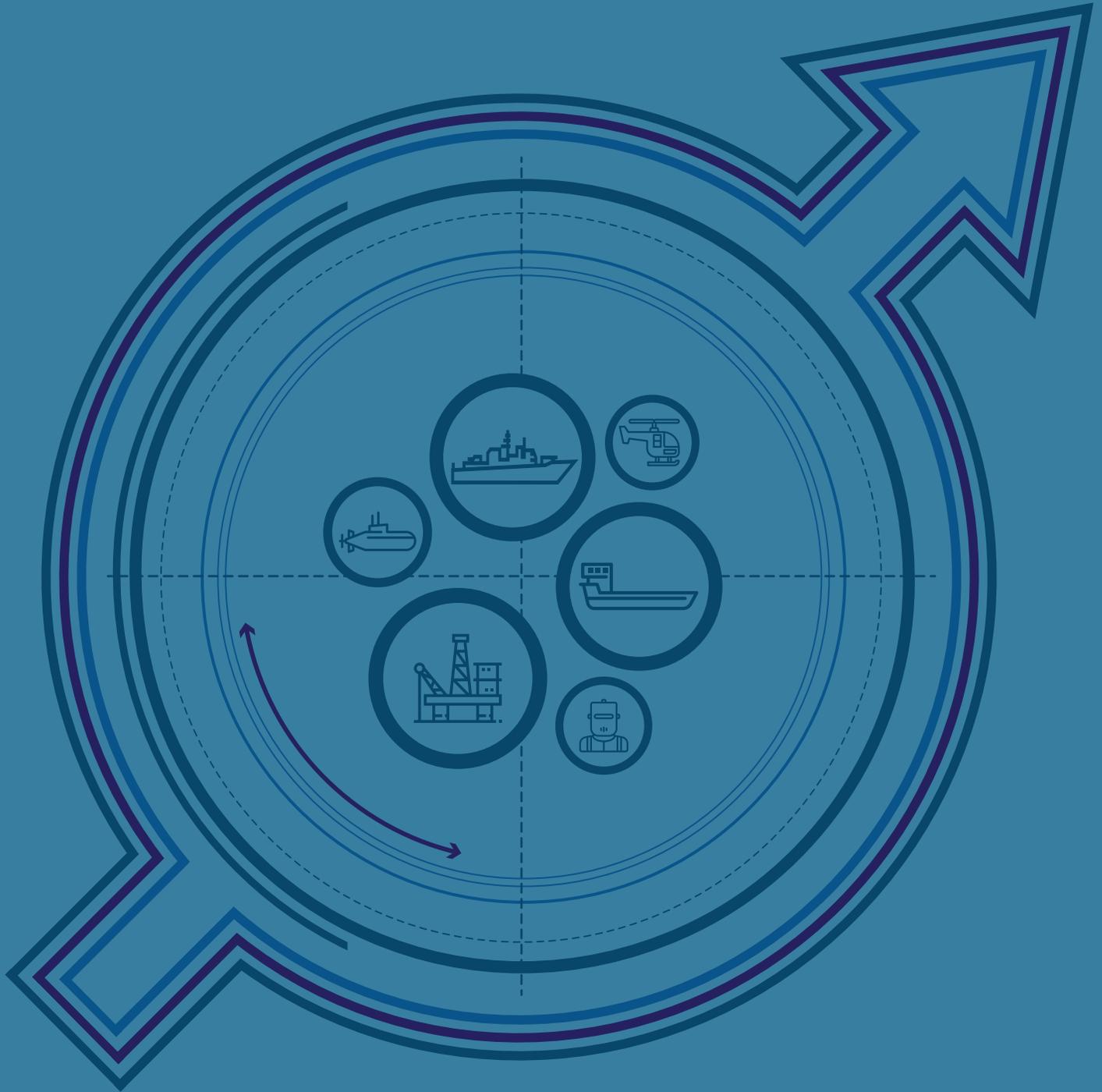




Boustead Heavy Industries Corporation Berhad 11106-V
(A member of Boustead Group)



PUSHING FORWARD

ANNUAL REPORT 2016



Pushing Forward

Our single-minded focus,
acute foresight and diversified nature
have enabled the Group to push
forward with sustained performance,
amidst a volatile economic climate.



You can download
this annual report at
www.bhic.com.my

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Chairman's Statement

“ Supporting the nation's critical assets in the defence industry will continue to be our focus ”

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Managing Director's Statement



“ Moving forward, the Group remains focused on productivity improvements coupled with efficiency and cost control measures ”

US About

Vision

THE LEADING MARITIME, DEFENCE & ENERGY SOLUTIONS PROVIDER

Mission

TO DELIVER PRODUCTS AND SERVICES MEETING QUALITY, TIME & COST OBJECTIVES TO MAXIMISE STAKEHOLDERS RETURNS

Our Core Values

BELONGING

- Ownership
- Loyalty
- Pride
- Teamwork

HONOUR

- Professionalism
- Courage
- Sincerity
- Dignity

INTEGRITY

- Conscience
- Honesty
- Confidentiality
- Accountability

COMMITMENT

- Initiative
- Innovation
- Enthusiasm
- Timeliness

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

- Shipbuilding of military and commercial crafts
- 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)

At a Glance

REVENUE
CONTINUING OPERATIONS

RM307
MILLION

EARNINGS
PER SHARE
30.87
SEN

PROFIT
BEFORE TAX
CONTINUING OPERATIONS

RM82
MILLION

TOTAL ASSETS
RM719
MILLION

EMPLOYEES
1,692

NET ASSETS
PER SHARE
139 SEN

TOTAL EQUITY
RM346
MILLION

Our Core Business



Defence & Security Division



The business units under this segment are principally engaged in shipbuilding and maintenance, repair and overhaul (MRO) of naval vessels. In addition, some units are involved in manufacturing of electronic products and undertake systems design, infrastructure and facilities development, project management and integration works and services, manufacturing, installation, and maintenance and repair of electrical and electronic appliances and apparatus

2016 performance review on page 46



Energy Division

The business unit under this segment is principally engaged in the fabrication of steel structures and platforms, marine engineering, oil and gas fabrication, hook-up and commissioning and other services related to oil and gas industry.

2016 performance review on page 52



Commercial Division

The business units under this segment are principally engaged in heavy engineering, new building, repair, MRO of commercial and private vessels, provision of training, and MRO of aircrafts.

2016 performance review on page 54



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 45th Annual General Meeting (“AGM”) of the Company will be held at Mutiara Ballroom, Ground Floor, The Royale Chulan Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 5 April 2017 at 2.30 p.m. to transact the following businesses:

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 and the Reports of Directors and Auditors thereon.
2. To re-elect Dato' Ishak Osman retiring in accordance with Article 77 of the Company's Articles of Association.
3. To re-appoint Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor as Director of the Company.
4. To re-appoint Datuk Azzat Kamaludin as Director of the Company.
5. To approve the following payments to Directors:-
 - (a) Directors' Fees of RM493,750 in respect of the financial year ended 31 December 2016; and
 - (b) Directors' meeting allowances payable to each Director of RM1,000 for each Board Meeting and/or Board Committee Meeting attended by the Directors with effect from 1 January 2017.
6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration.

**(Please refer
Note 1)**

Resolution 1

Resolution 2

Resolution 3

Resolution 4

Resolution 5

Resolution 6

7. To consider and if thought fit, to pass the following Ordinary Resolutions with or without modifications:

APPROVAL FOR DATO' ISHAK OSMAN TO CONTINUE IN OFFICE AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

"THAT subject to the passing of Ordinary Resolution 1, Dato' Ishak Osman who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby retained as an Independent Non-Executive Director of the Company."

Resolution 7

APPROVAL FOR ABD MALIK A RAHMAN TO CONTINUE IN OFFICE AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR

THAT Abd Malik A Rahman who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby retained as an Independent Non-Executive Director of the Company."

Resolution 8

8. To consider and if thought fit, to pass the following Ordinary Resolution with or without modifications:

AUTHORITY TO ALLOT SHARES

"THAT subject always to the Companies Act, 2016 and the approvals of the relevant authorities, the Directors be and are hereby empowered, pursuant to Section 76 of the Companies Act, 2016, to allot shares in the Company from time to time until the conclusion of the next AGM 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 shares of the Company for the time being."

Resolution 9

9. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED ADDITIONAL SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

"THAT subject to the Companies Act, 2016 ("the Act"), provisions of the Company's Memorandum & Articles of Association and the requirements of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("LR"), 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 2.4 of the Circular to Shareholders dated 14 March 2017 provided that such transactions are:

Resolution 10

Notice of Annual General Meeting

- (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. ("the Mandate")

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

- (a) the conclusion of the next 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 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by a resolution passed by the Shareholders in a General Meeting

whichever is earlier.

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

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

BY ORDER OF THE BOARD

LILYROHAYU AB. HAMID @ KASSIM

SUZANA SANUDIN

Secretaries

Kuala Lumpur

Date: 14 March 2017

NOTES:

1. Only depositors whose names appear in the Record of Depositors as at 27 March 2017 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.
3. A member shall be entitled to appoint not more than two (2) proxies to attend and vote at the AGM. 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 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:-**

1. Audited Financial Statements

The Audited Financial Statements are laid before the shareholders pursuant to the provision of Section 340(1)(a) of the Companies Act, 2016 ("CA 2016"). The same is for discussion and not put forward for voting.

2. Resolution 2 & 3

With the coming into force the CA 2016 on 31 January 2017, there is no age limit for directors.

At the 44th AGM of the Company held on 30 March 2016, both Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor and Datuk Azzat Kamaludin, who are above the age of 70, were reappointed pursuant to Section 129 of the Companies Act, 1965 to hold office until the conclusion of the 45th AGM. Their term of office will end at the conclusion of the 45th AGM and they have offered themselves for re-appointment.

The proposed Ordinary Resolutions 2 and 3, if passed, will enable both Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor and Datuk Azzat Kamaludin to continue to act as Directors of the Company and they shall subject to retirement by rotation at a later date.

The Nominating Committee ("NC") of the Company has assessed the criteria and contribution of Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor and Datuk Azzat Kamaludin and recommended for their re-appointment. The Board endorsed the NC's recommendation that Tan Sri Dato' Seri Ahmad Ramli Hj Mohd Nor and Datuk Azzat Kamaludin be re-appointed as Directors of the Company.

3. Resolution 4 & 5

Section 230(1) of the CA 2016 provides amongst others, that the fees of the Directors and any benefits payable to the Directors of a listed company shall be approved at a general meeting.

In this respect, the Board wishes to seek shareholders' approval for the following payments to Directors at the 45th AGM in two (2) separate resolutions as below:

- **Resolution 4** on payment of Directors' Fees totalling RM493,750 in respect of the financial year ended 31 December 2016; and
- **Resolution 5** on payment of Directors' meeting allowances payable to each Director of RM1,000 for each Board Meeting and/or Board Committee Meeting attended by the Directors with effect from 1 January 2017.

4. Resolution 7 & 8

The NC has assessed the independence of Dato' Ishak Osman and Abd Malik A Rahman, who served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, and recommended them to act as an Independent Non-Executive Director of the Company as they have shown that they:

- (a) have fulfilled the criteria under the definition of Independent Director as stated in the LR and will thus be able to function as a check and balance, and bring the element of objectivity to the Board.
- (b) have been with the Company for more than nine years and have good knowledge of the Company's business operations.
- (c) have devoted sufficient time and attention to their professional obligations for informed and balanced decision making.
- (d) have exercised due care during their tenure as an Independent Non-Executive Director of the Company and carried out their professional duties in the best interest of the Company and shareholders.

The Board endorsed the NC's recommendation that Dato' Ishak Osman and Abd Malik A Rahman be continued as an Independent Non-Executive Director of the Company.

5. Resolution 9

The Proposed Resolution 9, if passed, will give the Directors, from the date of the above AGM, authority to allot shares not more than 10% of the total number of issued shares of the Company subject to the approvals of all the relevant governmental and/or other regulatory bodies and for such purposes as the Directors may deem fit and in the interests of the Company ("Renewed General Mandate"). The authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next AGM of the Company.

The Renewed General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for the 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 44th AGM held on 30 March 2016 and which will lapse at the conclusion of the 45th AGM.

6. Resolution 10

The proposed Ordinary Resolution 10, 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 ("Mandate").

Further information on the Mandate is set out in the Circular to Shareholders dated 14 March 2017 which is dispatched together with the Company's Annual Report 2016.

BHIC in the News

Defence, security jobs to boost BHIC's performance

The firm expects better days ahead via its niche in the defence and security sector

by KANALIVICHI

AFTER three rough years in the shipbuilding business, Boustead Heavy Industries Corp Bhd (BHIC), a member of Boustead Group, is expected to receive a substantial amount of defence and security orders as a result of the rising national security issues.

Executive deputy chairman and CEO Tan Sri Ahmad Ruzbi Mohd Nor said the Malaysian firm's niche in the defence and security sector is expected to receive a substantial amount of defence and security orders from the government soon.

"For the last three years, we didn't do well because of our involvement in commercial shipbuilding," he said.

Five tankers, that had already been built, were not taken by a client and BHIC ended up spending the results. The charter market was also not doing well and the company had to find other ways to reuse profitable.

"Now we focus on defence and security, which is our core business. The country is facing problems at Sabah, particularly the Eastern Sabah Security Command (ESSC) and South China Sea — so the demand is high. Our services are highly required," Ahmad Ruzbi said.

He is confident that BHIC will contribute significantly to Boustead Group's earnings this year. However, he declined to share any earnings forecast.

"In the current situation where the shipping industry is in a global downturn, our option is to diversify without our core business. We do not need to slow down just because other economic activities are facing a slowdown."



In the current situation where the shipping industry is in a global downturn, our option is to diversify without our core business, says Ahmad Ruzbi Mohd Nor.

The security requirements are different from the ordinary economic conditions," he pointed out.

In August 2015, Boustead Group announced the reorganisation of its corporate structure in order to achieve better operational efficiencies, organisational clarity and focus on its core business.

The revised Boustead Group structure, which was completed in June this year, saw the division of the company into three main divisions: namely defence and security, commercial, and energy.

On its defence side, Ahmad Ruzbi said, adding that other ancillary businesses are expected including repairing orders, as well as maintenance and repair work.

Despite the shifted focus towards defence and security, the company does not plan to diversify its shipbuilding business.

"We'll remain confident on the commercial segment due to previous experience. There are quite a number of substantial contracts that we are expecting this year due to our long-term demand for our services."

The industry is actually critical. Previously it was a 10-year cycle, the collapse of the shipping industry was in 2008 and now after eight years there are still no recovery signs yet.

"It's a long stretch now. The industry in these days were filled with pessimism. They used to call ship yardmen and they want it shut, now that have evolved into an emergency issues," Ahmad Ruzbi said.

He said even though the global transport industry is in a slump, BHIC believed that the business can be run as usual in both low volume and high volume scenarios — while waiting on the company's annual expansion.

"We are not full working with new construction jobs despite our lower earnings from the oil and gas side due to the industry's spillover effect on us. At the moment, we are lucky because we have government contracts," Ahmad Ruzbi said.

For the financial year ended Dec 31, 2015, BHIC posted a net loss of RM27.3 million. The report continued in the first quarter ended March 31, 2016, when BHIC posted a net loss of RM19.4 million, as compared to RM42 million net profit for the corresponding quarter a year ago.

The loss was due to unmet demand for oil and gas, lower contribution from the charter segment, delivery-related maintenance repair and overhaul (MRO) activities and no new oil and gas refit shipbuilding contracts, BHIC said in an exchange filing.

However, in the second quarter ended June 30, 2016, BHIC reported a net profit of RM25.2 million from RM16 million for the same period last year, as managing successfully the sale of three tankers for US\$121 million (RM341 million).

The dividend in the upcoming quarter is expected to be RM0.05 per share.

"We are all aware of how difficult the current economic situation is. But no matter how bad things get, we will never compromise on security and defence," he said at a last keying ceremony for the six

new combat vessels in the Malaysian armadas will be equipped with capabilities to engage in anti-air, anti-surface and surface warfare.

Defence Minister Datuk Seri Hilman Zaidi said the LCS will strengthen the capabilities of the armed forces even in challenging economic circumstances.

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Lapangan luar Indon K1 Turku Abdul Rahuman yang ditunggalikan untuk kerja pemeliharaan atas refit kapal selam.

mas juga menerima seluruh kawanan refit kapal selam yang ditunggalikan kepada Traxx Resources Corporation Sdn Bhd (TRC) bermula 6 September 2014 dan selesai sepenuhnya pada 14 Januari 2016.

Itu membolehkan kerja pemeliharaan juga boleh dilaksanakan memampatkan tidak bengkel lautan Bengkel Piping, Hull, Machining, Combat Systems, Gun, Missile, Material dan Bengkel Bateri juga melaksanakan kerja pemeliharaan serta perubahan kapal selam.

Pengaliran kapal selam bermula dengan pemindahan bengkel dan kemudahan berhubung menjadikan TLDM sebagai rangkaian tenaga. Last yang memulakan infrastruktur kerja pemeliharaan kapal selam di Teluk. Iscoperne

In addition, the physical re-orientation for the first of the six ships as the 1st and 2nd Combat Ship (LCS) project had begun in 2013 — with the first-class ship delivery in 2015 and the remaining two ships to be delivered at regular intervals thereafter.

The company had also recently inked a memorandum of understanding (MoU) with the federal government in August, to establish the basis of cooperation on the Hassan Capital Development Programme for learners from the Royal Malaysian Navy and BHIC.



Royal Malaysian Navy submarine refit facility now fully functional

By CLEOPHAS JOHN GORDON

KOTA KINABALU — The Royal Malaysian Navy (RMN) Submarine Base now has a fully functional Support Class Submarine maintenance facility in South East Asia.

The refit facility was completed by Traxx Resources Corporation Sdn Bhd (TRC) on January 14 after work began on September 8, 2014.

It comprises three blocks that contain seven workshops to conduct maintenance and repair on piping, hull, machine, combat systems, composite, paint and battery, as well as officers and changing rooms.

Yesterday Naval Chief, Admiral Datuk Seri Ahmad Kamaruzaman Ahmad Badarudin visited the base to inspect the first refit work at the facility on the K1 Turku Abdul Rahman submarine.

The facility is located at the Boustead DCNS Naval Corporation Sdn Bhd dockyards.

He highlighted the current confidence among Malaysians on our submarines.

"For instance, the dock workers use a robot, which is manufactured by a company in Terengganu to clean the hull of the submarine and even the French engineers have acknowledged that this is an achievement because they still clean submarine hulls manually in France," he said.

He highlighted the current confidence among Malaysians on our submarines.

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Selaras tujuh tahun beroperasi, aset strategik negara ini kini perlu menjalani rutin pasang pulih atau refit bagi membolehkan ia selamat dan sedia untuk dioperasikan di tahap optimum pada masa hadapan.

Ahmad Kamaruzaman berkata, memulakan ini dapat memunculkan keperluan untuk mengahar sebuah kapal besar komposit atau peralatan kapal selam ke luar negara untuk dioperasikan dan dibaiki.

"Dengan terbentangnya infrastruktur ini, ia menjadikan MAKS TLDM sebagai pangkalan kapal selam terapan terunggul di rantau ini."

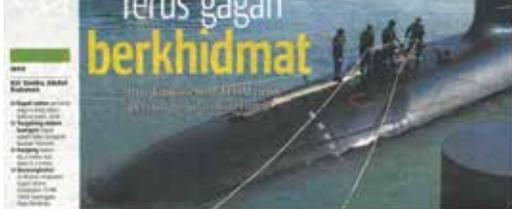
"Kemudahan dan infrastruktur ini juga mampu memampunkan tiga perkara tambahan dalam satu masa," katanya.

Berlalu berkata, program pasang pulih atau refit kapal selam perlu dilaksanakan di Malaysia agar dapat memulau pemeliharaan dan pengaliran kepada industri tempatan terbit dalam aktiviti pemeliharaan atau pasang pulih kapal selam.

Persekitaran itu, katanya, secara tidak langsung memampunkan keberkesanan kepada tempa mahir asing dan pengaliran mata wang asing ke luar negara, selain memupuk kerhasilan aset strategik negara.



Kamaruzaman berkata, memulakan ini dapat memunculkan keperluan untuk mengahar sebuah kapal besar komposit atau peralatan kapal selam ke luar negara untuk dioperasikan dan dibaiki.



Terus gagah berkhidmat

Ahmad Kamaruzaman, Admiral RMN

BHIC Dapat kontrak baik pulih kapal

Boustead Heavy Industries Corporation Bhd (BHIC), menerusi anak syarikatnya, Boustead DCNS Naval Corporation Sdn Bhd (BDNC), menandatangani kontrak dengan Kerajaan Malaysia bagi menyediakan perkhidmatan baik pulih untuk dua buah kapal selam milik negara.

BHIC dalam satu kenyataan, berkata kontrak yang dinilai pada dua jenis mata wang iaitu 169.86 juta euro dan RM432.40 juta, berdasarkan surat setuju terima, telah diterima dan diluluskan oleh BDNC pada 16 November 2015.

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Meterai pembelian LMS pada LIMA

KUALA LUMPUR - Perjanjian pembelian empat buah kapal misi pesiar (LMS) dari China bakal dimeterai pada Pameran Udara dan Maritim Antarabangsa Langkawi (LIMA) 2017 di Langkawi, Kedah pada Mac depan.

Panglima Angkatan Tentera, Jeneral Tan Sri Raja Mohamad Afandi Raja Mohamad Noor berkata, kerajaan Malaysia dan China akan menandatangani surat hasrat (LOI) bagi tujuan tersebut.

"Saya dimaklumkan LOI akan ditandatangani sewaktu LIMA nanti. Saya lihat perijinan (pembelian LMS) mengikut perancangan dan seterusnya pembinaan kapal akan dibuat.

"Bagaimanapun, waktu pembinaan kapal itu tidak dapat saya nyatakan," katanya pada sidang akhbar selepas Majlis Persembahan Rasmi Kalendar Angkatan Tentera Malaysia (ATM) dan Sambutan Tahunan Perwira Negeri Malaysia kepada Tabung Kebijakan Angkatan Tentera di sini semalam.

Pada November lalu, Perdana Menteri, Datuk Seri Najib Tun

Razak mengumumkan pembelian empat buah LMS dari China untuk kegunaan Tentera Laut Diraja Malaysia (TLDM). Harga pembelian empat kapal pesiar itu bernilai RM1 bilion.

LMS pertama akan siap sepenuhnya dan sedia untuk digunakan dalam tempoh 24 bulan selepas kontrak ditandatangani dengan kos pembelajarannya ditanggung sepenuhnya oleh TLDM menerusi peruntukan Program Transformasi IS-5.



CONTOH kapal misi pesiar yang dibeli Malaysia dari China. - Gambar Bebas

BHIC Q2 profit nearly triples to RM25.26m on variation orders

AMIR HUSYAM RASID

KUALA LUMPUR Boustead Heavy Industries Corp Bhd (BHIC) registered a higher net profit of RM25.26 million in the second quarter ended June 30.

The profit almost tripled from RM9.16 million in the same period a year ago, and BHIC attributed this mainly to variation orders for its oil and gas (O&G) divisions.

Group revenue for the quarter stood at RM69.7 million, down 4.61 per cent from RM72.92 million in the corresponding quarter a year ago.

However, the revenue was higher by 11 per cent compared with RM63 million in the preceding quarter.

Executive deputy chairman and managing director Tan Sri Ahmad Razali Mohd Nor said the quarter-on-quarter revenue increase was

related maintenance, repair and overhaul activities," said Razali in a statement.

He was confident that BHIC would be able to deliver an improved performance on the back of several positive developments within the group.

"The group will continue to implement its ongoing transformation

Sin Bhd, received and executed a supplementary contract with the Defence Ministry to formalise the extension of obligations in relation to the in-service support contract for six units of Fenec AS555SN helicopters for the Royal Malaysian Navy (RMN).

Its joint-venture company, Boustead DCNS Naval Corp Sin



Boustead Naval Shipyard Sdn Bhd is expected to deliver the first of six littoral combat ships for the Royal Malaysian Navy in 2018.

Transformasi pengurusan aset TLDM

» Susun semula armada babitkan lima kelas kapal supaya mudah diurus dengan kos lebih efektif

Angkutan kelas kapal kelasa lima, tetapi pada masa sama, kita akan tambah kapal-kapal dalam kategori kelasa ini," katanya selepas majlis penamakan perahut kelasa perahu TLDM dan perahut kebaratan Pasukan Stesen Selat TLDM (PSSSTLDM) di Kuala Lumpur, hari-taruna ini.

Program pemeliharaan kapal

Alhamdulillah kerana ini adalah, ini sebahagian aset TLDM sedia ada hari ini merupakan jumlah nilai 12 bilion, belukangan itu. Katanya, usaha memulau Program Transformasi 15-bulan. Armada TLDM itu akan memberi tampakan dalam pembinaan kapal kelasa tempatan bagi memperkukuhkan keberkesanan negara dalam menyediakan kapal.

