

MISC BERHAD (“MISC” OR “COMPANY”)

PROPOSED LISTING OF MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD (FORMERLY KNOWN AS MSE HOLDINGS BERHAD) (“MHB”), A WHOLLY-OWNED SUBSIDIARY OF MISC, ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD (“BURSA SECURITIES”) (“PROPOSED LISTING”)

1. INTRODUCTION

On behalf of the Board of Directors of MISC (“**Board**”), Maybank Investment Bank Berhad (“**Maybank IB**”) is pleased to announce that MISC proposes to list its wholly-owned subsidiary, namely MHB, on the Main Market of Bursa Securities.

On 8 April 2010, the Board had announced MISC’s intention to list its wholly-owned subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (“**MMHE**”) on the Main Market of Bursa Securities. Pursuant to refinement of the initial intention and the finalisation of the listing scheme, MISC has decided that the listed vehicle shall be MHB, which currently holds 100% equity interest in MMHE.

2. DETAILS OF THE PROPOSED IPO SCHEME

MHB proposes to undertake the following exercises to facilitate the Proposed Listing:

2.1 Proposed Increase in Authorised Share Capital

MHB proposes to increase its authorised share capital from RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each in MHB (“**Existing MHB Shares**”) to RM2,500,000,000 comprising 5,000,000,000 ordinary shares of RM0.50 each in MHB (“**MHB Shares**”) to facilitate the Proposed Bonus Issue and the Proposed Listing (both as defined below) as well as to cater for any future increase in the share capital of MHB (“**Proposed Increase in Authorised Share Capital**”).

On 30 June 2010, the issued and paid-up share capital of MHB was RM16,220,000, comprising 16,220,000 Existing MHB Shares.

2.2 Proposed Share Split

The Proposed Share Split entails the subdivision in the par value of the Existing MHB Shares of RM1.00 each to RM0.50 each resulting in the subdivision of every one (1) Existing MHB Share into two (2) MHB Shares (“**Proposed Share Split**”). The Proposed Share Split will increase the number of ordinary shares of MHB from 16,220,000 Existing MHB Shares to 32,440,000 MHB Shares.

2.3 Proposed Dividend and Proposed Bonus Issue

Subsequent to the Proposed Share Split, MHB will declare a cash dividend payout of RM300,000,000 to MISC via dividend income received from MMHE (“**Proposed Dividend**”). After the Proposed Dividend, MHB proposes to undertake the bonus issue which involves the issuance of 1,305,560,000 new MHB Shares (“**Bonus Shares**”) to be credited as fully paid-up on the basis of about 40.245 Bonus Shares for every one (1) MHB Share (“**Proposed Bonus Issue**”).

The Bonus Shares shall be issued as fully paid-up shares by way of capitalising RM652,780,000 of MHB’s retained earnings, after taking into account the proposed interim dividends to be declared by MMHE to MHB of RM655,000,000 which will increase the retained earnings of MHB to RM654,792,000 to facilitate the Proposed Bonus Issue.

The Bonus Shares shall, upon allotment and issue, rank equally in all respects with the then issued and paid-up share capital of MHB, except that they will not be entitled to any dividend, right, allotment and/or other distributions, the entitlement date of which is prior to the date of allotment and issue of the Bonus Shares.

2.4 Proposed IPO

Upon completion of the Proposed Share Split, the Proposed Dividend and the Proposed Bonus Issue, MHB proposes to undertake the Proposed IPO (collectively, the Proposed Offer For Sale and the Proposed Public Issue) as detailed below:

2.4.1 Proposed Offer For Sale

Institutional Offering

MISC proposes to offer 146,000,000 MHB Shares ("**Offer Shares**"), representing about 9.12% of the enlarged issued and paid-up share capital of MHB to the Malaysian institutional and selected investors, and foreign institutional and selected investors outside the United States ("**US**") in reliance on Regulation S under the US Securities Act of 1933 ("**Proposed Offer For Sale**").

The offer price to be paid by the institutional investors pursuant to the Institutional Offering is to be determined on the price determination date by way of a bookbuilding exercise ("**Institutional Price**").

