EXPANDING INTO NEW FRONTIERS

MHB
engineering solutions

ANNUAL REPORT **2018**

COVER RATIONALE

Expanding into New Frontiers

Throughout our journey in this challenging market, we have adapted to the new norm. In finding our feet on this new ground, we materialised our commitment of reshaping our landscape and strengthening our core areas in cost management, resource optimisation and capability development. This year, we have **expanded into new frontiers as we go beyond our capabilities and ventured into new businesses**. We have also embarked on the expedition of moving outside of our region in delivering sustainable returns to our valued stakeholders.

VISION

To consistently provide better marine and heavy engineering related solutions and services

MISSION

To consistently be better, we strive:

- to exceed the expectations of our customers
- to promote individual and team excellence of our employees
- to create a positive difference to the lives of communities
- to care for the environment and operate responsibly
- to drive sustainable value for our shareholders

SHARED VALUES

Loyalty
Loyal to corporation

Integrity
Honest and upright

Professionalism
Strive for excellence

Cohesiveness
United, trust and respect for each other

MHB CULTURAL BELIEFS

RESULTS MATTER
I stretch my limits to deliver superior results

OWN IT!
I own the results and don't blame others

FOCUSED EXECUTION
I plan, commit and deliver with discipline

NURTURE TRUST
I always keep my promise and build mutual trust

TELL ME
I seek, give and act positively on feedback

SHARED SUCCESS
I collaborate for the greater good of MHB and the MISC Group

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BUSINESS HIGHLIGHTS

HEAVY ENGINEERING BUSINESS SEGMENT

Secured **3** projects and delivered **2** offshore and **2** onshore projects.

Secured **2** long-term frame agreements.

MARINE BUSINESS SEGMENT

Completed the repair and maintenance of **93** vessels.

Secured **6** local and **15** international new clients.

FINANCIAL HIGHLIGHTS

REVENUE	LOSS AFTER TAX	LBITDA	TOTAL ASSETS
RM974.4 million	RM124.2 million	RM60.8 million	RM3.2 billion

2018 At A Glance

AWARDS AND RECOGNITION

8 MARCH

MHB was selected for 'The Legal 500 GC Powerlist Southeast Asia: Teams'

13 MARCH

SK316 Project was rated 'A' by PETRONAS. The rating is the highest rating under the PETRONAS Contractor's Report Card

10 OCTOBER

MHB received Focused Recognition acknowledgement in conjunction with its contribution in the completion of fabrication work of 44 refinery tanks with total weight of 31,000 MT

28 OCTOBER

MHB was awarded Best Project HSE – Offshore Project and received Focused Recognition acknowledgment for Sepat Phase 2A from PETRONAS during PETRONAS' Project HSE Contractors' Conference

27 NOVEMBER

MHB received the Certificate of Excellence in Human Resource Development from the Ministry of Human Resources

7 DECEMBER

MHB received an Appreciation Award during the celebration of National Institute of Occupational Safety and Health (NIOSH)'s 25th Silver Jubilee Anniversary

FTSE4Good

Malaysia Marine and Heavy Engineering Holdings Berhad remains a constituent of FTSE4Good

About This Report

HERE IN MHB, WE ADVOCATE TRANSPARENCY TO STAKEHOLDERS AND PRODUCE A COMPREHENSIVE REPORTING PUBLICATION TO CATER TO THE DIVERSE NEEDS OF OUR BROAD STAKEHOLDER BASE.

Our Annual Report 2018, which comes together with our Sustainability Statement embedded inside, is the primary source of information on our Group's financial and non-financial performance for 2018 and on the outlook for 2019.

We are on the second year of our integrated reporting journey and subsequently to produce a full fledge Integrated Report over time. With more insights into the quality of the strategic thinking and management leadership, we strengthened our business strategy through prioritisation of material matters and introduced a sustainable value creation to our stakeholders.

SCOPE AND BOUNDARY OF REPORTING

The report addresses the overall activities of the Group, our business segments, subsidiaries and joint venture operations. We present information relevant to the way we create value for our key stakeholders which include our employees, customers, regulators, suppliers and communities. This report covers period from 1 January 2018 to 31 December 2018, unless otherwise stated.

	Objective	Frameworks applied	Cross-referencing
Annual Report 2018	• Provides a comprehensive discussion of the Group's performance	• Bursa Malaysia Securities Main Market Listing Requirements	**MHB's website** www.mhb.com.my
Sustainability Statement 2018	• Presents a balanced and comprehensive analysis of the Group's sustainability practices and performance in relation to issues material to our stakeholders	• Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines • Amendments to Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Statement in Annual Reports	

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

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
(178821-X)
Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia

T: +603 2273 0266
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E: enquiries@mmhe.com.my

Scan here for more information

MHB's website

Live contact details of our Marine Repair agents worldwide

Who We Are and What We Do

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (MHB) IS A GLOBALLY TRUSTED MARINE & HEAVY ENGINEERING SOLUTIONS PROVIDER FOR A WIDE RANGE OF OFFSHORE & ONSHORE FACILITIES AND VESSELS.

Incorporated in **1973**

Listed on the Main Market Bursa Malaysia Securities Berhad in **2010**

2,071 highly skilled workforce nationwide (as at 31 December 2018)

Malaysia's Largest Fabrication Yard by area of **542,380m²** and tonnage capacity of **129,700 MT** with world-class facilities

Delivered more than **3,800** marine solutions with comprehensive marine services in one location

Dry Dock No. 1 –
Capacity: 450,000 dwt
Dry Dock No. 2 –
Capacity: 140,000 dwt
Dry Dock No. 3 –
Capacity: 400,000 dwt
(will be ready to serve in 2020)

Established our **Centre of Excellence**, a learning centre dedicated for oil & gas and marine industries in **2015**,

50,000 trainees have accomplished their courses.

Highest in **Quality, Health, Safety and Environment** Culture

- OHSAS 18001: 2007 Certified
  Occupational Health & Safety Management System
- ISO 14001: 2015 Certified
  Environmental Management System
- ISO 9001: 2015 Certified
  Quality Management System

Our Solutions

DEEPWATER

CONVERSION

PROCESS MODULES

FIXED PLATFORMS

MARINE REPAIR

OTHER SERVICES

Corporate Information

As at 12 February 2019

BOARD OF DIRECTORS

CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

- Datuk Nasarudin Md Idris

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

- Choy Khai Choon

INDEPENDENT NON-EXECUTIVE DIRECTORS

- Dato' Halipah Esa
- Yong Nyan Choi @ Yong Guan Choi

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

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

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, NON-INDEPENDENT EXECUTIVE DIRECTOR

- Wan Mashitah Wan Abdullah Sani

BOARD AUDIT AND RISK COMMITTEE

Choy Khai Choon (Chairman)
Dato' Halipah Esa
Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio
Rozainah Awang

NOMINATION & REMUNERATION COMMITTEE

Dato' Halipah Esa (Chairperson)
Choy Khai Choon
Syed Hashim Syed Abdullah

BOARD BID COMMITTEE

Syed Hashim Syed Abdullah (Chairman)
Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio

COMPANY SECRETARY

Ausmal Kardin (LS 0009383)
Fadzillah Kamaruddin (LS 0008989)
- Resigned with effect from 22 October 2018

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
Website : 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

Boardroom Share Registrars Sdn Bhd
(formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Telephone : +603 7849 0777
Facsimile : +603 7841 8151/ +603 7841 8152

FORM OF LEGAL ENTITY

Incorporated on 18 February 1989 as a private company limited by shares and converted into a public company limited by shares on 14 June 2010

STOCK EXCHANGE LISTING

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

PLACE OF INCORPORATION AND DOMICILE

Malaysia

Group Structure

As at 12 February 2019

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
Investment Holding

100%

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

100%

MMHE INTERNATIONAL SDN BHD
Chemical cleaning of ship tanks, boilers, cylinder covers and various ship equipment and machinery (dormant)

50%

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

100%

MALAYSIA MARINE AND HEAVY ENGINEERING SAUDI LIMITED
Provision of engineering, procurement, construction, installation and commissioning services for offshore and onshore facilities

100%

TECHNO INDAH SDN BHD
Sludge disposal management

100%

MMHE LNG SDN BHD
Provision of repair services and dry docking of liquefied natural gas vessels (dormant)

70%

MMHE EPIC MARINE & SERVICES SDN BHD
Provision of repair services and dry docking of marine vessels at the ship repair facilities located in Kemaman, Terengganu

60%

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

40%

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

- Subsidiary
- Jointly Controlled Entity

Letter from the Chairman

ECONOMIC OUTLOOK

Global economic growth in 2018 was slightly subdued showing deflationary pressures toward end of the year.

In the United States (US) growth was fairly robust on the back of strong consumer spending, but in the Eurozone it was dampened due to the potential impact of "Brexit". Meanwhile China continued steadily on its growth path spurred by its "One Belt One Road" initiative, helping to shape a trading network of the future. Nonetheless, trade tensions between the US and its major trading partners signalled major downside risks that would adversely impact the global economy.

Oil prices moved toward a firmer trend in the year, but was reversed in the third quarter with the onset of trade wars and higher risk of global economic slowdown. The volatile and uncertain oil market does not augur well for the oil support and service industry, as oil majors took a more cautious view on capital expenditures and deferring implementation of new projects. Our company, MHB is not spared from the downturn as jobs remained scarce whilst the ones available are keenly contested. It will continue to test our fortitude and resolve as a company and we must continue to push ahead with the initiatives that we have put in place to weather through the storm.

CORPORATE DEVELOPMENTS

One of the key strategies toward growth sustainability is diversification of our business into new areas. Over the years, our Heavy Engineering Business segment was largely dependent on contracts for engineering and construction of bespoke offshore structures. Indeed these contracts are often high in value, but they are also dependent on development plans and project implementation schedule of oil majors which are in turn dependent upon their criteria for investment decisions. "Feast and famine" is the norm in the industry and such volatility today is more prevalent. We will continue to bid for these contracts, but we need to be equally mindful that the pipeline of projects is thin, and replenishing our order book is a huge challenge. Thus over the last few years, we have begun shifting our focus toward work which are long-term and recurring in nature. I am pleased to report that in the course of last year, we have entered into two long-term agreements.

The first is a Frame Agreement with PETRONAS for a period of six years. It will entail engineering and construction of fixed offshore structures encompassing oil and gas blocks within Malaysia under the PETRONAS' Petroleum Agreement with various oil companies. Late last year, we also entered into a Long-term Agreement with Saudi Aramco for the supply of offshore facilities within the Kingdom of Saudi Arabia territorial waters. This agreement is also for a period of six years. These two agreements are significant as they are long-term in nature and will help to mitigate the volatility in our Heavy Engineering Business segment.

In addition to work in the upstream sector, we have also taken steps to diversify our business into the downstream petroleum sector. One area that we are particularly keen in venturing into is plant maintenance and turnaround services. We have some measures of success in this area albeit on a small scale with the processing and petrochemical plants in Malaysia. Nonetheless, I see this as the building blocks for our capability development and we would be poised to capture a sizeable part of the work that is available. Plant maintenance and turnaround services are recurring in nature and would help to provide another steady source of income for the Company moving forward.

The Marine Business segment of our business has had a difficult year in 2018. Many shipowners defer their dry docking activities in view of the uncertainty surrounding implementation of the International Maritime Organisation (IMO) Global Sulphur Cap regulations. We take the view that dry docking activities will eventually increase once guidelines and a more cost efficient response to meeting the IMO regulations become sufficiently clear to shipowners. The construction of the new dry dock for the Company known as Dry Dock No. 3 is well underway with a target completion by third quarter 2020. The Marine Business segment has been a mainstay of our business and it provides a fairly steady source of revenue and income. This business is highly competitive and capacity expansion is necessary for us to remain relevant and compete effectively for a bigger slice of the market share.

Maintaining our cost competitiveness during these difficult times is key to our survival. Our margins are increasingly squeezed as clients looked toward deeper cost optimisation measures. We need to be at the lower end of the cost curve in order to win new jobs. Hence, operational efficiency and higher productivity is absolutely necessary in order for us to remain competitive. In the course of the year, we continued with our initiatives in the core areas of cost management, resource optimisation and capability development. Our initiatives to upskill our manpower toward operational excellence has begun to gain traction. Another key area that we would focus upon moving forward is on project cost control and management. It is imperative that we build a strong capability in this area to mitigate any downside risk to our profitability in implementing the works awarded to us.

We are also cognisant that our brand is dependent upon a flawless and timely delivery of projects to the required specifications of our clients, and we remain committed to this ideal. Last year, we received an excellent contractor rating from PETRONAS Carigali for our work on the SK316 project which comprises a Centralised Processing Platform and a Wellhead Platform offshore. The project was completed within a 20-month duration and recorded 8 million man-hours. This is the highest rating of PETRONAS Contractors' Report Card. The recognition demonstrates our capability to undertake and deliver projects with excellence and quality.

FUTURE OUTLOOK

The next few years will continue to be tough as jobs are expected to remain scarce. Nonetheless, I believe we have put the worst behind us and our diversification strategy would create greater stability to our future earnings. The path ahead is fraught with risks, but I am confident that if we remain true to our cause of flawless and timely delivery of projects whilst embedding a culture of excellence in productivity and cost management, we will be more resilient and emerge stronger.

APPRECIATION

As we moved ahead into the future with greater rigour to improve our performance, I am indeed grateful to our many stakeholders who over the years have been highly supportive of the Company.

To our esteemed shareholders, I cannot thank them enough for their unwavering loyalty and support. Please be assured that the Board and Management of the Company remain steadfast in our efforts in improving the overall performance of the Company.

To our valued clients, thank you for your invaluable support. We are mindful of the trust you placed upon us to deliver your projects and to provide you with services par excellence. And we are inspired to continuously better ourselves.

To our business partners, vendors and associates, thank you for your support and cooperation. Success in delivering a job is dependent upon us working together and we look forward to greater collaboration ahead.

To our staff and Management at MHB, thank you for your dedication and commitment. Success will not be handed to us on a silver platter and we must continuously work hard and stay the course to achieve our goals. More importantly, we must work as a team.

Lastly, I would like to thank my fellow Board members at MHB. Their wise counsel and guidance has been invaluable. Building consensus on the way forward at times requires intense debates, but is imperative that we are aligned in our efforts to steer the Company back to our even keel.

DATUK NASARUDIN MD IDRIS
Chairman

How We Create Value

OUR CAPITAL | KEY INPUTS | BUSINESS ACTIVITIES TO SUSTAIN VALUE

FINANCIAL CAPITAL

Financial capital defines the pool funds available, which include equity, debt and re-invested capital

- RM880.0 million market capitalisation
- Utilisation of RM50.0 million from funding facilities of RM400.0 million
- Cash and bank balances: RM601.5 million
- Positive cash generated from operations: RM62.8 million

- Sustained revenue stream through geographical expansion and new product offering
- Investment to build Dry Dock No. 3 (DD3)

HUMAN CAPITAL

The technical and managerial skills, productivity and wellbeing of our people – coupled with a company culture and governance systems that foster innovation and compliance – are critical to our long-term success

- 2,071 employees
- Investment of RM1.6 million in employee and leadership training
- Formal rollout and implementation of MHB ‘Cultural Beliefs’

Capability development programmes for technical staff

- 12 employees attended the Project Management Development Programme (PMDP)
- 20 employees attended the Cost Controller Development Programme (CCDP)
- 60 employees attended the CSWIP Welding Inspector Certification Programme

Lean Six Sigma training sessions

- 38 employees and 38 senior management personnel attended Lean Six Sigma training

INTELLECTUAL CAPITAL

Intellectual covers our innovation, whether product or services based or through process innovation

- Targeted Performance Improvements (TPIs) initiatives
- Industrial Engineering (IE) capability
- Project Monitoring and Control Management (PMCM) system

TPI

- Developed standardised work processes and workers’ performance system for Workshop Operations
- Improve machines breakdown management
- Introduced innovative solutions

OUTCOMES

- Driving austerity measures
- Established partnership with vendors and subcontractors and strategic sourcing of materials

- Signed two long-term agreements with PETRONAS and Saudi Arabian Oil Company (Saudi Aramco)
- Secured three contracts for the year:
  - Gumusut-Kakap Phase II Extension Subsea Manifold project
  - Pluto Water Handling Module
  - EPCIC of offshore wellhead facilities for Tembikai Non-Associated Gas project
- Capacity expansion for marine conversion, repair and refurbishment business
- Saved RM20.8 million through reduction in expenditure
- RM14.5 million free cash flow for the year

Leadership Programmes for managerial positions

- 69 employees attended Leadership Programmes

Compliance of Health, Safety and Environment (HSE) procedures with all regulations and safety standards

- Organised a total of 16 health and safety enforcement activities
- Conducted a total of 94 emergency practice drills

Cultural Beliefs (CB) workshop

- 1,257 employees from senior management to non-executives attended the CB workshop

- Total wages and salaries: 197.3 million
- Average hours of training per year: 23.5
- Voluntary staff turnover rate: 15%

- Qualified and certified project managers and cost controllers and welding inspectors
- Improved productivity processes and project cost savings
- Sustainable succession planning for leadership roles

- Loss time injury frequency (LTIF): 0.16
- Total recordable cumulative frequency (TRCF): 0.23
- Number of fatal incidence: 1

- Inculcated cohesiveness, empowerment and unity amongst employees through common set of shared values

IE

- Introduced IE application to improve project executions
- Deployed structured problem solving methodology

PMCM

- Developing database and dashboard for effective project monitoring and control

TPI

- Established processes and machines KPI matrix
- Enhanced productivity and better operational efficiency for workshop operations
- Better control of maintenance of machines
- Improved communication of construction outputs with enhanced software with mobile capability
- Improving spool traceability throughout construction using active radio-frequency identification (RFID)

IE

- Performed systematic analysis for production line execution strategy such as process flowchart, takt time, cycle time and line balancing as an input for commercial bidding & tendering
- Initiated Lean Six Sigma improvement projects
- Incorporated Plan-Do-Check-Act (PDCA) methodology into 21 initiatives to address issues for improvement of operational performance

PMCM

- To establish comprehensive project monitoring and control management system for better control of the execution with transparency, traceability and integrity

How We Create Value

OUR CAPITAL | KEY INPUTS | BUSINESS ACTIVITIES TO SUSTAIN VALUE

SOCIAL AND RELATIONSHIP CAPITAL

Social and relationship capital covers the positive and productive relationships with our stakeholder groups

Key Inputs

- Engagement with employees
- Assessment on clients' satisfaction
- Assessment on subcontractors and vendors' overall performance
- Engagement with shareholders and investors
- Social responsibility commitment through Corporate Social Investment (CSI) programme

Business Activities to Sustain Value

Employees

List of employee engagement events:

- Pedal to Active Lifestyle
- Townhall Session
- MMHE Academic Excellence Award
- Fat to Fab Competition (weight loss competition)
- MHB Long Service Award

Clients

- Conducted 89 client feedback exercises

Subcontractors and Vendors

- 110 assessment exercises for subcontractors and vendors

MANUFACTURED CAPITAL

Manufactured capital includes our infrastructure that we create and that we utilise to create value

Key Inputs

- Property, plant and equipment (PPE): RM1.6 billion
- Included in PPE is CAPEX of RM153.2 million

Business Activities to Sustain Value

- Execution of heavy engineering projects and marine business activities

NATURAL CAPITAL

We require natural capital such as land and energy to deploy and operate our manufactured capital

Key Inputs

- Environmental awareness campaigns
- Electricity consumption: 39,586 MWh
- Volume of water consumption: 814,666 cubic metres

Business Activities to Sustain Value

- Allocation of RM14,666 for environmental awareness campaigns and other initiatives

How We Create Value

OUTCOMES

Shareholders
List of Investor Relations (IR) activities:
- Face-to-face meeting with analysts
- Annual General Meeting
- Analyst briefings
- Yard visit

Communities
List of CSI programmes:
- MHB Knights of Nature Sustainability Camp
- MHB Art of Science
- Hari Alam Sekitar Negara
- MHB Iftar
- Ramadan Relief
- Donation drive

Employees
- Foster rapport between employees and management and strengthen the adoption and internalisation of MHB corporate culture

Clients
Client Satisfaction Index
- Marine Satisfaction Index: 8.7
- Heavy Engineering Satisfaction Index: 7.3

Shareholders
- Interactive communication and transparent disclosure to shareholders and financial community

Subcontractors and Vendors
- Subcontractor and Vendor Assessment Result by Packages
  - Good: 17%
  - Fair: 77%
  - Poor: 6%

Communities
- Contribute positive impact and improve the quality of life of local community and society at large through education, charity drive and environmental awareness

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- Construction of Dry dock No. 3 (DD3) in Pasir Gudang, Johor

Heavy Engineering Business segment
- 4 projects completed
- 7 projects ongoing

Marine Business segment
- 2 marine conversions delivered
- 93 vessels repaired

MMHE EPIC Marine & Services Sdn Bhd (MEMS)
- 14 vessels repaired

DD3
- 50.1% progress rate for DD3

- Focus on energy efficiency and minimisation of energy consumption, water consumption and gas emission
- Recycling programme

Year	2017	2018	% change
Petrol, diesel and gas combustion emissions (tCO_2e)	11,306	5,912	47.7% reduction
Electricity emissions (tCO_2e)	39,544	27,077	31.5% reduction
Ozone-depleting substances (ODS) (CO_2e)	1,523	1,269	16.7% reduction
NOx (tonnes)	7.97	3.55	55.5% reduction
SOx (tonnes)	2.51	0.84	66.5% reduction
Particulate Matter (PM10) (tonnes)	0.89	0.37	58.4% reduction
Total scheduled waste to landfill (MT)	673	14	97.9% reduction
Total scheduled waste managed by other means (MT)	23,981	27,635	15.2% increment
Total non-scheduled waste to landfill (MT)	7,650	5,232	31.6% reduction
Total non-scheduled waste recycled (MT)	N/A	499	New achievement

Strategic Blueprint

KEY RESULTS AREAS	STRATEGIC INITIATIVES
SUSTAIN EXISTING BUSINESS	Continue Pursuing Existing Business of Heavy Engineering, Marine Repair & Floaters Conversion
DEVELOP NEW BUSINESS	Expand Capabilities of Fabrication in New Area and Oil & Gas Services
IMPROVE PRICE COMPETITIVENESS	Monitor Effectiveness of Initiatives and Explore Strategic Partnership Opportunities
IMPROVE PRODUCTIVITY	Implement Productivity Improvement Initiative to Achieve Operational Excellence
DEVELOP CAPABILITY	Upskill Manpower Through Capability Development Programmes

STRATEGIC OBJECTIVES

- We are committed to explore opportunities for regional and international market for Heavy Engineering Business segment
- We are determined to increase our effort in Marine Business segment by continue focusing on LNG and tanker as well as promoting our new Dry Dock No. 3 (DD3)
- We are focused on marketing our strength and track records in repair, life extension and conversion (RLEC) scope and integration for floaters conversion segment

- We are committed to explore into targeted high prospect areas i.e. North America and Middle East for modular structures
- We are focused to explore fabrication work for foundation and Offshore High Voltage Substation (OHSV) for offshore wind farm business
- We are determined to explore opportunities for PETRONAS Integrated Downstream Contract for plant turnaround work

- We are determined to ensure effectiveness of implemented in-house initiatives through close monitoring and analysis
- We are focused to continuously explore strategic partnership and collaboration opportunities to promote competitive price offerings

- We are striving to elevate our productivity through implementation of standard operating procedures and monitoring of our assets and facilities

- We are committed to provide career growth opportunities to our personnel through various training and certification programmes for upskilling and capability development

MD & CEO’s Management Discussion & Analysis

Our efforts to ensure order book sustainability has borne fruit. Late 2018, we have been awarded with a frame agreement for the provision of engineering, procurement and construction (EPC) of fixed offshore structure works by PETRONAS.

MARKET REVIEW

Over the course of 2018, offshore industry has experienced improvement albeit slowly. There are early signs of recovery in offshore activities as oil prices started to stabilise between $70-$80 per barrel. Several major field development and offshore maintenance projects were sanctioned in early 2018. However, the market recovery will not be a process without setbacks. Against this backdrop, we continued to stay cautious and maintain prudent spending as the oil prices remained uncertain.

The marine industry encountered headwinds as ship owners inclined to defer their dry docking activities, in reaction to uncertainty of the new sulphur content regulations by the International Maritime Organization (IMO) Global Sulphur Cap by January 2020. Tanker market was sluggish on the back of slower pace of expansion in global seaborne trade. The weak demand have exerted a significant downwards pressure on tankers’ dry docking activities. On the contrary, LNG market experienced improvement in trade growth mainly driven by increase in LNG demand from Asia and the rerouting of trade flows attributed by trade tensions.

REVIEW OF OPERATIONS

In 2018, we have successfully delivered several offshore and onshore projects. The Heavy Engineering Business segment has successfully delivered five (5) units of Dangote Catenary Anchor Leg Mooring (CALM) buoy for SOFEC Incorporated. The units were deployed to Dangote Oil Refining Company, offshore Nigeria. The contract involved the fabrication, procurement, construction, testing and pre-commissioning of 5 buoys, 5 Pipeline End Manifolds (PLEMs), 30 Anchor piles, 20 PLEM piles with a total weight of 2,990 MT. This project was completed as per scheduled with zero loss time injury (LTI). We have also successfully delivered the engineering, procurement, construction, installation and commissioning (EPCIC) work of Sepat-A Wellhead Platform (WHP) for PETRONAS Carigali Sdn Bhd (PCSB) to Sepat field, offshore Terengganu. With a total weight of 4,197 MT, this project was also completed within schedule with zero LTI.

For onshore project, we have successfully completed pre-fabrication of 855,554 diametre inch of pipes and fittings and pre-fabrication of 1,731 MT of pipe supports for the Centralised Piping Fabrication (CPF) works for Refinery and Petrochemical Integrated Development (RAPID) for Toyo Engineering & Construction Sdn Bhd (TOYO). We also completed the piping and steel structure installation work for the Refinery of Gas (RoG) area for TOYO. Both RAPID projects were completed with zero LTI. We have also completed three (3) work orders for CARIGALI-PTTEP Operating Company Sdn Bhd (CPOC) for the provision of minor fabrication services for modification for facilities located at offshore field of Malaysia-Thailand Joint Development Area (MTJDA). These work orders refer to part of the 3-year 'call-out' contract which is up to second quarter 2020. During the year under review, we have also delivered a total of 73,000 man-hours on various plant maintenance and turnaround work for several processing and petrochemical plants, a new business we have expanded into since late last year.

There are several ongoing projects that forms the order book as at December 2018 which includes the EPCIC of Central Processing Platform (CPP) for Bokor Phase 3 Re-Development Project for PCSB. This project is currently at 37% in progress of completion. The Bokor Phase 3 CPP project will be ongoing until 2020. We are also in the midst of completing Gumusut-Kakap Phase II Extension Subsea Manifold project for TechnipFMC. Upon completion, the structures and manifold will be installed at Gumusut-Kakap field, offshore Sabah operated by Sabah Shell Petroleum Company Limited. The project is expected to be completed in first quarter 2019. We are also completing two ongoing RAPID work packages – RAPID Package 14 for PETRONAS Refinery and Petrochemical Corporation (PRPC) Utilities and Facilities Sdn Bhd and RAPID Package 3 Area 2 for Tecnicas Reunidas Malaysia Sdn Bhd which are expected to complete in first quarter 2019.

In addition, we have received a work order for EPCIC of offshore wellhead facilities (OWF) for Tembikai Non Associated Gas (NAG) from Vestigo Petroleum Sdn Bhd. Upon completion, the 1,850 MT lightweight wellhead facilities will be installed at Tembikai-Chenang Cluster, offshore Terengganu. We are also undertaking an EPCIC contract for Pluto Water Handling Module for TechnipFMC. Upon completion, the 1,415 MT module will be installed on Woodside Energy Limited's existing Pluto Alpha Gas Production Platform, located offshore Western Australia. The project is expected to complete by fourth quarter of 2020.

Our efforts to ensure order book sustainability has borne fruit. Late 2018, we have been awarded with a frame agreement for the provision of engineering, procurement and construction (EPC) of fixed offshore structure works by PETRONAS. The 'call-out' agreement which is valid for six (6) years covers fixed offshore structures development projects for all oil and gas blocks within Malaysia under PETRONAS' Petroleum Agreement Contractors.

MD & CEO's Management Discussion & Analysis

In consortium with TechnipFMC, we have also signed a Long-term Agreement (LTA) with Saudi Arabian Oil Company (Saudi Aramco) for the provision of EPCIC work for offshore facilities within the Kingdom of Saudi Arabia territorial waters for a fixed period of six (6) years. This entry into Kingdom of Saudi Arabia marks a significant milestone for us as we pursue growth in line with our strategy to expand our portfolio in international market and enhance our position as a global offshore heavy engineering service provider.

In the Marine Business segment, we have successfully delivered two (2) conversion projects, namely Floating, Storage and Offloading (FSO) Benchamas 2 for MISC Berhad and FSO Bergading for E.A. Technique (M) Berhad. The scope of work includes the provision of demolition, refurbishment and conversion of vessel into FSO facilities for the production at Benchamas field, offshore Thailand and offshore North Malay Basin, respectively.

We have also secured four (4) en bloc agreements for marine repair jobs with various international shipping management companies. The agreement were from both existing and new clients with repair windows between one to two years. During the year under review, we saw Marine Business segment's performance being impacted by the deferment of dry docking activities by some major ship owners to a later period before deciding on how to comply with the IMO regulation as well as taking advantage on the increasing charter rates.

The construction of our Dry Dock No. 3 is currently at 50% in progress. The target completion of dry dock is expected to be by 2020. Upon completion of the dry dock, we will be able to take up more dry docking activities especially for LNG vessels and tankers.

STRATEGY

To ensure a balanced portfolio, MHB has been looking into diversifying its market focus into international foray as well as enhancing its presence as a leader in heavy engineering solutions provider for both offshore and onshore facilities within the region. We have expanded our product and service offerings into fabrication of onshore modular structures with Middle East, North America and Southeast Asia as focus regions. In 2018, we were occupied with marketing, business development and tendering activities for various international clients introducing our company's facilities and our capability, experiences and track record.

Due to the increased demand for renewable energy worldwide, we have explored the business opportunity related to renewable energy focusing on offshore wind farm. Our focus in the offshore wind farm business is the fabrication of the wind farm structures which shares the same fabrication capabilities that we already have. In 2018, we have engaged with various EPC contractors and offshore wind farm technology providers to explore partnership opportunities. Venturing into renewable energy business not only would help to mitigate our risks from relying on offshore heavy engineering business but also it would broaden our horizon to ensure business sustainability.

In line with strengthening our growth momentum, we remain committed to continuously enhance and improve our fundamentals to remain competitive whilst ensuring efficiency and effectiveness in the execution of project deliverables. We have successfully implemented productivity management initiatives for our piping and structural workshop to address the key performance issues, machine downtime management and manpower productivity. We are also continuously developing our project management team's capability through various training and certification programmes to ensure they are qualified and upskilled to execute the projects with operational excellence.

Our commitment to Health, Safety and Environment (HSE) has always been our utmost priority by ensuring all HSE procedures are in place, in line with regulations and safety standards. We are continuously conducting various initiatives and awareness campaigns, not only on occupational safety but also on promoting employees healthy lifestyle in general.

RISKS AND MITIGATION PLANS

There are several key business risks that we are exposed to and we continue to do our best to mitigate these risks especially key risks that may have material effect on our operations, performance and financial status. One of our top risks is the inability to secure new order intake which will have impact on the overall financial performance and the Company's share price. We believe this risk arise either from market conditions or from unsuccessful bid strategy. To mitigate this, we have embarked on two measures. We are diversifying our business strategy to venture into new business that provides recurring orders and improving our marketing strategy to bring in new clients to our yard. On the risk due to unsuccessful bid strategy, we are continuously conducting structured post-mortem analysis on unsuccessful bids to identify improvement for future bids.

We also face the risk of delay in project execution which consequently will lower operational profitability. To counter this, we have implemented lessons learnt from previous project execution and have identified areas of productivity and quality improvements that have been and are currently in progress to address the gaps. This includes process and procedures improvements and capability gap developments for employees involved. Improving productivity and ensuring efficient planning and execution process remain as our focus to safeguard the timeliness and project delivery.

We are confident that the implemented mitigation strategies will help to reduce adverse effects to our business.

MD & CEO's Management Discussion & Analysis

Dangote CALM buoy

MARKET OUTLOOK

Oil prices, new regulations, global economic and political stability remain important catalysts for the sustainability of our business growth. While we are optimistic that the oil prices have improved over the year, we will remain vigilant with our spending and cautious in managing our business segments.

With the improved oil prices, the number of sanctioned offshore project is expected to increase on the back of industry's cost cutting exercise and improving outlook in some regional markets. Nevertheless, the fluctuation of the prices does not allow some regions the comfort to push for capital expenditure approvals. Even for sanctioned CAPEX, the timing of the spending will be spread over several years. We expect that with the still cautious stand of most oil players, sanctioned and awarded contracts will be more for smaller sized capital expenditure especially in this region. However, we see active commitments from National Oil Companies (NOCs) in the Middle East for production demands as the current oil price is acceptable for them to make commitment on their CAPEX. Thus we are expanding our efforts more to this markets.

We also see increased demand for onshore modular construction especially in the Middle East and North America as more new refineries and petrochemical plants are required to meet the growing demand for energy.

Global LNG trade is expected to expand firmly driven by increased of exports from the United States and Australia to Asia. The firm gains in rates and rise in LNG shipbuilding orders ascertain LNG growth potential in 2019. Significant LNG demand in Asia region will increase the LNG fleet volume in Straits of Malacca and South China Sea routes.

Furthermore, in view of the requirement to comply with IMO rules and regulations, we anticipate more vessels to come to our yard for dry docking to install and retrofit scrubbers and Ballast Water Management System (BWMS). However, uncertainty continued on tanker market next year mainly due to the OPEC production cuts as well as substantial tanker delivery scheduled for next year.

APPRECIATION

I wish to express my utmost gratitude to the Board of Directors for their wise counsel and guidance. My sincere appreciation also goes to the rest of our diligent Management team and our employees for their hard work, loyalty, commitment and invaluable contributions to MHB and help us go through the year's difficulties. On behalf of the Management, I would like to thank our shareholders for their continued loyalty and faith in MHB throughout yet another challenging year.

Lastly, my deepest appreciation goes out to our stakeholders, from suppliers to customers and partners for their loyalty and faith through these tough times. MHB will remain agile and resilient to overcome all challenges and committed to driving inclusive and sustainable growth in all our business endeavours. Looking ahead, I am confident that we have both the right strategy and the right team to drive exciting growth opportunities as we seek to build shareholders value.

