



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



Integrity

Towards Excellence

annual report 2013



rationale

Diversity is our strength. This year is testimony to the fact that our diverse businesses are imperative to our growth. The unity which we share amongst all Bousteadians is reflected in the cover design and in the hard work that has been achieved.

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_About Us



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 & Mission

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 Maximise
Stakeholder Returns

Core Values



- OWNERSHIP
- LOYALTY
- PRIDE
- TEAMWORK
- PROFESSIONALISM
- COURAGE
- SINCERITY
- DIGNITY
- CONSCIENCE
- HONESTY
- CONFIDENTIALITY
- ACCOUNTABILITY
- INITIATIVE
- INNOVATION
- ENTHUSIASM
- TIMELINESS

_Operational Highlights

4

vessels delivered in 2013

Modern

Design innovation

LCS

project makes headway

New

contracts secured

- One five storey accommodation barge.
- One five star floating hotel for Sunborn Marine of Finland.
- Two 16-metre tugboats for BN Shipyard.
- South East Asia's first luxury floating hotel – Sunborn III.
- Collaboration with international design houses grows stronger.
- LCS basic design finalised with partner shipyard.
- Project management office established.
- Lumut shipyard infrastructure being upgraded.
- Transfer of technology programme on track.
- RM108 million Murphy Sarawak Oil contract for BP Shipyard.
- RM15 million three year Malaysian Army contract for BDTs.
- USD3 million tugboat for an international customer.

Helicopter

MRO progresses

- BHICAS becomes an approved maintenance organisation for Eurocopter helicopters owned by the government.
- Two contracts worth RM98 million obtained from RMN and MMEA.
- Building a specialist MRO centre in Subang.

CAD

broadens its reach

- To manufacture and supply Airbus A400M mission systems and spares.
- Combat management system integration work intensifies at Cyberjaya.
- Vendor management programme strengthened.

Fostering

symbiotic relationships

- EPP undertaken with input from government and industry stakeholders.
- BN Shipyard forges an alliance with MIGHT-METEOR.
- Additional MRO services offered following joint ventures' increased participation.

_Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Forty-Second Annual General Meeting of the Company will be held at the Royale Ballroom, Level 2, The Royale Chulan Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 3 April 2014 at 3.00 p.m. to transact the following businesses:

.....

ORDINARY BUSINESS

- | | |
|---|---------------------|
| 1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of Directors and Auditors thereon. | Resolution 1 |
| 2. To re-elect David William Berry who retires in accordance with Article 77 of the Company's Articles of Association. | Resolution 2 |
| 3. To re-elect Abd Malik Bin A Rahman who retires in accordance with Article 77 of the Company's Articles of Association. | Resolution 3 |
| 4. To consider and if thought fit, to pass the following Ordinary Resolution:

"THAT Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Hj Mohd Nor (B) retiring in accordance with Section 129 of the Companies Act, 1965 be and is hereby re-appointed as a Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company." | Resolution 4 |
| 5. To approve the payment of Directors' Fees in respect of the financial year ended 31 December 2013. | Resolution 5 |
| 6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. | Resolution 6 |

SPECIAL BUSINESS

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

7. AUTHORITY TO ISSUE SHARES

“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.”

Resolution 7

8. PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

“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 12 March 2014 provided that such transactions are:

Resolution 8

- (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.

_Notice of Annual General Meeting (cont'd.)

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.

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

BY ORDER OF THE BOARD

LILYROHAYU BINTI AB. HAMID @ KASSIM
SUZANA BINTI SANUDIN

Secretaries

Kuala Lumpur

Date: 12 March 2014

NOTES:

1. Only depositors whose names appear in the Record of Depositors as at 26 March 2014 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 a proxy to attend and vote in his stead. A proxy need not be a Member of the Company and a member may appoint any persons to be his proxy. The provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the Annual General Meeting. Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportions of his holding to be represented by each proxy.
4. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, 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.
5. 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.
6. The instrument appointing a proxy shall be in writing or, under the hand of the appointer or 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.
7. 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.
8. *Explanatory notes on Special Business:*
[Resolution 7](#)
The Proposed Resolution 7, 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.

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.

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 Forty-First Annual General Meeting held on 4 April 2013 and which will lapse at the conclusion of the Forty-Second Annual General Meeting.
[Resolution 8](#)
The proposed Ordinary Resolution 8, 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.



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

20 February 2014

The Shareholders

Boustead Heavy Industries Corporation Berhad

Dear Shareholders,

RE : NOMINATION FOR RE-ELECTION AS A DIRECTOR

The following directors are due for retirement by rotation and have offered themselves for re-election at the forthcoming Annual General Meeting of the Company to be held on 3 April 2014:-

- | | |
|---|---|
| a) David William Berry * | Pursuant to Article 77 of the Company's Articles of Association |
| b) Abd Malik Bin A Rahman * | Pursuant to Article 77 of the Company's Articles of Association |
| c) Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Hj Mohd Nor (B) * | Pursuant to Section 129 of the Companies Act, 1965 |

(* Collectively referred to as "the Individual Directors")

The Nominating Committee of the Board has reviewed and evaluated the performance and contribution of the Individual Directors and assessed their credentials to continue serving the Company effectively as directors, including their independence (where relevant). That review has been considered by the Board as a whole, save for the Individual Directors mentioned, and the Board has unanimously determined to recommend to Shareholders that the Individual Directors be re-elected as directors of the Company at the forthcoming Annual General Meeting of the Company.

Thank you.

Yours sincerely,

DATUK AZZAT BIN KAMALUDIN
Director/
Chairman of Nominating Committee

Boustead tandatangi perjanjian bernilai RM5.32 juta

Perjanjian ini adalah untuk menyediakan perkhidmatan pembinaan dan pembaikan kepada pihak berkuasa tempatan. Perjanjian ini akan dilaksanakan dalam tempoh 12 bulan.

Ministry seals RM4.27b Deftech deal

ARMAS PRODUCTION, RM100m to expand Pekan and Nilai plants

Defence Minister Datuk Seri Ismail Sabri Yaakob has sealed a RM4.27 billion deal with Boustead Heavy Industries Corporation (BHIC) to produce and maintain 1000 British Army Warrior armoured vehicles for the Malaysian Army.

The deal, which is the largest in the history of the Malaysian defence industry, will see BHIC produce and maintain 1000 Warrior armoured vehicles for the Malaysian Army over a period of 10 years.

Lifejackets from BHIC to help MMEA Save Lives

LAYANG LAYANG is a bid to outfit 1000 lifejackets for the Malaysian Maritime Enforcement Agency (MMEA) to help save lives at sea.

The bid, which is the largest in the history of the Malaysian maritime industry, will see BHIC produce and maintain 1000 lifejackets for the MMEA over a period of 10 years.

Lifejackets from BHIC to help MMEA Save Lives

The bid, which is the largest in the history of the Malaysian maritime industry, will see BHIC produce and maintain 1000 lifejackets for the MMEA over a period of 10 years.



BHIC completes yacht hotel

Sunborn is the first luxury floating hotel to be built in South-East Asia

BHIC has completed the Sunborn yacht hotel, the first luxury floating hotel to be built in South-East Asia.

The hotel, which is located in the Sunborn yacht club, will provide a unique and luxurious experience for its guests.

Boustead, Sunborn unveil largest floating hotel

Boustead Heavy Industries Corporation (BHIC) and Sunborn Yacht Club have unveiled the largest floating hotel in the world.

The hotel, which is located in the Sunborn yacht club, will provide a unique and luxurious experience for its guests.

莫实得重工业再闯商船市场

莫实得重工业 (Boustead Heavy Industries Corporation) 再次进军商船市场，与法国达索直升机公司 (Eurocopter) 合作，为马来西亚海军提供直升机维修服务。

该合作将有助于提升马来西亚海军的作战能力，并为其提供高质量的维修服务。

Maritim Malaysia lancar kempen kesedaran di laut

Maritim Malaysia has launched a campaign to raise awareness of maritime safety.

The campaign, which is the largest in the history of the Malaysian maritime industry, will see BHIC produce and maintain 1000 lifejackets for the MMEA over a period of 10 years.

BHICAS pusat MRO helicopter Eurocopter

BHICAS has become the central hub for helicopter maintenance, repair, and overhaul (MRO) services for Eurocopter helicopters.

The facility, which is located in the Sunborn yacht club, will provide a unique and luxurious experience for its guests.

马英合作组装战斗机

马来西亚和英国合作组装战斗机

该合作将有助于提升马来西亚的国防能力，并为其提供高质量的战斗机。

Five-star floating hotel Sunborn III sets sail

The Sunborn III, a five-star floating hotel, has set sail for its maiden voyage.

The hotel, which is located in the Sunborn yacht club, will provide a unique and luxurious experience for its guests.

BHIC AeroServices meterai Mou dengan Eurocopter

BHIC AeroServices has signed a Memorandum of Understanding (MoU) with Eurocopter.

The MoU, which is the largest in the history of the Malaysian aviation industry, will see BHIC provide maintenance, repair, and overhaul (MRO) services for Eurocopter helicopters.

BHIC eyes commercial contracts

BHIC is looking for commercial contracts to expand its business.

The company, which is the largest in the history of the Malaysian maritime industry, will see BHIC produce and maintain 1000 lifejackets for the MMEA over a period of 10 years.

BNS terima kapal tunda

The Malaysian Navy has received a new tugboat from BHIC.

The tugboat, which is the largest in the history of the Malaysian navy, will provide a unique and luxurious experience for its guests.

BHIC gets defence contracts

BHIC has secured several defence contracts from the Malaysian government.

The contracts, which are the largest in the history of the Malaysian defence industry, will see BHIC provide maintenance, repair, and overhaul (MRO) services for various defence equipment.

BHIC, Macduff serah kapal pertama

BHIC and Macduff have handed over the first ship to the Malaysian Navy.

The ship, which is the largest in the history of the Malaysian navy, will provide a unique and luxurious experience for its guests.



Projek suling kapal tunda BHIC

BHIC is working on a project to upgrade the tugboat.

The project, which is the largest in the history of the Malaysian maritime industry, will see BHIC produce and maintain 1000 lifejackets for the MMEA over a period of 10 years.

BHIC, Sunborn Marine selesai bina Sunborn III

BHIC and Sunborn Marine have completed the construction of the Sunborn III.

The ship, which is the largest in the history of the Malaysian navy, will provide a unique and luxurious experience for its guests.



_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 and helicopters. 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 (MRO)

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

Our manufacturing capabilities in Contraves Advanced Devices (CAD) enhance our MRO activities by offering possibilities for system re-specification and re-engineering to overcome the threats of obsolescence. The recent venture by BHIC into Pyrotechnical Ordnance Malaysia Sdn Bhd (POM) to produce artillery propellants was in direct response to the need for national self-reliance. Local production of artillery propellants will help ensure readiness for the nation's armed forces. The local production of high speed specialised craft by BYO Marine Sdn Bhd (BYOM) in collaboration with its Turkish partner has offered the Malaysian and regional markets a new dimension in fast boats. The agility to produce many variants offers a substantial range of options.

Chairman's Perspective



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

Chairman



► DEAR VALUED STAKEHOLDERS,

It is my pleasure to present to you Boustead Heavy Industries Corporation Berhad (BHIC)'s Annual Report for the financial year ended 31st December 2013.



To many, 2013 will be remembered for the outcome of the 13th General Election and the tabling of the 2014 Budget. While the former signals continuity in the execution of Government Transformation Plans, the latter reaffirmed that Putrajaya is serious in taking proactive measures to ensure fiscal stability. Both augur well for the continued prosperity of the country.

Unfortunately, the year was marred by the Lahad Datu incursion which resulted in death and injuries for several of our country's security personnel. They are our national heroes and will be remembered for the sacrifices they made in protecting our country.

ECONOMIC LANDSCAPE

After many weeks of negotiation, in late October 2013, the United States managed to avoid falling off its 'fiscal cliff', with talks over raising its debt ceiling finally concluded in February 2014. The uncertainty over what Washington will finally decide, along with Europe's and Japan's existing economic weaknesses, were highlighted by the Organisation for Economic Co-operation and Development (OECD) as factors affecting global growth in 2013.

However, in Malaysia, domestic demand continued to be strong and, with exports rebounding, gross domestic product grew by 5.1% in the fourth quarter of 2013 (3Q 2013: 5.0%). To a certain extent, this was assisted by a weaker Ringgit as the currency experienced downward pressure most of the year, partly due to the United States' Federal Reserve Board tapering off its monetary stimulus programme. As for the shipping industry, the biggest problem it faces is still overcapacity, with a glut of vessels keeping shipping rates well below their pre-crisis peaks. Nonetheless, there have been freight rate increases reported, with the Baltic dry freight index, which gauges the cost of shipping commodities including iron ore, coal and grain, on a marginal uptrend.

The local oil and gas industry, on the other hand, continued to be buoyant, with more new contracts being awarded by PETRONAS in 2013. I am happy to report that BHIC, via its subsidiary Boustead Penang Shipyard Sdn Bhd, has obtained a topside fabrication contract worth RM108 million from Murphy Sarawak Oil Co., Ltd. Mobilisation work has commenced in our Lumut shipyard and the structure is expected to be installed offshore by June 2015.

_Chairman's Perspective (cont'd.)



FINANCIAL PERFORMANCE

For the financial year ended 31 December 2013, BHIC Group generated a profit before tax of RM7.4 million and a profit after tax of RM3.2 million on revenue of RM319.1 million. The heavy engineering segment registered a profit as its performance was no longer impacted by costs from the old shipbuilding projects. The second half of the year also saw entities which carried out submarine and helicopter maintenance recording growth in income.

The manufacturing segment's income was mainly derived from work on the Littoral Combat Ship project undertaken by a joint venture company. As for the chartering segment, the chemical tankers recorded higher utilisation and better charter rates. However, gross income was eroded by larger foreign exchange losses attributed to unfavourable exchange rate fluctuations, coupled with impairment costs on the chemical tankers.

After overcoming the setback in 2012, the Group's results have been affected by this non-operational cost in addition to losses from our associates.

Work is being undertaken by Boustead Naval Shipyard Sdn Bhd to improve operational performance and, in tandem with this approach, selected infrastructure at the Lumut shipyard is being upgraded. This is to ensure improved efficiency and effectiveness in ship repair activities as well as readiness for the physical construction of the Littoral Combat Ships.

Taking into account the Group's financial position, the Board has decided not to declare any dividend in respect of the year under review. The Group's gearing level has improved from a year ago and we concur with management's focus to further reduce this ratio in 2014.



ENTRY POINT PROJECT

Subsequent to the launch of the Entry Point Project (EPP) “Developing Sustainable Competitiveness in Shipbuilding and Ship Repair” in May 2012, BHIC has drawn up a structured blueprint for a cohesive development in the Group’s key focus areas of ship design and engineering. There is also equal emphasis in developing and supporting initiatives to enlarge the local maritime support industry.

In the year under review, BHIC proceeded with the designing of its first offshore support vessel. The concept design is now completed and, together with our partners, various tests are being conducted to ensure optimal sea-keeping characteristics of the eventual vessel to be constructed. The detailed design is anticipated to be completed in 2014.

In a related development, the Group’s AVEVA Marine 3D design and engineering application has been integrated with the existing AVEVA MARS planning,

materials and production applications. With the successful integration, the Group is now better equipped and supported by an integrated shipbuilding capability that combines the discipline of design and engineering with planning, logistics, materials and production. Our shipyards will henceforth be better enabled with the information, materials and resources needed to make the right decisions in a timely manner. A telecommunications link was established between the design teams in Lumut, Malaysia and Lorient, France for the LCS project, thereby enabling seamless collaboration between the teams, supported by AVEVA MARINE design databases.

CORPORATE GOVERNANCE

The Group recognises the importance of good corporate governance as it is a main ingredient in the recipe for sustainable growth. As we strive towards this vision, we are guided by our core values of BELONGING, HONOUR, INTEGRITY and COMMITMENT, or BHIC as its acronym, which act as beacons to ensure that we conduct ourselves to the highest ethical standards.

In the year under review, an Integrity Department was established to further instil the appropriate business conduct and behaviour expected of each staff. This includes strict adherence to the relevant regulatory requirements, internal policies and procedures to ensure fair and transparent business practices which will safeguard the continued sustainability of BHIC’s business. This department is committed to the prevention of corruption, fraud, misconduct and any other irregularities, and seeks to further enhance integrity awareness and the prevention of white-collar crime within the organisation. Presently, BHIC has adopted an internal whistle blowing policy that protects the right of the whistle blower and the alleged person by ensuring the confidentiality of the information given. This protection applies to all BHIC staff, stakeholders and members of the public.

_Chairman's Perspective (cont'd.)



In a challenging business environment where there is intense competition, a transformation roadmap has become a necessity for the Group to continually improve and achieve long term success. BHIC has a Transformation Steering Committee which provides leadership, direction and drives transformation. One of the key activities undertaken was the review and implementation of comprehensive Standard Operating Procedures (SOPs) across the Group. The objective was to ensure that processes followed meet the required internal quality standards. The newly formed Transformation & Continuous Improvement Department has been tasked to ensure that these SOPs remain current and comprehensive.

I am glad to note that the Group has a robust risk management and internal control framework to ensure that strategic and operational risks associated with BHIC objectives are continually and proactively evaluated and addressed. Moreover, internal key performance indicators have been rolled out to ensure alignment and focus to corporate objectives.

PROSPECTS IN 2014

The emerging signs of recovery from advanced economies, including the United States and Europe, will have positive spill-over effects for the Malaysian economy, as will the Visit Malaysia Year 2014. However, the value of the Ringgit and the inflation rate will be uncertain due to the reduction in the US Federal Reserve bond-buying and Malaysia's subsidy rationalisation programmes respectively. These are two significant aspects affecting investors and consumers' confidence. With mega projects such as the Mass Rapid Transit and our own Littoral Combat Ship Programme gathering steam, there are various internal and external factors coming into play in 2014. After several rounds of negotiations on the LCS main contract between Boustead Naval Shipyard Sdn Bhd and the Government of Malaysia, the contract price has been set at RM9 billion with an amendment to the letter of award, that was issued and accepted in October 2013. Finalisation of the LCS project contract terms is anticipated to take place in the next several months, and this will provide a firm foundation for the company to complete its preparatory work before commencing physical construction of the ships.

ACKNOWLEDGEMENT

I applaud the management team for the performance of the Group during the financial year under review and have confidence that they will take the same positive approach in the current financial year. I know that this achievement has only been made possible with the cooperation given by the officers from the various Malaysian government entities including the Prime Minister's Office, the Ministries of Finance, Defence and Transportation, the Armed Forces and the Malaysian Maritime Enforcement Agency. My thanks to all of you.

