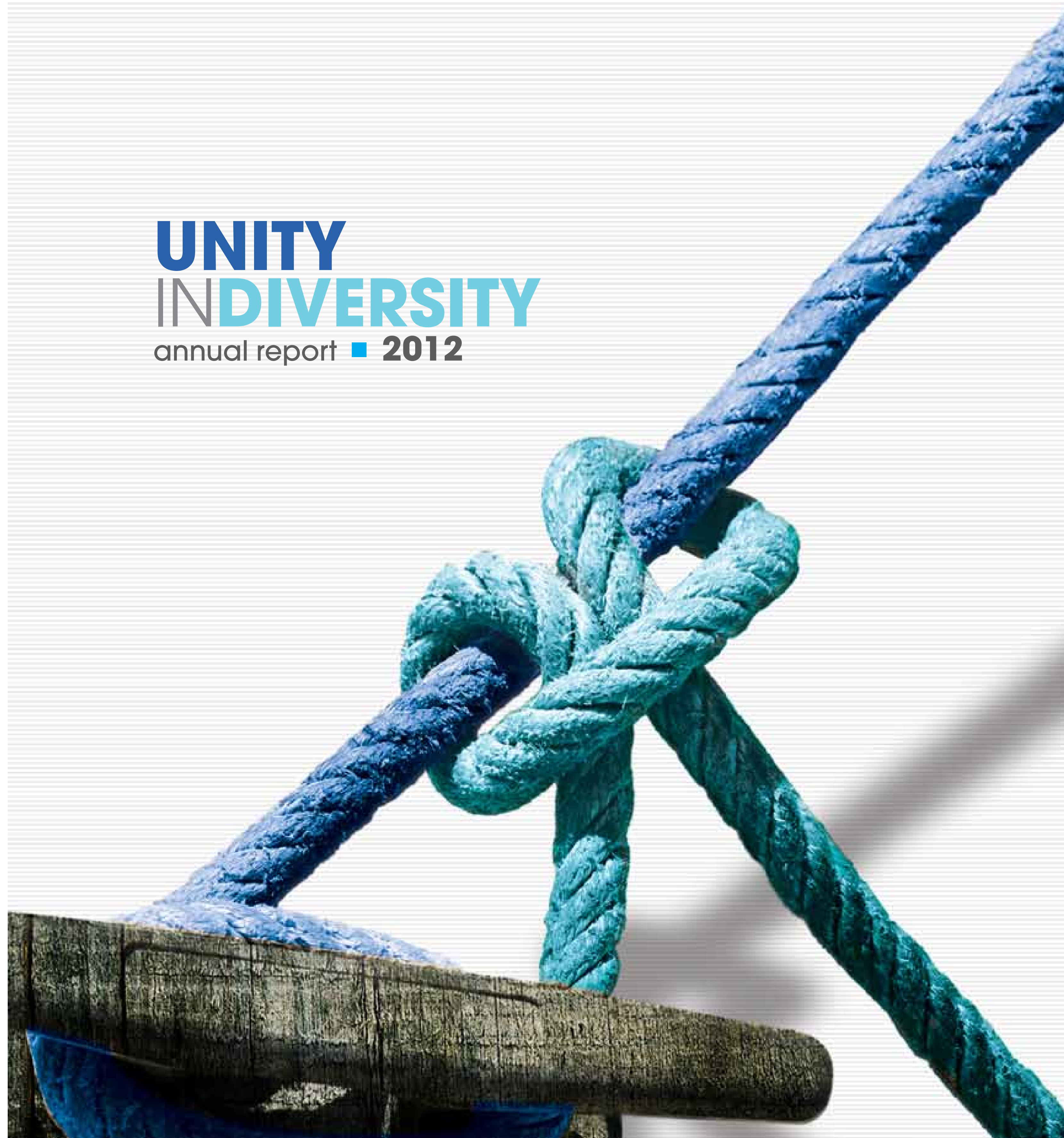
Boustead Heavy Industries Corporation Berhad 11106-V
(A member of Boustead Group)

# UNITY INDIVERSITY

annual report ■ 2012



BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD 11106-V

annual report 2012


**Boustead Heavy Industries Corporation Berhad** 11106-V

17th Floor, Menara Boustead
69, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

www.bhic.com.my

CONTENTS






# BOUSTEAD HEAVY INDUSTRIES CORPORATION 2012 ANNUAL REPORT

RATIONALE

The knot signifies the values which unite us in BHIC.

# ABOUT US

Boustead Heavy Industries Corporation Berhad (BHIC) is a conglomerate with diverse maritime and aerospace interests in the defence, enforcement and security sector, commercial and energy sectors, including the following capabilities:

- Shipbuilding of military and commercial craft
- Ship repair and MRO for military, commercial and private vessels
- Fabrication of structures and modules for the oil and gas industry
- MRO of electronics, electrical and control systems, engines, communication equipment and weaponry
- MRO of helicopters and submarines
- Manufacturing of aerospace components and propellants
- Management of Integrated Logistics Support (ILS)

# VISION

**To Be A Leading Maritime and Defence Solutions Provider**

# MISSION

**To Provide Excellence in Quality and Timely Delivery of Products and Services and to Maximize Stakeholder Returns**

# OUR CORE VALUES

**Belonging**

Ownership | Loyalty | Pride | Teamwork

**Honour**

Professionalism | Courage | Sincerity | Dignity

**Integrity**

Conscience | Honesty | Confidentiality | Accountability

**Commitment**

Initiative | Innovation | Enthusiasm | Timeliness

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Forty-First Annual General Meeting of the Company will be held at the Royale Ballroom, Level 2, The Royale Bintang Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 4 April 2013 at 10.00 a.m. to transact the following businesses:

## AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of Directors and Auditors thereon. — Ordinary Resolution 1

2. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2012. — Ordinary Resolution 2

3. To re-elect Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin who retires in accordance with Article 77 of the Company's Articles of Association. — Ordinary Resolution 3

4. To re-elect Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Hj Mohd Nor (B) who retires in accordance with Article 77 of the Company's Articles of Association. — Ordinary Resolution 4

5. To re-appoint Messrs Ernst & Young as Auditors of the Company and authorise the Directors to determine their remuneration. — Ordinary Resolution 5

6. **AS SPECIAL BUSINESS**

   To consider and if thought fit, to pass the following resolutions:

   **ORDINARY RESOLUTION – AUTHORITY TO ISSUE SHARES** — Ordinary Resolution 6

   "THAT subject always to the Companies Act, 1965 and the approvals of the relevant authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price, upon such terms and conditions, for such purposes and to such person or persons whomsoever as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares issued pursuant to this Resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

**ORDINARY RESOLUTION - PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED ADDITIONAL SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

Ordinary Resolution 7

"THAT subject to the Companies Act, 1965, the Memorandum and Articles of Association of the Company and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and its Subsidiaries to enter into all transactions involving the Related Parties as specified in Section 2.3 of the Circular to Shareholders dated 13 March 2013 provided that such transactions are:

(i) recurrent transactions of a revenue or trading nature;
(ii) necessary for the day-to-day operations;
(iii) carried out in the ordinary course of business on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and
(iv) are not to the detriment of the minority shareholders.

AND THAT such approval shall continue to be in force until:

(a) the conclusion of the next Annual General Meeting (AGM) of the Company, at which time it will lapse, unless by a resolution passed at the said AGM, such authority is renewed;
(b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
(c) revoked or varied by a resolution passed by the Shareholders in a General Meeting

whichever is earlier.

AND FURTHER THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Mandate."

# NOTICE OF ANNUAL GENERAL MEETING

**ORDINARY RESOLUTION - PROPOSED PROVISION OF FINANCIAL ASSISTANCE** Ordinary Resolution 8

"THAT approval be and is hereby given for the Company to provide financial assistance amounting up to RM70,000,000 to Pyrotechnical Ordnance Malaysia Sdn Bhd, a company which will be an associate with a 49% shareholding, the details of which are set out in the Circular to Shareholders dated 13 March 2013, and to authorise the Board of Directors of the Company to give effect to the proposed provision of the financial assistance with full powers to do all such acts as they may consider necessary or expedient so as to give full effect to the same with further power to assent to any condition, modification, resolution, variation and/or amendment as may be required by the relevant authorities, bodies and/or parties."

**SPECIAL RESOLUTION - PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY** Special Resolution 1

"THAT the amendments to the Articles of Association of the Company in the manner detailed in `Appendix A' to the Annual Report 2012 be and are hereby approved."

7. To transact any other business of which due notice shall have been received.

**BY ORDER OF THE BOARD**

**SUZANA BINTI SANUDIN**
**LILYROHAYU BINTI AB. HAMID @ KASSIM**
Secretaries

Kuala Lumpur
Date: 13 March 2013

**NOTES:**

1. Only depositors whose names appear in the Record of Depositors as at 29 March 2013 shall be regarded as members and entitled to attend, speak and vote at the meeting.

2. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.

3. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholding to be represented by each proxy.

4. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint one (1) but not more than 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.

5. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its Common Seal or under the hand of its officer or attorney duly authorised.

6. The instrument appointing a proxy must be deposited at the Registered Office of the Company, 17th Floor, Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the meeting.

7. *Explanatory notes on Special Business:*

   Ordinary Resolution 6
   The Proposed Resolution 6, if passed, will give the Directors of the Company, from the date of the above Annual General Meeting, authority to issue shares from the unissued capital of the Company for such purposes as the Directors may deem fit and in the interests of the Company. The authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the authority granted to the Directors at the Fortieth Annual General Meeting held on 5 April 2012 and which will lapse at the conclusion of the Forty-First Annual General Meeting.

   The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

   Ordinary Resolution 7
   The proposed Ordinary Resolution 7, if passed, will enable the Company and/or its Subsidiaries to enter into recurrent transactions involving the interests of Related Parties, which are of a revenue or trading nature and necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business and on terms not to the detriment of the minority shareholders of the Company.

   Ordinary Resolution 8
   The proposed Ordinary Resolution 8, if passed, will empower the Company to provide financial assistance amounting up to RM70,000,000 to Pyrotechnical Ordnance Malaysia Sdn Bhd, a company which will be an associate with a 49% shareholding, the details of which are set out in the Circular to Shareholders dated 13 March 2013.

   Special Resolution 1
   The proposed Special Resolution 1, is made to comply with the provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Further information on the Proposed Amendments to the Articles of Association of the Company is set out in Appendix A to the Annual Report 2012.

# APPENDIX A

DETAILS OF THE PROPOSED AMENDMENTS TO
THE ARTICLES OF ASSOCIATION OF THE COMPANY

It is proposed that the Articles of Association of the Company be amended in the following manner:-

**1. Article 2**

a) THAT the following additional definition be and is hereby inserted under Article 2 after the definition of "Directors":-

| | |
|---|---|
| **"Exempt Authorised Nominee** | **An authorised nominee defined under Central Depositories Act which is exempted from compliance with the provisions of subsection 25A (1) of the Central Depositories Act."** |

**2. Article 63**

THAT the existing Article 63 which reads as follows:-

"Subject to any rights or restrictions for the time being attaching to any class or classes of shares, at meetings of Members or of classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney or being a corporation is represented by a representative and on a show of hands. On resolution to be decided on a show of hands, every person present who is a member, whether a holder of ordinary shares or preference shares, who is personally present and entitled to vote, or a proxy or an attorney or being a corporation is represented by an authorised representative of a Member, shall have one (1) vote. On resolution to be decided on a poll, every Member present in person or by proxy or by attorney or other duly authorised representative for a corporation shall have one (1) vote for every such share he holds."

be and is hereby amended by inserting **"A proxy to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting."** At the end of Article 63 and that the amended Articles shall read as follows:

"Subject to any rights or restrictions for the time being attaching to any class or classes of shares, at meetings of Members or of classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney or being a corporation is represented by a representative and on a show of hands. On resolution to be decided on a show of hands, every person present who is a member, whether a holder of ordinary shares or preference shares, who is personally present and entitled to vote, or a proxy or an attorney or being a corporation is represented by an authorised representative of a Member, shall have one (1) vote. On resolution to be decided on a poll, every Member present in person or by proxy or by attorney or other duly authorised representative for a corporation shall have one (1) vote for every such share he holds. **A proxy to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting.**"

**3. Article 68**

THAT the existing Article 68 which reads as follows:-

"The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. The Directors may but shall not be bound to require evidence of the authority of any such attorney or officer. A proxy may but need not be a Member of the Company and the provisions of section 149(1)(b) of the Act shall not apply to the Company. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll."

be and is hereby amended by inserting **"There shall be no restriction as to the qualification of the proxy":** before the sentence "A proxy may but need not be a Member of the Company and the provisions of section 149(1)(b) of the Act shall not apply to the Company." and that the amended Article 68 shall read as follows:

"The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. The Directors may but shall not be bound to require evidence of the authority of any such attorney or officer. **There shall be no restriction as to the qualification of the proxy.** A proxy may but need not be a Member of the Company and the provisions of section 149(1)(b) of the Act shall not apply to the Company. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll."

**4. Article 69**

THAT the existing Article 69 which reads as follows:-

"A Member may appoint not more than two (2) proxies to attend the same meeting. Where a Member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy but not more than 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."

be and is hereby amended by inserting **"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 known as an 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."** and that the Article 69 shall read as follows:-

"A Member may appoint not more than two (2) proxies to attend the same meeting. Where a Member appoints two (2) proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a Member of the Company is an authorised nominee as defined under the Central Depositories Act, it may appoint at least one (1) proxy but not more than 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. **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 known as an 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**."

# BHIC IN THE NEWS

## Nurturing marine-based SMEs

Conglomerate out to grow strong base of support companies focusing on maritime engineering

## Boustead unit wins RM70m ministry deal

KUALA LUMPUR: Boustead Holdings Bhd's subsidiary Boustead Naval Shipyard Sdn Bhd has be... million job... ministry. T... ceived a let... September... ply and del... maintenan... training for... three years... agreement... ernment ar...

## YES latih jurutera muda

• 19,000 permohonan, 6,000 menepati kriteria dan hanya 19 terpilih

## BOUSTEAD NAVAL SHIPYARD

## Peroleh kontrak bernilai RM70j

Anak syarikat Boustead Holdings Bhd, Boustea... Shipyard Sdn Bhd (BNS... nerima surat anugerah...

## Increased competition from regional players

FROM P1 Maritime

contracts, Boustead Heavy Industries Corp Bhd (BHIC) subsidiary that secured contracts involving the combat manage-...

tive SBSR nation, it added.

According to the Third Industrial Master Plan 2006-2020 there are around 70 shipyards in Malaysia, with the bigge...

## Big potential for ship industry

MALAYSIA is aiming to capture 2% of the global shipbuilding industry by 2020 from 1% in 2010, Association of Marine Industries of Malaysia president and chairman Tan Sri Ahmad Ramli Mohd Nor said. Last year, shipbuilding and ship repair in Malaysia contributed about RM7 billion revenue.

"We are being realistic in not aiming to compete for the construction of big container vessels. We want to focus on maritime engineers."

Ahmad Ramli said the shipbuilding industry in Malaysia had existed since the 1900s.

"The earliest Malaysia's shipyard was built in Kuching. It evolved from under-the-tree along the Rajang River to a modern purpose-built yard in clusters near Sungai Bidut and Rantau Panjang in Sibu and Kuala Baram in Miri."

In Peninsular Malaysia, the shipyard clusters are in Lu-... countries."

It was reported that 72 ships were exported in 2010, out of the 252 newly built vessels by local shipyards. Last year, six ships were exported of the 177 newly built.

Ahmad said the strategy to attain Malaysia's vision to be a global player is to further improve the supply chain and increase skilled personnel.

"The target is to grow the workforce to 50,000 by 2020. Our target is also to achieve...

## Boustead: RM400m MRO ventures in Penang, Terengganu

GEORGE TOWN: Penang's role as a centre for shipbuilding and ship repair services will get a leg up by year-end when Boustead Heavy Industries Corporation Bhd (BHIC) sets up a maintenance, repair and overhaul (MRO) site on the island.

An investment of RM100 million is being committed to establish the MRO operations in... part of investments totalling between RM200 million and RM800 million, which BHIC will plough into MRO activities between now and 2020.

BHIC is a shipbuilding, ship repair, maritime, engineering and defence-related services provider.

"We are currently car-...

"With the MRO services... more opportunities"

## BOT PEMINTAS LAJU MARITIM MALAYSIA

## '...he industry has a lot of growth potential'

## 2020年前再投資8億

文/邱文登

## Malaysia hab latihan juruterbang helikopter

PETALING JAYA 3 Dis. - Malaysia bakal menjadi hab latihan bagi juruterbang dan anak kapal helikopter...

## Malaysia sasar tingkat penguasaan bina kapal

Malaysia menyasarkan untuk menguasai dua peratus daripada pasaran industri pembinaan kapal global menjelang 2020 daripada hanya satu peratus pada 2010, kata Presiden dan Pengerusi Persatuan Industri Marin Malaysia (AMIM) Tan Sri Ahmad Ramli Mo-... tan," katanya kepada BERNAMA.

Beliau berkata industri itu masih diberikan dorongan baru walaupun dianggap industri meleset.

Ahmad Ramli berkata, industri pembinaan kapal di Malaysia telah hadir sejak tahun 1900-an.

"Limbungan kapal terawal di...

## RMAF's two new copters arrive

ADRIAN DAVID AND V. SHUMAN

UP-TO-DATE: They are part of 12 Eurocopters ordered from France

DESPITE the prudent defence budget, the rejuvenation of the air force's assets is long overdue, said Defence Minister...

capabilities and ensured its helicopter inventory was modern, mission-ready and reliable.

"The deal has brought 13 comprehensive cooperation projects to strengthen Malaysia's strategic aeronautical skills and capabilities via education at universities."

He said the remaining 10 EC725 would be delivered in stages by 2014.

Eurocopter Malaysia has teamed up with Boustead Heavy Industry...

Zahid added that such collaboration had resulted in a RM5 billion total investment in Malaysia's defence industry by international and local companies.

It is learnt that the RMAF requires up to 30 EC725 as part of its fleet-modernisation programme to replace the aging 20-odd Sikorsky S-61 Nuri, the first of which was bought in 1968.

Unlike the all-weather EC725, the...

# BHIC delivers last two FIC to government

by Kamarul Anwar

KUALA LUMPUR: Boustead Heavy Industries Corp Bhd's (BHIC) subsidiary BYO Marine Sdn Bhd delivered the last two fast interceptor craft (FIC) to the government's representatives last week, the group said in a statement yesterday.

The government had awarded a contract worth RM130.7 million for

Admiral Datuk Amdan Kurish.

The FIC, named Penggalang 10 to Penggalang 19, were constructed with the support of Yonca-Onuk JV, BYO Marine's joint-venture partner from Turkey. This has resulted in the effective transfer of technology (ToT) and the development of BYO Marine and BHIC's technical expertise, said Ramlan.

"The FIC will serve the nation by reinforcing MMEA with the nec-

(From left) BYO Marine Sdn Bhd chairman Admiral (R) Tan Sri Ramlan Mohamed Ali, BYO Marine CEO Commander Raja Mohamed Mustafa, Mohd Yassin Mustaffa, director-general of the Malaysian Maritime Enforcement Agency (MMEA) affairs division of the government and MMEA director-general Maritime Admiral Datuk Amdan Kurish at the official handing over of two fast interceptor craft to the government by BYO Marine recently.

# 莫实得重工业获5亿合约

（吉隆坡2日讯）莫实得重工业（BHIC，8133，主板工业股）获颁两项合

# BHIC bags RM506m jobs

KUALA LUMPUR : Boustead Heavy Industries Corp Bhd (BHIC) have won two jobs worth a combined RM505.8 million from Boustead Naval Shipyard Sdn Bhd (BNS) in a recurrent related-party transaction that it has already got prior approval from shareholders for.

BHIC, via units Contraves Advanced Devices Sdn Bhd

# Maritime industry sees silver lining in shipbuilding, repair

*Malaysia to boost industry with growing demand from international buyers*

# Boustead Naval Shipyard awards contract for combat ships

KUALA LUMPUR: Boustead Holdings Bhd's unit, Boustead Naval Shipyard Sdn Bhd (BNS), has issued a letter of a (LOA) to Contraves Advanced Device Bhd (CAD), in relation to the RM2 million contract for Second Genera Patrol Vessels/Littoral Combat Ships.

CAD is a subsidiary of Boustead Industries Corp (BHIC).

The LOA covers an implementa period of up to 10 years.

"The commencement date of the awarded works is Oct 2, 2012," said

# 莫實得重工擴MRO業務

# Shipbuilding, repair challenges

A comprehensive approach needed to elevate the local industry

# BYO Marine to market fast interceptor craft in Asean countries

LANGKAWI: BYO Marine Sdn Bhd, a subsidiary of Boustead Heavy Industries Corp Bhd (BHIC) involved in building fast interceptor craft (FIC) for the Malaysian government, wants to market the boats to other Asean countries.

Its chairman Admiral (Rtd) Tan Sri Ramlan Mohamed Ali said following the company's success in completing the FIC supply contract to the government, the time is now ripe for it to expand further its business and the nation's shipping industry.

He said Malaysia has a strong reputation in the shipbuilding industry

conjunction with the completion of supply contract for 10 FICs to the Malaysian government at Boustead Langkawi Shipyard, here Friday.

for not only the local market but also neighbouring countries which ply our waters. The BHIC group wants to maintain the growth momentum of



# M'sia eyes two pct global shipbuilding industry

# Impian tercapai

Nor Sabrina memecahkan monopoli lelaki apabila menjadi wanita pertama terpilih menyertai program Skim Jurutera Muda (YES) BHIC

Pada mulanya, saya hanya mahu mencuba nasib dan tidak merancang

# OUR CORE BUSINESS

## shipbuilding

Amongst the best facilities in Malaysia with yards located in Pulau Jerejak (Boustead Penang Shipyard), Lumut (Boustead Naval Shipyard) and Langkawi (Boustead Langkawi Shipyard).

## integrated logistics support (ILS)

Able to deliver a range of ILS services ranging from surface ships to submarines. With a formidable network of vendors that can be leveraged to meet consumer demands, the Group is developing world class capabilities to deliver cost effective support that ensures optimal operational availability of critical assets.

# maintenance, repair & overhaul

The Group provides a complete range of platform and equipment maintenance, repair and overhaul services. Strategically important assets for the defence and security sectors must be entrusted to capable companies that ensure complete, integrated MRO solutions.

The BHIC Group supports military and commercial surface vessels, submarines, helicopters and critical equipment such as combat management and essential control systems, defence electronics, electrical equipment and engines.

# manufacturing & services

Components made by Contraves Advanced Devices (CAD) enhance our MRO activities by offering possibilities for system re-specification and re-engineering.

The venture by BHIC into Pyrotechnical Ordnance Malaysia Sdn Bhd (POM) to produce artillery propellants is a response to the need for national self-reliance.

High speed specialised craft produced by BYO Marine Sdn Bhd (BYOM) signals a new dimension for BHIC with the prospect of a variety of options for the manufacture of composite craft.

# OPERATIONAL HIGHLIGHTS

## 9 vessels delivered in 2012

- Increase from four in 2011.
- Seven FICs for MMEA.
- One AHTS with DP2 setups and a five storey accommodation barge.

## Ongoing design innovations

- Collaboration with Macduff continues.
- Specialising in smaller sized commercial vessels.
- Two new tugboats to be built by BLS.

## LCS project on track

- Contract build specifications agreed.
- Concept design finalised.
- Partner shipyard selected.

## New contracts secured

- RM70 million Frigate MRO contract for BN Shipyard.
- RM11 million MRO contract for BHIC Bofors.
- Continuing MRO work in Lumut, Langkawi and Kota Kinabalu.


## Helicopter MRO commences

- Maintenance of Dauphin helicopters commences.
- Temporary base at Subang Skypark.
- Regional Full Flight Simulator Centre being set-up.

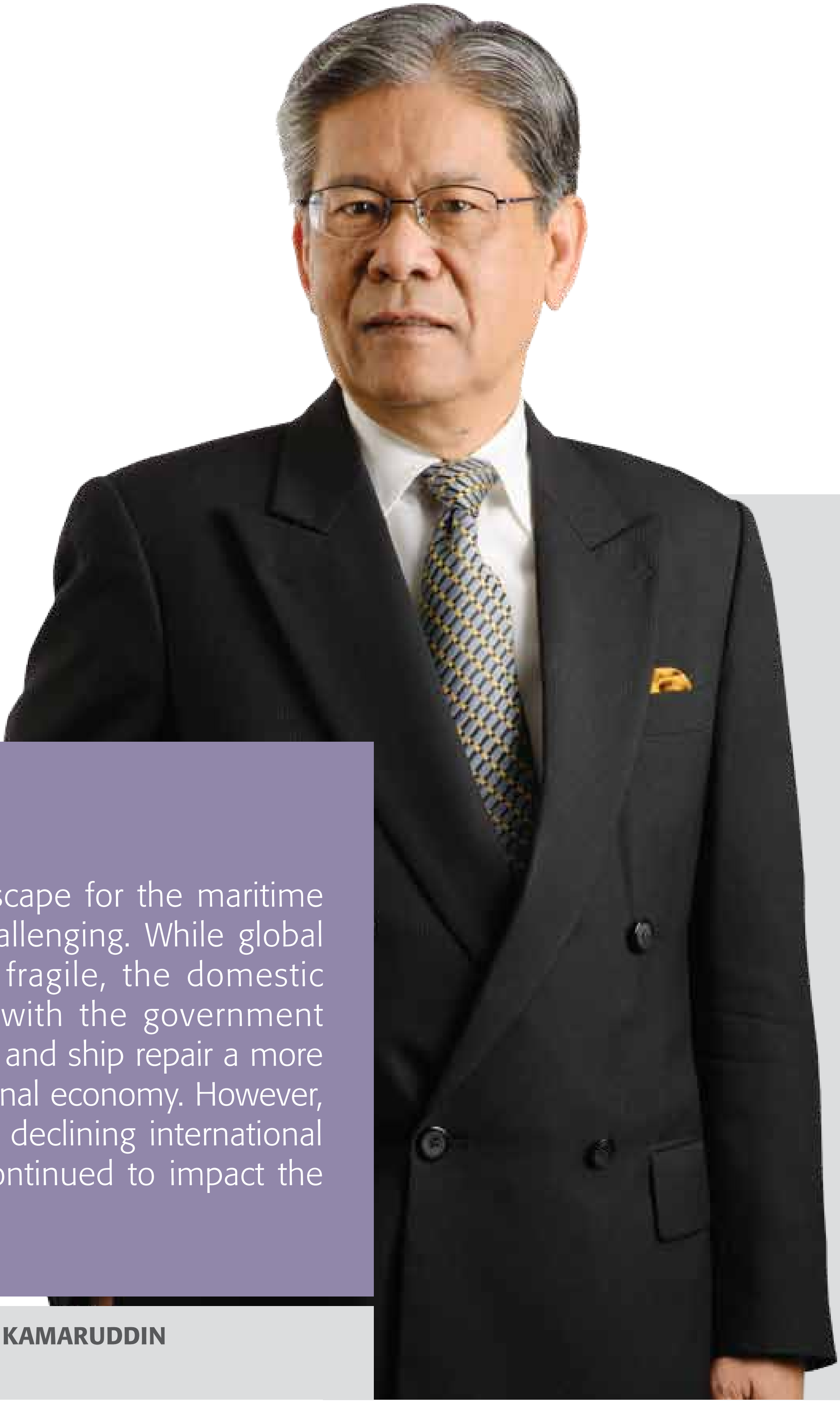
## New contract for CAD

- RM2.0 billion ten-year CMS contract for CAD.
- New operational centre in Cyberjaya underway.
- CAD becomes a Raytheon preferred supplier.

## Services dimension grows

- All chemical tankers on charter.
- MTA on-going partnership with local universities.
- Technical courses offered to Royal Navy of Oman.

# CHAIRMAN'S STATEMENT



Dear Shareholders,

In 2012, the operating landscape for the maritime industry continued to be challenging. While global economic conditions were fragile, the domestic market was given a boost with the government initiative to make shipbuilding and ship repair a more robust contributor to the national economy. However, prevailing conditions such as declining international trade and escalating costs continued to impact the industry at large.

**TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN**
Chairman

As a significant participant in Malaysia's maritime industry, Boustead Heavy Industries Corporation Berhad (BHIC) was affected by the difficult conditions the industry faced during the year. We are undertaking measures to restructure our existing businesses and will continue to seize opportunities as they arise.

On this note, I am pleased to present our annual report for the financial year ended 31 December 2012.

## ECONOMIC LANDSCAPE

The upheaval in the Middle East, the prolonged sovereign debt crisis in Europe and the stop-start economic recovery in the US took a toll on the global economy in 2012. Leadership transition and a slowing economic growth rate in China and the presidential election in the US all added to a lack of confidence.

The situation started to improve only at the tail end of the year. According to the World Bank's Global Economic Prospects (January 2013), the world economy grew by a mere 2.3% in 2012.

Though not completely sheltered from external influences, Malaysia's economy was resilient. Bank Negara reported that Malaysia's economy grew at a better-than-expected 6.4% in the fourth quarter of 2012. This was the result of prudent fiscal policies and the achievements of the Government's Economic Transformation Programme (ETP). In addition to the influx of foreign direct investments and a buoyant local stock market, domestic consumer confidence remained high throughout 2012, leading to robust consumer spending.

# CHAIRMAN'S STATEMENT

However, the maritime industry is exposed to external factors such as monetary and financing policies as well as commodity prices, and the market continued to be difficult in 2012. As credit was still hard to come by, capital expenditure by maritime industry-related companies remained capped. Increasing production costs as a result of high raw material prices also impacted the industry.

## FINANCIAL PERFORMANCE

For the financial year under review, the Group reported revenue of RM647 million. Despite this, the Group reported a loss after tax of RM112 million in 2012 compared with a net profit of RM18 million recorded in 2011.