WAN MASHITAH WAN ABDULLAH SANI
Managing Director & Chief Executive Officer

Letter from the Chief Financial Officer

REVIEW OF 2018 FINANCIAL RESULTS

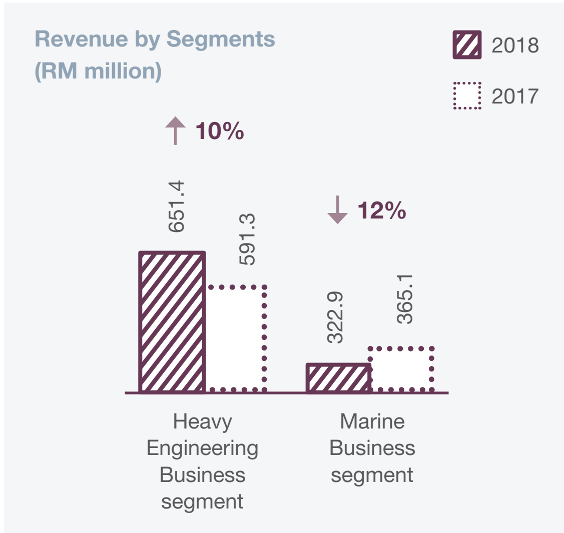
The year under review began with the modest recovery of oil price that has now eased to around US$70-US$80 per barrel.

We closed the Financial Year ended 31 December 2018 ("FY2018") with a higher revenue of RM974.4 million compared with RM956.4 million in the prior year.

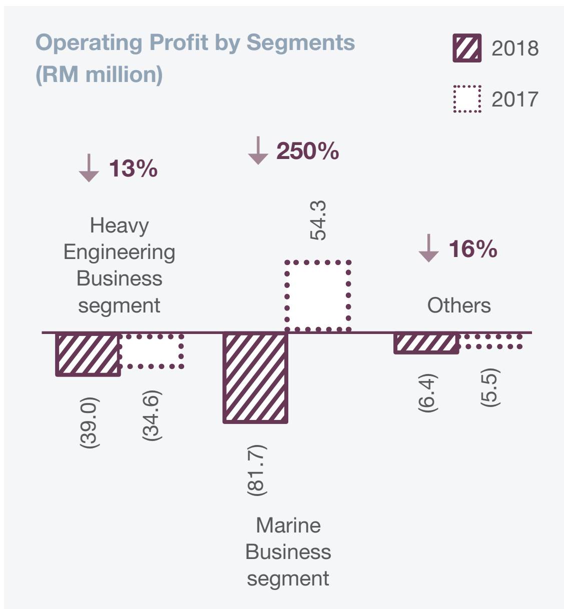
2018	RM million	2017
974.4	Revenue	956.4
(124.2)	(Loss)/profit for the year	32.4
(0.1)	Taxation	21.4
(0.9)	Finance cost	
3.0	Share of profit/(loss) from JVs	(3.2)
(127.1)	Operating (loss)/profit	14.3

Revenue from Heavy Engineering Business segment rose by 10% to RM651.4 million from RM591.3 million in the prior year, mainly due to higher revenue from the ongoing Bokor Phase 3 Re-Development project and the new Tembikai Non-Associated Gas project in the current year.

Meanwhile, Marine Business segment revenue slipped to RM322.9 million from RM365.1 million in the prior year, mainly due to lower revenue recognised from conversion works following the sail-away of FSO Benchamas 2 and FSO Bergading in the first half of the current year.



At the operating level, Heavy Engineering Business segment reported a higher operating loss of RM39.0 million from RM34.6 million in the prior year, mainly due to close-out of completed projects in the prior year. Higher unabsorbed overheads, following the decrease in LNG dry docking activities, as well as suppressed margins from other marine works led to Marine Business segment reporting an operating loss of RM81.7 million in FY2018.



FINANCIAL POSITION AND LIQUIDITY

The Group's financial position remains healthy as at the end of FY2018, albeit slightly weaker than as at the end of the prior year.

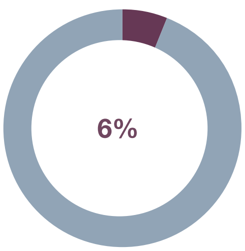
The Group's total assets shrank by 6% to RM3.2 billion as at 31 December 2018 from RM3.4 billion as at 31 December 2017, mainly due to lower receivables and lesser work in progress as at end of the current financial year. Our healthy cash balance of RM601.5 million as at 31 December 2018 will hold us in good stead to face uncertainties in the currently volatile business environment.

Property, plant and equipment grew to RM1,595.2 million, from RM1,524.9 million a year earlier, mainly due to our investment on construction of Dry Dock No. 3 in MMHE West yard. This dry dock, still under construction, will increase Marine Business segment's capacity upon completion in early 2020.

We recorded a slightly lower net cash generated from operations of RM62.8 million against RM70.0 million in the previous year, mainly due to improved collections from customers that compensated the operating loss incurred in the current year. Net cash outflow from investing activities of RM136.6 million was significantly higher than RM46.1 million net outflow in the prior year, mainly due to higher levels of construction works carried out for Dry Dock No. 3 in the current year. The Group reported a net cash outflow from financing activities of RM11.8 million in the current year, mainly due to dividends paid to shareholders in March 2018 that counterweighed the drawdown of a 12-year term loan in the current year.

On a brighter note, we successfully secured a number of offshore fabrication agreements with major oil players in the year under review, enhancing Heavy Engineering prospects for 2019 and beyond. The recent signing of a Long-term Agreement (LTA) with Saudi Aramco paves the way for further growth opportunities in the Middle East for the Group.

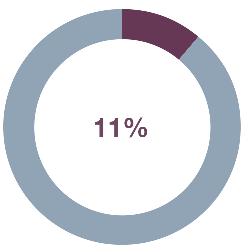
Despite the challenging business conditions in 2018, the growth in the global LNG trade and the forthcoming implementation of new rules applicable to ship owners by International Maritime Organization (IMO) are expected to contribute positively to the Marine Business segment's performance in the coming year.



TOTAL ASSETS

↓

Decreased by 6% to RM3.2 billion



CASH BALANCE

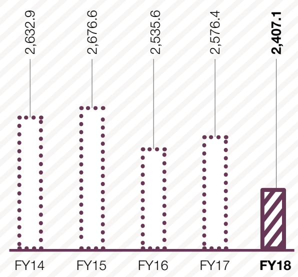
↓

Decreased by 11% to RM601.5 million

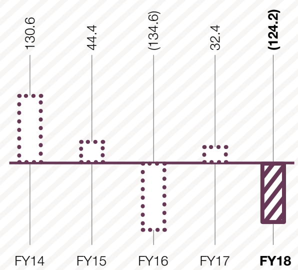
NIK AZLAN NIK ABDUL AZIZ
Chief Financial Officer

5 YEARS FINANCIAL HIGHLIGHTS

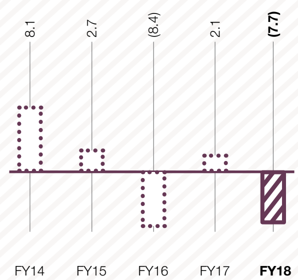
Shareholders Equity



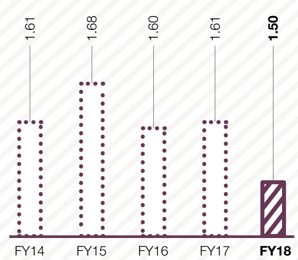
Profit/(Loss) After Taxation



Earning Per Share
(Sen)



NTA Per Share
(Sen)



Business Highlights

HEAVY ENGINEERING BUSINESS SEGMENT

Heavy Engineering is one of our primary business segments. With 40 years of delivering integrated and complex solutions, we provide a wide range of engineering, procurement, construction, installation and commissioning (EPCIC) services for oil & gas industry (offshore & onshore). Our heavy engineering solutions include deepwater, fixed platforms, conversion, process modules and other services. We have two fully equipped yards in Pasir Gudang, Johor, Malaysia with world-class facilities.

4 projects delivered

2 offshore and **2** onshore projects

FINANCIAL PERFORMANCE (Heavy Engineering Business Segment)

REVENUE

RM651.4 million

HEAVY ENGINEERING BUSINESS SEGMENT – Completed Projects

5 JANUARY 2018

COMPLETION OF PREFABRICATION OF PIPES, FITTINGS AND PIPE SUPPORTS FOR THE CENTRALISED PIPING FABRICATION (CPF) WORKS FOR REFINERY AND PETROCHEMICAL INTEGRATED DEVELOPMENT (RAPID)

Client : Toyo Engineering & Construction Sdn Bhd
Location : RAPID, Pengerang, Johor
Weight : 1,731 MT

6 MARCH 2018

DELIVERY OF FIVE (5) UNITS OF DANGOTE CATENARY ANCHOR LEG MOORING (CALM) BUOY

Client : SOFEC Incorporated
Location : Offshore Nigeria
Weight : 2,990 MT

Business Highlights

APRIL 2018

COMPLETION OF ENGINEERING, PROCUREMENT, CONSTRUCTION, INSTALLATION AND COMMISSIONING (EPCIC) WORK OF SEPAT-A WHP

Client	:	PETRONAS Carigali Sdn Bhd (PCSB)
Location	:	Offshore Terengganu
Weight	:	4,197 MT

12 DECEMBER 2018

COMPLETION OF PIPING AND STEEL STRUCTURE INSTALLATION WORK FOR THE ROG AREA FOR RAPID

Client	:	Toyo Engineering & Construction Sdn Bhd
Location	:	RAPID, Pengerang, Johor
Weight	:	1,987 MT

HEAVY ENGINEERING BUSINESS SEGMENT – Ongoing Projects

i. Bokor Phase 3 Re-Development Project for PCSB

ii. Gumusut-Kakap Phase II Extension Subsea Manifold for TechnipFMC

iii. Two (2) work packages for various main contractors of RAPID project at Pengerang Integrated Complex (PIC), Johor
   a. RAPID Package 14 for PETRONAS Refinery and Petrochemical Corporation (PRPC) Utilities and Facilities Sdn Bhd
   b. RAPID Package 3 Area 2 for Tecnicas Reunidas Malaysia Sdn Bhd

iv. EPCIC of offshore wellhead facilities (OWF) for Tembikai Non Associated Gas (NAG) for Vestigo Petroleum Sdn Bhd

v. EPCIC contract for Pluto Water Handling Module for TechnipFMC

vi. Provision of minor Fabrication Services for Modification Project for Block B17 & B19 and B-17-01 for Carigali PTTEPI Operating Company Sdn Bhd

HUMAN CAPITAL (Heavy Engineering Business Segment)

Male: **392**
Female: **99**

Technical: **453**
Non-Technical: **38**

Total Manpower
491

PROJECTS AWARDED

- EPCIC of offshore wellhead facilities (OWF) for Tembikai Non Associated Gas (NAG) for Vestigo Petroleum Sdn Bhd
- EPCIC contract for Pluto Water Handling Module for TechnipFMC
- Gumusut-Kakap Phase II Extension Subsea Manifold project for TechnipFMC

LONG-TERM AGREEMENTS

- In consortium with TechnipFMC, we have signed a Long-term Agreement (LTA) with Saudi Arabian Oil Company (Saudi Aramco) for the provision of EPCIC work for offshore facilities within the Kingdom of Saudi Arabia territorial waters
- Awarded with a frame agreement for the provision of engineering, procurement and construction (EPC) of fixed offshore structure works by PETRONAS

Business Highlights

MARINE BUSINESS SEGMENT

MHB has vast experiences in marine repair projects since 1976. On record, MHB had successfully delivered more than 3,800 vessels. MHB had delivered up to 172 LNG carriers since 1982 including 10 projects for major upgrading & life extension works and 1 LNG FSU conversion project. Our marine services include dry docking repair, refurbishment & upgrading, jumboisation, modification & lengthening, conversion and jack-up repair & conversion.

DRY DOCK 3

with capacity for all sizes of vessels up to **400,000 DWT** will be ready to serve in **2020**

Completed the repair and maintenance of **93** vessels

Secured **6** local and **15** international new clients

FINANCIAL PERFORMANCE (Marine Business Segment)

REVENUE

RM322.9 million

MARINE BUSINESS SEGMENT – Notable Marine Repair Projects

7 FEBRUARY 2018
ABBEY ROAD

Vessel Owner	:	Zodiac Maritime Agencies Ltd
Vessel Type	:	Product Tanker
Vessel Dimensions	:	228.00m x 32.24m x 20.70m
Gross Tonnage	:	42,411 tonnage
Deadweight	:	74,919 tonnage
Flag	:	Liberia

Major Scope of works
- Hull blasting paint
- Main engine overhaul
- Thruster overhaul
- Boiler overhaul
- Rudder and propeller overhaul

9 APRIL 2019
FSO BENCHAMAS 2

Vessel Owner	:	MISC Berhad
Vessel Type	:	Floating, Storage & Offloading (FSO)
Vessel Dimensions	:	244m x 42m x 21m
Gross Tonnage	:	58,572 tonnage
Deadweight	:	105,400 tonnage
Flag	:	Malaysia

Major Scope of works
- Rejuvenation, Life Extension & Conversion (RLEC)

28 JUNE 2018
FSO BERGADING

Vessel Owner	:	E.A. Technique (M) Berhad
Vessel Type	:	FSO
Vessel Dimensions	:	250m x 44m x 21m
Gross Tonnage	:	64,158 tonnage
Deadweight	:	113,041 tonnage
Flag	:	Malaysia

Major Scope of works
- Rejuvenation, Life Extension & Conversion (RLEC)

Business Highlights

20 AUGUST 2018
SERI BIJAKSANA

Vessel Owner	:	MISC Berhad
Vessel Type	:	Liquefied Natural Gas Carrier (LNGC) Membrane Type
Vessel Dimensions	:	289.80m x 46.54m x 25.80m
Gross Tonnage	:	104,881 tonnage
Deadweight	:	89,953 tonnage
Flag	:	Malaysia

Major Scope of works
- 2nd special docking survey
- Propeller, tail shaft removal and seals overhaul work
- Full blast and application of HPS paint
- Installation of ballast water treatment system
- Ultra-Low Sulphur Heavy Fuel Oil (ULSHFO) modification
- Integrity test of cargo tanks

16 DECEMBER 2018
VLCC SUZUKASAN

Vessel Owner	:	MOL Tankship Management (Asia) Pte Ltd
Vessel Type	:	Crude Oil Tanker (VLCC)
Vessel Dimensions	:	40m x 60m x 28.5m
Gross Tonnage	:	160,123 tonnage
Deadweight	:	312,037 tonnage
Flag	:	Japan

Major Scope of works
- Reinstatement of Single Point Mooring (SPM) Winch

13 DECEMBER 2018
HYUNDAI GREENPIA

Vessel Owner	:	Hyundai LNG Shipping Co Ltd
Vessel Type	:	Liquefied Natural Gas Carrier (LNGC) – MOSS
Vessel Dimensions	:	274.00m x 47.28m x 26.50m
Gross Tonnage	:	103,764 tonnage
Deadweight	:	71,684 tonnage
Flag	:	South Korea

Major Scope of works
- Refurbishment and life extension
- Hull side silicon painting
- Bow thruster overhaul
- Main turbine inspection
- Main boiler cleaning and servicing
- Superheated tube and boiler casing replacement
- 28 ton of steelwork
- 1,692 metres piping renewal
- 4.3 ton of cargo tank and hull structure steel reinforcements
- ULSHFO Modification
- Boiler overhaul
- Rudder and propeller overhaul

HUMAN CAPITAL
(Marine Business Segment)

Male: **791**
Female: **23**

Technical: **789**
Non-Technical: **25**

Total Manpower
814

4 en bloc agreements signed in the year 2018 as below with total vessels arrived up-to-date

a. PT Gemilang Bina Lintas Tirta
– **1** vessel

b. Zodiac Maritime Ltd
– **6** vessels

c. Icon Ship Management Sdn Bhd
– **3** vessels

d. Eaglestar Ship Management (L) Pte Ltd
– **6** LNG Vessels

Share Performance

	Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Share price (RM)	Highest	0.95	0.87	0.81	0.84	0.81	0.74	0.80	0.80	0.66	0.72	0.64	0.60
	Lowest	0.80	0.76	0.71	0.72	0.66	0.64	0.65	0.66	0.62	0.57	0.59	0.50
	Average	0.85	0.83	0.75	0.78	0.75	0.68	0.70	0.70	0.63	0.64	0.61	0.55
Volume traded ('000)		41,910	29,534	21,251	18,764	13,791	8,674	9,177	14,959	15,540	15,115	3,175	4,009

Financial Calendar

FINANCIAL YEAR 2018	Date
Q1 FY2018 Results Announced	04-May-18, Friday
Q2 FY2018 Results Announced	01-Aug-18, Wednesday
Q3 FY2018 Results Announced	25-Oct-18, Thursday

FINANCIAL YEAR 2019	Date
FYE 2018 Full Year Results Announced	13-Feb-19, Wednesday
Annual General Meeting	11-Apr-19, Thursday

DIVIDENDS	Date
Final Single Tier Dividend: Declared Paid	 06-Feb-18, Tuesday 01-Mar-18, Thursday

Sustainability Statement

At MHB, we strongly believe in committing to sustainability. As a trusted marine and heavy engineering solutions provider in Malaysia, we take pride in ensuring our business is conducted responsibly. We acknowledge and adhere to our responsibility to all our stakeholders; exceeding the expectations of our customers, ensuring the wellbeing of our employees, creating a positive difference to the lives of communities, caring for the environment and driving sustainable value for our shareholders.

INTRODUCTION

We recognise the growing significance of sustainability in our business value. Our maiden statement on sustainability aims to demonstrate our strategic approach to address sustainability challenges and opportunities, particularly of our material matters, in contributing towards the betterment of the business, environment and society.

Scope

This report covers MHB's sustainability efforts and its group of companies from 1 January to 31 December 2018. In helping us to provide better understanding, to prioritise and address our material sustainability matters as well as to integrate them with our business strategies, we compile information and feedback from our stakeholders. We uphold the idea of quality and we are committed to improve the monitoring and reporting of our sustainability activities each successive year.

Approach

In 2015, when we started scrutinising the sustainability of our operations, we published our first Sustainability Statement in 2015. From that moment, we follow the direction of Petroliam Nasional Berhad (PETRONAS) in adhering to Environmental, Social and Governance (ESG) practices that are of particular significance to the oil and gas industry. We remain as a constituent of the FTSE4Good Bursa Malaysia Index in 2018 and were included in the List of Top 100 Companies with Good Disclosures.

MHB Knights of Nature (KON) Sustainability Camp

We are guided by the local and international statutory and reporting frameworks, particularly Bursa Malaysia Securities Berhad (Bursa Malaysia)'s guidelines relating to Sustainability Statements, FTSE Environmental, Social and Governance (ESG) assessment indicators and Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

Sustainability Contact

MHB welcomes feedback on our sustainability issues and reporting at **ccd@mmhe.com.my**.

OUR COMMITMENT

The Board of Directors has entrusted the Board Audit and Risk Committee (BARC) with the responsibility of risk management oversight. We have a systematic risk management framework, adopted from the PETRONAS Risk Governance Framework that we use to identify, evaluate and manage principal risks for the Company.

The BARC is supported by the Risk Council (RC), responsible for governance and risk oversight and coordinating the risk management framework. The RC is chaired by the MD & CEO and consists of selected members of Management. Please refer to page 88 of Statement on Risk Management and Internal Control for information on accountability of risk management matters at MHB.

The Board of Directors develops strategies to promote and strengthen sound Health, Safety and Environment (HSE) culture across the Group and support longer term sustainability. The Board bears the ultimate responsibility over the effectiveness of the health, safety and environment risk management practices. The Health, Safety and Environment Management Committee (HSE MC) oversees the operational aspect. Chairman of the HSE MC is the MD & CEO of the Company and members are nominated from top management.

Key responsibilities of the HSE MC are setting the overall direction on health, safety and environment vision, mission, values, practices, objectives, strategies, action plans, goals and resources; ensuring legal compliance and managing client expectations, standards alignments and industry best practices. Please refer to page 88 of the Statement on Risk Management and Internal Control for more details on how health and safety issue are managed at MHB.

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

POLICIES AND SYSTEMS

With MHB remains a constituent of FTSE4Good Bursa Malaysia Index in 2018, this demonstrates our unwavering commitment in reporting Environment, Social and Governance (ESG) transparently. We have comprehensive policies and systems in place to manage our ESG matters in a balanced and sustainable manner.

ENVIRONMENTAL
- ISO 14001: 2015 Certified Environmental Management Systems
- Purchasing Manual

SOCIAL
- Collective Agreement
- Performance Management System
- ISO 9001: 2015 – Quality Management System
- MMHE 10 Safety Rules
- Employee Handbook
- Enhancement of HR System namely e-attendance and e-timesheet
- Health, Safety and Environment (HSE) Policy
- Drug, Alcohol and Smoking Policy
- Stop Work Policy
- OHSAS 18001:2007 Certified for Occupational Health and Safety Management System
- General conditions of subcontract for labour only subcontract work

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

GOVERNANCE AND BUSINESS ETHICS

MHB Code of Conduct and Business Ethics (MHB CoBE)

Ethics, integrity and transparency have increasingly become mainstream business issues in today's business environment. MHB CoBE follows the example set by PETRONAS as a guide in conducting business ethically and sustainably. It is applicable to all employees, directors and third parties including contractors, agents, intermediaries or joint venture partners that perform works or provide services for or on behalf of the Company. Benchmarked against international standards and laws, it was modified to fit Malaysian legislation on matters such as anti-trust, money laundering and whistleblowing. The MHB CoBE and the MHB Anti-Bribery and Corruption Manual (MHB ABC Manual) have been endorsed by the Board of Directors.

The MHB CoBE covers four areas:

1 Core values and culture
2 Duties of good faith, fidelity, diligence and integrity
3 Workplace culture and environment
4 Discipline, disciplinary process and sanctions

To solidify the principles set in the MHB CoBE, in 2018 we organised and participated in the following:

a) Vendors and Subcontractors Engagement Day 2018
   - This engagement, with the theme of "Towards Survival Mode" was not only served as a platform to provide culture enhancement, education and awareness to both parties. It was also a platform to realign and strategise our collaboration and partnership in delivering superior results.
   - The matter highlighted was to foster high integrity culture among employees together with vendors and subcontractors.

b) Take 5 Programme
   - Compliance Department has launched the Take 5 Campaign on 29 March 2018 by having a five-minute pit stop at departments office across the yard such as Project Management Team (PMT), Corporate Communications and KL Office to share a topic on "Speaking with Integrity".

c) Internal ethics and compliance programme for our business units and service units;

   I. ISO 37001:2016 - Internal Auditing Training on Anti-Bribery Management System (ABMS)
   II. Taklimat Program Pensijilan Pencegahan Rasuah/Anti-Corruption Certification Programme (ACCP)
   III. In-House Counsel Congress (Compliance and Ethics)
   IV. Training on Effective Internal Investigation
   V. Training on MICG Directors on Compliance
   VI. Seminar on Gearing Up for Corporate Liability by Malaysian Anti Corruption Commission (MACC)
   VII. Training on Anti-Bribery Management System

Solicitation, Bribery and Corruption

MHB have implemented a "Zero Tolerance Policy Towards Corruption" as a reflection of our strong commitment to high ethical standards and anti-corruption laws. As a signatory to the Corporate Integrity Pledge (CIP) with the Malaysian Anti-Corruption Commission (MACC), MHB also observes the principles set out in the MHB CoBE and which is further illustrated in our MHB ABC Manual. It provides additional guidelines on dealing with improper solicitation, bribery and other corrupt practices.

In supporting the general policy statement in the MHB CoBE and also MHB ABC Manual, series of trainings and awareness sessions have been conducted to instill and ensure compliance to all elements related to the propagation of these corrupt practices.

As we believe that the tone from the top is also important to best reflect our strong commitment in fighting corruption, the Board oversees our MHB ABC Manual and policy and the MHB Management also regularly updates the Board on any fraudulent activities.

No Gift Policy

MHB aspires to achieve the highest standards of integrity and honesty in the conduct of our business and operation. MHB employees are required to act in the best interests of the Company and to refrain from engaging in conduct which may affect the best interests of the Company. Therefore, MHB employees shall not:

- accept personal gift from external parties; and/or
- give personal gift to external parties

This policy is meant to avoid conflicts of interest or the acceptance of conflicts of interest in any on-going or potential business dealings with the Company. This is to inculcate the values of integrity and trustworthiness in our business dealings. However, the Company would allow gifts in the form of corporate gift from the business partner.

Our employees are required to familiarise themselves with the provisions of MHB CoBE to ensure that their conduct are in compliance with it.

Public Policy Position

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

Whistleblowing

A Whistleblowing Policy and the relevant mechanisms have been established, providing an avenue for employees and the public to lodge complaints of corrupt practices or wrong-doings in confidence.

As part of the continuing effort to educate the employees on corruption and code of conduct and business ethics, talks and trainings have been organised for new recruits as well as for existing employees.

The Whistleblowing Policy provides clarity of oversight and responsibilities of the whistleblowing process, the reporting process, and protection to whistleblower and confidentiality afforded to the whistleblower as no retaliation, reprisal or punishment will be taken against the whistleblower.

All whistleblowers can raise their concerns through email, online submission via MHB's website or meeting in person to the General Manager/Head of Human Resource.

The policy outlines the systems and processes, including the support of a secretariat and a dedicated platforms to whistleblow for the employees to make use and utilise for the purpose of making reports of non-compliance with MHB CoBE on a strictly confidential basis.

HSE Policy

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

STAKEHOLDER ENGAGEMENT

Our internal and external stakeholders are crucial key in running our day-to-day operations and we encourage two-way communications with all stakeholders and use various tools to ensure our stakeholders' voices are heard.

We value inputs through engagement with them as they help us in understanding the vital economic environmental and social impacts, identifying risks and developing innovative way to solve key problems and strategising the business of MHB.

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Employees and Unions	• **Training** • **Workshop** • **Campaign** • **Walkabout** • **Event** • **Drill** • **Enforcement** • **Townhall** • **Internal Newsletters and Portal**	**Training** • **Supply Chain Management** - Total Cost Ownership (TCO) Training with UNIKL: Supply Chain Management (SCM) conducted a training, in collaboration with UNIKL led by a senior faculty member on the negotiation skills. This is aimed to train SCM buyers to effectively negotiate for better price. - SCM Session with Chief Financial Officer (CFO): SCM initiated internal workshop with CFO and the programme was attended by all SCM buyers, Project Procurement Management (PPM) and representative from SCM various division. The main objective of the workshop is to find best approach to ensure all Purchase Order or Service Order for Bokor Project to be processed as per agreed Procurement Plan. • **Integrity and Compliance** - ISO 37001: 2016 - Internal Auditing Training on Anti-Bribery Management System (ABMS) - *Taklimat Program Pensijilan Pencegahan Rasuah*/Anti-Corruption Certification Programme (ACCP) - In-House Counsel Congress (Compliance and Ethics) - Training on MICG Directors on Compliance - Training on Anti-Bribery Management System - Training on Effective Internal Investigation • **Finance** - Withholding Tax (WHT) refresher: Tax team conducted an in-house training on withholding tax refresher to staff involved in handling transaction with foreign entities - Goods and Services Tax (GST) and Sales and Service Tax (SST) briefing: Tax team conducted internal briefing to update on changes in GST regulations during the transition period from GST to SST and the new SST concept and methodology and its implication to the business	• **Training and Development** • **Health and Safety** • **Environmental Performance** • **Integrity Performance** • **Talent and Performance Management** • **Career Progression**

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Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Employees and Unions		**Workshop** • **Integrity and Compliance** Compliance Unit conducted an internal workshop to create awareness on the value of ethics, integrity and drive a governance mindset as well as to raise legal awareness and build reasonable legal literacy as well as competency among MHB's employees **Campaign** • **Quality, Health, Safety and Environment (QHSE)** Quality, Health, Safety and Environment (QHSE) department conducted a series of yard wide campaigns throughout the year; - Health and safety top risks campaigns; use of hand tool, drop object and lifting, hearing conservation - Environmental awareness campaign - Fire safety awareness campaign - Drug over the counter awareness campaign • **Integrity and Compliance** Compliance Unit conducted Take 5 Campaign which aims to enrich staff's integrity values **Walkabout** Top and senior management monthly HSE walkabout with all employees in the yard to strengthen the awareness of campaigns conducted **Event** • Health Screening programme: To monitor the health status (weight, height and blood pressure) of employees • Weight loss programme: 4-month competition to encourage employees with ideal weight according to their Body Mass Index (BMI) • Long Service Award: To celebrate and appreciate the loyalty of MHB's long serving employees for their services • Raya celebration: Festive celebration for both Corporate office in Kuala Lumpur and Pasir Gudang • 11th Annual General Meeting of MMHE union **Drill** MHB Emergency Response Team (ERT) conducted 94 drills to increase level of alertness and response of employees during emergency situation such as evacuation drill, oil spill drill and firefighting drill	

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Sustainability Statement

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Employees and Unions		**Enforcement** • **QHSE** - Electrical Appliance Safety - Tools & Equipment Inspection - Chemical Management - Environmental and Waste Management - Drug Enforcement to Security and Auxiliary - Scheduled Waste Management • **Integrity and Compliance** Compliance Unit has been mandated by the Board to conduct reviews on selected Business Units (BUs) and Service Units (SUs) throughout the whole year in order to ensure the compliance rules, regulations as well as our internal processes being complied with • **Human Resource** - Performance Management System - Signing of 13th Collective Agreement **Townhall** Townhall with MD & CEO involving all staff **Internal Newsletters and Portal** Monthly article writing to serve as a continuous learning and to create awareness among MHB employees. • QHSE campaigns • Integrity and Compliance campaigns	

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Clients	• **Client Feedback Exercise** • **Trade Exhibition** • **Visit** • **Client Audits** • **Sponsor Meeting** • **Event**	**Client Feedback** Feedbacks and recognitions were received on yard strategic location, good facilities, experienced managers/supervisors, excellent communications with project team/workers and Project Management Team (PMT) initiatives to deliver successful projects being the key strength of MHB **Trade Exhibition** • Offshore Technology Conference Asia 2018 (OTC Asia 2018) • Malaysia Upstream Project Conference (UPEC 2018) • International Energy Week (IEW) 2018 **Sail Away** • FSO Benchamas 2: Celebrated the sail away of FSO Benchamas 2 for client MISC Berhad and Chevron Offshore Thailand • FSO Bergading: Celebrated the completion of FSO Bergading repair life extension and conversion project and its sail away for client E.A. Technique and HESS Exploration & Production Malaysia • Sepat-A: Celebrated the completion of Sepat-A's engineering, procurement, construction, installation, sail away and commissioning for client PETRONAS • Dangote CALM Buoy: Celebrated the completion of Dangote CALM Buoy's fabrication and sail away for client Sofec Incoporated • RAPID Package 5 ROG: Successfully completed and delivered of RAPID package 5 ROG's project for TOYO Engineering and PETRONAS	• **Customer Satisfaction** • **Integrity and Reliability** • **Technology and Operational Innovation**

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Sustainability Statement

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Clients		**Visit** • PETRONAS Visit: Showcased MHB's strength and capabilities while discussing on value Engineering and to MHB's feedback especially from project team and supply chain management team • MISC Berhad Visit: Showcased MHB's strength and capabilities while providing an interactive platform between the senior management of MHB and the directors of MISC Berhad • Malaysia-Thailand Joint Authority (MTJA): Showcased MHB's strength and capabilities while providing an interactive platform between the senior management MHB and delegation from MTJA • Chiyoda Corporations Japan: Showcased MHB's strength and capabilities to Chiyoda project team • TechnipFMC: Showcased MHB's strength and capabilities while providing an interactive platform between the senior management MHB and delegation from TechnipFMC **Client Audit:** Various clients visited MHB yards for project bid discussion and yard audit to qualify MHB as one of client's preferred contractor and approved vendor list. In total, MHB received more than 60 visits from local & international clients in Marine and Heavy Engineering Business segments for MHB yard introduction and audit purposes. **Sponsor Meeting** MHB together with clients conducted sponsor meeting to discuss project matters, technical and commercial issues and its resolutions, as well as overview of QHSE performance and updates. • EPCIC of Central Processing Platform (CPP) for Bokor Phase 3 Re-Development: Project Sponsor Meeting • RAPID Package 14: Executive Sponsor Meeting MMHE-HQC • EPCIC of offshore wellhead facilities (OWF) for Tembikai Non Associated Gas (NAG): Project Sponsor Meeting • Gumusut-Kakap Phase II Extension Subsea Manifold: Project Sponsor Meeting • EPCIC contract for Pluto Water Handling Module: Project Sponsor Meeting **Event** • MHB Aidilfitri Open House • MISC Group Aidilfitri Open House: Participated with MISC Berhad, the event was commemorating Aidilifitri while enhancing ties with clients and other external stakeholders • MISC Berhad 50th Anniversary Dinner: Participated with MISC Berhad, the event was celebrating MISC Berhad 50th Anniversary	

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Business and Industry Partners - The Welding Institute (TWI) South East Asia (SEA) - Welding Qualification Test (WQT) - Malaysia Oil and Gas Service Council (MOGSC) - Majlis Amanah Rakyat (MARA)	• **Forum** • **Joint venture** • **On-Job Training** • **Exhibition**	**Forum** Introduced MMHE Centre of Excellence (CoE) as a learning centre for marine and oil & gas industries and to leverage on MOGSC members to support each other's businesses and to compliment in related operations skills sets and competency requirement. **Joint Venture programme** • Collaborated with TWI SEA on a training and WQT for Graduate Employability Training Scheme (GETS), organised by MARA. 12 MARA-GETS candidates received welding training in MMHE CoE • Collaborated with Hiap Seng Engineering Limited for Tier 1 PETRONAS SWEC Code application for more than 350,000 Man-hours Turnaround/ Shutdown SWEC. MMHE and Hiap Seng Engineering Limited have participated in PETRONAS Master Service Agreement for Integrated Turnaround tender **On-Job Training** MHB accepted 108 students for their on-job training which comprised 40 Degree students, 54 Diploma students and 14 Certificate students. These students are from local and overseas higher education institutions and placed in various department according to their studies. **Exhibition** MMHE CoE participated in 2 exhibitions namely HRDF training fair at New York Hotel Johor Bahru on 6 September 2018 and Expo Pemuda UMNO at Putra World Trade Centre Kuala Lumpur from 14 to 15 April 2018. The participations were to introduce MMHE CoE as a Learning Centre for Marine and Oil & Gas industry and to expose to visitors on our business activities.	• **Training and Development** • **Community Investment** • **Responsible Corporate Citizen**
Shareholders	• **Corporate Website** • **Annual General Meeting** • **Report** • **Visit**	**Corporate Website** Provided a real-time report on MHB's share price, presentations, annual reports, announcements and press releases to the shareholders. **Annual General Meeting** Provided a platform for the shareholders to review the Group's annual performance and to vote and approve on any resolutions tabled. **Report** Quarterly Investor Relations Report. **Visit** Yard visit by analysts and fund managers.	• **Capital Growth** • **Good Corporate Governance** • **Economic Performance**