Katanya, inisiatif baharu yang memtransformasikan pengurusan aset itu mampu meningkatkan keberkesanan wang TLDM dan memperkukuhkan tanggungjawab sosial korporat (TSR) kepada komuniti.

BHICAS peroleh lanjutan kontrak selenggara helikopter milik TUDM



AZIZAN

KUALA LUMPUR - Boustead Heavy Industries Corporation Bhd. (BHIC) melalui anak syarikatnya, BHIC Aero-services Sdn. Bhd. (BHICAS) telah memperoleh lanjutan kontrak bagi penyelenggaraan enam unit helikopter Fenec AS555SN milik Tentera Laut Diraja Malaysia (TLDM) pada 5 Februari lalu.

Menurut kenyataan yang dikeluarkan di sini semalam,



Sin Bhd, received and executed a supplementary contract with the Defence Ministry to formalise the extension of obligations in relation to the in-service support contract for six units of Fenec AS555SN helicopters for the Royal Malaysian Navy (RMN).

BHIC, defence ministry team up to cooperate on human capital

KUALA LUMPUR: Boustead Heavy Industries Corporation Bhd (BHIC) has entered into a memorandum of understanding

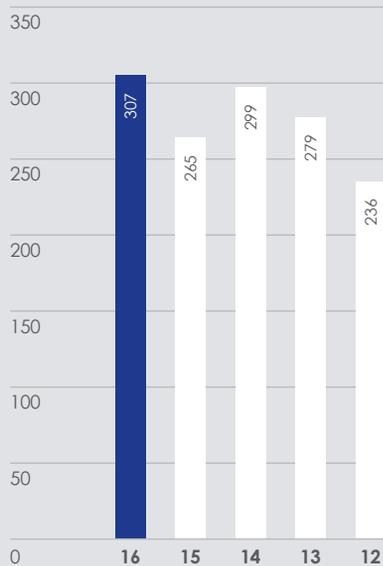
berakhir 31 Disember 2016 dan ia dijangka memberi sumbangan positif kepada pendapatan syarikat pada masa akan datang.

"Menerusi pengumuman kontrak ini, ia membuktikan bahawa pusat helikopter BHICAS telah mantap sebagai peneraju pusat penyelenggaraan bagi pesawat sayap berputar tentera terkemuka di negara ini," katanya.

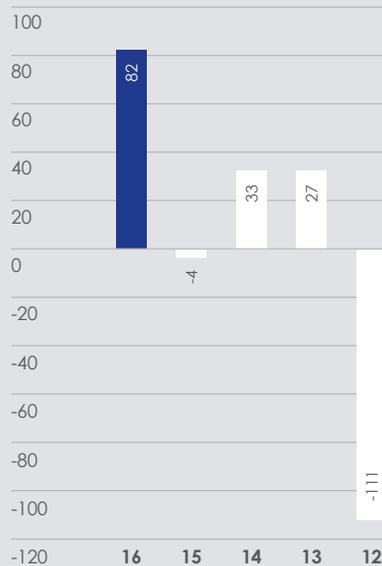
Five-Year Financial Highlights

| | 2016 | 2015 | 2014 | Restated 2013 | Restated 2012 |
|--|----------------|----------|---------|------------------|------------------|
| RM'000 | | | | | |
| Revenue from continuing operations | 307,518 | 265,641 | 299,560 | 279,447 | 236,582 |
| Profit / (Loss) before taxation from continuing operations | 82,208 | (3,949) | 33,038 | 27,225 | (111,020) |
| Profit / (Loss) after taxation from continuing operations | 80,507 | (7,538) | 30,550 | 23,426 | (108,920) |
| Profit / (Loss) attributable to shareholders | 76,696 | (30,739) | 17,850 | 3,161 | (139,132) |
| Shareholders' equity | 346,515 | 269,819 | 300,557 | 282,707 | 281,259 |
| Total equity | 346,515 | 269,820 | 300,593 | 282,743 | 284,582 |
| Total assets | 719,422 | 738,931 | 747,232 | 733,176 | 875,259 |
| Sen per share | | | | | |
| Earnings / (Loss) per share | 30.87 | (12.37) | 7.18 | 1.27 | (56.00) |
| Net dividend per share | - | - | - | - | 6.00 |
| Net assets per share | 139 | 109 | 121 | 114 | 113 |

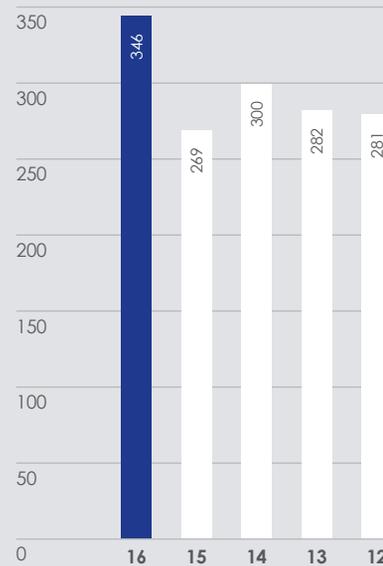
REVENUE
(CONTINUING OPERATIONS)
RM307 Million



PROFIT BEFORE TAXATION
(CONTINUING OPERATIONS)
RM82 Million



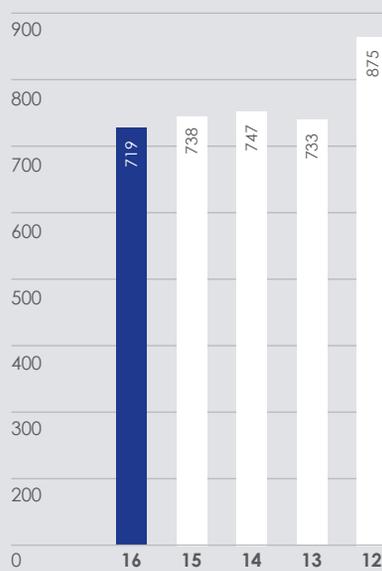
SHAREHOLDERS' EQUITY
RM346 Million



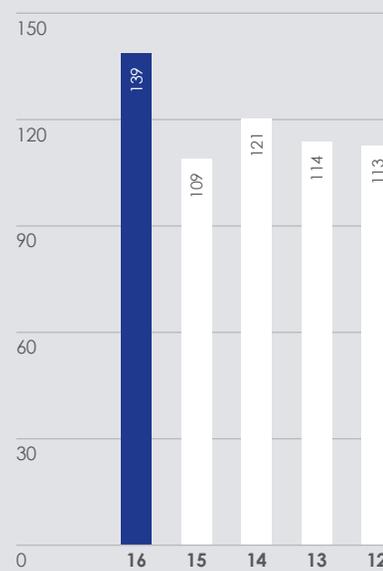
EARNINGS PER SHARE
30.87 sen



TOTAL ASSETS
RM719 Million



NET ASSETS PER SHARE
139 sen



Corporate Information

SECRETARIES

Lilyrohayu Ab. Hamid @ Kassim
Suzana Sanudin

AUDITORS

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market

WEBSITE

www.bhic.com.my

REGISTERED OFFICE

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

BOARD OF DIRECTORS

Tan Sri Dato' Seri Lodin Wok Kamaruddin
Chairman

Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor
Executive Deputy Chairman/ Managing Director

Datuk Azzat Kamaludin
Non-Independent Non-Executive Director

Dato' Ishak Osman
Independent Non-Executive Director

Abd Malik A Rahman
Independent Non-Executive Director

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 & Issuing House Services Sdn Bhd
Unit 30-01, Level 30, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur, Malaysia
Tel. No: 03-2783 9299
Fax. No: 03-2783 9222

PRINCIPAL BANKERS

Affin Bank Berhad
Affin Hwang Investment Bank Berhad
Alliance Bank Malaysia Berhad
AmBank (M) Berhad
AmInvestment Bank Berhad
Asian Finance Bank Berhad
Maybank Investment Bank Berhad

Financial Calendar

Financial Year

1 January to 31 December 2016

Results

First quarter

Announced 13 May 2016

Second quarter

Announced 9 August 2016

Third quarter

Announced 9 November 2016

Fourth quarter

Announced 24 February 2017

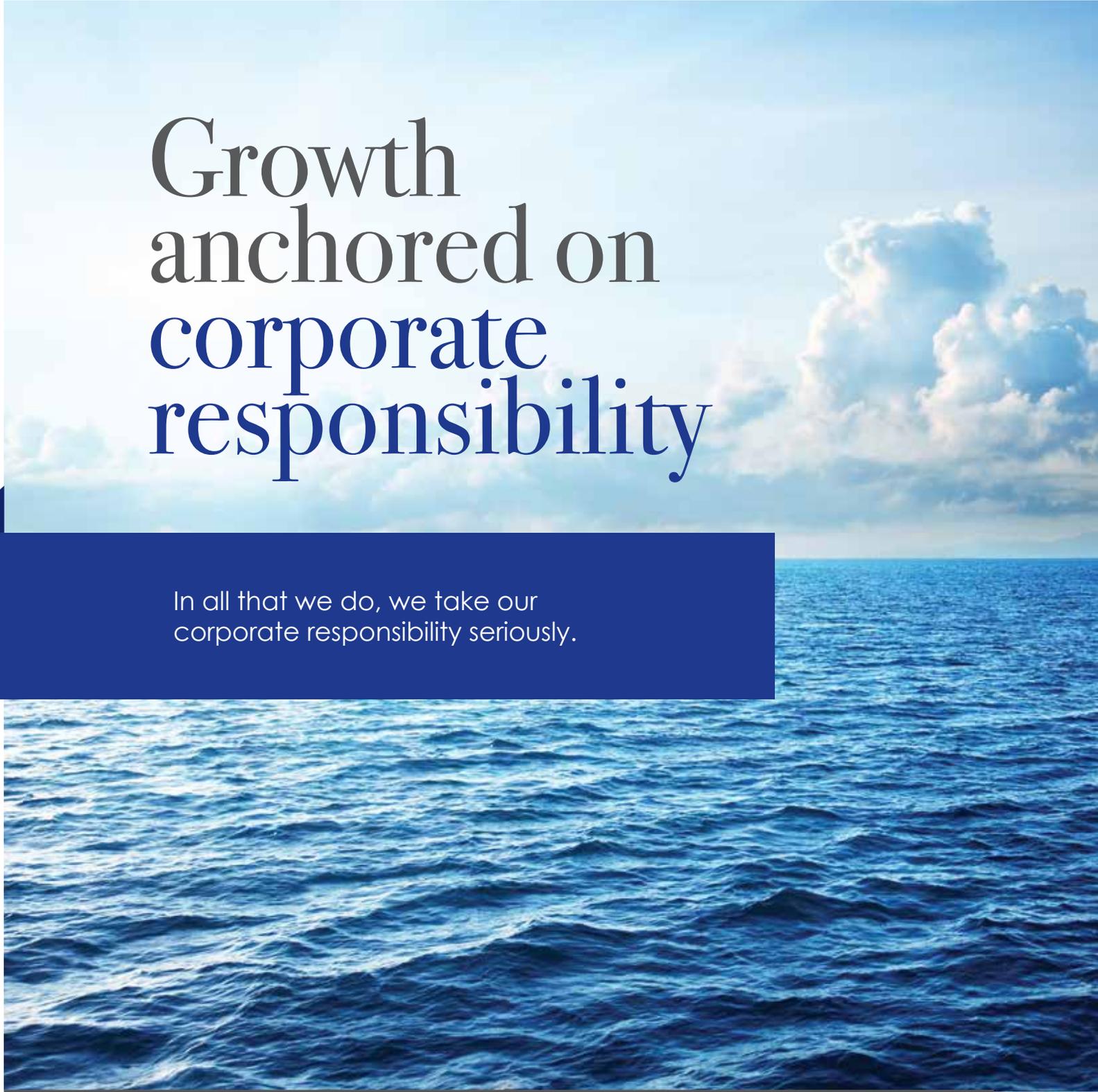
Annual Report

Issued 14 March 2017

Annual General Meeting

To be held 5 April 2017

Corporate Responsibility



Growth anchored on corporate responsibility

In all that we do, we take our
corporate responsibility seriously.



As a responsible corporate leader, the BHC Group is committed to making a positive difference in society. In line with our strong commitment to positive value creation, our corporate responsibility efforts during the year were anchored on supporting the economy and the marketplace, empowering our vendors, nurturing our human capital, giving back to society and maintaining a strong custodianship of the environment.



Economic



Environment



Social

Corporate Responsibility



MARKETPLACE

The Group is honoured to be able to play a significant role in advancing the nation's defence capabilities, not only through the supply of defence assets and related services, but also through the provision of training programmes. Our efforts in supporting the marketplace are undertaken with a long-term view of making Malaysia a regional defence hub.

In the interest of developing stronger capabilities in the maritime industry, we signed a Memorandum of Understanding with the Ministry of Defence for a human resources development programme for RMN personnel.

Through this programme, the participants will be exposed to a range of technical courses aimed at improving mastery of the latest sophisticated engineering and naval techniques. These highly-prized skills will be beneficial to them not only during their tenure with the RMN but also when they leave service.

Apart from providing the requisite expertise, we will furnish the RMN with state-of-the-art infrastructures and simulators in our ongoing effort to add value to our nation by improving the quality of Malaysia's naval personnel.

A significant ongoing project for the Group is the construction of six units of Littoral Combat Ships (LCS) at Boustead Naval Shipyard in Lumut. The first-of-its-kind project in the country is progressing well, with the six vessels not only set to strengthen the nation's critical defence assets, but also promote transfer of knowledge and develop high level skills-sets.

In addition, the year saw BHIC once again participating in the Defence Services Asia (DSA) Exhibition and Conference in Kuala Lumpur which is one of the largest events of its kind. The DSA enables us to showcase our expertise and integrated capabilities in the defence sector, providing us with the opportunity to interact with our peers from around the world on industry issues and challenges.

During the year, BHIC took part in an industry dialogue session organised by the Malaysian Investment Development Authority (MIDA). One of the topics raised was how to attract more foreign direct investment and expose local players in the marine and defence industries to international markets.

In addition, we conducted a transitional training for former RMN personnel to provide them with industry exposure and enable them to gain a second career after retiring from the service.



YB Dato' Seri Hishammuddin Tun Hussein receiving replica cheque of RM5 million on behalf of Yayasan LTAT from Tan Sri Lodin Wok Kamaruddin and Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor



Vendor Development Programme (VDP) Graduation Ceremony



VENDOR DEVELOPMENT

An integral component of our ecosystem is our shipyards in Lumut, Langkawi and Penang which have created multiplier effects by facilitating the ongoing development of related maritime industry players, support service providers, subsidiaries, business associates, small and medium enterprises as well as entrepreneurs.

A crucial stakeholder in BHIC Group's business is our vendors. In keeping with Malaysia's aspiration to become a high-income, developed nation by 2020, we have continued to ensure that the vendors we work with benefit from the progress we make as a business entity. By enhancing the capability and capacity of our vendors, we are then able to raise the competitiveness of the Malaysian maritime industry.

Our Vendor Development Programme (VDP) established in 2008 continues to make a positive impact on participating vendors. The VDP's success is testament to BHIC's commitment to the national agenda of identifying, recruiting and nurturing innovative, reliable, competitive and competent local vendors in the industry.

Under the programme, we conducted two ISO 9001:2015 QMS Awareness and Project Management for Shipbuilding Industry training sessions, which drew the participation of 18 vendors. This provided them with the opportunity to improve their capabilities and competencies in Quality and Project Management.

Corporate Responsibility



Transfer of Know-How Graduation Ceremony of technical personnel of BDNC and BSES on 12 April 2016



HUMAN CAPITAL

Nurturing a workforce that is engaged, passionate and dedicated continued to play a key role during the year. While we strive to create an environment that allows employees to flourish, we continued to uphold qualities that have enabled the BHIC Group to retain and attract employees of high calibre.

As a means to strengthen our human capital, we continued to implement numerous training programmes to further their development and create a highly skilled, competent and dedicated talent pool.

Our Internship Programme has thus far benefitted 188 students who completed their internship journey with BHIC, boosting their employability and providing an enriching experience and exposure to working life. Our programme focuses on nurturing the next generation's working capabilities by honing essential working and professional skills and helping them to realize their full potential when they enter the workforce.

Graduates, on the other hand, were given an opportunity to participate in the Skim Latihan 1Malaysia (SL1M). In 2016, the BHIC Group enrolled 26 graduates into the programme.

Other efforts have resulted in the strengthening of the proficiency of young engineers employed within the Group. The Professional Engineers Development Programme saw 24 engineers completing 60 hours of training in Phase 1 in preparation to become professional engineers as required by the Board of Engineers Malaysia.

To create a conducive working environment, we continued to ensure the needs of our workforce were met by advocating workforce diversity, equal opportunity and gender equality. In line with this, training and awareness programmes were regularly implemented to ensure employee well-being and that their welfare remains a priority.



COMMUNITY

The importance of education in alleviating poverty and creating brighter futures for the young cannot be underestimated. By educating the young, not only are we improving their prospects in life, we are also empowering them with the tools needed for them to be catalysts for positive change and growth in their own communities.

In line with this, during the year, the Group donated 15 computers to Destiny Centre, a refugee day-care and pre-learning centre for underprivileged children which is supported by the United Nations High Commissioner for Refugees and run by Persatuan Kebajikan & Pembangunan Modal Insan Selangor.



ENVIRONMENT

Being aware of the environment we operate in and how our activities can have an impact are key to our progress. In view of this, the Group has implemented various initiatives and a code of conduct on how our workforce can protect the environment and leave minimal if not zero carbon footprint.

In compliance with environmental regulations, a set of environmentally-conscious measures has been implemented at all our shipyards, including operational controls to alleviate oil spills and detect leakages. To reduce carbon emissions, we have a zero-burning policy in place. Additionally, for optimum energy efficiency, energy audits are conducted periodically.

We also practice green logistics through recycling and reusing of materials as well as reducing wastage of materials and resources whenever possible and practical.

As a custodian of the environment, these measures allow the BHIC Group to safeguard our natural resources while conducting our business operations in an environmentally responsible manner.

The Group also introduced the Safety & Health Officer (SHO) Development Programme to develop highly capable Safety & Health Officers. A briefing session and preliminary assessments were conducted in August 2016 at BN Shipyard with selected employees. Twelve employees have been identified as potential SHOs at various premises throughout the Group. They are currently undergoing the SHO programme before being certified as SHOs. The Group is expecting to train at least four more officers by end-2017.

In compliance with the Occupational Health and Safety Assessment Series (OHSAS) 18001, HSE audits were carried out at our Lumut, Langkawi and Penang yards. This will help ensure improvement in the HSE Management System across the Group with more yards subscribing to the OHSAS 18001 certification.

Based on the audit findings, BN Shipyard has complied with all the OHSAS 18001 requirements. The overall health and safety objectives were communicated effectively to all shipyard personnel and employees' commitment to comply with relevant OHSAS legislation and regulations has improved throughout the Group.

Profile of Directors

Tan Sri Dato' Seri Lodin Wok Kamaruddin

Chairman

Age : 67
Gender : Male
Nationality : Malaysian

Date the Director was first appointed to the Board

1 January 2008

Working Experience

- 1973 to 1982 – General Manager, Perbadanan Kemajuan Bukit Fraser
- 1983 – Deputy General Manager, Lembaga Tabung Angkatan Tentera (LTAT)
- 1985 to present – Chief Executive, LTAT
- 1991 to present – Group Managing Director, Boustead Holdings Berhad (BHB)
- 2010 to present – Deputy Chairman, BHB

Qualification

- 1972 – Bachelor of Business Administration, University of Toledo, Ohio, USA
- 1973 – Master of Business Administration, University of Toledo, Ohio, USA
- Member of Asian Institute of Chartered Bankers (AICB)

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM2,000,000 comprising of 2,000,000 Ordinary Shares

Directorship in other public listed companies

- Boustead Holdings Berhad
- Pharmaniaga Berhad
- Boustead Plantations Berhad

Directorship in public companies

- Boustead Properties Berhad
- UAC Berhad
- MHS Aviation Berhad
- Badan Pengawas Pemegang Saham Minoriti Berhad
- AXA Affin Life Insurance Berhad
- Affin Hwang Investment Bank Berhad
- Affin Hwang Asset Management Berhad

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil



Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor

Executive Deputy Chairman /
Managing Director



Age : 73
Gender : Male
Nationality : Malaysian

Date the Director was first appointed to the Board

17 August 2005

Working Experience

- 1964 to 1999 – Royal Malaysian Navy (Retired as Chief of Navy)
- 2005 to Present – Executive Deputy Chairman/Managing Director of Boustead Heavy Industries Corporation Berhad and Boustead Naval Shipyard Sdn Bhd

Qualification

- 1965 – Britannia Royal Naval College Dartmouth, United Kingdom
- 1976 – Indonesian Naval Staff College
- 1981 – Masters Degree, United States Naval War College and Naval Post-Graduate School in Monterey
- 1982 – Masters Degree in Public Administration, Harvard University, United States

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM2,002,100 comprising of 2,002,100 Ordinary Shares

Directorship in other public listed companies

- Favelle Favco Berhad

Directorship in public companies

- Affin Islamic Bank Berhad

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Profile of Directors

Datuk Azzat Kamaludin

Non-Independent
Non-Executive Director



Age : 72
Gender : Male
Nationality : Malaysian

Date the Director was first appointed to the Board

17 August 2005

Working Experience

- 1970 to 1979 – Administrative and Diplomatic Officer, Ministry of Foreign Affairs, Malaysia
- 1993 to 1999 – Member of Securities Commission
- 1979 to present – Partner of Azzat & Izzat

Qualification

- 1969 – Degree in Law and International Law, University of Cambridge, UK
- 1970 – Barrister-at-Law, Middle Temple, London UK

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM350,000 comprising of 350,000 Ordinary Shares

Directorship in other public listed companies

- Boustead Holdings Berhad
- KPJ Healthcare Berhad
- Axiata Group Berhad

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Dato' Ishak Osman

Independent Non-Executive Director



Age : 68
Gender : Male
Nationality : Malaysian

Date the Director was first appointed to the Board

22 January 1998

Working Experience

- 1971 to 1982 – Ministry of Finance Malaysia
- 1982 to 1984 – Senior Manager Project Finance, Amanah Merchant Bank Berhad (now known as Alliance Bank)
- 1984 to 1986 – General Manager Banking & Advisory, Amanah Merchant Bank Berhad (now known as Alliance Bank)
- 1987 to 1989 – Senior General Manager (Operations), Kompleks Kewangan Malaysia Berhad (now known as Malaysian Industrial Development Finance - MIDF)
- 1987 to 1989 – Directors – Amanah Merchant Bank Berhad, Malaysia Discount Berhad, Amanah International Insurance Berhad, Malaysia Credit Finance Berhad, KK Industries Berhad (These companies had been restructured and renamed. Some being absorbed by MIDF)
- 1989 to 1991 – Managing Director, Malaysia Credit Finance Berhad (absorbed by Maybank)
- 1992 to 1996 – CEO, My Store Sdn Bhd
- 1997 – Senior General Manager, Business Focus Sdn Bhd
- 1998 to 2006 – Executive Director, PSC Industries Berhad (now known as Boustead Heavy Industries Corporation Berhad)

Qualification

- 1971 – Degree in Economics (Hons) Major in Accountancy, University of Malaya
- 1977 – Master of Business Administration in Finance, Leuven University, Belgium

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM10,000 comprising of 10,000 Ordinary Shares

Directorship in other public listed companies

Nil

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Profile of Directors

Abd Malik A Rahman

Independent Non-Executive Director



Age : 68
Gender : Male
Nationality : Malaysian

Date the Director was first appointed to the Board

1 June 2008

Working Experience

- 1969 to 1970 – Peat Marwick Mitchell (KPMG)
- 1970 to 1976 – Esso Group of Companies
- 1976 to 1981 – Colgate Palmolive (M) Sdn Bhd
- 1981 to 1985 – Amway (Malaysia) Sdn Bhd
- 1985 to 1991 – Fima Metal Box Berhad
- 1991 to 1994 – Guinness Anchor Berhad
- 1994 to 2003 – General Manager, Kelang Multi Terminal Sdn Bhd (Westports)

Qualification

- 2002 – Certified Financial Planner (USA)
- 1990 – Member - Malaysian Institute of Management
- 1975 – Member - Malaysian Institute of Certified Public Accountants
- 1975 – Member - Chartered Management Institute (UK)
- 1974 – Chartered Accountant - Malaysian Institute of Accountants
- 1973 – Fellow - Association of Chartered Certified Accountants (UK)

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM3,000 comprising of 3,000 Ordinary Shares

Directorship in other public listed companies

- Affin Holdings Berhad
- CYL Corporation Berhad
- Innity Corporation Berhad
- Lee Swee Kiat Group Berhad

Directorship in public companies

- Affin Hwang Investment Bank Berhad
- Affin Bank Berhad
- Affin Hwang Asset Management Berhad