2.4.2 Proposed Public Issue

MHB proposed to undertake a public issue of 262,000,000 new MHB Shares ("**Issue Shares**"), representing about 16.38% of the enlarged issued and paid-up share capital of MHB, to be allocated in the following manner:

(I) Bumiputera Offering

MHB proposes to offer 184,000,000 Issue Shares, representing 11.50% of the enlarged issued and paid-up share capital of MHB to Bumiputera institutional and selected investors approved by the Ministry of International Trade and Industry ("**MITI**").

The Bumiputera Offering will be offered to Bumiputera investors at the Institutional Price.

(II) **Retail Offering**

MHB proposes to offer 78,000,000 Issue Shares, representing about 4.88% of the enlarged issued and paid-up share capital of MHB in the following manner:

(a) **Allocation via a restricted ballot to MISC's shareholders (except for the excluded shareholders¹)**

24,000,000 Issue Shares, representing 1.50% of the enlarged issued and paid-up share capital of MHB, are set aside under a restricted ballot for MISC's shareholders (except for the excluded shareholders) as at a book closure date to be determined by the Board and announced later.

(b) **Allocation via balloting to the Malaysian public**

32,000,000 Issue Shares, representing 2.00% of the enlarged issued and paid-up share capital of MHB, are available for application by the Malaysian public, of which 16,000,000 Issue Shares, representing 1.00% of the enlarged issued and paid-up share capital of MHB, are set aside for Bumiputera individuals, companies, co-operatives, societies and institutions.

Any Issue Shares not subscribed by such Bumiputera investors will be made available for application by other Malaysian public via balloting.

(c) **Allocation to the Eligible Directors and Employees**

22,000,000 Issue Shares, representing about 1.38% of the enlarged issued and paid-up share capital of MHB have been reserved for application by the eligible Directors and employees of MHB, its subsidiaries and jointly controlled companies ("**MHB Group**") as well as the eligible Directors and employees of MISC and selected subsidiaries of MISC ("**Eligible Directors and Employees**") in the following manner ("**Proposed Pink Form Offer**"):

- (i) 152,000 Issue Shares, representing 0.0095% of the enlarged issued and paid-up share capital of MHB have been reserved for all the directors of MHB, all the Directors of MISC and the directors of MISC's selected subsidiaries. The Directors of MISC and MHB have been allocated 10,000 Issue Shares each and the Directors of MISC's selected subsidiaries have been allocated 2,000 Issue Shares each; and

¹ The excluded shareholders are as follows: (i) US persons (as such term is defined under Regulation S under the US Securities Act, 1933); (ii) Persons with addresses outside Malaysia; (iii) Persons who are located in jurisdictions outside Malaysia in which acceptance under the Retail Offering would result in the contravention of the laws of such jurisdiction (whether in the absence of any necessary consent and/or compliance with any registration of other legal requirements or for any other reason); or (iv) Person who are, in the opinion of the Board of Director of MHB (on the advice of its legal adviser), necessary or expedient to be excluded from participating in the Retail Offering by reason of legal or regulatory requirements.

- (ii) 21,848,000 Issue Shares, representing about 1.37% of the enlarged issued and paid-up share capital of MHB have been reserved for about 9,000 eligible employees of the MHB Group, MISC and selected subsidiaries of MISC, who have been confirmed employees since 31 August 2010 and have not submitted their resignation as at 31 August 2010. The eligible employees of the MHB Group will be allocated 4,000 Issue Shares each and the eligible employees of MISC and selected subsidiaries of MISC will be allocated 2,000 Issue Shares each.

The issue price to be paid by the retail investors pursuant to the Retail Offering (“**Issue Price**”) will be determined later prior to the launch of the Prospectus, after taking into consideration various factors, including but not limited to the operating and financial history of the MHB Group, the industry outlook which the MHB Group operates at that point in time, the MHB Group’s competitive strengths, business strategies and future plans as well as the prevailing market conditions.

The final issue price per Issue Share will be equivalent to the Issue Price or 95% of the Institutional Price, whichever is lower, to be determined on the price determination date.

Upon completion of the Proposed IPO, MHB’s issued and paid-up share capital will increase from RM669,000,000 comprising 1,338,000,000 MHB Shares to RM800,000,000 comprising 1,600,000,000 MHB Shares.