Earnings were eroded by cost escalation in our commercial shipbuilding projects. The extent of these additional costs dwarfed the revenue generated from our other businesses. Fortunately for the heavy engineering segment, the second 111-metre accommodation barge, which is the final major commercial shipbuilding project, was substantially completed in 2012, and these costs will not recur in 2013.

Our 2012 results also reflected the gain of RM11 million from the disposal of PSC Tema Shipyard Limited in Ghana. The divestment of the Group's entire 60% equity interest was completed in June 2012.

On a positive note, our subsidiary, BYO Marine Sdn Bhd, completed the delivery of 10 fast interceptor craft (FIC) in 2012. The FICs were successfully handed over to the Malaysian Maritime Enforcement Agency on budget and on time. The majority of the FICs were constructed entirely at our Langkawi shipyard, and we have already started marketing our capabilities to other countries in the region, in addition to tapping possible domestic opportunities.

## DIVIDEND

In March 2012, we paid a single tier first interim dividend of 6.0% per share for the financial year ended 31 December 2012 (2011: 6.5% per share). Taking into account the full year's financial results, the Board does not intend to declare a final dividend in respect of the year under review. However, we assure our shareholders that we continuously appraise the Group's financial position and, when situation permits, we will reward you for your faith and loyalty to the Group.

**A key enabler for the EPP will be design of Malaysia's own first offshore support vessel. We have selected a local university as a testing site for the eventual prototype model.**

## ENTRY POINT PROJECT

Despite the tough operating conditions in 2012, BHIC worked hard to take advantage of new business opportunities, specifically in the shipbuilding and ship repair sector. The industry also saw an increase in maintenance, repair and overhaul (MRO) activities as a result of various public and private investments in the past couple of years.

To this end, the Group prepared a long-term strategic plan which is aligned with the ETP's Entry Point Project (EPP) "Developing Sustainable Competitiveness in Shipbuilding and Ship Repair". BHIC will be focused on developing local design capabilities and establishing systems engineering competency, enhancing skills and shipyard human capital and strong support industry clusters, as well as achieving international standards and global competitiveness.

This is in line with the Malaysian Shipbuilding and Ship Repair Industry Strategic Plan 2020, which details the direction and action required to enable Malaysia to become a regional ship building and repair hub. BHIC intends to be a key driver in achieving this national aspiration, and aims to move up the value chain in the process.

# CHAIRMAN'S STATEMENT

## HUMAN CAPITAL

The Group's ability to secure new opportunities and deliver enhanced shareholders value depends on our human capital.

Accordingly, the Group has placed significant emphasis on cultivating and retaining talent. In 2012, we invested in various training initiatives, not only for our employees but also for students from local higher learning institutions as well as vendors from small and medium enterprises. Our intention is to create a talent pool which will sustain the Group as it progresses.

To inculcate a high-performance work culture, the Group has also embarked on a total compensation strategy exercise to align our compensation and benefits structure to the market. This is to enable us to attract, retain and motivate critical talent. In addition, the Group successfully rolled out the SAP ERP ECC6 system with the objective of eliminating non-value added activities while managing information more efficiently and effectively. Employees in three locations, namely Kuala Lumpur, Lumut and Penang, will reap the benefits from the automation of various processes, thereby enhancing work process synergies and efficiencies.

## CORPORATE GOVERNANCE

The Board fully supports the principles behind the recommendations contained in the Malaysian Code on Corporate Governance 2012. In carrying out its stewardship function, the Board aims to ensure that the 'spirit, rather than the letter of the law' is applied and the concepts of transparency and accountability are always adhered to. Accordingly, the processes adopted by the Board in relation to various aspects of the recommendations are described in this annual report.

At all times, the Group is committed to practicing good corporate governance and upholding the highest standards of professionalism and integrity in all our business dealings and interactions with stakeholders. To reinforce our commitment to upholding the Anti-Corruption Principles for Corporations in Malaysia, BHIC signed the Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission on 16 May 2012.


During the year under review, the Group developed and formalised a Policy Manual, which includes the Limits of Authority and serves as a guide for good governance and risk management Group-wide. The Policy functions as a central reference point for the Board, management and all employees in the discharge of their duties and responsibilities.

## PROSPECTS FOR 2013

Despite the tenuous state of the economy, there are indications that the Malaysian economy will continue to be resilient. Continued implementation of ETP initiatives will provide the necessary impetus for economic growth, while steadily moving Malaysia towards becoming a high-income nation.

The Group's focus will be centred on carrying out and exploring new opportunities in shipbuilding and ship repair as well as MRO projects. In this context, we are pleased to note that the Littoral Combat Ship project has made good progress, with pre-construction work underway at our Lumut shipyard. The project is expected to shift into a higher gear and contribute positively to our earnings in 2013.

The Board is confident that the expansion and marketing strategies adopted by the BHIC Group will place the Group in a better position for positive growth in 2013.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to say terima kasih to the management and staff of the Group for their continued dedication, loyalty and hard work. Only during difficult times can the true measure of a team be gauged and despite the challenges we have faced in the market, BHIC continues to make progress with focused determination.

We are also appreciative of the various Malaysian government entities including the Prime Minister's Office, Ministry of Finance, Ministry of Defence, Ministry of Transportation, the Royal Malaysian Navy and the Malaysian Maritime Enforcement Agency for their trust in BHIC.

Our sincere gratitude also goes to shareholders, clients, bankers, suppliers and regulators for your invaluable support and guidance over the year. We will do our utmost to fulfil the potential that we all see in this Group, and repay the trust you have placed in us.

Last but not least, to my fellow members of the Board, thank you for your expertise, insights and guidance.

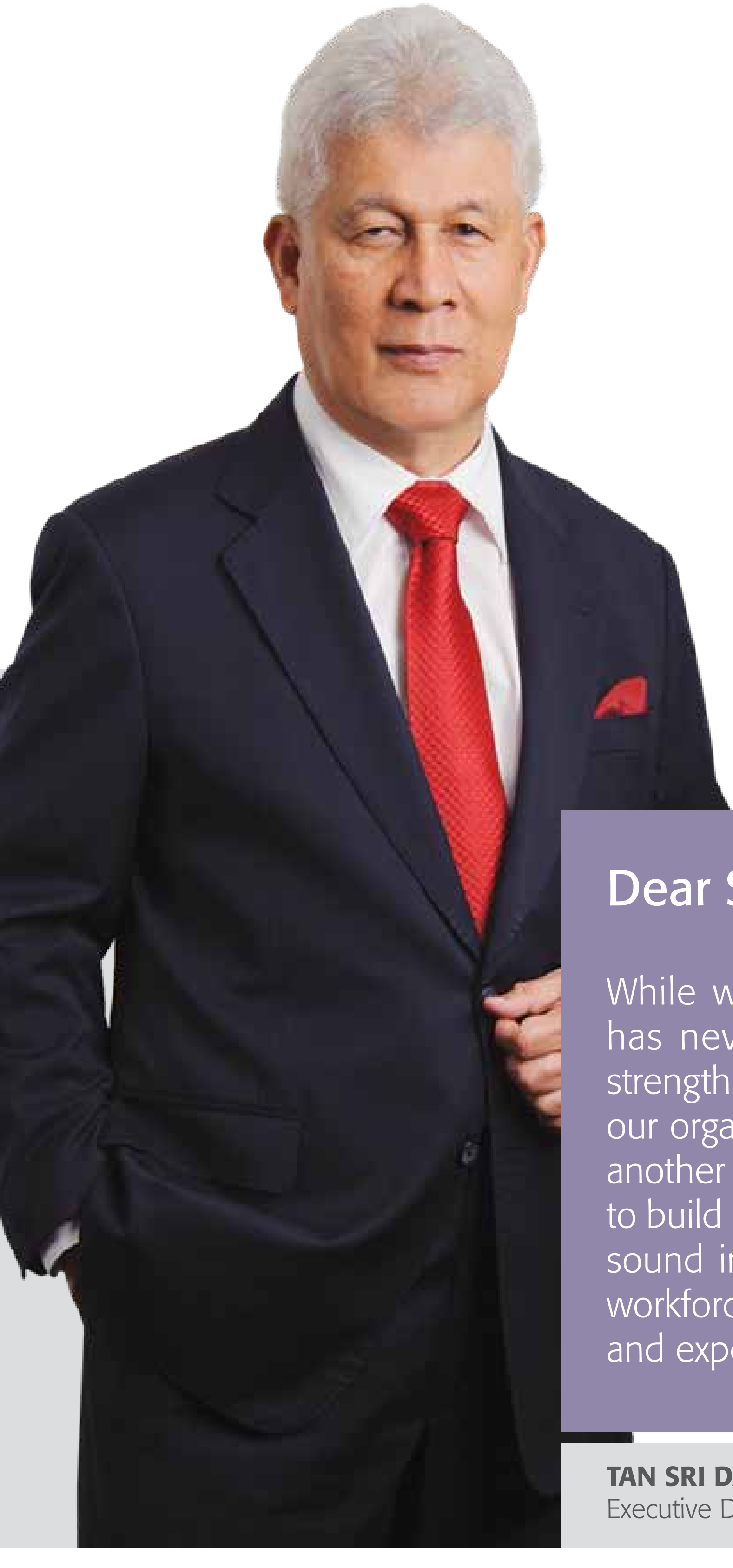
**TAN SRI DATO' SERI LODIN BIN WOK KAMARUDDIN**

# MANAGING DIRECTOR'S STATEMENT

## FINANCIAL PERFORMANCE

During the financial year under review, the Group continued to be impacted by cost escalations in its commercial shipbuilding projects, which affected the Group's earnings. BHIC recorded a loss after tax of RM112 million compared with the profit after tax of RM18 million in 2011. Nevertheless, it is important to note that despite the difficulties faced on the commercial shipbuilding front, BHIC has fulfilled its obligations and delivered the vessels to the agreed quality and standards.

On the other hand, the share of profit from associates was higher in line with the progress achieved on the Littoral Combat Ship project.



## Dear Shareholders,

While we continue to grow our businesses, BHIC has never lost sight of the need to redefine and strengthen the pillars that provide the foundation for our organisation. The year under review proved to be another busy period for the Group in which we strived to build a sustainable entity through good governance, sound infrastructure development and a committed workforce equipped with the relevant competencies and expertise.

**TAN SRI DATO' SERI AHMAD RAMLI BIN HAJI MOHD NOR**
Executive Deputy Chairman/Managing Director

Over the past five years, we have constructed various commercial vessels

- Double-hulled chemical tankers
- A well testing and servicing vessel
- Tugboats
- AHTS with DP2 setups
- A floating hotel
- Accommodation barges

# shipbuilding


T1

# shipbuilding

The LCS concept design was completed in November 2012, translating the contract build specifications into drawings. Further design work will continue in Lumut and France.

Throughout 2012, the project involving the construction of six littoral combat ships (LCS) by our associate, Boustead Naval Shipyard Sdn Bhd (BN Shipyard) focused on engaging its primary stakeholders to determine the requirements of the project and to establish contractual deliverables for the vessels that are bigger, faster and more sophisticated than the first generation of patrol vessels. Following consultations with the Royal Malaysian Navy (RMN), the contract build specifications for the LCS were agreed during the year. This resulted in the finalisation of the concept design stage in November 2012.

As it stands, the design fulfils the LCS's primary mission of detecting, identifying, and neutralizing air, surface and subsurface threats. It also provides support to land, air and sea operations and acts as a platform for intelligence gathering.

At the same time, the preparation work to gear the company for the implementation of the project is underway. BN Shipyard design engineers have participated in the concept design which was intended as an avenue for capability building. Another group of personnel involved in material management has attended workshops on the material management system in order to learn from our partner shipyard (DCNS S.A.) practices for adoption in BN Shipyard. Capability audits have also been carried out by DCNS S.A. to assess the gaps in BN Shipyard's yard infrastructure and resources.

Contract negotiations were undertaken throughout 2012 with many major original equipment manufacturers (OEMs) for the supply of systems and equipment. In addition, verification and validation process with all potential suppliers has been ongoing in order to finalise the technical procurement specifications. Thus, not only will this project generate a positive multiplier effect in terms of equipping our staff with new expertise and knowledge, the local business community can enjoy the benefits of technology transfer and vendor participation.

# MANAGING DIRECTOR'S STATEMENT

Boustead Penang Shipyard Sdn Bhd in 2012 delivered another 67.8-metre anchor handling tug supply vessel, following the successful completion of our first ship developed with DP2 requirements in the previous year. Subsequently, the shipyard completed two American Bureau of Shipping class 111-metre accommodation barges. Equipped with a helicopter deck and 236 cabins, these barges were built to perform mid- to long-term offshore activities. With the delivery of the second accommodation barge, the last major vessel under the commercial shipbuilding projects, Boustead Penang Shipyard will not incur further cost implications of this nature in the current financial year. Moving forward, efforts are underway to transform the yard in Jerejak island into an efficient and profitable yard to support our shipbuilding and ship maintenance, repair & overhaul (MRO) businesses.

# shipbuilding

In Kedah, Boustead Langkawi Shipyard Sdn Bhd has started construction of two 16-metre general purpose harbour tugs. With a 20-tonne Bollard Pull (pulling capability), the vessels will be utilised by BN Shipyard for harbour support duties that include towing, mooring and assisting sea trials of other ships. The design, created in collaboration with Macduff Ship Design, a UK-based company, received the stamp of approval from Ships Classification Malaysia, the only local authorised body to undertake classification of ships registered in the country.

Large new capex for Malaysian offshore oil fields gives impetus needed for the local O&G industry. We aim to take advantage of this opportunity.

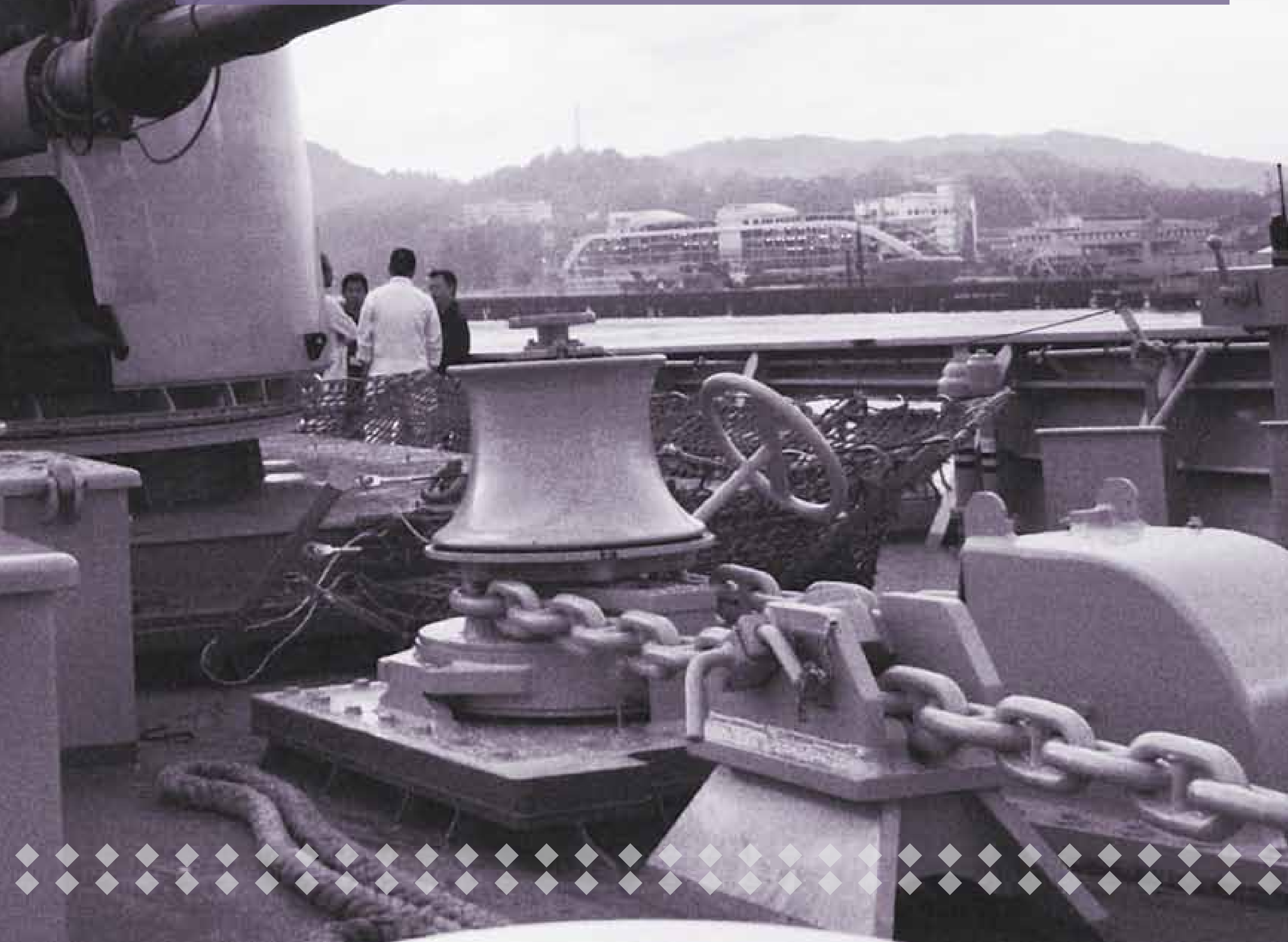
In line with the strategy review in 2011, the Group has moved forward to become less reliant on large commercial projects, and instead, is developing a portfolio of smaller commercial craft that will afford us a share of control over design and which can lead to multiple units or repeat orders.

Our collaboration with Macduff Ship Design, which provides BHIC with access to their portfolio of tugs and workboats, is the crucial first step that will enable us to enhance our own ship design capability, especially in the offshore support vessel (OSV) category. OSVs are vessels designed and built to cater to the needs of the oil and gas upstream industry, and its demand is anticipated to grow in tandem with the healthy level of capital expenditure planned by PETRONAS in the next several years.

# MANAGING DIRECTOR'S STATEMENT

The Group is proud to partner with the Government in protecting national sovereignty. The LCS and FICs incorporate state of the art technologies to help defend our waters.

# integrated logistics support (ILS)

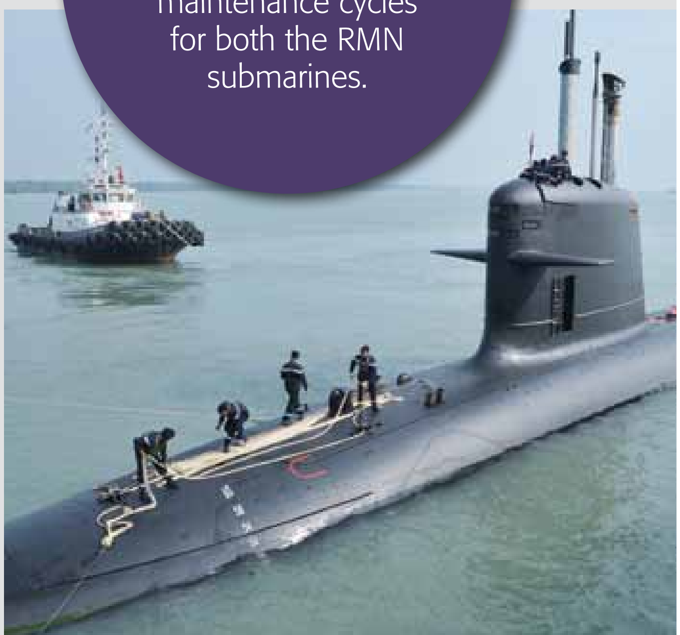


# integrated logistics support (ILS)

During the year, the Group handled various ILS projects. In-service support of the two RMN submarines, KD TUNKU ABDUL RAHMAN and KD TUN RAZAK, continued to progress smoothly under Boustead DCNS Naval Corporation Sdn Bhd (BDNC). BDNC's scope of work included management of all maintenance and industrial activities related to the submarines including technical and logistics engineering aspects, management and supply of spare parts, as well as provision and maintenance of yard facilities and equipment.

Scheduled maintenance for the submarines is integral to maintaining their optimal capability and availability. Through this process, there is a tangible transfer of technology and technical know-how to our Malaysian personnel and subcontractors involved. The Group is on-track to be in a position to undertake the maintenance of the submarines with a completely local team of technicians by the end of the in-service support contract in 2015.

During 2012, BDNC successfully completed three scheduled maintenance cycles for both the RMN submarines.



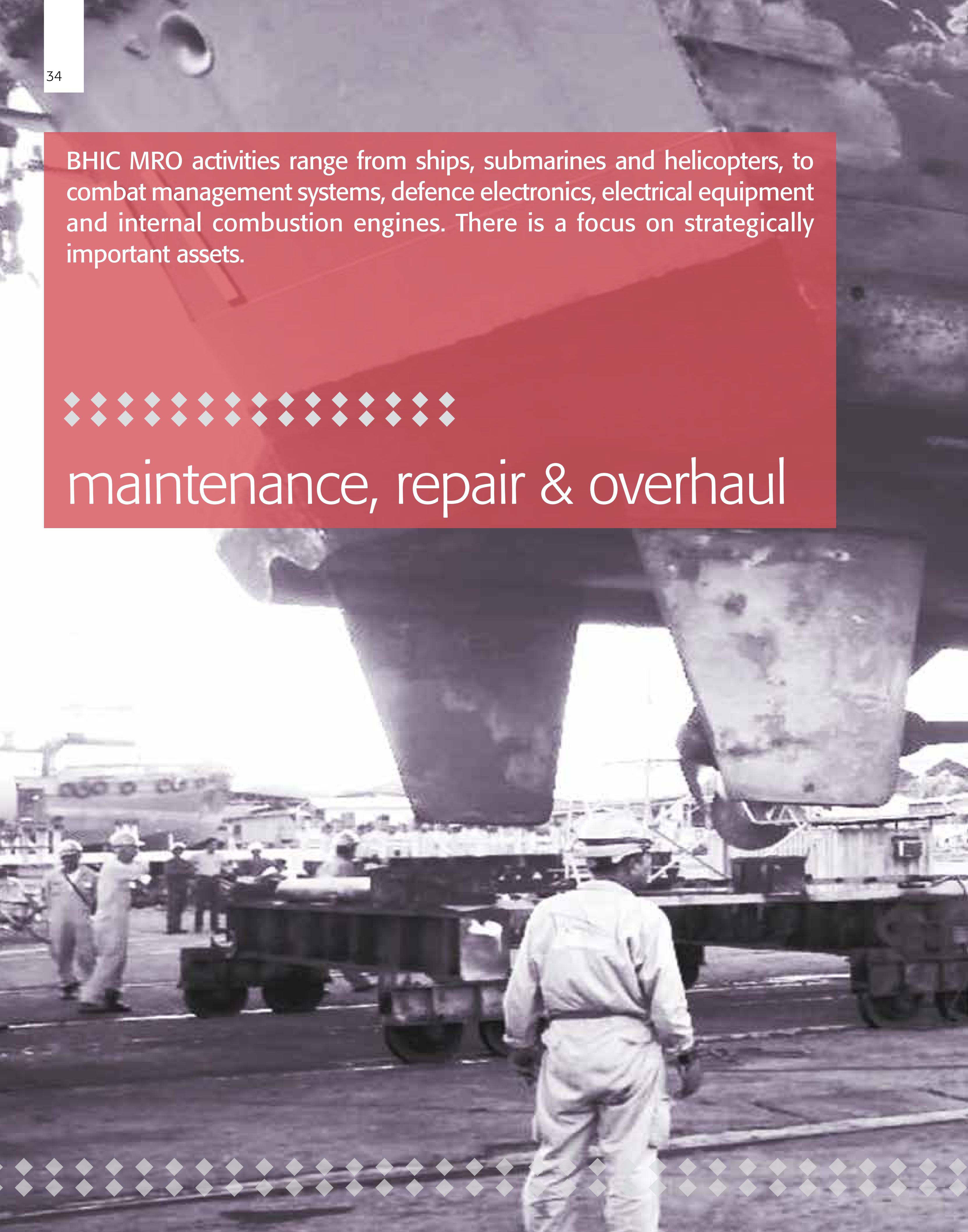
# MANAGING DIRECTOR'S STATEMENT

BHIC Navaltech Sdn Bhd continued to provide services for various classes of the RMN fleet throughout 2012. The year also saw the company increasing its presence in Kuantan where it carried out preventive and corrective maintenance, modification work and other related services.

A RM70 million three-year contract for the supply and delivery of spare parts, maintenance services and training for the 23rd Frigate Squadron of the RMN was secured by BN Shipyard in September 2012. The ILS contract for the 17th Patrol Vessel Squadron, which commenced in mid-2011, is still on-going. In addition to this, the company also performed repairs on several luxury yachts in Lumut in the year under review.

BHIC MRO activities range from ships, submarines and helicopters, to combat management systems, defence electronics, electrical equipment and internal combustion engines. There is a focus on strategically important assets.

# maintenance, repair & overhaul



# maintenance, repair & overhaul

In 2012, Atlas Defence Technology Sdn Bhd, a BHIC subsidiary, successfully renewed its LRQA's QMS ISO 9001:2008 certificate, an internationally recognised quality management system standard, for another three years. During the year, the company provided maintenance services and spare parts for the Bridge Shiphandling Simulator at RMN's training centre, KD PELANDOK, as well as the Action Speed Tactical Trainer for RMN's Maritime Tactical Centre, PUSTAKMAR. In addition, technicians undertook various repair and maintenance work for RMN's New Generation Patrol Vessels' combat management system, navigation radar, electrical and degaussing systems. RMN also received other specialised work such as hydrographic/ oceanographic sub-system equipment servicing for its hydrographical ships.

Both BHIC Defence Techservices Sdn Bhd and BHIC Bofors Asia Sdn Bhd (BHIC Bofors) are involved in providing gun repair solutions. In 2012, BHIC Defence Techservices secured a contract from the MMEA for the repair and overhaul of 20mm Oerlikon guns whereas BHIC Bofors obtained a three-year RM6.0 million contract renewal for the supply, maintenance and training for its 40mm BOFORS gun and a two-year RM5 million contract for the maintenance and training for its 57mm BOFORS gun. To accommodate equipment testing and maintenance work of these guns, BHIC Bofors' Kota Kinabalu workshop facilities were expanded in 2012.

# MANAGING DIRECTOR'S STATEMENT

Additionally, Dominion Defence & Industries Sdn Bhd, a BHIC subsidiary based in Lumut, continued with its principal activity of supplying marine, defence and general products to the BHIC Group, as well as government defence agencies and the commercial sector in 2012.

We are pleased to report that a joint venture company within the Group, BHIC MSM Sdn Bhd's MRO work on MTU Friedrichshafen GmbH's engines progressed according to plan during the year. Although BHIC MSM is currently concentrating on the maintenance of MTU engines below 3000KW, there are plans to diversify the MRO work to other models in the MTU Series in 2013.

Since setting up a temporary facility at Terminal 3, Sultan Abdul Aziz Shah Airport, BHIC AeroServices Sdn Bhd (BHICAS) has started servicing MMEA's Dauphin AS365N3 helicopters. BHICAS also sent its technicians to the Eurocopter Training Services in Marignane, France, for helicopter training services in preparation to service EC725 tactical transport helicopters.

The Royal Malaysian Air Force took delivery of the first two of 12 EC725 helicopters in December 2012. As part of the offset arrangement, Eurocopter has set-up a regional EC225/725 Full Flight Simulator Center (R-FFS Center) to become a training centre for helicopter pilots and crew members covering military and civil (off-shore oil & gas) customers in the South East Asia region. BHIC has a minority stake in this enterprise.

In Lumut, Kuantan and Kota Kinabalu, BN Shipyard's ship repair division carried out a multitude of services on RMN ships. These included underwater repair work, refit and the Service Life Extension Programme. Two more ships, KD HANG TUAH and KD TUN ABDUL JAMIL, were delivered to RMN in July and November respectively after refit work was successfully completed. In January 2013, we secured the refit work for KD SRI INDERA SAKTI, and with the renewal of the right to provide all scheduled maintenance on RMN vessels obtained in mid-2012, the company expects more vessels to be sent for MRO work in 2013.

Boustead Langkawi Shipyard Sdn Bhd remained focused on luxury yacht repairs in addition to its tugboat construction contract. The company also performed MRO work on ferries and other commercial vessels.

In Lumut, BHIC Electronics & Technologies Sdn Bhd's (BEAT) technicians carried out various MRO jobs on electronic equipment and systems onboard RMN ships, including KD LAKSAMANA TUN ABDUL JAMIL and KD HANG TUAH in 2012. As for KD JEBAT, the team carried out third level maintenance on the MM40 missile prior to a firing exercise. The company's other major client is the Malaysian Army, where it provided maintenance services and supplied spare parts for tactical radio equipment during the year.

The global economic slowdown has affected this segment. We are expanding on other activities and providing value-added services to mitigate its impact.