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil



Senior Management Team



Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor
Managing Director



Anuar Murad
Director, Defence & Security Division



Ahmad Nordin Mohammad
Chief Financial Officer



Ir. Azman Ahmad
Managing Director,
Boustead Penang Shipyard Sdn Bhd



Ir. Ee Teck Chee
Director of Operations,
Boustead Naval Shipyard Sdn Bhd



Ir. Sukhdev Singh A/L Khazan Singh
Principal Staff Officer (Submarine)

Profile of Senior Management Team

Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor

Managing Director

Age : 73
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

17 August 2005

Working Experience

- 1964 to 1999 – Royal Malaysian Navy (Retired as Chief of Navy)
- 2005 to Present – Executive Deputy Chairman/Managing Director of Boustead Heavy Industries Corporation Berhad and Boustead Naval Shipyard Sdn Bhd

Qualification

- 1965 – Britannia Royal Naval College Dartmouth, United Kingdom
- 1976 – Indonesian Naval Staff College
- 1981 – Masters Degree, United States Naval War College and Naval Post-Graduate School in Monterey
- 1982 – Masters Degree in Public Administration, Harvard University, United States

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM2,002,100 comprising of 2,002,100 Ordinary Shares

Directorship in other public listed companies

- Favelle Favco Berhad

Directorship in public companies

- Affin Islamic Bank Berhad

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Anuar Murad

Director, Defence & Security Division

Age : 51
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

21 February 2011

Working Experience

- 1988 to 2010 – Royal Malaysian Navy, Marine Engineer, Principal Naval Overseer, Director Engineering Services
- 2010 to 2011 – General Manager, Boustead Heavy Industries Corporation Berhad (BHIC)
- 2011 to present – Director of Defence & Security Division, BHIC/Programme Director, Littoral Combat Ships

Qualification

- 1994 – Masters of Science in Ship Production Technology, University of Strathclyde, Glasgow, Scotland
- 1997 – Bachelor of Science in Naval Architecture & Marine Engineering, University of New Orleans, Louisiana, USA
- 2008 – Masters of Science in Defence Studies, Universiti Kebangsaan Malaysia, Bangi
- 2008 – Diploma Malaysian Armed Forces Defence College

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Ahmad Nordin Mohammad

Chief Financial Officer

Age : 49
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

1 March 2011

Working Experience

- 1992 to 1994 – Accountant, Perwaja Steel Sdn Bhd
- 1994 to 1996 – Financial Controller, Sistem Televisyen Malaysia Berhad
- 1996 to 1999 – Chief Executive Officer /Alternate Director, TV3 Network Limited / GAMA Film Company Limited
- 1999 to 2000 – General Manager, Cableview Services Sdn Bhd
- 2000 to 2002 – Director of Finance, MIMOS Semiconductor Sdn Bhd
- 2002 – Chief Operating Officer, CMC Engineering Sdn Bhd
- 2002 to 2006 – Chief Financial Officer, MIDCorp Partnership Sdn Bhd / SyMMiD Corporation Sdn Bhd
- 2006 to 2011 – Financial Controller - Asia, Aljazeera International (Malaysia) Sdn Bhd
- 2011 to present – Chief Financial Officer, Boustead Heavy Industries Corporation Berhad

Qualification

- 1992 – Fellow, Association of Chartered Certified Accountants (UK)
- 2011 – Chartered Accountant, the Malaysian Institute of Accountants

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Profile of Senior Management Team

Ir. Azman Ahmad

Managing Director,
Boustead Penang Shipyard Sdn Bhd

Age : 53
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

1 January 2014

Working Experience

- 1987 to 1995 – Sarawak Shell Berhad
- 1995 to 1998 – KUB Malaysia Berhad as GM of Project and Tenders
- 1995 to 2003 – CEO KUB Prasarana
- 2004 to 2009 – CEO Ingenuity Solutions Berhad
- 2009 to 2013 – Director Tele Dynamics Sdn Bhd
- 2014 to present – Managing Director of Boustead Penang Shipyard
- July 2015 to present – Industry Advisory Panel - Malaysian Petroleum Resources Corporation, unit of PEMANDU

Qualification

- 1981 to 1986 – Bachelor's Degree in Electrical and Electronics Engineering from the California State University, USA with a Degree Minor in Business Administration
- 1994 – Corporate Member, Institution of Engineers, Malaysia (MIEM)
- 1995 – Registered professional Electrical Engineer with the Malaysian Board of Engineers, receiving professional status (P. Eng.)

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Ir. Ee Teck Chee

Director of Operations,
Boustead Naval Shipyard Sdn Bhd

Age : 60
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

1 January 2017

Working Experience

- 1974 to 1991 – Royal Malaysian Navy (Retired as Lieutenant Commander)
- 1991 to 2016 – Marine Industry
- 2017 to present – Director of Operations of Boustead Naval Shipyard Sdn Bhd

Qualification

- 1980 – Degree in Mechanical Engineering
- 1989 – Professional Engineer (2015 – with Practising Certificate)
- 2012 – Fellow member of the Institute of Marine Engineering, Science and Technology (IMarEST) United Kingdom
- 2013 – Qualified trainer certified by the Human Resources Development Fund (HRDF)
- 2015 – Certified "Industry Expert" by the Ministry of Human Resources, Maritime sector

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM5,000 comprising of 5,000 Ordinary Shares

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil

Ir. Sukhdev Singh A/L Khazan Singh

Principal Staff Officer (Submarine)

Age : 61
Gender : Male
Nationality : Malaysian

Date of Appointment to present position

1 July 2013

Working Experience

- 1974 to 2002 – Royal Malaysian Navy (Retired as Naval Captain)
- 2002 to 2008 – PV Project (PSC-ND now known as Boustead Naval Shipyard Sdn Bhd), Head of ILS
- 2008 to 2013 – BHIC Head of Information Systems/ Operations (Submarine Division)
- 2013 to present – Principal Staff Officer (Submarine), MD Office

Qualification

- 1977 to 1980 – B Sc (Electrical Engineering) First Class Honours
- 1989 to 1991 – M Sc (Operations Research)
- Professional Engineer (P Eng), Malaysia
- Chartered Engineer (C Eng), UK
- Member of Institution of Engineers Malaysia (MIEM)
- Member of Institution of Engineering and Technology (IET), UK

Details of any interest in the securities of Boustead Heavy Industries Corporation Berhad

RM5,000 comprising of 5,000 Ordinary Shares

Directorship in public companies

Nil

Family relationship with any director and or major shareholder of the Company

No

Conflict of interests with the Company

No

Other than traffic offences, any convictions for offences within the past 5 years and other particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

Nil



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

Chairman's Statement

Dear Valued Shareholders,

Amidst challenging macroeconomic circumstances on both local and global fronts, the BHIC Group stood firm to deliver a year of promising growth.

ECONOMIC LANDSCAPE

2016 saw several external developments taking place that had far-reaching impact on the world economy and global markets. From Britain's decision to exit from the European Union and Donald Trump's surprise win in the United States presidential election to soft oil prices, currency fluctuations and geo-political uncertainties, it was an eventful year.

The Malaysian Ringgit weakened significantly against the U.S. Dollar compared with other emerging market currencies, adversely affecting companies with dollar-denominated exposures.

The shipbuilding and ship repair industry during the year was generally sluggish as a result of weak global economic growth, volatile oil prices and soft demand for ships and offshore structures. Compounded by rising cost of raw materials and operations, this led to a challenging operating landscape for the Group.

Despite this, the BHIC Group achieved stronger results by focusing on our core competencies and exercising prudent financial management.

Chairman's Statement



BHIC's shipyards have long-standing experience in delivering quality ships and ship repair services

FINANCIAL PERFORMANCE

I am pleased to report that our Group recorded a profit after tax of RM76 million in 2016, a significant rise from the deficit of RM30 million recorded in the preceding financial year. The Group's performance can be attributed largely to its Defence and Security Division, where maintenance, repair and overhaul activities took the lead.

Net assets per share were RM1.39 and shareholders' funds stood at RM346 million as at year end.

The ongoing internal reorganisation and rightsizing exercise being implemented in phases Group-wide since early 2016 are starting to bear fruit. This will enable us to attain better operational efficiencies and a more

focused approach in utilising our competencies as we move forward.

DIVIDEND

In line with the improved financial performance, it is my pleasure to announce that the Board of Directors approved the payment of an interim single-tier dividend of 3 sen per share for the financial year ending 31 December 2017.

MAJOR ACHIEVEMENTS

The Group's associate company Boustead Naval Shipyard Sdn Bhd (BN Shipyard) continued to make significant progress in the construction of the Littoral Combat Ships (LCS) for the Royal Malaysian Navy (RMN).

Currently in the detailed design phase, the first of six LCS had its keel laying ceremony officiated by the Minister of Defence, YB Dato' Seri Hishammuddin Tun Hussein in March 2016.

We expect the completion of the first LCS in 2019. The keel laying ceremony for the second LCS held in February 2017 was officiated by the Deputy Minister of Defence, YB Dato' Sri Mohd Johari Baharum.

Under the Entry Point Project (EPP) of the Economic Transformation Programme, the Malaysian Government is promoting in-country design capabilities for Offshore Support Vessels (OSV). BHC Group has been entrusted to undertake

this project and has completed the first locally designed OSV. As part of the EPP, we will be training up to 160 engineers and technicians in shipbuilding and ship repair at BN Shipyard.

SUSTAINABILITY

The BHC Group believes that sustainable business practices are vital to ensuring progressive growth. Hence, the Group is fully committed to making sustainability central to its operations to create a positive, lasting reputation for the organisation while cultivating sound relationships with all its stakeholders.



BN Shipyard in Lumut, Perak is the premier shipyard for RMN's vessels

Chairman's Statement

THE WAY FORWARD

The shipbuilding and ship repair industry is still viewed as a key sector to support Malaysia's economic growth. Various incentives provided to industry players, Malaysia's strategic location along busy shipping lines, competitive costs and availability of skilled and talented workforce combined to make the industry an attractive one. Efforts to upskill the industry's human capital will further strengthen the industry's capabilities. Although the demand for ships is low at the moment it is essential to take a long-term view of the prospect of the industry.

For the first time in the nation's history, Malaysia will work with China to build and deliver four Littoral Mission Ships (LMS) to the RMN. This was announced by YAB Prime Minister Dato' Sri Najib Tun Abdul Razak during his visit to China in October 2016. The LMS project will play a role in modernising the RMN's fleet, while transferring knowledge and know-how to the local workforce. Two of the ships will be constructed in China while the subsequent two units will be built in Malaysia under a joint venture between BN Shipyard and China Shipbuilding and Offshore International Co Ltd.



BHICAS provides MRO services for helicopters. Seen here is a EC725 helicopter of the Royal Malaysian Air Force which is serviced by BHICAS



Minister of Defence, YB Dato' Seri Hishammuddin Tun Hussein receiving a replica of the LCS during the first LCS keel laying ceremony held at BN Shipyard

While the Malaysian Government reduced the allocation to the Ministry of Defence in the 2017 Budget by 13%, this decrease will not affect projects in hand that are currently being carried out by the Group, including the ongoing construction of LCS for the RMN.

Supporting the nation's critical assets in the defence industry will continue to be our focus in the current financial year. This includes being committed to delivering service of the highest quality on the refitting work of two Prime Minister Class submarines, KD TUNKU ABDUL RAHMAN and KD TUN RAZAK.

As we move forward in 2017, we are optimistic that the Group will remain resilient over the long term by building a strong foundation in our core businesses and manage costs efficiently. We will continue to enhance our operational efficiencies and pursue opportunities for growth in order to deliver sustainable results to our shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to the Management team and all warga BHIC, the most valuable asset of the company, for your hard work, dedication and perseverance. These are the qualities that will help see us through this challenging times and inspire us to keep pushing forward in the year ahead.

I am grateful to the various Malaysian Government agencies including the Prime Minister's Office, Ministry of Finance, Ministry of Defence, Ministry of Transport, the RMN, the Royal Malaysian Air Force, Malaysian Army, the Malaysian Armed Forces and the Malaysian Maritime Enforcement Agency for their trust and support towards BHIC.

My sincere appreciation also goes to our shareholders, clients, bankers, vendors and regulatory bodies for their invaluable support. Last but not least, to my fellow members of the Board, I thank you for your expertise, insights and guidance throughout the year.

TAN SRI DATO' SERI LODIN WOK KAMARUDDIN
Chairman



**TAN SRI
DATO' SERI
AHMAD RAMLI
HAJI MOHD NOR**
MANAGING DIRECTOR

Managing Director's Statement

BHIC faced tremendous headwinds in 2016 on the back of lower demand for ships and offshore structures, as well as low oil prices.

Against the background of listless global economic growth, various sectors of the economy including the marine industry, have little to cheer about. High raw materials and operating costs as well as currency fluctuations made the operating landscape even more challenging.

Despite this, BHIC was able to achieve a laudable financial performance through prudent financial management, good governance and a committed and capable workforce equipped with the relevant competencies and expertise.

FINANCIAL PERFORMANCE

The Group posted a profit after tax of RM76 million on the back of RM307 million in revenue, compared with a deficit of RM30 million with RM265 million in revenue in the preceding year. The key contributors were the In-Service Support (ISS) provided to the RMN's submarines and project management expertise for the Littoral Combat Ships (LCS) project.

Managing Director's Statement

In addition, Joint Venture (JV) companies posted a slightly higher share of contribution primarily due to reversal of provision for cost by Boustead DCNS Naval Corporation Sdn Bhd (BDNC) and the tax exemption granted by the Ministry of Finance on the submarine project.

However, the Group's profit was adversely impacted by the share of deficit of our associated company, Boustead Naval Shipyard Sdn Bhd and its subsidiaries (the associates) as a result of additional costs arising from variation orders from original equipment manufacturers (OEM) for the LCS project. This deficit was exacerbated by the reduction in the number of RMN vessels entering BN Shipyard for repair works, which in turn increases its fixed overheads.



Through BN Shipyard, BHIC contributes towards Malaysia's maritime security by ensuring RMN's vessels are in tip-top condition



Malaysian Maritime Enforcement Agency's Dauphin AS365N3 helicopter being serviced by BHICAS

Under our discontinued operation, the sale of three chemical tankers MT CHULAN 1, MT CHULAN 2 and MT CHULAN 3 was completed in May 2016. The chartering segment posted a deficit due to higher direct costs incurred by the chemical tankers under the previous spot charter arrangement prior to their disposal, as well as a loss on disposal of the chemical tankers. However, this was cushioned by the reversal of accrual of operating expenses such as crew wages and lubricant oils pursuant to the reconciliation of expenses.

Defence & Security Division



KEY DEVELOPMENTS

Keel laying ceremonies of LCS 1 and LCS 2

Prime Minister Class Submarines refit

In-Service Support contracts:

- RMN's Fennec AS555SN helicopter received by BHICAS – contract valued at RM32 million
- RMN's Bofors 40MM/L70 guns received by BHIC Bofors – contract valued at RM11 million
- Malaysian Maritime Enforcement Agency's Dauphin AS365N3 helicopters received by BHICAS – contract valued at RM62 million
- Malaysian Army's Skyguard Radar and 35MM Oerlikon guns received by BDTS – contract valued at RM15 million

Receipt of letter of intent for the construction of four units of Littoral Mission Ships by BN Shipyard

Delivery of KD PERANTAU



DEFENCE & SECURITY DIVISION

HEAVY ENGINEERING

The heavy engineering segment drove the Group's performance in 2016, primarily through defence-related MRO activities.

MAINTENANCE, REPAIR AND OVERHAUL (MRO)

The Group provides a comprehensive range of MRO services for platforms and equipment. This encompasses military and commercial surface vessels, submarines, helicopters and critical equipment such as combat management systems and essential control systems, defence electronics, weaponry, electrical equipment and engines.

BN Shipyard provides maintenance, repair and overhaul for RMN vessels and commercial ships. KD MAHAWANGSA, KD SRI INDERASAKTI, KD KASTURI and KD JEBAT underwent repair works, whilst refit works started for KD LEKIU, KD PAHANG and KD GANYANG during the year. All refit works are expected to be completed in 2017. The restoration and refit works on KD PERANTAU, which began in March 2015, were completed and the ship was delivered to the RMN in December 2016.



KD TERENGGANU undergoing works at BN Shipyard



BHIC Bofors specialises in the maintenance of Bofors guns

During the year, the RMN introduced the 15 to 5 Fleet Transformation Plan to strengthen and modernise its armada, while enhancing cost efficiencies. The transformation programme will focus on building ships locally to reduce the nation's dependency on foreign expertise. While this poses a challenge to our bid for MRO works due to the reduction in the RMN's maintenance budget, we believe that over the long run, this will further enhance shipbuilding opportunities for the Group.

BN Shipyard implemented an Integrated Outfitting and Painting Programme together with a new approach to production planning in Phase 2 of the BN Shipyard Rationalisation Programme. This proved to be effective, enabling us to achieve on-time completion of ship repair and refit of several RMN vessels during the year. The Group plans to kick off Phase 3 of the Rationalisation Programme in 2017 which will be rolled out across BN Shipyard's operations, with a focus on developing our engineering expertise and strengthening the management of the shipyard.

In November 2016, the Group's wholly owned subsidiary **BHIC Defence Techservices Sdn Bhd (BDTS)** received a Letter of Award from the Ministry of Defence (MINDEF) for a three-year contract for the maintenance and supply of spare parts for Skyguard Radar and 35mm Oerlikon Gun for the Malaysian Armed Forces with a contract value of RM15 million.

DEFENCE & SECURITY DIVISION



BHICAS undertakes In-Service Support for Royal Malaysian Air Force's Fennec AS555SN helicopters

In addition, our JV company **BHIC Bofors Asia Sdn Bhd (BHIC Bofors)** received and accepted a Letter of Acceptance from MINDEF in October 2016 for the supply and delivery of spares, maintenance and training for the RMN's Bofors 40MM/L70 Gun at a contract value of RM11 million. The contract runs until October 2019.

Another JV company **BHIC AeroServices Sdn Bhd (BHICAS)** functions as an MRO centre to support the Malaysian Government's aircraft maintenance needs for its fleet of helicopters. In May 2016, BHICAS received a contract renewal for the ISS of six units of the RMN's Fennec AS555SN helicopters for RM32 million until March 2019.

In addition, BHICAS received a Letter of Acceptance for a contract for the provision of Integrated Maintenance and Logistic Support Services for three units of Malaysian Maritime Enforcement Agency's Dauphin AS365N3 helicopters at a contract value of RM62 million until June 2019.

Shipbuilding & Fabrication

The construction of the LCS is a significant step forward in advancing Malaysia's maritime and defence industry. **BN Shipyard** held a keel laying ceremony in March 2016 for the first of six units of LCS at its Lumut yard. The event was officiated by Minister of Defence, YB Dato' Seri Hishammuddin Tun Hussein

in the presence of the current Chief of Navy, Laksamana Tan Sri Ahmad Kamarulzaman Hj Ahmad Badaruddin. The construction of building blocks for the second and third LCS also commenced during the year.

The first ship is expected to be delivered to the RMN in 2019. The keel laying ceremony for LCS 2 was officiated by Deputy Minister of Defence, YB Dato' Sri Mohd Johari Baharum in February 2017.

In October 2016, **BN Shipyard** received a Letter of Intent from MINDEF for the supply of four units of Littoral Mission Ships (LMS) for the RMN. This is in line with the recent announcement by the Honourable Prime Minister of Malaysia, YAB Dato' Sri Najib Tun Abdul Razak in conjunction with his official visit to China. This landmark development marks the first time that Malaysia will be procuring defence assets from China.

The first two LMS will be built in China with BN Shipyard acting as project manager. BN Shipyard will construct the subsequent two LMS in Lumut, Perak. This LMS programme is set to enhance local shipbuilding capabilities and will help reduce Malaysia's dependency on foreign expertise.

INTEGRATED LOGISTICS SUPPORT

The Group has developed world-class capabilities to deliver cost effective support that will ensure optimal operational availability of critical defence assets. These world-class capabilities are clearly demonstrated by the renewal of several In-Service Support (ISS) contracts by the Government with the Group.

BDNC, a JV company with DCNS, provides ISS covering all maintenance-related activities and refit for the RMN's two Prime Minister Class Submarines KD TUNKU ABDUL RAHMAN and KD TUN RAZAK. BDNC commenced the first refit of the submarines in 2016.

BHIC Navaltech Sdn Bhd (BNT) provides specialist ISS services to RMN surface ships. In January 2016, the company received an extension of Letter of Award from BN Shipyard in relation to the administration and implementation for the supply and delivery of spares, maintenance and training for the 23rd Frigate Squadron of the RMN. The contract is worth RM71 million for a period of two years to September 2017. The execution of the Patrol Vessel ISS renewal contract is ongoing.

BNT has submitted a proposal to **BHIC Bofors** in September 2016 on the Performance-Based Contract for the Corvette ISS and negotiations are currently ongoing.



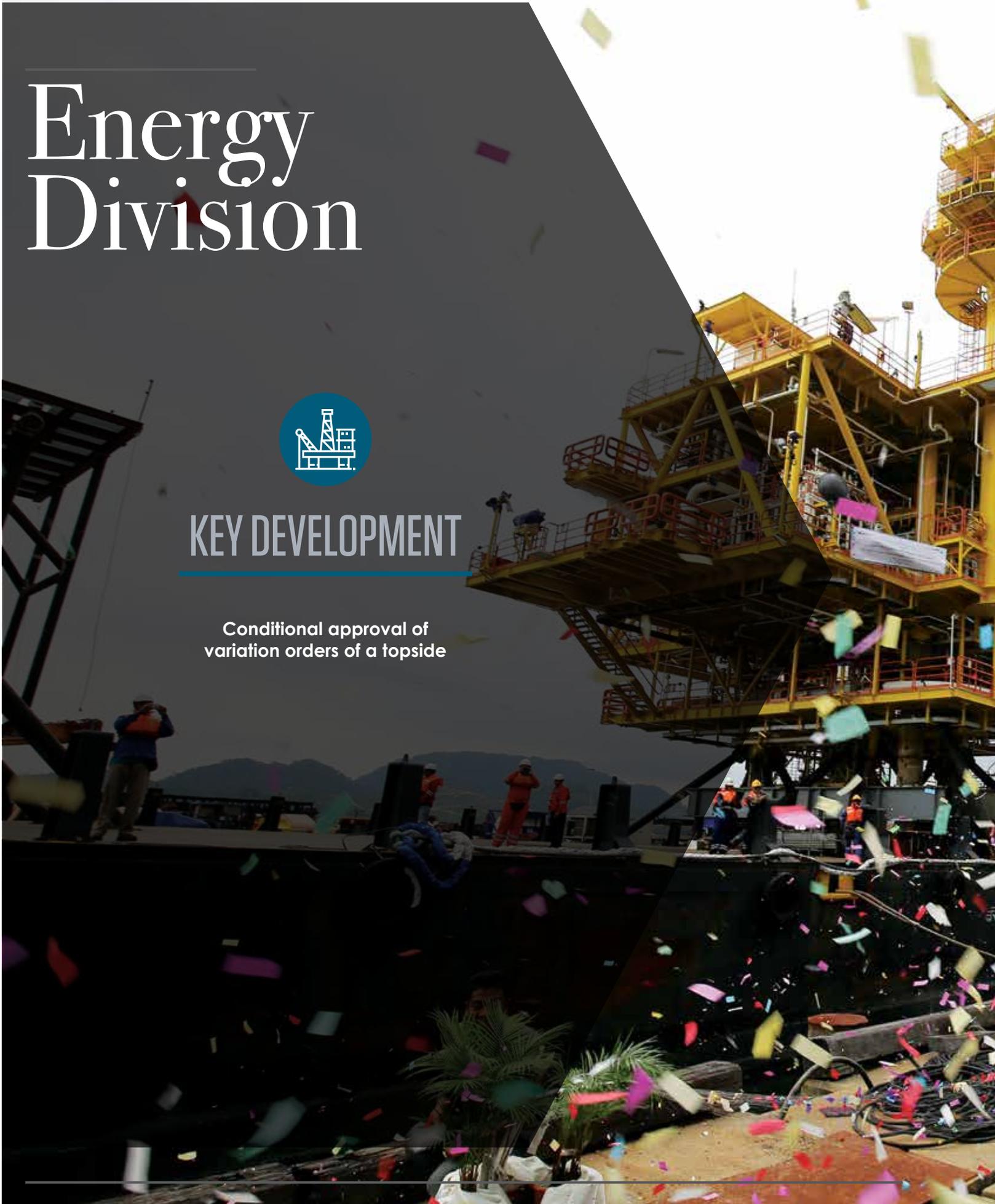
The Prime Minister Class submarines have bolstered RMN's capabilities to defend Malaysia's waters

Energy Division



KEY DEVELOPMENT

Conditional approval of
variation orders of a topside





The Energy Division recorded a revenue of RM11 million, mainly from conditionally approved variation orders and reimbursement claims for the Belum Topside project. The Group continues to pursue all disputed variation orders with clients and targets to close all claims by end of May 2017.

The industry continues to face challenges from the current low oil price but is expected to improve in the second half of 2017 barring any unforeseen circumstances. Notwithstanding this, the Group is actively bidding for oil and gas fabrication jobs.