I also acknowledge the support provided by our clients, bankers, suppliers and regulators, who have shared their know-how and experience. My special note of thanks goes to our shareholders who continue to place their trust and confidence in our company, and I would also like to express my gratitude to the members of the Board, for their contribution and counsel.



TAN SRI DATO' SERI LODIN BIN WOK
KAMARUDDIN

•••••

BHIC has a
Transformation
Steering
Committee which
provides
leadership,
direction and
drives
transformation.

•••••

Managing Director's Perspective



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

Executive Deputy Chairman/
Managing Director



DEAR VALUED STAKEHOLDERS,

The diversification of our businesses is not only our legacy, but also our strength. We benefit from synergistic relationships that exist among the many companies within the BHIC Group, as well as with our external business partners.

The Group-wide transformation programmes started several years ago were built on this platform. The initiatives undertaken provide pillars so that we stay true to our core values with a roadmap for the Group to enhance its contribution to our shareholders, employees and the community around us.

FINANCIAL MANAGEMENT

BHIC Group's financial performance has already been elaborated on by our Chairman in the previous pages of this Annual Report. In this section, I will explain several pertinent issues relating to the financial accounting and management of the BHIC Group.

Firstly, for the year ended 31 December 2013, BHIC Group adopted Malaysian Financial Reporting Standards (MFRS) 10 Consolidated Financial Statements and MFRS 11 Joint Arrangements, 2 new standards which are effective from 1 January 2013. After assessing the Group's investment in subsidiaries, joint ventures and associates, the directors have accounted for the results of six entities as joint ventures. This has resulted in a smaller balance sheet for the Group, although retrospective application has enabled readers to see previous years' numbers restated for comparison purposes.

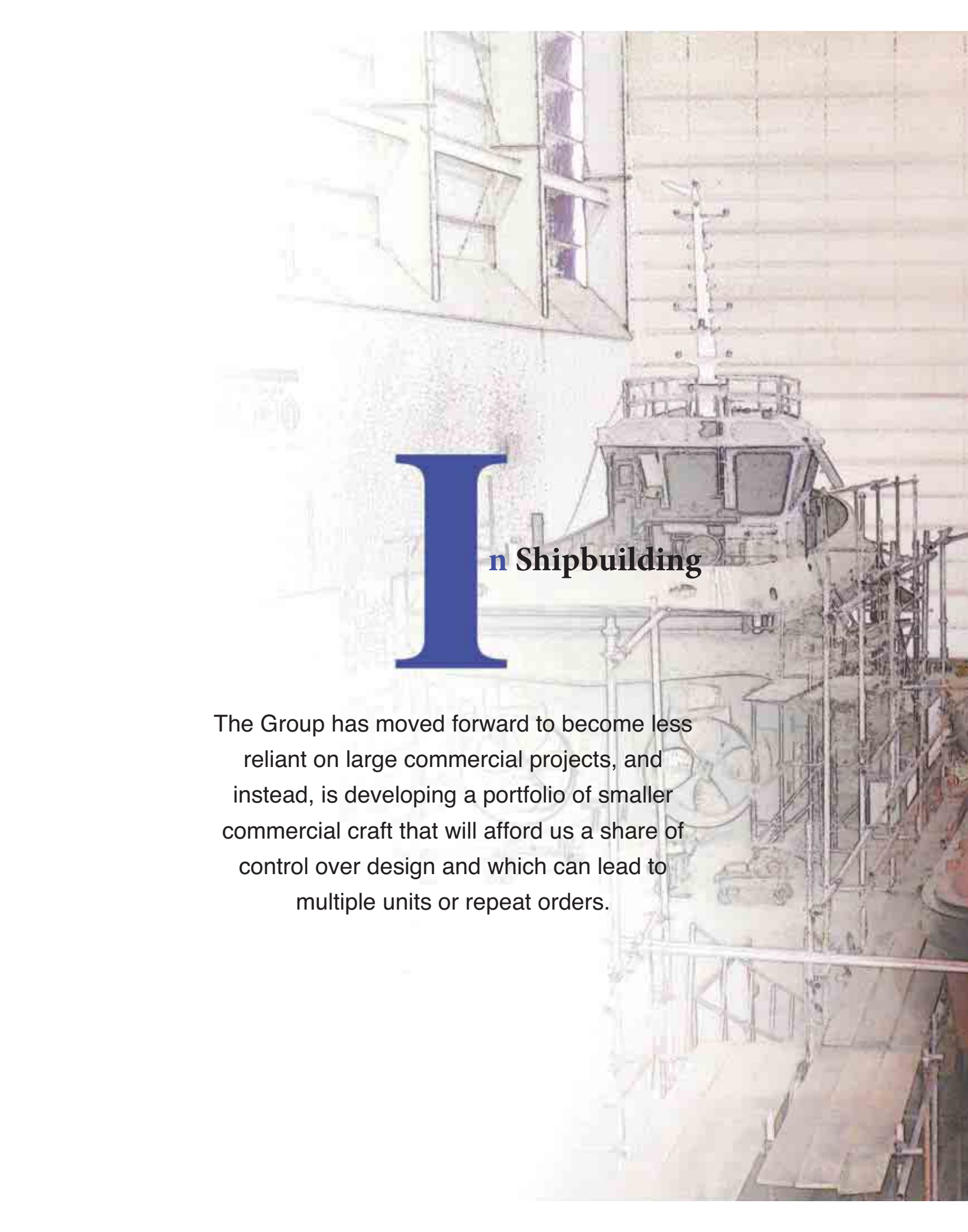
I wish to stress that the commitment shown by the other shareholders of the joint ventures and our joint determination to achieve the intended business objectives of the entities are in no way diminished by these accounting changes.

In another development, the associate Boustead Naval Shipyard Sdn Bhd (BN Shipyard) completed its Littoral Combat Ship (LCS) funding exercise when it signed Phase 2 of the Syndicated Facilities in March 2013. Total facilities obtained by the company are RM4.9 billion, comprising a mixture of instruments designed to fulfil the company's working capital requirements throughout the lifespan of this project. The facilities were lead arranged by Affin Investment Bank Berhad, AmInvestment Bank Berhad and Maybank Investment Bank Berhad and I take this opportunity to extend management's thanks for the professionalism and advice extended to us during the discussions leading to the finalisation of the terms of the facilities.



Later in the year, the much anticipated Goods and Services Tax (GST) was finally announced by the Honourable Prime Minister in his 2014 Budget speech. I am happy to report that the Group has formed a working committee comprising senior staff members from various functional areas to ensure that we are compliant and GST-ready by 1st April 2015. In addition, there is a steering committee of members of the senior management team which will regularly monitor the progress of the working committee against set timelines and objectives.

Finally, I am also pleased to state that BHIC has retained its Shariah-compliant security status. Based on a revised screening methodology, the new list of Shariah-compliant securities was announced by the Securities Commission's Shariah Advisory Council on 29 November 2013.



I n Shipbuilding

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.



SHIPBUILDING

REVIEW OF OPERATIONS

In early 2013, BN Shipyard LCS Programme Management Office (PMO) was set up in Cyberjaya to govern the execution of numerous related activities pertaining to the LCS contract. The PMO consists of BN Shipyard personnel from various disciplines, assisted by experienced staff from our partner shipyard, DCNS S.A. In Lumut, upgrading of infrastructures and facilities is ongoing. In ensuring that the LCS Programme progresses as planned, most of the main equipment procurement process is already completed.

Design work on the LCS continued with a primary focus on the main systems and sub-systems as well as on the general arrangement of the vessel. To this end, nineteen staff went to France to participate in the development of combat systems and platform basic designs. In addition, a further group of ten staff were deployed to undergo platform basic design training.



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A group of ten staff were deployed to undergo platform basic design training.

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_Managing Director's Perspective (cont'd.)

On the commercial front, the Group is currently collaborating with two internationally renowned design houses, Macduff Ship Design Ltd and Mark Ellis Marine Design, to offer innovative and customised solutions to potential clients. BHIC aims to become a specialist producer of innovative craft, including offshore support vessels, workboats, passenger ferries and commercial tugs with modern technology and state of the art specifications.

Our Jerejak yard in Penang is ideal in taking up such work. From the onset of the second Penang bridge project, the capabilities of the Jerejak yard have been progressively shaped to fit into this new business model. This included the implementation of a Mutual Separation Scheme and job description analyses to review the roles and functions of each staff member, in line with the restructured organisation. Project management on-the-job and cross-functional training were conducted for key staff, with the intention of developing project management knowledge across as many functional areas as possible. Boustead Penang Shipyard Sdn Bhd (BP Shipyard) has been accredited with ISO 9001:2008 for its quality management system and presently pursuing the ISO 14001 and OHSAS 18001 to ensure that its health and safety management systems are up to par.

Over the years, the Group has embarked on the construction of many types of vessels. Recently, in May 2013, BN Shipyard handed over the 140-metre Sunborn III, a five-star floating hotel fitted with 189 guest rooms, including 22 royal suites, spanning seven floors. Built for Sunborn Marine of Finland, the project initially awarded to BN Shipyard in 2008 was for the construction of a super-sized yacht hotel's hull. However, the value increased from RM58 million to a total of RM80 million due to the complexities of the work, and resulted in a longer time frame.



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Meanwhile, two 16-metre tugboats built by Boustead Langkawi Shipyard Sdn Bhd (BL Shipyard) were delivered to BN Shipyard in October 2013 after a construction period of just over a year. Costing RM5.75 million each, the vessels have 20-tonne bollard pull capability and an operating range of 300 nautical miles, which enables them to provide harbour support services for the BN Shipyard basin, along with other support duties for the Royal Malaysian Navy (RMN). Following the success of this project, BL Shipyard was awarded with ISO 9001-2008 certification by Lloyd's Register Quality Assurance Ltd in 2013. This is for its capabilities in the construction of marine vessels of up to 50 DWT as well as for maintenance, repair and overhaul (MRO) of marine vessels up to 4,000 DWT.



BL Shipyard was
awarded with
ISO 9001-2008
certification by
Lloyd's Register
Quality Assurance
Ltd in 2013.





In Integrated Logistics Support (ILS)

The Group is developing
world class capabilities to deliver cost effective
support that ensures optimal operational
availability of critical assets.



INTEGRATED LOGISTICS SUPPORT

During the year under review, Boustead DCNS Naval Corporation Sdn Bhd (BDNC) successfully completed the planned maintenance schedules of KD TUNKU ABDUL RAHMAN and KD TUN RAZAK, the RMN's two Scorpene submarines. The company also operates two purpose built tug and push boats to enable it to offer assisted docking services. In addition, custom built facilities provide the infrastructure necessary for the RMN to conduct regular submarine emergency response training to its crew.



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As part of a continuous drive for organisation improvement, both BDNC and BNT have embarked on a process of reorganising and streamlining the production.

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_Managing Director's Perspective (cont'd.)



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The allowance programme is progressing well and is on track to meet its intended target thereby moving BDNC towards significant utilisation of local management expertise.

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One of BDNC's core objectives is the full transfer of submarine know-how from the French to their Malaysian counterparts within the company with the intention of localising expertise. Accordingly, a structured submarine competency allowance programme was launched and, in this scheme, yearly allowances that commensurate with the skills acquired are given to eligible staff. This is progressing well and is on track to meet its intended target thereby moving BDNC towards significant utilisation of local management expertise.



Another company benefitting is BHIC Navaltch Sdn Bhd (BNT), where the majority of its staff are based in Kota Kinabalu due to the requirement of having a dedicated submarine maintenance team to provide in-service support. BNT is also tasked with the maintenance, emergency repair services, and supply of spares and materials of the patrol vessels, frigates and other RMN ships. These are carried out in three locations, namely Lumut, Kota Kinabalu and Kuantan.

As part of a continuous drive for organisation improvement, both BDNC and BNT have embarked on a process of reorganising and streamlining the production and commercial work processes to meet current and future requirements. This practice includes the adoption of numerous on-going improvement efforts to support daily activities as well as utilising management information systems as an enabler.





I **n Maintenance, Repair & Overhaul**

The Group provides a complete range of platform and equipment maintenance, repair and overhaul services. Activities range from ships, submarines and helicopters to combat management systems, defence electronics, electrical equipment and internal combustion engines.



_Managing Director's Perspective (cont'd.)

MAINTENANCE, REPAIR & OVERHAUL

BHIC Allied Defence Technology Sdn Bhd (ADT, formerly known as Atlas Defence Technology Sdn Bhd) is now a wholly-owned subsidiary after BHIC purchased the remaining shares held by Atlas Elektronik GmbH. ADT remains the only company in Malaysia which has received full technology transfer from Atlas Elektronik GmbH for the PV COSYS110-M1 and Navigation 9600 ARPA systems. Based on the expertise in these systems, ADT was selected to be a subcontractor for the KD KEDAH refit programme, where its engineers were involved in the removing and dismantling of the system's components for further repair, setting-to-work, testing, and maintenance and preservation activities.



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ADT remains the only company in Malaysia which has received full technology transfer from Atlas Elektronik GmbH for the PV COSYS110-M1 and Navigation 9600 ARPA systems.

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_Managing Director's Perspective (cont'd.)



Other significant projects undertaken included hydrographic and oceanographic systems work on-board KD PERANTAU and the refurbishing and upgrading of the RMN Corvette Class Hull Mounted Sonar System under the current Service Life Extension Programme (SLEP). ADT is the anchor company for combat systems under the maritime working group of the Malaysian Industry Council for Defence, Enforcement and Security (MIDES). The role of the anchor company is to lead and manage the companies under its group to achieve certain targeted MRO capabilities. In July 2013, ADT was awarded a 5-star rating under SME Corporation Malaysia's SME Competitiveness Rating for Enhancement or SCORE.

As for BHIC Electronics and Technologies Sdn Bhd (BEAT), it provided services to the RMN ships undergoing refit at the Lumut yard. This included MRO of navigation equipment and communication systems onboard KD LAKSAMANA HANG NADIM, KD SRI INDERASAKTI, KD LEKIR and KD LEKIU. Another

ongoing project is the collaboration with the Ministry of Defence for the corrective and preventive maintenance of radio sets and related communications equipment. The company's calibration laboratory is accredited by the Department of Standards Malaysia under ISO/IEC 17025.

BHIC Defence Techservices Sdn Bhd (BDTS) is currently providing complete weapons solution services including repair, overhaul, installation, alignment, functional trials and training on navy and army guns. On 15 March 2013, BDTS won a contract for the maintenance, repair and supply of spare parts for Oerlikon 35mm guns and Skyguard radar for the Malaysian Army. The three year contract is set at a ceiling value of RM15 million. Work has commenced, and during the year under review, the company has completed corrective and preventive maintenance work on two radars at the army workshop in Sungai Besi, Kuala Lumpur.



In 2013, under a business reorientation plan, BDTs decided to include MRO of missiles into its scope of services. Being in the MRO business, it is an imperative for BDTs to have skilled workers, and the company's technicians attended a variety of internal and external training throughout the year. These initiatives culminated in the company achieving an important milestone on 17 November 2013, when it obtained the ISO 9001:2008 from Bureau Veritas for MRO of weapons, including guns and launching systems (missiles, torpedoes and decoys). For BHIC Bofors Asia Sdn Bhd (BHIC Bofors), its priority is to ensure that all maintenance jobs are completed according to plan. For the year under review, a total of thirteen guns completed Depot Level Maintenance. In addition, BHIC Bofors is in negotiations to provide the Bofors 57mm MK1 Gun Life Time Extension Programme. Under its vendor development initiative, the company has visited and evaluated enterprises across Malaysia to be possible future suppliers as well as part of the BAE Systems' global supply chain. Non-disclosure agreements have been signed with various identified potential suppliers and BHIC Bofors is in the process of identifying parts and sub units to be manufactured by the respective entities.

BHIC Bofors is another Group company that has successfully achieved a 5-star rating under the SCORE system. The company was audited in October 2013. No non-compliance was detected and its business and quality management system was found to be fully effective. Subsequently, the company was awarded the ISO 9001:2008 re-certification for another three years.

BHIC MSM Sdn Bhd's MRO activities were mainly concentrated on the provision of major and top overhaul of MTU 538 16V and 12V engine series. Major overhaul was carried out in Lumut, whilst execution of top overhaul was done at the RMN Base Jetty of Tanjung Pengelih, Johor, Tanjung Gelang, Kuantan and Geliga Slipway Yard in Kemaman.

_Managing Director's Perspective (cont'd.)

BHIC AeroServices Sdn Bhd (BHICAS) began its operations in 2011 with the goal of establishing an MRO centre aimed at supporting the government's aircraft maintenance needs. During the year under review, the company received two contracts totalling RM98 million for three year in-service support of six RMN Fennec AS555SN and three Malaysian Maritime Enforcement Agency (MMEA) Dauphin AS365N3 helicopters.

BHICAS has been certified by the Directorate General Technical Airworthiness as an approved maintenance organisation for all Eurocopter helicopters owned by the Government of Malaysia. Starting with only six employees, the company's manpower has grown to thirty, of which seventeen are technicians qualified to work on EC725, Fennec AS555SN and Dauphin AS365N3 helicopters. Its specialist MRO centre, located at the Malaysian Aerospace Centre in Subang, is under construction and targeted to complete by the third quarter of 2014.

BN Shipyard's well-equipped ship repair facility is situated within the high security area of the RMN naval base in Lumut. Manned by a highly skilled workforce of whom 20% are engineers and 25% highly trained ex-servicemen, the company provides extensive depot level capabilities for naval ships. Its facilities include two covered hangars, 450-tonnes and 3,000-tonnes synchrolifts and quayside cranes to facilitate ship repair requirements. In 2013, the company provided refit, in-service support and emergency repairs on both commercial and naval ships.

On 20 November 2013, KD KASTURI was handed over to the RMN after completion of its Service Life Extension Programme (SLEP). Whilst acknowledging this achievement, it is vital that, under the Economic Transformation Programme, high technology industries like BN Shipyard can be further developed by injecting specialised foreign expertise that allows for knowledge and technology sharing in niche areas. For this reason, BN Shipyard signed a service acquisition agreement with MIGHT-METEOR Advanced Manufacturing Sdn





Bhd (MMAM), which will see BN Shipyard acquiring specialist Korean consulting and advisory services in ship MRO. The objective is to further enhance the shipyard's existing service portfolio and, at the same time, optimise its capabilities while completing the SLEP for KD LEKIR.

By collaborating with MMAM, the company is able to acquire best South Korean shipyard practices that will allow for an increase in productivity. Under the service agreement, MMAM through the Korean specialists will provide BN Shipyard with stringent on-site and off-site support in production planning and scheduling.

In the year under review, apart from its construction of two tugboats for BN Shipyard, BL Shipyard remained focused on luxury yacht repairs. Further to this, the company increased its revenue from the expansion of MRO work on government vessels, ferries and other commercial vessels.