# manufacturing & services

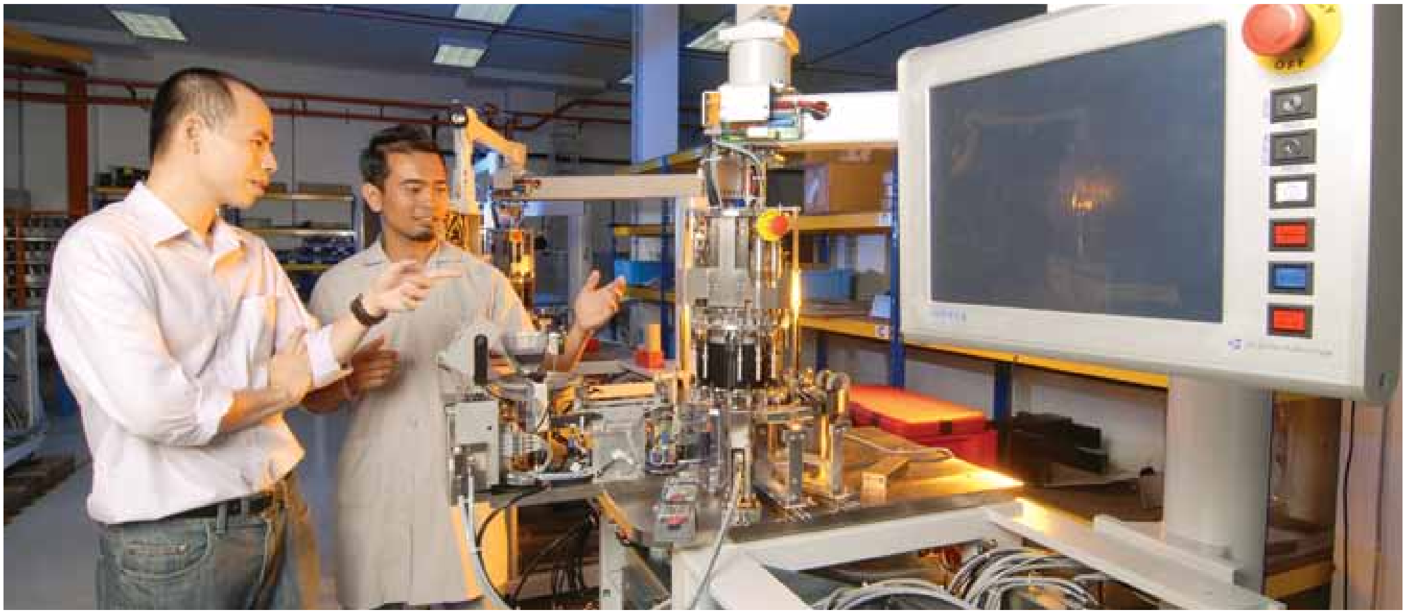
## manufacturing & services


The year marked the successful delivery of all of the fast interceptor crafts (FIC) to the Malaysian Maritime Enforcement Agency (MMEA) by BYO Marine Sdn Bhd (BYO Marine). Categorised as MRTP 16 or Multi-Role Tactical Platforms, the FIC comply with stringent international standards including Det Norske Veritas (DNV) and High Speed Light Craft (HSLC) Rules. A proud moment for BHIC, this project was a successful collaboration with our Turkish partner, Yonca-Onuk Savunma Sanayii A.S. The effective transfer of technology to BYO Marine by our Turkish partner enabled the local workforce to master the construction of advanced composite boats of up to 44 metres, which resulted in the 2011 award of ISO 9001-2008 certification award by Lloyd's Register Quality Assurance Ltd.

Aimed at enhancing the effectiveness of maritime law enforcement, the FIC are well-suited for interceptor roles, anti-smuggling and anti-piracy activities. They can also serve as sea ambulances and be utilised for search and rescue missions, among other activities.

Composite materials will be a feature of our future products in smaller craft, building on our capability in Langkawi.

# MANAGING DIRECTOR'S STATEMENT



After obtaining a manufacturing licensing agreement in 2011 with American-based Raytheon, the company has now qualified our Group's manufacturing arm, Contraves Advanced Devices Sdn Bhd (CAD) as a participant in its Strategic Enterprise Aligned Commodities provider programme and a Raytheon preferred supplier.

CAD was subsequently awarded a contract by Raytheon in early 2012 for the production and supply of components for its Evolved Sea Sparrow Missile. However, reflecting the slowdown in many developed economies in 2012, CAD's commercial electronics manufacturing arm experienced slower export sales to Europe and the US.

During the year, CAD and its subsidiary were given the opportunity to undertake a RM2.0 billion procurement, engineering and integration works for the LCS's combat management, fire control and communication systems. As a result, CAD will be expanding its Melaka factory as well as establishing a new centre in Cyberjaya. In partnership with established OEMs, the company is committed to delivering a sustainable vendor programme as the ten-year contract will require local vendor selection and development of small to medium sized enterprises to support CAD's supply chain requirements.

CAD and its subsidiary were awarded RM2.0 billion procurement engineering and integration works for the LCS's combat management, fire control and communication systems.

BHIC has agreed with the Government to form Pyrotechnical Ordance Malaysia Sdn Bhd (POM) in response to the need for national self-reliance for artillery propellants. The new plant in Bentong will be operational in 2013, and POM will be a 49% associate of the Group.

The second half of the year saw a significant improvement in our chemical tanker charter operations. MT CHULAN 1, which successfully completed its first year time charter with Asahi Tankers Co. Ltd. in November, managed to secure a five month extension at a higher charter rate. After months of uncertainty in the open spot market, MT CHULAN 2 secured a thirteen months Contract of Affreightment with Vitol Asia Pte Ltd, in July 2012.


The chemical tankers are managed by professional ship managers and certified by international oil majors to carry their cargo.

This was followed by MT CHULAN 3 which was also taken up by Vitol Asia Pte Ltd under a thirteen month Contract of Affreightment immediately upon its delivery in August. The acceptance of the vessels by the oil majors is undeniable proof of their high quality standard and performance capability.

Our Marine Technology Academy (MTA) continued to offer diploma level courses to Royal Navy of Oman (RNO) technicians. A new batch of RNO personnel enrolled in the Engineering Application Course and the Technician Application Course in February 2012. The training was carried out in two phases; the first was held in Universiti Teknologi Malaysia (UTM) and the second technical application phase was held primarily at MTA's premises in Lumut. In addition, the students were enrolled into BN Shipyard's Toastmasters Club to enhance their command of the English language.

During the year under review, a new programme called Technical Conversion Course was developed in collaboration with UTM. There are 14 RNO personnel attending the one-year programme which commenced in September 2012. The programme's main objective is to facilitate the conversion and development of mechanical-based knowledge to technicians supporting the operation and equipment maintenance on RNO ships.

# MANAGING DIRECTOR'S STATEMENT

## TRANSFORMATION INITIATIVES

The Group is committed to nurturing a high performance culture centered on work-life balance as this forms the crux of its transformation strategy. To this end, town hall meetings for employees were conducted in Lumut, Kuala Lumpur, Langkawi, Kota Kinabalu and Pulau Pinang to disseminate key messages and updates.

Following the formalisation of the BHIC Group Policy Manual and Limits of Authority, engagement with all relevant staff was held to provide them with clarification and to obtain feedback. The Group Corporate Communications Department also launched its own Policy and Manual which will help guide our communications with external stakeholders as well as within the internal "BHIC community." A rejuvenated corporate website was unveiled in early January 2013.

During the year under review, the BHIC Group focused on instilling the importance of workplace health and safety amongst employees. Towards this end, BHIC organised a Health, Safety & Environment Week in Kuala Lumpur in June 2012. In conjunction with this event, selected Continuous Improvement Representatives were exposed to the 5S, a workplace decision-making process in a "train the trainers" programme. In turn, they were to guide colleagues on the processes involved. The week-long event culminated with a competition to award the most organised and most creative & innovative departments. Additionally, a safety logo and the slogan 'Safety First' were formally adopted for the Group's use.

After the successful roll-out of the Group's Performance Development Review Form, the Group's compensation structure was revamped as a first step to achieving the objective of aligning our compensation to the market. The performance-based compensation structure follows the balanced scorecard approach which also rewards effective learning. During the year, employees at all levels participated in a wide variety of training programmes and seminars.

In addition, to ensure each business and support unit is operating in alignment with the Group's vision and mission, the operating plan and budget of the units are subjected to review by the BHIC Group Corporate Planning Committee. Selected steps and measures were taken to address the identified gaps and to realise the benefit of synergies.

In 2012, the BHIC Group Information System Department implemented and expanded the coverage of its flagship

# MANAGING DIRECTOR'S STATEMENT

application and enterprise resource planning software, the SAP System. It successfully rolled out the financial, human resources and project management systems to Boustead Penang Shipyard Sdn Bhd. In addition, the SAP Business Consolidation System (BCS) is being developed to improve the Group's financial consolidation process.

Emphasis was also placed on data security in order to safeguard data and information via encryption technologies. Initiatives are now in place to maintain operational excellence through the adoption of Information Technology Infrastructure Library (ITIL) practices and information technology standards, augment efficiency and effectiveness of its related infrastructure, and improve staff competency through continuous learning and professional development.

Another key initiative in 2012 was the establishment of BHIC's Intranet portal as a common platform for knowledge-sharing among employees. The platform will allow content collaboration and support integration of commonly used MS Office suite programmes. The first phase of the Intranet went live in January 2013.

## MOVING FORWARD

The prospects for the maritime sector remain challenging amid surplus capacity. However, in certain segments, such as OSVs, demand for new vessels is expected to grow in tandem with a robust oil and gas sector.

As part of its Entry Point Project, BHIC is investing resources in developing new designs to cater for new industry trends and environmental regulations. Over the long term, we plan to train more than one hundred local ship designers and systems engineers and, by doing so, move up the value chain.

We are optimistic about this segment of the market as the OSVs require various MRO services which the Group is more than capable of providing. Moreover, our facilities and extensive vendor pool is being expanded and enhanced to ensure a captive market. There are ongoing efforts to secure selected oil & gas fabrication work for our Jerejak shipyard, due to the physical limitation imposed by the Second Penang Bridge. At the same time, efforts to secure a new site for this important activity are underway.

On the LCS project, we are expecting 2013 to move forward on a positive note, with all contracts with the government, partnering shipyards and major OEMs being finalised according to plan.

For specialised vessels such as FIC, there is great potential for repeat business in the near future given our good track record. Furthermore, there is a large volume of available work in servicing naval ships and equipment. Thus, the Group's subsidiaries are regularly expanding their scope of services to ensure that the needs of our clients are well taken care of.

The Group's venture into aviation has a bright outlook with BHICAS's permanent MRO Centre at the Subang Helicopter Centre on track to begin operations in 2014. The MRO Centre will be equipped and qualified for the maintenance needs of various military helicopters.

## APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all Warga BHIC for your dedication and perseverance, as well as for upholding our ethics and values during the course of our business activities in the year under review, in spite of the challenges we faced.

Our shareholders have again shown their unwavering loyalty to the Group and we thank you for this. We also acknowledge the support of the Government of Malaysia, its agencies and regulatory bodies, as well as our customers and business partners. With your continued support in 2013, we will move BHIC into a new era of growth.

Terima kasih.

**TAN SRI DATO' SERI AHMAD RAMLI BIN HAJI MOHD NOR**

# CORPORATE SOCIAL RESPONSIBILITY

At BHIC, corporate social responsibility (CSR) is an integral element of sustainable business growth and value creation for all our stakeholders, and is embraced in all aspects of our business. From the way we enhance the competitiveness of our vendors to initiatives that improve the lives of the communities in which we operate, our commitment towards being a socially responsible corporate citizen is reflected across our value chain.

## VENDOR DEVELOPMENT

The development of strong support industry clusters is one of the key enablers to achieving the goals set out in the Developing Sustainable Competitiveness in Shipbuilding and Ship repair Entry Point Project. In line with this, BHIC has continued to invest in nurturing a support industry eco-system that will possess the necessary skills-sets, infrastructure and mindset to effectively cater to the long term needs of Malaysia's shipbuilding, ship repair and maritime defence industries.

Our commitment to ensuring our vendors grow with BHIC is encapsulated in our Group Vendor Development Division (GVDD), a dedicated division that oversees all aspects of vendor development.

# CORPORATE SOCIAL RESPONSIBILITY


Throughout 2012, GVDD spearheaded a total of nine training initiatives aimed at improving the capabilities of our vendors. This was achieved with the support of a number of government entities and Kulim Technology Park Corporation (KTPC).

These initiatives included leadership and entrepreneurship development programmes, language and communication improvement classes as well as systems and operations training. All in all, some 168 individuals from 47 companies benefited from these initiatives.

In collaboration with KTPC, several vendors were given the opportunity to participate in SMM Hamburg 2012. This world-renowned maritime trade fair held in Germany in the 3rd quarter of 2012, offered participating Malaysian SMEs an invaluable platform to gain global exposure for their products and services.

Part of GVDD's role is also to work closely with other Government Linked Companies (GLCs) to develop strategies that can effectively contribute to the advancement of local vendors. This is carried out via the GLC Vendor Development Programme Circle and GLC Red Book Circle – Procurement Sub-Group. In 2012, GVDD participated in a total of five Circles.

To ensure BHIC's vendors continue to deliver their products and services to the high standards required, we audit continually the performance of all our vendors. These audits provide us with a platform to identify capable vendors who can be nurtured under our Vendor Development Programme.

## CONTRIBUTING TO THE COMMUNITY

The BHIC Group is always mindful of our role and responsibility in society. As such, BHIC, along with our subsidiary and associate companies, continued to contribute positively towards improving the lives of the communities we operate in.

In 2012, contributions in cash or in kind were channeled towards charitable organisations for the underprivileged, community infrastructure, cultural and religious events, amongst many others.

## ENHANCING EMPLOYEE RELATIONS

A key factor in achieving sustainable growth lies in our employees. BHIC continues to invest in enhancing skills-set and abilities of staff and in providing avenues to foster greater camaraderie and team-work.

In 2012, numerous training programmes were conducted at all levels throughout the Group. These programmes focused on enabling our employees to perform their work more effectively while helping them develop positively as professionals.

Apart from having the right skills-set, an employee should also be motivated to perform to their best of their ability. To this end, Boustead Naval Shipyard Sdn Bhd (BNS) organised a motivation programme for senior executive employees. Participants were taught how to motivate themselves and their colleagues to create a dynamic working environment.

In a bid to form a close-knit BHIC family, we also organised fun-filled events in conjunction with the major festive occasions throughout the year. These events have become a much anticipated platform for BHIC employees to gather under one roof in the spirit of camaraderie and unity. In the same vein, we organised several health and safety seminars in the year to ensure our employees' welfare remained a priority and staff were able to participate in a safety logo competition.

# CORPORATE SOCIAL RESPONSIBILITY

## HUMAN CAPITAL DEVELOPMENT

In addition to creating a conducive working environment filled with dynamic employees, BHIC also invested in developing human capital for the maritime industry for the long term.

BHIC's Young Engineers Scheme (YES), in collaboration with MIGHT-METEOR Advance Manufacturing Sdn Bhd continued in 2012. This programme is open to engineering graduates from local universities with a minimum grade point average of 3.0, and is tailored to bolster the skills-set and work experience of fresh graduate engineers by exposing them to practical on-the-job training. At the end of 2012, 19 participants of first YES intake successfully completed their practical training and 14 participants are now employed within the BHIC Group. Before year end 2012, a second intake of 31 graduates began their programme.

On the same note, our subsidiary companies, Atlas Defense Technology Sdn Bhd and Boustead Penang Shipyard Sdn Bhd (BPS), also carried out their respective practical training programmes for undergraduates during the year. These programmes offer students the opportunity to learn more about the shipbuilding and ship repair industry while providing them with the know-how to meet the ever increasing demands of our industry.

Similarly, our Marine Technology Academy's (MTA) Apprentice Development Programme has given students who have completed their basic technical courses the opportunity to acquire advanced certifications in various of our shipyards' technical skills. This was in addition to the Industrial Training Programme provided by MTA for undergraduates of various institutions of higher learning. At the same time, lecturers from Politeknik Ungku Omar were invited to participate in MTA's Industrial Attachment Programme. This teaching-the-teacher initiative provided these lecturers a firsthand experience on shipyard technology applications.

*Young engineers celebrate the end of their induction. "Now for the Hard Work!"*

As a PERHEBAT (Perbadanan Hal Ehwal Bekas Tentera) certified trainer, MTA has also continued to provide on-the-job training for veterans of the Royal Malaysian Navy. This is to help prepare ex-servicemen in their career in the civilian world.

Our associate company, Boustead Naval Shipyard continues to support its very own Toastmaster Club, which is a member of Toastmaster International. The Club is a platform to provide communications and leadership training for employees of BNS as well as MTA's international students from the Royal Navy of Oman.

## SUSTAINABILITY IN THE MARKETPLACE

In addition to our vendors, the Group's external stakeholders including investors, Government agencies and authorities, advisors and customers play a significant role in our inter-dependent operating landscape. Hence, it is important that we consistently engage our stakeholders in an effort to solidify a transparent and open relationship.

Throughout the year under review, BHIC engaged our external stakeholders through site visits, corporate presentations, investor relations (IR) initiatives and festive events. These engagements allowed us to provide updates on the Group while facilitating feedback and input from stakeholders.

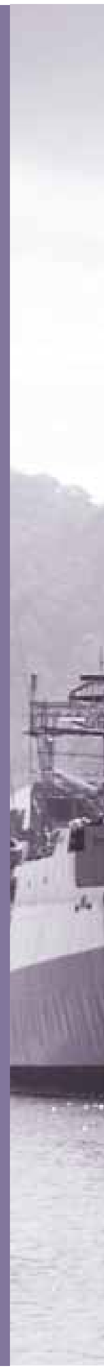
In addition, our participation in international trade exhibitions like Defense Services Asia (DSA) 2012, one of the largest defense industry trade events in the region, also provided BHIC with an invaluable platform to engage with its external stakeholders. At events of this scale, we were able to showcase BHIC's strengths and capabilities while connecting with potential customers.

In October 2012 BNS participated in the Quality Environment 5S National Convention (QE Convention) which coincides with the International Convention on Quality Control Circles (ICQCC), and was held in conjunction with the Annual Productivity and Innovation Conference 2012 at the Kuala Lumpur Convention Centre. BNS was one of 20 organisations selected to compete in the QE Convention and won a gold award for its commendable efforts.

# FIVE-YEAR FINANCIAL HIGHLIGHTS

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **RM'000** | | | | | |
| Revenue | **646,518** | 544,133 | 649,797 | 543,851 | 496,259 |
| (Loss) / Profit before taxation | **(107,162)** | 1,700 | 95,054 | 94,876 | 134,681 |
| (Loss) / Profit after taxation | **(112,274)** | 18,458 | 79,655 | 76,655 | 116,978 |
| (Loss) / Profit attributable to shareholders | **(131,612)** | 12,782 | 69,806 | 76,280 | 115,120 |
| Shareholders' equity | **280,417** | 427,057 | 430,304 | 375,231 | 312,529 |
| Total equity | **344,770** | 475,517 | 473,587 | 385,621 | 320,083 |
| Total assets | **1,489,401** | 1,158,449 | 1,017,235 | 581,310 | 465,109 |
| **Sen per share** | | | | | |
| (Loss) / Earnings per share | **(52.97)** | 5.14 | 28.10 | 30.70 | 46.33 |
| Net dividend per share | **6.00** | 6.50 | 6.00 | - | 5.50 |
| Net assets per share | **1.13** | 1.72 | 1.73 | 1.51 | 1.26 |

# The Group's Statement of Financial Position as at 31st December 2010 has been adjusted in accordance with MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards.*



# CORPORATE INFORMATION

**BOARD OF DIRECTORS**

**Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin**
Chairman

**Y. Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)**
Executive Deputy Chairman/ Managing Director

**Y. Bhg. Datuk Azzat Bin Kamaludin**
Non-Independent Non-Executive Director

**Y. Bhg. Dato' Ishak Bin Osman**
Independent Non-Executive Director

**Mr. David William Berry**
Non-Independent Executive Director

**Encik Abd Malik bin A Rahman**
Independent Non-Executive Director

**SECRETARIES**
Suzana Binti Sanudin
Lilyrohayu Binti Ab. Hamid @ Kassim

**AUDITORS**
Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur, Malaysia
Tel. No: 03-7495 8000
Fax. No: 03-2095 9076

**PRINCIPAL PLACE OF BUSINESS**
17th Floor, Menara Boustead
69 Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia
Tel. No: 03-2078 7770
Fax. No: 03-2078 7768

**REGISTERED OFFICE**
17th Floor, Menara Boustead
69 Jalan Raja Chulan
50200 Kuala Lumpur, Malaysia
Tel. No: 03-2078 7770
Fax. No: 03-2078 7768

**REGISTRAR**
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur, Malaysia
Tel. No: 03-2264 3883
Fax. No: 03-2282 1886

**PRINCIPAL BANKERS**
Affin Bank Berhad
Alliance Bank Malaysia Berhad
AmBank (M) Berhad
Asian Finance Bank
CIMB Bank Berhad
HSBC Bank Malaysia Berhad
Maybank International (L) Ltd.

**STOCK EXCHANGE LISTING**
Bursa Malaysia Securities Berhad
Main Board

**WEBSITE**
www.bhic.com.my

# FINANCIAL CALENDAR

Financial Year

1 January to
31 December 2012

Results

First quarter
Announced
15 May 2012

Second quarter
Announced
7 August 2012

Third quarter
Announced
20 November 2012

Fourth quarter
Announced
21 February 2013

Annual Report

Issued
13 March 2013

Annual General Meeting

To be held
4 April 2013

Dividends

First Interim
for Financial Year Ended
31 December 2012

Book Closure Date
9 March 2012

Payment Date
26 March 2012

# BOARD OF DIRECTORS

Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin

Y. Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)

Y. Bhg. Datuk Azzat Bin Kamaludin

Mr. David William Berry

Y. Bhg. Dato' Ishak Bin Osman

Encik Abd Malik Bin A Rahman

# PROFILE OF DIRECTORS

## Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin

Chairman
63 years of age, Malaysian

Tan Sri Lodin was appointed to the Board on 1 January 2008. He is the Chairman of the Remuneration Committee and Executive Committee. He is also the Deputy Chairman/Group Managing Director of Boustead Holdings Berhad and the Chief Executive of Lembaga Tabung Angkatan Tentera (LTAT).

Tan Sri Lodin graduated from The University of Toledo, Ohio, USA with a Bachelor of Business Administration and a Master of Business Administration. He has extensive experience in managing a provident fund and in the establishment, restructuring and management of various business interests ranging from plantation, trading, financial services, property development, oil and gas, pharmaceuticals to shipbuilding. Tan Sri Lodin is the Chairman of Pharmaniaga Berhad, 1Malaysia Development Berhad and Johan Ceramics Berhad. He is also the Deputy Chairman of Affin Holdings Berhad and sits on the Boards of Affin Bank Berhad, Affin Islamic Bank Berhad, Affin Investment Bank Berhad, AXA AFFIN Life Insurance Berhad, MHS Aviation Berhad, FIDE Forum, and Badan Pengawas Pemegang Saham Minoriti Berhad. Among the many awards Tan Sri Lodin received to-date include the Chevalier De La Légion D'Honneur from the French Government, the Malaysian Outstanding Entrepreneurship Award, the Degree of Doctor of Laws honoris causa from the University of Nottingham, United Kingdom, the UiTM Alumnus of The Year 2010 Award and The BrandLaureate Most Eminent Brand ICON Leadership Award 2012 by Asia Pacific Brands Foundation.

He does not have any family relationship with any Director and/or major shareholder of Boustead Heavy Industries Corporation Berhad or any personal interest in any business arrangement involving the Company, except that he is also the Chief Executive of LTAT.

## Y. Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)

**Executive Deputy Chairman / Managing Director**
**69 years of age, Malaysian**

Tan Sri Ramli was appointed to the Board on 17 August 2005. He is a member of the Executive Committee.

Tan Sri Ramli graduated from the Brittania Royal Naval College Dartmouth, United Kingdom. He is also a graduate of the Indonesian Naval Staff College, the United States Naval War College and the Naval Post-Graduate School in Monterey. He holds a Masters Degree in Public Administration from the Harvard University, United States. He served the Royal Malaysian Navy for 34 years, and retired as the Chief of the Royal Malaysian Navy in 1999.

Tan Sri Ramli sits on the board of Affin Islamic Bank Berhad, Muhibbah Engineering Berhad, Favelle Favco Berhad and several other private limited companies.

Tan Sri Ramli does not have any family relationship with any director and/or major shareholders of Boustead Heavy Industries Corporation Berhad, or any personal interest in any business arrangement involving the Company.

## Y. Bhg. Datuk Azzat Bin Kamaludin

**Non-Independent Non-Executive Director**
**68 years of age, Malaysian**

Datuk Azzat was appointed to the Board on 17 August 2005. He is the Chairman of the Nominating Committee and a member of the Audit Committee.

Datuk Azzat is a lawyer by profession, and is a partner of the law firm of Azzat & Izzat. He holds degrees in Law and International Law from the University of Cambridge and was admitted as a Barrister-at-Law of the Middle Temple, London in 1970. Prior to being admitted as an advocate and solicitor of the High Court of Malaya in 1979, he served as an Administrative and Diplomatic Officer with the Ministry of Foreign Affairs in various capacities. He was a member of the Securities Commission from 1993 to 1999.

Datuk Azzat sits on the Board of Boustead Holdings Berhad, KPJ Healthcare Berhad, Visdynamics Holdings Berhad, Axiata Group Berhad and several other private limited companies.

Datuk Azzat does not have any family relationship with any director and/or major shareholders of Boustead Heavy Industries Corporation Berhad or any personal interest in any business arrangement involving the Company, other than the rendering of professional services to the Group which is carried out in the ordinary course of business of Azzat & Izzat, of which he is a partner.

# PROFILE OF DIRECTORS

## Mr. David William Berry

**Non-Independent Executive Director**
**65 years of age, New Zealander and Permanent Resident of Malaysia**

Mr. Berry was appointed to the Board on 23 February 2006. He is a member of the Executive Committee.

Mr. Berry has over forty years experience in financial services, the commercial sector and in corporate consulting. He held various senior positions with Standard Chartered Merchant Bank in London, Kuala Lumpur and Nairobi, including a posting from 1980 to 1983 as the Chief Executive of Chartered Merchant Bankers Malaysia Berhad (now known as Affin Investment Bank Berhad). From 1998 to 2001, he was the Managing Director of Affin Fund Management Sdn Bhd. From 2002 to 2004, Mr. Berry was the Executive Director and Chief Executive Officer of Cahya Mata Sarawak Berhad. He also served as a Non-Executive Director of Boustead Holdings Berhad from 1990 to 2002.

Mr. Berry is the Vice President of the Board of Governors of the Malaysian Institute of Corporate Governance (MICG) and a Director of the Malaysian Investor Relations Association (MIRA). He is also a member of the Financial Institution Directors' Education Program (FIDE).

Mr. Berry does not have any family relationship with any director and/or major shareholder of Boustead Heavy Industries Corporation Berhad, or any personal interest in any business arrangement involving the Company other than previously rendering professional services to the Group, which was carried out in the ordinary course of business of Columbus Circle Governance Sdn Bhd.

## Y. Bhg. Dato' Ishak Bin Osman

**Independent Non-Executive Director**
**65 years of age, Malaysian**

Dato' Ishak was appointed to the Board on 22 January 1998. He is a member of the Audit Committee, Nominating Committee and Remuneration Committee.

Dato' Ishak graduated from University of Malaya with a degree in Economics (Hons) majoring in Accountancy and holds a Master of Business Administration in Finance from Leuven University, Belgium. He started his working career in the Ministry of Finance, Malaysia and held various positions in the Ministry during his eleven (11) years with the Government.

Dato' Ishak joined Amanah Merchant Bank Berhad as Senior Manager Project Finance in 1982 and was subsequently promoted to be General Manager Banking & Advisory Service in 1984. In 1987, he moved to Kumpulan Kewangan Malaysia Berhad (KKMB), the holding company of Amanah Merchant Bank as a Senior General Manager-Operation. During his tenure with KKMB, he sat on various Boards namely, Amanah Merchant Bank Berhad, Malaysia Discount Berhad, Amanah International Insurance Berhad, Malaysia Credit Finance Berhad and KK Industries Berhad. In 1989, he assumed the Managing Director's position in Malaysia Credit Finance Berhad.

Dato' Ishak does not have any family relationship with any director and/or major shareholders of Boustead Heavy Industries Corporation Berhad, or any personal interest in any business arrangement involving the Company.

## Encik Abd Malik Bin A Rahman

**Independent Non-Executive Director**
**64 years of age, Malaysian**

Encik Malik was appointed to the Board as an Independent Non-Executive Director of Boustead Heavy Industries Corporation Berhad on 1 June 2008. He is the Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee.

Encik Malik is a Chartered Accountant member of the Malaysian Institute of Accountants (MIA). He is also a Fellow of the Association of Chartered Certified Accountants (UK), a member of the Malaysian Institute of Certified Public Accountants and a Certified Financial Planner (USA). He is a member of both the Malaysian Institute of Management and Chartered Management Institute (UK),

Encik Malik held various senior management positions in Peat Marwick Mitchell (KPMG), Esso Group of Companies, Colgate Palmolive (M) Sdn. Bhd., Amway (Malaysia) Sdn. Bhd., Fima Metal Box Berhad and Guinness Anchor Berhad. He was the General Manager, Corporate Services of Kelang Multi Terminal Sdn. Bhd. (Westports) from 1994 until 2003.

Encik Malik sits on the Board of Affin Holdings Berhad, Affin Investment Bank Berhad, CYL Corporation Berhad, Innity Corporation Berhad, Lee Swee Kiat Group Berhad and several private limited companies.

Encik Malik does not have any family relationship with any director and/or major shareholders of Boustead Heavy Industries Corporation Berhad, or any personal interest in any business arrangement involving the Company.

# SENIOR MANAGEMENT TEAM

**Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)**
Managing Director

**David William Berry**
Executive Director

**Datuk Ir. Yahya bin Hashim**
Director, Operations Boustead Naval Shipyard Sdn Bhd

**Anuar bin Murad**
Director, Defence and Security

**Ahmad Nordin bin Mohammad**
Chief Financial Officer

**Faisal bin Ismail**
Director, Corporate & Strategic Planning and Transformation Programme

**Dato' Pahlawan Ir. Hj Jasan Ahpandi bin Sulaiman**
Head, Commercial

**Ir. Ng Hock Seng**
Head, Oil & Gas Division

**Ir. Ee Teck Chee**
Advisor, Technical & Risk

**Siti Naim binti Jamaluddin**
Head, Group Legal

**Ir. Sukhdev Singh a/l Khazan Singh**
Head, Group Information System

**Khalid bin Mohd**
Head, Group Supply Chain Management

**Dato' Ir. Syed Amir Shahabuddin bin Syed Alwi**
Head, Engineering & Technology

# AUDIT COMMITTEE REPORT

## COMPOSITION OF MEMBERS

### Chairman

Encik Abd Malik Bin A Rahman
(Independent Non-Executive Director)

### Members

Y. Bhg. Datuk Azzat Bin Kamaludin
(Non-Independent Non-Executive Director)

Y. Bhg. Dato' Ishak Bin Osman
(Independent Non-Executive Director)

## MEMBERSHIP

According to the Listing Requirements of Bursa Securities, the Audit Committee shall be appointed by the Board of Directors ("Board") from amongst the Directors of the Company and its number shall not be less than three (3) members, all of whom shall be Non-Executive Directors, with a majority being Independent Directors. The members of the Audit Committee shall elect a Chairman from amongst themselves who is an Independent Non-Executive Director.