Commercial Division



KEY DEVELOPMENTS

**Incorporation of BHICAT to undertake
MRO in aircraft wheels and brakes**

**First locally-designed OSV
under Entry Point Project**

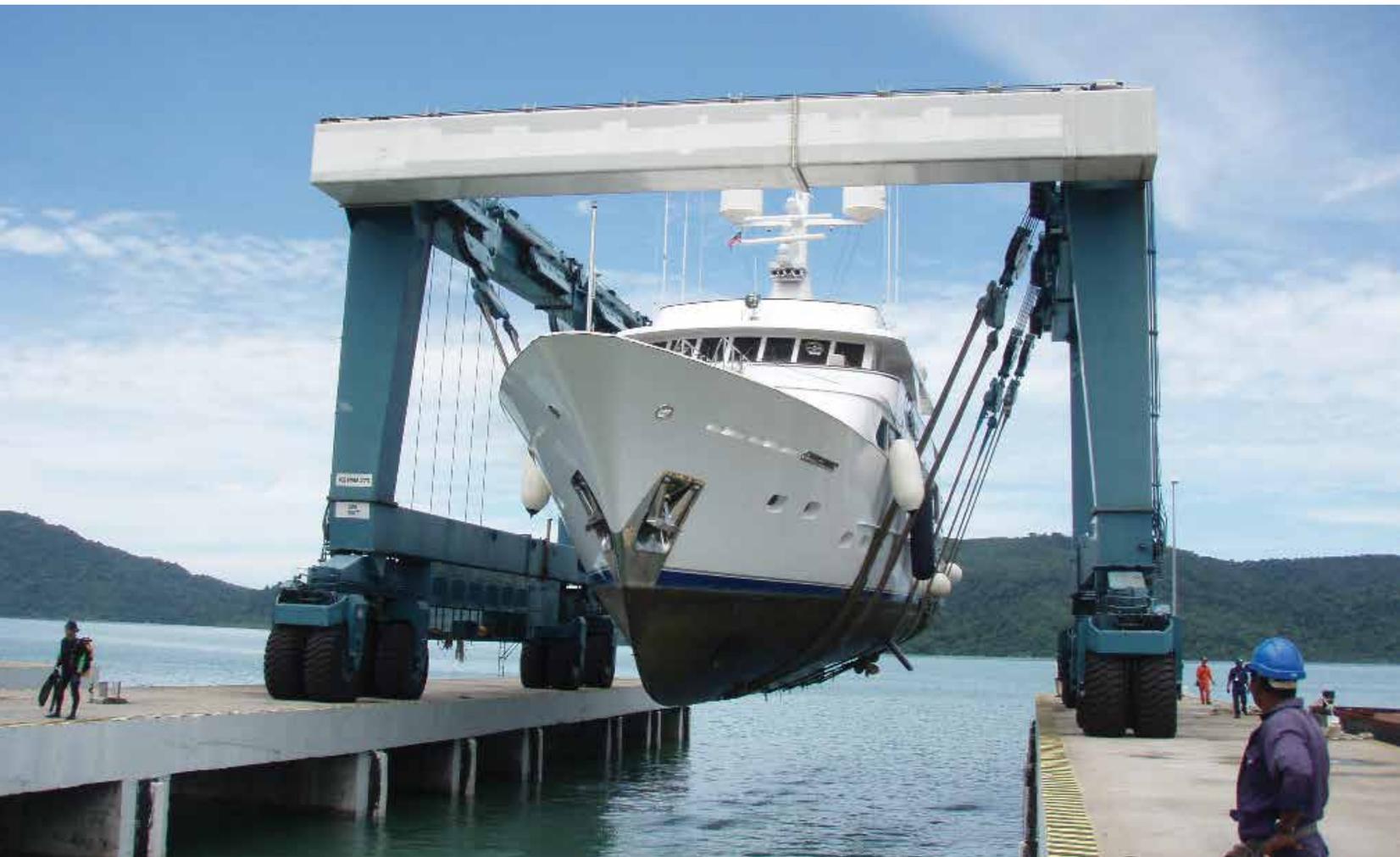




COMMERCIAL DIVISION



Under the Commercial Division, the Group is involved in the design of a 60-metre, 60-tonne anchor handling tug supply vessel, which will be the first Malaysian-designed offshore support vessel (OSV) under the Government's Entry Point Project (EPP) in the shipbuilding and ship repair segment. Our application for the Research & Training Grant under the Domestic Investment Strategic Fund from the Malaysian Investment Development Authority (MIDA) was approved in June 2016 amounting to RM2.9 million for three years from June 2015 to June 2018. The design of the OSV has been completed and detailed drawings, production drawings and 3D modelling will be customised upon receipt of orders to suit the needs of the customers.



A superyacht being hoisted out at Boustead Langkawi Shipyard



Seladang harbor tug boats built at Boustead Langkawi Shipyard

In March 2016, the Group incorporated a wholly-owned subsidiary, **BHIC AeroTech Sdn Bhd (BHICAT)** to undertake MRO activities in aircraft wheels and brakes. We are establishing a workshop within our hangar facilities in Subang for this purpose. The workshop is expected to be ready for inspection by the Department of Civil Aviation by the fourth quarter of 2017. This will further strengthen the Group's involvement in the aviation MRO business.

Managing Director's Statement

STRATEGIC PLANNING AND TRANSFORMATION

Internal Reorganisation

The reorganisation of our corporate structure is currently ongoing. BHIC's revenue generating activities are now grouped into three distinct divisions, namely the Defence and Security Division, Energy Division and Commercial Division. The main objective of the internal reorganisation is to streamline and realign BHIC's corporate structure to achieve better operational efficiencies, organisational clarity and greater focus on our core businesses.

Part of the internal reorganisation is to close down seven inactive and dormant companies via members' voluntary liquidation. The internal reorganisation will not have a significant impact on the consolidated business results of the Group.

In addition, any entities with overlapping business activities will be merged in order to eliminate internal competition and to improve efficiencies. The Group's wholly-owned subsidiaries, BDTs and BHIC Electronics and Technologies Sdn Bhd (BEAT) were merged in October 2016 in order to restructure and re-brand BDTs as a one-stop centre for combat management systems in line with technological advancements and to cater for customers' evolving needs.

The merger will not have a significant impact on the consolidated business results of the Group.

Group-Wide Transformation Initiatives

During the year, we initiated a group-wide Standard Operating Procedures (SOP) Engagement programme. All Divisions and Departments are required to adhere to and comply with the SOPs established by the Group. Assessments were carried out to ensure that comprehensive and up-to-date SOPs were in place.

We held an ISO 9001:2015 Awareness Training programme across the Group in 2016. We aim to obtain ISO certification for six business units by end of 2017.



MOU signing between Government of Malaysia and BHIC on developing human capital of the RMN



Minister of Defence, YB Dato' Seri Hishammuddin Tun Hussein with the team of designers working on the design of LCS

HUMAN CAPITAL DEVELOPMENT

In August 2016, the Group entered into a Memorandum of Understanding (MoU) with the Government of Malaysia to strengthen the implementation of a Human Capital Development Programme for trainees from the RMN and Group. The duration of the MoU is three years. In this regard, the Group's training arm **BHIC Marine Technology Academy** officially launched the first batch of application training for RMN technicians in September 2016. Thirty training programmes are planned for the RMN in 2017.

An exercise was undertaken to identify the optimal organisational structure for the Group. A key component of this exercise is a critical review of appropriate human capital resources, which impacts the entire Group. Specific rightsizing initiatives, based on the Group's established performance appraisal processes,

have commenced in all primary facilities during the year including the head office, which led to a reduction in overall employee headcount from 2,035 in 2015 to 1,692 in 2016. To date, a total of 333 personnel accepted the MSS offered by the Group, with a total payout of RM26 million, inclusive of our associates. The rightsizing exercise will continue until the Group reaches its desired organisational structure.

As part of our commitment to the development of Malaysia's talent pool, we aim to enhance the employability of fresh graduates in the engineering field through our Skim Latihan 1Malaysia Graduate Internship Programme. A total of 26 graduates underwent soft skills and on-the-job training at our various business units during the year. Under this programme, successful candidates were offered training contracts, inclusive of allowances and benefits, to work on selected projects undertaken by the Group.

Furthermore, in an effort to increase the number of professional engineers in the Group, 24 of our engineers completed Phase 1 of the Professional Engineers Development Programme accredited by the Board of Engineers Malaysia. A total of 15 engineers have been put under a mentorship scheme to pursue Phase 2 of the programme to gain practical experience. As an engineering entity, the Group strives to achieve a higher ratio of engineers to non-engineers. To date, the Group employs 438 (26%) engineers and 1,226 (74%) non-engineers. Out of this, 341 are technicians directly involved in operations.

Managing Director's Statement



People are BHIC's greatest asset, hence we place a lot of emphasis on developing their talents and upgrading their skills

HEALTH, SAFETY AND ENVIRONMENT

The Group is committed to ensure the health, safety and welfare of our employees and to safeguard the environment. Our Health, Safety and Environment Policy Statement commits us to maintain the highest practical standards in these areas. The ongoing development of health and safety systems as well as related personnel, and the implementation of new initiatives continue to enhance the health and safety and environmental awareness culture at BHIC.

PROSPECTS

Market conditions in the maritime industry and oil and gas industry are expected to remain challenging in 2017. However, as a result of tightening requirements for strategic assets to address national security, the Group expects to achieve a better performance in our niche areas in the defence and security sector. At the same time, we are cognisant of the challenging operating landscape in the commercial shipbuilding/ship repair and fabrication sectors. However, the Group's Energy and Commercial Divisions continue to seek out viable projects and opportunities that will add value to the Group.

The Malaysian Government announced cutback on defence spending in the 2017 budget. This will impact the Group in terms of the number of new MRO projects during the year but not shipbuilding projects in-hand. Nevertheless, the Group will continue to pursue potential contracts with parties other than Ministry of Defence such as the Royal Malaysian Police and Malaysian Maritime Enforcement Agency as well as overseas.

While the Government of Malaysia is our key client in the defence and security sector, we are looking into exploring regional business opportunities. With our solid track record in delivering and servicing naval vessels, we look forward to tapping new prospects to expand our business internationally, to meet the requirements of regional navies. Our participation in key defence and security events such as the Langkawi International Maritime and Aerospace Exhibition and Defence Services Asia provides us with platforms to market our products and services to an international audience.

The oil and gas industry is still facing turmoil but is on firmer ground now compared with the previous year, as it adapts to the low-price environment through cost rationalisation, capital discipline and cash flow preservation. BHC has been sourcing for new oil and gas projects amid the improving industry landscape. The Group participated in the Malaysian Oil and Gas Services Conference and Exhibition 2016, where we showcased our capabilities in the oil and gas industry to global visitors. These include fabrication of offshore structures and production of offshore hydrocarbon energy. We will continue to participate in such events which provide an avenue to gain market intelligence, explore potential deals and strengthen relationships with other industry players.

Moving forward, the Group remains focused on productivity improvements coupled with enhancing efficiency and undertaking cost control measures. We will also continue to ensure prudent risk management to improve delivery of outputs, enhance customer experience and contribute to the sustainability of the Group.

ACKNOWLEDGEMENT

It goes without saying that our achievements in 2016 would not have been possible without the collective effort and dedication of my esteemed colleagues on the Board and warga BHC. I would like to express my deepest appreciation for your commitment to the BHC Group and for persevering through the challenging year.

I would also like to extend my heartfelt gratitude to our loyal shareholders for your faith in the Group. Additionally, the continued support of the Government of Malaysia, its agencies and regulatory bodies, as well as our customers, business partners and vendors have been instrumental to our progress. Together, let us move our Group forward confidently in 2017.



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

Executive Deputy Chairman/
Managing Director

Audit Committee Report

COMPOSITION OF MEMBERS

Chairman

Encik Abd Malik A Rahman

(Independent Non-Executive Director)

Members

Datuk Azzat Kamaludin

(Non-Independent Non-Executive Director)

Dato' Ishak Osman

(Independent Non-Executive Director)

MEMBERS

The Audit Committee ("AC") comprises three members, all of whom are Non-Executive Directors ("NEDs"), two are Independent NEDs. This meets the requirements of paragraph 15.09(1)(a) and (b) of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("MMLR").

The AC Chairman, Encik Abd Malik A. Rahman is a Chartered Accountant member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants and Fellow of the Association of Chartered Certified Accountants (UK). Accordingly, the Company complies with paragraph 15.09(1)(c)(i).

The Board reviews the terms of office of the AC members and assess the performance of the AC and its members through an annual Board Committee effectiveness evaluation. The Board is satisfied that the AC and its members discharged their functions, duties and responsibilities in accordance with the AC's Terms of Reference, and supported the Board in ensuring the Group upholds appropriate Corporate Governance standards.

MEETINGS

The AC held four meetings in 2016. Details of the attendance of each member at the AC Meeting held during the financial year ended 31 December 2016 are as follows:

| Name of Director | Status of Directorship | Attendance of Meetings |
|--------------------------|---|------------------------|
| Encik Abd Malik A Rahman | Independent Non-Executive Director | 4/4 |
| Datuk Azzat Kamaludin | Non-Independent Non-Executive Director | 3/4 |
| Dato' Ishak Osman | Independent Non-Executive Director | 4/4 |

Minutes of each AC meeting were recorded and tabled for confirmation at the next AC meeting and subsequently presented to the Board for notation. The AC Chairman presented to the Board the AC's recommendations to approve the annual and quarterly financial statements. The AC Chairman also conveyed to the Board matters of significant concern as and when raised by the External Auditors or Internal Auditors. The AC may invite any Board member or any member of management or any employee of the Company who the AC thinks fit to attend its meetings to assist and to provide pertinent information as necessary.

SUMMARY OF ACTIVITIES

The activities undertaken by the AC during the financial year ended 31 December 2016 were as follows:

Financial Reporting

1. Reviewed the quarterly financial results, cashflows, and financial positions for each financial quarter of the Group to ensure compliance with the MMLR, applicable approved accounting standards

and other statutory and regulatory requirements prior to submission to the Board for consideration and approval for announcement to public.

2. Reviewed the annual audited financial statements, auditors' report and accounting issues arising from the financial year ended 31 December 2016 audit.
3. 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.

Internal Audit

1. Reviewed and discussed with the Internal Auditors the Annual Audit Plan 2016 that include their scope of work, audit plan and procedures.
2. 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.

3. 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.
4. Reviewed the corrective actions taken by the Management in addressing and resolving issues as well as ensuring that all key issues were adequately addressed on timely basis.

External Audit

1. Reviewed the External Auditors' 2016 Audit Plan.
2. Reviewed the audit fees, the number and experience of audit staff assigned to the audit engagement, resources and effectiveness of the External Auditors.
3. Reviewed the performance of External Auditor, their independence and objectivity.
4. Reviewed and discussed with the External Auditors on their scope of work, audit plan and procedures.

Audit Committee Report

5. Conducted private meetings with the External Auditors during the year without the presence of Executive Directors and Management on areas of concern that need to be resolved.
2. 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.

Related Party Transaction

1. Reviewed the related party transactions and any conflict of interest situation that may arise within the Group and 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.
2. Reviewed Circular to Shareholders relating to the shareholders' mandate for recurrent related party transactions of revenue or trading nature prior to recommending it for Board's approval.

Risk Management

1. 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.

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 had operated and performed in accordance to 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.

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. To enable continuous provision of value added services to the Group, Group Internal Audit personnel had attended various trainings and conferences organised by professional associations such as the Institute of Internal Auditors Malaysia (IIAM) and the Malaysia Institute of Accountants (MIA) to enhance their knowledge, leadership and communications skills.

Total manpower strength of 9 auditors have been allocated to perform the audit of Heavy Industries Division during the year. The audit teams have conducted 21 assignments based on approved annual audit plan. The audit conducted in 2016 covered a wide range of operational areas with emphasis on high risk areas.

During the financial year, the Group internal audit function had 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.
- Undertook ad-hoc reviews and investigations on matters arising from the audits and/or requested by the Management and/or Audit Committee and issued reports accordingly to the Management.
- 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 Management Audit Committee on significant risk management, control and governance issues from the internal audit reports issued, the results of investigations and special reviews undertaken and the results of follow-up of matters reported.
- 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.
- Liaised with the external auditors to maximise the use of resources and for effective coverage of the audit risks.
- Reviewed the procedures relating to related party transactions.

The Group, including its associates, has incurred approximately RM517,000 fee (inclusive of the Goods and Services Tax) for internal audit activities in respect of the financial year ended 31 December 2016 (2015: RM479,000).

Statement on Corporate Governance

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

The Board will continuously uphold good corporate governance practices and will endeavour to ensure that the principles and recommendations advocated therein by the Malaysian Code on Corporate Governance 2012 ("the Code") and the Corporate Governance Guide ("the CG Guide") are observed, where applicable and appropriate. These principles and best practices have been applied and complied with throughout the financial year under review.

1. 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. The Board has access to the advice and services of the Company Secretaries and, if necessary, may also obtain independent professional advice at the Company's expense in discharging their duties effectively. The Board is also assisted by several Board Committees namely, the Executive Committee, Audit Committee, Nominating Committee and Remuneration Committee.

The Board is supported by professionally qualified and competent company secretaries. The Company Secretaries play an advisory role to the Board, particularly with regard to the Company's constitution, Board policies and procedures, and its compliance with regulatory requirements, codes, guidance and legislation. The Company Secretaries also ensure statutory and meeting records of the Company are properly maintained and relevant disclosures, submissions and filings are made in a timely manner to the regulators. The Company Secretaries constantly keep themselves abreast of the regulatory changes and developments in Corporate Governance through continuous training. The Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging their functions.

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.

A Board Charter has been developed and adopted which clearly delineates the roles and responsibilities of the Board and Board Committees. The Board Charter also elaborates the fiduciary and leadership functions of the Board and serves as a primary reference for prospective and existing Board members and Management. The Board Charter is reviewed regularly as and when the need arises due to legal and statutory developments, to ensure it complies with legislation and best practices, and remains relevant and effective in the light of the Board's objectives.

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 18 to 23 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.

The Board has a balanced composition of five (5) members, comprising of two (2) Executive Directors and three (3) Non-Executive Directors ("NED"). Two (2) of the NEDs 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 24 to 28 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 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 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.

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 & 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.

Statement on Corporate Governance

The Board is satisfied with the time committed by the Directors towards fulfilling their duties and responsibilities as director of the Company. Their meeting attendance is evidenced by the attendance record as set out in the table below.

| Name of Director | Status of Directorship | Attendance of Meetings | Notes |
|--|---|------------------------|-------|
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | Executive Chairman | 5/5 | |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor (B) | Executive Deputy Chairman / Managing Director | 5/5 | |
| Datuk Azzat Kamaludin | Non-Independent Non-Executive Director | 3/5 | |
| David William Berry | Executive Director | 2/2 | (i) |
| Dato' Ishak Osman | Independent Non-Executive Director | 5/5 | |
| Abd Malik A Rahman | Independent Non-Executive Director | 5/5 | |

Notes

(i) Retired as Executive Director at the close of the 44th AGM on 30th March 2016.

Access to Information and Advice

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.

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.

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 five (5) board members. The Board believes that the interests of shareholders are best served by a Chairman who is sanctioned by the shareholders and who will act in the best interests of shareholders as a whole. As the Chairman represents shareholder with a substantial interest in the Company, he is well placed to act on behalf of the shareholders and in their best interests. As the

Code has only recently issued its recommendation on independent directors, the Board will continuously evaluate suitable candidates as independent directors to form majority of the Board. However, the process will be executed with due care and careful assessment to ensure a meaningful contribution to the effectiveness of the Board as a whole.

DIRECTORS' TRAINING

All Directors of the Company have attended the Mandatory Accreditation Programme conducted by the Approved Organiser. The Directors recognise the importance and value of attending programmes, seminars and forums in order to keep themselves abreast with the current developments of the industry as well as the new statutory and regulatory requirements.

Statement on Corporate Governance

All the Directors after assessing their own training needs, have attended the following training programmes, seminars and/or conferences:-

| DIRECTOR | LIST OF TRAINING PROGRAMMES/SEMINARS/CONFERENCES ATTENDED | DATE |
|---|--|-------------------|
| Tan Sri Dato' Seri Lodin Wok Kamaruddin | <ul style="list-style-type: none"> SEACEN Conference on Central Bank Cooperation and Mandates (The South East Asian Central Banks Research and Training Centre) | 14 March 2016 |
| | <ul style="list-style-type: none"> Global Emerging Markets Programme 2016 - Risk and Vulnerability of Global Markets: Reinforcing Resilience in Emerging Markets (Securities Commission) | 28 March 2016 |
| | <ul style="list-style-type: none"> Independent Directors Programme: "The Essence of Independence" (Bursa Malaysia and ICLIF) | 6 May 2016 |
| | <ul style="list-style-type: none"> Corporate Governance Breakfast Series with Directors "The Strategy, the Leadership, the Stakeholders and the Board" (Bursa Malaysia and Malaysian Directors Academy) | 9 May 2016 |
| | <ul style="list-style-type: none"> Half-Day Risk Management Workshop on Cyber Security and Fraud (Affin Holdings Berhad/IBM) | 2 August 2016 |
| | <ul style="list-style-type: none"> Advocacy Sessions on Management Discussion & Analysis ("MD&A") for CEO and CFO of Listed Companies (Bursa Malaysia) | 8 August 2016 |
| | <ul style="list-style-type: none"> Half Day Talk On <ol style="list-style-type: none"> Shariah Non-Compliance Risk and Its Impact to Islamic Banks MFRS 9 - Financial Instruments and Key Audit Matters Internal Capital Adequacy Assessment Process (ICAAP) (Affin Holdings Berhad) | 26 September 2016 |
| | <ul style="list-style-type: none"> Half Day Talk On: <ol style="list-style-type: none"> Amendments to Listing Requirements of Bursa Malaysia Securities Berhad Companies Act 2016 Proposed Code of Corporate Governance 2016 Policy Document on Corporate Governance by Bank Negara Malaysia (Affin Holdings Berhad) | 10 November 2016 |
| | <ul style="list-style-type: none"> Corporate Governance Breakfast Series with Directors: "The Cybersecurity Threat and How Board Should Mitigate the Risks" (Bursa Malaysia and Malaysian Directors Academy) | 18 November 2016 |

| DIRECTOR | LIST OF TRAINING PROGRAMMES/SEMINARS/CONFERENCES ATTENDED | DATE |
|--|---|---|
| Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor (B) | <ul style="list-style-type: none"> • FIDE FORUM: Dialogue on Director's & Officer's Liability Insurance (Bank Negara Malaysia) • 8th MIMA International Conference on the Straits of Malacca (MIMA) • Half Day Risk Management Workshop on Cyber-Security and Fraud (IBM) • MiDAS Talk (Malaysian Institute of Defence & Security (MiDAS)) • 5th MIMA South China Sea Conference (MIMA) • Khazanah Megatrends Forum 2016 (Khazanah) • 4th National Marine Industries Forum 2016 (AMIM & MIGHT) • Talk on : Amendments to Listing Requirements of Bursa Malaysia; Companies Act 2016; Proposed Code of Corporate Governance 2016; BNM Policy Document on Corporate Governance (Affin Holdings/Board Room/KPMG) • Konvensyen Pemerkasaan Agenda Ummah 2016 (MINDEF) • Asia-Pacific Regional Meeting of the Global Research Council (Global Research Council) • National Maritime Security Inter Agencies Workshop (National Security Council) • MIMA 4th Pillar Workshop (MIMA) | <p>5 April 2016</p> <p>25-26 April 2016</p> <p>9 May 2016</p> <p>9 August 2016</p> <p>29 August 2016</p> <p>26-27 September 2016</p> <p>29 September 2016</p> <p>10 November 2016</p> <p>20 November 2016</p> <p>20 November 2016</p> <p>5 December 2016</p> <p>13-14 December 2016</p> |
| Datuk Azzat Kamaludin | <ul style="list-style-type: none"> • Bursa Sustainability Engagement Series For Directors / CEO's (Bursa Malaysia) • GSMA Mobile World Congress Shanghai (GSMA) • LTAT- Power Talk "What Will Distinguish The Great Boards of Tomorrow" (MINDA) • Petronas Foundational Programme #1 – Panellist (MINDA) • Khazanah Megatrends Forum 2016 (Khazanah) • CG Breakfast Series With Directors: "The Cybersecurity Threat And How Board Should Mitigate The Risks"" (Bursa Malaysia) | <p>2 June 2016</p> <p>29 June - 1 July 2016</p> <p>25 July 2016</p> <p>6 September 2016</p> <p>26-27 September 2016</p> <p>18 November 2016</p> |

Statement on Corporate Governance

| DIRECTOR | LIST OF TRAINING PROGRAMMES/SEMINARS/CONFERENCES ATTENDED | DATE |
|--------------------------|--|------------------|
| Encik Abd Malik A Rahman | <ul style="list-style-type: none"> The new and revised auditor reporting standards: implications to financial institutions (FIDE Forum/MIA/MICPA) | 20 January 2016 |
| | <ul style="list-style-type: none"> Board Leadership Series - Cyber-Risk Oversight (FIDE Forum/Bank Negara Malaysia) | 16 March 2016 |
| | <ul style="list-style-type: none"> Director's Guide to Fraud & Corruption Risks (Bursa Malaysia/PwC) | 5 April 2016 |
| | <ul style="list-style-type: none"> Board Leadership Series - Avoiding Financial Myopia (FIDE Forum/Bank Negara Malaysia) | 19 April 2016 |
| | <ul style="list-style-type: none"> Risk Management Workshop on Cyber- Security & Fraud (Affin Holdings/IBM) | 9 May 2016 |
| | <ul style="list-style-type: none"> Session with Directors: Implementation of FIDE Forum's Directors Register (FIDE Forum/Bank Negara Malaysia) | 1 June 2016 |
| | <ul style="list-style-type: none"> Financial Technology (FinTech): Business Opportunity or Disruptor? (FIDE Forum/Bank Negara Malaysia) | 4 August 2016 |
| | <ul style="list-style-type: none"> FinTech's Impact on Financial Institutions (Securities Commission/ FIDE Forum) | 29 August 2016 |
| | <ul style="list-style-type: none"> 12th Tricor Tax & Corporate Seminar (Tricor Tax Services Sdn Bhd) | 2 November 2016 |
| | <ul style="list-style-type: none"> Talk on : Amendments to Listing Requirements of Bursa Malaysia; Companies Act 2016; Proposed Code of Corporate Governance 2016; BNM Policy Document on Corporate Governance (Affin Holdings/Board Room/KPMG) | 10 November 2016 |
| Dato' Ishak Osman | <ul style="list-style-type: none"> Directors Training on Anti-Money Laundering Act and Counter Financing of Terrorism (Affin Hwang Investment Bank Bhd) | 30 November 2016 |
| | <ul style="list-style-type: none"> CG Breakfast Series With Directors (Bursa Malaysia) | 6 May 2016 |

BOARD COMMITTEES

Audit Committee

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

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

Nominating Committee

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

- Datuk Azzat Kamaludin – Chairman
- Encik Abd Malik A Rahman
- Dato' Ishak Osman

The terms of reference of the Nominating Committee can be viewed at the Company's website at www.bhic.com.my.