Sustainability Statement

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Communities	• **Community Development Programme** • **Fundraise**	**Community Development Programmes** • MHB Knights of Nature Sustainability Camp: A medium to enhance the understanding of sustainable lifestyles among students in a fun and creative ambience while developing positive qualities such as teamwork, leadership, time management and problem solving skills • MHB Art of Science: A programme that aspires to create the spark of interest for students in science and technology, especially those that are related to MHB's business **Fundraise** • **Donation Drive for the Needy Residents** Donation drive which was held from 15 May until 9 June 2018 managed to gather an amount of RM31,684.60 from the Company, MHB staff, clients and subcontractors in Pasir Gudang and Kuala Lumpur. Funds and contributions towards various underprivileged communities with the vicinity of MHB's operation • **Philanthropic assistance to** - Ibu Pejabat Laut Malaysia - Persatuan Veteran Angkatan Tentera Malaysia - Department of Environmental Johor - Persatuan Pegawai Kastam Marin Malaysia - Majlis Perbandaran Pasir Gudang (MPPG)	• **Community investment** • **Social Engagements** • **Local Social Operation Licence** • **Talent Attraction and Retention** • **Training and Development**
Civil societies - Malaysia Gas Association (MGA) - Malaysia Offshore Contractors Association (MOCA) - Malaysian Oil & Gas Services Council (MOGSC) - Malaysia Oil & Gas Engineering Council (MOGEC)	• **Face to Face Meeting** • **Event**	**Face to Face Meeting** Various meetings with community members of MOCA, MGA, MOGSC and MOGEC as platforms to exchange knowledge and past experiences. **Event** Participated in Construction Technical Forum (CTF 2018) with PETRONAS and leaders of construction players. The objective of the forum was to consolidate new improvement and technologies from various PETRONAS' local fabricators and contractors.	• **Asset Integrity and Reliability** • **Technology and Operational Innovation**

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Government Agencies/ Authorities - Bank Pembangunan Malaysia Berhad (BPMB) - Construction Industry Development Board (CIDB) - Department of Environment (DoE) - Department of Occupational Safety and Health (DOSH) - Human Resource Development Fund (HRDF) - Malaysia External Trade Development Corporation (MATRADE) - Malaysian Investment Development Authority (MIDA) - Ministry of International Trade and Industry (MITI) - Malaysia Institute of Road Safety Research (MIROS) - Ministry of Finance (MoF) - Royal Malaysian Customs Department (RMCD) - Majlis Amanah Rakyat (MARA) - The Welding Institute – Akademi Binaan Malaysia (TWI-ABM)	• **Visit** • **Workshop** • **Event** • **Meeting** • **Verification/ Compliance Audit**	**Visit** • CIDB Malaysia visited MHB for a first-hand look at the MHB's overall EPCIC fabrication project and material management process • MATRADE: Showcased MHB's strength and capabilities while providing an interactive platform between the senior management MHB and delegation from MATRADE • MITI: Showcased MHB's strength and capabilities while providing an interactive platform between the senior management MHB and delegation from MITI • Bank Pembangunan Malaysia Berhad: Showcased MHB's strength and capabilities while providing an interactive platform between the senior management MHB and the Management team from Bank Pembangunan Malaysia Berhad • MARA: Discussed on possible collaboration between MARA education arms and MHB and to integrate industry standards and requirements into their teaching curriculum to equip students with appropriate skills required by the industry **Workshop** Safe excavation workshop with Department of Occupational Safety and Health **Event** • Cooperation with DoE for Hari Alam Sekitar Negara 2018 • Collaboration with MIROS for drive hazard awareness **Meeting** Various meeting with MIDA's representatives in seeking incentives to boost business opportunity **Verification/Compliance Audit** • **Finance** - RMCD: GST refund process - MoF: Application of GST relief for floating structures and exemption on new SST on exportation • **Human Resource** - DOSH: Verification audit on Basic Scaffloding training - CIDB and TWI-ABM: Certified Welder Accreditation Facility	• **Health and Safety** • **Compliance to Laws and Regulations** • **Preservation of Environment Reduction of Waste** • **Responsible Corporate Citizen**

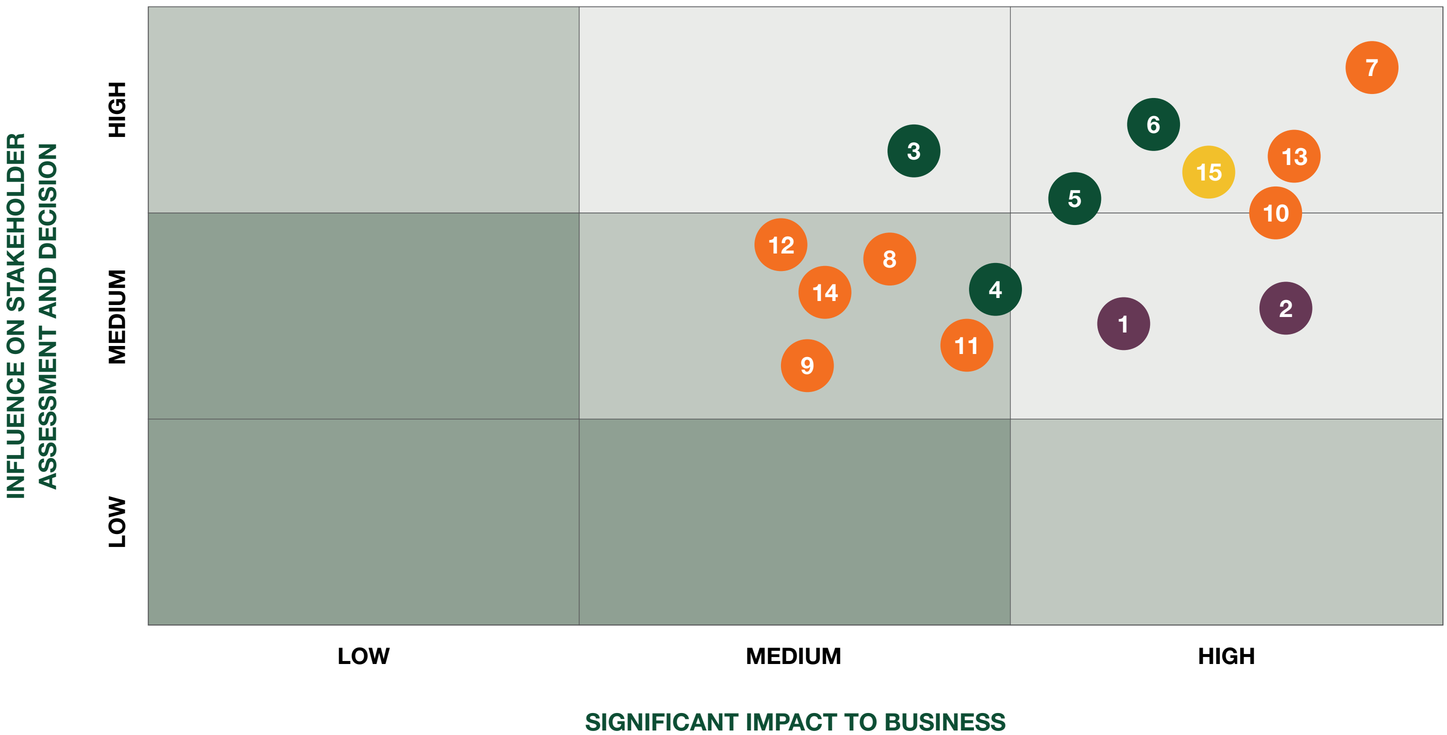
Sustainability Statement

Stakeholder Group	Engagement Platform	2018 Highlights/ Issues Raised	Key Interests/Material Sustainability Areas
Media - Local media [print, TV, Radio, online etc] - International media [print, TV, Radio, online etc] - Trade media [print, TV, Radio, online etc]	• **Press Release** • **Interview**	**Press Release** • Quarterly press releases on MHB's current standing to the public • Press releases on MHB's development and updates to publics i.e. project secured, formed joint venture **Interview** • Conducted press conference during MHB's Annual General Meeting • Participated in media interviews • Answered ad-hoc enquiries by the media	• **Economic Performance** • **Integrity Performance**
Academic - Institution of Engineers Malaysia (IEM) - Kolej Yayasan Pelajaran Johor (KYPJ) - National Institute of Safety & Health Malaysia - Johor Industry Skills Development Centre (PUSPATRI)	• **Engagement Session** • **Representation on Advisory and Competency Committees**	**Engagement Session** Invited the immediate Past Chairman of Institution of Engineers Malaysia (IEM), Southern Chapter Associate Professor Ir. Dr. Hayati Abdullah, for a talk on the "Route to Member of Institution of Engineers Malaysia (MIEM)/ Professional Engineer". **Representation on Advisory and Competency Committees** • Seat representation on KYPJ's Board of Study, for the purpose of reviewing and enhancing of syllabus for 3 fields of studies: 1. Diploma in Business Studies (Twinning with UiTM) 2. Pre-Commerce Studies (Twinning with UiTM) 3. Diploma in Technology Management (Twinning with UTM) • Seat representation on NIOSH's Competency Committee for Safe Working in Confined Space. This committee is focusing on the statutory and regulatory issues related to Safe Working in Confined Space including the development and assessment of competent personnel • Seat representation on PUSPATRI Curriculum Development Committee, for the purpose of aligning PUSPATRI's teaching syllabus and industries needs and to developing new courses should there any new requirement by the industries	• **Sustainable Pool of Professional Engineers**

Sustainability Statement

MATERIALITY ASSESSMENT

To gauge which sustainability matters are material to our business from both a company and a stakeholder perspectives, it is our best intention to perform a materiality assessment. This process allows us to align the internal and external perspectives, to identify areas of potential optimisation and to further develop the sustainability-related management approach and reporting. The assessment was carried out in accordance to the methodology described in the Sustainability Reporting Guidelines published by Bursa Malaysia. Based on the assessment, the materiality matrix generated in 2018 was revised to encompass a total of **15 material sustainability matters**. Further, to align ourselves with best industry practices, we also benchmarked our materiality matrix to industry peers.



ECONOMIC

1. Technology and Operational Innovation
2. Asset Integrity and Reliability

ENVIRONMENTAL

3. Greenhouse Gas Emissions
4. Energy
5. Water
6. Waste Management

SOCIAL

7. Health and Safety
8. Workforce Management
9. Training and Development
10. Clients' Satisfaction
11. Supply Chain
12. Community Investment
13. Labour Standards
14. Gender Equality

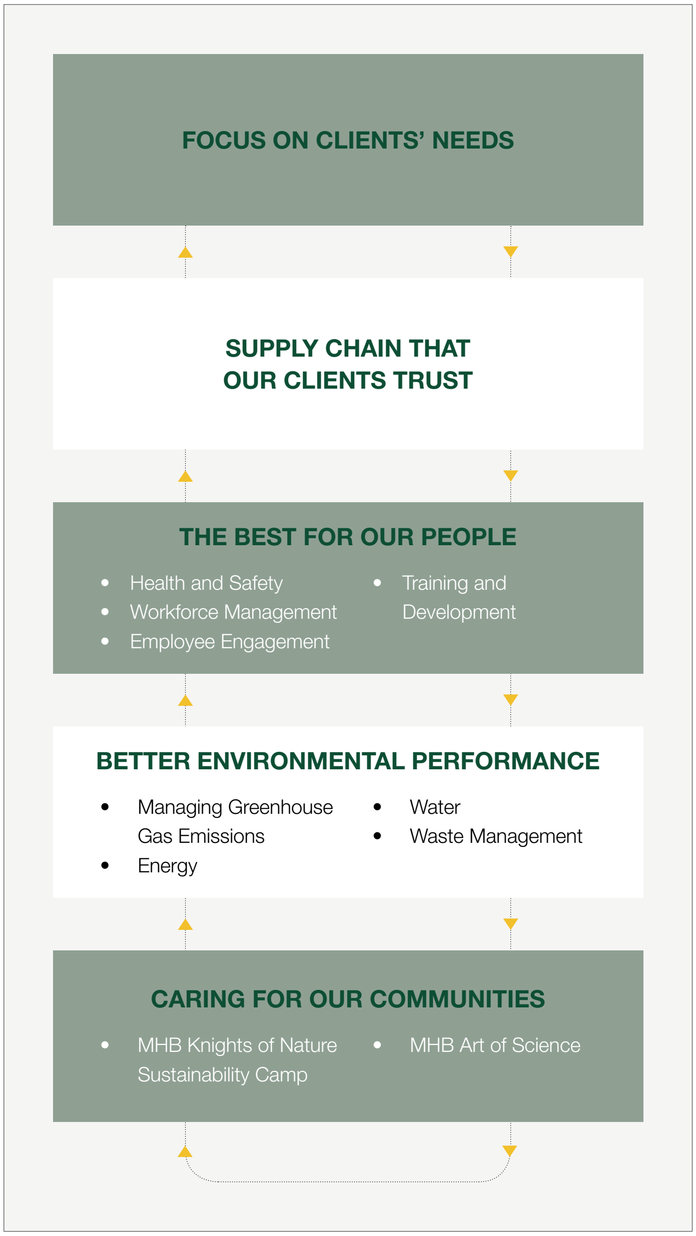
GOVERNANCE

15. Corporate Governance

Further assessments will be conducted in the next financial year in obtaining and ensuring accuracy of the Company's materiality matrix.

MATERIAL SUSTAINABILITY ISSUES

Our material issues were scrutinised based on internal discussions and analysis of our non-financial impacts as well as broader industry issues. We have collated the list of material sustainability matters based on the GRI G4 Sustainability Reporting Guidelines and Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia.



SUSTAINABILITY PERFORMANCE ON MATERIALITY ISSUE

SUPPLY CHAIN THAT OUR CLIENTS TRUST

Vendors are one of our key players and a sustainable supply chain is a perquisite of MHB's business and its success.

We Grow Together to Become Better

MHB believes in keeping and developing long-lasting understanding and trust with the Company's vendors and business partners as they play a vital role in the success of our business. We build sustainable strong relationship with vendors by having constant engagement sessions to discuss any issues as well as ideas for further improvement.

Strategic Procurement

2018 saw a shift in sourcing strategies with sustainability and strategy in focus to optimise financial gains and opportunities. The shift of sourcing to a strategic function has presented the Supply Chain with improved agility, management and transparency.

Sustainability and diversity are critical in procurement and MHB has been actively engaging with our partners to cultivate sustainable and manageable Supply Chain. We have been focusing on continued improvement initiatives to identify key sources with objective to develop the best sustainable solutions to our clients.

Towards Survival Mode

MHB's Supply Chain Management (SCM) organised the annual Vendors & Subcontractors Engagement Day 2018 which was held on 13 March 2018. The engagement was attended by MHB Management Team and 120 representatives from MMHE core vendors & suppliers. The theme for 2018 was "Towards Survival Mode" and it was a platform to realign and strategise our collaboration and partnership. Depending on both parties, MHB and vendors must work together to give technically and commercially attractive package to the potential clients.

SCM also conducted Bokor's Vendor/Subcontractor Engagement Day which was attended by Bokor CPP-A's project subcontractors on 11 December 2018. The engagement session was conducted to provide a two-way platform to share MHB's and subcontractors' thoughts as well as to highlight concerns and discussion on plans to address them. Ultimately, the engagement is to identify the best way for the Company and subcontractors to work towards strategic alliances and achieve mutual success in Bokor CPP-A's project.

Sustainability Statement

We are Consistently Not a Waster

Profitability is key for basic financial survival and it is depending on how efficient we utilise materials to reduce wastage. Realising the importance of this factor, SCM keeps maintaining the method of end-to-end monitoring of materials. In order to sustain and be relevant in the industry, we consistently control the delivery of material to the right time and the right place. As a result, MHB recorded minimum wastages of materials for the year 2018.

MHB achieved percentage of variances within the acceptance rates which are:

Between 4% to 6%
for Material Purchased by MHB

Between 5% to 10%
for Material Supplied by Clients

Vendor Development Programme X (VDP^{x})

As part of initiative to boost the capabilities of local companies in Malaysia's oil and gas industry, PETRONAS launched VDP^{x} – a new vendor development scheme under their existing Vendor Development Programme (VDP) to be implemented in collaboration with major industry players in the country. MHB, appointed as anchor with other 17 organisations by PETRONAS this year, is committed to create and develop more pool of successful vendors and subcontractors to not only develop competitive, capable and resilient suppliers based in local and international market but also to ensure the sustainability of supplies through its value chain. MHB will be supporting in the areas of business development, financial management, technical as well as information and communications technology (ICT) with various agencies or industry enabler. MHB will work closely with the selected vendors to encourage long-term creation of businesses and amplify the potential of local entrepreneurs in improving their competitiveness at the national and international level.

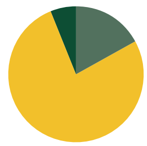
Strategic Alliances

Strategic alliances with principle suppliers to support MHB from early stage in bidding until the project execution are implemented wherever relevant in the interest of enhancing the value chain of supply chain management to increase competition and sustainability.

Vendor Assessment Result 2018

The objectives of the assessment in place are to determine the level of risk for vendor and plan for alternatives in any event of a recovery. As a preventive action, warning letter or suspension notices will be issued to the non-performing vendors. This is to ensure all vendors are well-performed with quality of deliverable. SCM has conducted vendor assessments for 110 vendors.

110
Vendors participated



SUMMARY FY2018

- Good: 17%
- Average: 77%
- Poor: 6%

Capability Advancement along the Supply Chain

In line with MHB's commitment to promote excellent team work among MHB project management team and subcontractors, an internal leadership training has been implemented for our subcontractors. The Subcontractor Leadership Workshop was attended by 13 subcontractors and 20 trainees.

Subcontractor Leadership Workshop

13
Subcontractors

20
Trainees

FOCUS ON CLIENTS NEEDS

MHB works with a variety of businesses and organisations, both upstream and downstream of the global oil & gas and marine sectors. We conducted frequent client feedback exercises in both Marine and Heavy Engineering Business segments to ensure that our services are tailored to their needs and evolve with them to meet industry standards. The results were used to improve on the overall business performance. A database was developed by Customer Service Department to manage and retain client information in a more accessible and organised manner which in turn will improve customer satisfaction. In record, Customer Service Department have successfully assisted 89 client visits mostly on the communications, management and coordination.

Client Satisfaction Index

Year	2014	2015	2016	2017	2018
Marine Satisfaction Index	8.0	7.9	7.9	*9.0	8.7
Heavy Engineering Satisfaction Index	6.82	6.06	7.84	*8.5	7.3

* *MHB has been reporting Client Satisfaction Index (CSI) from project execution aspect since 2014. Unfortunately CSI for 2017 was reported based on client services aspect. We apologise for this mistake and we intend to continue providing reliable information to all our stakeholders.*

THE BEST FOR OUR PEOPLE

Our people is our top priority. We believe that our people are the most vital aspect in delivering and meeting our strategic goals. We strive to make sure our people are healthy and always safe at our workplace. We aim to maintain a productive organisation, accelerate development of our people, strengthen our leadership capabilities and enhance employees' performance through strong engagement.

HEALTH AND SAFETY

We make sure our employees are aware of health and safety issues through various initiatives and engagements. We share best practices, challenges and interventions to further enhance our Health and Safety management and performance. We also share information on incidents, accidents and lessons learnt to all employees and provide suggestions to prevent similar incidents from reoccurring. In 2018, we organised a total of 16 health and safety activities and enforcements.

In our previous Sustainability Statement, we combined Health and Safety issues into one category. Even though Health and Safety are intertwined with each other, but recognising the growing importance of these two categories, we believe that we need to address them independently as it is essential to give more focused and aligned goals.

HEALTH AND WELLBEING OF OUR PEOPLE

We are committed to instill a positive health culture and increasing awareness in our yards. With specific attention focused on health protection, prevention and promotion, we make an effort to inform our people of all the health risks with aim to improve their general health culture. We firmly believe in creating a healthy work environment to nurture a productive and healthy workforce. We protect them from work related illnesses and encourage the adoption of a healthy lifestyle to ensure our employees' wellbeing, employees' productivity by being healthy and concurrently to reduce the rate of medical leave and cost due to health problem.

Promoting Positive Health Culture

MHB has implemented various initiatives and programmes to prevent disease and promote a healthy lifestyle among our people. These initiatives are also aimed to help employees deal with work related stress.

- **Dengue prevention**

  Dengue infection is one of the causes of morbidity and mortality in Malaysia. Mosquitoes & Dengue Prevention Walkabout is conducted to strengthen the awareness of the danger of dengue by promoting reliable sanitation and maintaining the cleanliness around the yard.

Sites covered:	Employees participated:	Enforcers from Health District Office, Ministry of Health
5 workshops 2 fabrication areas	20	

- **FitMMHE – Fat to Fab**

  This weight loss programme marks the first year of its implementation for the entire workforce. Overweight and obese employees are identified and encouraged to join the programme. A series of physical activities such as circuit training sessions are conducted every week during the programme. It is one of initiatives under FitMMHE that aims to provide Warga MMHE with a healthy work life balance. Employees participated in two categories. Category 1 participants have to undergo 12 sessions of intensive workout programme, whilst category 2 participants do their own workout sessions.

Employees participated	Hours of physical training within 2 months programme duration
112	18

- **Health Passport Programme**

This health screening programme is a collaboration with Gleneagles Medini Hospital Laborator and Berkat Occupational Safety & Health Services (BOSH) to monitor health status of the employees. The activities involved were examination of blood pressure and heart rate, physical measurement such as height, weight, waist, Body Mass Index (BMI), body fat analysis and also blood screening. Participants are informed their health status and the risk of health problem related to obesity.

Employees screened

826

- **Drug Enforcement to Security and Auxiliary**

Random drug test was conducted to MHB security and auxiliary personnel. The test was done in 2 sessions with every 6-month interval. It is to ensure that employees remain drug and alcohol free throughout their employment. The tests use a random selection process where every employee has the same chance of being selected for screening. Some tests even include small windows of time to complete the drug test.

Employees tested

20

MMHE Wellness Centre

In the quest to serve our employees better, a conducive MMHE Wellness Centre was established in July 2017 with the objective to promote staff wellbeing with health equipment. A dedicated team with qualified physiotherapy manages the wellness centre and runs the activities via programmes which are designed to suit our people medical conditions. Employees can meet up regularly by appointment for small group coaching session on their respective issues or illnesses. Some of the programmes conducted are related to weight issues, disease and nutrition management, stomach and immune system disorder, bone and joints inflammation, sleeping issues, stress, migraine, hormone imbalance and heart disease (at the initial stage only).

Among the health equipment available are:
1. Back Pain Traction Equipment
2. Treatment Bed
3. Interferential Modality Machine
4. Transcutaneous Electrical Nerve Stimulation (TENS) Machine
5. Physio Treadmill
6. Mountain Climber Equipment

MMHE Wellness Centre also serves as a preventive care and rehabilitation center and together with professional advisors to attend to the patients' medical condition. This will then improve the recovery period and manage the utilisation of medical benefit should such medical issues/disease reoccur.

Health Campaign

Additionally, health campaigns are conducted to enhance awareness on fatigue management, ergonomic in workplace to inspire workers to live a healthy lifestyle. This campaign is highlighted to reduce the number of non-compliance to MHB's requirement and enhancement which one of them includes Good Hygiene Practice for canteen operators.

Health booth, health talk, Learn & Lunch, roadshow, enforcement, yard wide communication and dos and don'ts are conducted to increase health awareness.

SAFETY OF OUR PEOPLE

The safety of all people involved in MHB's operations is a priority objective which is constantly monitored and guaranteed in the management of the Company's activities by means of an integrated management system. It is a key part of MHB's business culture and a real value.

As our business operations involve heavy machinery and large structures, safety is paramount in all our operations. We always want to make sure that all employees, clients and subcontractors come to work safely and return home safely. Just as integrity is embedded in our work culture, occupational safety is regarded as our culture as well. Our long-standing health and safety target is Nobody Gets Hurt. All employees and third party partners are expected to comply with this target as well as MHB's health and safety standards.

We dedicate significant resources to ensure our employees are protected at all times. We protect them from work related illnesses as we firmly believe in creating a healthy work environment to nurture a productive and healthy workforce. 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, documents issued by the Company are reviewed and updated regularly. Our commitment in ensuring the occupation safety of our people are signified through the certification of OHSAS 18001: 2007 Occupational Health and Safety Management System.

DRILL/EMERGENCY RESPONSE

94 Emergency Drills were conducted in 2018 to increase level of alertness & response of employees during emergency situation. It comprises rescue and evacuation, rescue in confined space, firefighting, oil spill and man overboard rescue – tabletop exercise in collaboration with Emergency Management Team (EMT). Emergency drills were also conducted on 79 vessels involving employees, vendors and subcontractors covering 15 sites.

QHSE TALK PROGRAMME

We conducted 5 Learn & Lunch (L&L) sessions and 5 Greenfield Talk sessions throughout the year 2018 covering all QHSE elements.

Learn and Lunch Programme
i. Fire Prevention Talk FPC
ii. Productivity Talk with UniKL
iii. Introduction to Machinery Safety with NIOSH
iv. Blasting & Painting Talk
v. Welding Talk

Greenfield Talk
i. Road Safety with Royal Malaysia Police
ii. Mental Health with DOSH's Occupational Health Doctor (OHD)
iii. Fire Extinguisher Awareness
iv. Drug Over the Counter
i. Dealing with poisonous animals at workplace

Employees involved: +300

ENFORCEMENT

We conducted 16 enforcements that focus on each element of HSE throughout the year 2018. This enforcement is to ensure the full compliances with MHB's requirement based on the Company's Integrated Management System.

No	Enforcement	No	Enforcement
1	Speed Limit for Drivers	9	Electrical Appliance Safety
2	Hearing Conservation Programme	10	Usage of Personal Protective Equipment at the Red Zone Area
3	Preservation + Welding & B/P Compliance	11	Scheduled Waste Management
4	Tool and Equipment Inspection	12	First Aid Box
5	Gas Hose and Gas Regulator Inspection	13	Chemical Management at Operation Area
6	Equipment Pass and Lifting Equipment Inspection	14	Indoor Air Quality (physical observation)
7	Standby Person and Permit for Confined Space	15	Drinking Water Machine enforcement
8	Canteen Inspection	16	Mosquitoes & Dengue Prevention Walkabout (HEO)

Sustainability Statement

Safety Campaign

Safety campaign is conducted to inculcate awareness amongst the workers that safety cannot be compromised at any time of that person's lifetime for the sake of their family and the Company's reputation.

This campaign awareness is highlighted to reduce number of non-compliance to HSE Minimum Requirement (Volume II) Operational Control & MMHE 10 Safety Rules, the number of incidents related to Manual Handling: Hand & Finger Injury and the number of non-compliance to lifting and hand tools usage process. Programmes that were launched in conjunction with safety campaign are;

- Road Safety and Defensive Driving Campaign
- Drops Object Prevention Awareness
- Hand and Finger Injury Prevention
- Lifting Safety Awareness Campaign
- Hand Tools Safety
- Hazard Runner Programme
- Stop Falls, Save Lives Campaign
- Heart to Heart Board Campaign

PROJECT HIGHLIGHTS

Project	:	Dangote CALM Buoy
Man-hours without LTI	:	652 214
Client	:	SOFEC Incorporated
Sail Away/ Completion Date	:	31 March 2018
Project	:	EPCIC of Sepat-A WHP
Man-hours without LTI	:	849,511
Client	:	PETRONAS Carigali Sdn Bhd
Sail Away/ Completion Date	:	Jacket (09 April 2018) Topside (21 April 2018)

Data from 2018

Total man-hours without Loss Time Injury (LTI) 2018:

12,854,714

As per Scorecard 2019 targets:

Fatality 0	**TRCF** 0.33
LTIF 0.15	**Non-personnel major incident** Zero

	2014	2015	2016	2017	2018
Man-hours (millions)	20.15	27.82	20.72	15.15	12.85
Lost Time Injury Frequency (LTIF)	0.10	0.11	0.14	0.26	0.16
Total Recordable Case Frequency (TRCF)	0.69	0.43	0.48	0.40	0.23

Year	2014	2015	2016	2017	2018
Total recorded fatalities	1	0	0	0	1
Number of health and safety enforcement activities	-	62	29	23	16
Number of emergency practice drills conducted	62	79	90	104	94

Fatality Highlight

It is with our deepest regret to inform that there was 1 fatality in our yard involving a subcontractor personnel due to drowning. Thorough investigations were carried out to identify the cause and proper actions that can minimise the possibility of such accidents being repeated. Some of the most significant actions are related to an improvement on determining the restricted area and implementing appropriate measures which include necessary physical barriers and signage and reinforcement of the competency of key personnel, such as simulation operations. These preventive actions include enforcing work vest that needs to be worn by worker who works over or near water as stated in our HSE Minimum Requirements (Volume II) Operational Control and providing lifebuoy at identified areas as required based on risk assessment.

We invest significant resources to train our employees on HSE topics to increase their awareness of the risk of their work activities through ad-hoc campaigns and programmes and to strengthen our HSE Management System. It is our ultimate duty, as a responsible employer, to make every possible effort to ensure that our employees go home safely. As validation of the solidity of our HSE system and all our initiatives, a third party certification company extended the existing OHSAS 18001: 2007 Certificate to MHB. Results from activities carried out by the third party certification company are consistent with internal audits performed which demonstrate a reduction in major non conformities and an increase in significant efforts.

Workforce Management

As of 31 December 2018, we had 2,071 employees. MHB believes that employees are our vital assets. We respect and promote diversity and offer equal opportunities to all employees. We recognise the contributions of each individual through various performance-based pay.

Where business is no longer as usual, we continue to maintain our workforce at optimum level and made every effort to manage the reorganisation with minimal impact to our employees. We hired less new employees and contract extension was refrained. We have reached the optimum manning level and no further reduction is needed. It is anticipated that manpower will increase in 2019 due to new projects forecasted.

In 2018, we had 365 female employees, equivalent to 17.62% of our total workforce. Currently, three (3) out of nine (9) Directors on the Board and one (1) of our six (6) Management Committee members is female. Though our industry has been traditionally male-dominated, we believe that any new appointment should be based on merit and capability.

Valuing the importance and need to take action and to be recognised as a partner in the sustainable social and economic development of the communities and regions where we operate, we are committed in providing local employment In 2018, we had only 18.3% (378) of total 2,071 are foreigners and the remaining 81.7% of our employees are local employees.

In line with the Group, MHB complies with the new regulations and frameworks on labour standards as well as contributes input requested by relevant authorities for their decision making.

Year	2014	2015	2016	2017	2018
Description					
Total Number	3,220	3,112	2,835	2,107	2,071
Turnover rate	-	33.18%	17.14%	33%	15%
Percentage of employees by Gender					
Female	19.66%	18.06%	15.84%	17.60%	17.62%
Male	80.34%	81.94%	84.16%	82.30%	82.38%
Percentage of Employees by Job Type					
Permanent	-	-	59.58%	66.50%	64.65%
Contract	-	-	42.42%	82.30%	35.35%
Numbers of women employee category					
Board of Directors	-	-	2	3	3
Management	-	-	30	34	29
Executive	-	-	218	189	196
Percentage of Employee by Age Group					
< 20	-	1.35%	1.41%	0.70%	0.43%
21-30	-	33.93%	30.23%	25.00%	23.61%
31-40	-	34.61%	38.24%	43.20%	43.60%
41-50	-	18.99%	18.55%	18.50%	18.69%
51-60	-	10.70%	10.72%	12.00%	13.28%
> 60	-	0.42%	0.85%	0.70%	0.39%

Sustainability Statement

EMPLOYEE ENGAGEMENT

MMHE SIGNS THE 13TH COLLECTIVE AGREEMENT 2018-2020 WITH THE UNION

MMHE and Kesatuan Pekerja-Pekerja MMHE (Union) signed a new Collective Agreement on 7 March 2018. The new agreement is valid for three years from 1 January 2018 to 31 December 2020. The negotiation was held in December 2017 between representatives of the union and employers. As a reflection of close relationship between both parties, the Collective Agreement was completed with one sitting of negotiation.

Some new items covered in the new Agreement include enhancements to the salary range, annual increments, salary adjustments, travelling and subsistence allowance, transfer and settling allowance, sea trial allowance as well as insurance scheme.

UNION ANNUAL GENERAL MEETING

The 11th Annual General Meeting of MMHE Union was held on 22 September 2018 at Multi-Purpose Hall, MMHE Recreational Building. Among the topic discussed were issues encountered by the committee and election of union committee for 2018/2020.

150
Union members from various departments attended

TRAINING AND DEVELOPMENT

Training and development of our human capital have been identified as one of the strategic priorities and key elements for MHB in order to meet market demand and sustain competitiveness. We believe that our employees' skills and know-how are the key assets in sustaining the business. We aim to provide reliable work environment that guarantees equal opportunities for all on the basis of merit and without discrimination.

MHB is committed in building the capability of our employees where strategic development programme have been included in the Corporate Scorecard, focusing on specific critical talents pool in driving the business – Project Managers, Cost Controllers and the Industrial Engineering Team. The initiatives were monitored by MHB Management and presented during Management Development Committee Meeting (MDC) chaired by MHB MD & CEO.

MHB CULTURAL BELIEFS

2018 was a year of change for MHB. Inspired by our tagline to consistently provide better marine and heavy engineering related solutions and services, we embarked on a holistic journey towards delivering change across our organisation through the roll-out of organisational culture, MHB Cultural Beliefs (CB). MHB CB was introduced during the re-branding of MHB in September 2017 and further roll-out to the staff in 2018. This initiative is to ensure the adoption of the PETRONAS Culture Beliefs, which was rolled out in 2015 and MISC Berhad's Culture Beliefs, rolled out the following year.

MHB CB workshop sessions were spearheaded by leaders from human resource department and assisted by trained MHB facilitators which aimed to provide seamless understanding of CB elements towards achieving MHB's desired results. The employees were enlightened on various key areas of the CB such as the Results Pyramid, the Culture of Accountability and other CB tools to expedite the transition from the present culture to the desired culture. MHB leaders are encouraged to demonstrate a personal commitment to capability building, keeping communication clear and consistent and focusing on Key Results. This consistent, proactive approach to leadership will lay the groundwork for a sustainable culture of success. The CB initiatives will be continued in 2019 with CB mini-campaigns, feedback tools and other initiatives to continuously reinforce the desire culture.

Training on Leadership

39
No of sessions

1,257
Employees Trained

Creating Potentials

- **Industrial Engineering (IE) Team**
  The initiative of establishing the Industrial Engineering Team was one of 2018 plans. It is in the intention to improve MHB in the area of productivity and cost saving. The team was established in February 2018 with 1 manager and 2 team leads. As this is new to MHB, we had 2 sessions on Lean 6-Sigma introduction training in April 2018 involving 38 staff from various department and business units.

  The 2 leads attended the Lean 6-Sigma Green Belt programme and were certified. The team initiated various plans in MHB since its establishment and continuously working on the improvement projects in focus identified areas in the two business units, Marine and Heavy Engineering Business segments. Among the initiatives are;

  1) **Reducing Complaint Management Lead-time in Facilities and Assets Services (FAS):**
     Problem Statement: Complaints reported to FAS by MMHE users were observed closed at average lead time 11.5 days from the complaint logged, which affected user satisfaction, productivity and performance. The team is working on appropriate measure to overcome the problem.
  2) **SCM Bidding Process Improvement Using Six Sigma Methodology:**
     Problem Statement: Underestimated budget for material & services due to fluctuating in Price Comparison Evaluation Form (PCEF) lead time. Current lead time ranges between 5 – 90 days with average of 44 days. The team is working on appropriate measure to overcome the problem.
  3) In 2019, the team will start the improvement at SCM & Piping Workshop.

  To have common understanding on Lean 6-Sigma matters and to obtain adequate support from the management, 2 sessions of Introduction to Lean 6-Sigma for Senior Management were held in December 2018 involving 38 senior management personnel.