The terms of office and performance of the Committee and each of its members shall be reviewed by the Board no less than once every three (3) years.

The Committee met four (4) times during the financial year ended 31 December 2012. Details of the attendance of each member at the Audit Committee Meeting held during the financial year ended 31 December 2012 are as follows:

| Name of Director | Status of Directorship | Attendance of Meetings |
|---|---|---|
| Encik Abd Malik Bin A Rahman | Independent Non-Executive Director | 4/4 |
| Y. Bhg. Datuk Azzat Bin Kamaludin | Non-Independent Non-Executive Director | 2/4 |
| Y. Bhg. Dato' Ishak Bin Osman | Independent Non-Executive Director | 4/4 |

## TERMS OF REFERENCE

### Primary Purposes

The Audit Committee ("Committee") shall:

1. Provide assistance to the Board of Directors in fulfilling its fiduciary responsibilities relating to the corporate accounting and practices of the Company and its subsidiaries ("Group").

2. Improve the Group's business efficiency, the quality of the accounting function, system of internal controls and audit function and enhance the confidence of the public in the Group's reported results.

3. Maintain through regularly scheduled meetings, a direct line of communication between the Board, the external auditors and the internal auditors.

4. Enhance the independence of both the external and internal auditors functions through active participation in the audit process.

5. Strengthen the role of the Independent Directors by giving them a greater depth of knowledge as to the operations of the Group through their participation in the Committee.

6. Act upon the Board of Directors' request to investigate and report on any issues or concerns with regard to the management of the Group.

### Authority

The Committee shall, in accordance with the procedure determined by the Board and at the cost of the Company have authority to investigate any matter within its terms of reference, full and unrestricted access to any information pertaining to the Company and all the resources required to perform its duties. The Committee shall have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity and be able to convene meetings/obtain independent/external professional or other advice and secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

### Functions and Responsibilities

A summary of the key functions and responsibilities of the Audit Committee in accordance with the terms of reference of the Audit Committee are as follows:

1. In relation to the internal audit function:

   a. To review the adequacy of the scope, functions, competency and resources of the internal audit function and ensure that it has the necessary authority to carry out its work; and

   b. To review the internal audit programme, processes and the results of the internal audit programme, processes or investigations undertaken and ascertain whether or not any appropriate actions are taken on the recommendations of the internal audit function.

2. In relation to the external audit function:

   a. To recommend the re-appointment/nomination of qualified auditors as the external auditor and to review any letter of resignation from the external auditors of the Company;

   b. To meet with the external auditors at least twice in each year to discuss problems and reservations arising from the interim and final audits, and any other matter the auditors may wish to discuss (without the presence of management);

# AUDIT COMMITTEE REPORT

c. To review with the external auditors, the audit plan, the scope of audit and the audit report, the audit fees, the independence of the external auditor and any conflicts of interest and to assess the appropriateness of any other professional engagements given to the external auditor;

d. To review the quarterly results and year end financial statements, prior to the approval by the Board; and

e. To review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels and to provide an independent assessment of the adequacy, reliability and effectiveness of the risk assessment process and risk management and corporate governance system of the Group.

3. To review any related party transaction and conflict of interest situations that may arise within the Company/Group including any transaction, procedure or course of conduct that raises questions of management integrity.

4. To review and evaluate the system of internal control within the Company and the Group with the internal and external auditors.

5. To carry out any other function that may be mutually agreed upon by the Committee and the Board, which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.

6. To report to Bursa Malaysia Securities Berhad ("Bursa Securities") on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities.

**Meetings**

The Committee shall meet at least four (4) times in a year subject to the quorum of at least two (2) independent directors or more frequently as circumstances require or upon the request of any member of the Committee with due notice of issues to be discussed and shall record its deliberations and conclusions in discharging its duties and responsibilities. The Committee may invite any Board member or any member of management or any employee of the Company who the Committee thinks fit to attend its meetings to assist and to provide pertinent information as necessary.

**Procedures of Audit Committee**

The Audit Committee may regulate its own procedures, in particular, the calling of meetings, notice to be given of such meetings, voting and proceedings of such meetings, keeping of minutes and custody, production and inspection of such minutes.

**Secretary**

The Company Secretary or other appropriate senior official shall be the Secretary to the Audit Committee.

## SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The activities undertaken by the Audit Committee during the financial year ended 31 December 2012 were as follows:

1. Reviewed the quarterly financial statements of the Group before approval by the Board for announcements to Bursa Securities.

2. Reviewed the year-end financial statements together with external auditors' management letter in relation to the audit and accounting issues arising from the audit and management's response.

3. Reviewed and discussed with the External and Internal Auditors on their scope of work, audit plan and procedures.

4. Two private meetings with the External Auditors were held during the year without the presence of Executive Directors and Management.

5. Reviewed and discussed the major issues raised in the internal audit reports, audit recommendations, management's response and actions taken to strengthen the state of internal controls in the Company.

6. Reviewed the related party transactions and any conflict of interest situation that may arise within the Group to ensure that such transactions are undertaken at arms' length, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders of the Company.

7. Reviewed and discussed major financial and risk issues arising from management's various reports, initiating further studies which were deemed necessary and reported to the Board on the findings of its studies, making appropriate recommendations.

8. Reviewed the adequacy of resource requirements and competencies of staff within the internal audit function to execute the annual audit plan and the results of the work.

9. Reviewed the overall risk profile of the Group's risk, the significant risks and provided guidance on the action plans to address the identified risks and further reported to the Board thereon.

## INTERNAL AUDIT FUNCTION

The internal audit function of the Group is carried out by the Group Internal Audit ("GIA") of Boustead Holdings Berhad. GIA provides independent, objective assurance on the areas of operations reviewed, and advice on best practices that will improve and add value to the BHIC Group. GIA adopts a risk-based methodology in planning and conducting audits by focusing on key risks areas. The GIA function has operated and performed in accordance with the principles of the Internal Audit Charter that provides for its independence function. The GIA function reports directly to the Audit Committee, and is independent of the activities it audits.

The Company has an adequately resourced internal audit function to assist the Audit Committee and the Board in maintaining an effective system of internal control and overall governance practices within the Company and Group.

During the financial year, the Group internal audit function had undertaken the following activities:

- Prepared the annual audits plan for approval by the Audit Committee.
- Performed risk based audits based on the annual audit plan, including follow-up of matters from previous internal audit reports.
- Issued internal audit reports to the management on risk management, control and governance issues identified from the risk based audits together with recommendations for improvements for these processes.
- Reported on a quarterly basis to the Audit Committee the achievement of the audit plan and status of resources of the GIA function.
- Reviewed the procedures relating to related party transactions.

# STATEMENT ON CORPORATE GOVERNANCE

## The Code

The Board of Directors ("Board") is committed to ensure the highest standards of corporate governance are practiced throughout the Boustead Heavy Industries Corporation Group of Companies ("BHIC Group") as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

Set out below is the manner in which the Group has applied the principles of good governance and the extent to which it has complied with the best practices set out in the Malaysian Code on Corporate Governance 2012 ("Code") and the Corporate Governance Guide ("CG Guide"). These principles and best practices have been applied and complied with throughout the year ended 31 December 2012.

## BOARD OF DIRECTORS

### Board Responsibilities

The Company is led by an experienced Board with a wide spectrum of skills and experience that provides the strength required to lead the Group towards its objectives and enable the Group to rely on the firm control of an accountable and competent Board. The Board is responsible for the Group's overall strategies and objectives, its acquisition and divestment policy, financial policy and major capital expenditure projects and the consideration of significant financial matters. The Board's key responsibilities reflect the recommendations prescribed by the Code. In performing its duties, the Board has access to the advice and services of the Company Secretaries and, if necessary, may seek independent professional advice about the affairs of the Group. The Board is also assisted by several Board Committees namely, the Executive Committee, Audit Committee, Nominating Committee and Remuneration Committee.

In this regard, the Board is guided by its documented and approved Limits of Authority ("LoA") which define matters specifically reserved for the Board and the delegated day-to-day management of the Company to the Managing Director/CEO. This formal structure of delegation is further cascaded by the Managing Director/CEO to the senior management team within the Company. However, the Managing Director/CEO and senior management team remain accountable to the Board for the authority that is delegated.

The Board has approved a board charter ("Board Charter") which sets out a list of specific functions that are reserved for the Board. The Board Charter addresses, among others, the following matters:-

- Duties and Responsibilities of the Board;
- Directors' Code of Ethics;
- Composition and Board Balance;
- The roles of the Chairman and the Chief Executive Officer;
- Appointments;
- Re-election;
- Supply of information;
- Separation of Power;
- Board Committees;
- Remuneration;
- Financial Reporting;
- General meetings;
- Investor relations and shareholder communications;
- Relationship with other stakeholders (employees, environment, social responsibility)

The approval and adoption of the Board Charter and Directors' Code of Ethics formalises the standard of ethical values and behaviour that is expected of its directors at all times. The Board Charter and Directors' Code of Ethics are reviewed periodically to ensure their relevance and compliance.

The Group is also committed towards sustainable development. Employees' welfare, environment and community responsibilities are integral to the conduct of the Group's business. The corporate social responsibilities report is set out on pages 45 to 49 of this Annual Report.

Annually, the Directors individually complete a formal written assessment of the Board, its performance, composition and conduct. The Chairman collates the opinions and responses of Directors and tables the results for review, comment and recommendation by the Board.

**Composition of the Board**

The Board has a balanced composition of six (6) members, comprising of three (3) Executive Directors and three (3) Non-Executive Directors. Two (2) of the Directors are Independent Directors, which is in line with the Bursa Malaysia Securities Berhad Main Market Listing Requirements that requires one third (1/3) of Board members to be independent directors. The balanced combination of qualifications, skills and experiences of the Board is important to ensure the successful direction of the Group.

A brief profile of each Director is presented on pages 56 to 59 of this Annual Report.

The Group practices a division of responsibility between the Chairman and the Managing Director and there is a balance of executive, non-executive and independent non-executive Directors. The roles of the Chairman and Managing Director are separate and clearly defined, and are held individually by two persons. The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the Managing Director has the overall responsibility for the day-to-day running of the business and implementation of the Board's decisions.

Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin leads the Board as the Chairman of the Company.

The Board continues to give close consideration to its size, composition and spread of experience and expertise that enables the Board to provide effective leadership as well as independent judgement on business decisions, taking into account long term interests of shareholders, customers, suppliers and other business associates with whom the Group conducts its business.

Y. Bhg. Dato' Ishak Bin Osman is the Senior Independent Non-Executive Director and available to deal with the concerns of various stakeholders in the Company.

The Board believes that the current size and composition is appropriate for its purpose, and is satisfied that the current Board composition fairly reflects the interests of minority shareholders within the Group.

# STATEMENT ON CORPORATE GOVERNANCE

## Board Meetings

Board meetings are held at quarterly intervals with additional meetings convened for particular matters, when necessary. All Directors are fully briefed in advance of Board meetings on the matters to be discussed and have access to any further information they may require. The Board may, whenever required, set up committees delegated with specific powers and responsibilities.

The Company Secretaries are responsible to ensure the Board meeting procedures are followed and that applicable rules and regulations are complied with.

The Memorandum and Articles of Association of the Company provides for the Chairman to have the casting vote in the event an equality of votes arises over an issue in question.

The Board met for a total of five (5) times during the financial year ended 31 December 2012 and the attendance of each Director is as stated in the table below:

| Name of Director | Status of Directorship | Attendance of Meetings |
|---|---|---|
| Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | Executive Chairman | 5/5 |
| Y. Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | Executive Deputy Chairman / Managing Director | 5/5 |
| Y. Bhg. Datuk Azzat Bin Kamaludin | Non-Independent Non-Executive Director | 4/5 |
| Mr. David William Berry | Executive Director | 5/5 |
| Y. Bhg. Dato' Ishak Bin Osman | Independent Non-Executive Director | 5/5 |
| Encik Abd Malik Bin A Rahman | Independent Non-Executive Director | 5/5 |

## Information for the Board

The Board is provided with adequate reports in a timely manner prior to the Board meetings to enable the Directors to obtain further explanations, where necessary. These reports provide information on group performance and major operational, financial and corporate issues. Minutes of the Board Committees are also tabled at the Board meetings for information and deliberation.

The Board has approved a procedure for the appointment of independent professional advisers in appropriate circumstances, at the Company's expense. Before incurring such professional fees, the Director concerned must consult with the Executive Deputy Chairman of the Board or with two other directors, one of whom is Non-Executive.

Directors have access to any information within the Company, whether as a full Board or in their individual capacity, in furtherance of their duties.

The Board has direct access to the advice and services of the Company Secretaries who are responsible for ensuring that all appointments are properly made and all necessary information is obtained from Directors, both for the Company's own records and for the purposes of meeting the requirements of the Companies Act, 1965, the Listing Requirements of Bursa Securities and other regulatory requirements.

## Appointment and re-election of Directors

In accordance with the Company's Articles of Association, all newly appointed Directors shall retire from office but shall be eligible for re-election in the next Annual General Meeting subsequent to their appointment. At every subsequent Annual General Meeting, 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 provided always that all Directors shall retire from office once at least in each three (3) years, but shall be eligible for re-election.

Pursuant to Section 129(6) of the Companies Act, 1965, Directors over seventy years of age are required to submit themselves for re-appointment annually.

## Board Appointments and Commitments

The appointments of a new Director are a matter for consideration and decision by the full Board upon appropriate recommendation by the Nominating Committee. New Directors are expected to have such expertise so as to qualify them to make a positive contribution to the Board's performance of its duties and to give sufficient commitment, time and attention to the affairs of the Company.

The Company Secretary has the responsibility of ensuring that relevant procedures relating to the appointments of new Directors are properly executed. The Company has adopted an induction programme for newly appointed Directors. The induction programme aims at communicating to the newly appointed directors, the Company's vision and mission, its philosophy and nature of business, current issues within the Company, the corporate strategy and the expectations of the Company concerning input from Directors. The Chairman is primarily responsible for the induction programme with appropriate assistance from other senior Executive Directors.

# STATEMENT ON CORPORATE GOVERNANCE

## Board Independence

Independent Non-Executive Directors play a leading role in the Board Committees. The management and third parties are co-opted to the Committees as and when required.

The Code recommends that the Chairman of the Board is a non-executive director; the Board must comprise a majority of independent directors. The Company's Chairman is an executive director and there are two (2) independent directors out of six (6) board members. The Board believes that the interests of shareholders are best served by a Chairman who is sanctioned by the shareholders and who will act in the best interests of shareholders as a whole. As the Chairman represents shareholder with a substantial interest in the Company, he is well placed to act on behalf of the shareholders and in their best interests. As the Code has only recently issued its recommendation on independent directors, the Board will continuously evaluate suitable candidates as independent directors to form majority of the Board. However, the process will be executed with due care and careful assessment to ensure a meaningful contribution to the effectiveness of the Board as a whole.

## DIRECTORS' TRAINING

All Directors of the Company have attended the Mandatory Accreditation Programme conducted by the Approved Organiser. The Directors recognise the importance and value of attending programmes, seminars and forums in order to keep themselves abreast with the current developments of the industry as well as the new statutory and regulatory requirements. The trainings attended by the Directors during the financial year ended 31 December 2012, are set out below:

| Course title/organiser | Date |
|---|---|
| Consultative Paper on the Statement on Internal Control Guidance for Directors | 9 January 2012 |
| Governance and Risk Management Practices for the Financial Markets in the 21st Century - FIDE | 19 – 22 March 2012 |
| Accounting & Regulatory Updates, Basel III Framework, Banking Banana Skin Survey, Future Trend in Banking | 2 May 2012 |
| Enterprise Risk Management – What a Director Must Know | 9 May 2012 |
| FIDE Forum | 12 June 2012 |
| SSM National Conference | 12 June 2012 |
| Roles of the Board & Committee in Financial Reporting and Strategy - FIDE | 18 – 21 June 2012 |

| Course title/organiser | Date |
|---|---|
| Conference on "Politics Decoded – Implication on Financial Markets" | 28 June 2012 |
| International Law Conference | 26 – 28 September 2012 |
| FIDE Forum – Breakfast Talk on "Human Capital | 14 August 2012 |
| Management in the Boardroom" | |
| Forum on Islamic Banking | 5 September 2012 |
| Khazanah Megatrends Forum | 1 – 2 October 2012 |
| 2nd National Marine Industries Forum | 2 October 2012 |
| Bursa Malaysia Corporate Governance Programme 2012 – Duties of the Audit Committee | 3 October 2012 |
| Directors Forum 2012 | 7 - 9 October 2012 |
| Rebuilding Trust in the Financial Sector | 8 October 2012 |
| Global Consumer Banking Survey 2012 – The Customer takes Control | 9 October 2012 |
| MICG National Procurement & Integrity Forum | 10 October 2012 |
| Roundtable Discussion on Banking Industry | 15 October 2012 |
| Risk Management Talk | 24 October 2012 |
| ICAAP Program - FIDE | 1 - 2 November 2012 |
| Understanding GST for Manufacturing in Malaysia | 26 November 2012 |
| Corporate Integrity System – CEO Dialogue | 29 November 2012 |
| Corporate Talk on "Diversification for Future Sustainability: Boustead Holdings Berhad Experience" | 19 December 2012 |

## BOARD COMMITTEES

### Audit Committee

The Audit Committee reviews issues of accounting policy and presentation for external financial reporting, monitors the work of the internal audit function and ensures an objective and professional relationship is maintained with the external auditors. The Audit Committee has full access to both the internal and external auditors who, in turn, have access at all times to the Chairman of the Audit Committee.

The detailed roles, functions and responsibilities of the Audit Committee are set out on pages 62 to 65 of this Annual Report.

# STATEMENT ON CORPORATE GOVERNANCE

**Nominating Committee**

The Board has established a Nominating Committee consisting of the following Non-Executive Directors:

- Y. Bhg. Datuk Azzat Bin Kamaludin – Chairman
- Encik Abd Malik Bin A Rahman
- Y. Bhg. Dato' Ishak Bin Osman

The functions of the Nominating Committee are as follows:

(i) To recommend candidates for all directorships;

(ii) To recommend appointments to the Board committees;

(iii) To review the required mix of skills and experience and other qualities, including core competencies that the Non-Executive Directors should bring to the Board; and

(iv) To implement a process, to be carried out annually for assessing the effectiveness of the Board as a whole, the committees of the Board and for assessing the contribution of each individual Director.

Meetings of the Nominating Committee are held as and when necessary, and at least once a year. The Nominating Committee met once during the year. During its recent annual review carried out, the Nominating Committee is satisfied and the size of the Board is optimum and that there is an appropriate mix of experience and expertise in the composition of the Board.

**Remuneration Committee**

The Board has established a Remuneration Committee consisting of the following Directors:

- Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin – Chairman
- Y. Bhg. Dato' Ishak Bin Osman
- Encik Abd Malik Bin A Rahman

The terms of reference for the Committee are as follows:

(i) To recommend to the Board the level of remuneration sufficient to attract and retain directors;

(ii) To recommend to the Board, the remuneration of Executive Directors in all its forms, drawing from outside advice as necessary;

(iii) To recommend to the Board, the level of remuneration of Non-Executive Directors to reflect the experience and level of responsibilities undertaken by the particular Non-Executive Director concerned; and

(iv) To review the level of remuneration of senior executive management team.

Components of remuneration are structured so as to link rewards to corporate and individual performance, in the case of the Executive Directors. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular Non-Executive Director. A formal review of the Directors' remuneration is undertaken no less frequently than once every three years.

A summary of the remuneration of the Directors for the financial year ended 31 December 2012, distinguishing between Executive and Non-Executive Directors in aggregate, with categorisation into appropriate components and the number of Directors whose remuneration falls into each successive band is as follows:

| | Executive Directors (RM) | Non-Executive Directors (RM) | Total (RM) |
|---|---|---|---|
| Fees | 180,000 | 180,000 | 360,000 |
| Salary & Bonus | 1,242,675 | – | 1,242,675 |
| Employee Provident Fund Contribution | 74,561 | – | 74,561 |
| Benefits in kind & Allowance | 61,150 | 34,000 | 95,150 |
| **Total** | **1,558,386** | **214,000** | **1,772,386** |

**Directors' Remuneration**

| Range | Executive Directors | Non-Executive Directors | Total |
|---|---|---|---|
| RM50,001 – RM100,000 | 1 | 3 | 4 |
| RM300,001 – RM350,000 | 1 | – | 1 |
| RM1,150,001 – RM1,200,000 | 1 | – | 1 |
| **Total** | **3** | **3** | **6** |

Meetings of the Remuneration Committee are held as and when necessary, and at least once a year. The Remuneration Committee met once during the year and all members registered full attendance.

## INVESTOR AND SHAREHOLDER RELATIONS

The Group recognises the importance of timely and thorough dissemination of information to shareholders. In this regard, the Group strictly adheres to the disclosure requirements of Bursa Securities and the Malaysian Accounting Standards Board. The Annual Report has comprehensive information pertaining to the Group, while various disclosures on quarterly and annual results provide investors with financial information. Currently, information is disseminated through various disclosures and announcements made to Bursa Securities. The latest updates and development of the Group can also be found at the Company's website, www.bhic.com.my. The shareholders are able to direct queries to the Company through the Company's website.

# STATEMENT ON CORPORATE GOVERNANCE

The Annual General Meeting is the principal forum for dialogue with the shareholders. The Company values feedback from its shareholders and encourages them to actively participate in the discussion and deliberations. The Board will ensure that each item of special business included in the notices of the general meetings is accompanied by a full explanation of the effects of any proposed resolution.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

In presenting the annual financial statements and quarterly announcements of results to the shareholders, the Board aims to present a balanced and understandable assessment of the Group's position and prospects.

Before the financial statements were drawn up, the Board has taken the necessary steps to ensure that the Group has adopted all the applicable accounting policies consistently, and that the policies are supported by reasonable and prudent judgements and estimates. All accounting standards, which the Board considers to be applicable, have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

The role of the Audit Committee in reviewing and reporting of the financial information of the Group is outlined in the Report of the Audit Committee which appears on pages 62 to 65 of this Annual Report.

### Relationship with the External Auditors

The Board maintains a transparent and professional relationship with the Auditors, through the Audit Committee and the Board. The Audit Committee is conferred with the authority to directly liaise with both the External and Internal Auditors. The Board, through the Audit Committee, seeks the External Auditors' professional advice in ensuring compliance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

It is a policy of the Audit Committee that it meets with the External Auditors at least twice a year to discuss their audit plan, audit findings and the Company's financial statements as well as any other issues without any Executive Directors or Management present. During the year under review, the Audit Committee held four (4) meetings out of which two (2) meetings were held with the presence of representatives of the External Auditors, Messrs. Ernst & Young, at which private sessions independent of the management, were held.

The roles of the Audit Committee in relation to the external auditors are further described in the Audit Committee Report in this Annual Report.

**Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuer**

The Board acknowledges that they are responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets as required by the Code. The Group adheres to Bursa Malaysia Securities Berhad Statement on Internal Control: Guidelines for Directors of Listed Issuer, as guidance for compliance with these requirements.

The information on the Group's internal control is presented in the Statement on Internal Control in this Annual Report.

## RECOGNISE AND MANAGE RISKS

**Sound framework to manage material business risks**

The Company has established policies and a framework for the oversight and management of material business risks and has adopted a formal Risk Management Policy. As required by the Board, the management has devised and implemented appropriate risk management processes and reports to the Board and senior management. Management is charged with monitoring the effectiveness of the risk management system and is required to report to the Board via the Group Core Management Committee. The Board has received, and will continue to receive periodic reports through the Group Core Management Committee, summarising the results of risk management issues and initiatives as the Group.

**Internal audit function**

The internal audit function of the Group is carried out by the Group Internal Audit of Boustead Holdings Berhad where the Head of Internal Audit reports directly to the Audit Committee. Further details of the activities of the internal audit function are set out in the Statement on Internal Control of this Annual Report.

## COMPLIANCE WITH THE CODE

The Board strives to ensure that the Company complies with the Principles and Best Practices of the Code. The Board will endeavour to improve and enhance the procedures from time to time.

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act, 1965 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of their results and cash flows for the financial year then ended.

In preparing these financial statements, the Directors have:

- adopted suitable accounting policies and applying them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors have overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities.

# STATEMENT ON INTERNAL CONTROL

The Board of Directors ("Board") is pleased to provide the following Statement on Risk Management and Internal Control, which outlines the nature and scope of internal controls of BHIC Group and its associates (Group) during the year under review, in accordance to Paragraph 15.26(b) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

## RESPONSIBILITY

The Board is committed to maintain an effective system of internal controls to safeguard the shareholders' investment and the Group's assets.

The Board affirms its overall responsibility for the Group's systems of internal controls and for reviewing the adequacy and effectiveness of the Group's internal control and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The review covers financial, operational and compliance controls of the Group. In view of the inherent limitations in any system of internal controls, the system is designed to manage rather than eliminate the risk of failure to achieve its corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against misstatement or loss.

## INTERNAL CONTROL

### Risk Management

The Group's objectives, its internal organisation, and the environment in which it operates are continuously evolving and, as a result, the risks it faces are constantly changing. A sound system of internal controls therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed.

The Group's Risk Management Framework provides a methodology to identify, evaluate, monitor and manage all key risks faced by the Group. The Framework is designed to achieve these objectives:

1. Communicate the vision, role, direction and priorities to staff and other stakeholders;

2. Identify, evaluate, monitor and control all key risks in an effective and efficient manner;

3. Enable systematic risk review and reporting of key risks, existing control measures and any proposed action plans; and

4. Create a risk-aware culture and build the necessary knowledge for risk management at every level of management.

# STATEMENT ON INTERNAL CONTROL

In line with the achievement of the above objectives, the Group's impact parameters, or its risk tolerance level, was discussed and updated to be more relevant to the Group's current business environment.

The Group, through its Technical & Risk Department, provides regular updates on the status of risks which are rated 'extreme' and 'high' for discussion among the senior management. To enhance its oversight function, the Department has extended its web based risk management reporting system to most of the Group's subsidiaries, associates and support functions. Training has been provided to the risk managers to ensure that the transition to web based reporting is done seamlessly.

In addition, risks which may have significant impact to the respective Division, either in financial or non-financial terms, are escalated to the respective Division Head for prompt deliberation and action, where required.

Engagement sessions were carried out by members of the Technical & Risk Department with both risk owners and risk managers to further inculcate a risk awareness culture, improve information contained in the risk registers and to obtain feedback for continuous improvement purposes.

The Group will continue to develop and improve its risk management practices, which are consistent with good corporate governance, to achieve the abovementioned objectives.

**Control Structure**

The Board acknowledges its responsibility to maintain a strong control structure and environment for the proper conduct of the Group's business operations.

Whilst the Board maintains control and direction over appropriate strategic, financial, organisational and compliance issues, it has delegated the implementation of the system of internal controls to the executive management, led by the Managing Director. The Managing Director, who is empowered to manage the business of the Group, has primary operational responsibility for the system of internal controls. In addition, the Board has established an Executive Committee (ExCo) to provide assistance in the management of the Group. Comprising of the Chairman, Managing Director, Chairman of the Audit Committee and the Executive Director, the members meet regularly to consider, resolve and manage strategic and business issues faced.

The Board convenes meetings on quarterly basis in order to maintain full and effective supervision. The Managing Director, being the principal channel of communication between the Board and the management, will lead the presentation of Board papers and provide comprehensive explanation on main issues. In arriving at any decisions based on recommendations by management and the Audit Committee, a thorough deliberation and discussion by the Board is a prerequisite.

The Managing Director has established several management committees to assess and strengthen controls within the Group. The formation of these management committees allows the Managing Director, together with his senior management team, to periodically review business units' performance, identify and manage principal risks effectively, review the adequacy and integrity of internal controls and management information systems, and develop and regularly review business strategy and operating procedures and policies.

The senior management team is responsible for:

1. The conduct and performance of business units;

2. Identification and evaluation of significant risks applicable to their respective area of business together with the design and operation of suitable internal controls;

3. Ensuring that an effective system of internal controls is in place;

4. Reviewing of internal audit reports and following up on findings;

5. Meeting defined reporting deadlines and ensuring compliance with policies, procedures and regulatory requirements;

6. Submission, on a monthly basis, of management reports to the Managing Director;

7. Submission, on a yearly basis, of annual operating plans to be approved at the operating and Board level; and

8. The award of major contracts via a Tender Committee.

The monitoring and reviewing arrangements in place ensure timely and relevant two way communication of information, and the Board believes that this promotes a dynamic and effective control structure.

The year under review also witnessed the signing of the Corporate Integrity Pledge, an initiative of the Malaysian Anti-Corruption Commission to promote a corruption-free business environment.

All employees are required to abide by a code of ethics which defines the applicable ethical standards and professional conduct at work. The Group has also established a Policy Manual and Limits of Authority to provide a framework of authority and accountability within the organisation. Furthermore, learning and development programmes are established to ensure all staff is kept up to date with the necessary competencies to carry out their responsibilities towards achieving the Group's objectives.

# STATEMENT ON INTERNAL CONTROL

### Organisational Structure

The Board has implemented a divisional structure for the Group. Clearly defined lines of responsibility and authority limits at various management levels provide a documented and auditable trail of accountability. In addition, the Group has various support functions comprising secretarial, administration, legal, human resource, supply chain management, finance, strategic planning & transformation, and information system which are centralised. This enhances the Group's ability to achieve its strategic and operational objectives and manage its significant risks.

