20. Amount due from/(to) customers on contracts

	Group	
	2015 RM'000	**2014 RM'000**
Aggregate costs incurred and recognised profits (less recognised losses) to date	**15,435,612**	15,321,636
Less: Progress billings	**(14,412,309)**	(14,187,984)
	1,023,303	1,133,652
Amounts due from customers on contracts (Note 19)	**1,041,990**	1,151,037
Amounts due to customers on contracts (Note 24)	**(18,687)**	(17,385)
	1,023,303	1,133,652

21. CASH AND BANK BALANCES

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Cash at banks and on hand	**483,535**	313,264	**95**	95
IFSSC bank balance	**257,584**	143,855	**125,718**	131,265
Deposits with licensed banks	**119,056**	132,109	**-**	-
Cash and bank balances	**860,175**	589,228	**125,813**	131,360

Since 1 July 2014, 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 more efficient cash management for the Group and the Company.

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 to 365 days (2014: 1 to 90 days) depending on the immediate cash requirements of the Group and of the Company and earn interest rates ranging from 0.10% to 4.30% (2014: 0.10% to 3.87%) per annum.

The deposits with licensed banks of the Group and the Company of RM119,056,000 (2014: RM132,109,000) are placed with government related financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

22. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

	Group and Company			
	Number of ordinary shares of RM0.50 each		Amount	
	2015 '000	2014 '000	2015 RM'000	2014 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

(b) Share premium

	Group and Company	
	2015 RM'000	2014 RM'000
At 1 January/31 December	**818,263**	818,263

23. CASH FLOW HEDGE RESERVE

	Group	
	2015 RM'000	2014 RM'000
At 1 January	**501**	1,378
Recognised in other comprehensive income:		
Fair value gain on effective portion of cash flow hedge	**356**	501
Realisation of gains on hedges	**(501)**	(1,378)
At 31 December	**356**	501

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 of RM356,000 (2014: RM501,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Trade payables				
Third parties	**314,134**	517,808	**-**	-
Accruals	**1,096,562**	811,544	**-**	-
Retention monies	**54,387**	79,087	**-**	-
Due to customers on contracts (Note 20)	**18,687**	17,385	**-**	-
	1,483,770	1,425,824	**-**	-
Other payables				
Accruals	**141,112**	91,068	**-**	-
Others	**1,710**	8,733	**3,482**	1,195
	142,822	99,801	**3,482**	1,195
Total trade and other payables	**1,626,592**	1,525,625	**3,482**	1,195
Borrowings	**-**	265,000	**-**	-
Less: Due to customers on contracts (Note 20)	**(18,687)**	(17,385)	**-**	-
Total financial liabilities carried at amortised cost	**1,607,905**	1,773,240	**3,482**	1,195

Credit terms of trade payables granted to the Group range from 30 days to 60 days (2014: 30 days to 60 days).

Included in trade payables are amounts due to:

	Group	
	2015 RM'000	**2014 RM'000**
(i) Immediate holding company		
- MISC Bhd.	**255**	34,985
(ii) Fellow subsidiary		
- MISC Integrated Logistics Sdn. Bhd.	**143**	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

25. PROVISIONS

	Group	
	2015 **RM'000**	**2014** **RM'000**
Warranty		
At 1 January	**18,828**	1,653
Arose during the year (Note 6)	**10,670**	17,175
Reversed during the year (Note 6)	**(16,528)**	-
At 31 December	**12,970**	18,828

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	
	2015 **RM'000**	**2014** **RM'000**
Unsecured		
Revolving credit facilities	**-**	265,000

The range of interest rates as at the reporting date for the revolving credit facilities are from 3.87% to 4.26% (2014: 4.10% to 4.30%) per annum.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

27. DERIVATIVES

	2015		2014	
	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**	21,783	364
- Derivative liabilities	**2,863**	**(110)**	28,541	(118)
	136,991	**525**	50,324	246

<u>Foreign currency risk</u>

At 31 December 2015, the Group held forward currency contracts designated as hedges of expected future receipts and payments denominated in United States Dollars and Sterling Pounds. The forward currency contracts are being used to hedge the foreign currency risk of the highly probable forecasted transactions.