I **n Manufacturing & Services**

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



MANUFACTURING & SERVICES

In 2013, Contraves Advanced Devices Sdn Bhd (CAD) continued with its integration and software development work for the LCS combat management system. In tandem, capabilities are being developed to offer combat system engineering training and specialised maritime training services. CAD's wholly-owned subsidiary located in Cyberjaya, Contraves Electrodynamics Sdn Bhd (CESB), is undertaking the project. CESB has obtained the coveted MSC Malaysia status which allows it to enjoy specific tax incentives and other benefits.



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Contraves Advanced Devices has enlarged its supply chain - which now includes a range of small to medium enterprises from Penang to Johor.

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_Managing Director's Perspective (cont'd.)



In Melaka, the focus is to grow its electronics manufacturing unit through penetration in the aerospace, defence and advanced industrial applications' market share. At the 2011 edition of the Langkawi International Maritime and Aerospace Exhibition, CAD and Rheinmetall Defence Electronics GmbH entered into an agreement to manufacture and supply Cargo Loading System Assemblies for Airbus A400M, A380 and A330 aircraft. With this in mind, the company has enlarged its supply chain - which now includes a range of small to medium enterprises from Penang to Johor - through a structured vendor development programme to bring these organisations to the appropriate aerospace standards. After being satisfied with CAD's capabilities, Cassidian Airborne Solutions GmbH awarded the company a contract to manufacture and supply Airbus A400M mission systems, spares and logistics. With an initial order of 140 shipsets placed in December 2013, the contract will enlarge CAD's revenue stream and provide a satisfactory return on its investments.

BYO Marine Sdn Bhd (BYOM) spent the year under review providing warranty work on the ten fast interceptor craft it built for MMEA. At the same time, aggressive marketing activities have been carried out to promote BYOM products. The company is also working with related government agencies to penetrate the regional market especially in Cambodia, Myanmar and Brunei.

Pyrotechnical Ordnance Malaysia Sdn Bhd (POM) is a company set up to build and operate a propellant plant in Bentong, Pahang. In 2013, it completed all the preparatory work for the plant commissioning, including obtaining import licenses and approval from various government agencies. The plant commissioning activities commenced in June.

SERVICES

MT CHULAN 1, the Group's first chemical tanker, successfully completed its first year time charter with Asahi Tankers Co Ltd in November 2012. It secured an extension to its services until 31 October 2013 and subsequently obtained a spot charter with Vitol Asia Pte Ltd (Vitol) at a higher charter rate. Meanwhile, MT CHULAN 2 and CHULAN 3 fared well with both vessels obtaining extensions to their Contracts of Affreightment with Vitol.

Dominion Defence & Industries Sdn Bhd continued to operate using its existing business model of supplying marine, defence and general products to the BHIC Group, as well as government defence agencies.

BN Shipyard's Marine Technology Academy (MTA) has been conducting various training courses for BHIC Group staff and RMN officers for several years now. It has implemented courses related to the field of maritime defence, including mechanical engineering, and electronic and electrical systems. Through a smart partnership programme with Universiti Teknologi Malaysia, MTA is conducting project management courses, Executive Diploma in Naval Engineering and Technical Application courses to officers of the Royal Navy of Oman (RNO).

Plans have been put in place for future trainings to be conducted solely by BHIC Marine Technology Academy Sdn Bhd (BHIC MTA). BN Shipyard will focus on its core competencies of providing ship building and MRO services. At the same time, resources are being allocated to develop BHIC MTA into a dedicated training centre which provides its students an avenue to increase their proficiency in skills related to ship building and MRO work.



GROUP WIDE TRANSFORMATION INITIATIVES

Human Capital

Key to the Group's future growth and sustainability is the ability to attract, retain and motivate competent people. In a pledge to echo this commitment, BHIC has completed a comprehensive review of its remuneration system. A remuneration and benchmarking exercise was conducted in order to ensure the Group's pay and benefits are in accordance with our business strategy, aimed at reducing complexity, and increasing transparency across the Group.

As part of BHIC's pledge to continuously focus on sustainability, BHIC has introduced a structured Talent Management Programme (TMP) to ensure that the Group has the right talent in the right place to meet its current and future business challenges. TMP focuses on both leadership and critical talents across all operating entities. It will help to close the gap in skills and competencies as the structured programme starts by identifying the roles that are most critical to success, and then create a clear path of experience that employees require. This is a business-driven approach as it looks first at the respective company's future needs, and subsequently generates a plan to develop the talent.

Health, Safety and Environment

BHIC Health, Safety and Environment (HSE) Policy was formalised in July 2013. Its purpose is to communicate to all staff management's commitment to protect the health and safety of employees and those under the care of BHIC, plus to conduct BHIC's activities in an environmentally responsible manner. The policy was distributed to all departments, divisions and business unit during the BHIC HSE Week 2013 held in October 2013.

To firmly embed safety as a culture, HSE Committees at both the main office and Group level were formed during the year under review. The committees are established to foster cooperation between management and staff in identifying, evaluating and controlling hazards in the workplace, in addition to promoting the sharing of knowledge among the business units. Training for members was conducted in November 2013, and more activities that promote good HSE practices are planned for 2014.



_Managing Director's Perspective (cont'd.)

**Information Technology**

In 2013, the Group's Wide Area Network was expanded to our offices in Pulau Jerejak and Kota Kinabalu, enabling these offices connectivity and access to the Group's common systems and flagship applications.

The Materials Resource & Planning System (AVEVA MARS) was enhanced to seamlessly integrate with SAP Finance & Human Resources applications for BP Shipyard and further automated for BN Shipyard, thereby ensuring better data integrity. A Regional Cash Management System (RCMS) was commissioned to extend the reach for the Group's back-office capabilities by enabling direct electronic payments to suppliers and entities that transact with the Group.

Meanwhile, the BHIC intranet portal, which went live in January 2013, has seen increases in usage over the months. This is in line with its intended purpose of improving internal communication and enhancing a sense of belonging among employees. The next stage of this project is to utilise the intranet as an enabler to automate certain processes. Group Corporate Communications, Group Human Capital Management and Group Information System Department are working together to achieve this.

As part of the Group's Information and Communication Technology Recovery Plan, which will be implemented in phases, the development of a cross-site data backup capability is in progress. The objective is to enable the replicating of electronic data across strategically located data centres to enable recovery of all critical business data during any unplanned prolonged outages. In addition, a BHIC Technology Depository Centre for the deposit of all project related documents is being commissioned.

MOVING FORWARD

The Group will continue to strengthen and diversify its technical capabilities, improve operational efficiency and grow its business profitably and sustainably.

For the naval shipbuilding sector, in the coming years, activity and earnings will be underpinned by greater progress in the LCS project. In 2014, its project team members will be busy with the production of detailed drawings and finalising the list of original equipment manufacturers and suppliers.

In January 2014, BL Shipyard achieved an important milestone by obtaining a USD3.0 million contract for the design and construction of a 17-metre 28-tonne bollard pull harbour tug. The twelve month project is for North Tugz Ltd of New Zealand and will entail design collaboration with Macduff Ship Design Ltd. This is testament that the investment being put in place for the 'rebirth' of the Group's commercial shipbuilding activity is showing results. Furthermore, BHIC's in-house design team is gradually working towards attaining an elevated design skill set, assisted by our current partnership with established design houses.

Our persistence in tendering for oil and gas projects has paid off with the award of a topside fabrication contract worth RM108 million. In the near future, BHIC intends to acquire a dedicated yard to expand its capacity and scope of services to its potential clients.

I am pleased to report that we have also seen increased collaboration with our sister companies under the Boustead Group. For example, BHICAS is working closely with project managers from Boustead

Properties Berhad to construct the helicopter hangar for the MRO Centre in Subang whereas BEAT is part of the Boustead consortium established to propose surveillance system upgrading along the Malaysia - Thailand Border. In addition, BEAT is expected to benefit from various BDTS contracts via providing the expertise to service electronic components, including printed circuit boards.

Several joint ventures have capitalised on the relationships built with their other shareholders. In October 2013, ADT successfully renewed the International Representative Agreement with SAM Electronics GmbH for two years. The agreement appoints ADT as a representative for SAM Electronics GmbH's products and systems in Malaysia. Meanwhile, ADT is preparing to execute a Service Partner Agreement with Atlas Hydrographic GmbH as its authorised service provider.

BHIC MSM has also put in motion a structured learning and development programme for its staff at the MTU Service Centre Malaysia. This initiative will be in line with the intended goal for the company's workshop and to become an authorised service centre dedicated to maintain MTU 538 Engine series.

Other companies such as BHIC Bofors and BYO Marine offer unique products which have potential for growth due in part to the commitment shown so far by our strategic partners. For BNT and BDNC, submarine maintenance is seen as the main contributor of future income, and both will work together to ensure top-quality service and facilities for the RMN crew.

CAD's Melaka electronics plant will concentrate in meeting its obligations under the various electronics manufacturing contracts, whilst CESB's focus will be in executing the LCS combat management system contracts.

As for POM, 2014 will be a busy year as the company plans to complete its commissioning activities and perform various ballistic tests and test firing for both the rocket and artillery propellants, develop the firing table for Modular Charges and collaborate with potential ammunition suppliers.

BHIC MTA's plans include implementing programmes under the National Dual Training System where it focuses on areas related to the shipbuilding and ship repair industry. The company intends to enhance the specialised equipment training currently carried out for the RMN and the RNO, which has renewed its training contract for a further year. BHIC MTA will also work towards assisting Perbadanan Hal Ehwal Bekas Angkatan Tentera (PERHEBAT) in guiding retiring armed forces personnel to acquire new skills or improve existing skills for possible use in any new employment.

APPRECIATION

I would like to convey my utmost gratitude to all our stakeholders – our shareholders for their conviction in our ability to steer the Group forward, our strategic partners for their commitment towards mutual growth, and the authorities for their expert views and direction. I would also like to express my thanks to my fellow Board members, who have provided me with invaluable advice.

Finally, credit goes to our staff for their dedication to the Group. I have witnessed an increasingly high performance work culture in place, and thus I firmly believe that we can achieve better results in the coming years.



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

CORPORATE SOCIAL RESPONSIBILITY



As a socially responsible corporation, BHIC recognises its responsibility to maximise shareholder value while contributing positively to nation-building. We remain steadfast in advancing the competitiveness of our vendors, undertaking initiatives that enrich the lives of communities in which we operate as well as continuing to invest in our human capital. At the end of the day, we believe that embracing corporate social responsibility (CSR) in a holistic manner positively benefits BHIC and its key stakeholders.

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

For Malaysia's shipbuilding and ship repair industry to become a global powerhouse as envisioned in the Malaysia Shipbuilding/Ship Repairing Strategic Plan 2020, it is crucial that the industry's eco-system has the necessary skills-set and assets to support long-term growth in a robust and sustainable manner.

At BHIC, enhancing the capabilities and expertise of our vendors is an integral part of our business operations. Our Vendor Development Programme comes under the purview of a dedicated Vendor Management unit, based at BN Shipyard, and tasked to focus on all aspects of vendor development.

As part of the overall strategy, we collaborate with other Government agencies, Government Linked Companies (GLCs) as well as relevant Ministries like the Ministry of International Trade and Industry (MITI) in the area of vendor development.

In 2013, BHIC added four new vendors to bring the number of approved vendors to thirteen and, under a collaboration relationship with Kulim Hi Tech Park, we assisted five vendors in obtaining ISO certification. During the year, BHIC secured a RM50,000 Government training grant from MITI. This grant enabled Vendor

Management to conduct an extensive course on project management for selected vendors. The grant will also be used for an ISO Awareness training initiative due to take place in the current financial year.

Also during 2013, BN Shipyard hosted the fourth VDP Circle, which is a forum for GLCs to share their vendor development experiences, with the objective of identifying and implementing strategies and best practices that can effectively contribute to the advancement of vendors. At the beginning of the year, we launched an online facility which enables e-registration and e-assessment of vendors.

In July 2013, we participated in GLC ExplorAce 2013. The exhibition was jointly organised by MITI and TM and featured leading GLCs in Malaysia. It provided our vendors with the opportunity to network with industry peers and garner exposure for their brands and product offerings.

Other initiatives undertaken during the year included various training exercises and developmental seminars for vendors. We were also a part of the GLC team which made representations to MITI for tax and other incentives for GLC approved vendors.

_Corporate Social Responsibility (cont'd.)**CONTRIBUTING TO THE COMMUNITY**

Reflecting our commitment towards enriching the lives of communities in which we operate, the BHIC Group made contributions in cash and in kind to a broad range of social causes throughout 2013. Recipients of these contributions include charitable organisations for the underprivileged, needy schools and education institutions, community and sports programmes as well as associations that assist armed forces veterans and their families.

In a bid to cultivate stronger safety awareness at sea, BHIC also played a role in a 2013 maritime community service campaign in support of the Malaysian Maritime Enforcement Agency (MMEA), with the contribution of 250 lifejackets. The MMEA-led safety campaign was designed to establish a 'safety first' mind-set amongst fishermen, ferry and boat users as well as other stakeholders of the maritime community.

ENHANCING EMPLOYEE RELATIONS

Investing in human capital and maintaining healthy employee relations in an organisation are pre-requisites for achieving sustainable growth.

In 2013, several training programmes focusing on soft skills, non-technical and technical competencies were conducted throughout BHIC Group. Among the programmes were Contract Management, Project Management, Business Acumen, Integrity Briefing, Corporate Governance as well as ISO-related training.

Training programmes for the Senior Management team were also organised to enhance their strategic leadership skills to better meet the needs of today's highly competitive business environment.

In addition to training programmes, a boot camp was held in Cheringin Hills Convention & Spa Resort at Janda Baik, Pahang, for participants from the BHIC Group. The physically and mentally challenging activities placed emphasis on identifying and removing barriers that impede personal and professional development, while helping the participants find ways to be a part of the solution rather than the problem.

To ensure we have the machinery to facilitate effective internal communication, we are investing in the development of a corporate intranet. When completed, this useful tool will allow for broad access to a variety of data and administration modules by staff across the BHIC Group.

Cumulatively, the activities were successful in boosting employees' morale and motivation, while nurturing their sense of belonging, to further strengthening the BHIC Group corporate culture.

HUMAN CAPITAL DEVELOPMENT

During the year, human capital development was given prominence in an effort to create a dynamic working environment.

To enhance the human capital for the shipbuilding industry, BHIC Marine Technology Academy (MTA) primarily focused on the upgrading of shipbuilding and ship repair skill sets with practical skill training as outlined under the Ministry of Human Resources programme Sijil Kemahiran Malaysia using the Sistem Latihan Dual Nasional scheme. BHIC MTA also assisted the Perbadanan Hal Ehwal Bekas Angkatan Tentera (Veteran Section of the Malaysian Armed Forces) in re-training retiring armed forces personnel to equip them with new skills for the marketplace.



In addition, BHIC completed its second Young Engineers Scheme (YES) programme in collaboration with MIGHT-METEOR Advanced Manufacturing Sdn Bhd. A total of 31 young engineers successfully completed this programme and are now employed within the BHIC Group. These graduates were equipped with adequate industry-driven knowledge and skills to enable them to join the workforce with the necessary competence.

SUSTAINABILITY IN THE MARKETPLACE

Recognising the importance of positive engagement, the Group continued its efforts to cultivate a transparent and open relationship with its multiple stakeholders.

The Annual Productivity Conference and Exposition, which was organised by Malaysia Productivity Corporation (MPC), saw the participation of BN Shipyard which sent two groups of Team Excellence to compete in MPC's programmes, namely National ICC Convention (NICC) and Quality Environment Convention (QE). The BN Shipyard teams were each awarded 3 stars, the highest rating.

In September 2013, BL Shipyard participated in the Langkawi Open Fire Fighting Competition which aimed to promote fire and safety awareness as well as to enhance fire-fighting knowledge and skills in the community. BL Shipyard, represented by 13 staff, was divided into two teams, with the first team bagging the overall champion prize followed by the second team as first runner up.

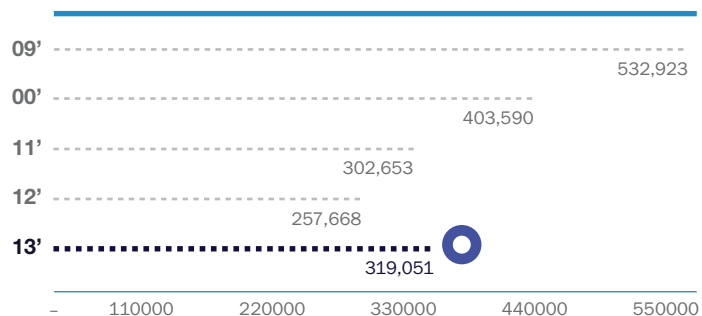
BHIC has an on-going programme to enhance business efficiency. Some of the initiatives undertaken have a positive impact on the environment, including exercises to reduce energy consumption and the conversion of waste materials to productive purposes which were conducted at our shipyards. At Boustead Penang Shipyard Sdn Bhd, a yard transformation agenda led to the award of a 5S Quality Environment certification by the MPC.