In summary, the Offer Shares and Issue Shares (collectively, the “**IPO Shares**”) will be allocated in the following manner:

Categories	No. of IPO Shares	% of enlarged issued and paid-up share capital in MHB
		%
Proposed Offer For Sale		
<i>Institutional Offering to:</i>		
Malaysian institutional and selected investors, and foreign institutional and selected investors outside the US	146,000,000	9.12
	146,000,000	9.12
Proposed Public Issue		
<i>Bumiputera Offering to:</i>		
Bumiputera institutional and selected investors approved by the MITI	184,000,000	11.50
<i>Retail Offering to:</i>		
(i) MISC’s shareholders (except for the excluded shareholders) (via a restricted ballot)	24,000,000	1.50
(ii) Malaysian public (via balloting):		
- Bumiputera	16,000,000	1.00
- Non-Bumiputera	16,000,000	1.00
(iii) The Eligible Directors and Employees	22,000,000	1.38
	262,000,000	16.38
Total	408,000,000	25.50

2.5 Proposed Listing

Upon the successful completion of the Proposed IPO, MHB proposes to seek a listing of and quotation for its enlarged issued and paid-up share capital comprising 1,600,000,000 MHB Shares amounting to RM800,000,000 on the Main Market of Bursa Securities. The board lot sizes for the enlarged issued and paid-up share capital of MHB upon its listing will be standardised at 100 units per board lot.

The Proposed Increase in Authorised Share Capital, the Proposed Share Split, the Proposed Dividend, the Proposed Bonus Issue, the Proposed IPO and the Proposed Listing shall collectively be referred to as the “**Proposed IPO Scheme**”.

3. BACKGROUND INFORMATION ON THE MHB GROUP

3.1 Information on MHB Group and its business activities

MHB was incorporated in Malaysia on 18 February 1989 under the Companies Act, 1965 as a private limited company under the name of MSE Holdings Sdn Bhd. On 14 June 2010, MHB was converted into a public company. On 15 June 2010, MHB changed its name from MSE Holdings Berhad to Malaysia Marine and Heavy Engineering Holdings Berhad, which is its present name.

The MHB Group is a leading Malaysian heavy engineering and marine services provider, primarily focused on the oil and gas sector. The MHB Group offers a wide spectrum of engineering and construction, marine conversion and marine repair services from its yard in Pasir Gudang, Johor, Malaysia and the yard it operates in Kiyaly, Turkmenistan. MHB is the parent company of MMHE, and it offers its services primarily under the “MMHE” brand.

The MHB Group has three (3) core businesses: engineering and construction, marine conversion and marine repair, and it divides its businesses into two (2) operating segments: the engineering and construction segment and the marine conversion and marine repair segment.

The MHB Group’s engineering and construction business offers a full range of oil and gas construction and engineering services, from detailed engineering design and procurement to construction, installation, hook-up and commissioning. The MHB Group specialises in the construction of various facilities for the offshore and onshore oil and gas industry. Completed and ongoing projects include the construction of oil and gas platforms, jackets, topsides, process modules, turrets, SPARs², semi-submersibles, mooring buoy systems, living quarters and substructures. The Pasir Gudang yard is the only yard in Malaysia that has constructed complex deepwater structures for the oil and gas industry.

² A vertical, cylindrical structure with the majority of the hull underwater. The deep hull of a spar lowers its centre of gravity, making the structure more stable. Also known as a deep draught caisson vessel.

The MHB Group's marine conversion business offers a one-stop centre for converting vessels such as very large crude oil carriers ("**VLCCs**"), i.e. crude oil tankers with a loading capacity between 200,000 deadweight tonnes ("**dwt**") and 300,000 dwt, Aframax tankers and offshore oil rigs into floating structures for the offshore oil and gas industry such as floating, production, storage and offloading system ("**FPSO**"), floating, storage and offloading ("**FSO**"), mobile offshore production unit and mobile offshore drilling unit. The MHB Group provides a comprehensive range of marine conversion services from engineering design to fabrication, installation and commissioning of these structures. The MHB Group operates the only yard in Malaysia that has completed FPSO/FSO conversions, its first being the *FPSO Perintis* completed in March 1999. Other services offered by its marine conversion business include the construction of new-built structures, including tender rig barges, and "jumboisation" works, which are complex engineering operations to increase a vessel's length, breadth or both dimensions.