There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur. The ineffective portion recognised as a gain in profit or loss for the current year was RM169,000 (2014: RM255,000 loss) (Note 6).

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 gain of RM356,000 (2014: RM501,000), which includes the effective portion of the hedging relationship, is included in other comprehensive income.

28. NON-CURRENT ASSET HELD FOR SALE

In the previous financial year, non-current asset held for sale represents certain identified equipment with a carrying value of RM6,282,000. The sale has been completed as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

29. CAPITAL COMMITMENTS

	Group	
	2015 RM'000	**2014 RM'000**
Capital expenditure:		
Property, plant and equipment:		
Approved and contracted for	**52,897**	310,230
Approved but not contracted for	**59,976**	28,098
	112,873	338,328

30. CONTINGENT LIABILITIES

	Group	
	2015 RM'000	**2014 RM'000**
Unsecured		
Performance bond on contract extended to customers	**456,741**	294,459

31. 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	
	2015 RM'000	**2014 RM'000**
(a) Income:		
Provision of services for repairs, engineering and construction works, conversion of vessels and dry docking to		
- immediate holding company	**632,465**	564,404
- other related companies of ultimate holding company	**1,003,110**	1,048,206
- a joint venture	**-**	60

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

31. RELATED PARTY DISCLOSURES (CONT'D.)

	Group 2015 RM'000	Group 2014 RM'000
(b) Expenses:		
Purchases from:		
- fellow subsidiaries of immediate holding company	**3,060**	4,475
- other related companies of ultimate holding company	**19,244**	16,689
- a joint venture	**5,662**	7,880
- a government-related entity	**31,051**	20,194

The directors are of the opinion that the transactions have been entered into in the normal course of business at terms agreed between the parties during the financial year.

(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 and Company 2015 RM'000	Group and Company 2014 RM'000
Short-term employee benefits	**7,820**	6,439
Management fees (Note 6) *	**1,409**	-
Post-employment benefits: Defined contribution plan	**453**	432
	9,682	6,871

Included in the total remuneration of key management personnel are:

	Group and Company 2015 RM'000	Group and Company 2014 RM'000
Directors' remuneration (Note 8)	**1,853**	3,497

* Included in the remuneration of key management personnel are management fees in relation to services of Dato' Abu Fitri bin Abdul Jalil, Managing Director and Chief Executive Officer of RM785,000 and fees for another key management personnel, who are employees of PETRONAS.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

32. 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, foreign exchange transactions and other financial instruments.

(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	
	2015 RM'000	**2014 RM'000**
Offshore Segment	**293,233**	571,776
Marine Repair Segment	**102,310**	49,856
Others	**3,585**	3,318
	399,128	624,950

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

32. 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	
	2015 RM'000	**2014 RM'000**
Neither past due nor impaired	**19,871**	164,379
1 to 30 days past due not impaired	**156,661**	90,202
31 to 60 days past due not impaired	**61,769**	19,354
61 to 90 days past due not impaired	**61,698**	21,699
More than 90 days past due not impaired	**76,528**	308,835
	356,656	440,090
Impaired	**22,601**	20,481
	399,128	624,950

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 RM356,656,000 (2014: RM440,090,000). These balances relate mainly to customers who have never defaulted on payments but are slow paymasters and hence, are periodically monitored.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

32. 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	
	2015 RM'000	2014 RM'000
Trade receivables		
- nominal amounts	**22,601**	20,481
Less: Allowance for impairment	**(22,601)**	(20,481)
	-	-

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 aging 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	
	2015 RM'000	2014 RM'000
At 1 January	**20,481**	16,610
Impairment loss recognised (Note 6)	**2,120**	3,871
At 31 December	**22,601**	20,481

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.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

32. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(iii) 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 more 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 liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and revolving credit facilities.

As at 31 December 2015, the Group had at its disposal cash and cash equivalents amounting to RM860,175,000 (2014: RM589,228,000).