- **MHB Toastmasters Clubs**
  Communication and leadership have been identified as an important skill in business internally and externally. This self-driven programme is a platform for selected staff, appointed by their leaders, to improve their communication and leadership skills. In 2018, MHB has registered 2 Toastmasters Clubs namely MMHE Pasir Gudang Toastmasters Club and MHB Kuala Lumpur Toastmasters Club with Toastmaster International.

  The enrolment to the Toastmasters Clubs was approved by MDC on 26 July 2018 during the 4th MDC meeting (MDC#04/2018), with the approval for the clubs to have their fortnightly meeting every second and forth Thursdays of each month from 12.30 p.m. to 2.30 p.m. A total of 44 employees take part in MHB Toastmasters club.

Nurturing Capabilities

- **Project Management Development Programme (PMDP)**
  Project Management Development Programme (PMDP), a continuation from last year, is a structured programme for MHB project managers which aims to certify them as Project Management Professional (PMP). The PMP credential will be awarded by Project Management Institute (PMI) – world's largest non-profit membership association for the project management profession. The PMP credential is accredited by the American National Standards which is globally recognised and high in demand amongst the industries. With the PMP received by MHB's Project Managers, it will boost clients' confidence with the leadership and direction performed to manage the projects assigned.

  A total of twelve MHB staff who met the selection criteria were identified as PMDP's candidates and required to undergo structured training programme in order to sit for examination between November and December 2018. The training programme started in May and ended in October 2018, involving seven training modules. Upon training completion, each of the participants was required to complete examination registration via online and submit to PMI for review and approval. The candidates who meet the academic qualification, project management work experiences and education will be able to select PMP examination date.

  17% (2 staffs) of the participants passed the PMP examination and received PMP Certification while 87% are waiting for examination. The PMP credentials holder are required to renew the certification after 3 years.

- **Cost Controller Development Programme (CCDP)**
  Cost Controller Development Programme (CCDP), also a continued effort from 2017, is a structured programme for MHB project cost controller which aim to certify them as Certified Cost Professional (CCP) granted by American Association of Costing Engineer (AACE). The CCP certification is the most widely recognised certificate offered by AACE that grants the professional credentials to MHB cost controllers whom have the required knowledge and skills of cost and project. CCP certification is independently accredited by the Council of Engineering & Scientific Specialty Boards (CESB) and recognised across industries.

  A total of twenty MHB staff who met the selection criteria were identified as CCDP's candidates have to undergo a structured training programme to qualify for examination between November and December 2018. The training programme commenced from May until October 2018, involving six training modules.

  Upon training completion, each of the candidates are required to complete examination registration and submission of technical paper for AACE's review and approval within 45 days of submission. Five candidates have been certified as CCP while the others are yet to sit for the assessment.

- **CSWIP Welding Inspector Certification Programme**
  Fabrication of heavy engineering structures involves extensive welding works that require qualified and certified welding inspectors to ensure the welding quality meet the required standards. To fulfil the requirement, MHB managed a series of Certification Scheme for Personnel (CSWIP) Certification programmes to increase the number of certified welding inspectors. The certification programmes include the Visual Welding Inspector CSWIP 3.0, Welding Inspector CSWIP 3.1 and Senior Welding Inspector CSWIP 3.2.

  We conducted a session for CSWIP 3.0 with 11 participants, 3 sessions for CSWIP 3.1 with 40 participants and a session for CSWIP 3.2 with 9 participants.

  We have 35% participants passed the assessment and certified, while 65% must re-sit the papers in order to be certified. To support the candidates, we will provide additional classes before they re-sit the examination. Though the percentage of those who failed is higher than those passed, we are certain that with additional classes and coaching, the candidates will be able to succeed in their next attempt. Moving forward, we will facilitate these candidates in re-sitting the papers for them to get the certification and to enable them to perform welding inspection works.

- **Route to MIEM/Professional Engineer Talk**
  As MHB is moving towards a complete engineering, procurement, construction, installation and commissioning (EPCIC) project execution, MHB must have a pool of Professional Engineers (PE) in order to fulfil the requirement. Started with the engagement with the Immediate Past Chairman of MIEM Southern Chapter, we had a talk on the "Route to MIEM/Professional Engineer" on 30 November 2018 at MMHE West Training Centre. The talk was delivered by Associate Professor Ir. Dr. Hayati Abdullah, representing IEM. The talk attracted more than 80 graduate engineers and we are working on updating the database for our way forward in 2019.

+ 80
Employees participated

Developing Human Capital Management

- **Succession Planning**
  Succession planning is an integral part in our Human Capital management where it fosters and promotes the continual development of our employees and ensure that key positions maintain some measure of stability, thus, enabling the Company to achieve business objectives. Recognising the importance of having a strategic succession planning framework, MHB has identified and approved suitable candidates from our pool of employees as successors for 31 approved critical positions. The identified successors will have appropriate development and training opportunities to fulfil their potential towards current and anticipated business goals and objectives.

- **Senior Management Development Programme**
  Senior Manager Development Programme (SMDP), a continuation from last year, is a structured programme for MHB senior managers which aims to drive the transition of managers into the new roles as well as to improve the leadership development of existing senior managers. A total of eleven MHB staff who met the selection criteria were identified as SMDP's participants and required to undergo structured training programme which includes online psychometric assessment, simulation-based development, group coaching and business-simulation assessment. The training programme started in August and ended in November 2018, involving five training modules.

- **Hi-Potentials Development**
  Continuous identification, development, monitoring and tracking of our internal talent pool has also become one of MHB's strategic business priorities in 2018. Our internal high potential employee programme, called 'Hi-Po' is designed to retain talent within the Company. Development activities which include competency building, mentoring, coaching and job rotation are being implemented to equip talents with potential to grow into leadership roles within organisation. A Hi-Po Committee (HPC) is also established to facilitate the monitoring of talent progress and provides regular feedback to drive the development of top talents in the organisation.

MMHE Centre of Excellence (CoE)

MMHE CoE provides a variety of industry-related training programmes. This integrated training facility was opened in 2015 and is located in Pasir Gudang, Johor. The first-of-its-kind facility is a learning centre that provides training, competency development and hands-on technical programmes. The training complex is equipped with facilities such as simulators for confined space, scaffolding tower, firefighting area, forklift practical area, overhead crane and rigging training area. We offer short courses in four key areas: business skills, project management, various safety and craft training.

MMHE CoE is certified as Human Resource Development Fund (HRDF) training provider since 2015 and certified as a training provider by Department of Occupational Safety and Health (DOSH) for Authorised Entrant Standby Person of Confined Space (AESP) and Basic Scaffolding. We offer courses particularly for safety and technical training to public community as well as our internal staff. We have collaborated with industries and other training providers to strengthen our services to customer.

- Collaboration with National Institute of Occupational Safety and Health (NIOSH) in providing assessment to the participants
- Collaboration with UniKL in providing on-job-training for students and development of programmes for both MMHE and UniKL students

Man-hours training for MHB staff as of December 2018 was 49,024 hours (6,128 man-days) represented by average 2,089 employees. 41,896 training man-hours (5,237 man-days) which represented by 85.5% of training hours were programmes conducted by/at CoE.

Description	2015	2016	2017	2018
Total hours of employee training	78,869	53,277	35,777	49,024
Average hours of training per year per employee	30	21	15	23.5

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

Year	2015	2016	2017	2018
Leadership programmes	1,739	1,387	92	69
Functional/technical programmes	4,091	2,461	2,821	3,907
Total	5,830	3,848	2,913	3,976

Note:
- *Some employees attended multiple programmes.*

There is a significant decrease in leadership programmes for 2018 because we focused on selected pool i.e. Senior Management, under the Senior Management Development Programme (SMDP), while in 2017, the pool was inclusive of successors and hi-potentials. In 2019, we have planned out and conducted several internal cultural development workshops, which are aimed at synchronising the training and development needs of our staff based on the agreement of their superiors and the scheduling of programmes to meet their packed schedule to achieve optimum level with a target at minimum of 3 man-days per employee.

BETTER ENVIRONMENTAL PERFORMANCE

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

Corporate Quality, Health, Safety and Environment (CQHSE)

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

In 2018, we spent approximately RM14,666.00 to run environmental awareness campaigns and other initiatives.

ENVIRONMENT CAMPAIGN

- Environment campaign is aimed to inculcate awareness amongst our people on the importance of individual action on the care of the global environment, focusing on the limited natural resources and the importance of recycling the waste generated by our community
- This campaign awareness is highlighted to reduce the carbon footprint as well as the climate change, the number of non-compliances to authorities' requirements and to enhance the cradle to cradle concept for waste management
- Campaign activities include premiere watch in Eco Movie Hour, Eco Pledge of recyclables materials, food waste management demonstration by Majlis Perbandaran Pasir Gudang, exhibition of recyclables product by Southern Waste Management Sdn Bhd, HSE Wheel of Fortune game and sharing of environmental awareness through internal portal

Several active communications with the External Parties have been conducted as below:

- Environment Performance Reporting to MISC Berhad for PETRONAS on quarterly basis i.e., Environment Performance Indicator (EPI). EPI is a set of data contributed for annual MHB Sustainability Report & key element assessed under BURSA FTSE4Good ESG Ratings.
- Active communication with DoE with regard to the scheduled wastes management, transportations, reports and participated in DoE's events, seminars and other programmes.

CLIMATE CHANGE

Managing Greenhouse Gas Emissions (GHG)

Since 2014, we have reported on our GHG data to MISC Berhad. We track emissions based on The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (revised edition) in scopes 1 and 2.

GHG emissions (tonnes CO_2e) from Scope 1 are produced by activities carried out in the yard which consist of petrol, diesel and gas combustion, loss from refrigerant used and oil sludge incineration. About 18% of total tonnes CO_2e comprises of Scope 1. The remaining 82% of MHB's tonnes CO_2e comprises of Scope 2 which is produced from the electricity consumption.

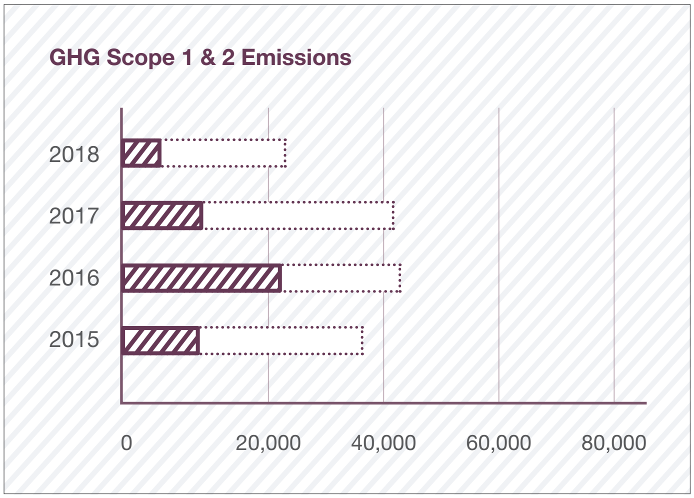
Total CO_2e decreased notably by 32.3% in 2018 compared to 2017. The dropped was contributed by 29.4% and 32.8% reduction for both Scope 1 and Scope 2 emissions, respectively due to less activities in the yard. Business growth can be the most challenging part but with commitment and support from the yard population, carbon intensity can be further reduced. MHB is aiming to consistently reduce carbon footprint by launching our environmental sustainability programmes in 2019.

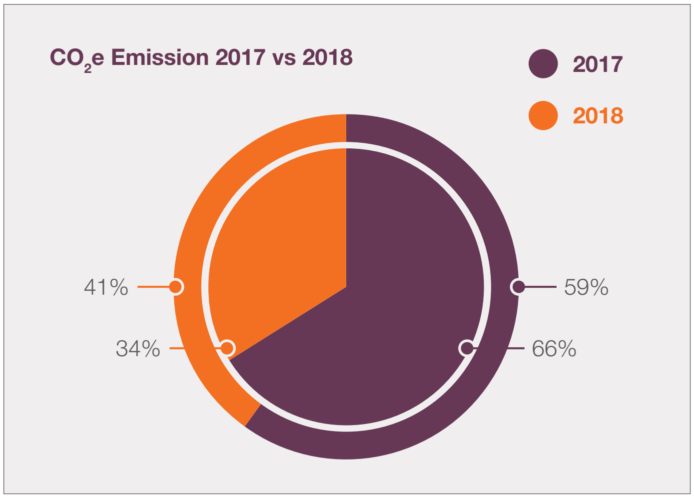
We monitor our compliance status towards the Environmental Quality (Clean Air) Regulations 2014 including the monitoring of our air pollution control system (bag filter operators) emissions.

In 2018, four of our employees have completed their Certified Professional in Bag Filter Operations (CePBFO) assessment and undergone interview sessions with Environment Institute of Malaysia (EiMAS). The four staff have achieved full competency to represent the Company as a competent person for bag filter operations.

The main purpose of having the GHG emission data is to understand the emission that the organisation is responsible for, and take action to manage and reduce emissions. Our GHG data aligns with many widely used national and international voluntary measuring and reporting schemes.

Definition	Scope 1 and Scope 2 GHG emissions from operations that fall within MHB's GHG reporting organisational & operational boundaries. Carbon Intensity – total mass of GHG emission (tonnes CO_2e) per revenue generated or per man-hours
Unit	Scope 1 and Scope 2 – tonnes CO_2e Carbon Intensity – tCO_2e/revenue (RM) or tCO_2e/thousand man-hours
Method	GHG Emission = Use Input X Emission Factor Use Input = Raw data collected i.e diesel or petrol consumption Emission Factor = refers to American Petroleum Institute (API) Compendium 2009





	2015	2016	2017	2018
Scope 1	11,476	15,926	11,306	5,912
Scope 2	38,965	41,132	39,544	27,077

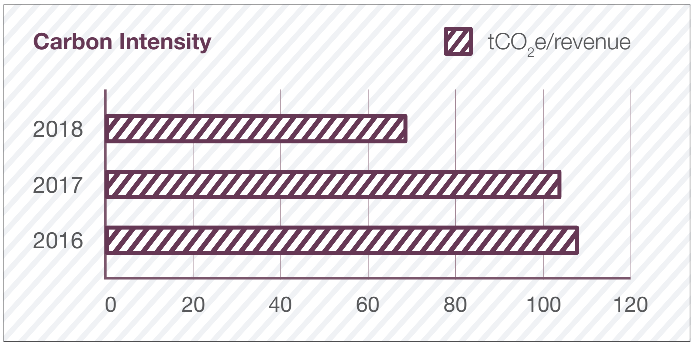
	2017	2018
Scope 1	66	34
Scope 2	59	41

Year	2015	2016	2017	2018
GHG Emissions (tonnes CO_2e)				
Scope 1 (Petrol, Diesel, Gas Combustion, Refrigerant Losses & Oil Sludge Incineration)	11,476	15,926	11,306	5,912
Scope 2 (Electricity Consumption)	38,965	41,132	*39,544	27,077
Refrigerant Consumption (kgs)				
Ozone Depleting Substances (ODS) – R22	N/A	763	1,523	1,269
SOx, NOx and PM_{10} (tonnes)				
SOx	4	6.2	2.51	0.84
NOx	14	12.12	7.97	3.55
PM_{10}	2	2.04	0.89	0.37

* *Last year it was reported as 36,955 tonnes CO_2e using estimated consumption of electricity in December 2017.*

Carbon Intensity FY2018

Carbon intensity is the ratio of total GHG emissions produced over man-hours or revenue. Our carbon intensity calculates the emission rate of pollutants relative to the intensity of MHB business activity; the ratio of total GHG emissions (tonnes CO_2e) produced to our revenue. In 2018, our carbon intensity over revenue falls to 35% from previous year mainly due to less activities carried out. Comparing to 2017, the decrease was only 2.8% from 2016.



Sustainability Statement

Energy

Our yard operations involve activities that require high-energy consumption from the compressor house activities, dry dock pump activities, street lighting which requires 24-hour operation and machineries operation. Hence, we are mindful of our energy use as lower energy consumption can contribute to both cost savings and reduce environmental carbon footprint. MHB's initiative to save electricity consumption was taken to the next level. Though the main contributing factor for the reduction is mainly due to the less project activities, yet MHB is doing every effort to reduce the energy consumption of yard wide.

This includes an effort to progressively replace the conventional ballasts with low loss electronic ballasts are of paramount importance. Dimming electronic ballast not only can save energy but it is silent and cause no perceptible flicker. We send reminder to shut down and unplugged all unused electrical appliances throughout the yard whenever there is a long weekend due to public holidays.

Year	2015	2016	2017	2018
Electricity consumption (MWh)	58,039	60,134	*57,813	39,586
Gas Consumption (CO_2e tonnes)	N/A	1,754	1,638	981
Petrol consumption (litre)	47,601	47,333	41,900	35,255
Diesel consumption (litre)	4,278,160	5,152,794	2,245,397	934,774

* *Last year, it was reported as 58,939 MWh using estimated consumption of electricity in December 2017.*

Water

Water is an important issue for the offshore construction industry. We also operate in water-stressed environment. Every drop of water will cost the Company. We hold the bag to ensure that the water that goes to the drain confer a benefit. Monitoring drinking water supply as well as our discharged to the marine water from the industrial wastewater and sewage water are crucial. We are not only concern with our fresh water, but we are also in-charged to ensure that our wastewater from our industrial cleaning and sewage treatment plant discharged to the drains were within the standard limit by doing the performance monitoring and final discharged monitoring on daily and monthly basis respectively.

As we try our best to adopt environment best management practices throughout the whole yard, all the parameters stipulated in the Environment Quality Act 1974 (EQA 1974) and environment monitoring guidelines provided by the Department of Environment (DoE) are followed accordingly. Performance monitoring is one of requirements in the newly introduced Guided Self-Regulatory (GSR) agenda by the DoE. It is a daily inspection of the pollution control system for preventive maintenance designed to keep the system running productively.

The data is validated by a competent person and reported through DoE's Online Environment Reporting (OER) System which is done by our staff who have acquired Certified Professional in Industrial Effluent Treatment System Operation (CePIETSO) and Certified Professional in Sewage Treatment Plant Operator (CePSTPO). Further environment monitoring was carried out by a selected third party accredited laboratory. We set a high standard criteria for the laboratory as we expect a result of complete integrity.

Year	2017	2018
Volume of water consumption (m^3)	774,219 (75 vessels of various sizes repaired)	814,666 (93 vessels of various sizes repaired)

Year	2015	2016	2017	2018
Volume of water consumption (m^3)	1,059,000 (approximate)	862,583	774, 219	814,666

Waste Management

Waste management is one of the most pressing environmental issues at MHB. The large quantities of waste from our operations, financial and technical constraints make a significant environmental challenge for us. Our scheduled waste is partly hazardous and poses substantial threats to public health and the environment if not managed carefully. As gazetted in Environmental Quality Act 1974 under the Environmental Quality (Scheduled Wastes) Regulations 2005, any hazardous waste included in the First Schedule is considered as scheduled waste.

Our target is to fully implement as many initiatives as we can so that we can give positive impacts towards the environment. Last year, we have successfully banned the use of polystyrene in the yard and as we can observe today, the utilisation of polystyrene is limited and next to nothing.

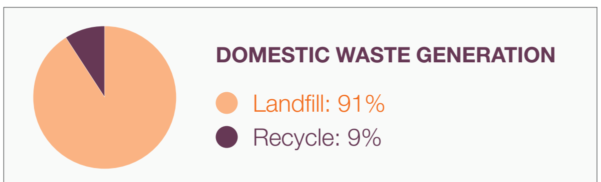
This is in line with the 'Beat Plastic Pollution' theme for the World's Environment Day 2018 by United Nations Environment (UN Environment). Our focus, which is to eliminate the total use of plastics in our yard, may require time, money and a lot of effort but it will become a continuous agenda in our sustainability plan. The communication has been blasted throughout the yard and awareness campaigns have started since 2017.

Year	2016	2017	2018
Scheduled Waste – Landfill	1366	672.67	13.87 (excluding TISB Operation)
Scheduled Waste – Managed by other means	27,974	23,981	27,635
Non-scheduled Waste – Landfill	7,269	7,650.1	5,232
Non-scheduled Waste – Recycled	N/A	N/A	498.87
Total non-scheduled and scheduled waste to landfill (MT)	9,871.84	Scheduled waste – 672.67 Non-scheduled waste – 7,650.1	Scheduled waste – 13.87 *Scheduled waste by TISB – 9,568.31 Non-scheduled waste – 5,232

* *Scheduled wastes by TISB refer to Techno Indah Sdn Bhd wastes to final disposal facility.*

Non-scheduled Waste

Non-scheduled waste is a domestic waste consists of recycled and non-recycled wastes. In 2018, MHB generated 5,231.55 tonnes and recycled 498.87 tonnes of domestic wastes which is in contrast to the previous year, where the recycling activities took place in a small scale and data was unrecorded. After a series of campaigns and sharing through internal portal and morning toolbox talk, our employees started to contribute in recycling activities. The initiatives to recycle plastic bottles, papers, aluminium cans and other recyclable materials arise from the awareness of the importance of recycling practices.



Save Paper Campaign by SCM Eco-Converter

Under the MISC Berhad b-HSSE #ECOPLEDGE Programme, SCM Eco-Converter team participated the pledge to save the papers.

The committee tasks are to:
- Establish programme and timeline
- Inter-department sharing session during morning toolbox talk by Eco-Converter Committee
- Launch Digital Sticker and Save Paper Poster in each section of Supply Chain Management (SCM) Department
- Daily housekeeping after working hour
- Scheduled walkabout at document storage area

Eco-Converter – The Result

From the activity, Eco-Converter has successfully collected tonnes of reusable files, shredded papers, recycle papers and corrugated boxes. They managed to collect 1,800 pieces of reusable files and distributed to nine schools in Pasir Gudang which helped teachers to manage hundreds of documents in school. This initiative is not only aimed for environment conservation, but also to contribute to the communities around us. The recycle papers and corrugated boxes were sent to the recycling centre with a total weight of 3,680 kilograms which the prices varies from RM0.30/kg to 0.25/kg depends on the paper. The shredded papers were used as a raw material for a modern gardening activities called 'Kokedama Challenge' programme and produced Kokedama String Balls for landscaping purposes.

Scheduled Waste

Scheduled wastes means any of hazardous wastes generated from MHB operations falling within the categories of waste listed in the First Scheduled, Environment Quality (Scheduled Wastes) Regulations 2005. For scheduled wastes, estimated about 13.87 tonnes were disposed and 27,635 tonnes of scheduled wastes being recycled. Most of the scheduled wastes generated from blasting on painted surfaces activities. It contributed about 24,255.8 tonnes (almost 94.08% from total generated scheduled wastes) and were recycle to a cement manufacturing industry as an additive in their cement mixtures.

Spent Abrasive Materials

Spent Copper Slag and Spent Garnet, the highest scheduled wastes which 18,766.99 tonnes and 5,488.81 tonnes were managed respectively. It has been generated through blasting on painted surfaces process. Both were generated and managed under Special Management of Scheduled Wastes in compliance to Environment Quality (Scheduled Wastes) Regulations 2005.

We have significantly improved in 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.

Techno Indah Sdn Bhd

Creating a history of this year, MHB's subsidiary formerly known as Techno Indah Sdn Bhd (TISB) finally saves its business. Established in 1994, TISB functions as a 'Waste to Energy' plant to power both ancillary equipment and balance the MHB power grid through sludge incineration process. Besides, TISB also received slop or oily water to undergo decanting process and recovered oil for own consumption and sold to local industries.

It is a mandatory for a prescribed premise who intend to close its business to dispose its remaining wastes to final disposal facility. Total of 9,568.31 tonnes consist of sludge and slop oil were disposed. TISB has undergone clean-up process and has been fully inspected by the state Department of Environment (DoE Johor) on 13 December 2018.

Risk Management

A monthly monitoring programme to monitor environment performance was carried out throughout the year 2018. The programme is not only to ensure the risk or environmental impact generated from yard activities were in a control manner, but it is to safeguard the Company interest by early detection of pollution internally and externally.

The aspect covers in the monitoring programme include marine water quality, surface water quality, sewage treatment plant discharged, individual toilets discharged, industrial effluent treatment plant discharged, air emission from stacks, ambient air, boundary noise monitoring and groundwater.

Environment monitoring was carried out by a selected third party accredited laboratory. We set a high standard criteria for the laboratory as we expected a result of complete integrity.

In compliance to the local government requirements and guidelines, performance monitoring for specific operational processes has been a routine for MHB since it was enforced. We are committed in ensuring risks and opportunities were assessed thoroughly.

CARING FOR OUR COMMUNITIES

Our community programmes focus on empowering communities, education, environment and charitable giving. Our activities are funded by profit from business operation, funds raised by employees and partnership with other institution. In 2018, we spent RM168,242.30 on community programmes.

MHB Knights of Nature

MHB, in collaboration with EcoKnights, an environmental non-governmental organisation (NGO), hosted MHB's flagship environmental and youth leadership programme – the MHB Knights of Nature (KON) Sustainability Camp from 16 until 19 August 2018, at Tanjung Piai Resort, Johor.

This camp serves as a platform for youths from all over the country to engage in hands-on and experiential modules and programmes in sustainability and leadership development. Youths were invited to apply for the fully sponsored camp in July 2018. This year's camp theme focused on maritime development and communities with an emphasis on mobilising the participants to work on addressing solutions.

The 4 days 3 nights camp is aimed to equip youth with the experience, exposure and skills necessary to help them develop leadership skills on environmental initiatives. It also aims to develop and harness the characteristics of young leaders with sustainable mind-sets. The outcome is that the youths are exposed to the multifaceted issues that communities and the marine environment face, and through the camp's learning modules, will learn how to bridge the gap between conservation, communities and address sustainable development and living.

Year	2015	2016	2017	2018
Number of participants	16	26	40	35

MHB Art of Science

Our Corporate Social Investment's (CSI) initiative programme called 'MHB Art of Science' was held on 15 November 2018 at Level 3, Multi-Purpose Hall, MMHE Recreational Building, MMHE West Pasir Gudang. With the involvement and participation of 190 high school students from 3 local schools in Pasir Gudang, programme, which started in 2013, aspires to stimulate youth interest in the science and technology disciplines by using the marine and oil & gas projects as examples.

For this edition of 'MHB Art of Science', MHB young engineers came forward to prepare and conduct the module of programme. They were also responsible to facilitate and guide the participants in managing their projects. Our volunteers were also present throughout the programme to assist the students in their projects executions. The participants were privileged to have had the opportunity to gain new insights on the Engineering, Procurement, Commissioning and Construction which are related to MHB's business activities.

Year	2015	2016	2017	2018
Number of participants	122	104	79	190

Charitable Contributions

Over the last 40 years, MHB has established a good rapport with the local community in Pasir Gudang through our longstanding outreach programme. We will continue to run CSR activities to strengthen those ties and give back to the community we operate in.

MHB, through its subsidiary, MMHE donated foods, hamper raya and duit raya to underprivileged families from 30 households in Kampung Pasir Gudang Baru, Kampung Kong Kong and Kampung Keck Seng.

From the donation drive which was held from 15 May until 9 June 2018, Corporate Communications Department managed to collect a total of RM15,842.30 from staff across the Company. The Company then topped up the staff's contribution on a ringgit for ringgit basis, making a grand total amount of RM31,684.60.

This annual Corporate Social Investment (CSI) programme is yet another of the Company's giving back to the wider Pasir Gudang community in which it has an integral presence. This year's charity drive received good response and support from MMHE employees as well as clients and subcontractors within the yard. The Group has always encouraged its staff to make a difference by contributing their time and giving back to society, especially during special occasions like the holy month of Ramadan. Efforts such as this bring Warga MMHE closer with members of the community where we operate.

Board of Directors

DATUK NASARUDIN MD IDRIS

Chairman, Independent Non-Executive Director

AGE
63

GENDER
Male

NATIONALITY
Malaysian

DATE OF APPOINTMENT
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 Master's Degree in Business Administration from Henley Management College (Brunel University), United Kingdom. He also attended the Stanford Executive Programme at Stanford University, United States of America.

He joined PETRONAS in 1978 and has held various positions within the PETRONAS Group including 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 currently serves on the boards of MISC Berhad and Bintulu Port Holdings Berhad.

DATO' HALIPAH ESA
Independent Non-Executive Director

AGE
69

GENDER
Female

NATIONALITY
Malaysian

DATE OF APPOINTMENT
1 April 2007

BOARD COMMITTEES MEMBERSHIP

NRC - Chairperson

BARC

QUALIFICATION, SKILLS AND EXPERIENCE

Dato' Halipah received her Bachelor of Arts (Honours) Degree in Economics and Master of Economics from the University of Malaya. She also holds Certificate in Economic Management from the IMF Institute, Washington and the Kiel Institute for the World Economy, 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, education, 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 KLCC Property Holdings Berhad, KLCC REIT Management Sdn Bhd, Cagamas Berhad, S P Setia Berhad and Securities Industry Dispute Resolution Centre.

Board of Directors

CHOY KHAI CHOON

Senior Independent Non-Executive Director

AGE
61

GENDER
Male

NATIONALITY
Malaysian

DATE OF APPOINTMENT
5 February 2013

BOARD COMMITTEES MEMBERSHIP

BARC - Chairman

NRC

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 had attended the General Management Programme at INSEAD, France over a period of two (2) years from 2001 to 2002. He is a fellow of the Certified Practicing Accountants Australia and a member of the Malaysian Institute of Accountants.

He has extensive experience in the financial sector and served as the President/Chief Executive Officer of Cagamas Berhad for six (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 an Independent Non-Executive Chairman of Zurich Life Insurance (M) Berhad and serves on the boards of Deutsche Bank (Malaysia) Berhad, RAM Rating Services Berhad, Zurich Takaful Malaysia Berhad, Hap Seng Plantations Holdings Berhad and Bond and Sukuk Information Platform Sdn Bhd.

YONG NYAN CHOI @ YONG GUAN CHOI

Independent Non-Executive Director

AGE

66

GENDER

Male

NATIONALITY

Malaysian

DATE OF APPOINTMENT

14 January 2011

BOARD COMMITTEES MEMBERSHIP

BARC

BBC

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, as Executive Engineer at Konsortium Malaysia, Kuching and joined Shell in 1978 where he held various positions in Malaysia and abroad before being appointed as the General Manager of Shell China Sourcing in China until his retirement in 2008. Currently, he manages his own management consultancy business.

Board of Directors

BERNARD RENE FRANCOIS DI TULLIO

Non-Independent Non-Executive Director

AGE
69

GENDER
Male

NATIONALITY
French

DATE OF APPOINTMENT
22 November 2010

BOARD COMMITTEES MEMBERSHIP

BARC

BBC

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Bernard di Tullio graduated with a Master's 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 the TechnipFMC Group for 39 years. He served for 25 years in Technip Geoproduction (M) Sdn Bhd (TPGM) until his retirement in 2011. 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 TechnipFMC, a role he has served since November 2011.

YEE YANG CHIEN

Non-Independent Non-Executive Director

AGE
51

GENDER
Male

NATIONALITY
Malaysian

DATE OF APPOINTMENT
1 April 2008

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Yee holds a double-degree in Financial Accounting/Management and Economics from the University of Sheffield, United Kingdom.

Mr Yee began his working career as an auditor, undertaking both external and internal audit assignments, and progressed on to equity research and investment banking work with various local and international financial institutions. He joined MISC Berhad in 2001 as Senior Manager of Research and Evaluation of the Corporate Planning and Development Unit. He subsequently joined AET Group as the Group Vice President of Corporate Planning in June 2005.

Mr Yee returned to MISC Berhad in April 2008 as the Vice President of Corporate Planning and Development, focusing on strategic planning, enterprise risk management, budget development and special projects for the Group. Prior to his current appointment, he was the Chief Operating Officer of MISC Berhad from July 2013 to December 2014 where he was also given oversight over the Group Finance and Human Resource functions as well as the Chemical Tanker Business unit.

OTHER COMMITMENTS

Mr Yee is the President/Chief Executive Officer of MISC Berhad since 1 January 2015. He is also Chairman of AET Tanker Holdings Sdn Bhd and Eaglestar Marine Holdings (L) Pte Ltd as well as Deputy Chairman of Malaysian Maritime Academy Sdn Bhd. He is also a Director of FPSO Ventures Sdn Bhd.

Additionally, Mr Yee is a Director of the Members' Committee of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (UK P&I Club).

Board of Directors

SYED HASHIM SYED ABDULLAH

Non-Independent Non-Executive Director

AGE

62

GENDER

Male

NATIONALITY

Malaysian

DATE OF APPOINTMENT

1 January 2016

BOARD COMMITTEES MEMBERSHIP

BBC - Chairman

NRC

QUALIFICATION, SKILLS AND EXPERIENCE

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

Tuan Syed Hashim is presently the Vice President, Offshore Business in MISC Berhad. Prior to his current position, he was the General Manager, Asset Management of Offshore Business since 1 December 2014. He has more than 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 General Manager, JV Operations.

OTHER COMMITMENTS

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

ROZAINAH AWANG

Non-Independent Non-Executive Director

AGE
50

GENDER
Female

NATIONALITY
Malaysian

DATE OF APPOINTMENT
16 June 2016

BOARD COMMITTEE MEMBERSHIP

BARC

QUALIFICATION, SKILLS AND EXPERIENCE

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

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

OTHER COMMITMENTS

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

Board of Directors

WAN MASHITAH WAN ABDULLAH SANI

Managing Director & Chief Executive Officer, Non-Independent Executive Director

AGE
52

GENDER
Female

NATIONALITY
Malaysian

DATE OF APPOINTMENT
1 January 2017

QUALIFICATION, SKILLS AND EXPERIENCE

Cik Wan Mashitah is an accountant by profession. She is a fellow of the Chartered Association of Certified Accountants (ACCA), United Kingdom and a member of the Malaysian Institute of Accountants (MIA).

Prior to joining the MISC Group, Cik Wan Mashitah was a professional accountant at Grant Thornton, Malaysia. She joined MISC Berhad in 2002 and has served in various capacities including General Manager, Finance before being seconded to Malaysia Marine and Heavy Engineering Sdn Bhd and was subsequently appointed as the Chief Financial Officer of MHB on 30 June 2010. Cik Wan Mashitah was appointed as Acting Chief Executive Officer of MHB in May 2016 and assumed the position of Managing Director & Chief Executive Officer with effect from 1 January 2017.

OTHER COMMITMENTS

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

BOARD COMMITTEES MEMBERSHIP

NRC Nomination & Remuneration Committee

BARC Board Audit and Risk Committee

BBC Board Bid Committee

ADDITIONAL INFORMATION

1. None of the Directors have any family relationship with any other Directors and/or major shareholders of the Company or have any conflict of interest with the Company.
2. Other than traffic offences, none of the Directors have convictions for offences within the past five years and any public sanctions or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018.
3. The details of Directors' attendance at Board Meetings held in the financial year ended 31 December 2018 are set out in the Corporate Governance Overview Statement on page 77 of the Annual Report.