The MHB Group's marine repair business offers repair, refit and refurbishment services to a wide range of vessels, with a focus on energy-related vessels such as ultra-large crude oil carriers, i.e. crude oil tankers with a loading capacity above 300,000 dwt, VLCCs and other petroleum tankers, chemical tankers, offshore oil rigs, gas carriers, and other offshore support vessels. The MHB Group provides maintenance, technical solutions and refurbishment services for liquefied natural gas ("**LNG**") carriers at its yard in Pasir Gudang. The MHB Group markets these services for LNG carriers through a joint venture with Samsung Heavy Industries Co., Ltd.

The present authorised share capital of MHB is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM16,220,000 comprising 16,220,000 ordinary shares of RM1.00 each. Pursuant to the Proposed Increase in Authorised Share Capital, MHB will increase its authorised share capital to RM2,500,000,000 comprising 5,000,000,000 ordinary shares of RM0.50 each to facilitate the Proposed Bonus Issue and the Proposed Listing as well as to cater for any future increase in the share capital of MHB.

MHB is principally involved in investment holding whilst the principal activities of its subsidiaries and jointly controlled companies are as follows:

<u>Name</u>	<u>Issued and paid-up share capital</u> RM	<u>Effective Interest</u> %	<u>Principal activities</u>
Direct subsidiary of MHB			
MMHE	100,000,000	100.00	Oil and gas engineering and construction works, marine conversion and marine repair
Direct subsidiaries of MMHE			
MSE Corporation Sdn Bhd	100,000	100.00	Under members' voluntary liquidation
MMHE-SHI LNG Sdn Bhd	3,700,000	70.00	Provision of repair services and dry docking of liquefied natural gas carriers
Malaysia Marine and Heavy Engineering (Turkmenistan) Sdn Bhd (" MTSB ")	200,000	100.00 ^(a)	Dormant and has ceased its operations since 31 December 1991
Techno Indah Sdn Bhd	10,000,000	100.00	Sludge disposal management

Name	Issued and paid-up share capital RM	Effective Interest %	Principal activities
Jointly controlled companies of MMHE			
MMHE-ATB Sdn Bhd ("MMHE-ATB")	5,600,000	40.00 ^(b)	Manufacturing of pressure vessels and tube heat exchangers
MMHE-TPGM Sdn Bhd	300,000	60.00	Provision of engineering, procurement, construction, installation and commissioning

Notes:

^(a) On 9 July 2010, MMHE agreed to divest its 100% equity interest in MTSB to MHB. The stamping and registration of the transfer form are anticipated to be completed by the end of August 2010.

^(b) A joint venture company with ATB Riva Calzoni SpA. On 1 April 2010, MMHE disposed of 20% equity interest in MMHE-ATB to ATB Riza Calzoni SpA, thereby reducing its ownership in MMHE-ATB from 60% to 40%. However, this disposal is pending the stamping and registration of the transfer form, a process expected to be completed by middle of August 2010.

3.2 Financial information of MHB

The table below sets out the summary of the audited financial information of MHB for the past three (3) financial years ended ("FYE") 31 March 2010:

	<----- FYE 31 March ----->		
	2008	2009	2010
	RM'000	RM'000	RM'000
Turnover	1,741,922	4,021,147	6,147,012
Profit before taxation	235,898	349,042	377,206
Profit after taxation ("PAT")	194,645	282,221	284,115
PAT and minority interests	192,398	278,301	279,203
Paid-up share capital ('000)	16,220	16,220	16,220
Gross earnings per share ("EPS") (RM)	14.54	21.52	23.26
Net EPS (RM)	11.86	17.16	17.21
Net assets ("NA") ('000)	646,828	929,049	1,213,164
NA per Existing MHB Share (RM)	39.88	57.28	74.79

To date, the original cost of MISC's investment in MHB, from 11 October 1991 to 14 January 2008, stands at about RM303.84 million.

