

CHAIRMAN'S MESSAGE

Dear Shareholders,

Welcome to our Annual Report 2022.

On behalf of the Board of Directors, I'm pleased to present to you the Annual Report and Audited Financial Statements of the Frontken's group (the "Group") for the financial year 2022 ("FY2022"). As part of this Annual Report, we have also included the Management Discussion and Analysis to provide our shareholders with a more insightful and informative details of the Group's operation and performance.

Over the past few years, our business has shown remarkable resilience despite numerous challenges. We were able to face and overcome these challenges placed before us as a result of the dedication, capability and resilience of our excellent team of people.

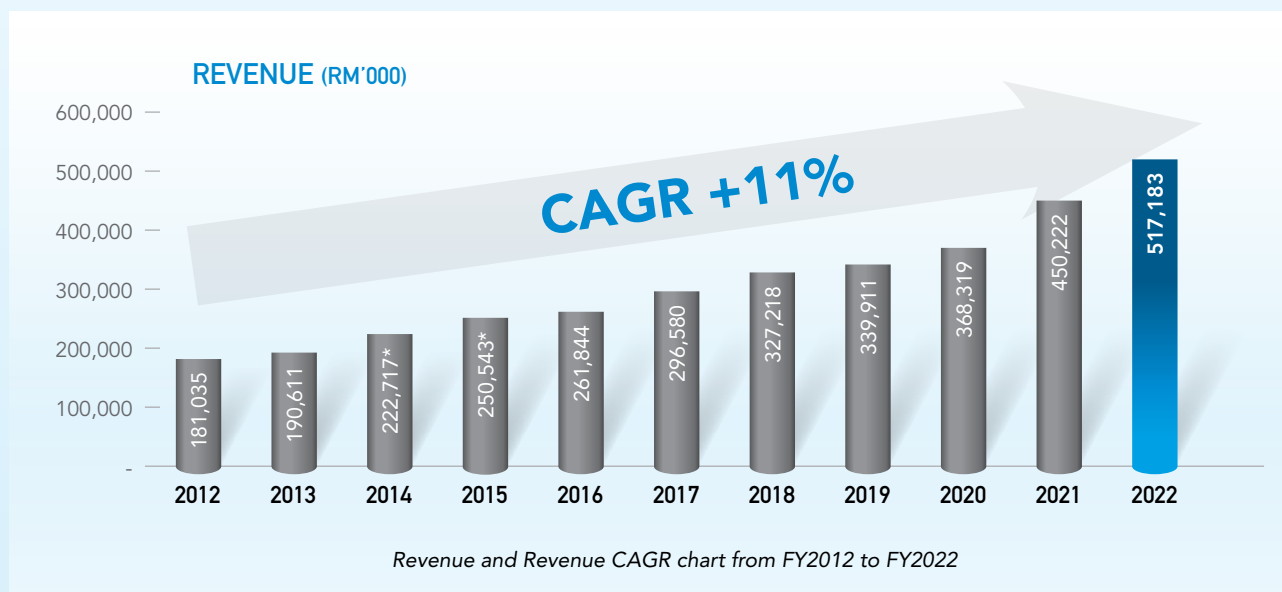
MANAGEMENT DISCUSSION AND ANALYSIS

ANOTHER RECORD-BREAKING YEAR

Financial performance

Once again, Frontken achieved a record-breaking year with growth across our top and bottom lines and also cash balances. The revenue for 2022 was RM517.2 million, a double-digit growth of 15% compared to the same period a year ago due to improved contributions and strong demand from the Group's global customers in both the semiconductor and oil and gas ("O&G") industries.

The Group's profit before tax for the year was at RM174.8 million, a 17% increase from the preceding financial year. At the same time, our earnings before interest tax, depreciation and amortisation ("EBITDA") also grown by 15% compared to last year. Our profit after tax ("PAT") of RM135.2 million was also at its highest, with an increase of 18% compared to RM114.2 million recorded a year ago. The improved bottom line was attributable to the Group's higher revenue, strict cost management and continual enhancement of processes leading to better production efficiency.