Management Committee Members

WAN MASHITAH WAN ABDULLAH SANI

Managing Director & Chief Executive Office

AGE 52	FEMALE	MALAYSIAN

Appointed to the Board of MHB as a Non-Independent Executive Director on 1 January 2017. She assumed the position as the Managing Director & Chief Executive Officer of MHB with effect from 1 January 2017

QUALIFICATION, SKILLS AND EXPERIENCE

Cik Wan Mashitah is an accountant by profession. She is a fellow of the Chartered Association of Certified Accountants (ACCA), United Kingdom and a member of the Malaysian Institute of Accountants (MIA).

Prior to joining the MISC Group, Cik Wan Mashitah was a professional accountant at Grant Thornton, Malaysia. She joined MISC Berhad in 2002 and has served in various capacities including General Manager, Finance before being seconded to Malaysia Marine and Heavy Engineering Sdn Bhd and was subsequently appointed as the Chief Financial Officer of MHB on 30 June 2010. Cik Wan Mashitah was appointed as Acting Chief Executive Officer of MHB in May 2016 and assumed the position of Managing Director & Chief Executive Officer with effect from 1 January 2017.

OTHER COMMITMENTS

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

AHMAD ZAKI ABD MALIK

Chief Operating Officer

AGE 57	MALE	MALAYSIAN

Appointed as the Chief Operating Officer on 16 July 2016

QUALIFICATION, SKILLS AND EXPERIENCE

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

Encik Ahmad Zaki joined MISC Berhad in December 2000 and has held various positions within MISC Berhad and his last position was General Manager, Maintenance of Fleet Management Services.

On 1 April 2010, he was appointed as the Senior General Manager, Operations of Malaysia Marine and Heavy Engineering Sdn Bhd and subsequently redesignated as Senior General Manager, Marine Repair Business Unit in April 2012. He served in this position up to his appointment as the Chief Operating Officer in July 2016.

OTHER COMMITMENTS

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

Management Committee Members

NIK AZLAN NIK ABDUL AZIZ

Chief Financial Officer

AGE 46	MALE	MALAYSIAN

Appointed as the Chief Financial Officer on 1 March 2017

QUALIFICATION, SKILLS AND EXPERIENCE

An Economics & Accounting graduate from the University of Bristol, Encik Nik Azlan is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA).

He joined MISC Berhad (MISC) in January 2009 as General Manager, Finance and was promoted to Senior General Manager, Group Finance & Treasury in October 2014, his last position prior to joining MHB.

Encik Nik Azlan was the Chief Operating Officer of Terengganu Inc, the Terengganu state investment holding company, immediately prior to joining MISC Berhad.

His other past employments included stints in Barcant Beardon, KPMG, PETRONAS, Ernst & Young (formerly Andersen), Business Associates Consulting and Affin Investment Bank Berhad.

OTHER COMMITMENTS

Encik Nik Azlan sits on the Board of several subsidiaries within the MHB Group.

IR. HISHAM HARON

Senior General Manager, Marine and Regional Heavy Engineering Business

AGE 52	MALE	MALAYSIAN

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

QUALIFICATION, SKILLS AND EXPERIENCE

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

Encik Hisham joined Malaysia Marine and Heavy Engineering Sdn Bhd in August 2005 as the Head of Division Planning, Marine Repair Division. Subsequently, he was appointed as the General Manager of Marine Repair and Conversion Division and eventually assumed the position as the General Manager, Commercial of Marine Repair Business Unit in June 2012, prior to taking up his current position.

Before joining MMHE, Encik Hisham served Penang Shipbuilding & Construction Group, holding various positions in planning, project management, commercial and business development & administration. Immediately upon graduation in 1988, he served the Royal Malaysian Navy for ten (10) years as a Marine Engineering Officer assigned on board of vessels, naval technical training institution and involved in the naval ship newbuilding project in Glasgow, Scotland.

OTHER COMMITMENTS

Encik Hisham Haron sits as the Chief Executive Officer of MMHE LNG Sdn Bhd. He is also the President of Malaysian Offshore Contractors Association.

Management Committee Members

STEPHANE DENOUN

Senior General Manager, International Heavy Engineering and EPCIC Business (Employment contract expired on 31 December 2018)

AGE 51	MALE	FRENCH

Appointed as the Senior General Manager, Offshore Business Unit of Malaysia Marine and Heavy Engineering Sdn Bhd on 1 January 2015 and his position was redesignated as Senior General Manager, International Heavy Engineering and Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) Business on 16 July 2016

QUALIFICATION, SKILLS AND EXPERIENCE

Mr Denoun holds a Bachelor of Engineering (Honours) Degree in Mechanical Engineering from the Institut National des Sciences Appliquées de Toulouse, France. He has attended the Executive Management Programmes at ESSEC Business School, France and INSEAD, Singapore.

Mr Denoun has 27 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 has worked in South East Asia, West Africa, The Netherlands, The UAE, The USA, Colombia and Switzerland. Prior to joining 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.

AUSMAL KARDIN

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

AGE 48	MALE	MALAYSIAN

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

QUALIFICATION, SKILLS AND EXPERIENCE

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

He started his career with MISC Berhad in 1994 and has 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 joined Malaysia Marine and Heavy Engineering Sdn Bhd as General Manager, Legal & Administration and was subsequently appointed as General Manager, Legal, Corporate Secretarial and Administration of the MHB Group on 30 June 2010.

OTHER COMMITMENTS

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

ADDITIONAL INFORMATION

1. None of the Management Committee members have any family relationship with any other Directors and/or major shareholders of the Company or have any conflict of interest with the Company.
2. Other than traffic offences, none of the Management Committee members have convictions for offences within the past five years and any public sanctions or penalty imposed by the relevant regulatory bodies during the financial year ended 31 December 2018.

Corporate Governance Overview Statement

THE BOARD OF DIRECTORS OF MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD ("BOARD") IS COMMITTED TO CONTINUALLY STRIVING FOR THE HIGHEST STANDARD OF CORPORATE GOVERNANCE TO BE APPLIED THROUGHOUT MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD ("MHB" OR "COMPANY") AND ITS SUBSIDIARIES/JOINTLY CONTROLLED ENTITIES ("GROUP"). THE BOARD RECOGNISES THE IMPORTANCE OF GOOD CORPORATE GOVERNANCE IN BUILDING SUSTAINABLE BUSINESS AND ENHANCING LONG-TERM SHAREHOLDERS' VALUE AND PROTECTING OTHER STAKEHOLDERS' INTERESTS.

This Corporate Governance Overview Statement ("CG Overview Statement") sets out the Group's corporate governance processes and practices applied during the financial year, in compliance with the requirements of corporate governance set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and guided by the principles and recommendations set out in the Malaysian Code on Corporate Governance 2017 ("MCCG 2017") issued by the Securities Commission Malaysia which took effect on 26 April 2017.

This CG Overview Statement is to be read in conjunction with the Corporate Governance Report ("CG Report"), which is made available online at **www.mhb.com.my**.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

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. On 19 February 2018, the Board reviewed and approved revisions to the Board Charter in order to ensure the Board's functions are governed and aligned with various applicable legislation, regulations and recommended practices such as the Companies Act 2016 ("Act"), the MCCG 2017 and the MMLR.

Following the introduction of the Corporate Governance Guide 2017 (3rd Edition) by Bursa Malaysia Berhad, the content of the Board Charter will be further reviewed at a later date to enhance relevant applications of good governance practices to be adopted by the Company. The Board Charter is available online in the Corporate Governance section on the Company'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. The MHB Group Limits of Authority had been revised with effect from 27 October 2016 to reflect the new organisation structure pursuant to the re-organisation exercise conducted in the middle of 2016.

2. Principal Responsibilities of the Board

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

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

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

2.1 Strategic and Business Plan

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

In the deliberations on the proposed business plans, budget and scorecard of the Company, the Board members will challenge Management's perspectives and assumptions applied in formulating the plan to ensure the best outcomes are achieved.

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 54 to 59 of the Annual Report.

2.3 Risk Management and Internal Control

The Board acknowledges its overall responsibility for continuous maintenance of a sound system of risk management and internal control to safeguard shareholders' investment and the Group's assets. This principle is further elaborated under the Statement on Risk Management and Internal Control by the Directors on pages 88 to 94 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.

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

The Company has also embarked on a journey towards achieving the ISO 37001: 2016 Anti-Bribery Management System Certification which specifies requirements and provides guidance for establishing, implementing, maintaining, reviewing and improving an anti-bribery management system. The certificate gives assurance that the Company has the necessary system and processes which are in accordance with the International Standard of the Anti-Bribery Management System. The certification is expected to be completed in the first half of 2019.

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

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

Additional details on these codes and policies can be found in the Sustainability Statement on pages 28 to 31 of the Annual Report.

3. Board Composition

The Board currently 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.

The size and composition of the Board are reviewed annually, taking into account the scope, nature and diversity of the business operations of the Group.

The 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 sustainability. Each Director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

Chairman and MD & CEO

As per recommendation under the MCCG 2017, 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.

Independent Non-Executive Directors

The Independent Non-Executive Directors ("INEDs") are independent of management and free from any business or other relationships that could materially interfere with their independent judgment in deliberating matters of the Board. MHB had on 20 February 2019, adopted a policy that the INED's term of service shall not exceed a cumulative term limit of nine (9) years. For the year under review, the INEDs have reaffirmed their independence based on the criteria on Independent Directors as provided under the MMLR.

The Non-Executive Directors ("NEDs") 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. In accordance with the MMLR, none of the members of the Board holds more than five (5) directorships in listed companies.

Appointment

The Nomination & Remuneration Committee ("NRC") 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 NRC considers the required mix of skills, experience, knowledge, competencies and other necessary qualities including gender diversity to the Board.

Re-election

The Company's Constitution provides that all Directors shall submit themselves for re-election at least every three (3) years in compliance with the MMLR. The Constitution of the Company 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 re-election by the shareholders.

On 20 February 2019, the Board approved the recommendation of the NRC on the NEDs who are standing for re-election at the forthcoming AGM of the Company as disclosed in the Notice of AGM on pages 191 to 194 of this Annual Report.

Board Diversity

While the Board supports the philosophy of gender diversity and recognises the benefits that it can bring, the Board believes that any new appointments should be based on merits and capability. Currently, MHB has three (3) female Directors on the Board, representing 33% which has exceeded the target of achieving 30% women representation on the Board of MHB to support the Malaysian Government's aspiration to champion diversity. The Board had on 20 February 2019 approved a diversity policy for MHB that states among others the commitment to ensure the requisite diversity of MHB Board members, encompassing for example, age, ethnicity and gender, and leveraging on differences in thought, perspective, knowledge, skill, regional and industry experience, and background. These will provide the necessary perspectives, experience and expertise required to achieve effective stewardship and management of the Company by the Board.

The Board maintains the pursuit of its target of 30% women directors in line with the country's aspirational target of 30% representation of women directors.

The diversity policy which is embedded in the Board Charter can be accessed at **www.mhb.com.my**.

4. Board Meetings and Supply of Information

To assist the Directors in planning for their attendance at Board meetings as well as 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 2018, eight (8) Board meetings were held.

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

Details of the attendance of the Directors in office during the financial year under review are as follows:

Members	No. of Meetings Attended
Datuk Nasarudin Md Idris (Chairman)	8 out of 8
Dato' Halipah Esa	7 out of 8
Choy Khai Choon	8 out of 8
Yong Nyan Choi @ Yong Guan Choi	8 out of 8
Bernard Rene Francois di Tullio	7 out of 8
Yee Yang Chien	8 out of 8
Syed Hashim Syed Abdullah	7 out of 8
Rozainah Awang	8 out of 8
Wan Mashitah Wan Abdullah Sani	8 out of 8

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 within a reasonable period 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' Chairman/Chairperson briefs 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 and distributed by the Company Secretaries in a timely manner.

5. Directors' Training

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

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

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

Name of Director	Name of Training Attended	Organiser	Date
Datuk Nasarudin Md Idris	1. Petroliam National Berhad ("PETRONAS") Directors' Training on Malaysian Financial Reporting Standards	PETRONAS	19 September 2018
	2. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Dato' Halipah Esa	1. World Capital Markets Symposium 2018	World Capital Markets	6-7 February 2018
	2. PNB CEO Round Table 2018	Permodalan Nasional Berhad	5 March 2018
	3. Integrated Reporting	S P Setia and Ernst & Young	23 April 2018
	4. 5th ASEAN Fixed Income Summit (AFIS)	Mongolian Mortgage Corporation	2 July 2018
	5. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
	6. ICDM Power Talk: Would A Business Judgment Rule Help Directors Sleep Better At Night?	The Institute of Corporation Directors Malaysia	17 December 2018
Choy Khai Choon	1. Offshore Technology Conference 2018 (OTC ASIA 2018)	OTC Asia	20-23 March 2018
	2. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Yong Nyan Choi @ Yong Guan Choi	1. Corporate Governance Briefing Sessions: MCCG Reporting & CG Guide	Bursa Malaysia	15 March 2018
	2. MFRS 9 – Financial Instruments, MFRS 15 – Revenue from Contracts with Customers, and MFRS 16 – Leases	PETRONAS Group	19 September 2018
Bernard Rene Francois di Tullio	1. Offshore Technology Conference 2018 (OTC ASIA 2018)	OTC Asia	20-23 March 2018
	2. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Yee Yang Chien	1. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Syed Hashim Syed Abdullah	1. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Rozainah Awang	1. MISC Berhad 2018 Annual Directors' Training	MISC Berhad	4 December 2018
Wan Mashitah Wan Abdullah Sani	1. Offshore Technology Conference 2018 (OTC ASIA 2018)	OTC Asia	20-23 March 2018
	2. Design Thinking Workshop (Group 2) with PETRONAS Digital Office and Accenture	MISC Berhad's President Office	9 July 2018

6. Remuneration

The Board and Shareholders had, at its respective meetings held on 19 February 2018 and 17 April 2018 approved the revision to the remuneration structure of the NEDs of the Company based on the PETRONAS Public Listed NEDs' Remuneration Guidelines and Package as stated below:

Description	Chairman	NED
1. Monthly Fixed Fees	RM20,000/month	RM10,000/month
2. Meeting Allowance: • Board Meeting • BARC Meeting • NRC Meeting • BBC Meeting	 RM3,500/meeting RM3,500/meeting RM3,500/meeting RM3,500/meeting	 RM3,500/meeting RM3,500/meeting RM3,500/meeting RM3,500/meeting
3. Other Benefits	• Petrol for NEDs • Insurance coverage • Travelling and other claimable benefits	

The NRC 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 MCCG 2017, 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 NEDs reflects the level of responsibilities undertaken and contributions made by them. With effect from 1 July 2016, all payments of Directors' fees for executives of MISC Berhad with the positions of Vice Presidents and above are treated as management fees and are paid directly to MISC Berhad. As such, the Directors' fees and meeting attendance allowances for Mr Yee Yang Chien, Tuan Syed Hashim Syed Abdullah and Puan Rozainah Awang for the amount of RM479,000 were paid to MISC Berhad during the financial year ended 31 December 2018.

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With the exception of the MD & CEO, the remaining Directors are paid Directors' fees, meeting attendance allowances and other benefits which are subsequently approved by the shareholders at the AGM. For the financial year ended 31 December 2018, the breakdown of fees, meeting attendance allowances and other benefits 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)	Benefits (Petrol Allowance) (RM)	Total (RM)
Datuk Nasarudin Md Idris (Chairman)	240,000	28,000	-	-	268,000
Dato' Halipah Esa	120,000	24,500	28,000	2,250	174,750
Choy Khai Choon	120,000	28,000	28,000	2,658	178,658
Yong Nyan Choi @ Yong Guan Choi	120,000	28,000	31,500	1,103	180,603
Bernard Rene Francois di Tullio	120,000	24,500	28,000	1,942	174,442
*Yee Yang Chien	120,000	28,000	-	-	148,000
*Syed Hashim Syed Abdullah	120,000	24,500	21,000	-	165,500
*Rozainah Awang	120,000	28,000	17,500	-	165,500
TOTAL	**1,080,000**	**213,500**	**154,000**	**7,953**	**1,455,453**

Amounts provided are before tax
* *RM479,000 is paid directly to MISC Berhad as management fees.*

As an Executive Director ("ED"), the MD & CEO is not entitled to a Director's fee and meeting allowance as she is remunerated as a member of the Management. The MD & CEO's remuneration package comprised the following:

i. **Basic Salary**
The basic salary for the ED was recommended by the NRC and approved by the Board and is fixed for the duration of her contract.

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

iii. **Benefits-in-Kind**
The MD & CEO is entitled to housing allowances and a company car.

During the year under review, the MD & CEO of MHB received a remuneration of RM1,398,000.00.

7. Company Secretaries

To ensure the effective functioning of the Board, all Directors have the support of a suitably qualified and competent 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 the Management for necessary action.

In the beginning of FY2018, the Company Secretaries were Puan Fadzillah Kamaruddin, Vice President, Legal Corporate Secretarial and Compliance of MISC Berhad and Encik Ausmal Kardin, Senior General Manager, Legal, Corporate Secretarial Affairs & Human Resource of MHB. On 22 October 2018, Puan Fadzillah Kamaruddin had resigned as the Joint Company Secretary of MHB. Currently the Company Secretary of MHB is Encik Ausmal who is qualified to act as Company Secretary under Section 235(2) of the Companies Act 2016 and possess legal qualifications.

8. 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 MCCG 2017 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 the Board Meetings.

Nomination & Remuneration Committee

The NRC consists of three (3) members. The members of the NRC and their attendance at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Position	No. of Meetings Attended
Dato' Halipah Esa *(Independent Non-Executive Director)*	Chairperson	3 out of 3
Choy Khai Choon *(Senior Independent Non-Executive Director)*	Member	3 out of 3
Syed Hashim Syed Abdullah *(Non-Independent Non-Executive Director)*	Member	3 out of 3

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During the financial year ended 31 December 2018, 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 2018 against a set of approved Board key performance indicators. Arising therefrom, several actions were identified to improve Board operations. This included further review to improve the effectiveness of Management's responsibilities in supporting the Board to perform its role in overseeing risk management. The other area was on the implementation of a proper investor relations programme which the Board had been updated subsequently as to the Company's communication strategy to the investing community;

(ii) The NRC had also considered the human resource issues including the review of the job grades for the top management and the executive positions and review on MHB's Remuneration Package against Market Benchmarks;

(iii) The NRC had, at its sitting in February 2018, assessed the performance of the Company in respect of the FY2017 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;

(iv) The NRC had agreed to adopt the same methodology which had been adopted in FY2014, FY2015, FY2016 and FY2017 whereby the assessment of individual Directors is performed by reflecting on the deliberations made pertaining to a selected topic which was of a strategic nature. The feedback obtained during the evaluation could be applied constructively towards improving the quality of contribution and interaction of each Board member which ultimately improves Board dynamics and effectiveness. An agenda had been dedicated at a Board Meeting for the conduct of the evaluation. The Chairman of the Board had led and moderated the performance evaluation based on a recommended set of questions and the evaluation results were recorded in the minutes accordingly;

(v) The NRC had, on its meeting held in February 2018, proposed and deliberated to the Board on the Remuneration Review for the Non-Executive Directors of MHB;

(vi) Other matters considered by the NRC were the MHB FY2018 Corporate Scorecard, the re-election of Directors retiring by rotation and the remuneration for the Non-Executive Directors for shareholders' approval at the Company's AGM held in April 2018; and

(xii) The annual review of the Board composition (including its mix of skills, experience and independence) had been discussed at the NRC meeting convened in February 2018.

The full Terms of References ("TOR") of the NRC is available online in the Corporate Governance Section on the Company's website at **www.mhb.com.my**.

Board Bid Committee

The Board Bid Committee ("BBC") was established with the responsibility of reviewing any proposed bid submission by the MHB Group of a certain threshold, which threshold will be reviewed by the Board periodically. The primary duties and responsibilities of the BBC are to ensure that the bid proposals are comprehensive and in the best interest of the Group to allow the Group to make a reasonable profit margin which commensurate with the project risks.

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

The members of the BBC and their attendance at meetings held during the financial year ended 31 December 2018 are as follows:

Members	Position	No. of Meetings Attended
Syed Hashim Syed Abdullah *(Non-Independent Non-Executive Director)*	Chairman	3 out of 3
Bernard Rene Francois di Tullio *(Non-Independent Non-Executive Director)*	Member	3 out of 3
Yong Nyan Choi @ Yong Guan Choi *(Independent Non-Executive Director)*	Member	3 out of 3

PRINCIPLE B: EFFECTIVENESS RISK MANAGEMENT AND INTERNAL CONTROL

Board Audit and Risk Committee ("BARC")

The BAC was established on 21 June 2010. Subsequently, on 4 December 2017, the BAC has been re-established as the Audit & Risk Management Committee ("ARMC"), where the Committee shall have the oversight in risk management and internal control framework, as well as the new practices in line with the MCCG 2017. Accordingly, the Board had, on 19 February 2018, renamed the ARMC to Board Audit and Risk Committee ("BARC").

The BARC assists the Board in ensuring integrity of financial reporting and the existence of a sound internal control system within the Group. Its main responsibilities are to ensure that there are effective risk monitoring and compliance procedures in place and to act in the interest of the shareholders in respect of matters or issues that affect the financial performance of the Group. The composition and the key functions of the BARC as well as the summary of its activities are as set out in the BARC Report on pages 95 to 97 of the Annual Report.

The full TOR of the BARC is available online in the Corporate Governance Section on the Company's website at **www.mhb.com.my**.

Accountability and Audit

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

(b) 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 BARC 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.

(c) 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 BARC reviews, from time to time:

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

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

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

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

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

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

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

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

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

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

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

(viii) The BARC 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 BARC 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 and if necessary and as guided by the Chairman, leave the room during the discussion of the matter at the BARC 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; and

(xi) If the BARC 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 BARC has the discretion to request for additional procedures to be imposed on the RPTs/RRPTs.

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The RRPTs entered into by the Group during the financial year ended 31 December 2018 are set out below:-

	Nature of Transaction	Transacting Party	Related Party
a)	Revenue – Provision of oil & gas engineering and construction	• PETRONAS Carigali Sdn Bhd • Carigali-PTTEPI Operating Co. Sdn Bhd • Vestigo Petroleum Sdn Bhd • PRPC Utilities and Facilities Sdn Bhd • PETRONAS Gas Berhad • PETRONAS Lubricants International Sdn Bhd	PETRONAS[1]
		• MISC Berhad	MISC Berhad[2]
b)	Provision of dry docking and repairs of vessels	• MISC Berhad	MISC Berhad[2]
c)	Purchase of oil products from PETRONAS Group	• PETRONAS Dagangan Berhad • PETRONAS Smartpay Centre Sdn Bhd • Smartpay Collect Service • PETRONAS Lubricant Sdn Bhd	PETRONAS[1]
d)	Provision of services/sale of equipment & materials	• PETRONAS Carigali Sdn Bhd • PETRONAS Technical Training Sdn Bhd • Industrial Gases Solutions Sdn Bhd • PETRONAS Management Training Sdn Bhd	PETRONAS[1]
		• MISC Berhad	MISC Berhad[2]

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

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Communication with Stakeholders

Investor Relations

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.

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 99 of the Annual Report.

Annual General Meeting

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 continue to hold a poll voting at the forthcoming AGM.

In relation to the recommendation by MCCG 2017 on voting in absentia and remote shareholders' participation at general meetings, MHB will consider the recommendations subject to the availability of the technology and also its practically to the Company.

Integrated Reporting

MHB is moving forward towards adopting integrated reporting based on a globally recognized framework so as to improve the quality of information available to investors and to promote greater transparency and accountability on the part of the Company, in line with the MCCG 2017.

The adoption of integrated reporting has been implemented on a staggered basis starting from 2018 and certain sections of MHB Annual Report 2018 have already been prepared based on the Integrated reporting framework.

This Corporate Governance overview statement is made in accordance with the resolution of the Board of Directors passed on 20 February 2019.

Statement on Risk Management and Internal Control

PURSUANT TO THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2017 ("MCCG 2017"), THE BOARD OF DIRECTORS ("THE BOARD") IS REQUIRED TO ESTABLISH AN EFFECTIVE RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROLS SYSTEM AND DISCLOSE IN THE ANNUAL REPORT THE MAIN FEATURES, ADEQUACY AND EFFECTIVENESS OF IT.

THE BOARD IS HEREBY PLEASED TO PROVIDE THE FOLLOWING STATEMENT WHICH OUTLINES THE NATURE AND SCOPE OF THE RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROLS SYSTEM OF THE GROUP DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 AND IS COMMITTED TO CONTINUOUSLY IMPROVE THEM.

ACCOUNTABILITY OF THE BOARD

The Board recognises its principal responsibility of establishing a sound risk management framework and internal control system, as manifested in MCCG 2017.

Accordingly, the Board has entrusted the responsibility of risk management oversight to the Board Audit and Risk Committee ("BARC"). The BARC is supported by the Risk Council ("RC"). The Group has put in place a systematic risk management framework adopted from the PETRONAS Enterprise Risk Management ("ERM") 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 altogether. 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 Group 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 ERM policy in identifying, assessing, treating 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 to the people and damage to the environment and property. The policy stresses the importance of protecting the interest of stakeholders and to comply with all statutory and legal requirements as well as effectively responding to crises.

  In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of key business activities.

- **Risk Governance Structure**

  The RC was established to facilitate Management's role in overseeing risk and governance across the Group.

  The RC is chaired by the Managing Director & Chief Executive Officer ("MD & CEO") and consists of selected members of Management. The RC is primarily responsible for driving the RMF 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's 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 BARC that the Group's risks are being effectively managed.

  The implementation of risk management activities are undertaken at corporate, business units, operations units and subsidiaries, down to the project level. Risk registers that capture identified risks to the Group are reviewed and monitored by the Risk Management unit ("RMU") on regular intervals prior to escalation to RC. Each appointed risk champion owns the responsibility for risk management activities in their respective department or project to ensure consistent implementation of risk management processes across the Group.

  The RC meets on a regular basis to assess and discuss risk management issues affecting the Group. Updates and reports are provided to the BARC for reporting to the Board on quarterly basis.

RISK MANAGEMENT PROCESS

MHB's structured risk management process, which is aligned to PETRONAS ERM Process Guideline and ISO31000: 2010, ISO 9001: 2015 and ISO 14001: 2015, is detailed below. The process is rolled out across the Group, and risk registers are established at business units, operations units, subsidiaries and projects. These risk registers are then analysed at an integrated level to identify the top risks (MHB Risk Profile) which could significantly affect the achievement of MHB strategies and objectives. Risk management process requires the identification of risks arising from internal and external factors, including but not limited to environmental risks. Identified risks will be assessed in terms of their likelihood and impact and management process will be developed to mitigate those risks.

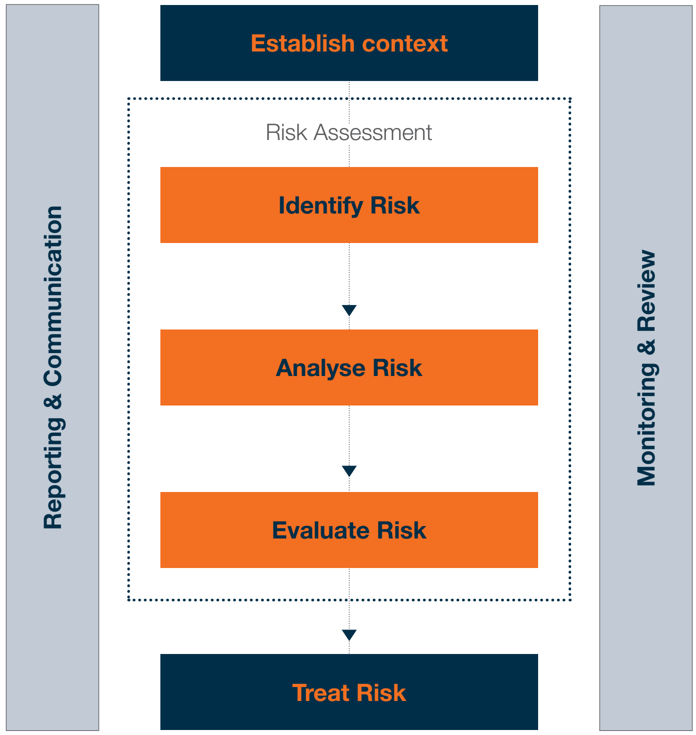


Diagram 1: ERM Processes

Establish context

- Know the business and its environment
- Establish strategic and organisational objectives by considering internal and external environment within which the risks are considered

Analyse Risk

- Consequences and likelihood are expressed and combined to determine level of risk that is consistent with the risk criteria
- Existing controls are taken into account when analysing risk

Evaluate Risk

- Analyse risk in terms of impact and probability by plotting the risk using the risk matrix
- Risk are evaluated to priotise treatment implementation

Treat Risk

- Identify mitigating controls to manage inherent risk to an acceptable residual risk level which is aligned with risk appetite
- Four (4) primary risk treatment options to be considered:
  Accept the risk by informed decision, **Avoid** the risk, **Reduce** the risk and **Transfer/Share** the risk with other parties
- Key mitigating control is recorded in the risk register and its effectiveness is assessed

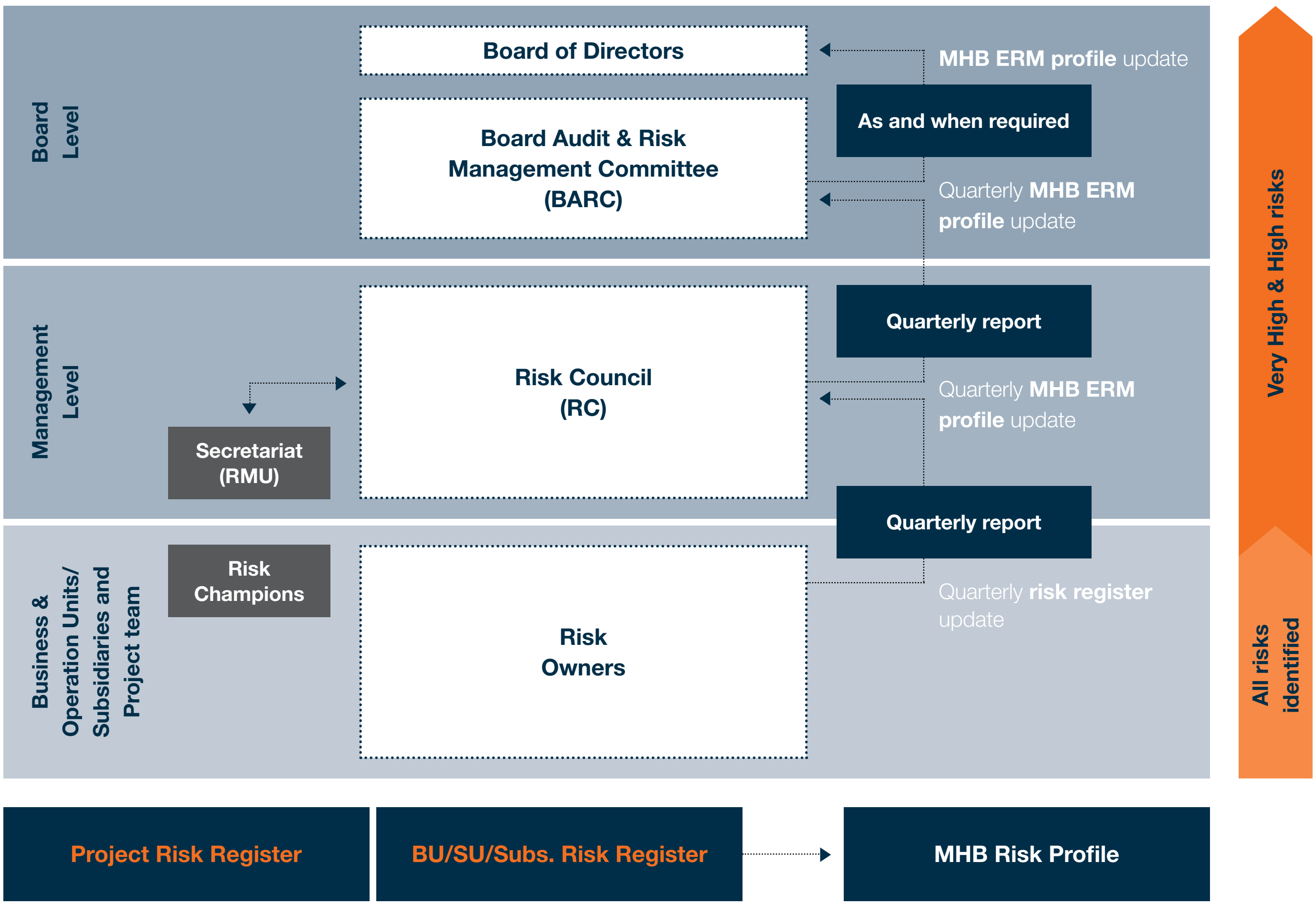
Monitoring & Review

- Track current status and changes in the risk register
- Perform separate evaluation of the risk management system's performance and changes that might affect it

Reporting & Communication

- Communicate and consult with internal and external stakeholders, where appropriate at each stage of the risk management process as well as the process as a whole

The escalation of risk reporting is done according to the below diagram:



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

- **ERM**

  The Board acknowledges the significance of managing key risk events to sustain the achievement of business objectives. RMU works closely with respective stakeholders (business units/operation units/subsidiaries/projects) to reassess their risk profiles and address MHB's key risks.

- **Project Risk Assessment**

  Project Risk Assessment ("PRA") Guidelines is an extension of MHB ERM Framework. The guidelines describe the necessary steps to support implementation of risk management in projects. PRAs are conducted to identify the projects' risks in advance and implementing controls either to reduce or eliminate the risk impact.

PRA 1 – PRE-QUALIFICATION/BUDGETARY

Feasibility Risk Assessment

Purpose:
To support assessment on feasibility of potential project

Owner:
Business Development

When: Prior Budgetary submission
- Assessment is done on client credit risk rating, country risk rating, product complexity & internal capabilities/readiness

PRA 2 – BID PROPOSAL (ITB) SUBMISSION

Pre-Award Risk Register

Purpose:
To identify risk & mitigation based on ITB information for BiAC's informed decision

Owner:
Commercial

When: Prior Bid submission
- Quantify top risks with cost/schedule impact & identify mitigation to be included in bid proposal
- Summary of risk register to be presented to Bid Approval Committee (BiAC) to support the approval decision on Bid Proposal prior to submission to client

PRA 3 – PROJECT EXECUTION

Project Risk Register

Purpose:
To identify detailed risk & mitigation post contract award and support readiness for project execution

Owner:
Project Management Team (PMT)

When: After LOI received
- PRA 3 should be a continuity from PRA 2 by Commercial handing over Pre-Award Risk Register to PMT
- PMT will trigger PRA 3 and CPRM will co-facilitate the risk assessment with involvement of related department
- Summary of risk register to be presented to Contract Award Committee (CAC) to support the project execution strategy

PRA 4 – LOAD OUT/OFFSHORE CAMPAIGN

Project Risk Register

Purpose:
To identify detailed risk & mitigation for load out and (if applicable) support readiness for offshore campaign

Owner:
PMT

When: 70% Construction progress or other suitable milestone
- Focus risk area shall be readiness for load out and (if applicable) readiness for offshore campaign
- Summary of risk register to be presented to COO for informed decision making

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 **BARC** 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 functionally reports directly to the BARC, 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 BARC. The BARC reviews, deliberates and endorses the annual and long-term audit plan and strategy including scope of work and resources. Results of the audit engagements are presented and deliberated during quarterly BARC 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 BARC for deliberations and endorsement on quarterly basis.