_Five Year Financial Highlights

	2013	Restated 2012	Restated 2011	Restated 2010	Restated 2009
RM'000					
Revenue	319,051	257,668	302,653	403,590	532,923
Profit/(Loss) before taxation	7,395	(141,133)	6,230	78,443	94,132
Profit/(Loss) after taxation	3,161	(138,982)	22,236	69,740	76,208
Profit/(Loss) attributable to shareholders	3,161	(139,132)	21,146	69,805	76,280
Shareholders' equity	282,707	281,259	435,419	430,304	375,231
Total equity	282,743	284,582	441,591	435,304	380,447
Total assets	733,176	875,259	958,701	682,717	565,184
<hr/>					
SEN PER SHARE					
Earnings/(Loss) per share	1.27	(56.00)	8.51	28.10	30.70
Net dividend per share	–	6.00	6.50	6.00	–
Net assets per share	1.14	1.13	1.75	1.73	1.51

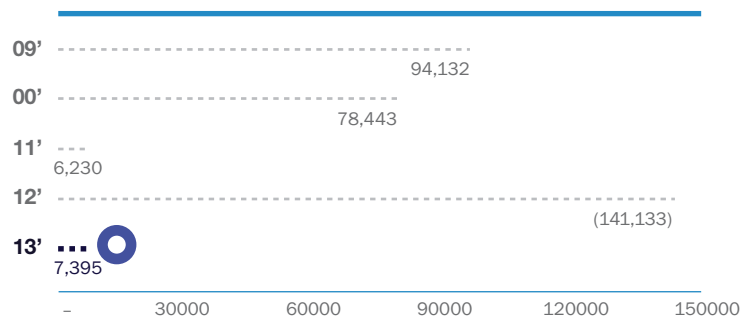
Revenue

(RM Million)



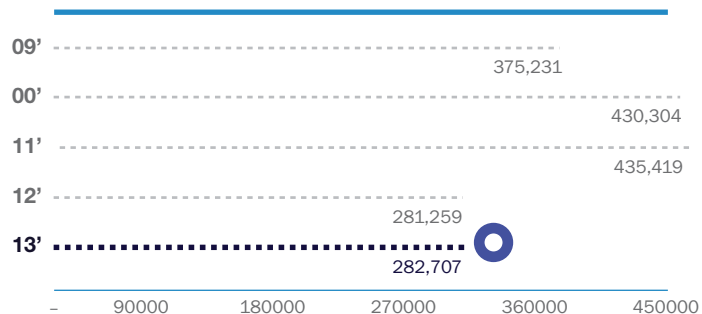
Profit/(Loss) Before Taxation

(RM Million)



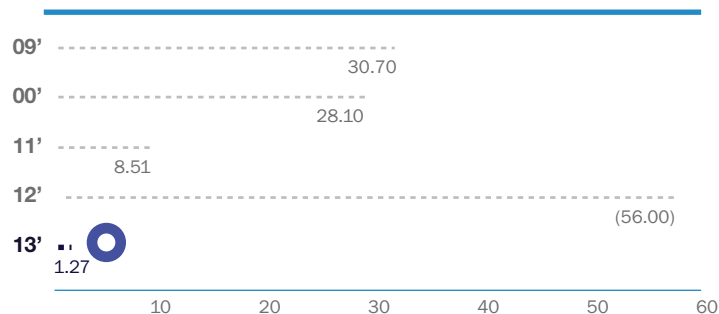
Shareholders' Equity

(RM Million)



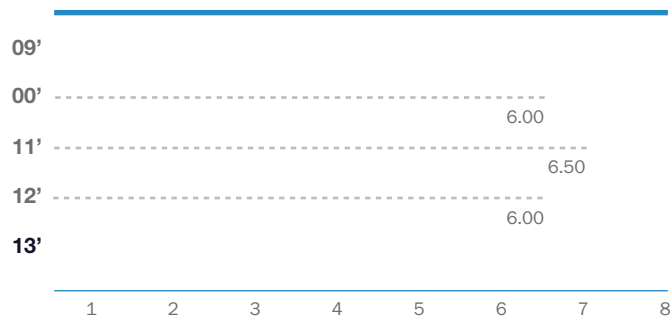
Earnings Per Share

(Sen)



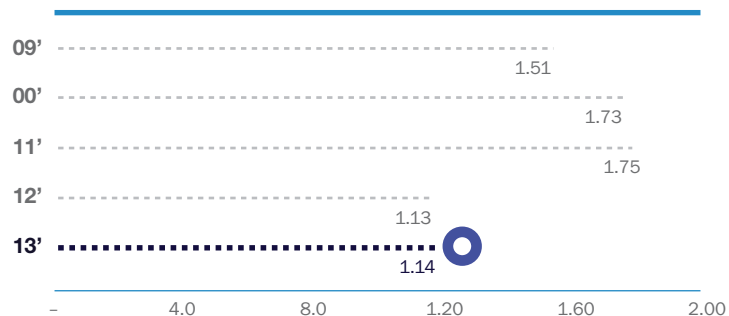
Net Dividend Per Share

(Sen)



Net Assets Per Share

(Sen)



_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**

Lilyrohayu Binti Ab. Hamid @
Kassim
Suzana Binti Sanudin

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

REGISTERED OFFICE

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

**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

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 2013

ANNUAL REPORT

Issued
12 March 2014

RESULTS

First quarter

Announced
14 May 2013

Second quarter

Announced
6 August 2013

Third quarter

Announced
14 November 2013

Fourth quarter

Announced
20 February 2014

Annual General Meeting

To be held
3 April 2014

_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

64 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 to 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 Boustead Plantations Berhad, 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.

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

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**Executive Deputy Chairman /
Managing Director**

70 years of age, Malaysian



_Profile of Directors (cont'd.)

**Y. Bhg. Datuk Azzat Bin
Kamaludin**

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**Non-Independent
Non-Executive Director**
69 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.

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.



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 a member of the Board of Governors of the Malaysian Institute of Corporate Governance and a Director of the Malaysian Investor Relations Association.

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.

Mr. David William Berry

Non-Independent Executive Director

66 years of age, New Zealander
and Permanent Resident of
Malaysia



_Profile of Directors (cont'd.)

Y. Bhg. Dato' Ishak Bin Osman
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**Independent
Non-Executive Director**
66 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 Malik was appointed to the Board as an Independent Non-Executive Director of Boustead Heavy Industries Corporation Berhad on 1st 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.



Abd Malik Bin A Rahman

.....

Independent

Non-Executive Director

65 years of age, Malaysian



_Senior Management Team



1. **Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)**
Managing Director
2. **David William Berry**
Executive Director
3. **Datuk Ir. Yahya Bin Hashim**
Director, Operations Boustead Naval Shipyard Sdn Bhd
4. **Anuar Bin Murad**
Director, Defence & Security Division
5. **Ahmad Nordin Bin Mohammad**
Chief Financial Officer



- 6. Faisal Bin Ismail**
Director, Corporate & Strategic Planning and Transformation Programme
- 7. Dato' Pahlawan Ir. Hj Jasan Ahpandi Bin Sulaiman**
Head, Commercial Division
- 8. Ir. Ng Hock Seng**
Head, Oil & Gas Division
- 9. Ir. Ee Teck Chee**
Advisor, Technical & Risk

- 10. Siti Naim Binti Jamaluddin**
Head, Group Legal
- 11. Khalid Bin Mohd**
Head, Group Supply Chain Management
- 12. Mohd Hanif Tan Bin Abdullah**
Head, Group Human Capital Management
- 13. Omar Zambri Bin Mahmud**
Head, Group Information System

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)

MEMBERS AND MEETING

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 2013. Details of the attendance of each member of the Audit Committee 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	3/4
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 for 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 to 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);
 - c. To review with the external auditors, the audit plan, the scope of audit and the audit report, the audit fees, its independence 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

_Audit Committee Report (cont'd.)

- 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 required 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, 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 2013 were as follows:

1. Reviewed the quarterly financial statements of the Group before approval by the Board for announcements to the 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 were held with the External Auditors 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 it deemed necessary and reported to the Board on the findings of its studies, making appropriate recommendations.
8. Reviewed 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.
10. Reviewed the Budgeted Project Costs of significant projects carried out by the Group and reported to the Board.

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 Group Internal Audit function operates and performs in accordance with the principles of the Internal Audit Charter that provides for its independence function. The Group internal audit function reports directly to the Audit Committee, and is independent of the activities it audits.

As such, 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 has undertaken the following activities:

- Prepared the annual audit 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 Group internal audit function.
- Reviewed the procedures relating to related party transactions.
- Undertaken other investigations when necessary or requested and issued reports as appropriate.

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 2013.

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 50 to 53 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 60 to 65 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 (cont'd.)

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 2013 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	4/5
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.

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 shareholders 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 a 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.

_Statement on Corporate Governance (cont'd.)**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. All the Directors after assessing their own training needs, have attended the following training programmes, seminars and/or conferences:-

Name of Director	List of training programmes/seminars/conferences/attendance
Y.Bhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	<ul style="list-style-type: none"> • FIDE Government in Group Program organised by ICLIF - 5 April 2013 • Corporate Governance Symposium 2013 "Corporate Governance in Vogue" organised by MeLearn Global - 9 & 10 April 2013 • Investors Conference "Standing At The Crossroads – Where To From Here" organised by AFFIN Investment Bank Berhad - 18 April 2013 • Briefing on Financial Services Act 2012 and Islamic Financial Services Act 2012 organised by AFFIN Holdings Berhad - 14 May 2013 • Advocacy Sessions on Corporate Disclosure for Directors organised by Bursa Malaysia - 20 June 2013 • Conference on Politics and Business – The Malaysian Connection organised by AFFIN Investment Bank Berhad - 2 July 2013 • 17th Malaysian Banking Summit 2013 organised by Asian Strategy & Leadership Institute (ASLI) - 23 July 2013 • 60-minutes with Mr. Pradeep Pant, Executive Vice President and President Asia Pacific, Mondelez International, Singapore organised by ICLIF - 3 September 2013 • Breakfast at The Kuala Lumpur Golf & Country Club with Board Chairman organised by Bursa Malaysia - 11 September 2013 • Half Day Talk on: <ul style="list-style-type: none"> a) Financial Services Act 2013- Key Implications; b) Basel III and Its Impact on Capital and Liquidity; c) New Audit Opinion; and d) Accounting & Other Regulatory Updates organised by AFFIN Holdings Berhad - 12 November 2013 • Board Chairman Series: The Role of The Board Chairman organised by ICLIF in collaboration with Bursa Malaysia - 14 November 2013
Y.Bhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)	<ul style="list-style-type: none"> • Corporate Governance Symposium 2013 "Corporate Governance in Vogue" organised by MeLearn Global - 9 & 10 April 2013 • The new Financial Services Act 2013 and Islamic Financial Services Act 2013 - 14 May 2013 • The 17th Malaysian Banking Summit 2013 – Future Banking: Driving Growth, Prosperity and Transformation - 23 & 24 July 2013 • Board IT Governance and Risk Management - 18 & 19 September 2013

Name of Director	List of training programmes/seminars/conferences/attendance
Y.Bhg. Datuk Azzat Bin Kamaludin	<ul style="list-style-type: none"> • International Corporate Governance Seminar organised by Securities Commission - 6 June 2013 • Forum on Future of Corporate Reporting organised by Bursa Malaysia and ACCA - 12 June 2013 • Special Presentation on ASEAN Corporate Governance Scored 2013 by MSWG - 19 June 2013 • Natural Economic Development & Challenges – 1 July 2013 • What the Board Needs & Ask about IT– Minda Breakfast Talk - 8 July 2013
Mr. David William Berry	<ul style="list-style-type: none"> • Perdana Leadership Foundation - CEO Forum 2013 - 18 June 2013 • Conference on Politics and Business – The Malaysian Connection – 2 July 2013 • Corporate Fraud Control Conference 2013 organised by MICG – 3 July 2013 • Board Agenda Series: Boards & Strategy – Where are we? Organised by PricewaterhouseCoopers - 27 August 2013 • Inaugural Asean Corporate Governance Summit 2013 organised by ASLI – 7 November 2013
Y.Bhg. Dato' Ishak Bin Osman	<ul style="list-style-type: none"> • Board Agenda Series: Boards & Strategy – Where are we? Organised by PricewaterhouseCoopers - 27 August 2013
Encik Abd Malik Bin A Rahman	<ul style="list-style-type: none"> • Audit Committee Conference 2013 – Powering for Effectiveness organised by MIA - 12 March 2013 • The Nomination/Remuneration Committee Program organised by FIDE/ICLIF - 1 & 2 April 2013 • Banking Fundamentals organised by FIDE/ICLIF - 9 & 10 April 2013 • Briefing on Financial Services Act 2012 and Islamic Financial Services Act 2012 organised by AFFIN Holdings Berhad/Abdullah Chan - 14 May 2013 • Forum on Future of Corporate Reporting organised by Bursa Malaysia/ACCA - 12 June 2013 • Board Agenda Series: Boards & Strategy – Where are we? Organised by PricewaterhouseCoopers - 27 August 2013 • Breakfast at The Kuala Lumpur Golf & Country Club with Board Chairman organised by Bursa Malaysia - 11 September 2013 • Half Day Talk on: <ol style="list-style-type: none"> a) Financial Services Act 2013- Key Implications; b) Basel III and Its Impact On Capital And Liquidity; c) New Audit Opinion; and d) Accounting & Other Regulatory Updates organised by AFFIN Holdings Berhad - 12 November 2013

Statement on Corporate Governance (cont'd.)

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 68 to 71 of this Annual Report.

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. Arising from its recent annual review the Nominating Committee is satisfied that 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 2013, 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	1,332,467	–	1,332,467
Employees Provident Fund Contribution	80,438	–	80,438
Allowance	26,000	41,000	67,000
Total	1,618,905	221,000	1,839,905

Directors' Remuneration

Range	Executive Directors (RM)	Non-Executive Directors (RM)	Total (RM)
RM51,001 – RM100,000	1	3	4
RM300,001 – RM350,000	1	–	1
RM1,200,001 – RM1,250,000	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.

_Statement on Corporate Governance (cont'd.)

INVESTOR AND SHAREHOLDER RELATIONS

The Group recognises the importance of timely and thorough dissemination of information to shareholders. In this regard, the Group has established a Corporate Communications Policy and 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 in 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 developments in 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.

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 68 to 71 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 Risk Management and 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 Risk Management and 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 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 systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. The Board does not regularly review internal control systems of joint ventures, as the Board does not have direct control over their operations. Notwithstanding the above, the Group’s interests are served through representation on the boards of the respective companies and the receipt and review of management accounts and enquiries thereon. Such representation also provides the Board with information for timely decision making on the continuity of the Group’s investments based on the performance of the joint ventures. The representatives report to the Board in the event that the joint ventures do not appropriately manage significant risks.

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 continuously 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 on key risks, existing control measures and any proposed action plans; and
4. Create a risk-aware culture and building the necessary knowledge for risk management at every level of management and staff.

In line with achievement of the above objectives, the Risk Assessment Procedure has been enhanced to provide a structured risk assessment process to risk owners and risk managers of BHIC Group. 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 them to establish mitigation plan.

The Risk Management Department has also 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 web based reporting is efficient.

_Statement on Risk Management and Internal Control (cont'd.)

The Department reports at BHIC Group Core Management Committee and provides a quarterly report to the Audit Committee to highlight key risk areas for their deliberation and decision.

Engagement sessions were carried out by members of the Risk Management 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.

Moving forward, the Risk Management Department has several initiatives to further enhance the Group's approach to risk management. The Group will continue to develop and improve on 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 that the Group faces.

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 of 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 internal audit reports and following up on its findings;
5. Meeting defined reporting deadlines and ensuring compliance with policies, procedures and regulatory requirements;
6. Submission of management reports, on a monthly basis, to the Managing Director;
7. Submission of annual operating plans, on a yearly basis, to be approved at the operating and Board level; and
8. The award of major contracts via a Tender Board which ensures transparency and integrity of the procurement process and the award of contracts.

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. Executive Directors and senior management also conduct regular ‘town-hall’ meetings and site visits to communicate with employees of all levels. This is to obtain first-hand knowledge of significant operational issues and management of associated risks as well as the effectiveness of current controls.

During the year, the Group has taken a group-wide initiative to update and streamline the Standard Operating Procedures for all companies within the Group. This effort, driven by the Transformation & Continuous Improvement Department, is to ensure clear and uniform policies and procedures are adopted throughout the Group.

In 2012, BHIC signed the Corporate Integrity Pledge, an initiative of the Malaysian Anti-Corruption Commission to promote a corruption-free business environment. This was followed by the setting up of an Integrity Department in July 2013. The department seeks to further enhance integrity awareness and the prevention of white-collar crime within the Group.

In addition, all employees are required to abide by a code of ethics which defines the ethical standards and professional conduct expected at work. The Group has a Policy Manual and Limits of Authority to provide a framework of authority and accountability within the organisation.

Learning and development programmes are established to ensure all staff are kept up to date with the necessary competencies to carry out their responsibilities towards achieving the Group’s objectives.

Organisational Structure

The Board has in place 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 centralised support functions comprising secretarial, administration, legal, human resources, supply chain management, vendor management, finance, corporate & strategic planning, transformation & continuous improvement, health, safety & environment, corporate communications, risk management and information systems. 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 and speedy resolution.

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 and Chief Financial Officer on the effectiveness of the risk management and internal control system of the Group.
- 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.

_Statement on Risk Management and Internal Control (cont'd.)

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 Group, including its associates, has incurred approximately RM430,000 for internal audit activities in respect of the financial year ended 31 December 2013.

CONCLUSION

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. All internal control weaknesses identified during the period under review have been or are being addressed. There were no major internal control weaknesses that require disclosure in this Annual Report.

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.

This statement is made in accordance with a resolution of the Board of Directors dated 20 February 2014.

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 2013.

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 2013 and the unaudited results previously released for the financial quarter ended 31 December 2013.

PROFIT GUARANTEE

The Company did not make any arrangement during the financial year which requires a 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 4 April 2013, 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 (cont'd.)

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 2013 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	Provision of shipbuilding, ship repair works and provision of related services by Boustead Penang Shipyard Sdn. Bhd.	116,673
	Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor	Provision of ship repair works and related services by BHIC Defence Techservices Sdn. Bhd.	916
	Datuk Azzat Bin Kamaludin	Provision of ship repair works and related services by BHIC Allied Defence Technology Sdn. Bhd. <i>(formerly known as Atlas Defence Technology Sdn. Bhd.)</i>	689
	Boustead Holdings Berhad	Sale of equipment and machinery for ship related activities by Dominion Defence and Industries Sdn. Bhd.	491
	Lembaga Tabung Angkatan Tentera	Provision of ship repair works and related services by BHIC Bofors Asia Sdn. Bhd.	1,073
		Provision of ship repair works and related services by BHIC Navaltech Sdn. Bhd.	21,453
		Provision of ship repair works and related services by BHIC Electronics and Technologies Sdn. Bhd.	3,117
		Provision of shipbuilding, ship repair works and provision of related services to Boustead Penang Shipyard Sdn. Bhd.	(4,500)

Related Party	Interested Director/ Interested Major Shareholder	Nature of Transaction	Value of Transaction RM'000
		Provision of ship repair works and provision of related services from Contraves Advanced Devices Sdn. Bhd.	2,454
		Provision of subcontracting work on engineering of SETIS combat management system and integration of combat system equipment by Contraves Advanced Devices Sdn. Bhd.	239,071
Boustead Langkawi Shipyard Sdn Bhd	Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor Datuk Azzat Bin Kamaludin Boustead Holdings Berhad Lembaga Tabung Angkatan Tentera	Provision of services for construction of vessels to BYO Marine Sdn. Bhd. Provision of ship building, ship repair works and provision of related services to Boustead Penang Shipyard Sdn. Bhd.	(107) (57)

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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 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are described in Note 14 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 financial year.

RESULTS

	Group RM'000	Company RM'000
Profit/(loss) for the year	3,161	(28,301)

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

No dividend has been paid or declared by the Company since the end of the previous financial years.

The directors do not recommend any payment of dividend in respect of the current financial year ended 31 December 2013.