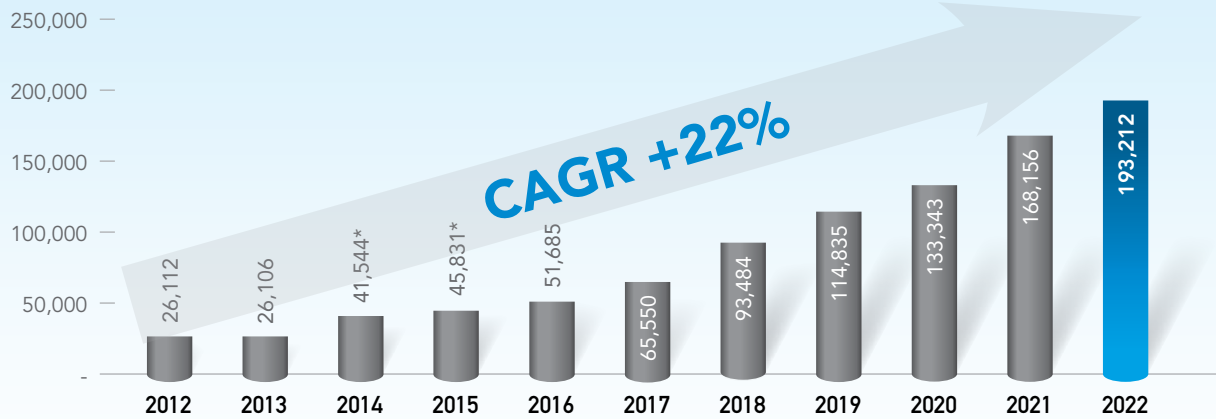


*Note: Excluded the one-off ATB project for a like-for-like comparison.

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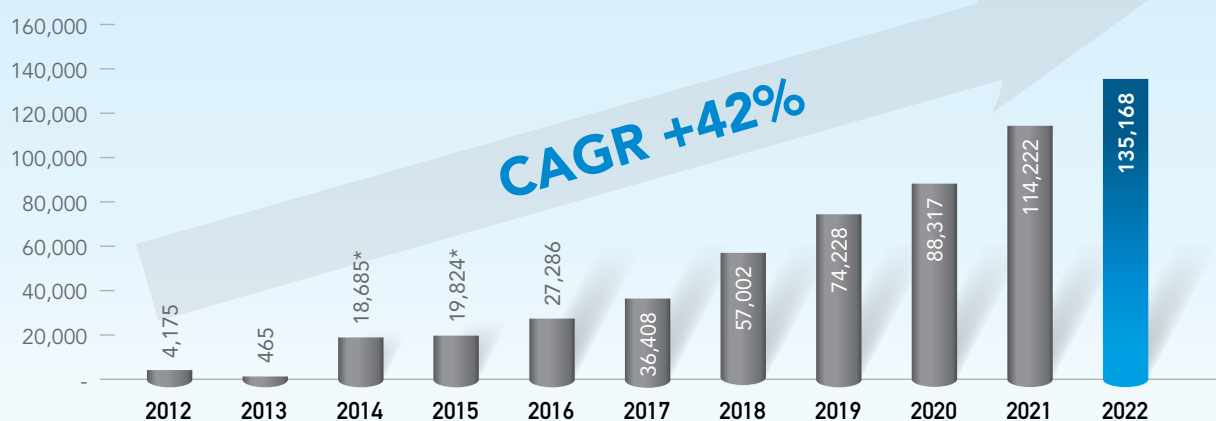
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EBITDA (RM'000)



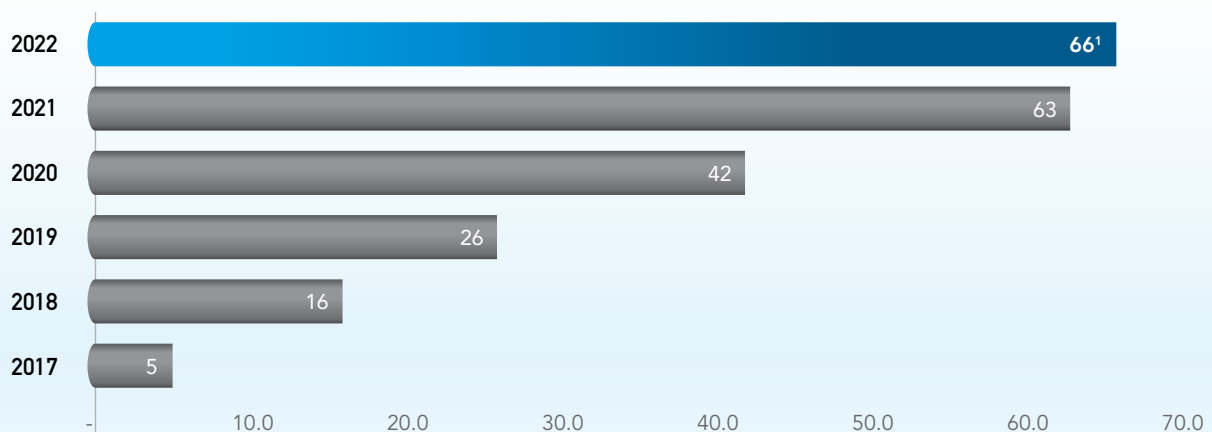
EBITDA and EBITDA CAGR chart from FY2012 to FY2022