The Group's holding of cash and short term deposits, together with committed funding facilities and net cash flow from operations, are expected to be sufficient to cover its cash flow needs.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

32. 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 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**
At 31 December 2014			
Trade and other payables	1,508,240	1,508,240	1,508,240
Borrowings	265,000	265,000	265,000
Derivatives	118	118	118
	1,773,358	1,773,358	1,773,358

(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.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2015

32. FINANCIAL INSTRUMENTS (CONT'D.)

(d) Foreign currency risk (cont'd.)

(i) Foreign currency sensitivity

The following table demonstrates the sensitivity of the Group's profit before tax and equity 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 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**
31 December 2014			
USD	+5%	17,794	10
	-5%	(17,794)	(10)
EUR	+10%	3,750	60
	-10%	(3,750)	(60)
SGD	+5%	4,589	-
	-5%	(4,589)	-
GBP	+10%	42	(165)
	-10%	(42)	165

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

33. 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 2015 and 31 December 2014 are as follows:

	Note	2015 RM'000	2014 RM'000
Borrowings	26	-	265,000
Total equity		**2,680,422**	2,636,122
Gross debt equity ratio		-	0.10

34. 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 cash equivalents	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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(a) Determination of fair value (cont'd.)

(iii) Non-current asset held for sale

Non-current asset held for sale is valued using a valuation technique with market approach, which is based on a recent selling price offered by a potential buyer.

(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 2015					
Financial assets:					
Forward currency contract	**27**	**-**	**525**	**-**	**525**
At 31 December 2014					
Financial assets:					
Forward currency contract	27	-	246	-	246
Non-financial assets:					
Non-current asset held for sale	28	-	-	6,282	6,282

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments based on the services provided as follows:

(i) Offshore Segment - provision of service for oil and gas engineering, construction and conversion works.

(ii) Marine Repair Segment - provision of repair services and drydocking of liquefied natural gas carriers.

(iii) Others - comprise supporting divisions to the Group operations and sludge disposal management.

Except as indicated above, none of the operating segments has been aggregated to form the above reportable operating segments.

	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							
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	11,174	124,642	(981)	A	123,661
Impairment of goodwill and property, plant and equipment				(99,800)	-		(99,800)
Share of results of joint ventures				(1,360)	-		(1,360)
Profit before tax				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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. 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)**
Inventories written off	**(956)**	**(241)**	**(727)**	**(1,924)**	**-**		**(1,924)**
Impairment loss - trade and other receivables	**-**	**(2,120)**	**-**	**(2,120)**	**-**		**(2,120)**
Net provision for warranty	**(5,858)**	**-**	**-**	**(5,858)**	**-**		**(5,858)**

	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 2014							
Revenue							
External customers	2,447,656	252,849	-	2,700,505	-		2,700,505
Inter-segments	-	-	120	120	(120)	A	-
	2,447,656	252,849	120	2,700,625	(120)		2,700,505
Result							
Operating profit	77,113	26,052	19,676	122,841	(218)	A	122,623
Share of results of joint ventures				(3,511)	-		(3,511)
Profit before tax				119,330	(218)		119,112
Taxation				11,508	-		11,508
Profit for the year				130,838	(218)		130,620

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. 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 2014 (cont'd.)							
Segment assets							
Goodwill on acquisition	62,783	-	-	62,783			
Due from customers on contracts	1,090,527	60,510	-	1,151,037			
Trade receivables	571,776	29,375	3,318	604,469			
Total segment assets	1,725,086	89,885	3,318	1,818,289	2,646,593	B	4,464,882
Segment liabilities							
Due to customers on contracts	17,385	-	-	17,385			
Total segment liabilities	17,385	-	-	17,385	1,811,375	C	1,828,760
Included in operating profits are:							
Depreciation and amortisation	(59,673)	(15,407)	(412)	(75,492)	(1,322)		(76,814)
Inventories written off	-	-	(1,435)	(1,435)	-		(1,435)
Impairment loss - trade and other receivables	1,452	2,419	-	3,871	-		3,871
Impairment loss - property, plant and equipment	(4,967)	-	-	(4,967)	-		(4,967)
Net provision for warranty	(17,175)	-	-	(17,175)	-		(17,175)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. SEGMENT INFORMATION (CONT'D.)