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

_Director's Report (cont'd.)**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 32 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 →			
	1.1.2013	Bought	Sold	31.12.2013
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	400,000	—	—	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	50,020	—	—	50,020
Abd Malik Bin A Rahman	1,000	—	—	1,000

	← Number of ordinary shares of RM0.50 each →			
	1.1.2013	Bought	Sold	31.12.2013
Immediate holding company				
Boustead Holdings Berhad ("BHB")				
Direct interest:				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	28,192,758	—	—	28,192,758
Datuk Azzat Bin Kamaludin	44,000	—	—	44,000
Indirect interest:				
Abd Malik Bin A Rahman	1,000	—	—	1,000

	← Numbering of ordinary shares of RM1.00 each →			
	1.1.2013	Bought	Sold	31.12.2013
Related corporations				
Pharmaniaga Berhad				
Direct interest:				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	5,681,886	6,818,262*	–	12,500,148
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B)	55,000	66,000*	–	121,000
Datuk Azzat Bin Kamaludin	148,300	177,960*	(100,000)	226,260
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

	← Numbering of ordinary shares of RM1.00 each →			
	1.1.2013	Bought	Sold	31.12.2013
Related corporation				
Boustead Petroleum Sdn. Bhd.				
Direct interest:				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	50	–	(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.

* Increase pursuant to share split and bonus issue.

_Director's Report (cont'd.)**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 2013 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.

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 28 February 2014.

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

Abd Malik Bin A Rahman

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 99 to 188 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2013 and of their financial performance and cash flows of the year then ended.

The information set out in Note 34 on page 189 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 28 February 2014.

**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 99 to 189 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 28 February 2014

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 2013 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year ended 31 December 2013, and a summary of significant accounting policies and other explanatory information, as set out on pages 99 to 188.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Independent Auditors' Report (cont'd.)

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 have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 34 on page 189 is disclosed to meet the requirements of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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

Ernst & Young
AF: 0039
Chartered Accountants

Ong Chee Wai
No. 2857/07/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 February 2014

Income Statements

for the year ended 31 December 2013

	Note	Group		Company	
		2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000
Revenue	4	319,051	257,668	10,969	10,272
Operating costs	5	(289,596)	(403,991)	(25,846)	(17,801)
Results from operations		29,455	(146,323)	(14,877)	(7,529)
Interest income		341	502	–	–
Finance costs	8	(19,486)	(18,919)	(13,424)	(12,332)
Share of results of associates	15	(23,249)	6,176	–	–
Share of results of joint ventures	16	20,334	17,431	–	–
Profit/(loss) before taxation		7,395	(141,133)	(28,301)	(19,861)
Income tax (expense)/benefit	9	(4,234)	2,151	–	–
Profit/(loss) for the year		3,161	(138,982)	(28,301)	(19,861)
Attributable to:					
Shareholders of the Company		3,161	(139,132)	(28,301)	(19,861)
Non-controlling interests		–	150	–	–
Profit/(loss) for the year		3,161	(138,982)	(28,301)	(19,861)
Earnings/(loss) per share attributable to shareholders of the Company (sen):					
Basic/diluted	10	1.27	(56.00)		

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

_Statements of Comprehensive Income

for the year ended 31 December 2013

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit/(loss) for the year, representing total comprehensive income/(loss) for the year, net of tax	3,161	(138,982)	(28,301)	(19,861)
Attributable to:				
Shareholders of the Company	3,161	(139,132)	(28,301)	(19,861)
Non-controlling interests	–	150	–	–
Total comprehensive income/(loss) for the year, net of tax	3,161	(138,982)	(28,301)	(19,861)

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

Statements of Financial Position

as at 31 December 2013

	Note	2013 RM'000	2012 RM'000 Restated	1 January 2012 RM'000 Restated
Group				
Assets				
Non-current assets				
Property, plant and equipment	12	145,555	169,104	207,205
Intangible asset	13	390	–	–
Investments in associates	15	176,602	202,956	196,780
Investments in joint ventures	16	91,116	76,136	59,168
Deferred tax assets	25	18,891	19,435	15,703
		432,554	467,631	478,856
Current assets				
Inventories	17	3,001	5,221	6,103
Trade and other receivables	18	232,393	323,543	302,863
Amounts due from customers on contracts	19	13,852	47,532	89,420
Tax recoverable		9,227	9,980	11,448
Cash and bank balances	20	42,149	21,352	70,011
		300,622	407,628	479,845
Total assets		733,176	875,259	958,701

_Statements of Financial Position (cont'd.)
as at 31 December 2013

	Note	2013 RM'000	2012 RM'000 Restated	1 January 2012 RM'000 Restated
Group (cont'd.)				
Equity and liabilities				
Equity attributable to shareholders of the Company				
Share capital	21	248,458	248,458	248,458
Exchange fluctuation reserve		–	–	121
Retained earnings		34,249	32,801	186,840
Total shareholders' funds		282,707	281,259	435,419
Non-controlling interests		36	3,323	6,172
Total equity		282,743	284,582	441,591
Non-current liabilities				
Loans and borrowings	23	15,942	30,530	48,022
Deferred tax liabilities	25	76	–	564
		16,018	30,530	48,586
Current liabilities				
Amounts due to customers on contracts	19	18,560	42,350	36,388
Provisions	22	637	5,920	8,232
Loans and borrowings	23	343,273	386,962	322,900
Trade and other payables	26	69,303	123,762	98,205
Tax payable		2,642	1,153	2,799
		434,415	560,147	468,524
Total liabilities		450,433	590,677	517,110
Total equity and liabilities		733,176	875,259	958,701

	Note	2013 RM'000	2012 RM'000
Company			
Assets			
Non-current assets			
Property, plant and equipment	12	371	5
Investments in subsidiaries	14	280,000	280,000
Investments in associate	15	–	–
		280,371	280,005
Current assets			
Trade and other receivables	18	188,554	256,058
Cash and bank balances	20	97	107
		188,651	256,165
Total assets		469,022	536,170
Equity attributable to shareholders of the Company			
Share capital	21	248,458	248,458
Accumulated losses		(39,837)	(11,536)
Total equity		208,621	236,922
Non-current liabilities			
Loans and borrowings	23	11,752	18,190
Current liabilities			
Provisions	22	360	360
Loans and borrowings	23	245,123	277,583
Trade and other payables	26	3,166	3,115
		248,649	281,058
Total liabilities		260,401	299,248
Total equity and liabilities		469,022	536,170

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

Statements of Changes in Equity
for the year ended 31 December 2013

← Attributable to equity holders of the Company →							
		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
Note							
Group							
At 1 January 2012		248,458	121	186,840	435,419	6,172	441,591
Total comprehensive (loss)/ income for the year		–	–	(139,132)	(139,132)	150	(138,982)
Transactions with owners							
Disposal of a subsidiary	14(c)	–	(121)	–	(121)	(2,999)	(3,120)
Dividend on ordinary shares – Interim	11	–	–	(14,907)	(14,907)	–	(14,907)
Total transaction with owners		–	(121)	(14,907)	(15,028)	(2,999)	(18,027)
At 31 December 2012		248,458	–	32,801	281,259	3,323	284,582
At 1 January 2013		248,458	–	32,801	281,259	3,323	284,582
Total comprehensive income for the year		–	–	3,161	3,161	–	3,161
Transactions with owners							
Dividend on ordinary shares – to non-controlling interest		–	–	–	–	(1,500)	(1,500)
Additional investment in a subsidiary (Note 14(a)(i))		–	–	(1,713)	(1,713)	(1,787)	(3,500)
Total transaction with owners		–	–	(1,713)	(1,713)	(3,287)	(5,000)
At 31 December 2013		248,458	–	34,249	282,707	36	282,743

<div> <div>←</div> <div>Attributable to equity holders of the Company</div> <div>→</div> </div>			
		Distributable retained earnings/ (accumulated losses)	
	Note	Share Capital RM'000	Total equity RM'000
Company			
At 1 January 2012		248,458	271,690
Total comprehensive loss for the year		–	(19,861)
Transactions with owners:			
Dividend on ordinary shares – Interim	11	–	(14,907)
Total transaction with owners		–	(14,907)
At 31 December 2012		248,458	236,922
Total comprehensive loss for the year		–	(28,301)
At 31 December 2013		248,458	208,621

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

Statements of Cash Flows
for the year ended 31 December 2013

	Note	Group		Company	
		2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000
Cash flows from operating activities					
Cash receipts from customers		323,054	296,303	–	–
Cash paid to suppliers and employees		(218,826)	(370,178)	(3,621)	(3,886)
(Payments)/receipts with related companies		(1,250)	3,917	44,995	(30,122)
Net cash generated from/(used in) operations		102,978	(69,958)	41,374	(34,008)
Interest paid		(18,425)	(17,777)	(12,962)	(11,862)
Income taxes paid		(1,372)	(2,814)	–	–
Net cash generated from/ (used in) operating activities		83,181	(90,549)	28,412	(45,870)
Cash flows from investing activities					
Interest received		341	502	10,969	10,272
Proceeds from disposal of property, plant and equipment		–	29	–	–
Purchase of property, plant and equipment	12	(3,889)	(4,474)	(493)	(6)
Additional investments in joint venture		(255)	(250)	–	–
Additional investments in subsidiary	14(a)	(3,500)	–	–	–
Dividend received from a joint venture		5,610	714	–	–
Dividend received from an associate		3,105	–	–	–
Purchase of intangible asset		(390)	–	–	–
Net cash inflows from disposal of subsidiary	14(c)	–	11,681	–	–
Net cash generated from investing activities		1,022	8,202	10,476	10,266
Cash flows from financing activities					
Repayment of borrowings		(62,347)	(31,617)	(38,898)	(24,908)
Proceeds from term loans/revolving credits/banker acceptances		–	80,382	–	75,000
Dividends paid:					
– by the Company		–	(14,907)	–	(14,907)
– by subsidiary to non-controlling interests		(1,500)	–	–	–
Net cash (used in)/generated from financing activities		(63,847)	33,858	(38,898)	35,185

	Note	Group		Company	
		2013 RM'000	2012 RM'000 Restated	2013 RM'000	2012 RM'000
Net increase/(decrease) in cash and cash equivalents		20,356	(48,489)	(10)	(419)
Effect of foreign exchange rate changes		441	(170)	–	–
Cash and cash equivalents at beginning of year		21,352	70,011	107	526
Cash and cash equivalents at end of year		42,149	21,352	97	107
Cash and cash equivalents at end of year comprise:					
Deposits with licensed banks	20	29,709	10,044	–	–
Cash and bank balances	20	12,440	11,308	97	107
		42,149	21,352	97	107

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

_Notes to the Financial Statements**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 14. There have been no significant changes in the nature of the principal activities of the Company and its subsidiaries during the financial year.

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 requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2013, the Group and the Company adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2013.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)	1 January 2013
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 (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for those discussed below:

MFRS 10 Consolidated Financial Statements and MFRS 11 Joint Arrangements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements (MFRS 127) that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities.

_Notes to the Financial Statements (cont'd.)

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

2.2 Changes in accounting policies (cont'd.)

MFRS 10 Consolidated Financial Statements and MFRS 11 Joint Arrangements (cont'd.)

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its investment with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. This new control model differs from how previously companies were assessed to be a subsidiary. Under MFRS 127, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances, particularly the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders. The application of MFRS 10 has no impact on the Group's financial position or performance.

MFRS 11 replaces MFRS 131 Interests in Joint Ventures and IC Interpretation 113 Jointly-Controlled Entities – Non-monetary Contributions by Venturers.

The classification of joint arrangements under MFRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form, the contractual terms agreed by the parties to the arrangement and when relevant, other facts and circumstances. Under MFRS 11, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

MFRS 11 removes the option to account for jointly controlled entities ("JCE") using proportionate consolidation. Instead, JCE that meet the definition of a joint venture must be accounted for using the equity method.

Upon effective date of the MFRS 10 and 11, the Directors assessed the Group's investment in subsidiaries, joint ventures and associates. The Group's investments in BHIC Bofors Asia Sdn Bhd, BYO Marine Sdn Bhd, Boustead DCNS Naval Corporation Sdn Bhd, Contraves Advanced Devices Sdn Bhd, BHIC MSM Sdn Bhd and BHIC Aeroservices Sdn Bhd held through Boustead Defence Technologies Sdn Bhd were previously accounted for as subsidiaries in the Group's consolidated financial statements. As a result of the Directors assessment these companies are joint ventures and are to be equity accounted for in the Group's consolidated financial statements.

The effect of the Directors' assessment is shown in Note 2.2(i) to 2.2(iii) below.

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

2.2 Changes in accounting policies (cont'd.)

MFRS 12 Disclosures of Interests in Other Entities

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 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, joint controlled entities and associates in separate financial statements. This standard affects disclosures only and has no impact on the Group's financial position or performance.

MFRS 128 Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates. This standard affects disclosures only and has no impact on the Group's financial position or performance.

MFRS 13 Fair Value Measurement

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 under MFRS. MFRS 13 defines fair value as an exit price. As a result of the guidance in MFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. MFRS 13 also requires additional disclosures.

Application of MFRS 13 has not materially impacted the fair value measurement of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ("recycled") to profit or loss at a future point in time (e.g. net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

_Notes to the Financial Statements (cont'd.)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****2.2 Changes in accounting policies (cont'd.)**

The effect of the Directors' assessment is shown below:

(I) Financial position of the company

	Group	
	As at 31 December 2012 RM'000	As at 1 January 2012 RM'000
Increase/(decrease)		
Assets		
Property, plant and equipment	(38,360)	(20,914)
Goodwill on consolidation	(3,849)	(3,849)
Investments in joint ventures	76,136	59,168
Inventories	(17,542)	(35,047)
Trade and other receivables	(258,497)	22,182
Amount due from customers on contracts	(385)	(416)
Tax recoverable	1,277	–
Cash and bank balances	(374,075)	(220,872)
	(615,295)	(199,748)
Equity and liabilities		
Retained earnings	842	8,362
Non-controlling interests	(61,030)	(42,288)
Loans and borrowings	(1,831)	(6,819)
Deferred tax liabilities	(884)	(845)
Amount due to customers on contracts	(422,681)	(2,444)
Provisions	(288)	(95)
Trade and other payables	(129,423)	(155,995)
Tax payable	–	376
	(615,295)	(199,748)

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

2.2 Changes in accounting policies (cont'd.)

(II) Loss for the Group

	2012 RM'000
Decrease in revenue	(388,850)
Decrease in operating costs	341,848
Decrease in interest income	(4,552)
Decrease in finance costs	152
Increase in share of results of joint ventures	17,431
Decrease in income tax expense	7,263
Increase in loss for the period	(26,708)
Decrease in profit for the year attributable to:	
Owners of the Company	(7,520)
Non-controlling interests	(19,188)
	(26,708)

(III) Cashflow for the Group

	2012 RM'000
Net cash outflow from operating activities	(175,746)
Net cash inflow from investing activities	14,955
Net cash inflow from financing activities	6,330
Net cash outflow	(154,461)

_Notes to the Financial Statements (cont'd.)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****2.3 Standard issued but not yet effective**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective annual periods beginning on or after
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

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

2.4 Basis of consolidation (cont'd.)

The Company controls an investee if and only if the Company has all the following:-

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee.

- (i) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- (ii) Potential voting rights held by the Company, other vote holders or other parties;
- (iii) Rights arising from other contractual arrangements; and
- (iv) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting differences is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

_Notes to the Financial Statements (cont'd.)

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

2.4 Basis of consolidation (cont'd.)

Business Combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit and loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

2.5 Transactions with non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, direct or indirectly, to the owners of the Company, and is presented separately in consolidated statements of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership 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 relative interests in the subsidiary. Any differences 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 equity and attributed to owners of the parent.

Total comprehensive income within a subsidiary is attributable to the non-controlling interest even if it results in a deficit balance.

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

2.6 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

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

2.7 Investments in associates and joint ventures

An associate is an entity 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 is not control or joint control over those policies.

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

On acquisition of an investment in associate or joint venture, any excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities of the investee over the cost of investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's or joint venture's profit or loss for the period in which the investment is acquired.

An associate or a joint venture is equity accounted for from the date on which the investee becomes an associate or a joint venture.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture after the date of acquisition. When the Group's share of losses in an associate or a joint venture equal or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

_Notes to the Financial Statements (cont'd.)

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

2.7 Investments in associates and joint ventures (cont'd.)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate or joint venture are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the associates and joint ventures are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group applies MFRS 139 Financial Instruments: Recognition and Measurement to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with MFRS 136 Impairment of Assets as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss is recognised in profit or loss. Reversal of an impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

2.8 Fair value measurement

The fair values of financial instruments at amortised cost are disclosed in Note 27(d).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group and the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

2.8 Fair value measurement (cont'd.)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.9 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.

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.

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.

_Notes to the Financial Statements (cont'd.)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****2.9 Currency conversion (cont'd.)**

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.

2.10 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%
Yard development	3% - 20%
Plant and machinery	5% - 20%
Equipment, fittings, renovation and others	7% - 50%
Barges and motor vehicles	5% - 25%
Vessels	4%

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

2.11 Intangible asset

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit and loss.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss when the asset is derecognised.

2.12 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-generating units ("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.

_Notes to the Financial Statements (cont'd.)

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

2.12 Impairment of non-financial assets (cont'd.)

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.

2.13 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.

The Group and the Company determine the classification of their financial assets at initial recognition, and designate all the financial assets as loans and receivables. The Group and the Company do 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.14 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.

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.

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.

2.15 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.

_Notes to the Financial Statements (cont'd.)

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

2.15 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.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.17 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.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

2.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.19 Financial liabilities

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

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 and the Company have 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.

2.20 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.

_Notes to the Financial Statements (cont'd.)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)****2.21 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. 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.

2.22 Leases**(a) Lessee****Finance lease**

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company 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 and the Company 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.)

2.22 Leases (cont'd.)

(b) Lessor

Leases where the Group and the Company retain 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 2.23(f).

2.23 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured. 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 2.15.

(d) Interest income

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

(e) Dividend income

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

(f) Chartering income

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

_Notes to the Financial Statements (cont'd.)

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

2.24 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.

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.

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

2.24 Income taxes (cont'd.)

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.

2.25 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 29.

2.26 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.

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.

_Notes to the Financial Statements (cont'd.)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)****(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 19.

(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.

(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.

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

(iv) Deferred tax assets (cont'd.)

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 25.

(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 loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine 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 18.

(vii) Assessment of joint ventures

Pyrotechnical Ordnance Malaysia Sdn Bhd ("POM") was previously treated as an associate of the Group and accounted for using the equity accounting method. The directors have assessed and noted that POM is a joint venture rather than an associate under MFRS 11.

Other than the reclassification from investment in associates to investment in joint venture, the change has no impact on the amounts reported in the Group's consolidated financial statements.

_Notes to the Financial Statements (cont'd.)