PAT (RM'000)



PAT and PAT CAGR chart from FY2012 to FY2022

PAYOUT (RM'million)



Dividend payout in (RM) from FY2017 to FY2022¹

*Note: Excluded the one-off ATB project for a like-for-like comparison.

¹Note: Assuming the proposed second interim dividend of 2.6 sen per share is approved by the Company's shareholders during the upcoming general meeting.

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Paying a sustainable dividend that commensurate with the performance of the Group is something we strive to do for our shareholders. The Company aims to continue to grow the dividend payout at a rate that reflects the growth of its business. In 2022, the Company paid a single interim dividend of 1.6 sen per share and has proposed a second interim dividend of 2.6 sen per share to be approved by its shareholders during its upcoming general meeting. This would bring the total dividend to 4.2 sen per share for the whole year, up 5% from a year ago. If approved, the total payout would amount to approximately RM66¹ million, representing 54% of the Group's total net earnings in 2022. We envisage to continue with this sustainable dividend payments taking into consideration a number of factors such as earnings, financial conditions, capital commitments, acquisition related activities and reserves, among others.

During the year, the Group continued to generate a positive cash flow of RM142.9 million from our business operations. The Group's capital expenditure ("CAPEX") for the year for property, plant and equipment was at RM52.7 million. Despite the additional cash outflows from dividend and CAPEX, the Group's total cash balance as at 31 December 2022 remained strong at RM339.6 million.

OVERALL 2022

After a break of 2 years due to the pandemic, this year, we were finally able to hold our physical executive team meetings where we reviewed individual unit's past performances, shared updates on how each unit was doing and set targets for the future.

During the year, we started seeing more activities as our operations were slowly getting back to normal and supply chain started to normalise. At the same time, our employees have started to return to the office for work and things are looking better again. Despite the pressure of higher material costs and tighter labour conditions, we were able to offset the same with improved productivity and efficiency.

OUR WORKFORCE

By the end of 2022, we have grown our headcounts by about 10% to 1,320 employees compared to a year ago. We place strong emphasis on developing and encouraging talent while preparing our employees for our future needs. We continued to encourage our employees to acquire new knowledge through continuous learning to enable them to stay on top of the industry trends and to remain competitive in our business.

Like every other companies around the world, we strive to be an employer of choice. To that end, we will continue to invest in our people through various performance-based incentives, competitive benefits and skills development programmes that allow for advancement opportunities. During the year, we have also had the approval of our shareholders to implement the Share Grant Plan for the eligible employees of the Group. The share grants are in lieu of bonus and selected employees are given the option of whether to receive cash bonus or shares. We will continue to monitor and make the necessary adjustments to our employee's compensation so that the same are in line with the current and industrial standards. This include having a compensation package that reflect their achievements based on meeting key performance indicators (in both qualitative and quantitative measures). We believe that it is vital to ensure that all our employees are compensated fairly for their skills and commitment.

ENVIRONMENTAL, SOCIAL & GOVERNANCE ("ESG") AND SUSTAINABILITY FOR A BETTER TOMORROW

Our core priorities remained the same; which is to build a business that is strong, resilient, and sustainable. To achieve that, we incorporate strong ESG practices into our business. These good practices play an integral part in our business and hence, we take very seriously our responsibility in this area. We ensure that all our activities and processes adequately address current environmental concerns and at the same time maintaining a sustainable profit.