During the financial year under review, the Nominating Committee reviewed and recommended to the Board, the re-election and re-appointment of Directors who will be retiring at the forthcoming AGM of the Company. Meetings of the Nominating Committee are held as and when necessary, and at least once a year. The Nominating Committee met once during the financial year under review. During

its recent annual review carried out, the Nominating Committee is satisfied and the size of the Board is optimum and that there is an appropriate mix of experience and expertise in the composition of the Board.

The Nominating Committee had a format assessment mechanism to assess the effectiveness of the Board as a whole, Board Committee and individual Directors. The criteria for the assessment include contribution to interaction, integrity, competency and time commitment of the members of the Board in discharging their duties.

Remuneration Committee

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

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

The terms of reference of the Remuneration Committee can be viewed at the Company's website at www.bhic.com.my.

The Remuneration Committee reviews the remuneration packages, reward structure and benefits applicable to the Managing Director and Senior Management on an annual basis and makes recommendations to the Board. The remuneration of the Managing Director is structured so as to link to the Company's performance. The remuneration of the Non-Executive Directors is structured to reflect 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.

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

A summary of the remuneration of the Directors for the financial year ended 31 December 2016, 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'000) | Non-Executive Directors (RM'000) | Total (RM'000) |
|--------------------------------------|------------------------------|----------------------------------|----------------|
| Fees | 252 | 322 | 574 |
| Salary | 480 | – | 480 |
| Allowances | 25 | 63 | 88 |
| Employee Provident Fund Contribution | 37 | – | 37 |
| Bonus | 135 | – | 135 |
| Benefit in kind | 10 | – | 10 |
| Total | 939 | 385 | 1,324 |

Directors' Remuneration

| Range | Executive Directors | Non-Executive Directors | Total |
|-----------------------|---------------------|-------------------------|----------|
| RM50,001 – RM100,000 | 1 | – | 1 |
| RM100,001 – RM150,000 | – | 3 | 3 |
| RM350,001 – RM400,000 | 1 | – | 1 |
| RM400,001 – RM450,000 | 1 | – | 1 |
| Total | 3 | 3 | 6 |

INVESTOR AND SHAREHOLDER RELATIONS

The Group recognises the importance of timely and thorough dissemination of information to shareholders. In this regard, the Group strictly adheres to the disclosure requirements of Bursa Securities and the Malaysian Accounting Standards Board. The Annual Report has comprehensive information pertaining to the Group, while various disclosures 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 development of the Group can also be found at the Company's website, www.bhic.com.my. The shareholders are able to direct queries to the Company through the Company's website.

The Annual General Meeting is the principal forum for dialogue with the shareholders. The Company values feedback from its shareholders and encourages them to actively participate in the discussion and deliberations. The Board will ensure that each item of special business

included in the notices of the general meetings is accompanied by a full explanation of the effects of any proposed resolution.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

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

Related Party Transaction

The Group has an internal framework and policy for Related Party Transaction (RPT) to ensure that all transactions with related parties are entered at arm's length, on normal commercial terms and on terms that are not detrimental to the minority shareholders. Directors recognise that they have to declare their respective interests in transactions with the Company and the Group, and abstain from deliberation and voting on the relevant resolution in respect of such transactions at the Board or at any general meetings convened to consider the matter. All related party transactions are reviewed as part of the annual internal audit plan. The related party transactions are recorded and presented to the Audit Committee for review on a quarterly basis.

Internal Control

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 Risk Management and Internal Control in 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 regulatory requirements 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.

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.

Statement on Risk Management and Internal Control

The Board of Directors ("Board") is pleased to provide the following Statement on Risk Management and Internal Controls, which outlines the nature and scope of internal controls in the 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 and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. The Board does not regularly review internal control of joint ventures, as the Board does not have direct control over their operations. Nevertheless, 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 corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against any misstatement or loss.

INTERNAL CONTROLS

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 risk management and internal controls therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed to.

The Group's Enterprise Risk Management Framework which adopts ISO 31000:2009 Risk Management – Principles and Guidelines was approved by the Board on 9 November 2015. The Framework outlines the guiding principles and key structural elements of risk management practices and activities of BHIC Group which includes:

1. Demonstrating how risk management is embedded in BHIC Group's organisational systems to ensure it is integrated at all levels and work contexts. It describes the key principles, elements and processes to guide all employees in effectively managing risk, making it part of day-to-day decision making and business best practices;
2. Comprehensive, structured, systematic, and proactive processes that identify, assess, manage and report on the significant Group, Division, Business and Functional risks related to the achievement of the BHIC Group's objectives inherent in the business strategy and operations at any point in time;

3. Optimises risk management by balancing the cost of risk with the cost of controls for all aspects of the BHIC Group's potential risk areas to ensure that organisational objectives are met; and
4. Improve BHIC Group's governance model through resilient leadership, responsible and ethical decision making, management and accountability, and performance improvement.

As part of risk management best practices, Group Risk Management Department (GRMD) will perform an independent risk assessment on new business proposals, major investments or business ventures initiated by the Business Units. GRMD will review the adequacy of the information contained in the business proposal and key risk areas highlighted by Business Units prior to submission to the BHIC Senior Management and the Board for approval.

GRMD has established a standard method for reporting of risk incidents. Reporting and escalation of risk incidents in a timely manner is essential in identifying operational 'hotspots' and minimising risk impact. The Risk Incident Reporting Procedure outlines minimum requirements to be complied with by the Division, Business Unit and Functional Unit when managing risk incidents.

The BHIC Group's Enterprise Risk Management software has been upgraded on 20 May 2016. The upgraded version comes with a more user friendly business risk assessment function, key risk indicator, incident reporting and management reporting module. Additionally, the upgraded

software also provides an executive dashboard interface which offers greater flexibility and information to the users.

Enhancement of the Risk Assessment Procedure in 2014 enabled a more robust and systematic risk assessment to be conducted by the risk managers and risk owners within the Group. Using a common risk language, this facilitates a more comprehensive risk review and monitoring by the respective Division Heads, Heads of Business Units and escalation of high and extreme risks to Senior Management in the BHIC Group.

Key Risk Indicators (KRIs) have been introduced to facilitate proactive management of emerging risks at the Division, Business Unit and Functional Unit level. The KRIs complement the risk assessment process, provide an early warning signal to management when there are critical risk areas within the entity that potentially exceed tolerable risk limits set.

Project Risk Management Planning has been enhanced for the betterment of project management practices within the Group. This provides guidance to project managers in identifying, analysing and managing the risk of any project to be undertaken. Through this plan, risks are identified before the actual project starts. The project team will focus on possible risk scenarios that may occur and formulate action plan. Risk issues are communicated regularly throughout the project to facilitate a more effective management and control.

Risk register validation exercises, trainings and briefing sessions with various Business Units and Functional Units were conducted on a periodic

Statement on Risk Management and Internal Control

basis to further inculcate a risk awareness culture and improve the adequacy of the risk assessment and the effectiveness of the action plan for continuous improvement.

GRMD provides regular reports to the BHIC Group Core Management Meeting and quarterly reports to the Board Audit Committee. The report highlights key risk areas for deliberation and decision.

In 2016, GRMD conducted a workshop for shiprepair project undertaken for KD MAHAWANGSA and KD PERAK in Boustead Naval Shipyard Sdn Bhd (BN Shipyard)'s yard in Lumut. This workshop was arranged following the success of previous year workshop on the refit project undertaken for KD PAHANG and KD LEKIU. The focus is on establishing risk action plan and assigning action plan owner(s) for the identified risks associated with the projects.

As part of GRMD continuous effort in improving the resiliency of business and operations, GRMD has revised BHIC Group Policy by adopting ISO 22301 Business Continuity Management (BCM), a value chain of the risk management process. The BCM provides a framework for building resilience with the capability for effective response that safeguards the interest of its key stakeholders. BCM also covers various angle and business discipline consist of Emergency

Response Plan, Crisis Management Plan, Business Continuity Plan and Information Technology Disaster Recovery Plan.

GRMD also embarked on a pilot BCM Programme with BN Shipyard. The programme aims to enhance the business resiliency of BN Shipyard in the event of major disruptive incidents. The initiatives was derived through workshops, meetings and documentation review of BN Shipyard's Emergency Response Plan. GRMD continues to facilitate improvements on the coverage, terms of reference, escalation process and emergency response management structure. BHIC BCM committee was formed on 5 January 2016 and BN Shipyard BCM committee followed suit on 14 December 2016. Notwithstanding BN Shipyard BCM Committee was formally formed in December 2016, the initiative to implement the BCM started since April 2016. In 2016, the main activities undertaken were the BCM governance, awareness and emergency response plan at BN Shipyard.

In addition to the above, GRMD will continue to perform an oversight role and periodical review on project-related risks. The Group will continue to develop and improve on its risk management practices, which are consistent with good corporate governance, to achieve the above mentioned 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 and Chairman of the Audit Committee. The members meet regularly to consider, resolve and manage strategic and business issues that the Group faces.

The Board convenes meetings on a quarterly basis to maintain full and effective supervision. The Managing Director, being the principal channel of communication between the Board and the management, will lead the presentation of Board papers and provide comprehensive explanation on the 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 areas 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 their findings;
5. Meeting all internal and external 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, review of half year financial forecasts to be approved at the operating and Board level; and
8. The award of major procurement contracts via a Tender Board which ensures transparency and integrity.

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. Senior management also conducted regular 'town-hall' meetings and site visits to communicate with employees at all levels. This is to obtain first-hand

knowledge of significant operational issues and management of associated risks as well as observe the effectiveness of current controls.

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 and Continuous Improvement Unit of Group Strategic Planning and Transformation 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. On 6 October 2016, BHIC received a Certificate of Appreciation on Corporate Integrity from the Minister in the Prime Minister's Department in charge of governance, integrity and human rights at the Corporate Integrity Pledge Conference. The certificate was awarded in recognition of BHIC's support and commitment towards anti-corruption practices and for upholding the principles of integrity, transparency and good governance. BHIC received the award along with 10 other Bursa Malaysia listed companies.

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 in place a Board approved 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 employees 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 implemented a divisional structure for the Group. Clearly defined lines of responsibility and authority limits at various management levels provide a documented and auditable trail of accountability. In addition, the Group has various support functions comprising secretarial, administration, legal, human capital management, supply chain management, vendor management, finance, strategic planning, transformation and continuous improvement, health, safety and environment, corporate communications, risk management and information systems which are centralised. This enhances the Group's ability to achieve its strategic and operational objectives and manage its significant risks.

Whistle-Blowing

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

MONITORING AND REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROLS SYSTEM

The processes adopted are based on the following framework:

- **Division, Business Unit and Functional Unit:** Each Division, Business Unit and Functional unit are responsible for managing risks associated with the business and its functions. All risks identified will be assessed, analysed, treated and monitored according to the Group's risk appetite.
- **Risk Management Department:** Provides risk methodologies, framework, tools and consultancy to the businesses and functional areas pertaining to risk control, monitoring and effectiveness, and reports to the Group Core Management Committee and the Board Audit Committee on the risk profile of the Group.
- **Internal Audit:** Conducts an independent quality assurance of internal controls and risk management activities. Reports on internal control reviews by the internal audit function are submitted 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.

Management representations to the Board are given by the Managing Director and Chief Financial Officer on the effectiveness of the risk management and internal control systems of the Group.

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 RM517,000 fee (inclusive of the Goods and Services Tax) for internal audit activities in respect of the financial year ended 31 December 2016.

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.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have performed limited assurance procedures on this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the Annual Report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that cause them to believe the statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor is the Statement factually inaccurate.

RPG 5 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and management thereon. The report from the external auditor was made solely for, and directed solely to the Board of Directors in connection with their compliance with the listing requirements of Bursa Malaysia Securities Berhad and for no other purposes or parties. The external auditors do not assume responsibility to any person other than the board of directors in respect of any aspect of this report.

This statement is made in accordance with a resolution of the Board of Directors dated 1 March 2017.

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:

- applied the appropriate and relevant accounting policies on a consistent basis;
- made judgements and estimates that are prudent and reasonable; and
- prepared the financial statements on the going concern basis.

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 of the Company and which enables 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.

This statement is made in accordance with a resolution of the Board of Directors dated 1 March 2017.

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 2016.

NON-AUDIT FEES

| | Group RM'000 | Company RM'000 |
|--|-----------------|-------------------|
| Non-audit fees paid to the external auditors for the financial year ended 31 December 2016 | 15 | 8 |

The provision of non-audit services by the external auditors to the Group is both cost effective and efficient due to their knowledge and understanding of the operations of the Group, and did not compromise their independence and objectivity. It is also the Group's policy to use the auditors in cases where their knowledge of the Group means it is neither efficient nor cost effective to employ another firm of accountants.

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 2016 and the unaudited results previously released for the financial quarter ended 31 December 2016.

PROFIT GUARANTEE

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

MATERIAL CONTRACTS

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

RECURRENT RELATED PARTY TRANSACTIONS

At the Annual General Meeting held on 30 March 2016, the Company obtained a Shareholders' Mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature.

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 2016 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 Shipyards Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | Provision of shipbuilding, ship repair works and provision of related services by Boustead Penang Shipyards Sdn. Bhd. | 114,641 |
| | Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor | Provision of ship repair works and related services by BHIC Defence Techservices Sdn. Bhd. | 1,987 |
| | Datuk Azzat Bin Kamaludin | Provision of ship repair works and related services by BHIC Allied Defence Technology Sdn. Bhd. | 504 |
| | Boustead Holdings Berhad | Provision of ship repair works and related services by BHIC Bofors Asia Sdn. Bhd. | 436 |
| | Lembaga Tabung Angkatan Tentera | Sale of equipment and machinery for ship related activities by Dominion Defence and Industries Sdn. Bhd. | 1,014 |
| | | Provision of ship repair works and related services by BHIC Navaltech Sdn. Bhd. | 37,755 |
| | | Provision of ship repair works and related services by BHIC Electronics and Technologies Sdn. Bhd. | 3,032 |
| | | Purchase of materials/consumables in relation to ship repair works and related services by BHIC Defence Techservices Sdn. Bhd. | (439) |
| | | Purchase of materials/consumables in relation to ship repair works and related services by BHIC Navaltech Sdn. Bhd. | (604) |
| | | Purchase of materials/consumables in relation to ship repair works and related services by BHIC Electronics and Technologies Sdn. Bhd. | (10) |
| | Provision of subcontracting work on engineering of SETIS combat management system and integration of combat system equipment by Contraves Advanced Devices Sdn. Bhd. | 238,732 | |

Additional Compliance Information

| Related Party | Interested Director/ Interested Major Shareholder | Nature of Transaction | Value of Transaction RM'000 |
|--|--|---|-----------------------------------|
| Boustead Naval Shipyard Sdn. Bhd. (cont'd.) | | Rental of premises by Boustead Penang Shipyard Sdn. Bhd. | (968) |
| | | Rental of premises by BHIC Bofors Asia Sdn. Bhd. | (360) |
| | | Rental of premises by BHIC MSM Sdn. Bhd. | (216) |
| | | Provision of training services by BHIC Marine Technology Academy Sdn. Bhd. | 26 |
| | | Rental of premises from Contraves Advanced Devices Sdn. Bhd. | 1,387 |
| | | Rental of premises by BHIC Defence Techservices Sdn. Bhd. | (102) |
| | | Rental of premises by BHIC Electronics and Technologies Sdn. Bhd. | (145) |
| Boustead Langkawi Shipyard Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | Provision of services for construction of vessels to BYO Marine Sdn. Bhd. | (122) |
| | Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor | Rental of premises by BYO Marine Sdn. Bhd. | (189) |
| | Boustead Holdings Berhad Lembaga Tabung Angkatan Tentera | | |
| Boustead Travel Services Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | Provision of transport and travel related services to BHIC Bofors Asia Sdn. Bhd. | (111) |
| | Boustead Holdings Berhad | Provision of transport and travel related services to Boustead DCNS Naval Corporation Sdn. Bhd. | (2,013) |
| | Lembaga Tabung Angkatan Tentera | Provision of transport and travel related services to Boustead Penang Shipyard Sdn. Bhd. | (300) |
| | | Provision of transport and travel related services to BHIC Defence Techservices Sdn. Bhd. | (4) |

| Related Party | Interested Director/ Interested Major Shareholder | Nature of Transaction | Value of Transaction RM'000 |
|------------------------------------|--|---|-----------------------------------|
| Boustead Travel Services Sdn. Bhd. | | Provision of transport and travel related services to BHIC Navaltech Sdn. Bhd. | (33) |
| | | Provision of transport and travel related services to BHIC Electronics and Technologies Sdn. Bhd. | (19) |
| | | Provision of transport and travel related services to Boustead Heavy Industries Corporation Bhd. | (11) |
| Boustead Realty Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin Boustead Holdings Berhad Lembaga Tabung Angkatan Tentera | Rental of premises by Boustead Penang Shipyard Sdn. Bhd. <i>(Property to be rented by Boustead Penang Shipyard Sdn. Bhd. comprises of office space located at Menara Boustead Penang, 39 Jalan Sultan Ahmad Shah, 10050 Georgetown, Penang)</i> | (112) |
| | | Rental of premises by Boustead Penang Shipyard Sdn. Bhd. <i>(Property to be rented by Boustead Penang Shipyard comprises of office space located at Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur)</i> | (120) |
| | | Rental of premises by BHIC Submarine Engineering Services Sdn. Bhd. <i>(Property to be rented by BHIC Submarine Engineering Services Sdn. Bhd. comprises of office space located at Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur)</i> | (102) |
| Boustead Atlas Hall Sdn. Bhd. | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin Boustead Holdings Berhad Lembaga Tabung Angkatan Tentera | Rental of premises from Boustead Penang Shipyard Sdn. Bhd. <i>(Property to be rented by Boustead Penang Shipyard Sdn. Bhd. comprises of office space located at Wisma Goldhill, No. 67 Jalan Raja Chulan, 50200 Kuala Lumpur)</i> | 74 |
| Boustead Holdings Berhad | Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin Lembaga Tabung Angkatan Tentera | Provision of training, management and related services to Boustead Heavy Industries Corporation Bhd. | (317) |



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Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

Boustead Heavy Industries Corporation Berhad is an investment holding company incorporated in Malaysia.

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 for the year | 76,696 | 9,432 |

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.

DIVIDEND

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

On 24 February 2017, the directors have declared a single-tier first interim dividend of 3% or 3 sen per share in respect of the financial year ending 31 December 2017 amounting to RM7,454,000. The financial statements of the current year do not reflect this interim dividend which will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

Directors' Report

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
 Dato' Ishak Bin Osman
 Abd Malik Bin A Rahman
 David William Berry (*retired on 30 March 2016*)

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 36 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 → | | | |
|---|--|--------|------|------------|
| | 1.1.2016 | Bought | Sold | 31.12.2016 |
| 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 | 350,000 | – | – | 350,000 |
| Dato' Ishak Bin Osman | 10,000 | – | – | 10,000 |
| Abd Malik Bin A Rahman | 3,000 | – | – | 3,000 |
| Indirect interest: | | | | |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 11,200 | – | – | 11,200 |
| Dato' Ishak Bin Osman | 20 | – | – | 20 |
| Abd Malik Bin A Rahman | 1,000 | – | – | 1,000 |

Directors' Report

DIRECTORS' INTERESTS (CONT'D.)

| | ← Number of ordinary shares of RM0.50 each → | | | |
|---|--|-------------------|-------------|------------|
| | 1.1.2016 | Bought | Sold | 31.12.2016 |
| Immediate holding company | | | | |
| Boustead Holdings Berhad ("BHB") | | | | |
| Direct interest: | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 28,192,758 | 27,065,047* | (3,000,000) | 52,257,805 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | – | 25,000 86,580* | – | 111,580 |
| Datuk Azzat Bin Kamaludin | 44,000 | 6,000 62,000* | – | 112,000 |
| Abd Malik Bin A Rahman | – | 6,580 | – | 6,580 |
| Indirect interest: | | | | |
| Abd Malik Bin A Rahman | 1,000 | 12,580 | – | 13,580 |
| Related corporations | | | | |
| Pharmaniaga Berhad | | | | |
| Direct interest: | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 12,500,148 | – | – | 12,500,148 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 121,000 | – | – | 121,000 |
| Datuk Azzat Bin Kamaludin | 226,260 | – | – | 226,260 |
| Boustead Plantations Berhad | | | | |
| Direct interest: | | | | |
| Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin | 31,381,600 | – | (3,544,800) | 27,836,800 |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 1,150,000 | – | – | 1,150,000 |
| Datuk Azzat Bin Kamaludin | 1,550,000 | – | – | 1,550,000 |
| Abd Malik Bin A Rahman | 2,000 | – | – | 2,000 |
| Indirect interest: | | | | |
| Abd Malik Bin A Rahman | 2,000 | – | – | 2,000 |

Directors' Report

DIRECTORS' INTERESTS (CONT'D.)

| | ← Number of ordinary shares of RM1.00 each → | | | |
|---|--|--------|------|------------|
| | 1.1.2016 | Bought | Sold | 31.12.2016 |
| Related corporations | | | | |
| 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 | 1,051,328 | – | – | 1,051,328 |
| Abd Malik Bin A Rahman | – | 10,000 | – | 10,000 |
| Indirect interest: | | | | |
| Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Haji Mohd Nor (B) | 25,000 | – | – | 25,000 |

* Increase pursuant to rights issue exercised on 23 June 2016 and bonus share issued on 15 July 2016.

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 allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance 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) it necessary to write off any bad debts or the amount of the allowance 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.

Directors' Report

OTHER STATUTORY INFORMATION (CONT'D.)

(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 than as disclosed in Note 34 to the financial statements.

(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 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

SIGNIFICANT EVENTS

Details of the significant events are disclosed in Note 21 and Note 35 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 1 March 2017.

**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 98 to 190 are drawn up in accordance with 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 2016 and of their financial performance and cash flows of the year then ended.

The information set out in Note 38 on page 191 of the financial statements has been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 1 March 2017.

**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 98 to 191 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Ahmad Nordin Bin Mohammad
at Kuala Lumpur in the Federal Territory on 1 March 2017

AHMAD NORDIN BIN MOHAMMAD

Before me,

HAJJAH JAMILAH ISMAIL
(No W626)
Commissioner for Oaths
Kuala Lumpur

Independent Auditors' Report

to the members of Boustead Heavy Industries Corporation Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Boustead Heavy Industries Corporation Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 98 to 190.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Independent Auditors' Report

Key audit matters (cont'd.)

Revenue recognition from long term and construction contracts

The group including joint ventures and an associate is involved in a number of significant contracts which span across multiple accounting periods.

We have focused on this area due to the materiality of long term and construction contracts to the overall results of the Group and also due to the nature of long term and construction contracts entered into by the Group which requires significant management judgement and estimation when recognising contract revenue.

Recognition of contract revenue, is subject to the estimated costs to complete, variations, renegotiations and potentially deductions to contract revenue. Costs to complete can significantly vary due to enhancements to the specifications originally assumed in the respective contracts, whereas deductions to contract revenue can be impacted due to delays in delivery.