4. REVENUE

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Heavy engineering contracts	136,980	109,652	–	–
Rendering of services	141,685	126,344	–	–
Sale of goods	782	586	–	–
Chartering income	39,604	21,086	–	–
Interest income	–	–	10,969	10,272
	319,051	257,668	10,969	10,272

5. OPERATING COSTS

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Raw materials and consumables	36,139	27,398	–	–
Construction contract costs (Note 19)	124,094	251,222	–	–
Employee benefits expense (Note 6)	79,656	69,762	1,357	1,255
Non-executive directors' remuneration (Note 7)	221	214	221	214
Depreciation of property, plant and equipment (Note 12)	10,751	9,411	127	1
Impairment loss on property, plant and equipment (Note 12)	16,680	21,340	–	–
Gain on disposal of investment in a subsidiary (Note 14(c))	–	(11,091)	–	–
Gain on disposal of property, plant and equipment	–	(30)	–	–
Property, plant and equipment written off	–	22	–	–
Impairment loss on investment in subsidiaries	–	–	–	8,685
Allowance for impairment of amount due from subsidiaries (Note 18)	–	–	22,332	6,223
Provision for liquidated ascertained damages (Note 22)	–	4,957	–	–
Loss on dissolution of subsidiaries (Note 14(b))	59	–	–	–
Other operating costs	21,996	30,786	1,809	1,423
	289,596	403,991	25,846	17,801

5. OPERATING COSTS (CONT'D.)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Other operating costs include:				
Auditors' remuneration:				
Auditors of the Company				
Statutory audit				
– current year	360	298	120	95
– underprovision in prior year	–	14	–	18
Inventories written down to net realisable value	1,075	–	–	–
Inventories written off	1,217	–	–	–
Net loss/(gain) on foreign exchange:				
– realised	2,881	(388)	–	4
– unrealised	2,602	(2,687)	–	–
Reversal of impairment of receivables:	(513)	(222)	–	–
Operating leases:				
– minimum lease payments for land and buildings	1,366	1,547	–	–
– minimum lease payments for plant and equipment	399	2,556	–	–
Reversal of provision for warranties (Note 22)	(82)	(206)	–	–
Receivables written off	2,254	3,093	–	19

_Notes to the Financial Statements (cont'd.)

6. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Wages and salaries	64,762	53,357	980	794
Social security contribution	515	533	4	5
Defined contribution plan	7,607	6,516	69	102
Others	6,772	9,356	304	354
	79,656	69,762	1,357	1,255

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM1,620,000 (2012: RM1,559,000) and RM553,000 (2012: RM528,000), 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Executive directors' remuneration (Note 6):				
Fees	180	180	180	180
Salary	1,146	1,002	284	248
Allowances	27	22	27	22
Bonus	187	241	43	60
Defined contribution plan	80	75	19	18
Benefit in kind	–	39	–	–
	1,620	1,559	553	528
Non-executive directors' remuneration (Note 5):				
Fees	180	180	180	180
Allowances	41	34	41	34
	221	214	221	214
Total directors' remuneration (Note 32(b))	1,841	1,773	774	742

7. DIRECTORS' REMUNERATION (CONT'D.)

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

	2013	2012
<u>Executive directors:</u>		
RM50,001 - RM100,000	1	1
RM300,001 - RM350,000	1	1
RM1,150,001 - RM1,200,000	–	1
RM1,200,001 - RM1,250,000	1	–
<u>Non-executive directors:</u>		
RM50,001 - RM100,000	3	3

8. FINANCE COSTS

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Interest expense on:				
Term loans	1,639	2,463	758	1,115
Hire purchase and finance lease liabilities	9	13	–	–
Revolving credits	17,553	16,443	12,544	11,096
Others	285	–	122	121
Finance cost recognised in the income statements	19,486	18,919	13,424	12,332

_Notes to the Financial Statements (cont'd.)**9. INCOME TAX EXPENSE/(BENEFIT)**Major components of income tax expense/(benefit)

The major components of income tax expense/(benefit) for the years ended 31 December 2013 and 2012 are:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Statement of comprehensive income:				
Current income tax:				
Malaysian income tax	3,638	1,640	—	—
Overprovision in prior years:				
Malaysian income tax	(24)	(8)	—	—
Total income tax	3,614	1,632	—	—
Deferred tax (Note 25):				
Relating to origination and reversal of temporary differences	589	(3,732)	—	—
Under/(over)provision in prior years	31	(51)	—	—
Total deferred tax	620	(3,783)	—	—
Income tax expense/(benefit) recognised in profit or loss	4,234	(2,151)	—	—

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

Reconciliation between tax expense/(benefit) and accounting profit

The reconciliation between tax expense/(benefit) and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2013 and 2012 are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit/(loss) before taxation	7,395	(141,133)	(28,301)	(19,861)
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	1,849	(35,283)	(7,075)	(4,965)
Effects of changes in statutory tax rate	(266)	–	–	–
Expenses not deductible for tax purposes	8,447	11,129	7,075	4,965
Income not subject to tax	(5,964)	(2,317)	–	–
Utilisation of previously unrecognised tax losses and capital allowances	(567)	(154)	–	–
Share of results of associates	5,812	(1,544)	–	–
Share of results of joint ventures	(5,084)	(4,358)	–	–
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	–	30,435	–	–
Overprovision of tax expense in prior years	(24)	(8)	–	–
Under/(Over) provision of deferred tax expense in prior years	31	(51)	–	–
Income tax expense/(benefit) recognised in profit or loss	4,234	(2,151)	–	–

Domestic current income tax is calculated at the statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 24% from the current year's rate of 25%, effective year of assessment 2016. The computation of deferred tax as at 31 December 2013 has reflected these changes.

A subsidiary and certain joint ventures were granted a tax exemption in respect of its statutory income derived from maintenance and in-service support activities of the vessels.

_Notes to the Financial Statements (cont'd.)**10. EARNINGS/(LOSS) PER SHARE**

Basic and diluted earnings/(loss) per share amount is calculated by dividing profit/(loss) 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	
	2013 RM'000	2012 RM'000
Profit/(loss) for the year attributable to shareholders of the Company	3,161	(139,132)
Weighted average number of ordinary shares in issue	'000 248,458	'000 248,458
Basic and diluted earnings/(loss) per share for:	sen	sen
Profit/(loss) from operations attributable to shareholders of the Company	1.27	(56.00)

11. DIVIDEND

	Dividend amount		Gross dividend per ordinary share	
	2013 RM'000	2012 RM'000	2013 sen	2012 sen
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 2012	113,620	23,495	78,221	92,594	307,930
Additions	533	–	1,382	2,559	4,474
Disposals	–	–	(128)	–	(128)
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)	–
At 31 December 2012	73,959	19,041	165,943	624	259,567
Additions	524	14	2,635	716	3,889
Written off	–	–	(1)	–	(1)
Reclassification	–	–	626	(626)	–
At 31 December 2013	74,483	19,055	169,203	714	263,455

_Notes to the Financial Statements (cont'd.)

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 2012	71,327	7,858	21,540	–	100,725
Impairment charge for the year (Note 5)	–	–	21,340	–	21,340
Depreciation charge for the year:	2,277	1,205	6,784	–	10,266
– Recognised in profit or loss (Note 5)	1,931	1,028	6,452	–	9,411
– Capitalised in construction costs (Note 19)	346	177	332	–	855
Disposals	–	–	(127)	–	(127)
Disposal of a subsidiary company	(1,373)	(1,218)	(2,135)	–	(4,726)
Written off:					–
– accumulated depreciation	(10,369)	(906)	(4,422)	–	(15,697)
– impairment	(21,318)	–	–	–	(21,318)
At 31 December 2012	40,544	6,939	42,980	–	90,463
Impairment charge for the year (Note 5)	–	–	16,680	–	16,680
Depreciation charge for the year:	2,312	1,198	7,247	–	10,757
– Recognised in profit or loss (Note 5)	2,306	1,198	7,247	–	10,751
– Capitalised in construction costs (Note 19)	6	–	–	–	6
At 31 December 2013	42,856	8,137	66,907	–	117,900

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
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Group (cont'd.)

Representing:

Accumulated depreciation	27,340	8,137	28,887	–	64,364
Accumulated impairment	15,516	–	38,020	–	53,536
At 31 December 2013	42,856	8,137	66,907	–	117,900
Net carrying amount					
At 31 December 2013	31,627	10,918	102,296	714	145,555
At 31 December 2012	33,415	12,102	122,963	624	169,104

_Notes to the Financial Statements (cont'd.)

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				
Cost				
At 1 January 2012	15,949	54,652	43,019	113,620
Additions	410	–	123	533
Disposal of subsidiary company	–	–	(8,508)	(8,508)
Written off	–	(31,686)	–	(31,686)
At 31 December 2012	16,359	22,966	34,634	73,959
Additions	–	–	524	524
At 31 December 2013	16,359	22,966	35,158	74,483

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
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Group (cont'd.)

Accumulated depreciation and impairment

At 1 January 2012	4,113	42,283	24,931	71,327
Depreciation charge for the year:	192	978	1,107	2,277
– Recognised in profit or loss	192	632	1,107	1,931
– Capitalised in construction costs	–	346	–	346
Disposal of subsidiary company	–	–	(1,373)	(1,373)
Written off - accumulated depreciation	–	(10,369)	–	(10,369)
Written off - impairment	–	(21,318)	–	(21,318)
At 31 December 2012	4,305	11,574	24,665	40,544
Depreciation charge for the year:	188	1,001	1,123	2,312
– Recognised in profit or loss	188	1,001	1,117	2,306
– Capitalised in construction costs	–	–	6	6
At 31 December 2013	4,493	12,575	25,788	42,856

Representing:

Accumulated depreciation	3,525	5,625	18,190	27,340
Accumulated impairment	968	6,950	7,598	15,516
At 31 December 2013	4,493	12,575	25,788	42,856

Net carrying amount

At 31 December 2013	11,866	10,391	9,370	31,627
At 31 December 2012	12,054	11,392	9,969	33,415

_Notes to the Financial Statements (cont'd.)

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			
Cost			
At 1 January 2012	31,700	46,521	78,221
Additions	718	664	1,382
Disposal	(128)	–	(128)
Disposal of subsidiary company	(2,752)	–	(2,752)
Written off	(4,445)	–	(4,445)
Reclassification	–	93,665	93,665
At 31 December 2012	25,093	140,850	165,943
Additions	2,635	–	2,635
Written off	(1)	–	(1)
Reclassification	626	–	626
At 31 December 2013	28,353	140,850	169,203

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
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Group (cont'd.)

Accumulated depreciation and impairment

At 1 January 2012	21,290	250	21,540
Impairment charge for the year:	–	21,340	21,340
Depreciation charge for the year:	2,275	4,509	6,784
– Recognised in profit or loss	1,943	4,509	6,452
– Capitalised in construction costs	332	–	332
Disposal	(127)	–	(127)
Disposal of subsidiary company	(2,135)	–	(2,135)
Written off	(4,422)	–	(4,422)
At 31 December 2012	16,881	26,099	42,980
Impairment charge for the year:	–	16,680	16,680
Depreciation charge for the year:	2,657	4,590	7,247
– Recognised in profit or loss	2,657	4,590	7,247
At 31 December 2013	19,538	47,369	66,907

Representing:

Accumulated depreciation	19,538	9,349	28,887
Accumulated impairment	–	38,020	38,020
At 31 December 2012	19,538	47,369	66,907

Net carrying amount

At 31 December 2013	8,815	93,481	102,296
At 31 December 2012	8,212	114,751	122,963

_Notes to the Financial Statements (cont'd.)

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

	Equipment RM'000
Company	
Cost	
At 1 January 2012	–
Additions	6
At 31 December 2012	6
Additions	493
At 31 December 2013	499
Accumulated depreciation	
At 1 January 2012	–
Depreciation charge for the year (Note 5)	1
At 1 January 2013	1
Depreciation charge for the year (Note 5)	127
At 31 December 2013	128
Net carrying amount	
At 31 December 2013	371
At 31 December 2012	5

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

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

	Group	
	2013 RM'000	2012 RM'000
Motor vehicles	131	201

Details of the terms and conditions of the hire purchase and finance lease arrangements facility are disclosed in Note 24.

- (b) Equipment with carrying value of RM7,200,000 (2012: RM7,900,000) are secured against the term loan as disclosed in Note 23(a).
- (c) Completed vessels with total carrying value of RM62,320,000 (2012: RM76,500,000) are secured against the revolving credit and term loan as disclosed in Note 23(b).

13. INTANGIBLE ASSET

	Group	
	2013 RM'000	2012 RM'000
Ship design right	390	–

Intangible asset relates to the purchase of design rights. As at 31 December 2013, an amount of GBP81,900 (RM390,000 equivalent) has been paid. The remaining GBP315,100 (RM1,508,000 equivalent) will be paid based on milestone billings.

_Notes to the Financial Statements (cont'd.)

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 RM'000	2012 RM'000
Unquoted shares, at cost	581,867	581,867
Less: Accumulated impairment losses	(301,867)	(301,867)
	280,000	280,000

The cost of shares in a subsidiary of RM2,636,000 (2012: 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	Percentage of ownership interest held by the group	
			2013 %	2012 %
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.	Ceased operations	RM2	100	100
BHIC Trading Sdn. Bhd.	Dormant	RM8,000,002	100	100
BHIC Marine Carriers Sdn. Bhd.	Provision of engineering services for oil and gas industry and chartering ships and vessels	RM3,000,000	100	100
Held by BHIC Asset: Desa BHIC Sdn. Bhd.	Ceased operations	RM2	100	100

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

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

			Proportion of ownership interest held by the group	
Name of subsidiaries	Principal activities	Paid-up capital	2013 %	2012 %
Held by BP Shipyard:				
Dominion Defence & Industries Sdn. Bhd. (“Dominion Defence”)	Heavy engineering, ship repair and fabrication	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 Navaltch 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	RM996,234	99.99	99.99
BHIC Tenaga Sdn. Bhd.	Dormant	RM1,000,000	100	100
PSC Welding Services Sdn. Bhd. (“PSC Welding”) *	Dormant	RM37,058	–	100
BHIC Marine & Shipping Sdn Bhd (“BHIC Shipping”)	Dormant	RM3,000,003	100	100
BHIC Shipbuilding and Engineering Sdn. Bhd.	Dormant	RM2	100	100
Marine Technology Industrial Park Sdn. Bhd. (“Marine Technology”) *	Dormant	RM37,285	–	100

_Notes to the Financial Statements (cont'd.)**14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)**

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

			Proportion of ownership interest held by the group	
Name of subsidiaries	Principal activities	Paid-up capital	2013 %	2012 %
Held by BP Shipyard (cont'd.):				
BHIC Marine Technology Academy Sdn. Bhd.	Dormant	RM500,000	100	100
PSC Srijeluda Sdn. Bhd. ("PSC Srijeluda") *	Dormant	RM47,928	–	100
BHIC Marine Ventures Sdn. Bhd.	Provision of chartering of ships and vessels	RM3	100	100
BHIC Marine Transport Sdn. Bhd.	Provision of chartering of ships and vessels	RM3	100	100
Alpha Shanghai (M) Sdn. Bhd. "Alpha Shanghai") *	Dormant	RM32,988	–	100
Held by Dominion Defence:				
Burlington Promotions & Publications Sdn. Bhd.	Dormant	RM100,000	100	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

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

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

			Proportion of ownership interest held by the group	
Name of subsidiaries	Principal activities	Paid-up capital	2013 %	2012 %
Held by BHIC Defence (cont'd.):				
BHIC Allied Defence Technology Sdn Bhd ("Formerly known as Atlas Defence Technology Sdn. Bhd")	Supply of electronics and system technology to defence related industry	RM510,000	100	70
Naval and Defence Communication System Sdn. Bhd.	Provision for maintenance and services for telecommunication	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
Held by BHIC Shipping:				
Johor Riau Ferry Services Sdn. Bhd. **	Dormant	RM180,055	100	100

* Dissolved during the year

** In members' voluntary liquidation

_Notes to the Financial Statements (cont'd.)**14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)****(a) Additional investments in subsidiaries**

- (i) The Company through its wholly-owned subsidiary, BP Shipyard subscribed for additional equity interest in the following companies by way of cash:

	Number of shares	Amount
	2013 '000	2013 RM'000
BHIC Allied Defence Technology Sdn Bhd (formerly known as Atlas Defence Technology Sdn. Bhd.)	153	3,500

- (ii) The Company through its wholly-owned subsidiary, BHIC Defence subscribed for additional paid-up share capital in the following companies by way of cash:

	Number of shares	Amount
	2013 '000	2012 RM'000
BHIC Marine Technology Academy Sdn. Bhd.	500	500
UMC Engineering Sdn. Bhd.	17	17
	517	517

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

(b) Dissolution of subsidiaries

The effect of the dissolution of PSC Welding, Marine Technology, PSC Srijeluda and Alpha Shanghai on the financial results and financial position are as follows:

	Total RM'000
Other receivables	74
Other payables	(15)
Net assets as at financial year, representing loss on dissolution of subsidiary companies (Note 5)	59

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(c) Disposal of a subsidiary

In prior year, BP Shipyard, a wholly-owned subsidiary of the Company, disposed its entire stake in PSC Tema Shipyard Limited ("PSCT") for a cash consideration of USD6.36 million, of which USD5.12 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.

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

_Notes to the Financial Statements (cont'd.)

15. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Unquoted shares, at cost	54,840	54,840	1,250	1,250
Cumulative share of post acquisition profits	148,116	141,940	–	–
Share of current year's post acquisition (loss)/profit	(23,249)	6,176	–	–
Dividend paid (Note 32(a))	(3,105)	–	–	–
	176,602	202,956	1,250	1,250
Less: Accumulated impairment losses	–	–	(1,250)	(1,250)
	176,602	202,956	–	–

Details of the associates, all of which are equity accounted for and incorporated in Malaysia, are as follows:

		Percentage of ownership interest held by the group	
Name of associates	Principal activities	2013 %	2012 %
Held by the Company:			
Tohwa-Sedap Food Industry Sdn. Bhd.	Under liquidation	50.00	50.00
Held through a subsidiary:			
Perstim Industries Sdn. Bhd.			
Boustead Naval Shipyard Sdn. Bhd. (“BN Shipyard”)	Construction, repair and maintenance of naval ships, weapons and electronics, design and engineering, fabrication of steel structures and commercial shipbuilding	20.76	20.76
Held through a subsidiary:			
BP Shipyard			
Penang Shipbuilding and Construction Holding (Thailand) Limited (Incorporated in Thailand)	Dormant	48.80	48.80

15. INVESTMENTS IN ASSOCIATES (CONT'D.)

Details of the associates, all of which are equity accounted for and incorporated in Malaysia, are as follows (cont'd.):

		Percentage of ownership interest held by the group	
Name of associates	Principal activities	2013 %	2012 %
Held through an associate:			
Subsidiaries of BN Shipyard			
Boustead Langkawi Shipyard Sdn. Bhd.	Construction, repair and maintenance of boats	20.76	20.76
BN Shiprepair Sdn. Bhd.	Ceased operations	20.76	20.76
Boustead Yachts Sdn. Bhd.	Ceased operations	20.76	20.76

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:

	2013 RM'000	2012 RM'000
Assets and liabilities		
Current assets	1,600,506	1,448,097
Non-current assets	333,371	334,020
Total assets	1,933,877	1,782,117
Current liabilities	1,302,476	933,656
Non-current liabilities	564,551	654,667
Total liabilities	1,867,027	1,588,323
Net assets	66,850	193,794
Results		
Revenue	1,904,394	897,778
Profit for the year	(111,987)	29,748

_Notes to the Financial Statements (cont'd.)**15. INVESTMENTS IN ASSOCIATES (CONT'D.)**

Reconciliation of the summarised information presented above to the carrying amount of the Group's interest in associates:

	2013 RM'000	2012 RM'000
Net assets at 1 January	193,794	177,046
(Loss)/profit for the year	(111,987)	29,748
Dividend paid	(14,957)	(13,000)
Net assets at 31 December	66,850	193,794
Interest in associate	20.76%	20.76%
Goodwill	162,724	162,724
Carrying value of Group's interest in associate	176,602	202,956

16. INVESTMENT IN JOINT VENTURES

	Group	
	2013 RM'000	2012 RM'000 Restated
Unquoted shares, at cost	33,941	33,685
Cumulative share of post acquisition profits	42,451	25,734
Share of current year's post acquisition profits	20,334	17,431
	96,726	76,850
Less: Dividend paid (Note 32(a))	(5,610)	(714)
	91,116	76,136

The Group has various % of ownership of its joint arrangements as detailed below. Under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

The joint arrangements are structured via separate entities and provide the Group with the rights to the net assets of the entities under the arrangements. Therefore, these entities are classified as joint ventures of the Group.