OUR ENVIRONMENT — Our E encompasses protecting biodiversity, maintaining a clean and safe environment, and restoring climate change. We are aware of the impact of the environmental risks that companies are exposed to, from the energy we take in to the waste we produced. Therefore, our goal is to minimise any of these negative impact, with a focus on reducing carbon footprints. Realistically, we cannot stop global warming altogether, but we can play a part in slowing the rate and limiting the amount by preventing pollutions. One of our research and development ("R&D") focuses has always been to look at areas where we can improve and make positive contributions to our environment. For example, through our efforts, since 2018, we have adopted the equivalent of 2,277,595 KW of electricity using solar energy, an accumulative savings of 307,623 tons of recycled DI-water, and accumulative savings of 381,196 kg of recycled waste in our operations. We have also set a long-term target of reducing our Emissions Intensity - the amount of greenhouse gas emissions for Scope 1, 2 and 3 by at least 50% by 2050; to stabilise emissions with the aim of peaking at around 2050; and to achieve Net Zero Emissions by 2060.

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Scrubber system in Plant 2, Taiwan

For more details specifically on our environment and climate change efforts, please visit our website at www.frontken.com for the report titled "Frontken Sustainability Climate Change Report 2023".

SOCIAL — We believe that the S aspect begins within our organisation and that is our employees are to be treated fairly and respectfully. Over the years, we maintain a good health and safety track record, support zero tolerance on all form of forced labour, provide equal opportunities, encourage training and development as well as put in place various policies such as diversity and inclusion, among others. Providing a safe and healthy work environment to our employees are of utmost importance. We undertake various protection measures, assessed risks and impacts in our operations, as well as provide mitigation plans to control any potential hazards. As for COVID-19, although vaccine may significantly reduce the threat of fatality, we will continue to keep ourselves safe and maintain strict requirements in our day to day operations. We believe by promoting good morale and a happy workforce will in turn boost productivity as a whole. In 2022, we recorded an employee retention rate of 98%, achieving 105% of our target goal.

Externally, we continued to engage with our suppliers, customers and other stakeholders on ESG. We ensure that we provide our customers with the best services and good selling practices. We implemented the Responsible Supplier Management Policy to ensure our procurement process is done with transparency and fairness.

On our "Corporate Social Responsibilities Project", we continue reaching out to our community and supporting those in need, whether financially or emotionally. For example, we provide internship for students from the local universities, employment opportunities to people with health conditions, impairments and that are physically challenged among others. We believe that by supporting them, targeting their needs on specific issues will help them to rebuild confidence and in turn enable them to become self-sufficient.

GOVERNANCE — The Board continues to adopt and apply the principles as set out in the Malaysian Code of Corporate Governance. The Board fosters effective stakeholder relationships aligned to the Group's purpose while maintaining its commitment to ensure that the rights of the shareholders are protected. The Board ensures that it has in place various policies and practices that are consistent with its values and with the long-term sustainable success of the Group. For example, there are established and transparent policies in relation to raising concerns about misconduct and unethical practices through its Whistle Blowing Policy which enables employees to raise matters of concern anonymously. The Corporate Governance ("CG") Overview Statement is included in pages 48 to 55 of this Annual Report. Further policies and CG reports are also available on our website at www.frontken.com.

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On the Groups' sustainability goals, we benchmark our development with that of the GRI Framework, United Nations Sustainable Development Goals ("SDGs"), Responsible Business Alliance Framework ("RBA") and the Bursa Malaysia FTSE Russel ESG Model Framework. To date, we are aligned with 12 out of the 17 United Nations SDGs. Our target is to achieve more if not all of these goals.

In 2022, we won The Edge Malaysia ESG Awards under the category "Most Improved Performance Over Three Years". In addition to that, we were also included in the FTSE4Good Bursa Malaysia Index and FTSE4Good Bursa Malaysia Shariah Index. This is an encouragement for us to do better and continue to pursue our long-term objectives in this area. We believe that we can make a sustainable impact in our business while providing the best value to our stakeholders.

Further details on the Group's Sustainability initiatives and achievements for FY2022 are available at the Sustainability section of this Annual Report and the full report on our website at www.frontken.com.



*The Edge Malaysia ESG Awards 2022
Most Improved Performance Over Three Years RM800M to RM5B Market Capitalisation Gold*



OTHER AWARDS AND RECOGNITION

THE COMPANY OF THE YEAR BY THE EDGE BILLION RINGGIT CLUB 2022

Another significant milestone achievement by the Group was winning the prestigious award for 2022 Company of the Year by The Edge Billion Ringgit Club ("BRC"). According to the Edge methodology on selecting the Company of the Year, evaluation criteria is based on both quantitative and qualitative factors which includes best "return to shareholders over three years", "growth in profit after tax over three years", "return in equity over three years" and "CR initiatives". We are humbled to receive this award and appreciate the recognition bestowed upon us by The Edge. This award means a lot to us and it is a testament to the years of hard work and dedication by our amazing team. It motivates us to work harder and to reach for greater heights.