   In addition, BARC 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 commensurate with the project risk. All BiAC members are Management Committee ("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 proposal to the Board for this category.

4. **Senior Management** sets the tone for an effective control environment and culture in the organisation through the **Group's vision and mission** developed to focus on the importance of these four key values:

   - **L**oyalty – Loyal to the corporation
   - **I**ntegrity – Honest and upright
   - **P**rofessionalism – Strive for excellence
   - **C**ohesiveness – United, trust & respect for each other

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

   The Management recognises the importance of Leadership Development in ensuring the organisation has sufficient leaders in the future. The MHB Leadership Competencies and MHB Cultural Beliefs behaviours guide staff to better understand the MHB Leadership Philosophy, emphasising on Leadership Competencies and Cultural Beliefs behaviours to promote better internalisation.

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

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

   Our HSE objectives shall bear equal importance with our fundamental business objectives.

In pursuance of this policy and in adherence to all legislative and other requirements with the commitment to achieve continual improvement, MHB will endeavour to:

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

6. The **Corporate Security Department ("CSD")** maintains a clear policy, procedures and framework with the aim to continuously monitor adherence to established industry security standards as well as international security standards applicable under the International Code for the Security of Ships and of Port Facilities (ISPS Code).

OTHER SIGNIFICANT ELEMENTS OF INTERNAL CONTROL SYSTEMS

1. The Board reviews quarterly reports from Management on key operating performance, legal, environmental and regulatory matters. Financial and operations performance are deliberated by the MC and also tabled to the BARC 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 organisation's hierarchy.

3. The Group performs a comprehensive **annual planning and budgeting exercise** which involves amongst others; the review of the Group's strategic direction, the development of new business strategies for the next five years to achieve the Group's vision and the annual budget and forecast of 4 years. The Group's strategic directions review takes 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. Key performance indicators, including financial targets are reviewed by the Nomination & Remuneration Committee and the Board on half-yearly basis.

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

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

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

5. There is a clear procedure for **investment appraisal** for equity investment or divestment or capital expenditure. In relation to Yard Optimisation programme, **Technical Review Committee** conducts technical and commercial feasibility review of the programme for deliberation by the MC prior to submission to the Board for approval.

6. **Contract Award Committee ("CAC")** is a review committee whose role is to ensure that overall contracting and purchasing strategy for new projects and Capital Expenditure ("CAPEX") exceeding certain thresholds are conducted in an effective, transparent, and fair manner in the best interest of the Group. CAC members of multiple discipline provide balanced perspectives and views in defining the required contracting and purchasing strategies.

   The Group's Procurement Manual defines the overall principles, scope, functions, governance and operational procedures related to procurement activities within MHB. Facilitated by a Tender Secretariat, high valued purchases undergo tendering activities to ensure an effective, transparent and fair procurement practices are performed by the Group, Tender Bid Evaluations, comprising technical and commercial appraisals, are reviewed by Tender Committee prior to award by the Approving Authority, as defined in the LOA.

Statement on Risk Management and Internal Control

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**.

8. **Integrity and Compliance Committee ("ICC")** is an independent body to monitor and oversee the Anti-Bribery and Compliance function by the Compliance Unit. The ICC is chaired by the Chief Financial Officer ("CFO") and consists of selected members of Management. ICC is entrusted to oversee the implementation of CoBE and Anti-Bribery and Corruption ("ABC") policies adopted by the Group. Any integrity and compliance issues are to be tabled to ICC for deliberation, and subsequently reported to BARC where necessary.

9. 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 joint ventures 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 in the joint ventures.

10. The Board has received the assurance from the MD & CEO and 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 2018, 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. Continuous measures are taken to ensure on-going adequacy and effectiveness of internal controls in safeguarding the Group's assets and shareholders' investment.

This statement is made in accordance with the resolution of the Board of Directors dated 20 February 2019.

Board Audit and Risk Committee Report

THE BOARD OF DIRECTORS OF MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD IS PLEASED TO PRESENT THE BOARD AUDIT AND RISK COMMITTEE ("BARC" OR "COMMITTEE") REPORT FOR THE YEAR ENDED 31 DECEMBER 2018.

THE BOARD AUDIT COMMITTEE ("BAC") HAS BEEN ESTABLISHED ON 21 JUNE 2010. SUBSEQUENTLY, ON 4 DECEMBER 2017, THE BAC HAS BEEN RE-ESTABLISHED AS THE AUDIT AND RISK MANAGEMENT COMMITTEE ("ARMC"), WHERE THE COMMITTEE SHALL HAVE THE OVERSIGHT IN RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK, AS WELL AS THE NEW PRACTICES IN LINE WITH THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2017. ACCORDINGLY, THE BOARD OF MHB HAD, ON 19 FEBRUARY 2018, RENAMED THE ARMC TO BARC.

COMPOSITION AND MEETINGS

The BARC consists of five (5) members, all of whom are Non-Executive Directors with three (3) being Independent Directors and two (2) are Non-Independent Directors.

The composition of the BARC complies with Paragraph 15.09(1) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). Both Mr Choy Khai Choon and Puan Rozainah Awang are members of the Malaysian Institute of Accountants. Therefore, the requirement of Paragraph 15.09(1)(c) of the MMLR where at least one (1) member of the BARC must be a qualified accountant has been complied with. On 30 October 2017, the Board of Directors had appointed the Chairman of BARC, Mr Choy Khai Choon as the Senior Independent Director.

During the financial year, five (5) BARC meetings were held. The BARC members and the details of their attendance at the BARC meetings are as follows:

Members	Designation	No. of Meeting Attended
Choy Khai Choon *(Senior Independent Non-Executive Director)*	Chairman	5 out of 5
Dato' Halipah Esa *(Independent Non-Executive Director)*	Member	5 out of 5
Yong Nyan Choi @ Yong Guan Choi *(Independent Non-Executive Director)*	Member	5 out of 5
Bernard Rene Francois di Tullio *(Non-Independent Non-Executive Director)*	Member	5 out of 5
Rozainah Awang *(Non-Independent Non-Executive Director)*	Member	5 out of 5

Board Audit and Risk Committee Report

SUMMARY OF WORK

In line with the Terms of Reference ("TOR") of the BARC, the following activities were carried out by the Committee during the financial year ended 31 December 2018:

(a) Financial and Annual Reporting

- Reviewed the unaudited quarterly financial statements, the related press releases and announcements, in particular the change in accounting policies, significant matters in relation to financial issues, going concern assumption, compliance with accounting standards and other regulatory requirements for recommendation to the Board for approval before release to Bursa Securities
- Reviewed the annual audited financial statements of the Company and the Group to ensure the statements comply with the financial reporting standards
- Reviewed the significant judgments made by Management and significant matters highlighted by the auditors on accounting and auditing matters
- Reviewed and recommended for Board's approval, the Corporate Governance Overview Statement and Corporate Governance Report, Statement on Risk Management and Internal Control and BARC Report for inclusion in the Annual Report
- Involved in the survey conducted by Securities Commission Malaysia on Implementation of Malaysian Financial Reporting Standards ("MFRS 9") in relation to the Financial Instruments

(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 Group Internal Audit (GIA) on the effectiveness and adequacy of governance, risk management, operational and compliance processes
- Reviewed the adequacy and effectiveness of agreed corrective actions taken by the Management on all significant and secondary audit issues raised and ensure all major findings raised are properly investigated
- Reviewed the effectiveness and adequacy of the audit process, manpower of GIA's members and the resource requirements on financial budget to execute audit exercises
- Assessed the performance of GIA on half yearly basis in terms of experience and technical knowledge of internal auditors, objectivity of GIA, quality of audit findings and recommendation made on corrective actions, adequacy of assurance to the Board in respect of governance and internal controls and the relevancy of audit findings to the business operations of the Company.
- The Chairman of BARC 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
- Assessed the suitability, objectivity and independence of the external auditor
- Reviewed the results and significant issues on accounting and auditing matters arising from the external audit for the financial year and the resolution of issues highlighted in their report to the BARC and Management's response
- Assessed the performance, effectiveness and independence or objectivity of the external auditors, and made recommendations to the Board on their appointment and audit fee
- Met with the external auditors twice during the year without the presence of Management to ensure there were no restrictions on the scope of their audit and to discuss any matters that they may wish to present

(d) Risk Management

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

(e) Related Party Transactions

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

(f) Other Activities

- Adopt and implemented the Policy on the Assessment of External Auditor
- Review of MHB's Internal Audit Charter and Charter Memorandum

INTERNAL AUDIT WORK AND FUNCTIONS

The BARC 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. GIA is headed by Encik Fairul Riza Ridzuan, the General Manager of GIA, who has a degree in Mechanical Engineering and supported by a team of ten (10) personnel.

In executing the internal audit engagement, GIA refers to the standards and guidance outlined in the Institute of Internal Auditors' International Professional Practices Framework ("IPPF") and the Integrated Internal Control Framework by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The conduct of internal audit works is also governed by the MHB Internal Audit Charter and GIA's established procedures and guidelines.

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 BARC meetings for decisions.

At the Board of Directors' meetings, the Chairman of the BARC highlights key audit issues and overall decisions and resolutions made during the BARC meetings to the Board members. Annually, an assessment on GIA's performance and independence would be carried out by BARC.

During the financial year, GIA had conducted the following audits as per the approved internal audit plan:

1) Audit on MMHE Heavy Engineering Operations: Facilities Planning and Utilisation
2) Audit on MMHE Human Resource: Payroll Activities
3) Audit on MMHE Marine Operations: Project Management Activities
4) Audit on MMHE Facilities & Asset Services (FAS): Administration, Facilities & Infrastructure
5) Audit on MMHE Security Activities
6) Audit on MMHE Dry Dock 3: Project Management Activities
7) Audit on MMHE Heavy Engineering Operations: Project Control - Contract Management & Cost Control
8) Audit on MMHE Marine Operations: Business Development & Commercial Activities
9) Audit on MMHE Post Implementation of Companies Act 2016
10) Audit on MMHE Heavy Engineering Operations: Bokor Project Management Activities
11) Audit on MMHE Heavy Engineering Operations: Project Planning and Reporting Activities
12) Audit on MHB Legal, Insurance, Corporate Secretarial and Compliance Activities
13) Follow-up Audit Review on MMHE Facilities & Asset Services: Project Services
14) Follow-up Audit Review on MMHE Heavy Engineering Operations: Project Manpower Management

In addition, GIA had performed three (3) special reviews during the financial year as requested by the Management.

The total cost incurred for the internal audit function for the financial year ended 31 December 2018 was RM1.445 million.

BARC STATEMENT ON RECURRENT RELATED PARTY TRANSACTIONS (RRPTs)

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

This statement is made in accordance with the resolution of the Board of Directors duly passed on 20 February 2019.

Directors' Responsibility Statement

THE DIRECTORS ARE RESPONSIBLE TO PREPARE ANNUAL AUDITED FINANCIAL STATEMENTS OF THE GROUP AND OF THE COMPANY IN ACCORDANCE WITH THE PROVISIONS OF THE COMPANIES ACT, 2016 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 audited financial statements of the Group and of the Company for the financial year ended 31 December 2018, 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 available to them to safeguard the assets of the Group and of the Company to prevent and detect fraud and other irregularities.

This statement is made in accordance with the resolution of the Board of Directors dated 20 February 2019.

Investor Relations Report

THE FINANCIAL PERIOD UNDER REVIEW IS A TWELVE-MONTH PERIOD WHICH ENDED ON 31ST DECEMBER 2018. THROUGHOUT THE YEAR, MHB WAS FULLY COMMITTED TO PROVIDE COMPLETE, TRANSPARENT AND TIMELY INFORMATION TO THE MARKET ABOUT ITS BUSINESS OPERATIONS, ITS FINANCIAL CONDITION, STRATEGIES AND FUTURE PROSPECTS.

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

Our corporate website, **www.mhb.com.my**, continues to serve as an important link with our investors and can be readily accessed by those interested to know more about us. The portal is continuously updated with the latest information including annual reports, quarterly results, Bursa Malaysia announcements, and corporate presentations, and other relevant corporate news and information on the website.

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. These are also uploaded on our website, **www.mhb.com.my**, under Investor Relations, to enable simultaneous and instantaneous dissemination of information to all of the Company's stakeholders.

- Analyst briefings for the half-year and full-year result periods were conducted following the disclosure of the financial results to Bursa Malaysia. The sessions were chaired by the MD & CEO together with our CFO to provide a comprehensive review of MHB's financial performance and operations, as well as to address queries raised by investors and analysts. The analyst briefing for Q4 2017 financial results was held at Sime Darby Convention Centre, Bukit Kiara, Kuala Lumpur. Whereas the analyst briefing for Q2 2018 financial results was held via tele-conferencing.

- The analyst briefings conducted included updates on projects that are currently ongoing and which have been completed or delivered. MHB also provided updates to the investment community and our shareholders on the Company's key strategies and initiatives.

Results	Analyst Briefing Dates
Q4 FY2017	Wednesday, 7 February 2018
Q2 FY2018	Wednesday, 1 August 2018

- MHB hosted its 29th Annual General Meeting (AGM) at Sime Darby Convention Centre, where close to 400 shareholders and proxies attended the meeting to review the Group's annual performance. The AGM was presided by MHB Chairman, Datuk Nasarudin Md Idris accompanied by MHB MD & CEO, Wan Mashitah Wan Abdullah Sani and the Board of Directors of MHB. The shareholders were briefed on the market outlook, business highlights, projects progress, and strategic initiatives going forward.

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

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

Investor Relations Report

ANALYSTS COVERAGE

12 research houses covered our stock in 2018. The list of analysts are as per the table below:

Analysts Coverage	
1. Affin Hwang Capital	7. Maybank Investment Bank
2. AmBank Research	8. MIDF Research
3. Citibank Research	9. Nomura
4. Hong Leong Investment Bank	10. RHB Research Institute
5. KAF-Seagroatt & Campbell Securities	11. TA Securities
6. Kenanga Investment Bank	12. UOB-Kay Hian

- The 1st site visit to MMHE EPIC Marine & Services Sdn Bhd (MEMS) in Kemaman was organised for our investment community. The visit was held on 12 September 2018 to foster better understanding of MEMS' business operations and have a closer look at the floating dock. This site visit also help to educate and provide awareness to the investment community on MEMS' facilities and capabilities as well as to further strengthen their confidence in the Group's performance.

  As of 2018, MHB remained on Bursa Malaysia's KLCI Index that is widely used as a benchmark by domestic and international institutional investors to measure the equity market's performance.

OTHER INFORMATION

CREDIT RATING

MARC has affirmed its rating of AA -IS with a stable outlook to MHB's Sukuk Murabahah Programme of up to RM1.0 billion.

FTSE4GOOD BURSA MALAYSIA INDEX

Despite raising their bar higher this year, MHB remains a constituent of FTSE4Good Index Series following the June 2018 index review. FTSE Russell, which is wholly owned by London Stock Exchange Group, has confirmed that MHB has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Launched in 2001, FTSE4Good Index Series is designed to measure the performance of companies in demonstrating strong Environmental, Social and Governance (ESG) practices.

MHB recognises that investors are concerned not only with the Company's financial performance but are also interested in the Company's commitment to good governance, its contributions to society and efforts undertaken to protect the environment. MHB is thus making greater effort to communicate our ESG performance in addition to our financial results. We intend to maintain and to further improve our position on this index in the future as it reflects the value we place on our stakeholders, including our shareholders.

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.

MATERIAL CONTRACTS

There was no material contracts entered into by the Company and its subsidiaries which were not in the ordinary course of business, involving the Directors' and/or major shareholders' interest, still subsisting at the end of the financial year ended 31 December 2018 or, if not then subsisting, entered into since the end of the previous financial year.

AUDIT AND NON-AUDIT FEES

i) The amount of audit fees paid or payable to the external auditors, Messrs Emst & Young (EY), for the services rendered to the Group and the Company for the financial year ended 31 December 2018 amounted to RM298,000 and RM18,000, respectively.

ii) The amount of non-audit fees paid or payable to the external auditors, EY, and their affiliated companies for the services rendered to the Group for the financial year ended 31 December 2018 to RM47,500.

Financial Statements

Directors' Report

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and joint ventures are described in Notes 14 and 15 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

ULTIMATE HOLDING COMPANY

The directors regard Petroliam Nasional Berhad ("PETRONAS"), a company incorporated and domiciled in Malaysia as the Company's ultimate holding company.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 14 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
(Loss)/Profit for the year	(124,164)	39,944
(Loss)/Profit attributable to:		
Equity holders of the Company	(122,692)	39,944
Non-controlling interests	(1,472)	-
	(124,164)	39,944

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.

Directors' Report

DIVIDENDS

The amount of dividends paid or declared by the Company as at 31 December 2018 were as follows:

	RM
In respect of the financial year ended 31 December 2017:	
Final single tier dividend of 3 sen per share on 1,600,000,000 ordinary shares, declared on 6 February 2018 and paid on 1 March 2018	48,000,000

DIRECTORS

The names of the directors of the Company in office during the financial year and until the date of this report are:

Datuk Nasarudin bin Md Idris
Dato' Halipah binti Esa
Choy Khai Choon
Yong Nyan Choi @ Yong Guan Choi
Bernard Rene Francois di Tullio
Yee Yang Chien
Syed Hashim bin Syed Abdullah
Rozainah binti Awang
Wan Mashitah binti Wan Abdullah Sani

Further to those serving as directors of the Company, the names of directors of the Company's subsidiaries since the beginning of the financial year to the date of this report are as follows:

Ahmad Zaki bin Abd Malik	
Idris bin Jaapar	
Wan Shukri bin Mohamad	Resigned on 30 October 2018
Noor Fadzil bin Mohamed Nor	Resigned on 31 January 2019
Mazli Zakuan bin Mohd Noor	Appointed on 31 January 2019

RESERVES AND PROVISIONS

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

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			
	1 January 2018	Acquired	Sold	31 December 2018
The Company				
- Malaysia Marine and Heavy Engineering Holdings Berhad				
Direct				
Datuk Nasarudin bin Md Idris	10,000	-	-	10,000
Dato' Halipah binti Esa	10,000	-	-	10,000
Yong Nyan Choi @ Yong Guan Choi	20,000	-	-	20,000
Wan Mashitah binti Wan Abdullah Sani	4,000	-	-	4,000
Indirect				
Dato' Halipah binti Esa	10,000	-	-	10,000

	Number of ordinary shares			
	1 January 2018	Acquired	Sold	31 December 2018
Immediate holding company				
- MISC Berhad				
Direct				
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' INTERESTS (CONT'D.)

	Number of ordinary shares stapled with KLCC Real Estate Investment Trust Units (Stapled Securities)			
	1 January 2018	Acquired	Sold	31 December 2018
Fellow subsidiary				
- KLCC Property Holdings Berhad				
Direct				
Datuk Nasarudin bin Md Idris	5,000	-	-	5,000

	Number of ordinary shares			
	1 January 2018	Acquired	Sold	31 December 2018
Fellow subsidiary				
- PETRONAS Chemicals Group Berhad				
Direct				
Datuk Nasarudin bin Md Idris	10,000	-	-	10,000
Dato' Halipah binti Esa	10,000	-	-	10,000
Indirect				
Dato' Halipah binti Esa	13,100	-	-	13,100

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of remuneration received or due and receivable by directors as shown in Note 8 the financial statements), by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INDEMNITY AND INSURANCE

During the financial year, the Ultimate holding company, PETRONAS, maintained a Directors' and Officers' Liability Insurance in accordance with Section 289 of the Companies Act 2016 in respect of any legal action against the directors and officers, while discharging their duties, for its group of companies ("PETRONAS Group"). The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of PETRONAS Group was RM1,290 million per occurrence and in the aggregate. The insurance premium for the Corporation is RM30,063.00.

The Directors and Officers shall not be indemnified by such insurance for any negligence, fraud, intentional breach of law or breach of trust proven against them.

OTHER STATUTORY INFORMATION

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

 (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had made for doubtful debts; and

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

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

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

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

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

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

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

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

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

Directors' Report

OTHER STATUTORY INFORMATION (CONT'D.)

(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 substantially affect the results of the operations of the Group or of the Company for the financial year in which this report is made.

AUDITORS

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

The remuneration of the auditors of the Group is disclosed in Note 6 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2019.

Datuk Nasarudin bin Md Idris

Wan Mashitah binti Wan Abdullah Sani

Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

We, Datuk Nasarudin bin Md Idris and Wan Mashitah binti Wan Abdullah Sani, being two of the directors of Malaysia Marine and Heavy Engineering Holdings Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 115 to 183 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 2018 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2019.

Datuk Nasarudin bin Md Idris

Wan Mashitah binti Wan Abdullah Sani

Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

Opinion

I, Nik Azlan bin Nik Abdul Aziz, 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 115 to 183 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 Nik Azlan bin Nik Abdul Aziz
MIA membership number CA 20291
at Kuala Lumpur in the Federal Territory
on 20 February 2019

Nik Azlan bin Nik Abdul Aziz

Before me,

Independent Auditors' Report

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

We have audited the financial statements of Malaysia Marine and Heavy Engineering Holdings Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 115 to 183.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their 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 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Independent Auditors' Report

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

Key Audit Matters (cont'd.)

Key audit matters	How we addressed the key audit matters
Impairment of non-current assets *(Refer to Note 12 – Property, plant and equipment and Note 13 – Land use rights to the financial statements)* The Group is required to perform an impairment test on cash generating units ("CGUs") whenever there is an indication that the CGU may be impaired. The carrying amount of the Group's net assets exceeds its market capitalisation, thereby indicating potential impairment of the Group's non-current assets. Accordingly, the Group estimated the recoverable amount of the property, plant and equipment and land use rights using the value-in-use method based on cash flow projections derived from budgets approved by management covering a five year period including terminal value. Estimating the value-in-use involves estimating the future cash inflows and outflows and discounting them at an appropriate discount rate. This impairment review was significant to our audit because the assessment process is complex and is based on assumptions that are highly judgmental.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and projected cash flows for the CGU. The areas that involved significant audit effort and judgment were the assessment of the probability of securing future revenue contracts, possible variations in the amount and timing of cash flows and the determination of an appropriate discount rate. Our procedures to assess management's impairment testing included the following: (a) enquired with business development teams to obtain an understanding of the status of negotiations and the likelihood of securing the revenue contracts for contracts above our testing threshold, including timing of commencement and expected value of revenue contracts; (b) evaluated the reasonableness of the estimated profits to be derived from those revenue contracts above our testing threshold by comparing the estimated profits with the actual margins achieved by the Group in previous years; and (c) assessed the appropriateness of the discount rate used to determine the present value of the cash flows and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset. In addition, we also evaluated the adequacy of the Group's disclosures of each key assumption on which the Group has based its cash flow projections and to which the CGU's recoverable amount is most sensitive, as disclosed in Note 12 to the financial statements.

Independent Auditors' Report

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

Key Audit Matters (cont'd.)

Key audit matters	How we addressed the key audit matters
Recognition of revenue and cost of construction and marine projects – *(Refer to Note 4 – Revenue and Note 19 – Amount due from/(to) customers on contracts to the financial statements)* The Group's revenues and profits are derived from long-term construction and marine projects which span more than one accounting period. The Group uses the percentage-of-completion method in accounting for these long-term contracts. The stage of completion is measured by reference to the physical completion of the contracts. We focused on this area because management applies significant judgement and estimates in determining the stage of physical completion in respect of marine projects and in estimating total estimated project costs.	In addressing this area of audit focus, we obtained an understanding of the relevant internal controls over the accuracy and timing of revenue and cost recognised in the financial statements, including controls performed by the management in estimating total project costs, profit margin and percentage-of-completion of projects. In addition, we also performed the following: (a) read all key contracts to obtain an understanding of the specific terms and conditions; (b) agreed contract revenue to the original signed customer contracts and/or approved change orders; (c) reviewed management meeting minutes to obtain an understanding of the performance and status for the projects above our testing threshold; (d) assessed the reasonableness of assumptions applied in the determination of percentage-of-completion in light of supporting evidence such as engineers' reports in relation to marine projects; and (e) considered the historical accuracy of management's budgeted project margins in assessing the reasonableness of estimated margins of similar projects.

Information Other than the Financial Statements and Auditor's Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

Independent Auditors' Report
To the members of Malaysia Marine and Heavy Engineering Holdings Berhad
(Incorporated in Malaysia)

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D.)

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

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

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

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Ismed Darwis Bahatiar
No. 02921/04/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
20 February 2019

Statements of Comprehensive Income

For the financial year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	4	974,354	956,415	48,000	-
Cost of sales		(916,760)	(769,904)	-	-
Gross profit		57,594	186,511	48,000	-
Other operating income	5	46,301	33,007	3,151	8,293
Selling and distribution expenses		(2,361)	(1,405)	(7)	(11)
Administrative expenses		(164,758)	(150,185)	(10,185)	(9,810)
Other operating expenses		(62,969)	(53,671)	(95)	(2,090)
Impairment provisions		-	-	-	(3,000)
Finance costs		(920)	-	(920)	-
Share of results of joint ventures		3,005	(3,239)	-	-
(Loss)/Profit before taxation	6	(124,108)	11,018	39,944	(6,618)
Taxation	9	(56)	21,428	-	304
(Loss)/Profit for the year		(124,164)	32,446	39,944	(6,314)
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Fair value gain on cash flow hedges		-	6,561	-	-
Total comprehensive (loss)/income for the year		(124,164)	39,007	39,944	(6,314)
(Loss)/Profit attributable to:					
Equity holders of the Company		(122,692)	34,233	39,944	(6,314)
Non-controlling interests		(1,472)	(1,787)	-	-
		(124,164)	32,446	39,944	(6,314)
Total comprehensive (loss)/income attributable to:					
Equity holders of the Company		(122,692)	40,794	39,944	(6,314)
Non-controlling interests		(1,472)	(1,787)	-	-
		(124,164)	39,007	39,944	(6,314)
(Loss)/Earnings per share attributable to equity holders of the Company (sen per share)					
Basic	10	(7.67)	2.14		
Diluted	10	(7.67)	2.14		

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

Statements of Financial Position

As at 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,595,204	1,524,860	-	-
Land use rights	13	209,258	216,353	-	-
Investment in subsidiaries	14	-	-	1,608,205	1,608,205
Investment in joint ventures	15	7,751	4,927	-	-
Deferred tax assets	17	93,293	93,293	-	-
		1,905,506	1,839,433	1,608,205	1,608,205
Current assets					
Inventories, at cost		5,646	2,399	-	-
Trade and other receivables	18	647,980	847,052	1,388	790
Tax recoverable		20,517	20,864	8,334	8,334
Cash and bank balances	20	601,544	674,968	94,402	102,105
		1,275,687	1,545,283	104,124	111,229
Total assets		3,181,193	3,384,716	1,712,329	1,719,434
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	21	1,618,263	1,618,263	1,618,263	1,618,263
Retained earnings		788,808	958,148	77,738	85,794
		2,407,071	2,576,411	1,696,001	1,704,057
Non-controlling interests		(259)	1,213	-	-
Total equity		2,406,812	2,577,624	1,696,001	1,704,057
Non-current liabilities					
Borrowing	23	48,354	-	-	-
Current liabilities					
Trade and other payables	22	726,027	807,092	16,328	15,377
		726,027	807,092	16,328	15,377
Total liabilities		774,381	807,092	16,328	15,377
Total equity and liabilities		3,181,193	3,384,716	1,712,329	1,719,434

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 2018

	Attributable to equity holders of the Company				
	Share capital (Note 21) RM'000	Distributable retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2018					
As stated previously	1,618,263	958,148	2,576,411	1,213	2,577,624
Effect of the adoption of pronouncements (Note 2.3(c))	-	1,352	1,352	-	1,352
At 1 January 2018, restated	1,618,263	959,500	2,577,763	1,213	2,578,976
Total comprehensive loss	-	(122,692)	(122,692)	(1,472)	(124,164)
Dividends paid to equity holders of the company	-	(48,000)	(48,000)	-	(48,000)
At 31 December 2018	1,618,263	788,808	2,407,071	(259)	2,406,812

	Attributable to equity holders of the Company						
	Share capital (Note 21) RM'000	Share premium (Note 21) RM'000	Cash flow hedge reserve RM'000	Distributable retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 January 2017	800,000	818,263	(6,561)	923,915	2,535,617	3,000	2,538,617
Total comprehensive income	-	-	6,561	34,233	40,794	(1,787)	39,007
Transition in accordance with Section 618 (2) of the Companies Act 2016 to no-par value regime on 31 January 2017	818,263	(818,263)	-	-	-	-	-
At 31 December 2017	1,618,263	-	-	958,148	2,576,411	1,213	2,577,624

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 2018

	Share capital (Note 21) RM'000	Share premium (Note 21) RM'000	Distributable retained earnings RM'000	Total equity RM'000
At 1 January 2018	1,618,263	-	85,794	1,704,057
Total comprehensive income	-	-	39,944	39,944
Dividends paid to equity holders of the Company	-	-	(48,000)	(48,000)
At 31 December 2018	1,618,263	-	77,738	1,696,001
At 1 January 2017	800,000	818,263	92,108	1,710,371
Total comprehensive income	-	-	(6,314)	(6,314)
Transition in accordance with Section 618 (2) of the Companies Act 2016 to no-par value regime on 31 January 2017	818,263	(818,263)	-	-
At 31 December 2017	1,618,263	-	85,794	1,704,057

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 2018

	Group	
	2018 RM'000	2017 RM'000
Cash flows from operating activities		
(Loss)/Profit before taxation	(124,108)	11,018
Adjustments for:		
Property, plant and equipment		
- Depreciation	77,685	79,944
- Write-offs	4,174	126
Amortisation of land use rights	7,095	7,094
Net reversal of warranty	-	(14,837)
Allowance for impairment loss of trade and other receivables	5,738	2,260
Allowance for impairment loss of loan to joint venture	-	2,021
Bad debt written off	10,426	-
Interest income	(15,267)	(16,009)
Interest expense	920	-
Realisation of loss on hedges	-	6,561
Net unrealised (gain)/loss on foreign exchange	(8,427)	19,643
Share of results of joint ventures	(3,005)	3,239
Operating profit before working capital changes	(44,769)	101,060
Inventories	(3,247)	8,348
Trade and other receivables	186,226	185,132
Trade and other payables	(75,858)	(222,527)
Movement in intercompanies balances	181	-
Cash generated from operations	62,533	72,013
Tax refund	291	52
Tax paid	-	(2,083)
Net cash generated from operating activities	62,824	69,982
Cash flows from investing activities		
Purchase of property, plant and equipment	(151,869)	(60,206)
Interest received	15,267	14,064
Net cash used in investing activities	(136,602)	(46,142)

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2018

	Group	
	2018 RM'000	2017 RM'000
Cash flows from financing activities		
Dividends paid to equity holders of the Company	(48,000)	-
Drawdown on long term borrowings	48,354	-
Repayment of Sukuk Murabahah credit facilities	-	(20,000)
Cash (pledged)/withdrawn with the bank - restricted	(12,182)	30
Net cash used in financing activities	(11,828)	(19,970)
Net change in cash and cash equivalents	(85,606)	3,870
Cash and cash equivalents at beginning of year	674,968	671,098
Cash and cash equivalents at end of year	589,362	674,968
Cash and cash equivalents at the end of the year comprise the following:		
Cash at banks and in hand (Note 20)	61,204	149,463
IFSSC bank balance (Note 20)	523,311	403,207
Deposits with licensed banks (Note 20)	17,029	122,298
	601,544	674,968
Less: Cash pledged with the bank - restricted	(12,182)	-
	589,362	674,968

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 2018

	Company	
	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit/(Loss) before taxation	39,944	(6,618)
Adjustments for:		
Allowance for impairment loss of investment in joint venture	-	3,000
Allowance for impairment loss of loan to joint venture	-	2,021
Allowance for impairment loss of other receivables	3	-
Interest income	(3,119)	(8,023)
Dividend income	(48,000)	-
Interest expense	920	-
Operating loss before working capital changes	(10,252)	(9,620)
Trade and other receivables	(153)	(8,806)
Trade and other payables	(130)	(132)
Movement in intercompany balances	633	-
Cash used in operations	(9,902)	(18,558)
Tax refund	-	52
Tax paid	-	(1,250)
Net cash used in operating activities	(9,902)	(19,756)
Cash flows from investing activities		
Interest received	3,119	4,334
Dividend income received	48,000	-
Net cash generated from investing activities	51,119	4,334
Cash flows from financing activities		
Dividend paid to equity holders of the Company	(48,000)	-
Interest paid	(920)	-
Repayment of Sukuk Murabahah credit facilities	-	(20,000)
Cash withdrawn with the bank - restricted	-	30
Net cash used in financing activities	(48,920)	(19,970)
Net change in cash and cash equivalents	(7,703)	(35,392)
Cash and cash equivalents at beginning of year	102,105	137,497
Cash and cash equivalents at end of year	94,402	102,105
Cash and cash equivalents at the end of the year comprise the following:		
Cash at banks and in hand (Note 20)	57	163
IFSSC bank balance (Note 20)	94,316	101,913
Deposits with licensed banks (Note 20)	29	29
	94,402	102,105

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 2018

Changes in liabilities arising from financing activities:

	Group RM'000	Company RM'000
Total borrowing		
At beginning of the year	-	-
Drawdown of bank borrowing	48,354	-
At end of the year	48,354	-

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 2018

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 Bursa Malaysia.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and joint ventures are described in Note 14 and Note 15 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 20 February 2019.

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 2016 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The financial statements have been prepared on the historical cost basis, other than those 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), other than those indicated otherwise.

The Group and the Company had, as of 1 January 2018, adopted new and amended MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standard Board ("MASB") as described in Note 2.3.

2.2 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

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

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

Notes to the Financial Statements
For the financial year ended 31 December 2018

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

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

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred. 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.

Business combinations

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.

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

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

Non-controlling interests

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(ii) Basis of consolidation (cont'd)

Non-controlling interests (cont'd.)

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 proportionate share of net assets before and after the change, and any fair value of consideration received or paid, is recognised directly in equity as transaction with shareholders.

Loss of control

Upon the lost of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from its consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for an equity-accounted investee or as a fair value through other comprehensive income financial asset depending on the level of influence retained.

(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. Meanwhile, 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 a joint venture is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in the joint venture 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 venture. The Group's share of profit or loss of the joint venture is recognised in profit or loss. Where there has been a change recognised directly in the equity of the joint venture, 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 venture is eliminated to the extent of the Group's interest in the joint venture. 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 venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture 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 venture is equity accounted for from the date the Group obtains joint control until the date the Group ceases to have joint control over the joint venture.

Notes to the Financial Statements
For the financial year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(b) Joint arrangements (cont'd.)

(i) Joint ventures (cont'd.)

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 venture's 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 venture's profit or loss in the year in which the investment is made.