See Note 19 to the financial statements on pages 165.

Our audit procedures on long term and construction contract included the evaluation of the judgements made by management, whereby we examined project documentation and discussed the status of on-going material projects with management, finance and project teams of the Group. Where applicable, we evaluated the documentation supporting the recognition of additional revenue arising from change or variation orders to recover additional costs incurred, including review of correspondences with customers and we also assessed the potential deductions to the contract revenue by reviewing the contractual delivery dates of the respective contracts against management's estimated delivery dates, progress reports and conducted interviews with the project team.

With the outcome of the discussions, we also assessed management's assumptions in estimating the costs to complete for each project.

Recognition of deferred tax assets

As at 31 December 2016, the carrying amount of deferred tax assets of the Group is RM19.4 million, as disclosed in Note 26 to the financial statements.

The recognition of deferred tax assets relies on the application of judgement by the directors in respect of assessing the probability and sufficiency of future taxable profits and tax planning strategies. Due to the associated uncertainty surrounding recoverability of the deferred tax assets, this is considered a key audit matter.

Our audit procedures included, amongst others, evaluating the assumptions used in the forecasts and projections of future taxable profits prepared by management. We assessed whether the income and expenditure assumptions on which the forecasts and projections are based are consistent with past actual outcomes.

We focused on the adequacy of the disclosures on the judgements and estimates in relation to the recognition of the deferred tax assets which have been disclosed in Note 3 (iii) to the financial statements.

Independent Auditors' Report

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises Operational Highlights, About Us, Core Values, Our Vision and Mission, Our Core Business, Notice of Annual General Meeting ("AGM"), Statement Accompanying AGM Notice, BHC in the News, Chairman's Perspective, Managing Director's Statement, Corporate Responsibility, Five-Year Financial Highlights, Corporate Information, Financial Calendar, Board of Directors, Senior Management Team, Audit Committee Report, Statement on Corporate Governance, Directors' Responsibility Statement, Statement on Risk Management and Internal Control, Additional Compliance Information, Statistics of Shareholdings, List of Top 30 Holders, List of Properties Held by BHC Group, Directors' Report, Statement by Directors and Statutory Declaration but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditors' Report

Auditor's responsibilities for the audit of the financial statements (cont'd.)

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent Auditors' Report

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 38 on page 191 is disclosed to meet the requirement 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

Kuala Lumpur, Malaysia
1 March 2017

Ahmad Zahirudin Bin Abdul Rahim
No. 02607/12/2018 J
Chartered Accountant

Statements of Profit or Loss

for the year ended 31 December 2016

| | Note | Group | | Company | |
|---|------|------------------|----------------|-----------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Continuing operations | | | | | |
| Revenue | 4 | 307,518 | 265,641 | 76,455 | 10,674 |
| Operating costs | 5 | (206,346) | (254,009) | (54,748) | (31,596) |
| Results from operations | | 101,172 | 11,632 | 21,707 | (20,922) |
| Interest income | | 2,092 | 443 | – | – |
| Finance costs | 8 | (16,168) | (18,202) | (12,275) | (13,125) |
| Share of results of associates | 15 | (26,899) | (19,316) | – | – |
| Share of results of joint ventures | 16 | 22,011 | 21,494 | – | – |
| Profit/(loss) before tax from continuing operations | | 82,208 | (3,949) | 9,432 | (34,047) |
| Income tax expense | 9 | (1,701) | (3,589) | – | – |
| Profit/(loss) from continuing operations, net of tax | | 80,507 | (7,538) | 9,432 | (34,047) |
| Discontinued operation | | | | | |
| Loss from discontinued operation, net of tax | 21 | (3,811) | (23,201) | – | – |
| Profit/(loss) for the year | | 76,696 | (30,739) | 9,432 | (34,047) |
| Attributable to: | | | | | |
| Shareholders of the Company | | 76,696 | (30,739) | 9,432 | (34,047) |
| Non-controlling interests | | – | – | – | – |
| Profit/(loss) for the year | | 76,696 | (30,739) | 9,432 | (34,047) |
| Basic/diluted earnings/(loss) per share attributable to shareholders of the Company (sen): | | | | | |
| | 10 | | | | |
| Total | | 30.87 | (12.37) | | |
| Continuing operations | | 32.40 | (3.03) | | |
| Discontinued operation | | (1.53) | (9.34) | | |

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

Statements of Comprehensive Income

for the year ended 31 December 2016

| | Group | | Company | |
|--|----------------|-----------------|----------------|-----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Profit/(loss) for the year, representing total comprehensive income/(loss) for the year, net of tax | 76,696 | (30,739) | 9,432 | (34,047) |
| Attributable to: | | | | |
| Shareholders of the Company | 76,696 | (30,739) | 9,432 | (34,047) |
| Non-controlling interests | – | – | – | – |
| Total comprehensive income/(loss) for the year, net of tax | 76,696 | (30,739) | 9,432 | (34,047) |

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

Statements of Financial Position

as at 31 December 2016

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 62,127 | 65,103 | 11,117 | 10,746 |
| Investment property | 12 | 13,840 | 13,989 | – | – |
| Intangible asset | 13 | – | – | – | – |
| Investments in subsidiaries | 14 | – | – | 280,500 | 280,000 |
| Investments in associates | 15 | 137,485 | 164,384 | – | – |
| Investments in joint ventures | 16 | 105,792 | 86,552 | – | – |
| Deferred tax assets | 26 | 19,447 | 18,891 | – | – |
| | | 338,691 | 348,919 | 291,617 | 290,746 |
| Current assets | | | | | |
| Inventories | 17 | 57,574 | 3,641 | – | – |
| Trade and other receivables | 18 | 227,748 | 207,291 | 68,721 | 122,292 |
| Amounts due from customers on contracts | 19 | 58,999 | 42,987 | – | – |
| Tax recoverable | | 12,163 | 9,391 | – | – |
| Cash and bank balances | 20 | 24,247 | 54,075 | 405 | 781 |
| Non-current assets held for sale | 21 | – | 72,627 | – | – |
| | | 380,731 | 390,012 | 69,126 | 123,073 |
| Total assets | | 719,422 | 738,931 | 360,743 | 413,819 |

| | Note | Group | | Company | |
|---|------|----------------|----------------|-----------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Equity and liabilities | | | | | |
| Equity attributable to shareholders of the Company | | | | | |
| Share capital | 22 | 248,458 | 248,458 | 248,458 | 248,458 |
| Retained earnings/(accumulated losses) | | 98,057 | 21,361 | (85,275) | (94,707) |
| Total shareholders' funds | | 346,515 | 269,819 | 163,183 | 153,751 |
| Non-controlling interests | | – | 1 | – | – |
| Total equity | | 346,515 | 269,820 | 163,183 | 153,751 |
| Non-current liabilities | | | | | |
| Loans and borrowings | 24 | 7,817 | 8,255 | – | – |
| Deferred tax liabilities | 26 | 49 | 76 | – | – |
| | | 7,866 | 8,331 | – | – |
| Current liabilities | | | | | |
| Amounts due to customers on contracts | 19 | 43,198 | 17,430 | – | – |
| Provisions | 23 | 685 | 598 | 535 | 430 |
| Loans and borrowings | 24 | 246,416 | 346,777 | 195,000 | 255,560 |
| Trade and other payables | 27 | 74,328 | 95,059 | 2,025 | 4,078 |
| Tax payable | | 414 | 916 | – | – |
| | | 365,041 | 460,780 | 197,560 | 260,068 |
| Total liabilities | | 372,907 | 469,111 | 197,560 | 260,068 |
| Total equity and liabilities | | 719,422 | 738,931 | 360,743 | 413,819 |

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

Statements of Changes in Equity

for the year ended 31 December 2016

← Attributable to equity holders
of the Company →

| | Share capital RM'000 | Distributable retained earnings RM'000 | Total RM'000 | Non- controlling interests RM'000 | Total equity RM'000 |
|---|----------------------------|---|-----------------|--|---------------------------|
| Group | | | | | |
| At 1 January 2015 | 248,458 | 52,099 | 300,557 | 36 | 300,593 |
| Total comprehensive loss for the year | – | (30,739) | (30,739) | – | (30,739) |
| Transactions with owners | | | | | |
| Dividend on ordinary shares to non-controlling interest | – | – | – | (1) | (1) |
| Additional investment in a subsidiary (Note 14(a) (ii)) | – | – | – | (34) | (34) |
| Premium paid on acquisition of non-controlling interest | – | 1 | 1 | – | 1 |
| Total transaction with owners | – | 1 | 1 | (35) | (34) |
| At 31 December 2015 | 248,458 | 21,361 | 269,819 | 1 | 269,820 |
| At 1 January 2016 | | | | | |
| At 1 January 2016 | 248,458 | 21,361 | 269,819 | 1 | 269,820 |
| Total comprehensive income for the year | – | 76,696 | 76,696 | – | 76,696 |
| Transactions with owners | | | | | |
| Additional investment in a subsidiary (Note 14(a) (ii)) | – | – | – | (1) | (1) |
| At 31 December 2016 | 248,458 | 98,057 | 346,515 | – | 346,515 |

←——— Attributable to equity holders
of the Company ———→

| | Share Capital RM'000 | Accumulated losses RM'000 | Total equity RM'000 |
|---|----------------------------|---------------------------------|---------------------------|
| Company | | | |
| At 1 January 2015 | 248,458 | (60,660) | 187,798 |
| Total comprehensive loss for the year | – | (34,047) | (34,047) |
| At 31 December 2015 | 248,458 | (94,707) | 153,751 |
| Total comprehensive income for the year | – | 9,432 | 9,432 |
| At 31 December 2016 | 248,458 | (85,275) | 163,183 |

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

Statements of Cash Flows

for the year ended 31 December 2016

| | Note | Group | | Company | |
|---|--------|------------------|----------------|------------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Cash flows from operating activities | | | | | |
| Cash receipts from customers | | 256,256 | 258,551 | – | – |
| Cash paid to suppliers and employees | | (232,739) | (235,290) | (3,541) | (4,160) |
| Net (payments to)/receipts from related companies | | (2,548) | (3,845) | 71,697 | 15,006 |
| Net cash generated from operations | | 20,969 | 19,416 | 68,156 | 10,846 |
| Interest paid | | (16,124) | (18,053) | (12,150) | (12,852) |
| Income taxes paid less refunds | | (5,531) | (3,538) | – | – |
| Net cash (used in)/generated from operating activities | | (686) | (2,175) | 56,006 | (2,006) |
| Cash flows from investing activities | | | | | |
| Interest received | | 2,363 | 334 | 56 | 10,674 |
| Proceeds from disposal of property, plant and equipment | | 67,887 | – | – | – |
| Purchase of property, plant and equipment | (a) | (2,025) | (3,804) | (878) | (2,043) |
| Purchase of investment property | 12 | (336) | – | – | – |
| Additional investment in subsidiaries | 14 (a) | (1) | (35) | (500) | – |
| Dividend received from joint ventures | | 2,771 | 5,487 | – | – |
| Dividend from a subsidiary | | – | – | 5,500 | – |
| Placement of pledged fixed deposits, net | | 2,676 | (212) | – | – |
| Purchase of intangible asset | 13 | – | (534) | – | – |
| Net cash generated from investing activities | | 73,335 | 1,236 | 4,178 | 8,631 |
| Cash flows from financing activities | | | | | |
| Repayment of borrowings | | (146,963) | (22,212) | (105,560) | (15,955) |
| Proceeds from drawdown of revolving credits | | 45,000 | 10,322 | 45,000 | 10,000 |
| Net cash used in financing activities | | (101,963) | (11,890) | (60,560) | (5,955) |

| | Note | Group | | Company | |
|---|------|-----------------|----------------|----------------|----------------|
| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Net (decrease)/increase in cash and cash equivalents | | (29,314) | (12,829) | (376) | 670 |
| Effect of foreign exchange rate changes | | 2,162 | 2,699 | – | – |
| Cash and cash equivalents at beginning of year | | 51,399 | 61,529 | 781 | 111 |
| Cash and cash equivalents at end of year | | 24,247 | 51,399 | 405 | 781 |
| Cash and cash equivalents at end of year comprise: | | | | | |
| Deposits with licensed banks | 20 | 1,000 | 33,345 | – | – |
| Cash and bank balances | 20 | 23,247 | 20,730 | 405 | 781 |
| Total cash and bank balance | | 24,247 | 54,075 | 405 | 781 |
| Less: Deposit with licensed banks pledged and more than 90 days | 20 | – | (2,676) | – | – |
| | | 24,247 | 51,399 | 405 | 781 |

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

| | | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
|------------------------|-----|----------------|----------------|----------------|----------------|
| Cash | (a) | 2,025 | 3,804 | 878 | 2,043 |
| Hire purchases | | 1,164 | 288 | – | – |
| Total additions | 11 | 3,189 | 4,092 | 878 | 2,043 |

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

Notes to the Financial Statements

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and 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.

Boustead Heavy Industries Corporation Berhad is an investment holding company. 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 limited liability 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 with the Company.

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 2016, the Group and the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2016.

- Amendments to MFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012 – 2014 Cycle)
- Amendments to MFRS 7 Financial Instruments Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 119 Employee Benefits (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 134 Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)
- Amendments to MFRS 10 Consolidated Financial Statements, MFRS 12 Disclosure of Interests in Other Entities and MFRS 128 Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
- MFRS 14 Regulatory Deferral Accounts
- MFRS 101 Presentation of Financial Statements – Disclosure Initiative (Amendments to MFRS 101)
- Amendments to MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 127 Separate Financial Statements (2011) – Equity Method in Separate Financial Statements

Adoption of the above new or amended standards did not have any effect on the financial performance or the position of the Group and of the Company.

Notes to the Financial Statements

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

2.3 Standards 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.

Effective for annual period beginning on or after 1 January 2017

- Amendments to MFRS 12 (Annual improvements to MFRSs 2014 – 2016 Cycle)
- Amendments to MFRS 107 Statement of Cash Flows – Disclosure Initiatives
- Amendments to MFRS 112 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual period beginning on or after 1 January 2018

- Amendments to MFRS 1 (Annual improvements to MFRSs 2014 – 2016 Cycle)
- Amendments to MFRS 2 Share Based Payment – Classification and Measurement of Share Based Payment transactions
- MFRS 9 Financial Instruments (2015)
- MFRS 15 Revenue from Contracts with Customers
- MFRS 128 Investments in Associates and Joint Ventures (Annual improvements to MFRSs 2014 – 2016 Cycle)
- Amendments to MFRS 140 Investment Property – Transfers of Investment Property
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual period beginning on or after 1 January 2019

- MFRS 16 Leases

Deferred

- Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures.

Notes to the Financial Statements

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

2.3 Standards issued but not yet effective (cont'd.)

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

MFRS 9: Financial Instruments

In November 2014, MASB issued the final version of MFRS 9: Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139: Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of MFRS 9 and plans to adopt the new standard on the required effective date.

MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118: Revenue, MFRS 111: Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Directors anticipate that the application of MFRS 15 may have a material impact on the amounts reported and disclosures made in the Group's and the Company's financial statements. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 112: Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Notes to the Financial Statements

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

2.3 Standards issued but not yet effective (cont'd.)

MFRS 112: Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112) (cont'd.)

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies this amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group and on the Company.

MFRS 16: Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

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 circumstance.

The Group control is achieved when the group is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if 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.

Notes to the Financial Statements

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

2.4 Basis of consolidation (cont'd.)

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.

Consolidation of subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary. All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group 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 are 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 is 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

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

2.4 Basis of consolidation (cont'd.)

Business Combinations

Business combinations 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. Acquisition-related costs are expensed as incurred 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 or loss or as a charge 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 or 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 and any previous interest held 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 or 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 difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in 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.

Notes to the Financial Statements

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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. 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 an 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, the investment in an associate or a joint venture is initially recognised at cost, and the carrying amount is adjusted to recognise changes in 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 equals 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

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 for the same reporting date as the Group. 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 value disclosures for financial instruments at amortised cost and non-financial assets are disclosed in Note 29 (d), Note 11 (c) and Note 12.

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 by the Group.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Financial Statements

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

2.8 Fair value measurement (cont'd.)

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.

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 RM, which is also the functional currency of the Company. 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.

Notes to the Financial Statements

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

2.9 Currency conversion (cont'd.)

Foreign currency transactions (cont'd.)

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

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other comprehensive income.

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 Company 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% |
| Vessel | 4% |

Capital work-in-progress consists 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.

Notes to the Financial Statements

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

2.10 Property, plant and equipment (cont'd.)

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.

2.11 Investment property

Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. All other repair and maintenance costs are recognised in profit or loss as incurred.

The investment property is depreciated on a straight-line basis over the term of the estimated useful life of 30 years and assessed for impairment whenever there is an indication that the investment property may be impaired.

The hangar is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the investment property is derecognised.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment up to the date of change in use.

2.12 Intangible assets

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 assets 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 or 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 or loss when the asset is derecognised.

Notes to the Financial Statements

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

2.13 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 estimates 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.

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 for a non-financial asset other than goodwill 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 reversals are recognised in profit or loss.

2.14 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 or available-for-sale financial assets.

Notes to the Financial Statements

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

2.14 Financial assets (cont'd.)

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 normal 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. Normal 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.

2.15 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.

Notes to the Financial Statements

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

2.15 Impairment of financial assets (cont'd.)

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When a financial asset become 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.

2.16 Long term and construction contracts

Where the outcome of long term and 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 either the proportion of contract costs incurred for work performed to date to the estimated total contract costs or the completion of a physical proportion of the contract work.

Where the outcome of long term and 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.

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 long term and 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.

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.18 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.

Notes to the Financial Statements

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

2.19 Provisions

Provisions are recognised when the Group and the Company have 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.

2.20 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.

Notes to the Financial Statements

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

2.21 Borrowing costs

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

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

2.22 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 and the Company. 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.

2.23 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.

Notes to the Financial Statements

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

2.23 Leases (cont'd.)

(a) Lessee (cont'd.)

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.

(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 basis as chartering and rental income. The accounting policy for chartering and rental income is set out in Note 2.24 (f) and Note 2.24 (g), respectively.

2.24 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 is recognised as and when the services are rendered.

(c) Long term and construction contracts

Contract revenues and profits on heavy engineering contracts are accounted for under the accounting policy disclosed in Note 2.16.

Notes to the Financial Statements

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

2.24 Revenue (cont'd.)

(d) Interest income

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

(e) Dividend income

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

(f) Chartering income

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

(g) Rental income

Rental income is accounted for on a straight line basis over the lease term. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight line basis.

(h) Management fee

Management fee is recognised when the services are rendered.

2.25 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.
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Notes to the Financial Statements

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

2.25 Income taxes (cont'd.)

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.

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.

2.26 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 Managing Director 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 31.

Notes to the Financial Statements

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

2.27 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.

2.28 Discontinued operation and non-current assets classified as held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment is not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Further details on discontinued operation and non-current assets classified as held for sale are disclosed in Note 21.

Notes to the Financial Statements

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

2.29 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Useful lives of property, plant and equipment

The Group and the Company 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) Long term and construction contracts

When the outcome of a 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.

Notes to the Financial Statements

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

(iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unused tax credits and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

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

(iv) 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.

(v) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment on all non-financial assets at each reporting date. Non-financial assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business, significant adverse industry or economic changes. While the Group believes that the assumptions when determining recoverable amounts are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable amounts and may lead to future impairment changes. Any resulting impairment loss could have a material adverse impact on the Group's financial position and results of operations.

Notes to the Financial Statements

4. REVENUE

| | Group | | Company | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Heavy engineering contracts | 139,093 | 89,771 | - | - |
| Rendering of services | 163,410 | 169,312 | - | - |
| Sale of goods | 1,300 | 3,565 | - | - |
| Rental income | 3,343 | 2,993 | - | - |
| Interest income | - | - | 6,455 | 10,674 |
| Management fee | 372 | - | - | - |
| Dividend income | - | - | 70,000 | - |
| | 307,518 | 265,641 | 76,455 | 10,674 |

5. OPERATING COSTS

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Continuing operations | | | | |
| Raw materials and consumables | 11,040 | 15,576 | - | - |
| Construction contract costs (Note 19) | 28,704 | 117,691 | - | - |
| Employee benefits expense (Note 6) | 107,887 | 101,280 | 952 | 2,166 |
| Non-executive directors' remuneration (Note 7) | 385 | 371 | 296 | 292 |
| Depreciation of property, plant and equipment (Note 11) | 6,043 | 5,579 | 507 | 403 |
| Depreciation of investment property (Note 12) | 485 | 573 | - | - |
| Litigation settlement | 6,197 | - | - | - |
| Impairment loss on intangible asset (Note 13) | - | 2,631 | - | - |
| Gain on disposal of property, plant and equipment | (78) | - | - | - |
| Other operating costs | 45,683 | 10,308 | 52,993 | 28,735 |
| | 206,346 | 254,009 | 54,748 | 31,596 |

Notes to the Financial Statements

5. OPERATING COSTS (CONT'D.)

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Other operating costs include: | | | | |
| Auditors' remuneration: | | | | |
| – Statutory audit | 391 | 373 | 132 | 126 |
| – Others | 15 | 15 | 8 | 8 |
| Inventories written off | 633 | 788 | – | – |
| Inventories written down | 30,232 | – | – | – |
| Net (gain)/loss on foreign exchange: | | | | |
| – realised | (1,778) | 101 | – | – |
| – unrealised | 938 | 5,589 | – | – |
| Impairment loss on investment in subsidiaries (Note 14) | – | – | 119,434 | – |
| Allowance/(reversal) for impairment of: | | | | |
| – trade receivables (Note 18 (a)) | 646 | 31 | – | – |
| – other receivables (Note 18 (e)) | 2,289 | 3,986 | (68,171) | 26,440 |
| Operating leases: | | | | |
| – minimum lease payments for land and buildings | 2,900 | 2,692 | – | 155 |
| – minimum lease payments for plant and equipment | 230 | 180 | – | 9 |

6. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Wages and salaries | 76,470 | 80,713 | 337 | 1,248 |
| Social security contribution | 802 | 728 | – | 5 |
| Defined contribution plan | 9,711 | 9,820 | – | 98 |
| Termination benefit | 8,278 | – | – | – |
| Others | 12,626 | 10,019 | 615 | 815 |
| | 107,887 | 101,280 | 952 | 2,166 |
| Less: Employee benefit expense capitalised in long term and construction contract (Note 19) | (8,279) | (9,804) | – | – |
| | 99,608 | 91,476 | 952 | 2,166 |

Included in employee benefits expense of the Group and of the Company is executive directors' remuneration amounting to RM939,000 (2015: RM1,901,000) and RM858,000 (2015: RM502,000), respectively as further disclosed in Note 7.

Notes to the Financial Statements

7. DIRECTORS' REMUNERATION

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

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Executive directors' remuneration: | | | | |
| Fees | 252 | 228 | 180 | 180 |
| Salary | 480 | 1,238 | 480 | 211 |
| Allowances | 25 | 25 | 16 | 19 |
| Bonus | 135 | 303 | 135 | 67 |
| Defined contribution plan | 37 | 92 | 37 | 17 |
| Benefit in kind | 10 | 15 | 10 | 8 |
| Total executive directors' remuneration (Note 6 and Note 36 (b)) | 939 | 1,901 | 858 | 502 |
| Non-executive directors' remuneration: | | | | |
| Fees | 322 | 322 | 250 | 250 |
| Allowances | 63 | 49 | 46 | 42 |
| Total non-executive directors' remuneration (Note 5) | 385 | 371 | 296 | 292 |
| Total directors' remuneration | 1,324 | 2,272 | 1,154 | 794 |

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

| | 2016 | 2015 |
|---------------------------|------|------|
| Executive directors: | | |
| RM50,001 - RM100,000 | 1 | 1 |
| RM350,001 - RM400,000 | 1 | 1 |
| RM400,001 - RM450,000 | 1 | – |
| RM1,400,001 - RM1,450,000 | – | 1 |
| Non-executive directors: | | |
| RM100,001 - RM150,000 | 3 | 3 |

Notes to the Financial Statements

8. FINANCE COSTS

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Interest expense on: | | | | |
| Term loans | 485 | 1,043 | – | 329 |
| Hire purchase and finance lease liabilities | 66 | 13 | – | – |
| Revolving credits | 15,573 | 17,132 | 12,184 | 12,670 |
| Others | 44 | 14 | 91 | 126 |
| Finance costs recognised in profit or loss | 16,168 | 18,202 | 12,275 | 13,125 |

9. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Statement of comprehensive income: | | | | |
| Malaysian income tax: | | | | |
| Current income tax | 2,480 | 3,376 | – | – |
| (Over)/under provision in prior year | (223) | 213 | – | – |
| Total income tax | 2,257 | 3,589 | – | – |
| Deferred tax (Note 26): | | | | |
| Relating to origination and reversal of temporary differences | (556) | – | – | – |
| Income tax recognised in profit or loss | 1,701 | 3,589 | – | – |

Notes to the Financial Statements

9. INCOME TAX EXPENSE (CONT'D.)

Reconciliation between tax expense and accounting profit/(loss)

The reconciliation between tax expense and the product of accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 are as follows:

| | Group | | Company | |
|--|-----------------|----------------|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Profit/(loss) before taxation from continuing operations | 82,208 | (3,949) | 9,432 | (34,047) |
| Taxation at Malaysian statutory tax rate of 24% (2015: 25%) | 19,730 | (987) | 2,264 | (8,512) |
| Expenses not deductible for tax purposes | 4,278 | 4,930 | 14,529 | 8,512 |
| Income not subject to tax | (4,063) | (72) | (16,793) | – |
| Utilisation of previously unrecognised tax losses and capital allowances | (21,693) | (442) | – | – |
| Share of results of associates | 6,456 | 4,829 | – | – |
| Share of results of joint ventures | (5,283) | (5,374) | – | – |
| Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances | 2,499 | 492 | – | – |
| (Over)/under provision of income tax expense in prior years | (223) | 213 | – | – |
| Income tax expense recognised in profit or loss | 1,701 | 3,589 | – | – |

Domestic current income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

In the current financial year, a subsidiary and a joint venture receive tax exemption in respect of their statutory income derived from maintenance and in-service support activities of the government vessels.