*The BRC "Company of the Year"
Award*

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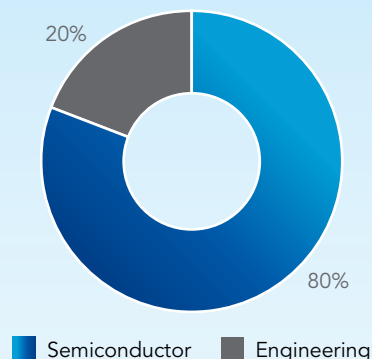
Award ceremony during The Edge Billion Ringgit Club Awards ceremony in FY2022

During the year, the Group's subsidiaries also received numerous recognitions and awards from our customers and local authorities in areas including excellent business performance and ESG initiatives. These awards inspire us to continue what we have been doing and a testament that we are on the right path in achieving our goals.



News Clipping on winning the Company of The Year.

REVENUE (%)



Semiconductor and Engineering revenue percentage chart for the Group in FY2022

BUSINESS REVIEW

SEMICONDUCTOR

As announced by the Semiconductor Industry Association, the global semiconductor industry sales totalled US\$573.5 billion in 2022, the highest-ever recorded and an increase of 3.2% compared to 2021¹. As for the Group's business in this segment, it was also our best achievement to date with a record high revenue and PAT. Year on year, the revenue and PAT grew at 9% and 17% respectively.

¹Source: SIA - <https://www.semiconductors.org/global-semiconductor-sales-increase-3-2-in-2022-despite-second-half-slowdown/>

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Semiconductor is an essential component of electronic devices, from being used in communications, computing, education, healthcare, automotive, home appliances to countless other applications. As witnessed over the course of 3 years, the adoption of many technologies have accelerated in an unprecedented manner. Many of us have come to realise the importance of chips to the world and how many are used in our daily electronic devices. At one point, there was an unexpected surge in demand for these chips that led to the global supply constraints in the semiconductor space. However, many experts in the industry have anticipated that there would be some easing of the supply chain as a result of reduced spending coupled with inventory correction. If this happens, there is no doubt that, we like every other businesses may face challenges. Nevertheless, this may provide an opportunity for us to focus on new projects, fine tune and restructure our operations.

On our R&D, we continue to work closely alongside our customers to support them as they continue to advance in the leading-edge semiconductor technology. Our team is constantly looking at new ideas or improve those that already exist, utilising more environmentally friendly materials and automate some aspect of our processes. As technology continues to advance, so will our processes. The requirement for the chamber process parts has become more and more stringent hence, the need to achieve close to zero particles contamination has become more important than ever. Our advanced precision cleaning process is complex and highly precise, involving as many as 50-60 different steps for each process. It involves heavy interplay of chemistries, iterative experimental method, and advanced metrology and spectroscopy, such as infra-red spectroscopy, nuclear magnetic resonance spectroscopy, and scanning probe microscopy. It also

includes investigating chemical phenomena, studies of ground state of individual atoms and molecules, the excited states, and the transition states that occur during cleaning processes. The quality control of the end result is extremely crucial and is performed using advanced metrology systems and computerised data station. Having said that, our advanced precision cleaning process technology and consistency in end results make us, I believe, stronger than ever today.

Other than growing organically, the Group continues to look for further growth opportunities and possibilities such as potential mergers and acquisitions in the semiconductor space. We will keep our shareholders up to date through our Company's announcement once we have anything finalised.

Based on internal data and conversations with our customers, we remain cautiously optimistic that the performance of this segment will be satisfactory in the coming year.

Taiwan — In FY2022, AGTC once again achieved its highest ever revenue of RM347.4 million, an increase of 12% from a year ago. This achievement was attributable to the increased business from our key customers as a result of the higher demand by their end customers in the advanced technology nodes.

Over the last few years, Taiwan semiconductor's industry has performed well, fueled by growing demand due to its strong capabilities in wafer manufacturing in the leading-edge technology and its complete industry supply chain.