### Whistle-Blowing

The Group has in place a whistle blowing policy which provides employees with well-defined and accessible channels within the Group, through which they may, in confidence, raise concerns about possible improprieties. This arrangement facilitates independent investigations for appropriate resolutions.

## MONITORING AND REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The processes adopted include:

- Management representation to the Board by the Managing Director to report on the effectiveness of the risk management and internal control system of the Group and highlight of any related issues.

- Risk management reporting to the Board through the Audit Committee on the risk profiles of the Group and the progress of action plans to manage and mitigate the risks.

- Report of internal control reviews by the internal audit function to the Audit Committee on a quarterly basis. The Chairman of the Audit Committee provides the Board with a report of all meetings of the Audit Committee.

## INTERNAL AUDIT FUNCTION

The internal audit function is provided by Group Internal Audit from Boustead Holdings Berhad to support the Audit Committee and the Board in evaluating and improving the risk management, control and governance processes of the Group. The total cost incurred for the Group's internal audit activities in respect of the financial year is approximately RM180,000.

## CONCLUSION

The effectiveness of the Group's system of internal controls will continue to be reviewed and updated by the Board through the Audit Committee in line with changes in the operating environment. The Board is of the view that the current system of internal controls in place throughout the Group is sufficient to safeguard the Group's interests.

# ADDITIONAL COMPLIANCE INFORMATION

## SANCTIONS AND /OR PENALTIES

There were no public sanctions and/or penalties imposed on the Company and its subsidiary companies, Directors and management by any regulatory bodies during the financial year ended 31 December 2012.

## NON-AUDIT FEES

There is no non-audit fees paid to the external auditors by the Group and by the Company for the financial year.

## SHARE BUY-BACKS

The Company did not make any share buy-back during the financial year.

## OPTIONS AND WARRANTS

No options and warrants were exercised during the financial year.

## AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR")

The Company did not sponsor any ADR or GDR programme during the financial year.

## VARIATION IN RESULTS

There was no material variation between the audited results for the financial year ended 31 December 2012 and the unaudited results previously released for the financial quarter ended 31 December 2012.

## PROFIT GUARANTEE

The Company did not make any arrangement during the financial year which requires profit guarantee.

## MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiary companies, involving Directors and substantial shareholders during the financial year.

## RECURRENT RELATED PARTY TRANSACTIONS

At the Annual General Meeting held on 5 April 2012, the Company obtained a Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature.

# ADDITIONAL COMPLIANCE INFORMATION

In accordance with Section 3.1.5 of Practice Note 12 of the Bursa Malaysia Securities Berhad Listing Requirements, the details of recurrent related party transactions conducted during the financial year ended 31 December 2012 pursuant to the Shareholders' Mandate are disclosed as follows:

| Related Party | Interested Director/ Interested Major Shareholder | Nature of Transaction | Value of Transaction RM'000 |
|---|---|---|---|
| Boustead Naval Shipyard Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin<br>Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor<br>Datuk Azzat Bin Kamaludin<br>Boustead Holdings Berhad<br>Lembaga Tabung Angkatan Tentera | Provision of shipbuilding, ship repair works and provision of related services by Boustead Penang Shipyard Sdn. Bhd. | 101,108 |
| | | Provision of ship repair works and related services by BHIC Defence Techservices Sdn. Bhd. | 1,721 |
| | | Provision of ship repair works and related services by Atlas Defence Technology Sdn. Bhd. | 1,577 |
| | | Sale of equipment and machinery for ship related activities by Dominion Defence and Industries Sdn. Bhd. | 308 |
| | | Provision of ship repair works and related services by BHIC Bofors Asia Sdn. Bhd. | 468 |
| | | Provision of ship repair works and related services by BHIC Navaltech Sdn. Bhd. | 20,542 |
| | | Provision of ship repair works and related services by BHIC Electronics and Technologies Sdn. Bhd. | 1,565 |
| | | Provision of shipbuilding, ship repair works and provision of related services to Boustead Penang Shipyard Sdn. Bhd. | (1,877) |
| | | Provision of ship repair works and provision of related services from Contraves Advanced Devices Sdn. Bhd. | 2,932 |
| | | Provision of subcontracting work on engineering of SETIS combat management system and integration of combat system equipment by Contraves Advanced Devices Sdn. Bhd. | 128,153 |

| Related Party | Interested Director/ Interested Major Shareholder | Nature of Transaction | Value of Transaction RM'000 |
|---|---|---|---|
| Boustead Langkawi Shipyard Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin<br><br>Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor<br><br>Datuk Azzat Bin Kamaludin<br><br>Boustead Holdings Berhad<br><br>Lembaga Tabung Angkatan Tentera | Provision of services for construction of vessels to BYO Marine Sdn. Bhd. | (1,507) |

# FINANCIAL STATEMENTS

# 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 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are described in Note 13 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year other than as disclosed in Note 13 to the financial statements.

## RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Loss for the year | (112,274) | (19,861) |
| **Attributable to:** | | |
| Shareholders of the Company | (131,612) | (19,861) |
| Non-controlling interests | 19,338 | – |
| | (112,274) | (19,861) |

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

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

## DIVIDENDS

The amount of dividends paid by the Company since 31 December 2011 were as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2012: | |
| Single-tier first interim dividend of 6.0%, on 248,458,000 ordinary shares, declared on 23 February 2012 and paid on 26 March 2012 | 14,907 |

The directors do not propose the payment of any final dividend for the current financial year.

## DIRECTORS

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

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)
Datuk Azzat Bin Kamaludin
David William Berry
Dato' Ishak Bin Osman
Abd Malik Bin A Rahman

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 7 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 33 to 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 of the Company and its related corporations during the financial year were as follows:

| | Number of ordinary shares of RM1.00 each | | | |
|---|---|---|---|---|
| | **1.1.2012** | **Bought** | **Sold** | **31.12.2012** |
| **The Company** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 2,000,000 | – | – | 2,000,000 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 2,002,100 | – | – | 2,002,100 |
| Datuk Azzat Bin Kamaludin | 495,300 | – | (95,300) | 400,000 |
| Abd Malik Bin A Rahman | 3,000 | – | – | 3,000 |
| Dato' Ishak Bin Osman | 10,000 | – | – | 10,000 |
| **Indirect interest:** | | | | |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 11,200 | – | – | 11,200 |
| Dato' Ishak Bin Osman | 20 | 50,000 | – | 50,020 |
| Abd Malik Bin A Rahman | 1,000 | – | – | 1,000 |

| | Number of ordinary shares of RM0.50 each | | | |
|---|---|---|---|---|
| | **1.1.2012** | **Bought** | **Sold** | **31.12.2012** |
| **Immediate holding company** | | | | |
| **Boustead Holdings Berhad** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 26,011,599 | 2,601,159 | (420,000) | 28,192,758 |
| Datuk Azzat Bin Kamaludin | 40,000 | 4,000 | – | 44,000 |

**DIRECTORS' INTERESTS (CONT'D.)**

| | Number of ordinary shares of RM1.00 each | | | |
|---|---|---|---|---|
| | **1.1.2012** | **Bought** | **Sold** | **31.12.2012** |
| **Related corporations** | | | | |
| **Pharmaniaga Berhad** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 3,184,538 | 2,700,266 | (202,918) | 5,681,886 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | – | 55,000 | (55,000) | – |
| Datuk Azzat Bin Kamaludin | 3,000 | 220,300 | (75,000) | 148,300 |
| **Boustead Petroleum Sdn. Bhd.** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 5,916,465 | – | – | 5,916,465 |
| **Affin Holdings Berhad** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 808,714 | – | – | 808,714 |
| Datuk Azzat Bin Kamaludin | 110,000 | – | – | 110,000 |

| | Number of redeemable preference shares of RM1.00 each | | | |
|---|---|---|---|---|
| | **1.1.2012** | **Bought** | **Sold** | **31.12.2012** |
| **Related corporation** | | | | |
| **Boustead Petroleum Sdn. Bhd.** | | | | |
| **Direct interest:** | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 50 | – | – | 50 |

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.

**ISSUE OF SHARES AND DEBENTURES**

There were no changes in the issued and paid up capital of the Company during the financial year. There were no debentures issued during the financial year.

## OTHER STATUTORY INFORMATION

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

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

  (ii) to ensure that any current assets which were unlikely to realise their values 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 other 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 the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As 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.

## 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 as and when they fall due; and

(ii) the results of the operations of the Group and of the Company for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## SIGNIFICANT EVENT

Significant event is as disclosed in Note 35 to the financial statements.

## AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 1 March 2013.

**Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)**

**Abd Malik Bin A Rahman**

# STATEMENT BY DIRECTORS AND STATUTORY DECLARATION

## STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) and Abd Malik Bin A Rahman, being two of the directors of Boustead Heavy Industries Corporation Berhad do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 95 to 185 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows of the year then ended.

The information set out in Note 36 on page 186 of the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 1 March 2013.

**Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)**

**Abd Malik Bin A Rahman**

## STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Ahmad Nordin Bin Mohammad, being the officer primarily responsible for the financial management of Boustead Heavy Industries Corporation Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 95 to 186 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 Ahmad Nordin Bin Mohammad
at Kuala Lumpur in the Federal Territory on 1 March 2013

**Ahmad Nordin Bin Mohammad**

Before me

**ARSHAD ABDULLAH**
(No W550)
Commissioner for Oaths
Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT

To the Members of Boustead Heavy Industries Corporation Berhad
(Incorporated in Malaysia)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Boustead Heavy Industries Corporation Berhad, which comprise statements of financial position as at 31 December 2012 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the years ended 31 December 2012, and a summary of significant accounting policies and other explanatory information, as set out on pages 95 to 185.

### Directors' responsibility for the financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the years then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act,1965 in Malaysia.

# INDEPENDENT AUDITORS' REPORT
To the Members of Boustead Heavy Industries Corporation Berhad
(Incorporated in Malaysia)

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

(b) We have considered the financial statements and the auditors' report of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements, being financial statements that have been included in the consolidated financial statements.

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

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

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 36 to the financial statements page 186 is disclosed to meet the requirements of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits of Losses in Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

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

**ERNST & YOUNG**
AF: 0039
Chartered Accountants

**AHMAD ZAHIRUDIN BIN ABDUL RAHIM**
No. 2607/12/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
1 March 2013

# INCOME STATEMENTS

## For the year ended 31 December 2012

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Revenue | 4 | **646,518** | 544,133 | **10,272** | 33,386 |
| Operating costs | 5 | **(745,839)** | (528,564) | **(17,801)** | (3,246) |
| Results from operations | | **(99,321)** | 15,569 | **(7,529)** | 30,140 |
| Interest income | | **5,054** | 1,930 | **–** | – |
| Finance costs | 8 | **(19,071)** | (16,290) | **(12,332)** | (9,364) |
| Share of results of associates | 14 | **6,176** | 491 | **–** | – |
| **(Loss)/profit before taxation** | | **(107,162)** | 1,700 | **(19,861)** | 20,776 |
| Income tax (expense)/benefit | 9 | **(5,112)** | 16,758 | **–** | – |
| **(Loss)/profit for the year** | | **(112,274)** | 18,458 | **(19,861)** | 20,776 |
| Attributable to: | | | | | |
| Shareholders of the Company | | **(131,612)** | 12,782 | **(19,861)** | 20,776 |
| Non-controlling interests | | **19,338** | 5,676 | **–** | – |
| **(Loss)/profit for the year** | | **(112,274)** | 18,458 | **(19,861)** | 20,776 |
| **(Loss)/earnings per share attributable to shareholders of the Company (sen)** | 10 | **(52.97)** | 5.14 | | |

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF COMPREHENSIVE INCOME
## For the year ended 31 December 2012

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| (Loss)/profit for the year | **(112,274)** | 18,458 | **(19,861)** | 20,776 |
| Foreign currency translation | **–** | 201 | **–** | – |
| **Total comprehensive (loss)/income or the year, net of tax** | **(112,274)** | 18,659 | **(19,861)** | 20,776 |
| Attributable to: | | | | |
| Shareholders of the Company | **(131,612)** | 12,903 | **(19,861)** | 20,776 |
| Non-controlling interests | **19,338** | 5,756 | **–** | – |
| **Total comprehensive (loss)/income for the year, net of tax** | **(112,274)** | 18,659 | **(19,861)** | 20,776 |

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF FINANCIAL POSITION
## As at 31 December 2012

| | Note | 2012 RM'000 | 2011 RM'000 | 1 January 2011 RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 12 | **207,464** | 228,119 | 93,553 |
| Deferred tax assets | 26 | **19,435** | 15,703 | 5,200 |
| Investments in subsidiaries | 13 | **–** | – | – |
| Investments in associates | 14 | **202,956** | 196,780 | 196,289 |
| Goodwill on consolidation | 15 | **3,849** | 3,849 | 3,849 |
| | | **433,704** | 444,451 | 298,891 |
| **Current assets** | | | | |
| Inventories | 16 | **22,763** | 41,150 | 33,888 |
| Trade and other receivables | 17 | **582,040** | 280,681 | 435,336 |
| Amounts due from customers on contracts | 18 | **47,917** | 89,836 | 145,789 |
| Tax recoverable | | **7,550** | 11,448 | 2,335 |
| Cash and bank balances | 19 | **395,427** | 290,883 | 100,996 |
| | | **1,055,697** | 713,998 | 718,344 |
| **Total assets** | | **1,489,401** | 1,158,449 | 1,017,235 |

# STATEMENTS OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2012

| | Note | 2012 RM'000 | 2011 RM'000 | 1 January 2011 RM'000 |
|---|---|---|---|---|
| **Group (cont'd.)** | | | | |
| **Equity and liabilities** | | | | |
| **Equity attributable to shareholders of the Company** | | | | |
| Share capital | 20 | **248,458** | 248,458 | 248,458 |
| Exchange fluctuation reserve | 21 | **–** | 121 | – |
| Retained earnings | 22 | **31,959** | 178,478 | 181,846 |
| Total shareholders' funds | | **280,417** | 427,057 | 430,304 |
| Non-controlling interests | | **64,353** | 48,460 | 43,283 |
| **Total equity** | | **344,770** | 475,517 | 473,587 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 24 | **31,985** | 48,071 | 33,449 |
| Deferred tax liabilities | 26 | **884** | 1,409 | 3,963 |
| | | **32,869** | 49,480 | 37,412 |
| **Current liabilities** | | | | |
| Amounts due to customers on contracts | 18 | **465,031** | 38,832 | 29,489 |
| Provisions | 23 | **6,208** | 8,327 | 14,407 |
| Loans and borrowings | 24 | **387,338** | 329,670 | 170,342 |
| Trade and other payables | 27 | **253,185** | 254,200 | 279,451 |
| Tax payable | | **–** | 2,423 | 12,547 |
| | | **1,111,762** | 633,452 | 506,236 |
| **Total liabilities** | | **1,144,631** | 682,932 | 543,648 |
| **Total equity and liabilities** | | **1,489,401** | 1,158,449 | 1,017,235 |

| | Note | 2012 RM'000 | 2011 RM'000 | 1 January 2011 RM'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 12 | **5** | – | – |
| Investments in subsidiaries | 13 | **280,000** | 288,685 | 288,685 |
| Investments in associate | 14 | **–** | – | – |
| | | **280,005** | 288,685 | 288,685 |
| **Current assets** | | | | |
| Trade and other receivables | 17 | **256,058** | 232,552 | 52,922 |
| Cash and bank balances | 19 | **107** | 526 | 34 |
| | | **256,165** | 233,078 | 52,956 |
| **Total assets** | | **536,170** | 521,763 | 341,641 |
| **Equity attributable to shareholders of the Company** | | | | |
| Share capital | 20 | **248,458** | 248,458 | 248,458 |
| Retained earnings | 22 | **(11,536)** | 23,232 | 18,606 |
| Total equity | | **236,922** | 271,690 | 267,064 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 24 | **18,190** | 26,686 | 3,658 |
| **Current liabilities** | | | | |
| Provisions | 23 | **360** | 288 | 288 |
| Loans and borrowings | 24 | **277,583** | 218,995 | 67,250 |
| Trade and other payables | 27 | **3,115** | 4,104 | 3,381 |
| | | **281,058** | 223,387 | 70,919 |
| Total liabilities | | **299,248** | 250,073 | 74,577 |
| Total equity and liabilities | | **536,170** | 521,763 | 341,641 |

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY
## For the year ended 31 December 2012

| | Note | Share capital RM'000 | Non-distributable exchange fluctuation reserve RM'000 | Distributable retained earnings RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|
| | | ← Attributable to equity holders of the Company | | | → | | |
| **Group** | | | | | | | |
| **At 1 January 2011** | | 248,458 | - | 181,846 | 430,304 | 43,283 | 473,587 |
| Total comprehensive income for the year | | – | 121 | 12,782 | 12,903 | 5,756 | 18,659 |
| **Transactions with owners** | | | | | | | |
| Issue of shares by a subsidiary to non-controlling interests | | – | – | – | – | 396 | 396 |
| Partial disposal of interest in a subsidiary | | – | – | – | – | 6 | 6 |
| Dividend on ordinary shares – Interim | 11 | – | – | (16,150) | (16,150) | (981) | (17,131) |
| Total transaction with owners | | – | – | (16,150) | (16,150) | (579) | (16,729) |
| **At 31 December 2011** | | 248,458 | 121 | 178,478 | 427,057 | 48,460 | 475,517 |
| **At 1 January 2012** | | 248,458 | 121 | 178,478 | 427,057 | 48,460 | 475,517 |
| Total comprehensive (loss)/income for the year | | – | – | (131,612) | (131,612) | 19,338 | (112,274) |
| **Transactions with owners** | | | | | | | |
| Issue of shares by subsidiary to non-controlling interests | | – | – | – | – | 240 | 240 |
| Disposal of a subsidiary | 13 | – | (121) | – | (121) | (2,999) | (3,120) |
| Dividend on ordinary shares – Interim | 11 | – | – | (14,907) | (14,907) | (686) | (15,593) |
| Total transaction with owners | | – | (121) | (14,907) | (15,028) | (3,445) | (18,473) |
| **At 31 December 2012** | | 248,458 | – | 31,959 | 280,417 | 64,353 | 344,770 |

| | Note | Share capital RM'000 | Distribut-able retained earnings RM'000 | Total equity RM'000 |
|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | |
| **Company** | | | | |
| **At 1 January 2011** | | 248,458 | 18,606 | 267,064 |
| Total comprehensive income for the year | | – | 20,776 | 20,776 |
| **Transactions with owners:** | | | | |
| Dividend on ordinary shares | | | | |
| – Interim | 11 | – | (16,150) | (16,150) |
| Total transaction with owners | | – | (16,150) | (16,150) |
| **At 31 December 2011** | | 248,458 | 23,232 | 271,690 |
| Total comprehensive loss for the year | | – | (19,861) | (19,861) |
| **Transactions with owners:** | | | | |
| Dividend on ordinary shares | | | | |
| – Interim | 11 | – | (14,907) | (14,907) |
| Total transaction with owners | | – | (14,907) | (14,907) |
| **At 31 December 2012** | | 248,458 | (11,536) | 236,922 |

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS
## For the year ended 31 December 2012

| | Note | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | **1,083,001** | 720,092 | **–** | – |
| Cash paid to suppliers and employees | | **(971,565)** | (516,173) | **(3,886)** | (3,239) |
| Receipts/(payments) within the group | | **79** | (28) | **(30,122)** | (153,318) |
| Net cash generated from/(used in) operations | | **111,515** | 203,891 | **(34,008)** | (156,557) |
| Interest paid | | **(17,930)** | (16,690) | **(11,862)** | (8,710) |
| Income taxes paid | | **(8,385)** | (15,536) | **–** | – |
| Net cash generated from/(used in) operating activities | | **85,200** | 171,665 | **(45,870)** | (165,267) |
| **Cash flows from investing activities** | | | | | |
| Interest received | | **5,054** | 1,930 | **10,272** | 7,136 |
| Proceeds from disposal of property, plant and equipment | | **508** | 595 | **–** | – |
| Purchase of property, plant and equipment | | **(24,239)** | (138,929) | **(6)** | – |
| Proceeds from investment by non-controlling interests | | **240** | 396 | **–** | – |
| Net cash inflows from disposal of subsidiary | 13(c) | **11,681** | – | **–** | – |
| Net cash (used in)/generated from investing activities | | **(6,756)** | (136,008) | **10,266** | 7,136 |
| **Cash flows from financing activities** | | | | | |
| Repayment of borrowings | | **(37,261)** | (24,298) | **(24,908)** | (5,059) |
| Proceeds from term loans/revolving credits/banker acceptances | | **80,382** | 195,327 | **75,000** | 179,832 |
| Dividends paid: | | | | | |
| – by the Company | | **(14,907)** | (16,150) | **(14,907)** | (16,150) |
| – by subsidiary to non-controlling interests | | **(686)** | (981) | **–** | – |
| Net cash generated from financing activities | | **27,528** | 153,898 | **35,185** | 158,623 |

| | Note | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|---|
| **Net increase in cash and cash equivalents** | | **105,972** | 189,555 | **(419)** | 492 |
| Effect of foreign exchange rate changes | | **(170)** | 251 | **–** | – |
| Cash and cash equivalents at beginning of year | | **289,625** | 99,819 | **526** | 34 |
| **Cash and cash equivalents at end of year** | | **395,427** | 289,625 | **107** | 526 |
| **Cash and cash equivalents at end of year comprise:** | | | | | |
| Deposits with licensed banks | 19 | **122,070** | 185,524 | **–** | – |
| Cash and bank balances | 19 | **273,357** | 105,359 | **107** | 526 |
| | | **395,427** | 290,883 | **107** | 526 |
| Less: Bank overdraft | 24 | **–** | (1,258) | **–** | – |
| | | **395,427** | 289,625 | **107** | 526 |

The purchase of property, plant and equipment were by way of:

| | Note | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|---|
| Cash | | **24,239** | 138,929 | **6** | – |
| Hire purchase | | **1,909** | 335 | **–** | – |
| Total additions during the year | 12 | **26,148** | 139,264 | **6** | – |

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
31 December 2012

## 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. The registered office of the Company is located at 17th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are described in Note 13. There have been no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year, other than as disclosed in Note 13.

The immediate holding company is Boustead Holdings Berhad, a public company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The ultimate holding corporation is Lembaga Tabung Angkatan Tentera, a Malaysian statutory body established under the Tabung Angkatan Tentera Act, 1973.

Related companies refer to companies within the Lembaga Tabung Angkatan Tentera and Boustead Holdings Berhad group of companies.

Affiliates are companies with common directors and/or shareholders.

## 2. SUMMARY OF 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") as issued by Malaysian Accounting Standards Board ("MASB"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

### 2.2 First-time adoption of MFRS

These financial statements are the Group's and the Company's first MFRS financial statements for the year ended 31 December 2012. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

The explanatory notes to these financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and of the Company since the year ended 31 December 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position is set out below. These include reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on statement of cash flow.

There are no adjustments arising from the transition to MFRSs, except for those discussed below. Accordingly, notes related to the statement of financial position as at date of transition to MFRSs are only presented for Notes 12 and 21.

#### (a) Business combinations

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition:

(i) The classification of former business combinations under FRS is maintained;
(ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
(iii) The carrying amount of goodwill recognised under FRS is not adjusted.

#### (b) Exchange translation reserve

Under FRS, the Group recognised translation differences on foreign operations in a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS. Accordingly, at the date of transition to MFRS, the cumulative foreign currency translation differences of RM7,930,000 (2011: RM7,930,000) were adjusted to retained earnings.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

#### (c) Property, plant and equipment

The Group has previously adopted the transitional provision available on the first application of the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for periods ending on or after 1 September 1998. By virtue of this transitional provision, the Group has recorded certain buildings at revalued amounts but had not adopted a policy of revaluation and continued to carry those buildings on the basis of their previous revaluations subject to continuity in its depreciation policy and requirement to write down the assets to their recoverable amounts for impairment adjustments.

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116 *Property, Plant and Equipment*. At the date of transition to MFRS, the Group elected to regard the revalued amounts of long term reclaimed land and long term leasehold land as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date.

#### (d) Estimates

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

#### (e) Related party disclosures for Government-related entities

In prior years, balances and transactions with Government-related entities were not required to be disclosed in the notes to financial statements. This is an exemption provided in FRS 124 Related Party Disclosures under the FRS framework.

Following the adoption of MFRS during the financial year, the balances and transactions with Government-related entities have been disclosed in the notes to financial statements in accordance with MFRS 124. This disclosure requirement has been applied retrospectively as part of the effects of the MFRS adoption and it is disclosed in the notes to the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS, are provided below:

#### (i) Reconciliation of equity as at 1 January 2011

| | FRS as at 1 January 2011 RM'000 | Note 2.2(b) Foreign currency translation reserve RM'000 | MFRS as at 1 January 2011 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 93,553 | – | 93,553 |
| Deferred tax assets | 5,200 | – | 5,200 |
| Investments in associates | 196,289 | – | 196,289 |
| Goodwill on consolidation | 3,849 | – | 3,849 |
| | 298,891 | – | 298,891 |
| **Current assets** | | | |
| Inventories | 33,888 | – | 33,888 |
| Trade and other receivables | 435,336 | – | 435,336 |
| Amounts due from customers on contracts | 145,789 | – | 145,789 |
| Tax recoverable | 2,335 | – | 2,335 |
| Cash and bank balances | 100,996 | – | 100,996 |
| | 718,344 | – | 718,344 |
| **Total assets** | 1,017,235 | – | 1,017,235 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

#### (i) Reconciliation of equity as at 1 January 2011 (cont'.d)

| | FRS as at 1 January 2011 RM'000 | Note 2.2(b) Foreign currency translation reserve RM'000 | MFRS as at 1 January 2011 RM'000 |
|---|---|---|---|
| **Equity attributable to shareholders of the Company** | | | |
| Share capital | 248,458 | – | 248,458 |
| Exchange fluctuation reserves | (7,930) | 7,930 | – |
| Retained earnings | 189,776 | (7,930) | 181,846 |
| Total shareholders' funds | 430,304 | – | 430,304 |
| Non-controlling interests | 43,283 | – | 43,283 |
| **Total equity** | 473,587 | – | 473,587 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 33,449 | – | 33,449 |
| Deferred tax liabilities | 3,963 | – | 3,963 |
| | 37,412 | – | 37,412 |
| **Current liabilities** | | | |
| Amounts due to customers on contracts | 29,489 | – | 29,489 |
| Provisions | 14,407 | – | 14,407 |
| Loans and borrowings | 170,342 | – | 170,342 |
| Trade and other payables | 279,451 | – | 279,451 |
| Tax payable | 12,547 | – | 12,547 |
| | 506,236 | – | 506,236 |
| **Total liabilities** | 543,648 | – | 543,648 |
| **Total equity and liabilities** | 1,017,235 | – | 1,017,235 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

#### (ii) Reconciliation of equity as at 31 December 2011

| | FRS as at 31 December 2011 RM'000 | Note 2.2(b) Foreign currency translation reserve RM'000 | MFRS as at 31 December 2011 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 228,119 | – | 228,119 |
| Deferred tax assets | 15,703 | – | 15,703 |
| Investments in associates | 196,780 | – | 196,780 |
| Goodwill on consolidation | 3,849 | – | 3,849 |
| | 444,451 | – | 444,451 |
| **Current assets** | | | |
| Inventories | 41,150 | – | 41,150 |
| Trade and other receivables | 280,681 | – | 280,681 |
| Amounts due from customers on contracts | 89,836 | – | 89,836 |
| Tax recoverable | 11,448 | – | 11,448 |
| Cash and bank balances | 290,883 | – | 290,883 |
| | 713,998 | – | 713,998 |
| **Total assets** | 1,158,449 | – | 1,158,449 |
| **Equity and liabilities** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Share capital | 248,458 | – | 248,458 |
| Exchange fluctuation reserves | (7,809) | 7,930 | 121 |
| Retained earnings | 186,408 | (7,930) | 178,478 |
| Total shareholders' funds | 427,057 | – | 427,057 |
| Non-controlling interests | 48,460 | – | 48,460 |
| **Total equity** | 475,517 | – | 475,517 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 First-time adoption of MFRS (cont'd.)

#### (ii) Reconciliation of equity as at 31 December 2011 (cont'd.)

| | FRS as at 31 December 2011 RM'000 | Note 2.2(b) Foreign currency translation reserve RM'000 | MFRS as at 31 December 2011 RM'000 |
|---|---|---|---|
| **Equity and liabilities (cont'd.)** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 48,071 | – | 48,071 |
| Deferred tax liabilities | 1,409 | – | 1,409 |
| | 49,480 | – | 49,480 |
| **Current liabilities** | | | |
| Amounts due to customers on contracts | 38,832 | – | 38,832 |
| Provisions | 8,327 | – | 8,327 |
| Loans and borrowings | 329,670 | – | 329,670 |
| Trade and other payables | 254,200 | – | 254,200 |
| Tax payable | 2,423 | – | 2,423 |
| | 633,452 | – | 633,452 |
| **Total liabilities** | 682,932 | – | 682,932 |
| **Total equity and liabilities** | 1,158,449 | – | 1,158,449 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 MFRS and Amendments to MFRS issued but not yet effective

At the date of authorisation of the audited financial statements, the following MFRS and Amendments to MFRS were issued but not yet effective and have not been applied by the Group and the Company:

| MFRS and Amendments to MFRSs | | Effective for annual periods beginning on or after |
|---|---|---|
| MFRS 9 | Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010) | 1 January 2015 |
| MFRS 10 | Consolidated Financial Statements | 1 January 2013 |
| MFRS 11 | Joint Arrangements | 1 January 2013 |
| MFRS 12 | Disclosure of Interests in Other Entities | 1 January 2013 |
| MFRS 13 | Fair Value Measurement | 1 January 2013 |
| MFRS 119 | Employee Benefits | 1 January 2013 |
| MFRS 127 | Separate Financial Statements | 1 January 2013 |
| MFRS 128 | Investments in Associates and Joint Ventures | 1 January 2013 |
| Amendments to MFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| Amendments to MFRS 101 | Presentation of Items of Other Comprehensive Income | 1 July 2013 |
| Amendments to MFRS 132 | Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |

The adoption of the above will have no material impact on the financial statements of the Group and of the Company in the period of initial application, except as discussed below:

MFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. MFRS 9 requires all financial assets to be measured at either amortised cost or full fair value. Amortised cost provides decision-useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value is the most relevant measurement basis. The adoption of the first phase of MFRS 9 is not expected to have an impact on the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 MFRS and Amendments to MFRS issued but not yet effective (cont'd.)