Notes to the Financial Statements

10. EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing profit/(loss) from continuing operations, net of tax, attributable to equity holders of the Company by weighted average number of ordinary shares in issue during the financial year.

Basic and diluted loss per share from discontinued operations are calculated by dividing loss from discontinued operations, net of tax, attributable to equity holders of the Company by weighted average number of ordinary shares in issue during the financial year.

The following table reflects the profit/(loss) and share data used in the basic and diluted EPS computation :

| | Group | |
|---|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Profit/(loss) for the year attributable to shareholders of the Company: | | |
| Continuing operations | 80,507 | (7,538) |
| Discontinuing operations | (3,811) | (23,201) |
| Total | 76,696 | (30,739) |
| | '000 | '000 |
| Weighted average number of ordinary shares in issue | 248,458 | 248,458 |
| | sen | sen |
| Basic and diluted earnings/(loss) per share for: | | |
| Profit/(loss) for the year attributable to shareholders of the Company: | | |
| Continuing operations | 32.40 | (3.03) |
| Discontinued operation | (1.53) | (9.34) |
| Total | 30.87 | (12.37) |

Notes to the Financial Statements

11. 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 | | | | | |
| 1 January 2015 | 106,663 | 19,254 | 169,827 | 2,661 | 298,405 |
| Additions | 95 | 1,190 | 1,576 | 1,231 | 4,092 |
| Disposals | – | – | (53) | – | (53) |
| Transfer to investment property (Note 12) | (14,562) | – | – | – | (14,562) |
| Transfer to asset held for sale (Note 21) | – | – | (140,850) | – | (140,850) |
| Reclassification | 505 | – | 70 | (575) | – |
| At 31 December 2015 | 92,701 | 20,444 | 30,570 | 3,317 | 147,032 |
| Additions | 202 | 174 | 2,617 | 196 | 3,189 |
| Written off | – | – | (20) | – | (20) |
| Disposals | – | – | (429) | (61) | (490) |
| Reclassification | 184 | – | 2,912 | (3,096) | – |
| At 31 December 2016 | 93,087 | 20,618 | 35,650 | 356 | 149,711 |

Notes to the Financial Statements

11. 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 | | | | | |
| Accumulated depreciation and impairment | | | | | |
| 1 January 2015 | 44,789 | 9,533 | 73,198 | – | 127,520 |
| Impairment charge for the year: | | | | | |
| – Discontinued operation (Note 21) | – | – | 12,647 | – | 12,647 |
| Depreciation charge for the year: | 2,192 | 1,300 | 6,546 | – | 10,038 |
| – Recognised in profit or loss: | | | | | |
| Continuing operations (Note 5) | 2,189 | 1,004 | 2,386 | – | 5,579 |
| Discontinued operation (Note 21) | – | 106 | 4,096 | – | 4,202 |
| – Capitalised in construction costs (Note 19) | 3 | 190 | 64 | – | 257 |
| Disposals | – | – | (53) | – | (53) |
| Transfer to asset held for sale (Note 21) | – | – | (68,223) | – | (68,223) |
| At 31 December 2015 | 46,981 | 10,833 | 24,115 | – | 81,929 |
| Depreciation charge for the year: | 2,160 | 1,413 | 2,483 | – | 6,056 |
| – Recognised in profit or loss: | | | | | |
| Continuing operations (Note 5) | 2,159 | 1,402 | 2,482 | – | 6,043 |
| – Capitalised in construction costs (Note 19) | 1 | 11 | 1 | – | 13 |
| Written off | – | – | (20) | – | (20) |
| Disposals | – | – | (381) | – | (381) |
| At 31 December 2016 | 49,141 | 12,246 | 26,197 | – | 87,584 |

Notes to the Financial Statements

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

| | Land and buildings* RM'000 | Plant and machinery RM'000 | Equipment, fittings, renovation, motor vehicles and others** RM'000 | Capital work-in progress RM'000 | Total RM'000 |
|----------------------------|-------------------------------|-------------------------------|--|------------------------------------|-----------------|
| Group (cont'd.) | | | | | |
| Representing: | | | | | |
| Accumulated depreciation | 33,624 | 12,246 | 26,197 | – | 72,067 |
| Accumulated impairment | 15,517 | – | – | – | 15,517 |
| At 31 December 2016 | 49,141 | 12,246 | 26,197 | – | 87,584 |
| Net carrying amount | | | | | |
| At 31 December 2016 | 43,946 | 8,372 | 9,453 | 356 | 62,127 |
| At 31 December 2015 | 45,720 | 9,611 | 6,455 | 3,317 | 65,103 |

* Land and buildings of the Group comprise:

| | Long term leasehold and reclaimed lands RM'000 | Yard development RM'000 | Buildings, jetties, slipways and roads RM'000 | Total RM'000 |
|---|---|----------------------------|--|-----------------|
| Group | | | | |
| Cost | | | | |
| At 1 January 2015 | 34,257 | 22,966 | 49,440 | 106,663 |
| Additions | – | – | 95 | 95 |
| Transfer to investment property (Note 12) | – | – | (14,562) | (14,562) |
| Reclassification | 505 | – | – | 505 |
| At 31 December 2015 | 34,762 | 22,966 | 34,973 | 92,701 |
| Additions | – | – | 202 | 202 |
| Reclassification | – | – | 184 | 184 |
| At 31 December 2016 | 34,762 | 22,966 | 35,359 | 93,087 |

Notes to the Financial Statements

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

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

| | Long term leasehold and reclaimed lands RM'000 | Yard development RM'000 | Buildings, jetties, slipways and roads RM'000 | Total RM'000 |
|--|---|-------------------------------|---|-----------------|
| Group (cont'd.) | | | | |
| Accumulated depreciation and impairment | | | | |
| 1 January 2015 | 4,477 | 13,383 | 26,929 | 44,789 |
| Depreciation charge for the year: | 617 | 632 | 943 | 2,192 |
| – Recognised in profit or loss | 614 | 632 | 943 | 2,189 |
| – Capitalised in construction costs | 3 | – | – | 3 |
| At 31 December 2015 | 5,094 | 14,015 | 27,872 | 46,981 |
| Depreciation charge for the year: | 392 | 634 | 1,134 | 2,160 |
| – Recognised in profit or loss | 391 | 634 | 1,134 | 2,159 |
| – Capitalised in construction costs | 1 | – | – | 1 |
| At 31 December 2016 | 5,486 | 14,649 | 29,006 | 49,141 |
| Representing: | | | | |
| Accumulated depreciation | 4,517 | 7,699 | 21,408 | 33,624 |
| Accumulated impairment | 969 | 6,950 | 7,598 | 15,517 |
| At 31 December 2016 | 5,486 | 14,649 | 29,006 | 49,141 |
| Net carrying amount | | | | |
| At 31 December 2016 | 29,276 | 8,317 | 6,353 | 43,946 |
| At 31 December 2015 | 29,668 | 8,951 | 7,101 | 45,720 |

Notes to the Financial Statements

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

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

| | Equipment, fittings, renovation, motor vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|---|--|-------------------|-----------------|
| Group | | | |
| Cost | | | |
| At 31 December 2015 | 28,977 | 140,850 | 169,827 |
| Additions | 1,576 | – | 1,576 |
| Disposals | (53) | – | (53) |
| Reclassification | 70 | – | 70 |
| Transfer to non-current asset held for sale | – | (140,850) | (140,850) |
| At 31 December 2015 | 30,570 | – | 30,570 |
| Additions | 2,617 | – | 2,617 |
| Written off | (20) | – | (20) |
| Disposals | (429) | – | (429) |
| Reclassification | 2,912 | – | 2,912 |
| At 31 December 2016 | 35,650 | – | 35,650 |

Notes to the Financial Statements

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

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

| | Equipment, fittings, renovation, motor vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|--|--|-------------------|-----------------|
| Group | | | |
| Accumulated depreciation and impairment | | | |
| At 1 January 2015 | 21,717 | 51,481 | 73,198 |
| Impairment charge for the year: | | | |
| – Discontinued operation | – | 12,647 | 12,647 |
| Depreciation charge for the year: | 2,451 | 4,095 | 6,546 |
| – Recognised in profit or loss: | | | |
| Continuing operations | 2,386 | – | 2,386 |
| Discontinued operation | 1 | 4,095 | 4,096 |
| – Capitalised in construction costs | 64 | – | 64 |
| Disposals | (53) | – | (53) |
| Transfer to non-current asset held for sale | – | (68,223) | (68,223) |
| At 31 December 2015 | 24,115 | – | 24,115 |
| Depreciation charge for the year: | 2,483 | – | 2,483 |
| – Recognised in profit or loss: | | | |
| Continuing operations | 2,482 | – | 2,482 |
| – Capitalised in construction costs | 1 | – | 1 |
| Written off | (20) | – | (20) |
| Disposals | (381) | – | (381) |
| At 31 December 2016 | 26,197 | – | 26,197 |

Notes to the Financial Statements

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

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

| | Equipment, fittings, renovation, motor vehicles RM'000 | Vessels RM'000 | Total RM'000 |
|----------------------------|--|-------------------|-----------------|
| Group (cont'd.) | | | |
| Representing: | | | |
| Accumulated depreciation | 26,197 | – | 26,197 |
| Accumulated impairment | – | – | – |
| At 31 December 2016 | 26,197 | – | 26,197 |
| Net carrying amount | | | |
| At 31 December 2016 | 9,453 | – | 9,453 |
| At 31 December 2015 | 6,455 | – | 6,455 |

Notes to the Financial Statements

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

| | Long term leasehold land RM'000 | Equipment RM'000 | Capital work-in- progress RM'000 | Total RM'000 |
|---|--|---------------------|---|-----------------|
| Company | | | | |
| Cost | | | | |
| 1 January 2015 | 7,786 | 679 | 978 | 9,443 |
| Additions | – | 598 | 1,445 | 2,043 |
| At 31 December 2015 | 7,786 | 1,277 | 2,423 | 11,486 |
| Additions | – | 878 | – | 878 |
| Reclassification | – | 2,423 | (2,423) | – |
| At 31 December 2016 | 7,786 | 4,578 | – | 12,364 |
| Accumulated depreciation | | | | |
| 1 January 2015 | – | 337 | – | 337 |
| Depreciation charge for the year (Note 5) | 159 | 244 | – | 403 |
| At 31 December 2015 | 159 | 581 | – | 740 |
| Depreciation charge for the year (Note 5) | 78 | 429 | – | 507 |
| At 31 December 2016 | 237 | 1,010 | – | 1,247 |
| Net carrying amount | | | | |
| At 31 December 2016 | 7,549 | 3,568 | – | 11,117 |
| At 31 December 2015 | 7,627 | 696 | 2,423 | 10,746 |

Notes to the Financial Statements

11. 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 | |
|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Motor vehicles | 493 | 356 |
| Equipment | 1,031 | – |
| | 1,524 | 356 |

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

- (b) Included in land are two pieces of land at Kota Kinabalu, Sabah and at Bentong, Pahang with a carrying amount of RM11.5 million and RM7.5 million (2015: RM11.6 million and RM7.6 million), respectively as the conditions precedent have been met. The transfer of the land titles are still in progress.
- (c) The impairment loss of RM12.6 million in the prior year represents the write down of all chemical tankers to the recoverable amount as a result of current market conditions. The recoverable amount is determined based on fair value less cost to sell.

Fair value was determined based on market prices, significantly adjusted for condition of the asset.

The significant unobservable inputs (Level 3) is the condition of asset. Well/(not well) maintained vessels would result in a significantly higher/(lower) fair value.

Notes to the Financial Statements

12. INVESTMENT PROPERTY

| Group | Hangar RM'000 |
|---|------------------|
| Cost | |
| At 1 January 2015 | – |
| Transfer from property, plant and equipment (Note 11) | 14,562 |
| At 31 December 2015 | 14,562 |
| Addition | 336 |
| At 31 December 2016 | 14,898 |
| Accumulated depreciation | |
| At 1 January 2015 | – |
| Depreciation charge for the year (Note 5) | 573 |
| At 31 December 2015 | 573 |
| Depreciation charge for the year (Note 5) | 485 |
| At 31 December 2016 | 1,058 |
| Net carrying amount | |
| At 31 December 2016 | 13,840 |
| At 31 December 2015 | 13,989 |

Notes to the Financial Statements

12. INVESTMENT PROPERTY (CONT'D.)

As at 31 December 2016 the fair value of the investment property was based on independent valuations using the open market value approach. Valuations are performed by accredited independent valuers with recent experience in the location and category of properties being valued.

Details of the fair value of investment property are as follows:

| | Valuation method | Date of valuation | Fair value measurement using significant unobservable inputs (Level 3) RM |
|-------------------------------|-------------------|-------------------|---|
| As at 31 December 2016 | | | |
| Hangar | Comparison method | 31 December 2016 | 15,000,000 |
| As at 31 December 2015 | | | |
| Hangar | Comparison method | 31 December 2015 | 14,700,000 |

The property is valued by reference to transactions of similar properties in the surrounding area taking into consideration adjustments for differences in location, terrain, size and shape of the land, tenure, title restrictions, if any and other relevant characteristics.

The significant unobservable input is the price per square meter. Significant increase/(decrease) in estimated price per square meter would result in higher/(lower) value.

The Company's investment property is secured against the term loan as disclosed in Note 24.

Notes to the Financial Statements

13. INTANGIBLE ASSET

| | Group RM'000 |
|--|-------------------------|
| Ship design right, at cost | |
| At 1 January 2015 | 2,097 |
| Additions | 534 |
| Less: Impairment loss (Note 5) | (2,631) |
| At 31 December 2015 and 31 December 2016 | – |

Intangible asset relates to the purchase of design rights.

The directors carried out a review of the recoverable amount of the intangible asset based on the value in use calculation. Taking into consideration the key assumptions such as decrease in demand for such vessels and the current global economic conditions, an impairment loss of RM2.6 million was recognised in profit or loss in the previous financial year.

Notes to the Financial Statements

14. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Cost | | |
| At 1 January | 581,867 | 581,867 |
| Additional investment on unquoted shares | 500 | – |
| Contributions to subsidiaries | 119,434 | – |
| At 31 December | 701,801 | 581,867 |
| Representing: | | |
| Unquoted shares | 582,367 | 581,867 |
| Contributions to subsidiaries | 119,434 | – |
| | 701,801 | 581,867 |
| Accumulated impairment losses | | |
| At 1 January | (301,867) | (301,867) |
| Current year impairment loss (Note 5) | (119,434) | – |
| At 31 December | (421,301) | (301,867) |
| Representing: | | |
| Unquoted shares | (301,867) | (301,867) |
| Contributions to subsidiaries | (119,434) | – |
| | (421,301) | (301,867) |
| Net carrying investment in subsidiaries | | |
| Unquoted shares | 280,500 | 280,000 |
| Contributions to subsidiaries | – | – |
| | 280,500 | 280,000 |

The cost of shares in a subsidiary of RM2,636,000 (2015: RM2,636,000) is pledged to the financial institutions for banking facilities granted to a former corporate shareholder.

Notes to the Financial Statements

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries, all of which are incorporated in Malaysia are as follows:

| Name of subsidiaries | Principal activities | Paid-up capital | Percentage of ownership interest held by the group | |
|--|--|-----------------|--|--------|
| | | | 2016 % | 2015 % |
| 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. | Property investment | 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 |
| BHIC AeroTech Sdn. Bhd. | Provision of maintenance repair and overhaul of aircraft wheels and brakes | RM500,000 | 100 | – |
| Held by BHIC Asset: | | | | |
| Desa BHIC Sdn. Bhd. (In Member's Voluntary Liquidation) | Ceased operations | RM2 | 100 | 100 |
| Held by BP Shipyard: | | | | |
| Dominion Defence & Industries Sdn. Bhd. ("Dominion Defence") | Supply and services of marine and naval defence related products | RM1,000,000 | 100 | 100 |
| Perstim Industries Sdn. Bhd. | Investment holding | RM51,155,724 | 100 | 99.99 |
| 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 |

Notes to the Financial Statements

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

| Name of subsidiaries | Principal activities | Paid-up capital | Percentage of ownership interest held by the group | |
|--|---|-----------------|--|--------|
| | | | 2016 % | 2015 % |
| BHIC Navaltech Sdn. Bhd. | In-service support for the maintenance, services and supply of spare parts for vessels | RM1,000,000 | 100 | 100 |
| UMC Engineering Sdn. Bhd. ("UMC Engineering") (In Member's Voluntary Liquidation) | Dormant | RM996,234 | 99.99 | 99.99 |
| Boustead Tugs & Transport Sdn. Bhd. (In Member's Voluntary Liquidation) | Dormant | RM1,000,000 | 100 | 100 |
| BHIC Marine & Shipping Sdn. Bhd ("BHIC Shipping") (In Member's Voluntary Liquidation) | Dormant | RM3,000,003 | 100 | 100 |
| BHIC Shipbuilding & Engineering Sdn. Bhd. | Dormant | RM500,000 | 100 | 100 |
| BHIC Marine Technology Academy Sdn. Bhd. | Provision of marine and defence business management training and similar educational projects | RM500,000 | 100 | 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 |
| Held by Dominion | | | | |
| Defence: | | | | |
| Burlington Promotions & Publications Sdn. Bhd. (In Member's Voluntary Liquidation) | Dormant | RM121,000 | 100 | 100 |

Notes to the Financial Statements

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

| Name of subsidiaries | Principal activities | Paid-up capital | Percentage of ownership interest held by the group | |
|---|---|-----------------|--|--------|
| | | | 2016 % | 2015 % |
| Held by BHIC Defence: | | | | |
| BHIC Defence Techservices Sdn. Bhd. ("BHIC Defence Techservices") | Provision of maintenance and services for arsenal, missiles, and other defence related products | RM1,000,000 | 100 | 100 |
| BHIC Allied Defence Technology Sdn. Bhd. | Supply of electronics and system technology to defence related industry | RM510,000 | 100 | 100 |
| Naval and Defence Communication System Sdn. Bhd. | Provision of maintenance and services for telecommunication systems | RM100,000 | 100 | 100 |
| BHIC Electronics and Technologies Sdn. Bhd. | Provision of maintenance and services for defence weapons and related products | RM2,329,897 | 100 | 100 |
| BHIC Submarine Engineering Services Sdn. Bhd. | Provision of maintenance and services of submarines | RM500,000 | 100 | 100 |

(a) Additional investments in subsidiaries

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

| | Number of shares | | Amount | |
|---|------------------|-----------|-------------|-------------|
| | 2016 '000 | 2015 '000 | 2016 RM'000 | 2015 RM'000 |
| BHIC Submarine Engineering Services Sdn. Bhd. | – | 500 | – | 500 |
| BHIC Shipbuilding & Engineering Sdn. Bhd. | 500 | – | 500 | – |

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

Notes to the Financial Statements

14. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

(a) Additional investments in subsidiary (cont'd.)

- (ii) The Company through its wholly-owned subsidiary, BP Shipyard acquired additional equity interest in Perstim Industries Sdn. Bhd. by way of cash and the details are as follows:

| | 2016 | 2015 |
|-------------------------|------|------|
| Number of shares ('000) | 1 | 34 |
| Amount (RM'000) | 1 | 35 |

(b) Incorporation of a subsidiary

On 11 March 2016, the Group incorporated a new subsidiary, BHIC AeroTech Sdn Bhd ("BHICAT") and presently has an authorised share capital of RM500,000 comprising of 500,000 ordinary shares of RM1.00 each. The principal activity of BHICAT is to carry out maintenance, repair and overhaul of rotary and fixed wing aircraft.

(c) Contributions to subsidiaries

Contributions to subsidiaries represent amounts which the Company waived and are considered as part of the Company's investment in the subsidiaries.

(d) Impairment loss on investment in subsidiaries

An impairment review of carrying amounts of investments in subsidiaries at the reporting date was undertaken based on the value in use taking into consideration that the Company does not expect to generate future positive cash flows. As a result, an impairment loss of RM119,434,000 was recognised during the financial year.

15. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Unquoted shares, at cost | 54,840 | 54,840 | 1,250 | 1,250 |
| Cumulative share of post acquisition profits | 109,544 | 128,860 | - | - |
| Share of current's year post acquisition loss | (26,899) | (19,316) | - | - |
| | 82,645 | 109,544 | - | - |
| Less: Accumulated impairment losses | - | - | (1,250) | (1,250) |
| | 137,485 | 164,384 | - | - |

Notes to the Financial Statements

15. INVESTMENTS IN ASSOCIATES (CONT'D.)

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

| Name of associates | Principal activities | Paid up capital | Percentage of ownership interest held by the group | |
|--|---|-----------------|--|-----------|
| | | | 2016 % | 2015 % |
| Held by the Company: | | | | |
| Tohwa-Sedap Food Industry Sdn. Bhd. (In Member's Voluntary Liquidation) | Dormant | RM2,500,000 | 50.00 | 50.00 |
| Held by 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 | RM130,000,003 | 20.77 | 20.77 |
| Held through by BP Shipyard: | | | | |
| Penang Shipbuilding and Construction Holding (Thailand) Limited (Incorporated in Thailand) | Dormant | THB100,000 | 48.80 | 48.80 |
| Held through by BN Shipyard: | | | | |
| Boustead Langkawi Shipyard Sdn. Bhd. | Construction, repair and maintenance of boats and yachts | RM100,000,000 | 20.77 | 20.77 |
| BN Shiprepair Sdn. Bhd. | Ceased operations | RM1,000,000 | 20.77 | 20.77 |
| Boustead Yachts Sdn. Bhd. | Ceased operations | RM1,000,000 | 20.77 | 20.77 |

The financial year-end of the above associates are coterminous with that of the Group.

Notes to the Financial Statements

15. INVESTMENTS IN ASSOCIATES (CONT'D.)

The summarised financial information of the associates are as follows:

| | 2016 RM'000 | 2015 RM'000 |
|---------------------------------|------------------|----------------|
| Assets and liabilities | | |
| Current assets | 1,608,233 | 1,800,115 |
| Non-current assets | 415,390 | 432,135 |
| Total assets | 2,023,623 | 2,232,250 |
| Current liabilities | 1,914,836 | 1,844,834 |
| Non-current liabilities | 230,305 | 379,425 |
| Total liabilities | 2,145,141 | 2,224,259 |
| Net (liabilities)/assets | (121,518) | 7,991 |
| Results | | |
| Revenue | 668,147 | 969,536 |
| Loss for the year | (129,509) | (93,000) |

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

| | 2016 RM'000 | 2015 RM'000 |
|--|------------------|----------------|
| Net assets at 1 January | 7,991 | 101,041 |
| Additional interest in associate | – | (50) |
| Loss for the year | (129,509) | (93,000) |
| Net (liabilities)/assets at 31 December | (121,518) | 7,991 |
| Interest in associate | 20.77% | 20.77% |
| Goodwill | 162,724 | 162,724 |
| Carrying value of Group's investment in associates | 137,485 | 164,384 |

Notes to the Financial Statements

16. INVESTMENTS IN JOINT VENTURES

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Unquoted shares, at cost | 33,941 | 33,941 |
| Cumulative share of post acquisition profits | 52,611 | 36,602 |
| Share of current year's post acquisition profits | 22,011 | 21,494 |
| Less: Dividend paid (Note 36 (a)) | (2,771) | (5,485) |
| | 71,851 | 52,611 |
| | 105,792 | 86,552 |

The Group has various percentage 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.