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

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

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

(ii) Joint operations

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

The Group, as a joint operator, recognises in the following 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; and
(iv) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(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%

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(d) 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. If the asset does not generate cash flows that are largely independent of those from other assets, 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. If the asset is carried at a revalued amount, 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 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 (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. If the asset is carried at revalued amount, such reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

(e) Inventories

Inventories which comprise spares, raw materials and consumables held for own consumption are stated at the lower of cost and net realisable value. Cost is arrived at on a weighted average basis. The cost of raw materials and consumables comprises costs of purchase and other direct charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(f) Financial instruments

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Financial Instruments, the Group and the Company have elected not to restate the comparatives.

A financial asset, (unless it is a receivable without a significant financing component) and a financial liability is measured at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, any directly attributable transation cost incurred at the acquisition or issuance of the financial instrument.

Regular purchases or sales is a purchase or sale under a contract whose terms require delivery of financial assets within a time frame established by regulation or convention in the marketplace concerned and fair value adjustments on shareholder's loans and advances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets

Initial recognition and measurement

Upon adoption of MFRS 9 Financial Instruments, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"), as appropriate.

The Group and the Company determine the classification of financial assets at initial recognition and are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount oustanding. This assessment is referred as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

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

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise (on specified dates) to cash flows that are solely payments of principal and interest on the principal amount outstanding. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income and foreign exchange gains and losses are recognised in profit or loss.

The Group and the Company's financial assets designated as amortised cost comprise trade and other receivables and cash and cash equivalents.

Fair value through other comprehensive income

This category comprises debt instruments where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise (on specified dates) to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through other comprehensive income category also comprises investment in equity that are not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(g) Financial assets (cont'd.)

Fair value through other comprehensive income (cont'd.)

Financial assets categorised as fair value through other comprehensive income are subsequently measured at fair value, with unrealised gains and losses recognised directly in other comprehensive income and accumulated under fair value through other comprehensive income reserve in equity. For debt instruments, when the investment is derecognised or determined to be impaired, the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss. For equity instruments, the gains or losses are never reclassified to profit or loss. The Group and the Company have not designated any financial assets as FVOCI.

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income, as described above, are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment.

The Group and the Company have not designated any financial assets at FVTPL.

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss (except for equity investments at fair value through other comprehensive income, where the gain or loss are recognised in other comprehensive income).

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Company has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(h) Financial liabilities

Upon adoption of MFRS 9 Financial Instruments in the current financial year, financial liabilities are classified as measured at: fair value through profit or loss or at amortised cost, as appropriate. Financial liabilities are recognised initially at fair value less, in the case of at amortised cost, any directly attributable transaction costs.

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

Classification and subsequent measurement

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

Financial liabilities at fair value through profit or loss

Fair value through profit or loss ("FVTPL") category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination 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 the profit or loss.

The Group and the Company have not designated any financial assets as FVTPL.

Amortised cost

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

The Group and the Company's financial liabilities designated as amortised cost comprise trade and other payables and borrowings.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, (including any non-cash assets transferred or liabilities assumed) is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as other reserve.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(i) Financial guarantee contracts

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

Financial guarantee contracts are recognised initially as liabilities at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of:

- the best estimate of the expenditure required to settle the present obligation at the reporting date; and
- the amount initially recognised less cumulative amortisation.

(j) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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.

(k) 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 of the 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.

(l) 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 takes into account transaction costs and fees that are an integral part of the effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(m) Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Borrowing costs are capitalised if incurred during preparation or construction of the asset until the asset is substantially completed for its intended use or sale.

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

(n) Impairment of financial assets and contract assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Financial Instruments, the Group and the Company have elected not to restate the comparatives.

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

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and finance lease receivables.

The Group and the Company measures loss allowances on debt securities at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition and finance lease receivables, which are measured as 12 month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment (including forward-looking information).

The Group assumes that the credit risk on a financial asset has increased significantly if it is past due.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12 month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(o) 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 at 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 between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes as at the reporting date.

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 related to underlying transactions are recognised 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(p) 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 if the possibility of an outflow of economic resources is not considered as remote.

(q) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

(iii) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(r) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

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

(s) Revenue from contracts with customers

The Group recognises revenue from contracts with customers mainly from it's Heavy Engineering Segment and Marine Segment. The Heavy Engineering Segment operates in oil and gas engineering and construction whilst Marine Segment operates in marine conversion and repair industry respectively.

The Group and the Company recognises revenue when or as it transfers control over a product or service to the customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(ii) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(iii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable rights to payment for performance completed to date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(s) Revenue from contracts with customers (cont'd.)

Revenue from construction contracts is based on stage of completion. The stage of completion is measured by reference to the proportion of physical completion based on technical milestones defined under the contract and taking into account the nature of activities and its associated risk.

If a performance obligation is not satisfied over time in accordance with the above criteria, the Group satisfies the performance obligation and recognises revenue at a point in time.

Performance obligation and satisfaction of performance obligation

The Group's contract with customers mainly contain one performance obligation where the Group is contracted to construct a specific asset for a customer and to provide repair and maintenance services on customers marine vessels.

The Group considers whether there are other promises in the contract with customers that are separate performance obligations. The Group typically only provides assurance type warranties to assure that the completed project complies with agreed-upon specifications of the contract and therefore, does not give rise to a separate performance obligation.

Where the outcome of a 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.

Transaction price and variable considerations

Transaction price comprises the initial amount of consideration agreed in the contract, 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. Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties.

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Group's construction contracts contain penalty clauses (i.e. Liquidated and ascertained damages) for late delivery. When it is probable that the construction contract will not be fullfilled on time, the penalty will be deducted from the contract transaction price.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(s) Revenue from contracts with customers (cont'd.)

Contract assets and contract liabilities

Contract assets represent the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. Contract assets are subjected to impairment in accordance to MFRS 9, Financial Instruments. The contract assets of the Group comprise of amounts due from customers on contracts.

Contract liabilities represent the Group's obligation to transfer goods or services to a customer for which the Group have received consideration, or the amount is due, from the customer. The contract liabilities of the Group comprise of amounts due to customers on contracts.

(t) Interest income

Revenue arising from assets yielding interest is recognised on a time proportion basis that takes into account the effective yield on the assets.

(u) Rental income

Revenue arising from rental income of investment properties is recognised on a straight-line basis over the term of the lease under the lease arrangement.

(v) Dividend income

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

(w) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

(w) Leases (cont'd.)

(ii) Operating leases – the Group as lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(iii) Operating leases – the Group as lessor

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

(x) Equity investments

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

(y) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

(z) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Changes in accounting policies

On 1 January 2018, the Group and the Company adopted the following pronouncements mandatory for annual financial periods beginning on or after 1 January 2018:

- MFRS 9: Financial Instruments
- MFRS 15: Revenue from Contracts with Customers
- Clarifications to MFRS 15: Revenue from Contracts with Customers
- Amendments to MFRS 140: Investment Property: Transfer of Investment
- IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The principal changes in accounting policies and their effects are set out below:

(a) MFRS 9: Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the cash flow characteristics and business model in which the financial assets are managed. The new standard contains three classifications for financial assets measured at amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI") and eliminates the existing MFRS 139 categories of loans and receivables, held-to-maturity, and available-for-sale.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances are measured on either 12-month ECLs or lifetime ECLs. The financial impact on initial application of the standard is shown in the table below and Note 2.3(c).

The Group and the Company have applied the requirements of MFRS 9 retrospectively with practical expedients and transitional exemptions as allowed by the standard.

The following table and the accompanying note below show the initial measurement under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Changes in accounting policies (cont'd.)

(a) MFRS 9: Financial Instruments (cont'd.)

		1 January 2018	
		Reclassification to new MFRS 9 category	
	31 December 2017 RM'000	Remeasurement RM'000	Amortised Cost RM'000
Category under MFRS 139			
Group			
Financial assets			
Loans and receivables			
Trade and other receivables	257,563	(1,984)	255,579
Cash and cash equivalents	674,968	-	674,968
	932,531	(1,984)	930,547
Financial liabilities			
Loans and borrowings			
Trade and other payables	798,175	-	798,175
	798,175	-	798,175
Company			
Financial assets			
Loans and receivables			
Trade and other receivables	104	-	104
Cash and cash equivalents	102,105	-	102,105
	102,209	-	102,209
Financial liabilities			
Loans and borrowings			
Trade and other payables	15,377	-	15,377
	15,377	-	15,377

Notes to the Financial Statements
For the financial year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Changes in accounting policies (cont'd.)

(b) MFRS 15: Revenue from contracts with customers

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfers of Assets from Customers and IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services. The previous accounting standards placed emphasis on the exchange of risk and rewards. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations whilst introducing additional disclosure requirements.

The Group and the Company have applied the requirements of MFRS 15 retrospectively with cumulative effect on initial application of the standard as an adjustment to the opening balance of retained earnings for the financial year ended 31 December 2018. The financial impact to the Group on initial application of the standard is shown in Note 2.3(c).

(c) Financial statement impact from adoption of MFRS 9 and MFRS 15

The following table summarises the impact of the above changes on the Group's Statement of Financial Position as at 31 December 2017:

Group	31 December 2017 RM'000	MFRS 9 adjustments RM'000	MFRS 15 adjustments RM'000	1 January 2018 RM'000
Trade and other receivables	847,052	(1,984)	(27,774)	817,294
Retained earnings	(958,148)	1,984	(3,336)	(959,500)
Trade and other payables	(807,092)	-	31,110	(775,982)

The financial impact to the Company from the adoption of MFRS 9 and MFRS 15 is determined to be immaterial.

2.4 Standards issued but not yet effective

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

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

- MFRS 16 Lease
- Annual Improvements to MFRS Standards 2015-2017 Cycle
- IC Interpretation 23 Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2020:

- Amendments to MFRS 3 Business Combinations (Definition of a Business)
- Amendments to MFRS 101 Presentation of Financial Statements (Definition of Material)
- Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Effective for a date yet to be confirmed:

- Amendments to MFRS 10 Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to MFRS 128 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

(a) MFRS 16: Leases

In April 2017, MASB issued MFRS 16: Leases which sets out principles for the recognition, measurement, presentation and disclosure of leases, and replaces the existing MFRS 117: Leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, apart from those where the underlying asset is of low value. Assets and liabilities arising from a lease are initially measured on a present value basis, including non-cancellable lease payments as well as payments to be made in optional periods if the lessee is reasonably certain to exercise the option of not terminating the lease.

Lessor accounting is substantially unchanged from the existing MFRS 117. However, MFRS 16 requires enhanced disclosure to be provided by lessors that will improve information disclosed about lessor's risk exposure, particularly to residual value risk.

A lessee can choose to apply the standard using either a full retrospective or a modified restrospective transition approach. MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted for entities that have applied MFRS 15.

The Group and Company have assessed the estimated financial impact on its financial statements upon initial application of MFRS 16. As allowed by the transitional provision of MFRS 16, the Group and Company have elected the modified retrospective approach with no restatement of comparative and the cumulative adjustments resulting from the initial application of MFRS 16 to be recognised in retained earnings and reserves as at 1 January 2019.

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 estimated total contract revenue and contract costs, as well as the recoverability of the construction contract. In making these judgement, the Group's evaluation is based on past experience and by relying on the work of internal specialists.

(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) 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 allowances already provided. The customer's credit worthiness is evaluated by reviewing, amongst others, the Group's historical collection experience.

The information on allowance for impairment loss of trade receivables is disclosed in Note 27(b)(ii).

(ii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unabsorbed capital allowances and unutilised tax allowances to the extent that it is probable that taxable profits will be available against which the losses and tax 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 17.

(iii) Impairment of property, plant and equipment

The Group tests non-financial assets for impairment when there are indications that the assets may be impaired.

During the financial year, the Group carried out the impairment test based on estimation of the value in use ("VIU") of the CGU to which the property, plant and equipment are allocated. Estimating the VIU requires the Group to make an estimate of the expected future cash flows from the CGU and apply a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in VIU calculations are disclosed in Note 12.

4. REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Heavy engineering construction works	651,451	591,325	-	-
Marine conversion and repair	322,903	365,090	-	-
Dividend income	-	-	48,000	-
	974,354	956,415	48,000	-

4.1 Disaggregation of revenue

Revenue is disaggregated by nature of services of heavy engineering, marine conversion and repair and dividend income as disclosed above.

All services of the group are transferred over time except for dividend income which is recognised at a point in time.

4.2 Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December		1 January
	2018 RM'000	2017 RM'000	2017 RM'000
Trade receivables (Note 18)	254,924	243,765	310,714
Amount due from customers on contracts (Note 19)	375,617	545,331	682,999
Amount due to customers on contracts (Note 19)	(2,406)	(8,917)	(18,472)
	628,135	780,179	975,241

Amount due from customers on contracts primarily relates to the Group's rights to consideration for work completed but not billed at the reporting date. Amount due from customers on contracts are transferred to receivables when rights become unconditional. Amount due to customers on contracts primarily relate to the advance consideration received (or an amount of consideration is due) from the customer, for which revenue is recognised over time when the Group progressively satisfies it's performance obligation.

The significant decrease in amount due from customers on contracts in 2018 is the result of revenues from projects meeting billing milestones in 2018 and that there are fewer on-going projects at the end of the financial year.

Decrease in amount due to customers on contracts in 2018 is the result of projects which met the billing milestone in 2017 of which the performance obligation is satisfied in 2018. Revenue recognised from amounts included in contract liabilities at the beginning of the year is RM8,917,000 (2017: RM18,472,000).

4. REVENUE (CONT'D.)

4.3 Transaction price allocated to the remaining performance obligations

The following table shows revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The disclosure is only providing information for contracts that have a duration of more than one year.

	Under 1 year RM'000	1-5 years RM'000	Total RM'000
Heavy engineering construction works	425,997	337,590	763,587
Marine conversion and repair	21,217	-	21,217
	447,214	337,590	784,804

5. OTHER OPERATING INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Rental income	2,974	5,119	-	-
Interest income:				
- Deposits with licensed banks	15,267	16,009	3,119	4,334
- Loan to a subsidiary	-	-	-	3,689
Net gain on foreign exchange:				
- Realised	-	4,891	-	-
- Unrealised	8,427	-	-	-
Income from scrap disposal	1,841	3,540	-	-
Gain on litigation settlement	16,367	-	-	-
Others	1,425	3,448	32	270
	46,301	33,007	3,151	8,293

6. PROFIT BEFORE TAXATION

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Auditors' remuneration:				
- Statutory audit	298	298	18	18
- Others	48	38	17	17
Staff costs (Note 7)	197,278	208,194	5,559	5,886
Management fees in relation to services of key management personnel (Note 26(c))	1,346	936	1,346	936
Property, plant and equipment (Note 12):				
- Depreciation	77,685	79,944	-	-
- Write-offs	4,174	126	-	-
Amortisation of land use rights (Note 13)	7,095	7,094	-	-
Hire of tugboat, pushers and barges	5,262	6,397	-	-
Rental of:				
- Buildings	3,658	3,280	1,744	1,827
- Vehicles	223	302	-	-
- Office equipment	2,444	2,991	56	20
- Plant and machineries	28,170	37,363	-	-
Net allowance for impairment loss/(recovery):				
- Trade receivables (Note 27(b)(ii)(b))	7,865	1,733	-	-
- Other receivables (Note 27(b)(iii))	(2,127)	527	3	-
- Investment in joint ventures (Note 15)	-	-	-	3,000
- Loan to joint venture (Note 27(b)(iii))	-	2,021	-	2,021
Bad debt written off	10,426	-	-	-
Net loss/(gain) on foreign exchange:				
- Realised	1,663	(4,891)	-	-
- Unrealised	(8,427)	19,643	-	-
Interest expense on short term loan	920	-	920	-
Realisation of loss on hedges	-	6,561	-	-

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For the financial year ended 31 December 2018

7. STAFF COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages and salaries	153,568	162,088	4,618	4,940
Social security costs	1,388	1,409	19	16
Contributions to a defined contribution plan	18,123	19,199	675	655
Termination benefits	(1,629)	(4,270)	-	-
Other staff related expenses	25,828	29,768	247	275
	197,278	208,194	5,559	5,886

Included in staff costs of the Group and the Company are executive director's salaries and other emoluments amounting to RM1,359,000 (2017: RM1,270,000) as further disclosed in Note 8.

8. DIRECTORS' REMUNERATION

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

	Group and Company	
	2018 RM'000	2017 RM'000
Executive director's remuneration:		
Salaries	844	816
Other emoluments	515	454
Estimated money value of benefits-in-kind	39	9
Total executive director's remuneration (including benefits-in-kind)	1,398	1,279

	Group and Company	
	2018 RM'000	2017 RM'000
Non-executive directors' remuneration*:		
Fees	720	418
Other emoluments	249	269
Estimated money value of benefits-in-kind	8	-
Total non-executive directors' remuneration	977	687
Total directors' remuneration (including benefits-in-kind) (Note 26(c))	2,375	1,966

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	
	2018	2017
Executive director:		
RM1,250,001 - RM1,400,000	1	1
	1	1
Non-executive directors*:		
RM50,000 and below	-	1
RM100,001 - RM150,000	-	4
RM150,001 - RM200,000	4	1
RM250,001 - RM300,000	1	-
	5	6
	6	7

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

9. TAXATION

The major components of income tax expense are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current income tax:				
Malaysian income tax	-	487	-	-
Under/(over)provision in prior year:				
Malaysian income tax	56	(8,313)	-	(304)
	56	(7,826)	-	(304)
Deferred tax (Note 17):				
Relating to origination and reversal of temporary differences	(14,389)	(10,012)	-	-
Under/(over)provision in prior year	14,389	(3,590)	-	-
	-	(13,602)	-	-
Taxation	56	(21,428)	-	(304)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2018

9. TAXATION (CONT'D.)

A reconciliation of income tax expense applicable to (loss)/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:

	2018 RM'000	2017 RM'000
Group		
(Loss)/Profit before taxation	(124,108)	11,018
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	(29,786)	2,644
Effect of income not subject to tax	(3,202)	(3,404)
Effect of expenses not deductible for tax purposes	10,097	7,792
Deferred tax assets recognised on unutilised investment tax allowances	(1,252)	(19,104)
Deferred tax assets not recognised	10,475	1,770
Under/(over)provision of deferred tax in prior year	14,389	(3,590)
Under/(over)provision of Malaysian tax expense in prior year	56	(8,313)
Effect of share of results of joint ventures	(721)	777
Income tax credit for the year	56	(21,428)
Company		
Profit/(loss) before taxation	39,944	(6,618)
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	9,587	(1,588)
Effect of income not subject to tax	(12,269)	(1,103)
Effect of expenses not deductible for tax purposes	2,682	2,691
Overprovision of Malaysian tax expense in prior year	-	(304)
Income tax credit for the year	-	(304)

10. (LOSS)/EARNINGS PER SHARE

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

	Group	
	2018	2017
(Loss)/earnings attributable to equity holders of the Company (RM'000)	(122,692)	34,233
Number of ordinary shares in issue ('000)	1,600,000	1,600,000
Basic/diluted (loss)/earnings per share (sen)	(7.67)	2.14

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

Notes to the Financial Statements
For the financial year ended 31 December 2018

11. DIVIDENDS

Recognised during the year:

	2018 RM'000	2017 RM'000
In respect of financial year ended 31 December 2017:		
Final single tier dividend of 3.0 sen per share	48,000	-

12. PROPERTY, PLANT AND EQUIPMENT

	Cost				
	At 1.1.18 RM'000	Additions RM'000	Transfer RM'000	Write-offs RM'000	At 31.12.2018 RM'000
Group - 31 December 2018					
Boats	128	26	-	-	154
Buildings, drydocks and waste plant	1,610,500	21,539	15,511	(4,412)	1,643,138
Plant, machinery and electrical installations	712,984	1,921	9,630	(47,164)	677,371
Vehicles and transport equipment	13,739	125	-	-	13,864
Furniture and office equipment	55,839	181	2,757	(3)	58,774
Loose tools	7,715	-	-	-	7,715
Construction-in-progress	57,677	128,411	(27,898)	-	158,190
	2,458,582	152,203	-	(51,579)	2,559,206

	Accumulated depreciation/Impairment losses				Net carrying amount
	At 1.1.2018 RM'000	Charge for the financial year RM'000	Write-offs RM'000	At 31.12.2018 RM'000	At 31.12.2018 RM'000
Group - 31 December 2018					
Boats	128	10	-	138	16
Buildings, drydocks and waste plant	523,177	34,905	(376)	557,706	1,085,432
Plant, machinery and electrical installations	338,296	39,161	(47,026)	330,431	346,940
Vehicles and transport equipment	10,314	1,491	-	11,805	2,059
Furniture and office equipment	49,129	2,118	(3)	51,244	7,530
Loose tools	7,711	-	-	7,711	4
Construction-in-progress	4,967	-	-	4,967	153,223
	933,722	77,685	(47,405)	964,002	1,595,204

Notes to the Financial Statements

For the financial year ended 31 December 2018

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

	Cost				
	At 1.1.2017 RM'000	Additions RM'000	Transfer RM'000	Write-offs RM'000	At 31.12.2017 RM'000
Group - 31 December 2017					
Boats	138	-	-	(10)	128
Buildings, drydocks and waste plant	1,601,089	314	10,147	(1,050)	1,610,500
Plant, machinery and electrical installations	651,846	1,025	65,616	(5,503)	712,984
Vehicles and transport equipment	14,429	8	349	(1,047)	13,739
Furniture and office equipment	53,561	433	2,712	(867)	55,839
Loose tools	7,715	-	-	-	7,715
Construction-in-progress	78,075	58,426	(78,824)	-	57,677
	2,406,853	60,206	-	(8,477)	2,458,582

	Accumulated depreciation/Impairment losses				Net carrying amount
	At 1.1.2017 RM'000	Charge for the financial year RM'000	Write-offs RM'000	At 31.12 2017 RM'000	At 31.12.2017 RM'000
Group - 31 December 2017					
Boats	121	11	(4)	128	-
Buildings, drydocks and waste plant	490,334	33,876	(1,033)	523,177	1,087,323
Plant, machinery and electrical installations	302,541	41,182	(5,427)	338,296	374,688
Vehicles and transport equipment	9,776	1,563	(1,025)	10,314	3,425
Furniture and office equipment	46,679	3,312	(862)	49,129	6,710
Loose tools	7,711	-	-	7,711	4
Construction-in-progress	4,967	-	-	4,967	52,710
	862,129	79,944	(8,351)	933,722	1,524,860

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	
	2018 RM'000	2017 RM'000
Buildings, drydocks and waste plant	77,887	77,913
Plant, machinery and electrical installations	220,339	287,781
Other property, plant and equipment	51,476	54,590
	349,702	420,284

(b) The addition in property, plant and equipment were acquired by way of:

	Group	
	2018 RM'000	2017 RM'000
Cash	151,869	60,206
Capitalisation of borrowing cost	334	-
	152,203	60,206

(c) The Group has performed a review of the recoverable amount of the Group's cash generation unit ("CGU") consisting of property, plant, equipment and land use rights. The result of the review is that the recoverable amount of the CGU exceeds the carrying amount of the property, plant and equipment and land use rights, hence, no impairment is required for the current financial year (2017: RM nil).

Details of the key assumptions used in the value in use ("VIU") calculation are disclosed below:

Key assumptions used in VIU calculations

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

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

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

(iii) Discount rate
The discount rate reflects specific risk relating to the CGU. The discount rate used is 10.5% (2017: 10.3%).

(iv) Growth rate
Cash flow beyond the five-year period is extrapolated using a growth rate of 2.5% (2017: 2.5%).

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For the financial year ended 31 December 2018

13. LAND USE RIGHTS

	Group	
	2018 RM'000	2017 RM'000
Cost		
At 1 January/31 December	292,552	292,552
Accumulated amortisation		
At 1 January	76,199	69,105
Amortisation for the year (Note 6)	7,095	7,094
At 31 December	83,294	76,199
Net carrying amount at 31 December	209,258	216,353
Amount to be amortised:		
- Not later than one year	7,094	7,094
- Later than one year but not later than five years	28,376	28,376
- Later than five years	173,788	180,883

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

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM'000	2017 RM'000
Unquoted shares in Malaysia, at cost	1,608,205	1,608,205

The subsidiaries, all of which are incorporated in Malaysia, are as follows:

		% of ownership interest held by the Group		% of ownership interest held by non-controlling interest	
Name	Principal activities	2018	2017	2018	2017
Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE")	Oil and gas engineering and construction works and marine conversion and repair	100%	100%	-	-
Malaysia Marine and Heavy Engineering (International) Sdn Bhd	Dormant	100%	100%	-	-
Subsidiaries of MMHE:					
MMHE LNG Sdn Bhd	Dormant	100%	100%	-	-
Techno Indah Sdn Bhd	Sludge disposal management	100%	100%	-	-
MMHE-EPIC Marine & Services Sdn Bhd	Repair and maintenance of vessels	70%	70%	30%	30%
MMHE Saudi LLC	Oil and gas engineering and construction works and marine conversion and repair	100%	-	-	-

During the current financial year, the Group incorporated MMHE Saudi LLC with a total paid up share capital of RM537,400 divided into 50,000 ordinary shares. The principal activitiy of MMHE Saudi LLC is oil and gas engineering, construction works, marine conversion and repair.

The Group regards the non-controlling interest in MMHE-EPIC Marine & Services Sdn. Bhd. as immaterial and as such has not disclosed the summarised financial information of the subsidiary.

Notes to the Financial Statements

For the financial year ended 31 December 2018

15. INVESTMENT IN JOINT VENTURES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unquoted shares at cost	14,372	14,372	3,000	3,000
Share of post-acquisition reserves	(6,621)	(9,445)	-	-
Less: Allowance for impairment losses (Note 6)	-	-	(3,000)	(3,000)
	7,751	4,927	-	-

(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
	2018	2017	
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 services. It provides its services as subcontractors to the Group's projects as well as to third parties.

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

(iii) MMHE-ATB Sdn Bhd is engaged in the manufacturing of pressure vessels and tube heat exchangers. It provides its services as subcontractors to the Group's projects as well as to third parties. The entity has ceased operations during the current financial year.

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.

15. 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

	2018 RM'000	2017 RM'000
Non-current assets	934	25,581
Cash and cash equivalents	27,064	16,665
Other current assets	13,402	35,514
Total current assets	40,466	52,179
Total assets	41,400	77,760
Current liabilities	(28,887)	(71,583)
Non-current liabilities	(934)	(934)
Total liabilities	(29,821)	(72,517)
Net assets	11,579	5,243

(ii) Summarised statements of comprehensive income

	2018 RM'000	2017 RM'000
Revenue	12,377	70,549
Depreciation and amortisation	(3,715)	(1,388)
Interest income	5	93
Interest expense	(462)	(493)
Profit/(loss) before tax	1,746	(15,403)
Income tax expense	-	(14)
Profit/(loss) after tax	1,746	(15,417)

The Group has discontinued recognising its share of losses in a joint venture considering the share of losses in this joint venture exceeds the Group's interest in this joint venture. As such, the Group did not recognise its share of losses of this joint venture in the current year and the Group's cumulative share of unrecognised losses in this joint venture amounted to RM4,295,000 (2017: RM3,902,000) as at 31 December 2018.

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16. JOINT OPERATIONS

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

Name	% of ownership interest held by the Group	
	2018	2017
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.

17. DEFERRED TAX

	Group	
	2018 RM'000	2017 RM'000
At 1 January	(93,293)	(79,691)
Recognised in profit or loss (Note 9)	-	(13,602)
At 31 December	(93,293)	(93,293)

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 2018	78,078
Recognised in profit or loss	9,476
At 31 December 2018	87,554
At 1 January 2017	46,028
Recognised in profit or loss	32,050
At 31 December 2017	78,078

17. DEFERRED TAX (CONT'D.)

Deferred tax assets of the Group:

	Unutilised reinvestment allowance RM'000	Unutilised tax losses RM'000	Unutilised investment tax allowance RM'000	Others RM'000	Total RM'000
At 1 January 2018	(1,548)	-	(152,474)	(17,349)	(171,371)
Recognised in profit or loss	-	(15,496)	23,444	(17,424)	(9,476)
At 31 December 2018	(1,548)	(15,496)	(129,030)	(34,773)	(180,847)
At 1 January 2017	(1,548)	-	(104,543)	(19,628)	(125,719)
Recognised in profit or loss	-	-	(47,931)	2,279	(45,652)
At 31 December 2017	(1,548)	-	(152,474)	(17,349)	(171,371)

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

	Group	
	2018 RM'000	2017 RM'000
Unutilised tax losses	61,627	20,311
Unabsorbed capital allowances	35,022	32,691

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the Group of companies are subject to no substantial change in shareholdings of the Group of companies under Section 44(5A) and Paragraph 75A, Schedule 3 of the Income Tax Act, 1967 ("the Act"). However, the Minister of Finance has exercised his powers under Section 44(5D) and Paragraph 75C, Schedule 3 of the Act to exempt all companies except dormant companies from the provision of Section 44(5A) and Paragraph 75A, Schedule 3 of the Act respectively. The unused tax losses can be carried forward and available for use for 7 years starting year of assessment 2018.

Notes to the Financial Statements

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18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current				
Trade receivables				
Third parties	254,924	243,765	-	-
Amount due from customers on contracts (Note 19)	375,617	545,331	-	-
	630,541	789,096	-	-
Less: Allowance for impairment losses (Note 27(b)(ii)(b))	(27,999)	(19,051)	-	-
Trade receivables, net	602,542	770,045	-	-
Other receivables				
Due from:				
- Joint ventures	18,057	23,802	16	-
- Subsidiaries	-	-	444	-
Loan to joint venture	2,021	2,021	2,021	2,021
Deposits	1,545	2,873	72	72
Prepayments	527	1,847	-	-
Staff loans	716	386	-	-
Non-trade receivables	3,735	4,744	13	8
GST receivable	20,909	42,311	835	686
Other receivables	3,686	6,498	11	24
	51,196	84,482	3,412	2,811
Less: Allowance for impairment losses (Note 27(b)(iii))	(5,758)	(7,475)	(2,024)	(2,021)
Other receivables, net	45,438	77,007	1,388	790
Total current trade and other receivables	647,980	847,052	1,388	790
Less: Prepayments	(527)	(1,847)	-	-
Amount due from customers on contracts (Note 19)	(375,617)	(545,331)	-	-
GST receivable	(20,909)	(42,311)	(835)	(686)
Add: Cash and bank balances (Note 20)	601,544	674,968	94,402	102,105
Total financial assets carried at amortised cost	852,471	932,531	94,955	102,209

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

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

	Group	
	2018 RM'000	2017 RM'000
(i) Immediate holding company	2,373	40,080
(ii) Other related companies		
MISC Offshore Floating Terminal (L) Ltd	2,175	24,604
PETRONAS Carigali Sdn Bhd	2,434	2,002
Eaglestar Shipmanagement PTE LTD	8,667	-
Petronas Gas Berhad	747	-
Petronas Lubricants International	347	-
(iii) Joint venture		
MMHE-TPGM Sdn Bhd	-	5,393

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

	Group	
	2018 RM'000	2017 RM'000
(i) Immediate holding company	3,528	65,462
(ii) Other related companies		
MISC Offshore Floating Terminal (L) Ltd	79,352	467
PETRONAS Carigali Sdn Bhd	172,824	145,002

Credit terms of trade receivables for the Group, including trade receivables from related companies, range from 30 days to 45 days (2017: 30 days to 45 days).

The loan to joint venture is unsecured, bears effective interest of 1.64% (2017:1.64%) per annum and repayable based on fixed quarterly repayments.

Credit terms of other receivables, amounts due from joint venture and subsidiaries range from 30 days to 45 days (2017: 30 days to 45 days).

Further information on credit risk is disclosed in Note 27(b).

Notes to the Financial Statements

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19. AMOUNT DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	2018 RM'000	2017 RM'000
Aggregate costs incurred and recognised profits (less recognised losses) to date	11,866,016	13,652,838
Less: Progress billings	(11,492,805)	(13,116,424)
	373,211	536,414
Amounts due from customers on contracts (Note 18)	375,617	545,331
Amounts due to customers on contracts (Note 22)	(2,406)	(8,917)
	373,211	536,414

Included in amount due from customers on contracts is an allowance for expected credit losses of RM754,000 (2017: RM1,265,000).

20. CASH AND BANK BALANCES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash at banks and in hand	61,204	149,463	57	163
IFSSC bank balance	523,311	403,207	94,316	101,913
Deposits with licensed banks	17,029	122,298	29	29
Cash and bank balances	601,544	674,968	94,402	102,105

Since 1 July 2014, to allow for efficient cash management, most of the Group and the Company's cash and bank balances are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre ("IFSSC").

Cash at banks earn interest at floating rates based on daily bank deposit rates. Deposits with licensed banks are made for varying periods between 1 day to 365 days (2017: 1 day to 365 days) depending on the immediate cash requirements of the Group and of the Company and earn interest rates ranging from 2.40% to 3.80% (2017: 0.30% to 3.70%) per annum. The maturity periods of the Group's deposits with licensed banks as at the reporting date ranged between 1 day to 66 days (2017: 1 day to 66 days).

The deposits with licensed banks of the Group and the Company of RM17,029,000 (2017: RM122,298,000) and RM29,000 (2017: RM29,000) respectively are placed with credible financial institutions.

Included in cash and bank balances of the Group is monies held in a finance service reserve account, restricted for use amounting to RM12,182,000 (2017: nil).

21. SHARE CAPITAL

(a) Share capital

	Group and Company			
	Number of ordinary shares		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Issued and fully paid:				
At 1 January	1,600,000	1,600,000	1,618,263	800,000
Transfer pursuant to S618(2) of CA 2016	-	-	-	818,263
At 31 December	1,600,000	1,600,000	1,618,263	1,618,263

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Share premium

	Group and Company	
	2018 RM'000	2017 RM'000
At 1 January	-	818,263
Transfer pursuant to S618(2) of CA 2016	-	(818,263)
At 31 December	-	-

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22. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade payables				
Third parties	83,946	78,306	-	-
Accruals	526,584	611,651	-	-
Retention monies	18,892	21,108	-	-
Amount due to customers on contracts (Note 19)	2,406	8,917	-	-
	631,828	719,982	-	-
Other payables				
Due to immediate holding company	104	-	328	-
Due to a subsidiary	-	-	14,698	13,945
Accruals	92,910	85,943	1,302	845
Others	1,185	1,167	-	587
	94,199	87,110	16,328	15,377
Total trade and other payables	726,027	807,092	16,328	15,377
Add: Borrowing (Note 23)	48,354	-	-	-
Less: Amount due to customers on contracts (Note 19)	(2,406)	(8,917)	-	-
Total financial liabilities carried at amortised cost	771,975	798,175	16,328	15,377

Credit terms of trade payables granted to the Group range from 30 days to 60 days (2017: 30 days to 60 days).

Amount due to immediate holding company and a subsidiary are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

Included in trade payables are amounts due to:

	Group	
	2018 RM'000	2017 RM'000
(i) Immediate holding company - MISC Bhd.	334	-

23. BORROWING

	Group	
	2018 RM'000	2017 RM'000
Secured:		
Long term loan (Note 22)	48,354	-

On 23 April 2018, the Group raised RM48 million of term loan from its Tawarruq financing facility to finance the construction of a dry dock. The term loan is secured by a corporate guarantee provided by the Company. The term loan is further secured by monies held in a finance service reserve account and is restricted for use as disclosed in Note 20. The loan bears a fixed profit rate of 4% per annum and is payable on a quarterly basis after a grace period of two years.