4. PROPOSED UTILISATION OF PROCEEDS

4.1 Proposed utilisation of proceeds by MISC

The proceeds raised from the Proposed Offer For Sale will accrue entirely to MISC and is proposed to be utilised for capital expenditure and working capital purposes, as well as to defray expenses relating to the Proposed Offer For Sale.

4.2 Proposed utilisation of proceeds by MHB

The proceeds raised from the Proposed Public Issue will accrue entirely to MHB and is proposed to be utilised for MHB's Yard Optimisation Programme, capital expenditure in Turkmenistan and to defray the listing expenses.

The yard in Pasir Gudang is currently undergoing a series of infrastructure upgrading works under the Yard Optimisation Programme. The Yard Optimisation Programme has to be carried out in phases to ensure minimal operational disruptions and to ensure that the delivery of existing projects is not affected. The Yard Optimisation Programme commenced in 2006 and is expected to be completed by first half of 2014.

The total estimated cost and the working capital of the Yard Optimisation Programme is RM2,721.5 million, where, as at 30 June 2010, MHB have already invested about RM548.0 million on the commitment which comprises of partial payment of earthwork on the land, construction of pier, workshops and new facilities among others. As the works progress, the onward expenditures will be funded from the listing proceeds and internally generated funds and/or borrowings. MHB's future infrastructure upgrading works under the Yard Optimisation Programme include, among others, automation and construction of specialised enclosed work areas, construction of 25,000 tonnes bulkheads and skid-track and concreting of fabrication areas, enlargement of existing dry-dock and installation of new facilities as well as acquisition and installation of cranes, block transportation dolly and mechanical and engineering utilities, which is subject to the MHB Board's approval.

The increased activities in Turkmenistan require additional capital expenditure for the purchase of movable heavy equipment such as cranes, welding machine and ancillaries, trucks, fork-lift and prime movers, portable air-compressor, quality control facilities and testing and commissioning equipment for economies of scale in performing fabrication works at the Kiyarly yard, which MHB is currently operating and managing on behalf of PETRONAS Carigali (Turkmenistan) Sdn Bhd.

Further details of the proposed utilisation of proceeds by MISC and MHB will be included in the circular to the shareholders of MISC ("**Circular**") to be despatched in due course.

5. RATIONALE FOR THE PROPOSED LISTING

The rationale for the Proposed Listing is as follows:

- (i) The Proposed Listing will enable MISC and its subsidiaries ("**MISC Group**") to accelerate the growth of its offshore and heavy engineering divisions. By creating a separate listed entity, MHB will have direct access to the capital market for cost effective capital raising for future expansion and continued growth of the MHB Group;
- (ii) The Proposed Listing will unlock shareholders' value by crystallising the value of the MISC Group's marine and heavy engineering businesses. The Company believes that the existing business and the prospects of the industry in which MHB operates offer a distinct and compelling growth story. Hence, the listing of MHB will provide a transparent valuation benchmark for the MISC Group's marine and heavy engineering businesses under MHB;
- (iii) The Proposed Listing will enable MHB to gain recognition and corporate stature through its listing status and further enhance its corporate reputation and assist the MHB Group in expanding its customer base; and

- (iv) The Proposed Listing will provide an opportunity for the investing community including the Malaysian public, MISC's shareholders (except for the excluded shareholders) and the Eligible Directors and Employees to participate in MHB's continuing growth by way of equity participation.

6. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSED IPO SCHEME

Barring any unforeseen circumstances, the Proposed IPO Scheme is expected to be completed by the fourth quarter of 2010.

7. EFFECTS OF THE PROPOSED IPO SCHEME

The effects of the Proposed IPO Scheme on the MISC Group are set out below:

7.1 Share capital and substantial shareholders' shareholdings

The Proposed IPO Scheme will not lead to issuance of new MISC shares, and correspondingly, will not have any effect on the existing issued and paid-up share capital and the shareholdings of substantial shareholders of MISC.