The amendments to MFRS 101 changes the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

MFRS 10 replaces the portion of MFRS 127 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. MFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by MFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with requirements that were in MFRS 127. The Group is currently assessing the impact of adoption of MFRS 10.

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131, Interest in Joint Ventures. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. Interest in joint venture will be accounted for using equity method whilst interest in joint operation will be accounted for using the applicable MFRSs relating to the underlying assets, liabilities, income and expense items arising from the joint operations. The Group is currently assessing the impact of adoption of MFRS 11.

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted. The Group is currently assessing the impact of adoption of MFRS 13.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December of each year. Interests in associates are equity accounted.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Basis of consolidation (cont'd.)

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity.

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.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The identifiable assets acquired and the liabilities assumed are measured at their fair values at the acquisition date. Acquisition costs incurred are expensed and included in administrative expenses. The difference between these fair values and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. The accounting policy for goodwill is set out in Note 2.7. Discount on acquisition which represents negative goodwill is recognised immediately as income in profit or loss.

In business combinations achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at the acquisition date either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the owners of the Company, and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Changes in the Group's equity interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their respective interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in shareholders' equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Basis of consolidation (cont'd.)

If the Group loses control over a subsidiary, at the date the Group lose control, it:

– Derecognises the assets (including goodwill) and liabilities of the subsidiary at their respective carrying amounts;

– Derecognises the carrying amount of any non-controlling interest;

– Derecognises the cumulative translation differences recorded in equity;

– Recognises the fair value of the consideration or distribution received;

– Recognises the fair value of any investment retained;

– Recognises any surplus or deficit in profit or loss; and

– Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment charges. Dividends received from subsidiaries are recorded as a component of revenue in the Company's separate financial statements.

### 2.5 Currency conversion

The Group's consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the functional currency of the Company. All transactions are recorded in Ringgit Malaysia. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### (a) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the end of the reporting period.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.5 Currency conversion (cont'd.)

#### (a) Foreign currency transactions (cont'd.)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss 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 other comprehensive income.

#### (b) Consolidated financial statements

For consolidation purposes, the assets and liabilities of foreign operations are translated into RM at the rate of exchange prevailing at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

### 2.6 Property, plant and equipment

All 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 part is derecognised. All other repairs and maintenance are charged to the income statements during the financial period in which they are incurred.

The assets are depreciated on a straight-line basis to write off the cost of the assets to their residual values, over the term of their estimated useful lives as follows:

| | |
|---|---|
| Long term leasehold lands and reclaimed land | 74 to 99 years |
| Buildings, jetties, slipways and roads | 3% – 10% |
| Plant and machinery | 5% – 20% |
| Equipment, fittings, renovation and others | 7% – 50% |
| Barges and motor vehicles | 5% – 25% |
| Vessels | 4% |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.6 Property, plant and equipment (cont'd.)

Capital work-in-progress consist of assets under construction/installation for intended use as production facilities. The amount is stated at cost and not depreciated until the asset is fully completed and brought into use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

### 2.7 Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised, but instead, it is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units ("CGU") monitored by management. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, an impairment loss is recognised in the profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.5.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows CGU.

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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 written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

### 2.9 Associates

An associate is defined as a company, not being a subsidiary or an interest in a joint venture, in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less distribution received and any impairment in value of individual investments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.9 Associates (cont'd.)

The consolidated income statement reflects the share of the associates' results after tax. Where there has been a change recognised directly in the equity of associates, the Group recognises its share of such changes. Unrealised gains or losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. When the Group's share of losses exceeds its interest in an associate, the Group does not recognise further losses except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The most recent available financial statements of associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Where necessary, adjustments are made to the financial statements of the associate to ensure consistency of the accounting policies used with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Impairment loss is recognised in profit or loss.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence. Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is charged or credited to profit or loss.

### 2.10 Financial assets

Financial assets are recognised when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.10 Financial assets (cont'd.)

The Group and the Company determine the classification of their financial assets at initial recognition, and the category includes loans and receivables. The Group does not have any financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Group's and the Company's loans and receivables comprise receivables, cash and bank balances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

### 2.11 Impairment of financial assets

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

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.11 Impairment of financial assets (cont'd.)

Trade and other receivables and other financial assets carried at amortised cost (cont'd.)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has occurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### 2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.13 Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expense 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.13 Construction contracts (cont'd.)

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

When the total of costs incurred on construction contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is classified as amount due from customers on contracts. When progress billings exceed costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers on contracts.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value, cost being principally determined on a weighted average method and includes all incidental costs incurred in acquiring the inventories and bringing them to their present location and condition.

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and an appropriate proportion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.16 Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provision of the financial instrument. The Group determines the classification of financial liabilities at initial recognition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.16 Financial liabilities (cont'd.)

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

Other financial liabilities

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

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

### 2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.18 Employee benefits

Short term benefits such as wages, salaries, bonuses and social security contributions are recognised as expenses in the period in which the associated services are rendered by employees of the Group. 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.

As required by law, the Group and the Company make contributions to the Employees Provident Fund in Malaysia. Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the period in which the related service is performed. The Group pays termination benefits in cases of termination of employment. Termination benefits are recognised as a liability and an expense when the Group has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

### 2.19 Leases

#### As lessee

Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group all risks and rewards of ownership. Finance leases are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease

Leases of assets under which substantial risks and rewards incidental to ownership are retained by the lessor are classified as operating leases.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.19 Leases (cont'd.)

#### As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as chartering income. The accounting policy for chartering income is set out in Note 2.20(f).

### 2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. The following specific revenue recognition criteria must also be met before revenue is recognised:

#### (a) Sale of goods

Revenue from sale of goods and services is recognised upon transfer of significant risks and rewards of ownership to the buyer and when the goods and services are delivered.

#### (b) Rendering of services

Revenue from rendering of services are recognised as and when the services are rendered.

#### (c) Construction contracts

Contract revenues and profits on long term construction contracts are accounted for under the accounting policy disclosed in Note 2.13.

#### (d) Interest income

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

#### (e) Dividend income

Dividend income is recognised in the income statement as and when declared or right to receive payment is established.

#### (f) Chartering income

Chartering income represents the time and spot charter equivalent of income from its various ship chartering activities. The revenue is recognised on a time proportion basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.21 Income taxes

Income tax recognised in profit or loss for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted by the reporting date.

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

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

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

– where 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 loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

– where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition 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 loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.21 Income taxes (cont'd.)

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction 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 right 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.

### 2.22 Segment reporting

For management purposes, the Group is organised into operating segments based on their activities, products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The respective segment managers report directly to the Group's chief operating decision maker who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 30.

### 2.23 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period that they are declared. The attributable incremental transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. 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) Useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on the internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timings of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

### (ii) Construction contracts

When the outcome of long term contract can be determined reliably, the Group recognises construction revenue and costs in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and costs, as well as the recoverability of the contract costs. In making these judgements, the Group evaluates by relying on past experience and the work of internal specialists. Information on the Group's construction contract balances, revenue and cost is presented in Note 18.

### (iii) Income taxes

Significant estimation is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are made.

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

### (iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unused tax credits and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

The total carrying value of the Group's recognised tax losses, tax credits and capital allowances and unrecognised tax losses, tax credits and capital allowances are as disclosed in Note 26.

### (v) Provision for warranties

The Group recognises provision for warranties for the goods sold to customers. The provision for warranties is made in respect of potential reworks or replacement of defective products sold to an end customer. The provision is made based on the management's best estimate on past experience of the expected level of defects and their associated remediation costs to customers.

### (vi) Impairment of goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the carrying value, the key assumptions applied in the impairment assessment of goodwill is given in Note 15.

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

### (vii) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To detemine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtors and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in Note 17.

## 4. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Heavy engineering contracts | **307,628** | 320,298 | **–** | – |
| Rendering of services | **140,542** | 137,135 | **–** | – |
| Manufacturing | **176,676** | 69,921 | **–** | – |
| Sale of goods | **586** | 15,057 | **–** | – |
| Chartering income | **21,086** | 963 | **–** | – |
| Interest income | **–** | 169 | **10,272** | 7,136 |
| Dividend income | **–** | – | **–** | 26,250 |
| Others | **–** | 590 | **–** | – |
| | **646,518** | 544,133 | **10,272** | 33,386 |

## 5. OPERATING COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Raw materials and consumables | **39,054** | 40,493 | **–** | – |
| Construction contract costs (Note 18) | **515,306** | 318,796 | **–** | – |
| Changes in inventories of finished goods and work in progress | **4,021** | (298) | **–** | – |
| Purchase of finished goods and work in progress | **27,630** | 43,901 | **–** | – |
| Employee benefits expense (Note 6) | **89,680** | 82,356 | **1,255** | 1,185 |
| Non-executive directors' remuneration (Note 7) | **214** | 212 | **214** | 212 |
| Depreciation of property, plant and equipment (Note 12) | **12,565** | 9,470 | **1** | – |
| Impairment loss on property, plant and equipment (Note 12) | **21,340** | – | **–** | – |
| Gain on disposal of investment in a subsidiary (Note 13(c)) | **(11,091)** | – | **–** | – |
| Gain on disposal of property, plant and equipment | **(206)** | (145) | **–** | – |
| Property, plant and equipment written off | **26** | 12 | **–** | – |
| Impairment loss on invesment in subsidiaries | **–** | – | **8,685** | – |
| Allowance for impairment of amount due from subsidiaries | **–** | – | **6,223** | – |
| Provision for liquidated ascertained damages (Note 23) | **4,957** | 7,133 | **–** | – |
| Other operating costs | **42,343** | 26,634 | **1,423** | 1,849 |
| | **745,839** | 528,564 | **17,801** | 3,246 |

## 5. OPERATING COSTS (CONT'D.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Other operating costs include: | | | | |
| Auditors' remuneration: | | | | |
| Auditors of the Company | | | | |
| Statutory audit | | | | |
| - current year | **363** | 345 | **95** | 90 |
| – (over)/underprovision in prior year | **(4)** | – | **18** | – |
| Other auditors | | | | |
| Statutory audit | | | | |
| – current year | **113** | 170 | **–** | – |
| – underprovision in prior year | **–** | 10 | **–** | – |
| Inventories written down | **196** | 774 | **–** | – |
| Net loss/(gain) on foreign exchange: | | | | |
| – realised | **67** | (392) | **4** | 146 |
| – unrealised | **66** | 1,449 | **–** | 356 |
| (Reversal of)/net impairment of receivables: | | | | |
| – third parties (Note 17(a)) | **(247)** | 1,427 | **–** | – |
| Operating leases: | | | | |
| – minimum lease payments for land and buildings | **3,673** | 2,321 | **–** | – |
| – minimum lease payments for plant and equipment | **3,257** | 1,947 | **–** | – |
| Provision for warranties (Note 23) | **(13)** | 660 | **–** | – |
| Reversal of provision for warranty (Note 23) | **–** | (2,584) | **–** | – |
| Receivables written off | **3,093** | – | **19** | – |
| Rental income from shipyard | **–** | (300) | **–** | – |

## 6. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Wages and salaries | **68,796** | 59,844 | **794** | 700 |
| Social security contribution | **665** | 1,030 | **5** | 4 |
| Defined contribution plan | **8,208** | 6,584 | **102** | 108 |
| Others | **12,011** | 14,898 | **354** | 373 |
| | **89,680** | 82,356 | **1,255** | 1,185 |

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM1,559,000 (2011: RM1,279,000) and RM214,000 (2011: RM212,000), respectively as further disclosed in Note 7.

## 7. DIRECTORS' REMUNERATION

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Executive directors' remuneration (Note 6): | | | | |
| Fees | **180** | 180 | **180** | 180 |
| Salary | **1,002** | 945 | **248** | 234 |
| Allowances | **22** | 16 | **22** | 16 |
| Bonus | **241** | 77 | **60** | – |
| Defined contribution plan | **75** | 61 | **18** | 14 |
| Benefit in kind | **39** | – | **–** | – |
| | **1,559** | 1,279 | **528** | 444 |

## 7. DIRECTORS' REMUNERATION (CONT'D.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Non-executive directors' remuneration (Note 5): | | | | |
| Fees | **180** | 180 | **180** | 180 |
| Allowances | **34** | 32 | **34** | 32 |
| | **214** | 212 | **214** | 212 |
| Total directors' remuneration (Note 33(b)) | **1,773** | 1,491 | **742** | 656 |

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

| | **2012** | 2011 |
|---|---|---|
| <u>Executive directors:</u> | | |
| RM50,001 – RM100,000 | **1** | 1 |
| RM300,001 – RM350,000 | **1** | 1 |
| RM850,001 – RM900,000 | **–** | 1 |
| RM1,150,001 – RM1,200,000 | **1** | – |
| <u>Non–executive directors:</u> | | |
| RM50,001 – RM100,000 | **3** | 3 |

## 8. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Interest expense on: | | | | |
| Term loans | **2,463** | 2,408 | **1,115** | 642 |
| Hire purchase and finance lease liabilities | **40** | 14 | **–** | – |
| Revolving credits | **16,515** | 13,745 | **11,096** | 8,607 |
| Others | **53** | 11,296 | **121** | 115 |
| | **19,071** | 27,463 | **12,332** | 9,364 |
| Less: Interest capitalised in capital work-in-progress | **–** | (11,173) | **–** | – |
| Finance cost recognised in the income statements | **19,071** | 16,290 | **12,332** | 9,364 |

## 9. INCOME TAX EXPENSE/(BENEFIT)

Major components of income tax expenses

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| **Statement of comprehensive income:** | | | | |
| Current income tax: | | | | |
| Malaysian income tax | **8,520** | 6,592 | **–** | – |
| Under/(over)provision in prior years: | | | | |
| Malaysian income tax | **336** | (10,320) | **–** | – |
| Total income tax | **8,856** | (3,728) | **–** | – |
| Deferred tax (Note 26): | | | | |
| Relating to origination and reversal of temporary differences | **(3,735)** | (12,763) | **–** | – |
| Overprovision in prior years | **(9)** | (267) | **–** | – |
| Total deferred tax | **(3,744)** | (13,030) | **–** | – |
| Income tax expense/(benefit) recognised in profit or loss | **5,112** | (16,758) | **–** | – |

## 9. INCOME TAX EXPENSE/(BENEFIT) (CONT'D.)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2012 and 2011 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| (Loss)/profit before taxation | **(107,162)** | 1,700 | **(19,861)** | 20,776 |
| Taxation at Malaysian statutory tax rate of 25% (2011: 25%) | **(26,791)** | 425 | **(4,965)** | 5,194 |
| Expenses not deductible for tax purposes | **11,653** | 8,225 | **4,965** | 1,369 |
| Income not subject to tax | **(9,108)** | (11,412) | **–** | (6,563) |
| Benefits from previously unrecognised tax losses and capital allowances | **–** | (3,286) | **–** | – |
| Share of results of associates | **(1,544)** | (123) | **–** | – |
| Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances | **30,575** | – | **–** | – |
| Under/(over)provision of tax expense in prior years | **336** | (10,320) | **–** | – |
| Overprovision of deferred tax expense in prior years | **(9)** | (267) | **–** | – |
| Income tax expense/(benefit) recognised in profit or loss | **5,112** | (16,758) | **–** | – |

Domestic current income tax is calculated at the statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year. The corporate tax rate applicable to the Ghana subsidiary of the Group is based on statutory tax rate of 25% (2011: 25%).

Certain subsidiaries were granted an exemption in respect of its statutory income derived from maintenance and in-service support activities of the vessels.

## 10. (LOSS)/EARNINGS PER SHARE

Basic and diluted (loss)/earnings per share amount is calculated by dividing (loss)/profit for the year attributable to ordinary equity holders of the Company by weighted average number of ordinary shares in issue during the financial year:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RM'000** | RM'000 |
| (Loss)/profit for the year attributable to shareholders of the Company | **(131,612)** | 12,782 |
| | **'000** | '000 |
| Weighted average number of ordinary shares in issue | **248,458** | 248,458 |
| | **sen** | sen |
| Basic and diluted (loss)/earnings per share for: | | |
| (Loss)/profit from operations attributable to shareholders of the Company | **(52.97)** | 5.14 |

## 11. DIVIDENDS

| | Dividend amount | | Gross dividend per ordinary share | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **sen** | sen |
| **In respect of financial year 2011:** | | | | |
| Single-tier first interim dividend of 6.5% paid on 24 March 2011 | **–** | 16,150 | **–** | 6.5 |
| **In respect of financial year 2012:** | | | | |
| Single-tier first interim dividend of 6.0% paid on 26 March 2012 | **14,907** | – | **6.0** | – |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings* RM'000 | Plant and machinery RM'000 | Equipment, fittings, renovation, motor vehicles and others** RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **Cost** | | | | | |
| **At 1 January 2011** | 124,474 | 39,838 | 60,048 | 918 | 225,278 |
| Additions | 89 | 3,283 | 50,369 | 85,523 | 139,264 |
| Disposals | – | – | (1,278) | – | (1,278) |
| Written off | – | – | (119) | – | (119) |
| Reclassification | – | 10 | 219 | (229) | – |
| Classification from construction work-in-progress | – | – | – | 7,024 | 7,024 |
| Capitalisation in construction work-in-progress | – | (500) | (407) | – | (907) |
| **At 31 December 2011** | 124,563 | 42,631 | 108,832 | 93,236 | 369,262 |
| Additions | 533 | 224 | 7,362 | 18,029 | 26,148 |
| Disposals | – | – | (8,136) | – | (8,136) |
| Disposal of subsidiary company | (8,508) | (3,548) | (2,752) | (864) | (15,672) |
| Written off | (31,686) | (906) | (4,445) | – | (37,037) |
| Reclassification | – | – | 93,665 | (93,665) | – |
| Capitalisation in construction work-in-progress | – | – | 1,541 | (1,541) | – |
| **At 31 December 2012** | **84,902** | **38,401** | **196,067** | **15,195** | **334,565** |

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

| | Land and buildings* RM'000 | Plant and machinery RM'000 | Equipment, fittings, renovation, motor vehicles and others** RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Group (cont'd.)** | | | | | |
| **Accumulated depreciation and impairment** | | | | | |
| **At 1 January 2011** | | | | | |
| Accumulated depreciation | 36,405 | 18,652 | 39,834 | – | 94,891 |
| Accumulated impairment | 36,834 | – | – | – | 36,834 |
| | 73,239 | 18,652 | 39,834 | – | 131,725 |
| Depreciation charge for the year: | 2,651 | 2,766 | 4,965 | – | 10,382 |
| – Recognised in profit or loss (Note 5) | 2,442 | 2,616 | 4,412 | – | 9,470 |
| – Capitalised in construction costs (Note 18) | 209 | 150 | 553 | – | 912 |
| Disposals | – | – | (828) | – | (828) |
| Written off | – | – | (107) | – | (107) |
| Exchange differences | (5) | (14) | (10) | – | (29) |
| **At 31 December 2011** | 75,885 | 21,404 | 43,854 | – | 141,143 |
| Impairment charge for the year | – | – | 21,340 | – | 21,340 |
| Depreciation charge for the year: | 2,473 | 2,169 | 9,548 | – | 14,190 |
| – Recognised in profit or loss (Note 5) | 2,127 | 1,992 | 8,446 | – | 12,565 |
| – Capitalised in construction costs (Note 18) | 346 | 177 | 1,102 | – | 1,625 |
| Disposals | – | – | (7,834) | – | (7,834) |
| Disposal of subsidiary company | (1,373) | (1,218) | (2,135) | – | (4,726) |
| Written off: | | | | | |
| – accumulated depreciation | (10,369) | (906) | (4,419) | – | (15,694) |
| – impairment | (21,318) | – | – | – | (21,318) |
| **At 31 December 2012** | **45,298** | **21,449** | **60,354** | **–** | **127,101** |

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

| | Land and buildings* RM'000 | Plant and machinery RM'000 | Equipment, fittings, renovation, motor vehicles and others** RM'000 | Capital work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Group (cont'd.)** | | | | | |
| **Representing:** | | | | | |
| Accumulated depreciation | 29,782 | 21,449 | 39,014 | – | 90,245 |
| Accumulated impairment | 15,516 | – | 21,340 | – | 36,856 |
| At 31 December 2012 | **45,298** | **21,449** | **60,354** | **–** | **127,101** |
| **Net carrying amount** | | | | | |
| At 31 December 2012 | **39,604** | **16,952** | **135,713** | **15,195** | **207,464** |
| At 31 December 2011 | 48,678 | 21,227 | 64,978 | 93,236 | 228,119 |
| At 1 January 2011 | 51,235 | 21,186 | 20,214 | 918 | 93,553 |

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

* Land and buildings of the Group comprise:

| | Long term leasehold and reclaimed land RM'000 | Yard development RM'000 | Buildings, jetties, slipways and roads RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group (cont'd.)** | | | | |
| **Cost** | | | | |
| **At 1 January 2011** | 17,232 | 54,652 | 52,590 | 124,474 |
| Additions | – | – | 89 | 89 |
| **At 31 December 2011** | 17,232 | 54,652 | 52,679 | 124,563 |
| Additions | 410 | – | 123 | 533 |
| Written off | – | (31,686) | – | (31,686) |
| Disposal of subsidiary company | – | – | (8,508) | (8,508) |
| **At 31 December 2012** | **17,642** | **22,966** | **44,294** | **84,902** |
| **Accumulated depreciation and impairment** | | | | |
| **At 1 January 2011** | 4,030 | 41,208 | 28,001 | 73,239 |
| Depreciation charge for the year: | 201 | 1,075 | 1,375 | 2,651 |
| – Recognised in profit or loss | 201 | 970 | 1,271 | 2,442 |
| – Capitalised in construction costs | – | 105 | 104 | 209 |
| Exchange differences | – | – | (5) | (5) |
| **At 31 December 2011** | 4,231 | 42,283 | 29,371 | 75,885 |
| Depreciation charge for the year: | 212 | 978 | 1,283 | 2,473 |
| – Recognised in profit or loss | 212 | 632 | 1,283 | 2,127 |
| – Capitalised in construction costs | – | 346 | – | 346 |
| Written off – accumulated depreciation | – | (10,369) | – | (10,369) |
| Written off – impairment | – | (21,318) | – | (21,318) |
| Disposal of subsidiary company | – | – | (1,373) | (1,373) |
| **At 31 December 2012** | **4,443** | **11,574** | **29,281** | **45,298** |

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

* Land and buildings of the Group comprise: (cont'd.)

| | Long term leasehold and reclaimed land RM'000 | Yard development RM'000 | Buildings, jetties, slipways and roads RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group (cont'd.)** | | | | |
| **Representing:** | | | | |
| Accumulated depreciation | 3,475 | 4,624 | 21,683 | 29,782 |
| Accumulated impairment | 968 | 6,950 | 7,598 | 15,516 |
| **At 31 December 2012** | **4,443** | **11,574** | **29,281** | **45,298** |
| **Net carrying amount** | | | | |
| **At 31 December 2012** | **13,199** | **11,392** | **15,013** | **39,604** |
| At 31 December 2011 | 13,001 | 12,369 | 23,308 | 48,678 |
| At 1 January 2011 | 13,202 | 13,444 | 24,589 | 51,235 |

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

** Equipment, fittings, renovation, motor vehicles and others of the Group comprise:

| | Equipment, fittings, renovation, vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|---|---|---|---|
| **Group (cont'd.)** | | | |
| **Cost** | | | |
| **At 1 January 2011** | 60,048 | – | 60,048 |
| Additions | 3,848 | 46,521 | 50,369 |
| Disposal | (1,278) | – | (1,278) |
| Written off | (119) | – | (119) |
| Reclassification | 219 | – | 219 |
| Capitalisation in construction work-in-progress | (407) | – | (407) |
| **At 31 December 2011** | 62,311 | 46,521 | 108,832 |
| Additions | 6,698 | 664 | 7,362 |
| Disposal | (8,136) | – | (8,136) |
| Disposal of subsidiary company | (2,752) | – | (2,752) |
| Written off | (4,445) | – | (4,445) |
| Reclassification | – | 93,665 | 93,665 |
| Capitalisation in construction work-in-progress | 1,541 | – | 1,541 |
| **At 31 December 2012** | **55,217** | **140,850** | **196,067** |

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

** Equipment, fittings, renovation, motor vehicles and others of the Group comprise: (cont'd.)

| | Equipment, fittings, renovation, vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|---|---|---|---|
| **Group (cont'd.)** | | | |
| **Accumulated depreciation and impairment** | | | |
| **At 1 January 2011** | 39,834 | – | 39,834 |
| Depreciation charge for the year: | 4,715 | 250 | 4,965 |
| – Recognised in profit or loss | 4,162 | 250 | 4,412 |
| – Capitalised in construction costs | 553 | – | 553 |
| Disposal | (828) | – | (828) |
| Written off | (107) | – | (107) |
| Exchange differences | (10) | – | (10) |
| **At 31 December 2011** | 43,604 | 250 | 43,854 |
| Impairment charge for the year: | – | 21,340 | 21,340 |
| Depreciation charge for the year: | 5,005 | 4,543 | 9,548 |
| – Recognised in profit or loss | 3,903 | 4,543 | 8,446 |
| – Capitalised in construction costs | 1,102 | – | 1,102 |
| Disposal | (7,834) | – | (7,834) |
| Disposal of subsidiary company | (2,135) | – | (2,135) |
| Written off | (4,419) | – | (4,419) |
| **At 31 December 2012** | **34,221** | **26,133** | **60,354** |

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

** Equipment, fittings, renovation, motor vehicles and others of the Group comprise: (cont'd.)

| | Equipment, fittings, renovation, vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|---|---|---|---|
| **Group (cont'd.)** | | | |
| **Representing:** | | | |
| Accumulated depreciation | 34,221 | 4,793 | 39,014 |
| Accumulated impairment | – | 21,340 | 21,340 |
| **At 31 December 2012** | **34,221** | **26,133** | **60,354** |
| **Net carrying amount** | | | |
| **At 31 December 2012** | **20,996** | **114,717** | **135,713** |
| At 31 December 2011 | 18,707 | 46,271 | 64,978 |
| At 1 January 2011 | 20,214 | – | 20,214 |

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

| | Computer RM'000 |
|---|---|
| **Company** | |
| **Cost** | |
| **At 1 January 2012** | – |
| Additions | 6 |
| **At 31 December 2012** | **6** |
| **Accumulated depreciation** | |
| **At 1 January 2012** | – |
| Depreciation charge for the year | 1 |
| **At 31 December 2012** | **1** |
| **Net carrying amount** | |
| **At 31 December 2012** | **5** |

(a) The net carrying amounts of property, plant and equipment held under hire purchase and finance lease arrangements are as follows:

| | **Group** | |
|---|---|---|
| | **2012 RM'000** | 2011 RM'000 |
| Motor vehicles | **2,383** | 370 |

Details of the terms and conditions of the hire purchase and finance lease arrangements facility are disclosed in Notes 25.

(b) Equipments with carrying value of RM 7,900,000 (2011: RM8,600,000) are secured against the term loan as disclosed in Note 24(a).

(c) Completed vessels with total carrying value of RM76,500,000 (2011: RM92,261,000) are secured against the revolving credit and term loan as disclosed in Note 24(b).

## 13. INVESTMENTS IN SUBSIDIARIES

| | Company 2012 RM'000 | 2011 RM'000 |
|---|---|---|
| Unquoted shares, at cost | **581,867** | 581,867 |
| Less: Accumulated impairment losses | **(301,867)** | (293,182) |
| | **280,000** | 288,685 |

The cost of shares in a subsidiary of RM2,636,000 (2011: RM2,636,000) is pledged to the financial institutions for banking facilities granted to a former corporate shareholder.