The first phase of our new plant (Plant 2) at the Southern Taiwan Science Park, Kaohsiung was completed sometime



Plant 2 at the Southern Taiwan Science Park, Kaohsiung

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towards the end of 2022. Plant 2 is fitted with advanced specialised equipment, comprehensive waste-water treatment and scrubber systems among others. We believe that our new "state of the art facility" will enable us to strengthen our position as one of the leading advanced high precision chamber parts service providers in the region for the next few years. With the new space, we will be able to improve on our existing process flow and efficiency of both of our facilities. At the same time, we will be introducing a new advanced cleaning technology that we have been working together with our customer over the last year in Plant 2.

As mentioned in my statement last year on the next phase of expansion, we're still continuing with our plan to acquire a new land and are actively looking for the same as we envisage that there will be more work from our customers in the future and that more space will be needed should Plant 2 runs out of capacity.

Frontken Singapore (Plant 2), — Although the manpower shortages have alleviated, the lingering effect of COVID-19 on businesses and the slow down towards the end of the year have somewhat affected the sales of our semiconductor division in Singapore.

To tackle this situation, we've made considerable effort such as streamlining our workforce, optimising our processes, and initiating continuous improvement project ("CIP") or productivity programmes to help boost profitability of this unit. As part of the CIP, we continued to focus on our automation projects to ensure consistent output, increased efficiency and to be less reliant on manual labour. On our long-term plan, we will continue to work with our new and existing customers for new projects, processes and getting more parts qualification.

With major wafer fabs companies announcing their capacity expansion coming on board in 2024, we believe our business will improve and that we will be able to benefit substantially in the very near future.

Frontken Malaysia ("FMSB"), — FMSB which operates in Kulim, Melaka and Kuching improved marginally in their revenue and bottom line compared to a year ago primarily due to the increased in sales from our existing and new customers. The improved bottom lines were very much due to the continual cost saving efforts including various measures such as identifying inefficiencies in the production and streamlining inventories. As a result of the improved efficiencies, the overall margins have also improved slightly.

The sluggishness from hard disk drive and photovoltaic continued to be offset by the new businesses we secured in the semiconductor and automotive industry. Our strategies have always been to continue developing new customers whilst qualifying new products to mitigate the impact of any possible threats. During the year, we continued to look out for further growth opportunities while defending our position as one of the largest semiconductor chamber process parts service providers in the country.

The semiconductor industry, in particular foundries producing chips for the automotive segment are reportedly expanding their capacity to cater for the higher demand by their end customers. One of our customers has also announced the expansion on wide-bandgap technology by investing billions of ringgits in the Kulim Hi-Tech Park. Likewise, we have also made the necessary investment to meet the expected additional demand from our customer. Additionally, we have also seen our customer in Kuching undergoing some minor expansion and has increased its monthly output. We believe these positive outlooks would be beneficial to our semiconductor business in Malaysia.

ENGINEERING DIVISION

The Group's engineering division that operates in Malaysia, Singapore, the Philippines and Indonesia captures a wide and growing set of support activities which includes providing extensive technical solutions, machining and fabrication, skilled manpower supply, specialised coating among others.

In FY2022, many O&G companies enjoyed record-breaking profits as prices of crude oil soared. The global economy is also recovering rapidly from disruptions caused by the COVID-19. As a result, the Group engineering division which provide maintenance and repair services to the O&G industry saw a much improved revenue and PAT of 45% and 85% respectively compared to the year before mainly attributable to our business units in Malaysia and Singapore.

Given the momentum we are seeing recently, we believe our engineering business will pick up further throughout 2023, barring any unforeseen disruptions in the O&G sector.

TTES Frontken Integrated Services, — Our business in this unit has grown exceptionally well compared to the year before. Despite stiff competition and cost pressure, the ability to adapt and make changes to our business strategies as well as selective CAPEX investments yielded a strong result.

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During the year, we expanded our O&G business footprint in Malaysia with the opening of our new facility in Pengerang, Johor to support the Petronas Refinery and Petrochemical Integrated Development (RAPID) and Pengerang Integrated Complex. Subsequently, we saw work orders flowing in and increased contribution from this new facility. We will continue with our selective capital investments, collaboration with strategic partners and adding supplementary technical capabilities such as mechanical seals and valves services and minor fabrication works.

Our long-term plan is to maximise our new assets, participate in broader scope of works, and further expand human capital investment and capabilities to drive asset performance and revenue across our operating units. By leveraging on the Group's engineering resources, optimisation, and partnerships with selective suppliers, we have successfully embarked on new opportunities and expedite deliveries of works. We will continue to develop strategic collaboration partners that supplement our in-house capabilities, scope of services and products, and participate in broader work categories, new products, full reverse engineering works, and large CNC machining in Malaysia.