Details of the long term borrowing outstanding are as follows:

	Group	
	2018 RM'000	2017 RM'000
Amounts repayable:		
More than one year but not later than two years	-	-
More than two years but not later than five years	16,295	-
More than five years	32,059	-
	48,354	-

Notes to the Financial Statements
For the financial year ended 31 December 2018

24. COMMITMENTS

	Group	
	2018 RM'000	2017 RM'000
Capital expenditure:		
Property, plant and equipment:		
Approved and contracted for	270,463	301,543
Approved but not contracted for	115,159	212,748
	385,622	514,291

Operating lease commitments – as lessee

Future minimum rental payables under non-cancellable operating leases at the reporting date are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Not later than 1 year	8,411	7,489	1,737	1,737
Later than 1 year but not later than 5 years	29,095	31,941	869	2,606
	37,506	39,430	2,606	4,343

Operating lease payments represent rental payables by the Group for use of buildings and computers.

25. CONTINGENT LIABILITIES

	Group	
	2018 RM'000	2017 RM'000
Unsecured		
Performance bond on contract extended to customers	173,263	261,664

26. 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	
	2018 RM'000	2017 RM'000
(a) Income:		
Provision of services for repairs, engineering and construction works, conversion of vessels and drydocking to		
- immediate holding company	19,090	82,689
- fellow subsidiary	159,500	111,013
- other related companies of ultimate holding company	548,541	263,648
Rental of buildings and provision of administrative services	3,525	4,012

	Group	
	2018 RM'000	2017 RM'000
(b) Expenses:		
Purchases from:		
- immediate holding company	1,306	3,061
- other related companies of ultimate holding company	8,354	7,304
- government-related entities	22,184	32,325

Notes to the Financial Statements

For the financial year ended 31 December 2018

26. RELATED PARTY DISCLOSURES (CONT'D.)

(c) Compensation of key management personnel

Key management personnel are defined as persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company, directly or indirectly, including any director of the Group and of the Company.

The remuneration of members of key management during the financial year are as follows:

	Group	
	2018 RM'000	2017 RM'000
Short-term employee benefits	6,193	5,612
Management fees (Note 6)*	1,346	936
Post-employment benefits:		
Defined contribution plan	593	565
	8,132	7,113

	Company	
	2018 RM'000	2017 RM'000
Short-term employee benefits	2,924	2,413
Management fees (Note 6)*	1,346	936
Post-employment benefits:		
Defined contribution plan	379	349
	4,649	3,698

Included in the total remuneration of key management personnel are:

	Group and Company	
	2018 RM'000	2017 RM'000
Directors' remuneration (Note 8)	2,375	1,966

* Included in the remuneration of key management personnel are management fees in relation to services of three non-executive directors and one key management personnel who are employees of the immediate holding company of the Group, MISC Berhad.

27. 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 Malaysia Marine and Heavy Engineering Holding Berhad's ("MHB") Finance Risk Management Framework and Guidelines and PETRONAS Corporate Financial Policy sets the foundation for the establishment of effective risk management across the Group.

PETRONAS Corporate Financial Policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses and management of financial risk exposures arising from its operations and the use of financial instruments. The Group's key financial risks include credit risk, liquidity risk, interest rate 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 not to undertake any speculative trading in derivative financial instruments.

(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, mainly from trade receivables and from its investing activities, including deposits with banks and financial institutions.

(i) Maximum credit risk exposure

The Group and the Company's maximum exposure to credit risk is represented by the carrying amounts as disclosed in Notes 18 and 20.

(ii) Trade receivables and amount due from customers on contracts

(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 and amount due from customers on contracts at the reporting date is as follows:

	Group	
	2018 RM'000	2017 RM'000
Heavy Engineering Business Segment	366,459	496,817
Marine Business Segment	264,082	292,279
	630,541	789,096

Notes to the Financial Statements
For the financial year ended 31 December 2018

27. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(ii) Trade receivables and amounts due from customers on contracts (cont'd.)

(b) Recognition and measurement of impairment loss

At each reporting date, the Group or the Company assesses whether any of the trade receivables and contract assets are credit impaired.

The gross carrying amounts of credit impaired trade receivables and contract assets are written off (either partial or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables and contract assets that are written off could still be subject to enforcement activities

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The Group performs credit rating assessment of all its counterparties in order to measure expected credit loss ("ECL") of trade receivables for all segments using the PETRONAS Credit Risk Rating System. This credit rating assessment considers quantitative assessment using the counterparties' financial statements or a qualitative assessment of the counterparties, which includes but is not limited to their reputation, competitive position, industry and geopolitical outlook.

In determining the ECLs, the probability of default assigned to each counterparty is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company's historical experience.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and amount due from contracts with customers as at 31 December 2018 which are grouped together as they are expected to have similar risk nature.

Credit risk rating	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2018			
Low risk	39,658	(19)	39,639
Medium risk	431,491	(2,939)	428,552
High risk	137,126	(2,775)	134,351
	608,275	(5,733)	602,542
Individually impaired	22,266	(22,266)	-
	630,541	(27,999)	602,542

27. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(ii) Trade receivables and amounts due from customers on contracts (cont'd.)

(b) Recognition and measurement of impairment loss (cont'd.)

Credit risk rating	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Representing:			
Trade receivables (Note 18)	254,924	(27,245)	227,679
Amount due from customers on contracts (Note 18)	375,617	(754)	374,863
	630,541	(27,999)	602,542

The trade receivables that are neither past due nor impaired, past due but not impaired and impaired are disclosed below:

	Group	
	2018 RM'000	2017 RM'000
Neither past due nor impaired	45,013	119,033
1 to 30 days past due not impaired	6,585	25,386
31 to 60 days past due not impaired	22,584	45,925
61 to 90 days past due not impaired	3,579	844
More than 90 days past due not impaired	149,164	33,526
	181,912	105,681
Impaired	27,999	19,051
	254,924	243,765

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.

27. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(ii) Trade receivables and amounts due from customers on contracts (cont'd.)

(b) Recognition and measurement of impairment loss (cont'd.)

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 RM181,912,000 (2017: RM105,681,000). These balances are either secured by colaterals or relate mainly to customers who have never defaulted on payments but are slow paymasters and hence, are periodically monitored.

The movements in the allowance for impairment losses of trade receivables and amount due from customer on contracts during the year are as follows:

	Group	
	2018 RM'000	2017 RM'000
Opening balance under MFRS 139	19,051	14,927
Adjustment on initial application of MFRS 9	1,574	-
Opening balance under MFRS 9	20,625	14,927
Net impairment loss recognised (Note 6)	7,865	1,733
Reclassed from other receivables	-	247
Unrealised foreign currency adjustment	(491)	2,144
At 31 December	27,999	19,051

27. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Credit risk (cont'd.)

(iii) Other receivables

The Group's other receivables that are impaired at the reporting date are as follows:

	Group	
	2018 RM'000	2017 RM'000
Opening balance under MFRS 139	7,475	5,174
Adjustment on initial application of MFRS 9	410	-
Opening balance under MFRS 9	7,885	5,174
Net impairment (recovered)/loss recognised (Note 6)	(2,127)	2,548
Reclassed to trade receivables	-	(247)
At 31 December	5,758	7,475

	Company	
	2018 RM'000	2017 RM'000
At 1 January	2,021	-
Impairment loss (Note 6)	3	2,021
At 31 December	2,024	2,021

The allowance made is for individually assessed and impaired receivables.

(iv) Other financial assets

With respect to credit risk arising from other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure represented by the carrying amount of these instruments.

Since 1 July 2014, cash and bank balances were held in the IHA managed by PETRONAS IFSSC. The centralisation of fund management allows for effective cash visibility, fund management for the Group and minimise exposure to counterparty credit risk. The beneficiary of these financial assets remain with the Group.

PETRONAS IFSSC, which operates as a 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.

27. FINANCIAL INSTRUMENTS (CONT'D.)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises from mismatches of the maturities of financial assets and financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities.

As at 31 December 2018, the Group and the Company had at its disposal cash and cash equivalents amounting to RM589,362,000 (2017: RM674,968,000) and RM94,402,000 (2017: RM102,105,000) respectively.

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

The table below summarises the maturity profile of the Group's financial liabilities as at the reporting date based on the undiscounted contractual payments:

	On demand or within one year RM'000	One to five years RM'000	More than five years RM'000	Total RM'000
Group				
At 31 December 2018				
Trade and other payables	723,621	-	-	723,621
Borrowing	2,000	26,365	36,543	64,908
	725,621	26,365	36,543	788,529
At 31 December 2017				
Trade and other payables	798,175	-	-	798,175

27. FINANCIAL INSTRUMENTS (CONT'D.)

(c) Liquidity risk (cont'd.)

	On demand or within one year RM'000	One to five years RM'000	More than five years RM'000	Total RM'000
Company				
At 31 December 2018				
Trade and other payables	16,328	-	-	16,328
At 31 December 2017				
Trade and other payables	15,377	-	-	15,377

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

As the Group has no significant long term interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been placed mostly in time deposits and overnight placements.

As most of the Group's financial liabilities are fixed rate instruments measured at amortised cost, a change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

(e) 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") and Singapore Dollar ("SGD").

The net unhedged significant financial receivables and payables and cash and bank balances of the Group that are not denominated in their functional currencies are as follows:

Group	USD RM'000	EUR RM'000	SGD RM'000	Total RM'000
At 31 December 2018	172,582	(2,229)	12,372	182,725
At 31 December 2017	120,558	(940)	22,255	141,873

Notes to the Financial Statements
For the financial year ended 31 December 2018

27. FINANCIAL INSTRUMENTS (CONT'D.)

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

(i) Foreign currency sensitivity

The following table demonstrates the sensitivity of the Group's profit before tax and other comprehensive income to a reasonably possible change in the USD, EUR and SGD 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 2018			
USD	+10%	17,506	-
	-10%	(17,506)	-
EUR	+10%	(130)	-
	-10%	130	-
SGD	+5%	628	-
	-5%	(628)	-
31 December 2017			
USD	+10%	12,873	-
	-10%	(12,873)	-
EUR	+10%	435	-
	-10%	(435)	-
SGD	+5%	1,120	-
	-5%	(1,120)	-

28. 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 to support its business and maximise shareholders' value. The Group's approach in managing capital is set out in MHB's Corporate Financial Policy.

The debt to equity ratio of the Group as at 31 December 2018 and 31 December 2017 are as follows:

	Note	2018 RM'000	2017 RM'000
Borrowing	23	48,354	-
Total equity		2,406,812	2,577,624
Gross debt to equity ratio (%)		0.02	-

The gearing ratio is not governed by MFRS and its definition and calculation may vary from one group/company to another.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determination of fair value

(i) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value due to their short-term nature:

	Note
Cash and bank balances	20
Trade and other receivables	18
Trade and other payables	22

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	2018		2017	
	Carrying amount RM'000	Carrying Fair value RM'000	Amount RM'000	Fair value RM'000
Financial liabilities				
Fixed rate borrowing	48,354	46,379	-	-

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30. SEGMENT INFORMATION

For management purposes, the Group is organised into business segments according to the services provided:

(i) Heavy Engineering Business Segment – provision of service for oil and gas engineering, construction and conversion works.

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

(iii) Others – comprise supporting services and sludge disposal management.

	Heavy Engineering Business Segment RM '000	Marine Business Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2018							
Revenue							
External customers	651,451	322,903	-	974,354	-		974,354
Inter-segments	-	-	-	-	-		-
	651,451	322,903	-	974,354	-	A	974,354
Result							
Operating loss	(38,988)	(81,718)	(6,296)	(127,002)	(111)	A	(127,113)
Share of results of joint ventures				3,005	-		3,005
Loss before taxation				(123,997)	(111)		(124,108)
Taxation				(56)	-		(56)
Loss for the year				(124,053)	(111)		(124,164)
Segment assets							
Due from customers on contracts	286,861	88,002	-	374,863	-		-
Trade receivables	75,043	152,558	78	227,679	-		-
Total segment assets	361,904	240,560	78	602,542	2,578,651	B	3,181,193
Segment liabilities							
Due to customers on contracts	2,406	-	-	2,406			
Total segment liabilities	2,406	-	-	2,406	-	C	2,406
Included in operating profits are:							
Depreciation and amortisation	(63,634)	(19,795)	(29)	(83,458)	(1,322)		(84,780)
Assets written off	-	-	(4,174)	(4,174)	-		(4,174)
Impairment loss							
- trade and other receivables	(239)	(7,626)	2,127	(5,738)	-		(5,738)

30. SEGMENT INFORMATION (CONT'D.)

	Heavy Engineering Business Segment RM '000	Marine Business Segment RM '000	Others RM '000	Total RM '000	Adjustments and Eliminations RM '000	Note	Consolidated RM '000
31 December 2017							
Revenue							
External customers	591,325	365,090	-	956,415	-		956,415
Inter-segments	-	-	417	417	(417)	A	-
	591,325	365,090	417	956,832	(417)		956,415
Result							
Operating (loss)/profit	(34,597)	54,343	(4,587)	15,159	(902)	A	14,257
Share of results of joint ventures				(3,239)	-		(3,239)
Loss before taxation				11,920	(902)		11,018
Taxation				21,428	-		21,428
Loss for the year				33,348	(902)		32,446
Segment assets							
Due from customers on contracts	442,192	103,139	-	545,331			
Trade receivables	54,221	170,296	197	224,714			
Total segment assets	496,413	273,435	197	770,045	2,614,671	B	3,384,716
Segment liabilities							
Due to customers on contracts	8,917	-	-	8,917			
Total segment liabilities	8,917	-	-	8,917	798,175	C	807,092
Included in operating profits are:							
Depreciation and amortisation	(64,970)	(20,496)	(250)	(85,716)	(1,322)		(87,038)
Assets written off	-	-	(126)	(126)	-		(126)
Recovery/(impairment loss)							
- trade and other receivables	-	(1,733)	(527)	(2,260)	-		(2,260)
- loan to joint venture	-	-	(2,021)	(2,021)	-		(2,021)
Net provision for warranty	14,837	-	-	14,837	-		14,837

Notes to the Financial Statements

For the financial year ended 31 December 2018

30. SEGMENT INFORMATION (CONT'D.)

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

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

Note

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

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

	2018 RM'000	2017 RM'000
Total assets	3,181,193	3,384,716
Property, plant and equipment	1,595,204	1,524,860
Land use rights	209,258	216,353
Investment in joint ventures	7,751	4,927
Deferred tax assets	93,293	93,293
Inventories	5,646	2,399
Other receivables	45,438	77,007
Cash and bank balances	601,544	674,968
Tax recoverable	20,517	20,864
Adjustments and eliminations to total assets	2,578,651	2,614,671
Total segment assets	602,542	770,045
The segment assets comprised:		
Due from customers on contracts	375,617	545,331
Trade receivables	226,925	224,714
	602,542	770,045

30. SEGMENT INFORMATION (CONT'D.)

Note

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

	2018 RM'000	2017 RM'000
Total liabilities	774,381	807,092
Trade and other payables	723,621	798,175
Borrowing	48,354	-
Adjustments and eliminations to total liabilities	771,975	798,175
Total segment liabilities	2,406	8,917

The segment liabilities solely comprise of amount due to customers on contracts.

Geographical information

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

Notes to the Financial Statements
For the financial year ended 31 December 2018

30. SEGMENT INFORMATION (CONT'D.)

Information about major customers

Breakdown of revenue from major customers are as follows:

	2018 RM'000	2017 RM'000
MISC Bhd, immediate holding company		
- Heavy Engineering Business Segment	4,156	4,156
- Marine Business Segment	13,771	78,533
	17,927	82,689
MISC Offshore Floating Terminal (L) Limited, a fellow subsidiary		
- Marine Business Segment	159,500	111,013
Hyundai Heavy Industry Ltd		
- Heavy Engineering Business Segment	126	27,295
Sabah Shell Petroleum Company Ltd		
- Heavy Engineering Business Segment	30,824	49,672
ExxonMobil Exploration and Production Malaysia Inc		
- Heavy Engineering Business Segment	835	-
Petronas Carigali Sdn Bhd, a related company		
- Heavy Engineering Business Segment	482,542	210,076
SOFEC Inc		
- Heavy Engineering Business Segment	17,968	71,150
Technicas Reunidas Malaysia Sdn Bhd		
- Heavy Engineering Business Segment	18,336	92,694
PRPC Utilities and Facilities Sdn Bhd		
- Heavy Engineering Business Segment	65,999	53,572
Toyo Engineering & Construction Sdn Bhd		
- Heavy Engineering Business Segment	1,166	67,003
E.A. Technique (M) Sdn Bhd		
- Marine Business Segment	-	86,045

31. SIGNIFICANT EVENTS

Material litigation

Malaysia Marine and Heavy Engineering Sdn Bhd ("MMHE"), a wholly-owned subsidiary of the Company, had on 27 September 2018 received a Notice of Arbitration from E.A. Technique (M) Berhad ("EAT") for a number of claims in relation to the contract entered into by MMHE in June 2015 for the Provision of Demolition, Refurbishment and Conversion of Donor Vessel into a Floating, Storage and Offloading Facility for Full Development Project, North Malay Basin, hereinafter referred to as the "Conversion Contract".

During the period of the contract, MMHE issued Additional Work Orders ("AWOs") to EAT, claiming for payments for works done. Disputes and differences have arisen between the parties over the valuation of the invoices and AWOs issued.

On 22 June 2018, EAT and MMHE entered into an agreement via a Letter of Undertaking ("LOU") to settle the sums due under the invoices and AWOs. Under the LOU, the parties agreed to perform a joint review of the claims made by MMHE over a specified period. However, both parties were unable to reach an amicable settlement and as a result thereof, EAT initiated arbitration proceedings against MMHE to resolve the disputes.

EAT's claims totaling USD21,743,398 are in relation to over-payment of original contract value, sums paid under the LOU and costs incurred pursuant to the Conversion Contract.

MMHE rejected EAT's claims and issued counterclaims totaling USD49,105,095 representing payment for unpaid invoices, prolongation costs and additional variations to the original scope of work.

The Group will vigorously defend the claims made by EAT and pursue its counterclaims. As at the date of this report, Statement of Claim has been served and MMHE shall respond with a Statement of Reply to EAT by 15 March 2019.

Statistics on Shareholdings

as at 12 February 2019

Issued Share Capital : 1,600,000,000 ordinary shares

Voting Rights : One vote per ordinary share in the case of a poll and one vote per person on a show of hands

ANALYSIS OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	69	0.81	674	0.00
100 - 1,000	1,652	19.47	1,415,108	0.09
1,001 - 10,000	4,729	55.73	21,910,924	1.37
10,001 - 100,000	1,765	20.80	55,089,898	3.44
100,001 to less than 5% of issued shares	267	3.15	215,964,396	13.50
5% and above of issued shares	3	0.04	1,305,619,000	81.60
TOTAL	**8,485**	**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 Esa	10,000	0.00	10,000	0.00
Yong Nyan Choi @ Yong Guan Choi	20,000	0.00	-	-
Wan Mashitah Wan Abdullah Sani	4,000	0.00	-	-

Directors' Interests in Related Corporations

MISC Berhad

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
Dato' Halipah Esa	-	-	10,000	0.00
Yong Nyan Choi @ Yong Guan Choi	10,000	0.00	-	-

Statistics on Shareholdings
as at 12 February 2019

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 Esa	10,000	0.00	13,100	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	-	-

* *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	TechnipFMC Plc - shares held through HSBC Nominees (Asing) Sdn Bhd	136,000,000	8.50	-	-
3	Urusharta Jamaah Sdn Bhd	105,619,000	6.60	-	-

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 TECHNIPFMC PLC	136,000,000	8.50
3	URUSHARTA JAMAAH SDN BHD	105,619,000	6.60
4	LEMBAGA TABUNG ANGKATAN TENTERA	35,925,100	2.25
5	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	25,338,190	1.58
6	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	23,999,900	1.50
7	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR MALAYSIAN ESG OPPORTUNITY FUND	12,747,200	0.80
8	MUHAMAD ALOYSIUS HENG	6,706,600	0.42
9	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 3	5,092,000	0.32
10	NUR ALIYAH BINTI ABDULLAH	5,000,000	0.31
11	CIMB GROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR DBS BANK LTD (SFS)	4,726,000	0.30
12	TAN ENG @ TAN CHIN HUAT	3,520,100	0.22
13	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	2,804,100	0.18
14	PUBLIC INVEST NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MUHAMAD ALOYSIUS HENG (M)	2,517,700	0.16
15	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	2,406,100	0.15
16	DB (MALAYSIA) NOMINEE (ASING) SDN BHD DEUTSCHE BANK AG SINGAPORE FOR DB SINGAPORE AC INTEGRAL ASIA VALUE FUND	2,248,700	0.14

30 Largest Shareholders

No	Name of Shareholders	No. of Shares	% of Issued Share Capital
17	CITIGROUP NOMINEES (ASING) SDN BHD CGML IPB FOR PEDDER STREET ASIA ABSOLUTE RETURN MASTER FUND LIMITED	2,201,500	0.14
18	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBANKAN) (AMUNDI SC EQ)	1,830,000	0.11
19	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR BERNADETTE JEANNE DE SOUZA (003)	1,779,400	0.11
20	CARTABAN NOMINEES (ASING) SDN BHD BCSL CLIENT AC PB CAYMAN CLIENTS	1,710,900	0.11
21	OH MUI HENG	1,710,000	0.11
22	ANG HEN HING	1,700,000	0.11
23	TOH EAN HAI	1,553,300	0.10
24	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD AIIMAN ASSET MANAGEMENT SDN BHD FOR LEMBAGA TABUNG HAJI	1,452,800	0.09
25	CHENG CHIN HENG	1,378,800	0.09
26	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	1,302,000	0.08
27	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	1,217,800	0.08
28	OOI EE HOW	1,168,000	0.07
29	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT PROGRESS FUND (4082)	1,147,700	0.07
30	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (F.TEMISLAMIC)	1,013,500	0.06
	TOTAL	**1,459,816,390**	**91.24**

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/2073	13,115,306	Marine Repair, Marine Conversion, Heavy Engineering fabrication yard, ancillary facilities and office buildings	39	44,327
2	PTD 11549 Mukim Plentong Johor Bahru	Land, Shipyard	Leasehold/2075	522,720	Marine Repair, Marine Conversion, Heavy Engineering fabrication yard, ancillary facilities and office buildings	43	831
3	PTD 101363 Mukim Plentong Johor Bahru	Land	Leasehold/2039	2,567,862	Storage Area	9	16,093
4	PTD 65615 Mukim Plentong Johor Bahru	Land	Leasehold/2044	698,266	Staff Quarters	35	2,059
5	PTD 65618 Mukim Plentong Johor Bahru	Land	Leasehold/2044	587,624	Staff Quarters	35	1,732
6	PTD 65619 Mukim Plentong Johor Bahru	Land	Leasehold/2044	128,502	Staff Quarters	35	379
7	PTD 65616 Mukim Plentong Johor Bahru	Land	Leasehold/2044	169,884	Vacant	35	501
8	PTD 65617 Mukim Plentong Johor Bahru	Land	Leasehold/2044	374,180	Vacant	35	1,103
9	Pasir Gudang Industrial Estate 81707 Pasir gudang Johor (erected on land 1 & 2 above)	Warehouse, workshops and office building	Leasehold/ 2072/2075	1,956,881	Marine Repair, Marine Conversion, Heavy Engineering fabrication yard, ancillary facilities and office buildings	41	1,104,348
10	Rumah Pangsa MMHE 81700 Pasir Gudang (erected on land 4 to 6 above)	4-storey residential flats	Leasehold/2044	383,559	Staff Quarters	40	3,131

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	Heavy Engineering fabrication yard, ancillary fabrication and office buildings	33	40,377
12	PTD 109040 Mukim Plentong Johor Bahru	Land	Leasehold/2053	217,800	Workshop, ancillary facilities and site office	25	6,277
13	PTD 200290 Mukim Plentong Johor Bahru	Land, Yard	Leasehold/2052	2,424,158	Workshop, ancillary facilities and office buildings	10	72,445
14	PTD 22768 Mukim Plentong Johor Bahru	Land	Leasehold/2040	435,600	Storage Area	38	11,006
15	LOT 51611 Mukim Plentong Johor Bahru	Land	Leasehold/2045	173,514	Ancillary facilities and storage area	22	4,595
16	PTD 110760 Mukim Plentong Johor Bahru	Land	Leasehold/2052	205,603	Workshop, ancillary facilities and office buildings	25	5,780
17	PTD 110758 Mukim Plentong Johor Bahru	Land	Leasehold/2052	59,242	Cabin office and warehouse	25	1,753

Corporate Directory

MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
Level 31, Menara Dayabumi, Jalan Sultan Hishamuddin, 50050 Kuala Lumpur, Malaysia
Tel : +603 2273 0266
Fax : +603 2273 8916
Website : www.mhb.com.my

Subsidiaries

MALAYSIA MARINE AND HEAVY ENGINEERING SDN BHD

MMHE WEST
PLO 3, Jalan Pekeliling, P.O. Box 77
81700 Pasir Gudang Johor, Malaysia

MMHE EAST
PLO 336, Jalan Suasa, P.O. Box 55
81700 Pasir Gudang, Johor, Malaysia
Tel : +607 251 2111/268 2111
Fax : +607 252 3701
Email : enquiries@mmhe.com.my

Branch Office in Singapore:
31 Rochester Drive, Level 24-19
Singapore 138637
Tel : +65 6220 7944
Fax : +65 6224 3967

TECHNO INDAH SDN BHD
Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia
Tel : +603 2273 0266
Fax : +603 2273 8916

MALAYSIA MARINE AND HEAVY ENGINEERING SAUDI LIMITED
Office No. 117, Takhassusi St
Almohammadia Dist, Riyadh
Saudi Arabia

MMHE LNG SDN BHD
Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia
Tel : +603 2273 0266
Fax : +603 2273 8916

MMHE EPIC MARINE & SERVICES SDN BHD
Warehouse 18, Kemaman Supply Base,
24007 Kemaman
Terengganu
Malaysia
Tel : +609 854 9837
Fax : +609 854 9847

Jointly Controlled Entities

MMHE-TPGM SDN BHD
Registered Office:
Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia
Tel : +603 2273 0266
Fax : +603 2273 8916

Branch Office in Turkmenistan:
Room #407, 4th Floor
1958 Street (Andalib Street, 70)
Ashgabat, 744000 Turkmenistan
Tel : +99 365 84 24 79

MMHE-ATB SDN BHD
Registered Office:
Level 31, Menara Dayabumi
Jalan Sultan Hishamuddin
50050 Kuala Lumpur
Malaysia
Tel : +603 2273 0266
Fax : +603 2273 8916

TECHNIP MHB HULL ENGINEERING SDN BHD
Level 11 Wisma Technip
241 Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : +603 2116 7888
Fax : +603 2116 7999

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 30th Annual General Meeting ("AGM") of Malaysia Marine and Heavy Engineering Holdings Berhad ("MHB" or "Company") will be held at Ballroom 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia, on Thursday, 11 April 2019 at 11.00 a.m. for the following purposes:

AS ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon.
   Refer to Explanatory Note 1

2. To re-elect the following Directors who retire by rotation pursuant to Rule 21.8 of the Company's Constitution and, being eligible, offer themselves for re-election:

   (i) Datuk Nasarudin Md Idris **Resolution 1**
   (ii) Yee Yang Chien **Resolution 2**
   (iii) Rozainah Awang
   Note: Rozainah Awang, although being eligible, will not be seeking re-election.

   Refer to Explanatory Note 2

3. To approve the payment of Directors' remuneration (including Directors' fees and benefits) to the Non-Executive Directors ("NEDs") up to an amount of RM1,900,000 for the period from 12 April 2019 until the conclusion of the next AGM of the Company to be held in 2020. **Resolution 3**
   Refer to Explanatory Note 3

4. To re-appoint Messrs Ernst & Young, as Auditors of the Company, to hold office until the conclusion of the next AGM and to authorise the Directors to fix their remuneration. **Resolution 4**
   Refer to Explanatory Note 4

5. To transact any other business for which due notice has been given in accordance with the Companies Act 2016 ("Act") and the Constitution of the Company.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Rule 18.16.2 of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act 1991 ("SICDA"), to issue a General Meeting Record of Depositors as at **5 APRIL 2019**. Only a depositor whose name appears on the Record of Depositors as at 5 April 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

By Order of the Board

Ausmal Kardin (LS 0009383)
Company Secretary

Kuala Lumpur
13 March 2019

Notice of Annual General Meeting

EXPLANATORY NOTES:

1. **Audited Financial Statements for the financial year ended 31 December 2018**

   This Agenda item is meant for discussion only as Section 340(1) of the Act does not require the Audited Financial Statements to be formally approved by the shareholders. Hence, this Agenda item is not put forward for voting.

2. **Re-election of Directors who retire pursuant to Rule 21.8 of the Company's Constitution**

   Rule 21.8 provides that one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3), shall retire from office and that each Director shall retire at least once in every three (3) years but shall be eligible for re-election. A retiring Director shall retain office until the close of the AGM at which he/she retires. The Directors to retire at such AGM shall be the Directors who have been longest in office and the length of time a Director has been in office shall be computed from his/her last appointment or election.

   Datuk Nasarudin Md Idris and Yee Yang Chien being eligible, offer themselves for re-election at this AGM pursuant to Rule 21.8 of the Constitution.

   Rozainah Awang has informed the Board of her intention to retire as a Non-Independent Non-Executive Director ("NINED") and therefore would not be seeking re-election at this AGM under Rule 21.8 of the Constitution of the Company. Hence, she will retain office until the conclusion of this AGM.

3. **Payment of Directors' Remuneration (including Directors' fees and benefits) to the NEDs for the period from 12 April 2019 until the conclusion of the next AGM of the Company to be held in 2020.**

   Pursuant to Section 230(1) of the Companies Act 2016, the shareholders' approval is sought for the proposed payment of the Directors' remuneration (including Directors' fees and benefits) to the NEDs for the period from 12 April 2019 until the conclusion of the next AGM of the Company to be held in 2020 which is estimated to be RM1,900,000. The calculation is based on the estimated number of scheduled and/or special Board and Board Committees' meetings and on the assumption that all NEDs will remain in office until the next AGM. The resolution is to facilitate payments of the Directors' remuneration for FYE 2019/2020.

   The Board will seek shareholders' approval at the next AGM in the event the proposed Directors' remuneration is insufficient.

4. **Re-appointment of Auditors**

   The Board Audit and Risk Committee and Board having assessed and satisfied with the quality of audit and service, adequacy of resources, performance, competency and independence of the external auditors; Messrs Ernst & Young which are in accordance with Paragraph 15.21 of the MMLR, had at their respective meetings on 19 February 2019 and 20 February 2019 recommended the re-appointment of Messrs Ernst & Young.

   Messrs Ernst & Young, have indicated their willingness to continue their services for the ensuing year.

NOTES ON PROXY FORM:

1. A member of a Company shall be entitled to appoint another person as his/her rights to attend, participate, speak and vote at a meeting of members of the Company, in accordance with Section 334(1) of the Act.

2. Only depositors whose names appear in the Record of Depositors as at 5 April 2019 shall be entitled to attend, speak and vote at the meeting.

3. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise all or any of his/her rights to attend, participate, speak and vote at the meeting.

4. A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his/her proxy without limitation. There shall be no restriction as to the qualification of the proxy.

5. Where a member of the Company is an authorised nominee as defined under the 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.

6. 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 the SICDA.

7. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the Form of Proxy.

8. 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.

9. The Form of Proxy duly completed and executed, must be deposited at the Company's Share Registrar, Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd) (378993-D) at Level 6, Symphony House, 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 for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than twenty-four (24) hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated as valid.

10. Pursuant to Paragraph 8.29A1 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") voting at the AGM of the Company will be conducted by poll. Poll Administrator and Independent Scrutineers will be appointed respectively to conduct the polling/e-voting process and to verify the results of the poll.

Notice of Annual General Meeting

ABSTENTION FROM VOTING

(i) The Directors of the Company who are also shareholders of the Company will abstain from voting on the relevant resolution in respect of their re-election as the Directors of the Company at this AGM.

(ii) All the NEDs who are shareholders of the Company will abstain from voting on Resolution No.3 concerning remuneration of the NEDs of the Company, at this AGM.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company:

(i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes");

(ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and

(iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

MHB

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

PROXY FORM

CDS Account No.	
No. of Shares Held	

I/We ______________________________ [NRIC/Passport No.______________________]
(Full name in block letters)

of ____
(Address in full)

being a member/members of **MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD** (Company No. 178821-X),

do hereby appoint:______________________________ [NRIC/Passport No.______________________]
(Full name in block letters)

of ____
(Address in full)

and/or failing him/her______________________________ [NRIC/Passport No.______________________]
(Full name in block letters)

of ____
(Address in full)

and failing the abovenamed proxies, the Chairman of the Meeting, as my/our proxies to attend and vote for me/us on my/our behalf at the 30th Annual General Meeting ("AGM") of Malaysia Marine and Heavy Engineering Holdings Berhad ("Company") to be held at Ballroom 1, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Thursday, 11 April 2019 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 re-elect Datuk Nasarudin Md Idris who retires by rotation pursuant to Rule 21.8 of the Company's Constitution.		
2.	To re-elect Yee Yang Chien who retires by rotation pursuant to Rule 21.8 of the Company's Constitution.		
3.	To approve the payment of Directors' remuneration (including Directors' fees and benefits) to the Non-Executive Directors up to an amount of RM1,900,000 for the period from 12 April 2019 until the conclusion of the next AGM of the Company to be held in 2020.		
4.	To re-appoint Messrs Ernst & Young, as Auditors of the Company, to hold office until the conclusion of the next AGM 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______________, 2019

____
Signature/Common Seal of member(s)

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

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

Notes:

1. A member of a Company shall be entitled to appoint another person as his/her rights to attend, participate, speak and vote at a meeting of members of the Company, in accordance with Section 334(1) of the Act.
2. Only depositors whose names appear in the Record of Depositors as at 5 April 2019 shall be entitled to attend, speak and vote at the meeting.
3. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise all or any of his/her rights to attend, participate, speak and vote at the meeting.
4. A member may appoint not more than two (2) proxies to attend the same meeting. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy. A proxy may but need not be a member of the Company and a member may appoint any person to be his/her proxy without limitation. There shall be no restriction as to the qualification of the proxy.
5. Where a member of the Company is an authorised nominee as defined under the 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.
6. 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 the SICDA.
7. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the Form of Proxy.
8. 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.
9. The Form of Proxy duly completed and executed, must be deposited at the Company's Share Registrar, Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd) (378993-D) at Level 6, Symphony House, 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 for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than twenty-four (24) hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated as valid.
10. Pursuant to Paragraph 8.29A1 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad voting at the AGM of the Company will be conducted by poll. Poll Administrator and Independent Scrutineers will be appointed respectively to conduct the polling/e-voting process and to verify the results of the poll.

Please fold here to seal

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

STAMP

BOARDROOM SHARE REGISTRARS SDN BHD
(formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House,
Pusat Dagangan Dana 1, Jalan PJU 1A/46,
47301 Petaling Jaya, Selangor Darul Ehsan,
Malaysia.

Please fold here to seal