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

- (a) Details of the joint ventures, all of which are equity accounted for and are incorporated in Malaysia are as follows:

		Percentage of ownership interest held by the group	
Name of joint ventures	Principal activities	2013 %	2012 %
Held by BHIC Defence:			
BHIC Bofors Asia Sdn. Bhd.	Providing, supplying and servicing BOFORS weapons systems	51	51
BHIC Aeroservices Sdn. Bhd. (“BHICAS”)	To carry on business of maintenance, repair and overhaul of rotary and fixed wing aircraft	51	51
Boustead DCNS Naval Corporation Sdn. Bhd (“BDNC”)	Vessel maintenance	60	60
BYO Marine Sdn. Bhd. *	Construction of vessels	51	51
Contraves Advanced Devices Sdn. Bhd. (“CAD”) *	Manufacturing of electronic products	51	51
BHIC MSM Sdn. Bhd.	Provision for maintenance and repair of MTU products	60	60
Pyrotechnical Ordnance Malaysia Sdn. Bhd.	Production and selling of double based propellant for locally used artillery shells and rockets in defence sector	50	50
Held by CAD:			
Contraves Sdn. Bhd. *	Property rental	100	100
Contraves Electrodynamics Sdn Bhd *	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	100	100

* Audited by firms other than Ernst & Young

These joint ventures have the same reporting period as the Group and their shares are unquoted.

_Notes to the Financial Statements (cont'd.)

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

(b) Summarised financial information

Summarised financial information of material joint ventures is set out below. The summarised information represents the amounts in the financial statements of the joint ventures and not the Group's share of those amounts.

(i) Summarised statements of financial position

	← 2013 →			← 2012 →		
	BDNC RM'000	CAD RM'000	Total RM'000	BDNC RM'000	CAD RM'000	Total RM'000
Group						
Non-current assets	4,651	92,358	97,009	4,574	30,112	34,686
Cash and cash equivalent	163,804	102,727	266,531	199,739	143,539	343,278
Other current assets	3,586	398,760	402,346	608	340,321	340,929
Total current assets	167,390	501,487	668,877	200,347	483,860	684,207
Total assets	172,041	593,845	765,886	204,921	513,972	718,893
Current financial liabilities (excluding trade and other payables and provisions)	–	3,454	3,454	7,448	1,601	9,049
Trade and other payables and provisions	114,063	8,386	122,449	–	34,190	34,190
Other financial liabilities	–	482,170	482,170	154,108	413,826	567,934
Total current liabilities	114,063	494,010	608,073	161,556	449,617	611,173
Non-current liabilities	–	15,382	15,382	–	1,957	1,957
Total liabilities	114,063	509,392	623,455	161,556	451,574	613,130
Net Assets	57,978	84,453	142,431	43,365	62,398	105,763

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

(b) Summarised financial information (cont'd.)

(ii) Summarised statements of comprehensive income

	2013			2012		
	BDNC RM'000	CAD RM'000	Total RM'000	BDNC RM'000	CAD RM'000	Total RM'000
Group						
Revenue	205,982	286,140	492,122	252,830	176,676	429,506
Depreciation	(1,497)	(4,403)	(5,900)	(1,103)	(2,045)	(3,148)
Interest income	2,359	3,201	5,560	1,661	2,547	4,208
Finance costs	–	(332)	(332)	–	(74)	(74)
Profit before tax from continuing operations	15,202	29,547	44,749	6,452	22,195	28,647
Income tax expense	(589)	(7,492)	(8,081)	(331)	(3,562)	(3,893)
Profit for the year representing total comprehensive income for the year, net of tax	14,613	22,055	36,668	6,121	18,633	24,754
Dividend received from joint ventures during the year	–	–	–	–	1,400	1,400

_Notes to the Financial Statements (cont'd.)**16. INVESTMENT IN JOINT VENTURES (CONT'D.)**

- (c) Reconciliation of the summarised information presented above to the carrying amount of the Group's interest in joint ventures

	← 2013 →			← 2012 →		
	BDNC RM'000	CAD RM'000	Total RM'000	BDNC RM'000	CAD RM'000	Total RM'000
Group						
Net assets at 1 January	43,365	62,398	105,763	37,244	45,165	82,409
Profit for the year	14,613	22,055	36,668	6,121	18,633	24,754
Dividend	–	–	–	–	(1,400)	(1,400)
Net assets at 31 December	57,978	84,453	142,431	43,365	62,398	105,763
Interest in joint ventures (%)	60	51	–	60	51	–
Goodwill	–	3,849	3,849	–	3,849	3,849
Carrying value of Group's interest in joint ventures	34,787	46,920	81,707	26,019	35,672	61,691

- (d) Aggregate information of joint ventures that are not individually material

	Group	
	2013 RM'000	2012 RM'000
The Group's share of profit before tax		
The Group's share of profit after tax, representing total comprehensive income	561 318	5,981 4,255

17. INVENTORIES

	Group	
	2013 RM'000	2012 RM'000
Consumables		
At cost	2,067	5,221
At net realisable value	934	–
	3,001	5,221

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Trade receivables				
Third parties	9,043	8,060	–	–
Due from related parties:				
Affiliates	–	45	–	–
Associates	42,568	118,465	–	–
Joint ventures	69,003	72,275	–	–
	120,614	198,845	–	–
Less: Allowance for impairment (Note 5)				
- Third parties	(1,907)	(1,903)	–	–
- Associates	–	(517)	–	–
	(1,907)	(2,420)	–	–
Trade receivables, net	118,707	196,425	–	–

_Notes to the Financial Statements (cont'd.)**18. TRADE AND OTHER RECEIVABLES (CONT'D.)**

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Other receivables				
Due from related parties:				
Subsidiaries	–	–	209,323	254,495
Joint ventures	36,107	527	–	–
Associates	29	29	–	–
	36,136	556	209,323	254,495
Deposits	29,317	28,306	7,786	7,786
Prepayments	1,777	1,498	–	–
Sundry receivables	3,554	12,778	–	–
Advances to suppliers	43,311	84,389	–	–
	114,095	127,527	217,109	262,281
Less: Allowance for impairment				
– Subsidiaries	–	–	(28,555)	(6,223)
– Associates	(28)	(28)	–	–
– Other receivables	(381)	(381)	–	–
	(409)	(409)	(28,555)	(6,223)
Other receivables, net	113,686	127,118	188,554	256,058
Total trade and other receivables	232,393	323,543	188,554	256,058
Total trade and other receivables	232,393	323,543	188,554	256,058
Add: Cash and bank balances (Note 20)	42,149	21,352	97	107
Less: Prepayment	(1,777)	(1,498)	–	–
Less: Advances to suppliers	(43,311)	(84,389)	–	–
Total loans and receivables	229,454	259,008	188,651	256,165

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

(a) The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2013 RM'000	2012 RM'000
Neither past due nor impaired	40,935	32,983
1 to 30 days past due not impaired	3,655	36,283
31 to 60 days past due not impaired	322	8,559
61 to 90 days past due not impaired	398	8,153
91 to 120 days past due not impaired	494	9,007
More than 121 days past due not impaired	72,903	101,440
	77,772	163,442
Impaired	1,907	2,420
	120,614	198,845

The Group has trade receivables amounting to RM77,772,000 (2012: RM163,442,000) 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, RM68,991,000 (2012: RM57,074,000) is due from a joint venture and RM8,096,000 (2012: RM101,084,000) is due from an associated company which the Group believes is fully recoverable.

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 and the Company.

None of the Group's and the Company'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	
	2013 RM'000	2012 RM'000
Trade receivables-nominal value	1,907	2,420
Less: Allowance for impairment	(1,907)	(2,420)
	—	—

_Notes to the Financial Statements (cont'd.)**18. TRADE AND OTHER RECEIVABLES (CONT'D.)****(a) The ageing analysis of the Group's trade receivables is as follows (cont'd.):**

Movement in allowance accounts:

	Group	
	2013 RM'000	2012 RM'000
At 1 January	2,420	9,839
Charge for the year (Note 5)	4	36
Reversal of impairment loss (Note 5)	(517)	(258)
Bad debt written off	–	(2,738)
Disposal of a subsidiary	–	(4,459)
At 31 December	1,907	2,420

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.

(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 (2012: 30 days), extending up to 90 days (2012: 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 related parties

The related parties' balances bear weighted average effective interest rate of 5.2% (2012: 5.2%) per annum and are repayable on demand. All related parties receivables are unsecured and are to be settled in cash.

19. AMOUNTS DUE FROM/(TO) CUSTOMERS ON CONTRACTS

	Group	
	2013 RM'000	2012 RM'000
Aggregate cost incurred and recognised profit (less recognised losses) to date	1,025,194	617,703
Less: Progress billings	(1,029,902)	(612,521)
	(4,708)	5,182
Amounts due from customers on contracts	13,852	47,532
Amounts due to customers on contracts	(18,560)	(42,350)
	(4,708)	5,182

The costs incurred to date on construction contracts include the following charges made during the financial year:

	Group	
	2013 RM'000	2012 RM'000
Depreciation of property, plant and equipment (Note 12)	6	855
Operating lease:		
– minimum lease payment for plant and equipment	169	1,803
Employee benefits expense	2,909	5,359

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	
	2013 RM'000	2012 RM'000
Contract revenue *	167,451	139,828
Construction contract costs (Note 5)	124,094	251,222

* The contract revenue is derived from heavy engineering works and rendering of services.

_Notes to the Financial Statements (cont'd.)**20. CASH AND BANK BALANCES**

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Deposits with licensed banks	29,709	10,044	–	–
Cash on hand and at banks	12,440	11,308	97	107
	42,149	21,352	97	107

Deposits with licensed banks amounting to RM449,227 (2012: RM383,750) are pledged for performance guarantee facilities granted to the Group.

Other information on financial risks of cash and bank balances are disclosed in Note 27.

21. SHARE CAPITAL

	Group and Company			
	Number of shares of RM1 each		Amount	
	2013 '000	2012 '000	2013 RM'000	2012 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.

22. PROVISIONS

	Directors' fee RM'000	Warranties RM'000	Liquidated ascertained damages RM'000	Total RM'000
Group				
At 1 January 2012	288	565	7,379	8,232
Additional provision	360	(206)	4,957	5,111
Utilisation of provision	(288)	–	(7,135)	(7,423)
At 31 December 2012	360	359	5,201	5,920
Additional provision	360	(82)	–	278
Utilisation of provision	(360)	–	(5,201)	(5,561)
At 31 December 2013	360	277	–	637

	Directors' fee RM'000
--	----------------------------------

Company

At 1 January 2012	288
Additional provision	360
Utilisation of provision	(288)
At 31 December 2012	360
Additional provision	360
Utilisation of provision	(360)
At 31 December 2013	360

(a) Provision for liquidated ascertained damages

The provision for liquidated ascertained damages is made 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 the customer.

_Notes to the Financial Statements (cont'd.)

23. LOANS AND BORROWINGS

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Short term borrowings				
Secured:				
Hire purchase and finance lease liabilities (Note 24)	58	68	–	–
Term loans	9,378	8,928	6,717	6,267
Revolving credits	37,445	34,933	37,445	34,933
	46,881	43,929	44,162	41,200
Unsecured:				
Term loans	6,392	7,651	961	1,383
Bankers' acceptances	–	382	–	–
Revolving credits	290,000	335,000	200,000	235,000
	296,392	343,033	200,961	236,383
Total short term borrowings:				
Term loans	15,770	16,579	7,678	7,650
Hire purchase and finance lease liabilities (Note 24)	58	68	–	–
Banker acceptances	–	382	–	–
Revolving credits	327,445	369,933	237,445	269,933
	343,273	386,962	245,123	277,583
Long term borrowings				
Secured:				
Hire purchase and finance lease liabilities (Note 24)	74	132	–	–
Term loans	12,421	20,560	11,752	17,230
	12,495	20,692	11,752	17,230
Unsecured:				
Term loans	3,447	9,838	–	960
Total long term borrowings:				
Term loans	15,868	30,398	11,752	18,190
Hire purchase and finance lease liabilities (Note 24)	74	132	–	–
	15,942	30,530	11,752	18,190

23. LOANS AND BORROWINGS (CONT'D.)

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total borrowings:	31,638	46,977	19,430	25,840
Term loans				
Hire purchase and finance lease liabilities (Note 24)	132	200	–	–
Bankers' acceptances	–	382	–	–
Revolving credits	327,445	369,933	237,445	269,933
	359,215	417,492	256,875	295,773

The remaining maturities of the term loans as at reporting date are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
On demand or within 1 year	15,770	16,579	7,678	7,650
More than 1 year and less than 2 years	10,833	15,318	6,717	7,228
More than 2 years and less than 5 years	5,035	15,080	5,035	10,962
	31,638	46,977	19,430	25,840

The maturity profile of hire purchase and finance lease liabilities is as disclosed in Note 24.

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 27.

The amount of borrowings obtained from the financial institutions which are Government-related entities amounted to RM48,469,000 (2012: RM43,879,000).

_Notes to the Financial Statements (cont'd.)**24. HIRE PURCHASE AND FINANCE LEASE LIABILITIES**

	Group	
	2013 RM'000	2012 RM'000
Future minimum lease payments:		
Not later than 1 year	64	77
Later than 1 year but not later than 2 years	64	64
Later than 2 years but not later than 5 years	12	76
	140	217
Less: Future finance charges	(8)	(17)
	132	200
Analysis of present value of finance lease liabilities:		
Not later than 1 year	58	68
Later than 1 year not later than 2 years	62	58
Later than 2 years but not later than 5 years	12	74
	132	200
Amount due within 12 months (Note 23)	(58)	(68)
Amount due after 12 months (Note 23)	74	132

The hire purchase is secured by a charge over the leased assets (Note 12(a)). The average discount rate implicit in the leases is 2.90% per annum (2012: 2.86% per annum).

25. DEFERRED TAXATION

	Group	
	2013 RM'000	2012 RM'000
At 1 January	(19,435)	(15,139)
Disposal of a subsidiary	–	(513)
Recognised in profit or loss (Note 9)	620	(3,783)
At 31 December	(18,815)	(19,435)
Presented after appropriate offsetting as follows:		
Deferred tax assets	(18,891)	(19,435)
Deferred tax liabilities	76	–
	(18,815)	(19,435)

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 2012	(3,666)	(14,615)	(1,297)	(19,578)
Recognised in profit or loss	(1,468)	(2,846)	1,274	(3,040)
At 31 December 2012	(5,134)	(17,461)	(23)	(22,618)
Recognised in profit or loss	5,134	(5,027)	23	130
At 31 December 2013	–	(22,488)	–	(22,488)

_Notes to the Financial Statements (cont'd.)

25. DEFERRED TAXATION (CONT'D.)

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
Deferred tax liabilities			
At 1 January 2012	3,843	596	4,439
Recognised in profit or loss	(172)	(571)	(743)
Exchange differences	(671)	158	(513)
At 31 December 2012	3,000	183	3,183
Recognised in profit or loss	348	142	490
At 31 December 2013	3,348	325	3,673

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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Temporary differences arising from:				
– unused tax losses	(70,266)	(67,268)	–	–
– unabsorbed capital allowances	(25,261)	(20,450)	–	–
– others	(36,565)	(47,705)	–	–
	(132,092)	(135,423)	–	–

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.

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Trade payables				
Third parties	51,697	93,620	–	–
Due to related parties:				
Associates	2,426	983	–	–
Joint ventures	271	82	–	–
	54,394	94,685	–	–
Other payables				
Due to related parties:				
Subsidiaries	–	–	2,346	2,401
Holding company	1,285	2,535	131	47
Joint ventures	–	219	–	–
Associates	63	1	63	2
	1,348	2,755	2,540	2,450
Accruals	13,412	19,043	531	567
Sundry payables	149	7,279	95	98
	14,909	29,077	3,166	3,115
Total trade and other payables	69,303	123,762	3,166	3,115
Total trade and other payables	69,303	123,762	3,166	3,115
Add: Loans and borrowings (Note 23)	359,215	417,492	256,875	295,773
Total financial liabilities carried at amortised costs	428,518	541,254	260,041	298,888

- (a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2012: 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% (2012: 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 32.

Other information on financial risks of trade and other payables are disclosed in Note 27.

_Notes to the Financial Statements (cont'd.)**27. 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.

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 2013						
Fixed rate						
Term loans	23	5.50%	(4,915)	(669)	–	(5,584)
Hire purchase and finance lease liabilities	24	2.90%	(58)	(62)	(12)	(132)
Deposits with licensed banks	20	2.16%	29,709	–	–	29,709
Floating rate						
Term loans	23	3.65%	(10,855)	(10,164)	(5,035)	(26,054)
Revolving credits	23	4.24%	(327,445)	–	–	(327,445)

27. 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
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Group

At 31 December 2012

Fixed rate

Term loans	23	5.43%	(6,176)	(4,915)	(669)	(11,760)
Hire purchase and finance lease liabilities	24	2.86%	(68)	(58)	(74)	(200)
Deposits with licensed banks	20	2.61%	10,044	–	–	10,044

Floating rate

Term loans	23	3.72%	(10,403)	(10,403)	(14,411)	(35,217)
Banker acceptance	23	7.85%	(382)	–	–	(382)
Revolving credits	23	4.29%	(369,933)	–	–	(369,933)

Company

At 31 December 2013

Fixed rate

Term loan	23	5.05%	(961)	–	–	(961)
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Floating rate

Term loan	23	3.04%	(6,717)	(6,717)	(5,035)	(18,469)
Revolving credit	23	4.37%	(237,445)	–	–	(237,445)

_Notes to the Financial Statements (cont'd.)**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)****(a) Interest rate risk (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	23	5.05%	(1,383)	(961)	–	(2,344)
Floating rate						
Term loan	23	3.02%	(6,267)	(6,267)	(10,962)	(23,496)
Revolving credit	23	3.45%	(269,933)	–	–	(269,933)

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.