Management monitors the assets and liabilities on a group basis and not by operating segments.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

Note

A Inter-segment revenues and transactions are eliminated on consolidation.

B The following items are deducted from total assets as reported in the statement of financial position to arrive at segment assets:

	2015 RM'000	2014 RM'000
Total assets	**4,320,094**	4,464,882
Property, plant and equipment	**1,642,153**	1,607,347
Land use rights	**230,541**	237,635
Investment in joint ventures	**15,725**	17,085
Deferred tax assets	**79,915**	80,602
Derivatives	**635**	364
Inventories	**12,102**	11,721
Trade receivables	**1,287**	4,102
Other receivables	**54,898**	91,172
Cash and cash equivalents	**860,175**	589,228
Non-current asset held for sale	**-**	6,282
Tax recoverable	**4,146**	1,055
Adjustments and eliminations to total assets	**2,901,577**	2,646,593
Total segment assets	**1,418,517**	1,818,289
The segment assets comprised:		
Goodwill on acquisition	**-**	62,783
Due from customers on contracts	**1,041,990**	1,151,037
Trade receivables	**376,527**	604,469
	1,418,517	1,818,289

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. SEGMENT INFORMATION (CONT'D.)

Note (cont'd)

C The following items are deducted from total liabilities as reported in the statement of financial position to arrive at segment liabilities:

	2015 RM'000	2014 RM'000
Total liabilities	**1,639,672**	1,828,760
Trade and other payables	**1,607,905**	1,508,240
Provisions	**12,970**	18,828
Derivatives	**110**	118
Income tax payable	**-**	19,189
Borrowings	**-**	265,000
Adjustments and eliminations to total liabilities	**1,620,985**	1,811,375
Total segment liabilities	**18,687**	17,385
The segment liabilities comprised:		
Due to customers on contracts	**18,687**	17,385
	18,687	17,385

Geographical information

Substantially all the Group's revenue is derived from and non-current assets are located in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

35. SEGMENT INFORMATION (CONT'D.)

Information about major customers

Breakdown of revenue from major customers are as follows:

	2015 RM'000	2014 RM'000
MISC Bhd, immediate holding company		
- Offshore Segment	**380,730**	528,419
- Marine Repair Segment	**251,735**	33,739
	632,465	562,158
Kebabangan Petroleum Operating Company Sdn. Bhd., a related company		
- Offshore Segment	**64,772**	274,822
Sabah Shell Petroleum Company Ltd.		
- Offshore Segment	**399,719**	520,440
ExxonMobil Exploration and Production Malaysia Inc.		
- Offshore Segment	**24,903**	323,713
Petronas Carigali Sdn. Bhd., a related company		
- Offshore Segment	**938,338**	770,818

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

36. SUPPLEMENTARY INFORMATION - BREAKDOWN OF RETAINED PROFITS INTO REALISED AND UNREALISED

The breakdown of the retained profits of the Group and of the Company as at 31 December 2015 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	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Total retained profits of the Company and its subsidiaries:				
- Realised	**869,221**	860,195	**80,968**	68,688
- Unrealised	**9,840**	17,018	**-**	-
Total share of retained profits from joint ventures:				
- Realised	**1,138**	2,534	**-**	-
- Unrealised	**215**	179	**-**	-
	880,414	879,926	**80,968**	68,688
Add: Consolidation adjustments	**177,611**	134,213	**-**	-
Retained profits as per financial statements	**1,058,025**	1,014,139	**80,968**	68,688