Details of the subsidiaries, all of which were incorporated in Malaysia unless otherwise stated, are as follows:

| Name of subsidiaries | Principal activities | Paid-up capital | Proportion of ownership interest % 2012 | % 2011 |
|---|---|---|---|---|
| BHIC Asset Holdings Sdn. Bhd. ("BHIC Asset") | Ceased operations | RM10,000,000 | **100** | 100 |
| Boustead Penang Shipyard Sdn. Bhd. ("BP Shipyard") | Heavy engineering, ship repair and shipbuilding, fabrication of steel structures and platforms, marine engineering, oil and gas fabrication, hook up and commissioning | RM350,000,000 | **100** | 100 |
| BHIC Development Sdn. Bhd. (Formerly known as Sedap Development Sdn. Bhd.) | Ceased operations | RM2 | **100** | 100 |
| BHIC Trading Sdn. Bhd. (Formerly known as Sedap Trading Sdn. Bhd.) | Dormant | RM8,000,002 | **100** | 100 |
| BHIC Marine Carrier Sdn. Bhd. (formerly known as BHIC Petroleum Sdn Bhd) | Provision of engineering services for oil and gas industry and chartering ships and vessels | RM3,000,000 | **100** | 100 |

# NOTES TO THE FINANCIAL STATEMENTS
## 31 DECEMBER 2012

### 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries, all of which were incorporated in Malaysia unless otherwise stated, are as follows: (cont'd.)

| Name of subsidiaries | Principal activities | Paid-up capital | Proportion of ownership interest % 2012 | % 2011 |
|---|---|---|---|---|
| **Held by BHIC Asset:** | | | | |
| Desa BHIC Sdn. Bhd. | Ceased operations | RM2 | **100** | 100 |
| **Held by BP Shipyard:** | | | | |
| PSC Tema Shipyard Limited (Incorporated in the Republic of Ghana) * | Heavy engineering, ship repair and fabrication | Cedi 4,500,791 | – | 60 |
| Dominion Defence & Industries Sdn. Bhd. ("Dominion Defence") | Supply and services of marine and naval defence related products | RM1,000,000 | **100** | 100 |
| Perstim Industries Sdn. Bhd. | Investment holding | RM51,155,724 | **99.93** | 99.93 |
| BHIC Defence Technologies Sdn. Bhd. ("BHIC Defence") | Investment holding | RM36,579,282 | **100** | 100 |
| Malaysian Heavy Industry Group Sdn. Bhd. | Investment holding | RM25,000 | **60** | 60 |
| BHIC Navaltech Sdn. Bhd. | In-service support for the maintenance, services and supply of spare parts for vessels | RM1,000,000 | **100** | 100 |
| UMC Engineering Sdn. Bhd. | Dormant | RM979,234 | **99.99** | 99.99 |
| BHIC Tenaga Sdn. Bhd. (Formerly known as Tenaga PSC Sdn. Bhd). | Dormant | RM1,000,000 | **100** | 100 |
| PSC Welding Services Sdn. Bhd. ** | Dormant | RM37,058 | **100** | 100 |
| BHIC Marine & Shipping Sdn Bhd (formerly known as PSC Marine & Shipping Sdn. Bhd). ("BHIC Shipping") | Dormant | RM3,000,003 | **100** | 100 |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries, all of which were incorporated in Malaysia unless otherwise stated, are as follows: (cont'd.)

| Name of subsidiaries | Principal activities | Paid-up capital | Proportion of ownership interest % 2012 | % 2011 |
|---|---|---|---|---|
| **Held by BP Shipyard (cont'd.):** | | | | |
| BHIC Shipbuilding and Engineering Sdn. Bhd. (Formerly known as PSC Shipbuilding and Engineering Sdn. Bhd.) | Dormant | RM2 | **100** | 100 |
| Marine Technology Industrial Park Sdn. Bhd. ** | Dormant | RM37,285 | **100** | 100 |
| BHIC Marine Technology Academy Sdn. Bhd. (formerly known as PSC-Marine Technology Academy Sdn. Bhd.) | Dormant | RM5 | **100** | 100 |
| PSC Srijeluda Sdn. Bhd. ** | Dormant | RM47,928 | **100** | 100 |
| BHIC Marine Ventures Sdn. Bhd. (formerly known as Marine Venture Capital Sdn. Bhd.) | Provision of chartering of ships and vessels | RM3 | **100** | 100 |
| BHIC Marine Transport Sdn. Bhd. (formerly known as PSC Miri Sdn Bhd) | Provision of chartering of ships and vessels | RM3 | **100** | 100 |
| Alpha Shanghai (M) Sdn. Bhd. ** | Dormant | RM32,988 | **100** | 100 |
| **Held by Dominion Defence:** | | | | |
| Burlington Capital Sdn. Bhd *** | Dormant | RM25,000 | – | 60 |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries, all of which were incorporated in Malaysia unless otherwise stated, are as follows: (cont'd.)

| Name of subsidiaries | Principal activities | Paid-up capital | Proportion of ownership interest % 2012 | % 2011 |
|---|---|---|---|---|
| **Held by Dominion Defence: (cont'd.):** | | | | |
| Burlington Engineering & Construction Sdn. Bhd.**** | Dormant | RM1,000 | **–** | 60 |
| Burlington Promotions & Publications Sdn. Bhd. | Dormant | RM100,000 | **100** | 100 |
| Burlington Plantations Sdn. Bhd ***** | Dormant | RM2 | **–** | 100 |
| **Held by BHIC Defence:** | | | | |
| BHIC Defence Techservices Sdn. Bhd. | Provision for maintenance and services for arsenal, missiles and other defence related products | RM1,000,000 | **100** | 100 |
| Atlas Defence Technology Sdn. Bhd. | Supply of electronics and system technology to defence related industry | RM510,000 | **70** | 70 |
| BHIC Bofors Asia Sdn. Bhd. | Providing, supplying and servicing BOFORS weapons systems | RM1,000,000 | **51** | 51 |
| Naval and Defence Communication System Sdn. Bhd. | Provision for maintenance and services for telecommunication systems | RM100,000 | **100** | 100 |
| BHIC Electronics and Technologies Sdn. Bhd. | Provision for maintenance and services for defence weapons and related products | RM2,329,897 | **100** | 100 |
| Integrated Navigation and Defence Systems Sdn. Bhd. | Ceased operations | RM2 | **100** | 100 |
| BHIC Aeroservices Sdn. Bhd. | To carry on business of maintenance, repair and overhaul of rotary and fixed wing aircraft | RM500,000 | **51** | 51 |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries, all of which were incorporated in Malaysia unless otherwise stated, are as follows: (cont'd.)

| Name of subsidiaries | Principal activities | Paid-up capital | Proportion of ownership interest % 2012 | % 2011 |
|---|---|---|---|---|
| **Held by Dominion Defence: (cont'd.):** | | | | |
| Boustead DCNS Naval Corporation Sdn. Bhd. | Vessel maintenance | RM10,000,000 | **60** | 60 |
| BYO Marine Sdn. Bhd.* | Construction of vessels | RM100 | **51** | 51 |
| Contraves Advanced Devices Sdn. Bhd. ("CAD") * | Manufacturing of electronic products | RM5,000,000 | **51** | 51 |
| BHIC MSM Sdn. Bhd. ("BHIC MSM") | Provision for maintenance and repair of MTU products | RM1,000,000 | **60** | 60 |
| **Held by BHIC Shipping:** | | | | |
| Johor Riau Ferry Services Sdn. Bhd. ** | Dormant | RM180,055 | **100** | 100 |
| **Held by CAD:** | | | | |
| Contraves Sdn. Bhd. * | Property rental | RM100,000 | **100** | 100 |
| Contraves Electrodynamics Sdn Bhd * ("CED") | Provide and undertake system design, infrastructure and facilities, project management and integration works and services for the defence, commercial and industrial sectors, manufactures, installers, maintainers, repairers of and dealers in electrical and electronic appliances and apparatus | RM1,000,000 | **100** | – |

* Audited by firms other than Ernst & Young
** In members' voluntary liquidation
*** Struck off by Companies Commission of Malaysia ("CCM") on 1 August 2012
**** Struck off by Companies Commission of Malaysia ("CCM") on 2 April 2012
***** Struck off by Companies Commission of Malaysia ("CCM") on 26 March 2012

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

### (a) Incorporation of a subsidiary

On 23 February 2012, a 51% owned subsidiary of BHIC Defence, CAD, had incorporated a wholly owned subsidiary known as CED. The authorised share capital of CED is RM10,000,000 divided into 10,000,000 ordinary shares of RM1, of which 1,000,000 ordinary shares have been issued at par and fully paid up.

### (b) Additional investments in subsidiaries

The Company through its wholly-owned subsidiary, BHIC Defence, subscribed additional equity interest in the following companies by way of cash:

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **'000** | '000 | **RM'000** | RM'000 |
| BHIC MSM Sdn. Bhd. | **–** | 594 | **–** | 594 |
| BHIC Aeroservices Sdn. Bhd. | **250** | – | **250** | – |
| | **250** | 594 | **250** | 594 |

The additional equity interest arose pursuant to an issue of shares by the subsidiary companies on a pro-rata basis to its shareholders.

In the previous year the Group also subscribed to additional equity interest in the following subsidiaries by way of debt capitalisation:

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **'000** | '000 | **RM'000** | RM'000 |
| Perstim Industries Sdn. Bhd. | **–** | 26,156 | **–** | 26,156 |

### (c) Disposal of a subsidiary

On 27 June 2012, Boustead Penang Shipyard Sdn Bhd ("BPS"), a wholly-owned subsidiary of the Company, disposed its entire stake in PSC Tema Shipyard Limited ("PSCT") for a cash consideration of USD 6.36 million, of which USD 5.12 million (RM 16.33 million) (subject to tax) is in respect of equity investment whilst the remaining USD1.24 million (RM 3.95 million) is in respect of the agreed settlement of certain accounts owned by PSCT.

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

### (c) Disposal of a subsidiary (cont'd.)

The effect of the disposal of PSCT on the financial results of the Group to the date of disposal is as follows:

| | Group 2012 RM'000 |
|---|---|
| Other income | 37 |
| Results from operations | 37 |
| Profit before taxation | 37 |
| Taxation | – |
| Profit after taxation | 37 |
| Less: Non-controlling interests' share of profit | (15) |
| | 22 |

The effect of disposal of PSCT on the financial position of the Group is as follows:-

| | Group 2012 RM'000 |
|---|---|
| Property, plant and equipment | 10,947 |
| Inventories | 1,306 |
| Trade and other receivables | 2,203 |
| Cash and bank balances | 3,788 |
| Trade and other payables | (11,237) |
| Tax payable | 1,004 |
| Exchange reserve | (121) |
| Deferred tax liabilities | (513) |
| Net assets as at financial year | 7,377 |
| Less: Non-controlling interests' share of net assets | (2,999) |
| Gain on disposal of subsidiary company (Note 5) | 11,091 |
| Proceeds from disposal of subsidiary companies | 15,469 |
| Less: cash and cash equivalents disposed | (3,788) |
| Net cash inflow from disposal of subsidiary | 11,681 |

## 14. INVESTMENTS IN ASSOCIATES

| | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|
| Unquoted shares, at cost | **54,840** | 54,840 | **1,250** | 1,250 |
| Cumulative share of post acquisition profits | **141,940** | 141,449 | **–** | – |
| Share of current year's post acquisition profits | **6,176** | 491 | **–** | – |
| | **202,956** | 196,780 | **1,250** | 1,250 |
| Less: Accumulated impairment losses | **–** | – | **(1,250)** | (1,250) |
| | **202,956** | 196,780 | **–** | – |

Details of the associates, all of which are incorporated in Malaysia, are as follows:

| Name of associates | Proportion of ownership interest 2012 % | Proportion of ownership interest 2011 % | Principal activities |
|---|---|---|---|
| **Held by the Company:** | | | |
| Tohwa-Sedap Food Industry Sdn. Bhd. | **50.00** | 50.00 | Under liquidation |
| **Held through the subsidiary: Perstim Industries Sdn. Bhd.** | | | |
| Boustead Naval Shipyard Sdn. Bhd. ("BN Shipyard") | **20.77** | 20.77 | Construction, repair and maintenance of naval ships, weapons and electronics, design and engineering, fabrication of steel structures and commercial shipbuilding |
| **Held through the subsidiary: BHIC Defence Technologies Sdn. Bhd.** | | | |
| Pyrotechnical Ordnance Malaysia Sdn. Bhd. | **50.00** | 50.00 | Dormant |
| **Held through the subsidiary: BP Shipyard** | | | |
| Penang Shipbuilding and Construction Holding (Thailand) Limited (Incorporated in Thailand) | **48.80** | 48.80 | Dormant |

## 14. INVESTMENTS IN ASSOCIATES (CONT'D.)

Details of the associates, all of which are incorporated in Malaysia unless otherwise stated, are as follows (cont'd.):

| Name of associates | Proportion of ownership interest 2012 % | 2011 % | Principal activities |
|---|---|---|---|
| **Held through the associate: Subsidiaries of BN Shipyard** | | | |
| Boustead Langkawi Shipyard Sdn. Bhd. | **20.76** | 20.76 | Construction, repair and maintenance of boats and yachts |
| BN Shiprepair Sdn. Bhd. | **20.76** | 20.76 | Ceased operations |
| BN IT Sdn. Bhd.# | **–** | 20.76 | Ceased operations |
| Boustead Yachts Sdn. Bhd. | **20.76** | 20.76 | Ceased operations |
| Asia Coins Sdn. Bhd.@ | **–** | 20.70 | Ceased operations |

\# Struck off by Companies Commission of Malaysia on 27 June 2012.
@ Struck off by Companies Commission of Malaysia on 18 July 2012.

The financial year-end of the above associates are coterminous with that of the Group.

The summarised financial information of the associates are as follows:

| | 2012 RM'000 | 2011 RM'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Current assets | **1,470,706** | 1,432,074 |
| Non-current assets | **334,020** | 341,936 |
| Total assets | **1,804,726** | 1,774,010 |
| Current liabilities | **955,592** | 1,591,616 |
| Non-current liabilitie | **654,667** | 17,675 |
| Total liabilities | **1,610,259** | 1,609,291 |
| **Results** | | |
| Revenue | **920,387** | 504,414 |
| Profit for the year | **29,748** | 2,366 |

## 15. GOODWILL ON CONSOLIDATION

The goodwill on consolidation arose from the acquisition of 51% equity interest in Contraves Advanced Devices Sdn. Bhd. ("CAD") in prior years.

Goodwill is allocated for impairment testing purposes to the individual entity which is also the cash-generating unit ("CGU"). The recoverable amount is determined based on a value in use calculation using cash flow projections approved by the entity's board of directors covering a five-year period. The projections reflect management expectation of revenue growth, operating cost and margins based on their recent experience. Discount rate applied to the cash flow projections are derived from the CGU's pre-tax weighted average cost of capital plus a reasonable risk premium at the date of assessment of the CGU.

A pre-tax discount rate of 10% (2011: 10%) and a terminal growth rate of 2% (2011: 2%) have been applied in the value in use calculations. Based on the sensitivity analysis performed, management believes that no reasonably possible changes in base case key assumptions would cause the carrying values of the CGU to exceed its recoverable amounts.

## 16. INVENTORIES

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RM'000** | RM'000 |
| **At cost** | | |
| Consumables | **5,315** | 13,339 |
| Work in progress | **1,299** | 4,379 |
| Raw materials | **12,786** | 19,127 |
| Finished goods | **3,363** | 4,305 |
| | **22,763** | 41,150 |

## 17. TRADE AND OTHER RECEIVABLES

| | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|
| **Trade receivables** | | | | |
| Third parties | **21,955** | 50,643 | **–** | – |
| Due from related parties: | | | | |
| Affiliates | **1,406** | 2,806 | **–** | – |
| Associates | **217,379** | 133,219 | **–** | – |
| | **240,740** | 186,668 | **–** | – |
| Less: Allowance for impairment | | | | |
| – Third parties | **(2,023)** | (9,263) | **–** | – |
| – Associates | **(517)** | (721) | **–** | – |
| | **(2,540)** | (9,984) | **–** | – |
| Trade receivables, net | **238,200** | 176,684 | **–** | – |
| **Other receivables** | | | | |
| Due from related parties: | | | | |
| Subsidiaries | **–** | – | **254,495** | 224,747 |
| Associates | **29** | 29 | **–** | – |
| | **29** | 29 | **254,495** | 224,747 |
| Deposits | **29,670** | 19,335 | **7,786** | 7,786 |
| Prepayments | **9,276** | 4,860 | **–** | – |
| Sundry receivables | **42,514** | 14,141 | **–** | 19 |
| Advance/deposit to suppliers | **262,760** | 66,137 | **–** | – |
| | **344,249** | 104,502 | **262,281** | 232,552 |
| Less: Allowance for impairment | | | | |
| – Subsidiaries | **–** | – | **(6,223)** | – |
| – Associates | **(28)** | (28) | **–** | – |
| – Other receivables | **(381)** | (477) | **–** | – |
| | **(409)** | (505) | **(6,223)** | – |
| Other receivables, net | **343,840** | 103,997 | **256,058** | 232,552 |
| **Total trade and other receivables** | **582,040** | 280,681 | **256,058** | 232,552 |

## 17. TRADE AND OTHER RECEIVABLES (CONT'D.)

| | Group 2012 RM'000 | Group 2011 RM'000 | Company 2012 RM'000 | Company 2011 RM'000 |
|---|---|---|---|---|
| **Total trade and other receivables** | **582,040** | 280,681 | **256,058** | 232,552 |
| Add: Cash and bank balances (Note 19) | **395,427** | 290,883 | **107** | 526 |
| Less: Prepayment | **(9,276)** | (4,860) | **–** | – |
| Less: Advance/deposit to suppliers | **(262,760)** | (66,137) | **–** | – |
| Total loans and receivables | **705,431** | 500,567 | **256,165** | 233,078 |

### (a) The ageing analysis of the Group's trade receivables is as follows:

| | Group 2012 RM'000 | Group 2011 RM'000 |
|---|---|---|
| Neither past due nor impaired | **123,337** | 37,554 |
| 1 to 30 days past due not impaired | **16,575** | 20,295 |
| 31 to 60 days past due not impaired | **10,304** | 16,758 |
| 61 to 90 days past due not impaired | **9,639** | 27,467 |
| 91 to 120 days past due not impaired | **9,809** | 9,425 |
| More than 121 days past due not impaired | **68,536** | 65,178 |
| | **114,863** | 139,123 |
| Impaired | **2,540** | 9,991 |
| | **240,740** | 186,668 |

The Group has trade receivables amounting to RM114,863,000 (2011: RM139,123,000) that are past due at the reporting date but not impaired. The total amount that are past due but not impaired are unsecured in nature, of the total, RM103,758,000 (2011: RM113,124,000) is due from an associated company which the Group believes is fully recoverable.

## 17. TRADE AND OTHER RECEIVABLES (CONT'D.)

### (a) The ageing analysis of the Group's trade receivables is as follows: (cont'd.)

Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the financial year and the movement of the allowance accounts used to record the impairment are as follows:

| | Group | |
|---|---|---|
| | **2012 RM'000** | 2011 RM'000 |
| Trade receivables-nominal value | **2,540** | 9,991 |
| Less: Allowance for impairment | **(2,540)** | (9,984) |
| | **–** | 7 |

Movement in allowance accounts:

| | Group | |
|---|---|---|
| | **2012 RM'000** | 2011 RM'000 |
| At 1 January | **9,984** | 8,779 |
| Charge for the year (Note 5) | **36** | 2,209 |
| Reversal of impairment loss (Note 5) | **(283)** | (782) |
| Bad debt written off | **(2,738)** | – |
| Foreign exchange differences | **–** | (222) |
| Disposal of a subsidiary | **(4,459)** | – |
| At 31 December | **2,540** | 9,984 |

Trade receivables that are individually determined to be impaired at the end of the financial year relate to debtors that are in significant difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

## 17. TRADE AND OTHER RECEIVABLES (CONT'D.)

### (b) Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's credit period is generally for a period of 30 days (2011: 30 days), extending up to 90 days (2011: 90 days) for major customers. The Group seeks to maintain strict control over its outstanding receivables and strives to minimise credit risk. Overdue balances are reviewed regularly by senior management.

### (c) Trade receivables

Trade receivables are non-interest bearing.

### (d) Amounts due from subsidiaries

The related parties' balances bear weighted average effective interest rate of 5.2% (2011: 5.2%) per annum and are repayable on demand. All related parties receivables are unsecured and are to be settled in cash.

## 18. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONTRACTS

| | **Group** | |
|---|---|---|
| | **2012** | 2011 |
| | **RM'000** | RM'000 |
| Aggregate cost incurred and recognised profit (less recognised losses) to date | **1,732,496** | 1,218,373 |
| Less: Progress billings | **(2,149,610)** | (1,167,369) |
| | **(417,114)** | 51,004 |
| Amounts due from customers on contracts | **47,917** | 89,836 |
| Amounts due to customers on contracts | **(465,031)** | (38,832) |
| | **(417,114)** | 51,004 |

## 18. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONTRACTS (CONT'D.)

The costs incurred to date on construction contracts include the following charges made during the financial year.

| | Group 2012 RM'000 | 2011 RM'000 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 12) | **1,625** | 912 |
| Operating lease: | | |
| – minimum lease payment for plant and equipment | **6,138** | 3,549 |
| Employee benefits expense | **24,582** | 13,953 |

No interest expenses were being capitalised in the construction work-in-progress as the borrowings are drawdown for general purpose.

Amount of contract revenue and contract costs recognised in the financial year are as follows:

| | Group 2012 RM'000 | 2011 RM'000 |
|---|---|---|
| Contract revenue * | **461,336** | 331,338 |
| Construction contract costs (Note 5) | **515,306** | 318,796 |

* The contract revenue is derived from heavy engineering works, rendering of services and manufacturing.

## 19. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Deposits with licensed banks | **122,070** | 185,524 | – | – |
| Cash on hand and at banks | **273,357** | 105,359 | **107** | 526 |
| | **395,427** | 290,883 | **107** | 526 |

Deposits with licensed banks amouting to RM26,154,000 (2011: RM24,223,000) are pledged security for performance guarantee facilities granted to the Group.

Other information on financial risks of cash and bank balances are disclosed in Note 28.

## 20. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | Number of shares of RM1 each | | Amount | |
| | **2012** | 2011 | **2012** | 2011 |
| | **'000** | '000 | **RM'000** | RM'000 |
| **Authorised:** | | | | |
| As at 1 January/31 December | **500,000** | 500,000 | **500,000** | 500,000 |
| **Issued and fully paid ordinary shares:** | | | | |
| As at 1 January/31 December | **248,458** | 248,458 | **248,458** | 248,458 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and ranked equally with regard to the Company residual assets.

## 21. EXCHANGE FLUCTUATION RESERVE

| **Group** | **RM'000** |
|---|---|
| At 1 January 2011 | – |
| Foreign currency translation | 121 |
| At 31 December 2011 | 121 |
| Disposal of subsidiary | (121) |
| **At 31 December 2012** | **–** |

The exchange fluctuation reserve relates to exchange differences arising from translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary terms which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either functional currency of the reporting entity or the foreign operation.

## 22. RETAINED EARNINGS

Under the single tier system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Under this system, all the Company's retained earnings are distributable by way of dividend and tax on the Company's profit is the final tax and dividend distributed to shareholders will be exempted from tax.

## 23. PROVISIONS

| | Directors' fee RM'000 | Warranties RM'000 | Liquidated ascertained damages RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **At 1 January 2011** | 288 | 2,584 | 11,535 | 14,407 |
| Additional provision | 288 | 660 | 7,133 | 8,081 |
| Reversal of provision | – | (2,584) | – | (2,584) |
| Utilisation of provision | (288) | – | (11,289) | (11,577) |
| **At 31 December 2011** | 288 | 660 | 7,379 | 8,327 |
| Additional provision | 360 | (13) | 4,957 | 5,304 |
| Utilisation of provision | (288) | – | (7,135) | (7,423) |
| **At 31 December 2012** | **360** | **647** | **5,201** | **6,208** |

| | Directors' fee RM'000 |
|---|---|
| **Company** | |
| **At 1 January 2011** | 288 |
| Additional provision | 288 |
| Utilisation of provision | (288) |
| **At 31 December 2011** | 288 |
| Additional provision | 360 |
| Utilisation of provision | (288) |
| **At 31 December 2012** | **360** |

## 23. PROVISIONS (CONT'D.)

### (a) Provision for liquidated ascertained damages

The provision for liquidated ascertained damages is based on the approved contract terms and is computed on the agreed penalty charges per delay multiplied by the number of days delayed.

### (b) Provision for warranties

The provision for warranties are made in respect of potential reworks or replacement of defective products sold to an end customer which arose from a batch of production or services rendered to them. The provision is made based on the management's best estimate on past experience of the expected level of defects and their associated remediation costs to customer.

## 24. LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Short term borrowings** | | | | |
| **Secured:** | | | | |
| Hire purchase and finance lease liabilities (Note 25) | **444** | 100 | **–** | – |
| Term loans | **8,928** | 9,153 | **6,267** | 6,492 |
| Revolving credits | **34,933** | 41,683 | **34,933** | 36,189 |
| | **44,305** | 50,936 | **41,200** | 42,681 |
| **Unsecured:** | | | | |
| Term loans | **7,651** | 7,476 | **1,383** | 1,314 |
| Bank overdraft | **–** | 1,258 | **–** | – |
| Bankers' acceptances | **382** | – | **–** | – |
| Revolving credits | **335,000** | 270,000 | **235,000** | 175,000 |
| | **343,033** | 278,734 | **236,383** | 176,314 |

## 24. LOANS AND BORROWINGS (CONT'D.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Total:** | | | | |
| Term loans | **16,579** | 16,629 | **7,650** | 7,806 |
| Hire purchase and finance lease liabilities (Note 25) | **444** | 100 | **–** | – |
| Bank overdraft | **–** | 1,258 | **–** | – |
| Banker acceptances | **382** | – | **–** | – |
| Revolving credits | **369,933** | 311,683 | **269,933** | 211,189 |
| | **387,338** | 329,670 | **277,583** | 218,995 |
| **Long term borrowings** | | | | |
| **Secured:** | | | | |
| Hire purchase and finance lease liabilities (Note 25) | **1,587** | 250 | **–** | – |
| Term loans | **20,560** | 30,332 | **17,230** | 24,342 |
| | **22,147** | 30,582 | **17,230** | 24,342 |
| **Unsecured:** | | | | |
| Term loans | **9,838** | 17,489 | **960** | 2,344 |
| **Total:** | | | | |
| Term loans | **30,398** | 47,821 | **18,190** | 26,686 |
| Hire purchase and finance lease liabilities (Note 25) | **1,587** | 250 | **–** | – |
| | **31,985** | 48,071 | **18,190** | 26,686 |

## 24. LOANS AND BORROWINGS (CONT'D.)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Total borrowings:** | | | | |
| Term loans | **46,977** | 64,450 | **25,840** | 34,492 |
| Hire purchase and finance lease liabilities (Note 25) | **2,031** | 350 | **–** | – |
| Bank overdraft | **–** | 1,258 | **–** | – |
| Bankers' acceptances | **382** | – | **–** | – |
| Revolving credits | **369,933** | 311,683 | **269,933** | 211,189 |
| | **419,323** | 377,741 | **295,773** | 245,681 |

The remaining maturities of the term loans as at reporting date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| On demand or within 1 year | **16,579** | 16,629 | **7,650** | 7,806 |
| More than 1 year and less than 2 years | **15,318** | 16,803 | **7,228** | 7,875 |
| More than 2 years and less than 5 years | **15,080** | 31,018 | **10,962** | 18,811 |
| | **46,977** | 64,450 | **25,840** | 34,492 |

The maturity profile of hire purchase and finance lease liabilities is as disclosed in Note 25.

The term loans, bankers' acceptances and revolving credit facilities granted to the Group and the Company are unsecured except for the following:

(a) A term loan of a subsidiary which is secured against equipment as disclosed in Note 12(b); and

(b) A term loan and a revolving credit facility of the Company which is secured against vessels of certain subsidiaries as disclosed in Note 12(c);

Other information on financial risks of loans and borrowings are disclosed in Note 28.

The amount of borrowings obtained from the financial institutions which are Government-related entities amounted to RM43,879,000 (2011: RM46,329,000).

## 25. HIRE PURCHASE AND FINANCE LEASE LIABILITIES

| | Group 2012 RM'000 | 2011 RM'000 |
|---|---|---|
| **Future minimum lease payments:** | | |
| Not later than 1 year | **532** | 115 |
| Later than 1 year but not later than 2 years | **519** | 85 |
| Later than 2 years but not later than 5 years | **1,167** | 187 |
| More than 5 years | **42** | 8 |
| | **2,260** | 395 |
| Less: Future finance charges | **(229)** | (45) |
| | **2,031** | 350 |
| **Analysis of present value of finance lease liabilities:** | | |
| Not later than 1 year | **444** | 100 |
| Later than 1 year not later than 2 years | **453** | 74 |
| Later than 2 years but not later than 5 years | **1,093** | 169 |
| More than 5 years | **41** | 7 |
| | **2,031** | 350 |
| Amount due within 12 months (Note 24) | **(444)** | (100) |
| Amount due after 12 months (Note 24) | **1,587** | 250 |

The hire purchase is secured by a charge over the leased assets (Note 12(a)). These obligations are secured by a charge over the leased assets (Note 12). The average discount rate implicit in the leases is 4.34 % per annum (2011: 2.87% per annum).

## 26. DEFERRED TAXATION

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RM'000** | RM'000 |
| At 1 January | **(14,294)** | (1,237) |
| Disposal of a subsidiary | **(513)** | – |
| Recognised in income statement (Note 9) | **(3,744)** | (13,030) |
| Exchange differences | **–** | (27) |
| At 31 December | | |
| | **(18,551)** | (14,294) |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | **(19,435)** | (15,703) |
| Deferred tax liabilities | **884** | 1,409 |
| | **(18,551)** | (14,294) |

The components and movements of deferred tax (assets)/liabilities of the Group during the financial year are as follows:

| | **Unused capital allowance RM'000** | **Unused tax losses RM'000** | **Others RM'000** | **Total RM'000** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| At 1 January 2011 | (238) | – | (4,257) | (4,495) |
| Recognised in income statement | (3,428) | (14,615) | 2,453 | (15,590) |
| At 31 December 2011 | (3,666) | (14,615) | (1,804) | (20,085) |
| Recognised in income statement | (1,468) | (2,846) | 1,274 | (3,040) |
| **At 31 December 2012** | **(5,134)** | **(17,461)** | **(530)** | **(23,125)** |

## 26. DEFERRED TAXATION (CONT'D.)

| | Property plant and equipment RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| At 1 January 2011 | 3,258 | – | 3,258 |
| Recognised in income statement | 1,955 | 605 | 2,560 |
| Exchange differences | (31) | 4 | (27) |
| At 31 December 2011 | 5,182 | 609 | 5,791 |
| Recognised in income statement | (163) | (541) | (704) |
| Disposal of subsidiary company | (671) | 158 | (513) |
| **At 31 December 2012** | **4,348** | **226** | **4,574** |

The estimated amount of deferred tax assets which have not been recognised in the Group's and the Company's financial statements as at reporting dates are as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| Temporary differences arising from: | | | | |
| – unused tax losses | **(96,186)** | (2,030) | **(47)** | (47) |
| – unabsorbed capital allowances | **(69)** | (102) | **–** | – |
| – others | **(41,156)** | (12,981) | **–** | – |
| | **(137,411)** | (15,113) | **(47)** | (47) |

The unutilised tax losses and unabsorbed capital allowances of the Group and of the Company are available for offset against future taxable profits subject to guidelines issued by the tax authority. Deferred tax assets have been recognised in respect of unused capital allowances and unused tax losses items, to the extent that future taxable profits are probable to be utilised in the foreseeable future.