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 RM1,326,000 (2012: RM1,521,000) and RM960,000 (2012: RM1,100,000) 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.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(b) Liquidity and cash flow risks (cont'd.)

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.

	2013		
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Group			
Financial liabilities			
Trade and other payables	69,303	–	69,303
Loans and borrowings	346,787	16,350	363,137
Total undiscounted financial liabilities	416,090	16,350	432,440
Company			
Financial liabilities			
Trade and other payables	3,166	–	3,166
Loans and borrowings	247,534	12,072	259,606
Total undiscounted financial liabilities	250,700	12,072	262,772

_Notes to the Financial Statements (cont'd.)**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	Total RM'000

Group**Financial liabilities**

Trade and other payables	123,762	–	123,762
Loans and borrowings	390,166	31,432	421,598
Total undiscounted financial liabilities	513,928	31,432	545,360

Company**Financial liabilities**

Trade and other payables	3,115	–	3,115
Loans and borrowings	279,385	18,792	298,177
Total undiscounted financial liabilities	282,500	18,792	301,292

(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 2013, 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 18.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(c) Credit risk (cont'd.)

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 ongoing basis. The credit risk concentration profile of the Group's and the Company's trade receivables at the reporting date are as follows:

	Group			
	2013		2012	
	RM'000	% of total	RM'000	% of total
By country:				
Malaysia	116,784	98%	195,337	99%
Others	1,923	2%	1,088	1%
	118,707	100%	196,425	100%
By industry sector:				
Heavy engineering contracts	98,387	83%	163,568	83%
Rendering of services	14,853	12%	20,993	10%
Sales of goods	3,579	3%	10,821	6%
Chartering	1,888	2%	1,043	1%
	118,707	100%	196,425	100%

_Notes to the Financial Statements (cont'd.)**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)****(d) Fair value of financial instruments**Determination of fair valueFinancial 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:

	<u>Note</u>
Trade and other receivables	18
Amounts due from affiliates, subsidiaries, associates and joint ventures	18
Loans and borrowings (current)	23
Trade and other payables	26
Amounts due to affiliates, corporate shareholders of subsidiaries, associates, joint ventures, subsidiaries and holding company	26

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.

Fair value hierarchy

Set out below is the carrying amounts and fair value of the Group's financial liabilities, other than those with carrying amounts are reasonable approximations of fair values:

	Carrying amount		Fair value	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Financial liabilities				
Interest bearing loans and borrowings				
Term loans	643	5,303	643	5,288
Hire purchase and finance lease liabilities	74	140	74	141
	717	5,443	717	5,429

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(d) Fair value of financial instruments (cont'd.)

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of the Group's interest-bearing loans and borrowings are determined using DCF method at a discount rate of 5.8% for term loans and 2.4% for hire purchase and finance lease liabilities. This reflects the issuer's borrowing rate as at the end of the reporting period. The significant unobservable inputs (level 3), are the own non-performance risk as at 31 December 2013 which was assessed to be insignificant and the constant prepayment rate.

(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.

_Notes to the Financial Statements (cont'd.)**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)****(e) Foreign exchange risk (cont'd.)**

The net unhedged financial assets and liabilities of the Group that are not denominated in their functional currency are as follows:-

	Deposits, cash and bank balances RM'000	Receivables RM'000	Payables RM'000	Borrowings RM'000	Total RM'000
At 31 December 2013					
US Dollar	9,860	1,126	(3,392)	(55,914)	(48,320)
Euro	57	–	(25,614)	–	(25,557)
	9,917	1,126	(29,006)	(55,914)	(73,877)
At 31 December 2012					
US Dollar	3,327	4,329	(3,558)	(58,431)	(54,333)
Euro	3,195	–	(43,605)	–	(40,410)
	6,522	4,329	(47,163)	(58,431)	(94,743)

Sensitivity analysis for foreign exchange risk

The following table demonstrates the sensitivity of the Group's profit/(loss) 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/(loss) net of tax	
		2013	2012
		RM'000	RM'000
USD/RM	- strengthened 5%	(2,416)	(2,717)
	- weakened 5%	2,416	2,717
Euro/RM	- strengthened 5%	(1,278)	(2,021)
	- weakened 5%	1,278	2,021

28. 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 2013 and 31 December 2012.

The Group monitors capital using a gearing ratio, which is derived by dividing the amount of borrowings (Note 23) over total equity. At the reporting date, the Group's gearing ratio calculated by dividing the amount of borrowings (Note 23) over the aggregate of the equity held by shareholders and non-controlling interests is 1.27 times. The Group's policy is to keep gearing within manageable levels.

With respect to banking facilities that the Group has with certain financial institutions and the Group is committed to ensure that the maximum gearing ratio limit of 1.5 times calculated by dividing the amount of borrowings over the aggregate of the equity held by shareholders is complied with at all times.

29. 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:

- (i) 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;
- (ii) 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
- (iii) Chartering – The business units under this segment is principally engaged in the chartering of chemical tankers.

Included in the heavy engineering segment, the revenue of approximately RM229,528,000 (2012: RM232,327,000) is derived from one major customer.

The Group operates fully in Malaysia. 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.

_Notes to the Financial Statements (cont'd.)

29. 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	Manufacturing RM'000	Chartering RM'000	Total RM'000
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As at 31 December 2013**Revenue**

External revenue	279,447	–	39,604	319,051
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Results

Segment results-external	49,066	–	(19,611)	29,455
Interest income	341	–	–	341
Finance costs	(19,267)	–	(219)	(19,486)
Share of results in joint venture	9,502	10,832	–	20,334
Share of results in associates	(23,249)	–	–	(23,249)
Profit/(loss) before taxation	16,393	10,832	(19,830)	7,395
Income tax expense				(4,234)
Profit for the year				3,161

As at 31 December 2012**Revenue**

External revenue	236,582	–	21,086	257,668
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Results

Segment results-external	(116,211)	–	(30,112)	(146,323)
Interest income	502	–	–	502
Finance costs	(18,918)	–	(1)	(18,919)
Share of results in joint venture	4,250	13,181	–	17,431
Share of results in associates	6,176	–	–	6,176
(Loss)/profit before taxation	(124,201)	13,181	(30,113)	(141,133)
Income tax benefit				2,151
Loss for the year				(138,982)

29. SEGMENTAL INFORMATION (CONT'D.)

In the current and previous financial year, no inter-segment sales was recorded.

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.

30. 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	
	2013 RM'000	2012 RM'000
Future minimum rental payments:		
Not later than 1 year	925	739
Later than 1 year but not later than 5 years	441	405
	1,366	1,144

The lease payments recognised in profit or loss during the financial year are disclosed in Notes 5 and 19.

31. CAPITAL COMMITMENTS

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Approved but not contracted for:				
- Property, plant and equipment	28,155	32,922	464	102
Approved and contracted for:				
- Property, plant and equipment	15,473	188	—	—

_Notes to the Financial Statements (cont'd.)**32. RELATED PARTY DISCLOSURES**

- (a) Significant related party transactions other than those disclosed elsewhere in the financial statements are as follows:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Interest income				
Subsidiaries	–	–	10,969	10,272
Government-related financial institutions	296	158	–	–
Joint venture	44	6	–	–
Dividend income				
Associate (Note 15)	3,105	–	–	–
Joint venture (Note 16)	5,610	714	–	–
Sales of goods/Rendering of services				
Associates	143,339	126,822	–	–
Joint venture	82,244	117,787	–	–
Purchases of goods/ Rendering of services				
Immediate holding company	871	699	396	375
Related companies	3,773	3,969	86	50
Associates	143,437	4,147	–	–
Interest expense paid to:				
Subsidiaries	–	–	122	121
Government-related financial institutions	1,851	1,679	1,349	1,140

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 18 and 26.

32. 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Wages and salaries	4,172	3,843	421	458
Defined contribution plan	450	298	39	18
Benefit-in-kind	–	39	–	–
Others	860	756	432	416
	5,482	4,936	892	892
Included in the total key management personnel are:				
Directors' remuneration (Note 7)	1,841	1,773	774	742

(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.

(i) Individually significant transactions because of size of transactions

- BDNC, a joint venture 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 EUR193 million (RM870 million equivalent) and RM532 million and is effective until 30 November 2015.
- On 16 December 2011, BN Shipyard, an associate of the Group, received a letter of award from MINDEF to design, construct, equip, install, commission, integrate, test and trials and deliver 6 units of "Second Generation Patrol Vessels Littoral Combat Ships (Frigate Class)" (LCS) at a contract value of RM9 billion.

_Notes to the Financial Statements (cont'd.)**32. RELATED PARTY DISCLOSURES (CONT'D.)****(c) Government-related entities (cont'd.)***(i) Individually significant transactions because of size of transactions (cont'd.)*

- On 7 September 2012, BN Shipyard, an associate of the Group, received a letter of award from the Ministry of Defence (MINDEF) to supply and deliver spare parts, maintenance services and training for the 23rd frigate squadron of the Royal Malaysian Navy at a contract value of RM70 million for a period of 3 years from the date of acceptance of the award.
- BHICAS, a joint venture of the Group, received a letter of award on 30 January 2013 from the Government of Malaysia to undertake In Service Support for 6 Royal Malaysian Navy helicopters (Fennec AS555SN) at a contract value of RM32 million for a period of 3 years from the date of acceptance of the award.
- BHIC Defence Techservices, a subsidiary of the Group, received a letter of award on 15 March 2013 from the Government of Malaysia to undertake the maintenance, repair and supply of spare parts for Oerlikon 35mm guns and Skyguard radar for the Malaysian Army at a ceiling contract value of RM15 million for a period of 3 years from the date of acceptance of the award. The revenue recognised for the year ended 31 December 2013 amounted to RM3 million.
- BHICAS, a joint venture of the Group, received a letter of award on 26 June 2013 from the Government of Malaysia for the Integrated Maintenance and Logistic Support Services for 3 Malaysian Maritime Enforcement Agency Dauphin AS365N3 Helicopters for a period of 3 years from the date of acceptance of the award at a ceiling contract value of RM65 million.

33. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 28 February 2014.

34. 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 2013, 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	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:				
Realised	(313,917)	(305,620)	(39,837)	(11,536)
Unrealised	15,722	19,653	–	–
Total share of retained profits from associates:				
Realised	127,566	150,815	–	–
Total share of retained profits from joint ventures:				
Realised	65,065	42,002	–	–
Unrealised	(547)	2,182	–	–
	(106,111)	(90,968)	(39,837)	(11,536)
Consolidated adjustments	140,360	123,769	–	–
Total Group retained profits/(accumulated losses) as per consolidated financial statements	34,249	32,801	(39,837)	(11,536)

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 2014

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 HOLDINGS

Size of Shareholdings	No. of Holders	%	No. of Shares	%
1 - 99	926	23.27	16,822	0.01
100 - 1,000	973	24.45	617,061	0.25
1,001 - 10,000	1,557	39.13	6,852,784	2.76
10,001 - 100,000	451	11.34	13,501,320	5.43
100,001 - 12,422,879 (*)	70	1.76	45,722,179	18.40
12,422,880 AND ABOVE (**)	2	0.05	181,747,448	73.15
TOTAL	3,979	100.00	248,457,614	100.00

* Less than 5% of issued shares

** 5% and above of issued shares

INFORMATION ON SUBSTANTIAL HOLDERS HOLDINGS

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	8.150	161,497,448	65.0

DIRECTORS SHAREHOLDING

No. of Share Shareholdings	No. of Share Direct	%	No. of Share Indirect	Size of %
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 2014

No	Name of shareholders	No. of shares	%
1	BOUSTEAD HOLDINGS BERHAD 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	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR OH KIM SUN (CEB)	2,093,700	0.842
6	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AHMAD RAMLI BIN MOHD NOR (8029256)	2,000,000	0.804
7	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PERAMJEET SINGH A/L GIAN SINGH (8029243)	2,000,000	0.804
8	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHE LODIN BIN WOK KAMARUDDIN (8029271)	2,000,000	0.804
9	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN MENG SEONG (8029269)	1,374,200	0.553
10	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NORAZLAN BIN MOHAMAD NORDIN (CEB)	1,216,400	0.489
11	B & A FAMILY HOLDINGS SDN BHD	900,000	0.362
12	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHOW KWAI PING	889,000	0.357
13	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR BNP PARIBAS WEALTH MANAGEMENT SINGAPORE BRANCH (A/C CLIENTS-FGN)	869,900	0.350
14	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CITIBANK NA, SINGAPORE (JULIUS BAER)	810,000	0.326
15	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	792,300	0.318

List of Top 30 Holders
as at 20 February 2014

No	Name of shareholders	No. of shares	%
16	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	650,400	0.261
17	RHB NOMINEES (TEMPATAN) SDN BHD TELEKOM MALAYSIA BERHAD	613,779	0.247
18	LIM CHAI BENG	556,000	0.223
19	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NOOR AZMAN @ NOOR HIZAM B MOHD NURDIN (CEB)	485,000	0.195
20	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KOAY EAN CHIM (E-IMO)	442,000	0.177
21	LIEW YAM FEE	430,000	0.173
22	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MONINDAR KAUR A/P HARCHARAN SINGH (8037133)	424,000	0.170
23	AZZAT BIN KAMALUDIN	400,000	0.160
24	LIEW SIEW LAN	390,000	0.156
25	TAN LEE HWA	390,000	0.156
26	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SLEUTHS HOLDINGS SDN BHD	383,600	0.154
27	MAVIS TAN KENG MUN	383,000	0.154
28	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AGROMEGAH CORPORATION SDN BHD	366,800	0.147
29	TAN CHEW HUA	355,000	0.142
30	CHAN YOKE CHENG	350,000	0.140

List of Properties

held by BHIC Group

Location	Description	Areas	Tenure	Age	Net book value
BOUSTEAD PENANG SHIPYARD SDN BHD					
Pajakan Negeri No. 649 Lot No. 3222 Mukim 13 Daerah Timur Laut Pulau Pinang	Shipyard	20.21 acres	Leasehold expiring on 24/01/2072	42 years	28,428
HSD 6981 Lot No. 9777 Mukim 13 Daerah Timur Laut Pulau Pinang	Reclaimed land for the extension of the area of the shipyard	19.00 acres	Leasehold expiring on 24/01/2072	42 years	1,568
HSD 124733 Lot No. PT15804 Mukim Tanjung Tualang Daerah Kinta, Perak	Malaysia Army Equipment & Vehicle Testing Site	135.00 acres	Leasehold expiring on 09/09/2102	12 years	1,631
HS(D) 16204, PT8711 Mukim Lumut Daerah Manjung, Perak	Marine industry land	307,560 square metres	Leasehold expiring on 18/10/2099	13 years	–

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Boustead Heavy Industries Corporation Berhad

(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-Second Annual General Meeting of the Company to be held at The Royale Ballroom, Level 2, The Royale Chulan Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Thursday, 3 April 2014 at 3.00 p.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 2013 and the Reports of Directors and Auditors thereon.		
Ordinary Resolution 2	To re-elect David William Berry.		
Ordinary Resolution 3	To re-elect Abd Malik Bin A Rahman.		
Ordinary Resolution 4	To re-appoint Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Hj Mohd Nor (B).		
Ordinary Resolution 5	To approve the payment of Directors' Fees in respect of financial year ended 31 December 2013.		
Ordinary Resolution 6	To re-appoint Messrs. Ernst & Young as Auditors of the Company and authorise the Directors to determine their remuneration.		
Ordinary Resolution 7	Authority to Issue Shares.		
Ordinary Resolution 8	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions.		

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 _____ 2014

Signature of Member/Common Seal

No. of ordinary shares held:	
CDS Account No:	
Proportion of shareholdings to be represented by proxies	First Proxy: _____% Second Proxy: _____%
Contact No.:	

NOTES

- Only depositors whose names appear in the Record of Depositors as at 26 March 2014 shall be regarded as members and entitled to attend, speak and vote at the meeting.
- A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a Member of the Company and a member may appoint any persons to be his proxy. The provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the Annual General Meeting. Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportions of his holding to be represented by each proxy.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, 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.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or 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.
- 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.

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

BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD 11106-V

17th Floor, Menara Boustead, 69 Jalan Raja Chulan

50200 Kuala Lumpur, Malaysia

www.bhic.com.my



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

ERRATA TO ANNUAL REPORT 2013

To all Shareholders of Boustead Heavy Industries Corporation Berhad,

Reference is made to the Annual Report 2013 of Boustead Heavy Industries Corporation Berhad ("BHIC" or "the Company") which was dispatched to the Bursa Malaysia Securities Berhad and Shareholders of the Company on 12 March 2013.

The Board of Directors wishes to apologise for an error in the Annual Report of the Company for the Financial Year ending 31 December 2013 which has just come to light. On page 96 of the Report, the Statutory Declaration by the Chief Financial Officer, En Ahmad Nordin bin Mohammad, Pursuant to Section 169(16) of the Companies Act, 1965 is shown to have been given before Commissioner for Oaths, Arshad Abdullah (No W550), on 28 February 2014. In fact, on that date, the Company learned that En Arshad Abdullah was no longer practicing, and arrangements were made for another Commissioner for Oaths, Hajjah Jamilah Ismail (No W626) to take the declaration.

As is usual, the Annual Report is prepared based on certain assumptions and, in this case, it was assumed the Commissioner for Oaths would continue to be as in the previous year. Unfortunately, those responsible for obtaining the attestation of the Commissioner for Oaths did not inform those responsible for the preparation of the Annual Report of the change, and the Report went to print without the change in the name of the Commissioner for Oaths.

The Board deeply regrets this error.

BY ORDER OF THE BOARD

LILYROHAYU BINTI AB. HAMID @ KASSIM (MAICSA 7044674)
SUZANA BINTI SANUDIN (LS 008028)
Secretaries

Kuala Lumpur
Date: 2 April 2014

"A TRADITION OF STRENGTH AND STABILITY. A VISION OF GROWTH AND EXCELLENCE"

17th Floor, Menara Boustead, 69, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia.
Tel: +603-2078 7770 Fax: +603-2078 7768 Website: www.bhic.com.my