Our aspiration is to be the most sought after, reliable and efficient one-stop service centre for O&G companies, covering all aspects of customers' maintenance needs, EPCC and turnaround supports.

Frontken Singapore (Plant 1), — During the year, we achieved a much-improved financial performance as a result of recovery of the O&G and petrochemical sector and the continual engagement in seeking new opportunities in different areas. Subsequently, we saw a big turnaround in the bottom line of this unit in that it has finally turned positive after many years of losses.

Despite facing competitive pricing pressure, shortage of skilled labour and soaring electricity bills, we were able to overcome these hurdles by improving the utilisation of our resources and cross training our skilled employees to enhance production efficiency. The significantly lower cost base from operational changes made three years ago also helped to improve our earnings.

We have seen increased activities for thermal spray process from our regular customers as well as contract manufacturers, an indication of more opportunities ahead. Activities for rotating equipment such as compressors, blowers, static component etc from petrochemical complexes in Jurong Island are also expected to increase with upcoming planned shutdowns as we see work orders coming in from our customers.

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We are also collaborating with a new customer to provide spare parts, complete component management, rotor inspection and repair services. For rotating equipment activities, the balancing process will be central to most of the projects undertaken in this area. Additionally, we also saw an increase in frequency of enquiries from the contract manufacturers such as in the electronics sector, an area we can further explore.

Frontken Philippines, — The Group's operation in the Philippines achieved a revenue of RM13.9 million and an operating profit of RM2.0million. Although this is not our best ever performance, it is still a creditable set of numbers considering the operational challenges we faced coupled with reduced business from one of our customers, the only O&G offshore facility in the Philippines. The rising inflation rate in the Philippines that peaked to 8.1% in December 2022 from 3.6% the same time a year ago did not help with our cost as well.

Understanding these challenges, we have worked to develop other revenue streams from the target segments that we have identified namely from the power generation, water utilities, manufacturing, mining and cement industries. Considering that these segments produce essential goods, the focus is to establish the same service provision such as the repair centre and manpower call-off contracts.

Also, we have continuously put emphasis on improving the competency among our personnel. Cross-training programmes for skilled personnel were implemented to maintain our value-add services to the customers we serve. The simplification of the process, procedures and workflows further improved the efficiency as turnaround times were quicker for the repair works to be completed. The team established inspection and hold points throughout the process to ensure that we maintain the quality whilst improving delivery lead times.

The new Vertical Lathe Machine that was purchased in 2021 was fully operational by Q1 of 2022 and has secured additional work for the power industry restoring diaphragms and large-size equipment. During the year, we have also purchased an additional Cold Metal Transfer machine and expect to utilise the same by Q2 of 2023 for both inhouse and onsite works to further enhance our capabilities and improve the lead times of the repair activities.

OUTLOOK

In the year ahead, like all of you, we too have read that there may be many difficult headwinds created by, among other things, the high inflation rate. Although the negative effects of COVID-19 are slowly ebbing, the ongoing conflict in Europe and trade tension continues. Uncertainties have never been good for business, and we believe we will not be spared. Having said that, we are fortunate to be in the service industry where negative impact, if any, from global economic slowdown will not be too severe on us. We will not rest on our laurel and plans are at foot for us to make changes swiftly should the worst happen.

In the face of these challenges, we continue to take a long-term view of the industry and our business, which we believe is still intact. The combination of our strong brand, capabilities, strategies and great team will allow us to look to the future with confidence. I am proud of what we have achieved in the past year and I am confident that we are well-positioned to deliver further success in the future. We remain cautiously optimistic of our business and our abilities to deliver.

APPRECIATION

This financial result does not happen by chance but rather through the hard work and dedication of everyone in the Group and therefore, I would like to extend my heartfelt thanks to all my colleagues for their relentless sacrifices and commitment during the year.

I would also like to take this opportunity to thank our Board of Directors for its continuous guidance, strategic advice and steadfast support throughout the year.

We are extremely thankful to our customers that have continually shown their confidence in us by giving us their support, continued business and new opportunities.

To our business associates, various ministries, government agencies and regulators of the countries where we operate in, we appreciate your trust and support that you have given to us.

Lastly, I would like to thank all our loyal shareholders, for your ongoing support and trust in us. We will continue to do our best in delivering the best return to all of you.