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, engineering & construction fabrication yard, ancillary facilities and office buildings	36	48,754
2	PTD 11549 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/2075	522,720	Marine Repair, Marine Conversion, engineering & construction fabrication yard, ancillary facilities and office buildings	40	937
3	PTD 101363 Mukim Plentong Johor Bahru	Land	Leasehold/2039	2,567,862	Storage Area	6	17,502
4	PTD 65615 Mukim Plentong Johor Bahru	Land	Leasehold/2044	698,266	Staff Quarters	32	2,373
5	PTD 65618 Mukim Plentong Johor Bahru	Land	Leasehold/2044	587,624	Staff Quarters	32	1,997
6	PTD 65619 Mukim Plentong Johor Bahru	Land	Leasehold/2044	128,502	Staff Quarters	32	437
7	PTD 65616 Mukim Plentong Johor Bahru	Land	Leasehold/2044	169,884	Vacant	32	577
8	PTD 65617 Mukim Plentong Johor Bahru	Land	Leasehold/2044	374,180	Vacant	32	1,271
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, engineering & construction fabrication yard, ancillary facilities and office buildings	38	1,228,913
10	Rumah Pangsa MMHE 81700 Pasir Gudang (erected on land 4 to 6 above)	4-storey residential flats	Leasehold/2044	383,559	Staff Quarters	37	4,035

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)
11	PTD 71056 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/2045	1,524,600	Engineering & construction fabrication yard, ancillary fabrication and office buildings	30	44,991
12	PTD 109040 Mukim Plentong Johor Bahru	Land	Leasehold/2053	217,800	Workshop, ancillary facilities and site office	22	6,827
13	PTD 200290 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/2052	2,424,158	Workshop, ancillary facilities and office buildings	7	78,982
14	PTD 22768 Mukim Plentong Johor Bahru	Land	Leasehold/2040	435,600	Storage Area	35	12,560
15	LOT 51611 Mukim Plentong Johor Bahru	Land	Leasehold/2045	173,514	Ancillary facilities and storage area	19	5,120
16	PTD 110760 Mukim Plentong Johor Bahru	Land	Leasehold/2052	205,603	Workshop, ancillary facilities and office buildings	22	6,302
17	PTD 110758 Mukim Plentong Johor Bahru	Land	Leasehold/2052	59,242	Cabin office and warehouse	22	1,911

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Fax	:	90-216-2901207
Web	:	http://www.atlantismarine.com.tr/
Contact person	:	**Mr Caner Ararat**
M	:	90-532-3636830
E	:	cararat@atlantismarine.com.tr

WORLDWIDE AGENTS FOR MARINE REPAIR

NORWAY
ARNULF L'ORSA A/S Shipbrokers/Agents

MÅGERØ VERFT A/S, Mågerøveien 171
3145 TJOME
NORWAY

Tel	:	47-2-104-3693
Fax	:	47-2-104-3691
Web	:	www.lorsa.no
Contact person	:	**Mr. Arnulf L 'Orsa** - Managing Director
M	:	47-90-593-151
E	:	arnulf.lorsa@lorsa.no
Contact person	:	**Michal Walenkiewicz** - Repair Manager
M	:	47-91-365-591
E	:	michal@lorsa.no

TAIWAN
Wale Young Corporation

No. 86, Shiliang ST, Sanmin DIST,
Kaohsiung City 807, TAIWAN
REPUBLIC OF CHINA

Tel	:	886-7-831-4410
Fax	:	886-7-831-9824
Contact person	:	**Tracy Yu**
E	:	wale.young@msa.hinet.net

UNITED STATES OF AMERICA
DARR MARITIME SERVICES, LLC DARR

1340 N. Great Neck Road #1272-319
Virginia Beach, Virginia 23454
UNITED STATES OF AMERICA

Tel	:	1-757-472-5801
Fax	:	1-757-631-0024
Contact person	:	**Thomas Darr** - President
E	:	darrmaritime@cox.net

GREECE BPCO LTD (LNG & LPG ONLY)

Kalvou 13-17, 15233,
Halandri (Chalandri) Athens,
GREECE

Tel	:	30 210 6850413
Web	:	www.bpco-goup.com
Contact person	:	**Mr Arsenios Papatheodorou**
		30 6942 988697
E	:	info@bpco-group.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 27th Annual General Meeting of Malaysia Marine and Heavy Engineering Holdings Berhad will be held at Topaz Ballroom, One World Hotel, Ground Floor, First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan, on Monday, 18 April 2016 at 11.00 a.m. for the following purposes:-