7.2 NA, NA per share and gearing

The Proposed IPO Scheme is expected to have a positive impact on the NA and NA per share of MISC. However, the actual impact will only be ascertained when the Institutional Price and the Issue Price have been determined. The Proposed IPO Scheme is not expected to have any material impact on the gearing level of the MISC Group.

7.3 Earnings and EPS

The MISC Group stands to record a gain on disposal pursuant to the Proposed Offer For Sale and deemed gain on disposal from dilution of MISC's interest in MHB pursuant to the Proposed Public Issue after the completion of the Proposed IPO Scheme but the quantum of the gain will only be ascertained once the Institutional Price and the Issue Price have been determined. In addition, the Board believes that the Proposed IPO Scheme is expected to contribute positively to the earnings of the MISC Group in the future, notwithstanding the dilution of equity interest in MHB held by MISC.

Further details of the effects of the Proposed IPO Scheme on the MISC Group will be included in the Circular to be despatched in due course.

8. APPROVALS REQUIRED

The Proposed Increase in Authorised Share Capital, the Proposed Share Split, the Proposed Dividend, the Proposed Bonus Issue, the Proposed IPO and the Proposed Listing are inter-conditional.

The Proposed IPO Scheme is subject to the approvals from the following parties:

- (i) the Securities Commission ("SC") for the Proposed IPO and the Proposed Listing;
- (ii) the Equity Compliance Unit ("ECU") of SC in compliance with the Bumiputera Equity Requirements for Public Listed Companies;
- (iii) the MITI for the Proposed IPO, the Proposed Listing and the Bumiputera Offering;

- (iv) Bursa Securities, for admission to the Official List of Bursa Securities, and the listing of and quotation for the enlarged issued and paid-up share capital of MHB on the Main Market of Bursa Securities;
- (v) the shareholders of MISC for the Proposed Listing and proposed allocation of Issue Shares to the eligible Directors of MISC pursuant to the Proposed Pink Form Offer at the forthcoming Extraordinary General Meeting (“EGM”); and
- (vi) any other relevant authorities/parties, if required.

In addition to the above, an application will also be made to the Shariah Advisory Council of the SC in relation to the approval of classification of the entire enlarged issued and paid-up share capital of MHB as Shariah-compliant security upon completion of the Proposed Listing.

9. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTERESTS

None of the Directors and/or major shareholders of MISC and/or persons connected to them has any interest, either direct or indirect in the Proposed IPO Scheme, save for their respective proposed allocations under the Proposed Pink Form Offer.

All the Directors of MISC are eligible to participate in the Proposed Pink Form Offer. The number of Issue Shares will be allocated on an equal basis among the Directors of MISC and the directors of the MHB Group whereby each of them will be allocated 10,000 Issue Shares whilst the directors of the selected subsidiaries of MISC will be allocated 2,000 Issue Shares each pursuant to the Proposed Pink Form Offer.

In view of the aforesaid interests, all the Directors of MISC have abstained and will continue to abstain from deliberating and voting at all the Board meetings pertaining to the respective proposed allocations of Issue Shares to them pursuant to the Proposed Pink Form Offer.

Further, the Directors of MISC shall abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions pertaining to the respective proposed allocations of the Issue Shares to them pursuant to the Proposed Pink Form Offer. Accordingly, the Directors of MISC will undertake to ensure that persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in the Company (if any) on the resolutions pertaining to the proposed allocations of the Issue Shares to them at the forthcoming EGM.

Save as disclosed above, none of the Directors and/or the major shareholders of MISC and/or persons connected to them has any interest, directly or indirectly in the Proposed Pink Form Offer.

10. DIRECTORS’ STATEMENT AND RECOMMENDATION

The Directors of MISC, having considered all aspects of the Proposed IPO Scheme are of opinion that the Proposed Listing is in the best interest of the Company.

All the Directors of MISC are eligible to participate in the Proposed Pink Form Offer. Based on the above, the Directors of MISC have abstained and would abstain from rendering any opinion and/or making any recommendations to vote in respect of the resolutions pertaining to the allocations of the Issue Shares to be issued to them pursuant to the Proposed Pink Form Offer.

11. ADVISER

Maybank IB has been appointed as the Adviser to MISC for the Proposed IPO Scheme.

This announcement is dated 23 July 2010.