## 27. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Trade payables** | | | | |
| Third parties | **84,308** | 53,129 | **–** | – |
| Due to related parties: | | | | |
| Corporate shareholders of subsidiaries | **30,893** | 50,631 | **–** | – |
| Associates | **1,070** | – | **–** | – |
| | **116,271** | 103,760 | **–** | – |
| **Other payables** | | | | |
| Due to related parties: | | | | |
| Subsidiaries | **–** | – | **2,401** | 2,374 |
| Holding company | **2,708** | 2,629 | **47** | 329 |
| Associates | **95** | 1,807 | **2** | – |
| | **2,803** | 4,436 | **2,450** | 2,703 |
| Accruals | **97,386** | 124,905 | **567** | 1,298 |
| Sundry payables | **36,725** | 21,099 | **98** | 103 |
| | **136,914** | 150,440 | **3,115** | 4,104 |
| **Total trade and other payables** | **253,185** | 254,200 | **3,115** | 4,104 |
| **Total trade and other payables** | **253,185** | 254,200 | **3,115** | 4,104 |
| Add: Loans and borrowings (Note 24) | **419,323** | 377,741 | **295,773** | 245,681 |
| **Total financial liabilities carried at amortised costs** | **672,508** | 631,941 | **298,888** | 249,785 |

## 27. TRADE AND OTHER PAYABLES (CONT'D.)

(a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2011: 30 to 90 days).

(b) Non trade balances due to related parties

The related parties' balances bear weighted average effective interest rate of 5.2% (2011: 5.2%) per annum and are repayable on demand. All other related parties payable are unsecured and are to be settled in cash.

Further details on related party transactions are disclosed in Note 33.

Other information on financial risks of trade and other payables are disclosed in Note 28.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks, including interest rate, credit, liquidity and cash flow risks. The Group's overall financial risk management objective is to ensure that the Group creates value for its shareholders while minimising the potential adverse effects on the performance of the Group.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Company's Managing Director, Executive Director and Chief Financial Officer. The audit committee provides independent oversight to the effectiveness of the risk management process.

### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate arises primarily from their loans and borrowings and loans at floating rates given to related parties.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group finances its operations through operating cash flows and borrowings. The Group's policy is to derive the desired interest rate profile through a mix of fixed and floating rate banking facilities.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (a) Interest rate risk (cont'd.)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR"") and the remaining maturities of the Group's financial asset/(liabilities) as at reporting date:

| | Note | WAEIR % | Within 1 Year RM'000 | 1 - 2 Years RM'000 | 2 - 5 Years RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **At 31 December 2012** | | | | | | |
| **Fixed rate** | | | | | | |
| Term loans | 24 | 5.43% | (6,176) | (4,915) | (669) | (11,760) |
| Hire purchase and finance lease liabilities | 25 | 4.34% | (444) | (453) | (1,134) | (2,031) |
| Deposits with licensed banks | 19 | 3.19% | 122,070 | – | – | 122,070 |
| **Floating rate** | | | | | | |
| Term loans | 24 | 3.72% | (10,403) | (10,403) | (14,411) | (35,217) |
| Banker acceptance | 24 | 4.27% | (382) | – | – | (382) |
| Revolving credits | 24 | 4.29% | (369,933) | – | – | (369,933) |
| **At 31 December 2011** | | | | | | |
| **Fixed rate** | | | | | | |
| Term loans | 24 | 5.42% | (6,001) | (6,175) | (5,584) | (17,760) |
| Hire purchase and finance lease liabilities | 25 | 2.87% | (100) | (74) | (176) | (350) |
| Deposits with licensed banks | 19 | 2.31% | 185,524 | – | – | 185,524 |
| **Floating rate** | | | | | | |
| Term loans | 24 | 3.55% | (10,628) | (10,629) | (25,433) | (46,690) |
| Bank overdraft | 24 | 7.85% | (1,258) | – | – | (1,258) |
| Revolving credits | 24 | 4.88% | (311,683) | – | – | (311,683) |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (a) Interest rate risk (cont'd.)

The following tables set out the carrying amounts, the weighted average effective interest rates ("WAEIR"") and the remaining maturities of the Group's financial asset/(liabilities) as at reporting date: (cont'd.)

| | Note | WAEIR % | Within 1 Year RM'000 | 1 - 2 Years RM'000 | 2 - 5 Years RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **At 31 December 2012** | | | | | | |
| **Fixed rate** | | | | | | |
| Term loan | 24 | 5.05% | (1,383) | (961) | – | (2,344) |
| **Floating rate** | | | | | | |
| Term loan | 24 | 3.02% | (6,267) | (6,267) | (10,962) | (23,496) |
| Revolving credit | 24 | 3.45% | (269,933) | – | – | (269,933) |
| **At 31 December 2011** | | | | | | |
| **Fixed rate** | | | | | | |
| Term loan | 24 | 5.05% | (1,314) | (1,383) | (961) | (3,658) |
| **Floating rate** | | | | | | |
| Term loan | 24 | 2.70% | (6,492) | (6,492) | (17,850) | (30,834) |
| Revolving credit | 24 | 4.78% | (211,189) | – | – | (211,189) |

Interests on borrowings that are subject to floating rate are contractually repriced within a year. Interests on financial instruments at fixed rates are fixed until the maturity of the instruments. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (a) Interest rate risk (cont'd.)

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 50 basis points lower/higher, with all other variables held constant, the Group and the Company's profit net of tax would have been RM1,521,000 (2011: RM1,349,000) and RM1,100,000 (2011: RM908,000) higher/lower respectively, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on a prudent estimate of the current market environment.

### (b) Liquidity and cash flow risks

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure as far as possible, that it will have sufficient liquidity to meet its liability as and when they fall due.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

| | 2012 | | | |
|---|---|---|---|---|
| | On demand or within one year RM'000 | One to five years RM'000 | More than 5 years RM'000 | Total RM'000 |
| **Group** | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables (Note 27) | 253,185 | – | – | 253,185 |
| Loans and borrowings | 388,929 | 32,846 | 41 | 421,816 |
| Total undiscounted financial liabilities | 642,114 | 32,846 | 41 | 675,001 |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (b) Liquidity and cash flow risks (cont'd.)

| | 2012 | | | |
|---|---|---|---|---|
| | On demand or within one year RM'000 | One to five years RM'000 | More than 5 years RM'000 | Total RM'000 |
| **Company** | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables (Note 27) | 3,115 | – | – | 3,115 |
| Loans and borrowings | 278,270 | 18,792 | – | 297,062 |
| Total undiscounted financial liabilities | 281,385 | 18,792 | – | 300,177 |

| | 2011 | | |
|---|---|---|---|
| | On demand or within one year RM'000 | One to five years RM'000 | Total RM'000 |
| **Group** | | | |
| **Financial liabilities** | | | |
| Trade and other payables (Note 27) | 254,200 | – | 254,200 |
| Loans and borrowings | 331,794 | 53,848 | 385,642 |
| Total undiscounted financial liabilities | 585,994 | 53,848 | 639,842 |
| **Company** | | | |
| **Financial liabilities** | | | |
| Trade and other payables (Note 27) | 4,104 | – | 4,104 |
| Loans and borrowings | 219,912 | 31,279 | 251,191 |
| Total undiscounted financial liabilities | 224,016 | 31,279 | 255,295 |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (c) Credit risk

The Group seeks to invest cash assets safely and profitably. The Group also seeks to control credit risk by setting counterparty limits, obtaining bank guarantees where appropriate; and ensuring that sale of products and services are made to customers with an appropriate credit history, and monitoring customers' financial standing through periodic review and credit checks at point of sales. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

As at 31 December 2012, the maximum exposure to credit risk for the Group is presented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Deposits with licensed banks and other financial institutions and that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default. The credit risk information regarding trade and other receivables is disclosed in Note 17.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an going basis. The credit risk concentration profile of the Group's and the Company's trade receivables at the reporting date are as follows:

| | **Group** | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RM'000** | **% of total** | RM'000 | % of total |
| **By country:** | | | | |
| Malaysia | **233,961** | **98%** | 169,277 | 96% |
| Others | **4,239** | **2%** | 7,407 | 4% |
| | **238,200** | **100%** | 176,684 | 100% |
| **By industry sector:** | | | | |
| Heavy engineering contracts | **94,336** | **40%** | 119,786 | 68% |
| Rendering of services | **25,015** | **10%** | 24,178 | 13% |
| Sales of goods | **10,821** | **5%** | 22,561 | 13% |
| Manufacturing | **106,985** | **45%** | 10,159 | 6% |
| Chartering | **1,043** | **0%** | – | 0% |
| | **238,200** | **100%** | 176,684 | 100% |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (d) Fair value of financial instruments

Determination of fair value

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 approximations of fair value:

| | Note |
|---|---|
| Trade and other receivables | 17 |
| Amounts due from affiliates, subsidiaries and associates | 17 |
| Loans and borrowings (current) | 24 |
| Loans and borrowings (non-current) | 24 |
| Trade and other payables | 27 |
| Amounts due to affiliates, corporate shareholders of subsidiaries, associates, subsidiaries and holding company | 27 |

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amount of the borrowings are reasonable approximations of fair values due to the insignificant impact on discounting.

The fair value of current loans and borrowings are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending or borrowing arrangements at the reporting date.

### (e) Foreign exchange risk

The Group is exposed to foreign currency risk as a result of its normal operating activities, both external and intra-Group where the currency denomination differs from the local currency, Ringgit Malaysia ("RM"). The Group's policy is to minimise the exposure of overseas operating subsidiaries/activities to transaction risk by matching local currency income against local currency costs. The currencies giving rise to this risk are primarily the United States Dollar ("USD") and Euro. Foreign exchange exposures are kept to an acceptable level.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

### (e) Foreign exchange risk (cont'd.)

Sensitivity analysis for foreign exchange risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD and Euro exchange rates against the respective functional currencies of the Group's entities, with all other variables held constant.

| | | Group Profit net of tax | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **RM'000** | RM'000 |
| USD/RM | – strengthened 5% | **(2,109)** | (2,004) |
| | – weakened 5% | **2,109** | 2,004 |
| Euro/RM | – strengthened 5% | **(1,327)** | 5,877 |
| | – weakened 5% | **1,327** | (5,877) |

## 29. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is derived by dividing the amount of borrowings over shareholders' equity. The Group's policy is to keep gearing within manageable levels.

## 30. SEGMENTAL INFORMATION

For management purposes, the Group's business is organised on the activities, products and services. For each of the segments, the Managing Director reviews the internal management reports on a quarterly basis, at least. The following summary describes the operations of each of the Group's segments:

- Heavy engineering – The business units under this segment are principally engaged in shipbuilding and maintenance, repair and overhaul (MRO) of commercial vessels and Navy's patrol vessels;

- Manufacturing – The business unit under this segment is principally engaged in the manufacturing of electronic products and provide and undertake system design, infrastructure and facilities, project management and integration works and services for the defence, commercial and industrial sectors, manufactures, installers maintainers, repairers of and dealers in electrical and electronic appliances and apparatus; and

- Chartering – The business units under this segment is principally engaged in the chartering of chemical tankers.

The Group operates primarily in Malaysia. Transfer pricing between operating segments are on arms length basis.

Included in the heavy engineering segment, the revenue of approximately RM421,950,000 (2011: RM398,254,000) is derived from one major customer whereas in the manufacturing segment, approximately RM131,000,000 (2011: RM6,000,000) is derived from the same customer.

Transfer pricing between operating segments are on arms length basis. Inter-segment revenues are eliminated at consolidation level. The Group practises central fund management where surplus funds within the Group are on-lent, and the interest charge arising from such arrangements are eliminated in full.

## 30. SEGMENTAL INFORMATION (CONT'D.)

Management monitors the operating results of the three Divisions for the purposes of making decisions about resource allocation and performance assessment. Segment result is evaluated based on operating profit or loss set out in the following table:

| | Heavy engineering RM'000 | Manu-facturing RM'000 | Chartering RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **As at 31 December 2012** | | | | | |
| **Revenue** | | | | | |
| External revenue | 449,318 | 176,114 | 21,086 | – | 646,518 |
| Inter-segment revenue | – | 562 | – | (562) | – |
| | 449,318 | 176,676 | 21,086 | (562) | 646,518 |
| **Results** | | | | | |
| Segment results-external | (88,369) | 19,161 | (30,113) | – | (99,321) |
| Interest income | 2,507 | 2,547 | – | – | 5,054 |
| Finance costs | (18,996) | (74) | (1) | – | (19,071) |
| Share of results in associates | 6,176 | – | – | – | 6,176 |
| **Profit before taxation** | (98,682) | 21,634 | (30,114) | – | (107,162) |
| Income tax benefit | | | | | (5,112) |
| **Profit for the year** | | | | | (112,274) |

## 30. SEGMENTAL INFORMATION (CONT'D.)

| | Heavy engineering RM'000 | Manu-facturing RM'000 | Chartering RM'000 | Eliminations RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | |
| **Revenue** | | | | | |
| External revenue | 473,249 | 69,921 | 963 | – | 544,133 |
| **Results** | | | | | |
| Segment results-external | 18,465 | 3,243 | (6,139) | – | 15,569 |
| Interest income | 1,930 | – | – | – | 1,930 |
| Finance costs | (16,226) | (63) | (1) | – | (16,290) |
| Share of results in associates | 491 | – | – | – | 491 |
| **Profit before taxation** | 4,660 | 3,180 | (6,140) | – | 1,700 |
| Income tax benefit | | | | | 16,758 |
| **Profit for the year** | | | | | 18,458 |

During the previous financial year, no inter-segment sales was recorded.

In the previous financial year, the Group was principally engaged in the heavy engineering segment within Malaysia. The other segments are not reportable segments to be disclosed under the requirements of MFRS 8.

No geographical information is disclosed as the contribution to the Group is not significant under the requirements of MFRS 8.

## 31. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

The Group has entered into non-cancellable operating lease agreements for the use of land and buildings and equipment. These leases have an average life of between 1 to 3 years with renewal options included in the contracts.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities are as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **RM'000** | RM'000 |
| **Future minimum rental payments:** | | |
| Not later than 1 year | **3,737** | 2,243 |
| Later than 1 year but not later than 5 years | **5,066** | 2,693 |
| | **8,803** | 4,936 |

The lease payments recognised in profit or loss during the financial year are disclosed in Notes 5 and 18.

## 32. CAPITAL COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Approved but not contracted for: | | | | |
| – Property, plant and equipment | **208,356** | 23,722 | **102** | 21 |
| Approved and contracted for: | | | | |
| – Property, plant and equipment | **188** | 2,618 | **–** | – |

## 33. RELATED PARTY DISCLOSURES

### (a) Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 RM'000** | 2011 RM'000 | **2012 RM'000** | 2011 RM'000 |
| **Interest income** | | | | |
| Subsidiaries | **–** | – | **10,272** | 6,967 |
| Government-related financial institutions | **2,505** | 1,900 | **–** | – |
| **Dividend income** | | | | |
| Subsidiary | **–** | – | **–** | 26,250 |
| **Sales of goods/ Rendering of services** | | | | |
| Associates | **258,374** | 143,650 | **–** | – |
| **Purchases of goods/ Rendering of services** | | | | |
| Immediate holding company | **699** | 580 | **375** | 313 |
| Related companies | **5,059** | 5,603 | **50** | 148 |
| Associates | **6,642** | 2,184 | **–** | – |
| **Interest expense paid to:** | | | | |
| Subsidiaries | **–** | – | **121** | 115 |
| Corporate shareholders of subsidiaries | **–** | 60 | **–** | – |
| Government-related financial institutions | **1,679** | 937 | **1,140** | 428 |

The directors are of the opinion the above transactions are in the normal course of business and at standard commercial terms mutually agreed between the parties.

Information regarding outstanding balances arising from related party transactions as at 31 December 2012 are disclosed in Notes 17 and 27.

## 33. RELATED PARTY DISCLOSURES (CONT'D.)

### (b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Wages and salaries | **3,843** | 2,921 | **458** | – |
| Defined contribution plan | **298** | 276 | **18** | – |
| Benefit-in-kind | **39** | – | **–** | – |
| Others | **756** | 678 | **416** | 408 |
| | **4,936** | 3,875 | **892** | 408 |
| Included in the total key management personnel are: | | | | |
| Directors' remuneration (Note 7) | **1,773** | 1,491 | **742** | 656 |

### (c ) Government-related entities

The Group is a Government-related entity by virtue of its relationship with Lembaga Tabung Angkatan Tentera, the ultimate holding corporation of the Group.

The Group operates in an economic regime dominated by entities directly or indirectly controlled by the Government of Malaysia through its Government authorities, agencies, affiliations and other organisations, collectively referred to as Government-related entities. These transactions are conducted in the ordinary course of business of the Group's business on terms comparable to those with other entities that are not Government related. The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are Government-related entities or not.

## 33. RELATED PARTY DISCLOSURES (CONT'D.)

### (c ) Government-related entities (cont'd.)

*Individually significant transactions because of size of transactions*

- Boustead DCNS Naval Corporation Sdn Bhd, a subsidiary of the Group, received a letter of award on 12 August 2010 from the Government of Malaysia to undertake In Service Support for 2 Royal Malaysian Navy's Prime Minister Class Scorpene Submarines for EUR 193 million and RM532 million and is effective until 30 November 2015. The aggregate revenue recognised for the year ended 31 December 2012 amounted to RM 253 million (2011: RM 248 million).

- BYO Marine Sdn Bhd, a subsidiary, received a letter of award from the Government of Malaysia to design, construct and commission 10 units of Fast Interceptor Craft for Malaysian Maritime Enforcement Agency for a period of 20 months from the date of acceptance at a contract sum of RM130.7 million. The aggregate revenue recognised for the year ended 31 December 2012 amounted to RM 38 million (2011: RM 40 million).

## 34. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 1 March 2013.

## 35. SIGNIFICANT EVENT

On 27 June 2012, Boustead Penang Shipyard Sdn Bhd ("BPS"), a wholly-owned subsidiary of the Company, disposed its entire stake in PSC Tema Shipyard Limited ("PSCT") for a cash consideration of USD 6.36 million, of which USD 5.12 million (RM16.33 million) (subject to tax) is in respect of equity investment whilst the remaining USD1.24 million (RM3.95 million) is in respect of the agreed settlement of certain accounts owned by PSCT.

## 36. DISCLOSURE OF REALISED AND UNREALISED UNAPPROPRIATED PROFITS

On 25 March 2010, Bursa Malaysia Securities Berhad (Bursa Malaysia) issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profit or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2012, into realised and unrealised profits, pursuant to Bursa Malaysia Securities Berhad's Directive Ref: LD26/10 dated 20 December 2010 is tabulated below:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Total retained profits of the Company and its subsidiaries: | | | | |
| Realised | **(187,057)** | 11,514 | **(11,536)** | 23,232 |
| Unrealised | **17,472** | 3,362 | **–** | – |
| Total share of retained profits from associates: | | | | |
| Realised | **150,816** | 144,640 | **–** | – |
| | **(18,769)** | 159,516 | **(11,536)** | 23,232 |
| Consolidated adjustments | **50,728** | 18,962 | **–** | – |
| Total Group retained profits as per consolidated financial statements | **31,959** | 178,478 | **(11,536)** | 23,232 |

The determination of realised and unrealised profits is compiled based on Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

# ANALYSIS OF SHAREHOLDINGS

## As at 20 February 2013

| | | |
|---|---|---|
| Authorised Share Capital | : | RM500,000,000 |
| Paid-Up Share Capital | : | RM248,457,614 |
| Class of Shares | : | Ordinary Shares of RM1.00 each |
| Voting Rights | : | One vote per ordinary share |

### ANALYSIS BY SIZE OF HOLDINGS

| Size of Shareholdings | No. of holders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 99 | 895 | 23.70 | 16,566 | 0.01 |
| 100 - 1,000 | 921 | 24.39 | 610,258 | 0.24 |
| 1,001 - 10,000 | 1,464 | 38.77 | 6,476,963 | 2.61 |
| 10,001 - 100,000 | 418 | 11.07 | 13,098,200 | 5.27 |
| 100,001 - 12,422,879 (*) | 76 | 2.01 | 46,508,179 | 18.72 |
| 12,422,880 AND ABOVE (**) | 2 | 0.06 | 181,747,448 | 73.15 |
| **TOTAL** | 3,776 | **100.00** | 248,457,614 | **100.00** |

* Less than 5% of issued shares
** 5% and above of issued shares

### LIST OF SUBSTANTIAL SHAREHOLDERS

| Size of Shareholdings | No. of Share Direct | % | No. of Share Indirect | % |
|---|---|---|---|---|
| Boustead Holdings Berhad | 161,497,448 | 65.0 | – | – |
| Lembaga Tabung Angkatan Tentera | 20,250,000 | 8.15 | 161,497,448 | 65.0 |

### DIRECTORS' SHAREHOLDING

| Size of Shareholdings | No. of Share Direct | % | No. of Share Indirect | % |
|---|---|---|---|---|
| Y. Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 2,000,000 | 0.80 | – | – |
| Y. Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 2,002,100 | 0.80 | 11,200*1 | # |
| Y. Bhg. Datuk Azzat Bin Kamaludin | 400,000 | 0.16 | – | – |
| Y. Bhg. Dato' Ishak Bin Osman | 10,000 | # | 50,020*2 | 0.02 |
| Encik Abd Malik Bin A Rahman | 3,000 | # | 1,000*3 | # |

**Notes:-**

*1 Deemed interest by virtue of shares held by his daughter.
*2 Deemed interest by virtue of shares held by his son.
*3 Deemed interest by virtue of shares held by his spouse.
# Negligible.

# LIST OF TOP 30 HOLDERS

## As at 20 February 2013

| No. | Name of shareholders | No. of shares | % |
|---|---|---|---|
| 1 | BOUSTEAD HOLDINGS BERHAD<br>ACCOUNT NON-TRADING | 161,497,448 | 64.999 |
| 2 | LEMBAGA TABUNG ANGKATAN TENTERA | 20,250,000 | 8.150 |
| 3 | LEMBAGA TABUNG HAJI | 12,165,000 | 4.896 |
| 4 | TAN HAN CHONG | 2,362,000 | 0.950 |
| 5 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR<br>AHMAD RAMLI BIN MOHD NOR (8029256) | 2,000,000 | 0.804 |
| 6 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR PERAMJEET<br>SINGH A/L GIAN SINGH (8029243) | 2,000,000 | 0.804 |
| 7 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR<br>CHE LODIN BIN WOK KAMARUDDIN (8029271) | 2,000,000 | 0.804 |
| 8 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR LEAN MENG SEONG (8029269) | 1,623,000 | 0.653 |
| 9 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR OH KIM SUN (CEB) | 1,289,700 | 0.519 |
| 10 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR NORAZLAN BIN MOHAMAD NORDIN<br>(CEB) | 1,216,400 | 0.489 |
| 11 | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR BNP PARIBAS WEALTH MANAGEMENT<br>SINGAPORE BRANCH (A/C CLIENTS-FGN) | 922,400 | 0.371 |
| 12 | RHB NOMINEES (TEMPATAN) SDN BHD<br>TELEKOM MALAYSIA BERHAD | 922,179 | 0.371 |
| 13 | B & A FAMILY HOLDINGS SDN BHD | 900,000 | 0.362 |
| 14 | TA NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR CHOW KWAI PING | 889,000 | 0.357 |

| No. | Name of shareholders | No. of shares | % |
|---|---|---|---|
| 15 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD<br>EXEMPT AN FOR MERRILL LYNCH PIERCE FENNER & SMITH INCORPORATED (LOCAL RESIDENT) | 810,000 | 0.326 |
| 16 | AMANAHRAYA TRUSTEES BERHAD<br>PUBLIC ISLAMIC EQUITY FUND | 792,300 | 0.318 |
| 17 | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING) | 649,800 | 0.261 |
| 18 | UNIVERSAL TRUSTEE (MALAYSIA) BERHAD<br>TA DANA FOKUS | 583,000 | 0.234 |
| 19 | LIM CHAI BENG | 556,000 | 0.223 |
| 20 | HDM NOMINEES (ASING) SDN BHD<br>UOB KAY HIAN PTE LTD FOR WONG SIEW KIM (MARGIN) | 543,500 | 0.218 |
| 21 | ECML NOMINEES (TEMPATAN) SDN. BHD<br>PLEDGED SECURITIES ACCOUNT FOR TANG QUEE HUANG (001) | 527,000 | 0.212 |
| 22 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR NOOR AZMAN @ NOOR HIZAM B MOHD NURDIN (CEB) | 485,000 | 0.195 |
| 23 | LIEW YAM FEE | 430,000 | 0.173 |
| 24 | ALLIANCEGROUP NOMINEES (TEMPATAN)<br>SDN BHD PLEDGED SECURITIES ACCOUNT FOR MONINDAR KAUR A/P HARCHARAN SINGH (8037133) | 424,000 | 0.170 |
| 25 | AZZAT BIN KAMALUDIN | 400,000 | 0.160 |
| 26 | MAVIS TAN KENG MUN | 383,000 | 0.154 |
| 27 | TAN LEE HWA | 370,000 | 0.148 |
| 28 | TAN CHEW HUA | 355,000 | 0.142 |
| 29 | CHAN YOKE CHENG | 350,000 | 0.140 |
| 30 | TAN PECK YAN | 345,000 | 0.138 |

# LIST OF PROPERTIES
## Held by BHIC Group

| Location | Description | Areas | Tenure | Age | Net book value RM'000 |
|---|---|---|---|---|---|
| **BOUSTEAD PENANG SHIPYARD SDN BHD** | | | | | |
| Pajakan Negeri No. 649<br>Lot No. 3222 Mukim 13<br>Daerah Timur Laut<br>Pulau Pinang | Shipyard | 20.21 acres | Leasehold expiring on 24/01/2072 | 41 years | 30,171 |
| HSD 6981<br>Lot No. 9777 Mukim 13<br>Daerah Timur Laut<br>Pulau Pinang | Reclaimed land for the extension of the area of the shipyard | 19.00 acres | Leasehold expiring on 24/01/2072 | 41 years | 1,595 |
| HSD 124733<br>Lot No. PT15804<br>Mukim Tanjung Tualang<br>Daerah Kinta, Perak | Malaysia Army Equipment & Vehicle Testing Site | 135.00 acres | Leasehold expiring on 09/09/2102 | 11 years | 1,649 |
| HS(D) 16204 ,PT8711<br>Mukim Lumut<br>Daerah Manjung, Perak | Marine industry land | 307,560 square metres | Leasehold expiring on 18/10/2099 | 12 years | - |
| **CONTRAVES ADVANCED DEVICES SDN BHD AND CONTRAVES SDN BHD** | | | | | |
| HSM 1988 PT2809<br>Mukim Bukit Baru<br>Daerah Melaka Tengah<br>Melaka | Industry land and factory building | 6,626.322 square metres | Leasehold expiring on 30/05/2072 | 39 years | 5,043 |
| HSM 4436 PT 7169<br>Mukim Bukit Baru<br>Daerah Melaka Tengah<br>Melaka | Industry land | 2,936 square metres | Leasehold expiring on 30/05/2072 | 4 years | 1,146 |

# BOUSTEAD HEAVY INDUSTRIES CORPORATION BHD

(11106-V) (Incorporated in Malaysia)

# Proxy Form

| Number of shares | |
|---|---|

I/We ______________________________________________
(FULL NAME IN CAPITAL LETTERS)

of ______________________________________________
(FULL ADDRESS)

being (a) member(s) of **BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD** hereby appoint

______________________________________________
(FULL NAME IN CAPITAL LETTERS)

of ______________________________________________
(FULL ADDRESS)

or failing him/her ______________________________________________
(FULL NAME IN CAPITAL LETTERS)

of ______________________________________________
(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for my/our behalf at the Forty-First Annual General Meeting of the Company to be held at The Royale Ballroom, Level 2, The Royale Bintang Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 4 April 2013 at 10.00 a.m. and at any adjournment thereof and to vote as indicated below:-

| No. | Resolution | For | Against |
|---|---|---|---|
| Ordinary Resolution 1 | To receive the Audited Financial Statements for the financial year ended 31 December 2012 and the Reports of Directors and Auditors thereon. | | |
| Ordinary Resolution 2 | To approve the payment of Directors' Fees in respect of financial year ended 31 December 2012. | | |
| Ordinary Resolution 3 | To re-elect Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin. | | |
| Ordinary Resolution 4 | To re-elect Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Hj Mohd Nor (B). | | |
| Ordinary Resolution 5 | To re-appoint Messrs. Ernst & Young as Auditors of the Company and authorise the Directors to determine their remuneration. | | |
| Ordinary Resolution 6 | Authority to Issue Shares. | | |
| Ordinary Resolution 7 | Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions. | | |
| Ordinary Resolution 8 | Proposed Provision of Financial Assistance. | | |
| Special Resolution 1 | Proposed Amendments to the Articles of Association. | | |

Please indicate with a "X" in the space above on how you wish to cast your vote. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit.

Dated this ____________ day of ___________ 2013

______________________________________
Signature of Member/Common Seal

| | |
|---|---|
| No. of ordinary shares held: | |
| CDS Account No: | |
| Proportion of shareholdings to be represented by proxies | First Proxy: ________ %<br>Second Proxy: ________ % |
| Contact No.: | |

**NOTES**

1. Only depositors whose names appear in the Record of Depositors as at 29 March 2013 shall be regarded as members and entitled to attend, speak and vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
3. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholding to be represented by each proxy.
4. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint one (1) but not more than 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.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, If the appointer is a corporation, either under its Common Seal or under the hand of its officer or attorney duly authorised.
6. The instrument appointing a proxy must be deposited at the Registered Office of the Company, 17th Floor, Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty-eight hours before the time appointed for holding the meeting.

Fold here

Affix Stamp
Here


**The Company Secretary**
**Boustead Heavy Industries Corporation Berhad**
**17th Floor, Menara Boustead**
**69, Jalan Raja Chulan**
**50200 Kuala Lumpur**
**MALAYSIA**


Fold here