1. To receive the audited financial statements for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors thereon. **Resolution 1**

2. To elect Syed Hashim bin Syed Abdullah who retires pursuant to Article 112 of the Company's Articles of Association and who being eligible, has offered himself for election. **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. Yee Yang Chien **Resolution 3**
   - ii. Dato' Halipah binti Esa **Resolution 4**
   - iii. Datuk Nasarudin Md Idris **Resolution 5**

4. To approve the payment of Directors' remuneration of RM1,036,000 for the financial year ended 31 December 2015. **Resolution 6**

5. 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 7**

6. To transact any other ordinary business for which due notice has been given in accordance with the Companies Act, 1965.

By Order of the Board
Fadzillah binti Kamaruddin (LS 0008989)
Ausmal bin Kardin (LS 0009383)
Company Secretaries
Kuala Lumpur
25 March 2016

NOTICE OF ANNUAL GENERAL MEETING

NOTES ON PROXY FORM

1. Only depositors whose names appear in the Record of Depositors as at 11 April 2016 shall be entitled to attend, speak and vote at the meeting.

2. A member may appoint not more than two proxies to attend the same meeting. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965, Malaysia shall not apply to the Company. There shall be no restriction as to the qualification of the proxy.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

MADE PURSUANT TO PARAGRAPH 8.27(2) OF THE MMLR OF BURSA SECURITIES.

1. The Director retiring and seeking election pursuant to Article 112 of the Company's Articles of Association at the 27th Annual General Meeting is:-
   i. Syed Hashim bin Syed Abdullah

2. The Directors retiring and seeking re-election pursuant to Article 115 of the Company's Articles of Association at the 27th Annual General Meeting are:-
   i. Yee Yang Chien
   ii. Dato' Halipah binti Esa
   iii. Datuk Nasarudin Md Idris

3. The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 14 to 23 of this Annual Report. The details of the Directors' shareholdings in the Company are set out in the section entitled "Analysis of Shareholdings" on page 28 to 29 of this Annual Report.

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M H B

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 27th Annual General Meeting of the Company to be held at Topaz Ballroom, One World Hotel, Ground Floor, First Avenue, Bandar Utama City Centre, 47800 Petaling Jaya, Selangor Darul Ehsan on Monday, 18 April 2016 at 11.00 a.m. and at any adjournment thereof. My/our proxy(ies) is/are to vote as indicated below:

NO	ORDINARY RESOLUTION	FOR	AGAINST
1.	To receive the audited financial statements for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors thereon.		
2.	To elect Syed Hashim bin Syed Abdullah who retires pursuant to Article 112 of the Company's Articles of Association.		
3.	To re-elect Yee Yang Chien who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
4.	To re-elect Dato' Halipah binti Esa who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
5.	To re-elect Datuk Nasarudin Md Idris who retires by rotation pursuant to Article 115 of the Company's Articles of Association.		
6.	To approve the payment of Directors' remuneration amounting to RM1,036,000 for the financial year ended 31 December 2015.		
7.	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_______________2016

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No. of shares	Percentage (%)
Proxy 1		
Proxy 2		
Total		

____
Signature/Common Seal of member(s)

Notes:

1. *Only depositors whose names appear in the Record of Depositors as at 11 April 2016 shall be entitled to attend, speak and vote at the meeting.*
2. *A member may appoint not more than two proxies to attend the same meeting. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965, Malaysia shall not apply to the Company. There shall be no restriction as to the qualification of the proxy.*
3. *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.*
4. *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.
5. *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.*
6. *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.*
7. *The Form of Proxy duly completed and executed, must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd (378993-D) at Level 6, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, not less than forty eight (48) hours before the time fixed for the holding of the meeting or any adjournment thereof.*

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MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
Annual General Meeting

STAMP

SYMPHONY SHARE REGISTRARS SDN BHD
Level 6, Symphony House, Block D13,
Pusat Dagangan Dana 1, Jalan PJU 1A/46,
47301 Petaling Jaya, Selangor Darul Ehsan,
Malaysia

Please fold here to seal

M H B

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

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Jalan Sultan Hishamuddin
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