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

| Name of joint ventures | Principal activities | Paid-up capital | Percentage of ownership interest held by the group | |
|--|--|-----------------|--|-----------|
| | | | 2016 % | 2015 % |
| Held by BHIC Defence: | | | | |
| BHIC Bofors Asia Sdn. Bhd. | Provision of integrated logistics support services on BOFORS weapons systems | RM1,000,000 | 51 | 51 |
| BHIC AeroServices Sdn. Bhd. ("BHICAS") | To carry on business of maintenance, repair and overhaul of rotary and fixed wing aircraft | RM2,000,000 | 51 | 51 |
| Boustead DCNS Naval Corporation Sdn. Bhd. ("BDNC") | Vessel maintenance | RM10,000,000 | 60 | 60 |
| BYO Marine Sdn. Bhd. * | Construction of vessels | RM500,000 | 51 | 51 |
| Contraves Advanced Devices Sdn. Bhd. ("CAD") * | Manufacturing of electronic products | RM5,000,000 | 51 | 51 |

Notes to the Financial Statements

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

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

| Name of joint ventures | Principal activities | Paid-up capital | Percentage of ownership interest held by the group | |
|---|---|-----------------|--|--------|
| | | | 2016 % | 2015 % |
| BHIC MSM Sdn. Bhd. | Provision of maintenance and repair of MTU products | RM1,000,000 | 60 | 60 |
| Pyrotechnical Ordnance Malaysia Sdn. Bhd. | Production and selling of double based propellant for locally used artillery shells and rockets in defence sector | RM2 | 50 | 50 |
| Held by CAD: | | | | |
| Contraves Sdn. Bhd. * | Property rental | RM100,000 | 51 | 51 |
| 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 | RM1,000,000 | 51 | 51 |

* 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

16. INVESTMENTS 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

| | 2016 | | 2015 | |
|---|----------------|----------------|----------------|---------------|
| | BDNC RM'000 | CAD RM'000 | BDNC RM'000 | CAD RM'000 |
| Group | | | | |
| Non-current assets | 19,039 | 303,629 | 20,722 | 319,616 |
| Cash and cash equivalent | 348,745 | 296,419 | 341,806 | 388,036 |
| Other current assets | 226,262 | 83,129 | 76,153 | 110,488 |
| Total current assets | 575,007 | 379,548 | 417,959 | 498,524 |
| Total assets | 594,046 | 683,177 | 438,681 | 818,140 |
| Current financial liabilities (excluding trade and other payables and provisions) | 1,440 | 328 | 1,374 | 2,130 |
| Trade and other payables and provisions | 526,642 | 575,250 | 396,537 | 714,747 |
| Other financial liabilities | | – | – | – |
| Total current liabilities | 528,082 | 575,578 | 397,911 | 716,877 |
| Non-current liabilities | 1,084 | 10,185 | 2,516 | 13,428 |
| Total liabilities | 529,166 | 585,763 | 400,427 | 730,305 |
| Net Assets | 64,880 | 97,414 | 38,254 | 87,835 |

Notes to the Financial Statements

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

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

(ii) Summarised statements of comprehensive income

| | 2016 | | 2015 | |
|--|----------------|---------------|----------------|---------------|
| | BDNC RM'000 | CAD RM'000 | BDNC RM'000 | CAD RM'000 |
| Group | | | | |
| Revenue | 382,262 | 296,351 | 355,375 | 609,808 |
| Depreciation | (444) | (36,930) | (355) | (16,222) |
| Interest income | 2,222 | 9,856 | 1,729 | 3,551 |
| Finance costs | (5) | (479) | (2) | (644) |
| Profit/(loss) before tax from continuing operations | 28,232 | 16,735 | (3,765) | 53,384 |
| Income tax expense | (1,606) | (7,156) | (3,682) | (8,766) |
| Profit/(loss) for the year representing total comprehensive income/(loss) for the year, net of tax | 26,626 | 9,579 | (7,447) | 44,618 |

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

| | 2016 | | 2015 | |
|---|----------------|---------------|----------------|---------------|
| | BDNC RM'000 | CAD RM'000 | BDNC RM'000 | CAD RM'000 |
| Group | | | | |
| Net assets at 1 January | 38,254 | 87,835 | 45,701 | 43,217 |
| Profit/(loss) for the year | 26,626 | 9,579 | (7,447) | 44,618 |
| Dividend | – | – | – | – |
| Net assets at 31 December | 64,880 | 97,414 | 38,254 | 87,835 |
| Interest in joint ventures (%) | 60 | 51 | 60 | 51 |
| Goodwill | – | 3,849 | – | 3,849 |
| Carrying value of Group's interest in joint ventures | 38,928 | 53,530 | 22,952 | 48,645 |

Notes to the Financial Statements

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

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

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| The Group's share of profit before tax | 2,045 | 4,788 |
| The Group's share of profit after tax, representing total comprehensive income | 1,150 | 3,207 |

17. INVENTORIES

| | Group | |
|-------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Consumables | | |
| At cost | 2,982 | 3,056 |
| At net realisable value | 54,592 | 585 |
| | 57,574 | 3,641 |

Notes to the Financial Statements

18. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Trade receivables | | | | |
| Third parties | 12,354 | 15,176 | - | - |
| Due from related parties: | | | | |
| – Associates | 88,380 | 94,807 | - | - |
| – Joint ventures | 32,306 | 6,938 | - | - |
| | 133,040 | 116,921 | - | - |
| Unbilled receivables due from | | | | |
| – Associates | 27,992 | 11,727 | - | - |
| – Joint ventures | 17,500 | - | - | - |
| Less: Allowance for impairment | | | | |
| – Third parties | (2,584) | (1,938) | - | - |
| Trade receivables, net | 175,948 | 126,710 | - | - |
| Other receivables | | | | |
| Due from related parties: | | | | |
| – Subsidiaries | - | - | 4,064 | 190,400 |
| – Joint ventures | 28,669 | 27,518 | - | - |
| – Associates | 300 | 91 | 157 | 63 |
| – Related companies | 93 | 46 | - | - |
| Dividend receivable | - | - | 64,500 | - |
| | 29,062 | 27,655 | 68,721 | 190,463 |
| Deposits | 9,594 | 9,698 | - | - |
| Prepayments | 132 | 1,266 | - | - |
| Sundry receivables | 2,354 | 2,450 | - | - |
| Advances to suppliers | 21,996 | 48,561 | - | - |
| | 63,138 | 89,630 | 68,721 | 190,463 |

Notes to the Financial Statements

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

| | Group | | Company | |
|--|-----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Less: Allowance for impairment | | | | |
| – Subsidiaries | – | – | – | (68,171) |
| – Joint ventures | (9,920) | (8,698) | – | – |
| – Associates | (28) | (28) | – | – |
| – Other receivables | (323) | (323) | – | – |
| – Advance to supplier | (1,067) | – | – | – |
| | (11,338) | (9,049) | – | (68,171) |
| Other receivables, net | 51,800 | 80,581 | 68,721 | 122,292 |
| Total trade and other receivables | 227,748 | 207,291 | 68,721 | 122,292 |
| Total trade and other receivables | 227,748 | 207,291 | 68,721 | 122,292 |
| Add: Cash and bank balances (Note 20) | 24,247 | 54,075 | 405 | 781 |
| Less: Prepayments | (132) | (1,266) | – | – |
| Less: Advances to suppliers | (20,929) | (48,561) | – | – |
| Total loans and receivables | 230,934 | 211,539 | 69,126 | 123,073 |

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

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Neither past due nor impaired | 78,863 | 46,074 |
| 1 to 30 days past due not impaired | 8,150 | 13,159 |
| 31 to 60 days past due not impaired | 700 | 12,531 |
| 61 to 90 days past due not impaired | 16 | 11,345 |
| 91 to 120 days past due not impaired | 533 | 2,518 |
| More than 121 days past due not impaired | 42,194 | 29,356 |
| | 51,593 | 68,909 |
| Impaired | 2,584 | 1,938 |
| | 133,040 | 116,921 |

Notes to the Financial Statements

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

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

Receivables that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group 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 past due but not impaired

The Group has trade receivables amounting to RM51,593,000 (2015: RM68,909,000) 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, RM15,065,000 (2015: RM6,938,000) is due from a joint venture and RM23,901,000 (2015: RM51,603,000) is due from an associate which the Group expects to recover in full.

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 | |
|---------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Trade receivables-nominal value | 2,584 | 1,938 |
| Less: Allowance for impairment | (2,584) | (1,938) |
| | - | - |

Notes to the Financial Statements

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 | |
|------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| At 1 January | 1,938 | 1,907 |
| Charge for the year (Note 5) | 646 | 31 |
| At 31 December | 2,584 | 1,938 |

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 (2015: 30 days), extending up to 90 days (2015: 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 due from Government of Malaysia and related agencies amounted to RM103,972,000 (2015: RM101,863,000) at the reporting date.

Trade receivables are non-interest bearing.

(d) Amounts due from related parties

The related parties' balances bear weighted average effective interest rate of 5.5% (2015: 5.5%) per annum and are repayable on demand. All related parties receivables are unsecured and are to be settled in cash.

Notes to the Financial Statements

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

(e) Other receivables

The Group's other receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

| | Group | | Company | |
|-----------------------------------|-----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Other receivables – nominal value | 26,925 | 25,858 | – | 143,273 |
| Less: Allowance for impairment | (11,338) | (9,049) | – | (68,171) |
| | 15,587 | 16,809 | – | 75,102 |

Movement in allowance account:

| | Group | | Company | |
|--|----------------|----------------|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| At 1 January | 9,049 | 5,256 | 68,171 | 41,731 |
| Charge for the year (Note 5) | 2,289 | 3,986 | – | 26,440 |
| Written off | – | (193) | – | – |
| Reversal of impairment losses (Note 5) | – | – | (68,171) | – |
| At 31 December 2016 | 11,338 | 9,049 | – | 68,171 |

Other 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 non-trade receivables are not secured by any collateral or credit enhancements.

Notes to the Financial Statements

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

| | Group | |
|---|--------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Aggregate cost incurred and recognised profit (less recognised losses) to date | 1,135,557 | 959,406 |
| Less: Progress billings | (1,119,756) | (933,849) |
| | 15,801 | 25,557 |
| Amounts due from customers on contracts | 58,999 | 42,987 |
| Amounts due to customers on contracts | (43,198) | (17,430) |
| | 15,801 | 25,557 |

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

| | Group | |
|---|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Depreciation of property, plant and equipment (Note 11) | 13 | 257 |
| Operating lease: | | |
| – minimum lease payment for plant and equipment | 65 | 391 |
| Employee benefits expense (Note 6) | 8,279 | 9,804 |

No interest expenses were 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 | |
|--------------------------------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Contract revenue * | 187,878 | 139,439 |
| Construction contract costs (Note 5) | 28,704 | 117,691 |

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

Notes to the Financial Statements

20. CASH AND BANK BALANCES

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Deposits with licensed banks | 1,000 | 33,345 | – | – |
| Cash on hand and at banks | 23,247 | 20,730 | 405 | 781 |
| Total cash and bank balances | 24,247 | 54,075 | 405 | 781 |
| Less: Deposits with licensed banks pledged and more than 90 days | – | (2,676) | – | – |
| Cash and cash equivalents | 24,247 | 51,399 | 405 | 781 |

Deposits with licensed banks amounting to RM477,551 were pledged for performance guarantee facilities granted to the Group in the previous financial year

The amount of deposits placed with the financial institutions which are Government-related entities amount to RM23,861,000 (2015: RM53,692,000).

Other information on financial risks of cash and bank balances are disclosed in Note 29.

21. DISCONTINUED OPERATION AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 23 December 2015, the company announced the decision of its Board of Directors to dispose off all three chemical tankers to Jasa Merin (Labuan) PLC for a price of USD5.7 million (RM24.5 million equivalent) per vessel.

As at 31 December 2015, the chemical tanker of the Group has been reclassified from property, plant and equipment to non-current assets held for sale.

On 6 May 2016, the disposal of the chemical tankers were completed following the receipt of balance of disposal consideration of USD11.97 million.

Statement of financial position disclosure

The non-current assets classified as held for sale as at 31 December 2016 and 2015 are as follows:

| | Group RM'000 |
|---|-----------------|
| At 1 January 2015 | – |
| Transfer from property, plant and equipment (Note 11) | 72,627 |
| At 31 December 2015 | 72,627 |
| Disposal | (72,627) |
| At 31 December 2016 | – |

Notes to the Financial Statements

21. DISCONTINUED OPERATION AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (CONT'D.)

The chemical tankers with total carrying value of RM Nil (2015: RM48,417,000) were secured against the revolving credit and term loan as disclosed in Note 24 (b). These facilities were fully repaid in the current financial year.

Statement of comprehensive income disclosures

The results of the chartering segment for the years ended 31 December 2016 and 2015 are as follows:

| | Group | |
|--|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Revenue | 5,965 | 10,873 |
| Operating Costs | (10,074) | (34,074) |
| Result from operations | (4,109) | (23,201) |
| Interest income | 271 | – |
| Loss before tax | (3,838) | (23,201) |
| Taxation | 27 | – |
| Loss from discontinued operation, net of tax | (3,811) | (23,201) |

Included in operating costs:

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Chartering business operating costs | 5,168 | 4,603 |
| Auditors' remuneration | 36 | 52 |
| Net foreign exchange (gain)/losses | (2,087) | 10,610 |
| Impairment loss on property, plant and equipment (Note 11) | – | 12,647 |
| Depreciation of property, plant and equipment (Note 11) | – | 4,202 |
| Loss on disposal of property, plant and equipment | 4,927 | – |
| Other operating costs | 2,030 | 1,960 |
| | 10,074 | 34,074 |

Notes to the Financial Statements

21. DISCONTINUED OPERATION AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (CONT'D.)

Statement of cash flows disclosures

The cash flows attributable to the chartering segment for the year ended 31 December 2016 and 2015 are as follows:

| | Group | |
|---|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Operating, representing net cash (outflows)/inflows | (1,872) | 1,312 |
| Investing representing net cash inflows | 67,970 | – |
| Financing representing net cash outflows | (67,890) | – |
| Net movement | (1,792) | 1,312 |

22. SHARE CAPITAL

| | Group and Company | | | |
|---|---------------------------------|--------------|----------------|----------------|
| | Number of shares of RM1 each | | Amount | |
| | 2016 '000 | 2015 '000 | 2016 RM'000 | 2015 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's residual assets.

Notes to the Financial Statements

23. PROVISIONS

| | Group RM'000 | Company RM'000 |
|----------------------------|-----------------|-------------------|
| Directors' fee | | |
| At 1 January 2015 | 480 | 480 |
| Additional of provision | 598 | 430 |
| Utilisation of provision | (480) | (480) |
| At 31 December 2015 | 598 | 430 |
| Additional of provision | 685 | 535 |
| Utilisation of provision | (598) | (430) |
| At 31 December 2016 | 685 | 535 |

24. LOANS AND BORROWINGS

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Short term borrowings | | | | |
| Secured: | | | | |
| Hire purchase and finance lease liabilities (Note 25) | 296 | 97 | - | - |
| Term loans | 1,120 | 7,705 | - | 6,585 |
| Revolving credits | - | 48,975 | - | 48,975 |
| | 1,416 | 56,777 | - | 55,560 |
| Unsecured: | | | | |
| Revolving credits | 245,000 | 290,000 | 195,000 | 200,000 |
| | 245,000 | 290,000 | 195,000 | 200,000 |
| Total short term borrowings: | | | | |
| Term loans | 1,120 | 7,705 | - | 6,585 |
| Hire purchase and finance lease liabilities (Note 25) | 296 | 97 | - | - |
| Revolving credits | 245,000 | 338,975 | 195,000 | 248,975 |
| | 246,416 | 346,777 | 195,000 | 255,560 |

Notes to the Financial Statements

24. LOANS AND BORROWINGS (CONT'D.)

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Long term borrowings | | | | |
| Secured: | | | | |
| Hire purchase and finance lease liabilities (Note 25) | 891 | 209 | – | – |
| Term loans | 6,926 | 8,046 | – | – |
| Total long term borrowings | 7,817 | 8,255 | – | – |
| Total borrowings: | | | | |
| Term loans | 8,046 | 15,751 | – | 6,585 |
| Hire purchase and finance lease liabilities (Note 25) | 1,187 | 306 | – | – |
| Revolving credits | 245,000 | 338,975 | 195,000 | 248,975 |
| | 254,233 | 355,032 | 195,000 | 255,560 |

The maturity profile of hire purchase and finance lease liabilities is as disclosed in Note 25.

The term loans and revolving credit facilities granted to the Group and the Company are unsecured except for the following:

- A term loan of a subsidiary which is secured against an investment property as disclosed in Note 12.
- A term loan and a revolving credit facility of the Company which were secured against vessels of certain subsidiaries as disclosed in Note 21. These facilities were fully repaid in the current financial year.
- Other information on financial risks of loans and borrowings are disclosed in Note 29.
- The outstanding amount of borrowings obtained from the financial institutions which are Government-related entities amounted to RM104,233,000 (2015: RM165,032,000).

Notes to the Financial Statements

25. HIRE PURCHASE AND FINANCE LEASE LIABILITIES

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Future minimum lease payments: | | |
| Not later than 1 year | 358 | 109 |
| Later than 1 year but not later than 2 years | 342 | 83 |
| Later than 2 years but not later than 5 years | 633 | 142 |
| | 1,333 | 334 |
| Less: Future finance charges | (146) | (28) |
| | 1,187 | 306 |
| Analysis of present value of finance lease liabilities: | | |
| Not later than 1 year | 296 | 97 |
| Later than 1 year but not later than 2 years | 298 | 75 |
| Later than 2 years but not later than 5 years | 593 | 134 |
| | 1,187 | 306 |
| Amount due within 12 months (Note 24) | (296) | (97) |
| Amount due after 12 months (Note 24) | 891 | 209 |

The hire purchase liabilities are secured by a charge over the leased assets (Note 11 (a)). The average discount rate implicit in the leases is 5.77% per annum (2015: 4.89% per annum).

26. DEFERRED TAXATION

| | Group | |
|--|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| At 1 January | (18,815) | (18,815) |
| Recognised in profit or loss | | |
| – Continuing operations (Note 9) | (556) | – |
| – Discontinued operations (Note 21) | (27) | – |
| At 31 December | (19,398) | (18,815) |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | (19,447) | (18,891) |
| Deferred tax liabilities | 49 | 76 |
| | (19,398) | (18,815) |

Notes to the Financial Statements

26. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax (assets)/liabilities of the Group during the financial year are as follows:

| | Unused tax losses RM'000 |
|------------------------------|--------------------------------|
| Deferred tax assets | |
| At 1 January 2015 | (21,268) |
| Recognised in profit or loss | 513 |
| At 31 December 2015 | (20,755) |
| Recognised in profit or loss | (556) |
| At 31 December 2016 | (21,311) |

| | Property, plant and equipment RM'000 | Others RM'000 | Total RM'000 |
|---------------------------------|---|------------------|-----------------|
| Deferred tax liabilities | | | |
| At 1 January 2015 | 2,453 | – | 2,453 |
| Recognised in profit or loss | (673) | 160 | (513) |
| At 31 December 2015 | 1,780 | 160 | 1,940 |
| Recognised in profit or loss | (27) | – | (27) |
| At 31 December 2016 | 1,753 | 160 | 1,913 |

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 | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Temporary differences arising from: | | | | |
| – unused tax losses | (23,367) | (103,818) | (47) | (47) |
| – unabsorbed capital allowances | (77) | (75) | – | – |
| – others | (1,341) | (867) | – | – |
| | (24,785) | (104,760) | (47) | (47) |

The unused 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 tax losses items, to the extent that future taxable profits are probable to be utilised in the foreseeable future.

Notes to the Financial Statements

27. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Trade payables | | | | |
| Third parties | 45,026 | 65,980 | – | – |
| Due to related parties: | | | | |
| Associates | 195 | 838 | – | – |
| Joint ventures | 8,729 | 4,783 | – | – |
| | 53,950 | 71,601 | – | – |
| Other payables | | | | |
| Due to related parties: | | | | |
| Subsidiaries | – | – | 843 | 2,306 |
| Holding company | 1,557 | 702 | 149 | 103 |
| Joint ventures | 2,156 | 1,685 | – | – |
| Associates | 3,016 | 2,824 | 134 | 134 |
| | 6,729 | 5,211 | 1,126 | 2,543 |
| Accruals | 6,272 | 9,204 | 774 | 710 |
| Sundry payables | 7,377 | 9,043 | 125 | 825 |
| | 20,378 | 23,458 | 2,025 | 4,078 |
| Total trade and other payables | 74,328 | 95,059 | 2,025 | 4,078 |
| Total trade and other payables | 74,328 | 95,059 | 2,025 | 4,078 |
| Add: Loans and borrowings (Note 24) | 254,233 | 355,032 | 195,000 | 255,560 |
| Total financial liabilities carried at amortised costs | 328,561 | 450,091 | 197,025 | 259,638 |

(a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2015: 30 to 90 days).

(b) Non trade balances due to related parties.

The related parties' balances bear weighted average effective interest rate of 5.5% (2015: 5.5%) 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 36.

Other information on financial risks of trade and other payables are disclosed in Note 29.

Notes to the Financial Statements

28. DIVIDEND

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

On 24 February 2017, the directors have declared a single-tier first interim dividend of 3% or 3 sen per share in respect of the financial year ending 31 December 2017 amounting to RM7,454,000. The dividend will be paid on 30 March 2017. The dividend will be recognised and accounted for in equity as an appropriation earnings in the subsequent financial year.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks, including interest rate, credit, foreign exchange, 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 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 risk 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.

Notes to the Financial Statements

29. 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 and the Company'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 | More Than 5 Years RM'000 | Total RM'000 |
|--|------|------------|----------------------------|--------------------------|--------------------------|--------------------------------|-----------------|
| Group | | | | | | | |
| At 31 December 2016 | | | | | | | |
| Fixed rate | | | | | | | |
| Hire purchase and finance lease liabilities | 25 | 5.77% | (296) | (298) | (593) | – | (1,187) |
| Deposits with licensed banks | 20 | 2.91% | 1,000 | – | – | – | 1,000 |
| Floating rate | | | | | | | |
| Term loans | 24 | 5.50% | (1,120) | (1,120) | (3,360) | (2,446) | (8,046) |
| Revolving credits | 24 | 5.26% | (245,000) | – | – | – | (245,000) |
| At 31 December 2015 | | | | | | | |
| Fixed rate | | | | | | | |
| Hire purchase and finance lease liabilities | 25 | 4.89% | (97) | (75) | (134) | – | (306) |
| Deposits with licensed banks | 20 | 1.31% | 33,345 | – | – | – | 33,345 |
| Floating rate | | | | | | | |
| Term loans | 24 | 4.80% | (7,705) | (1,120) | (3,360) | (3,566) | (15,751) |
| Revolving credits | 24 | 5.07% | (338,975) | – | – | – | (338,975) |

Notes to the Financial Statements

29. 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 2016 | | | | | | |
| Floating rate | | | | | | |
| Revolving credits | 24 | 5.24% | (195,000) | - | - | (195,000) |
| At 31 December 2015 | | | | | | |
| Floating rate | | | | | | |
| Term loan | 24 | 3.40% | (6,585) | - | - | (6,585) |
| Revolving credits | 24 | 5.21% | (248,975) | - | - | (248,975) |

Interest on borrowings that are subject to floating rate is contractually repriced within a year. Interest on financial instruments at fixed rates is 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 RM949,000 (2015: RM1,330,000) and RM731,000 (2015: RM958,000) higher/lower respectively, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on a prudent estimate of the current market environment.

(b) Liquidity and cash flow risks

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure as far as possible that it will have sufficient liquidity to meet its liability as and when they fall due.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

Notes to the Financial Statements

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

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

| | ← 2016 → | | | |
|--|--|--------------------------------|-----------------------------------|-----------------|
| | On demand or within one year RM'000 | One to five years RM'000 | More than five years RM'000 | Total RM'000 |
| Group | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 74,328 | – | – | 74,328 |
| Loans and borrowings | 247,770 | 6,455 | 2,577 | 256,802 |
| Total undiscounted financial liabilities | 322,098 | 6,455 | 2,577 | 331,130 |
| Company | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 2,025 | – | – | 2,025 |
| Loans and borrowings | 195,589 | – | – | 195,589 |
| Total undiscounted financial liabilities | 197,614 | – | – | 197,614 |
| | ← 2015 → | | | |
| | On demand or within one year RM'000 | One to five years RM'000 | More than five years RM'000 | Total RM'000 |
| Group | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 95,059 | – | – | 95,059 |
| Loans and borrowings | 348,345 | 7,306 | 2,584 | 358,235 |
| Total undiscounted financial liabilities | 443,404 | 7,306 | 2,584 | 453,294 |

Notes to the Financial Statements

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

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

| | ← 2015 → | | | |
|--|--|--------------------------------|-----------------------------------|-----------------|
| | On demand or within one year RM'000 | One to five years RM'000 | More than five years RM'000 | Total RM'000 |
| Company | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 4,078 | – | – | 4,078 |
| Loans and borrowings | 256,207 | – | – | 256,207 |
| Total undiscounted financial liabilities | 260,285 | – | – | 260,285 |

(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, 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 2016 and 31 December 2015, 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.

Notes to the Financial Statements

29. 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 | | | |
|-----------------------------|----------------|-------------|---------|------------|
| | 2016 | | 2015 | |
| | RM'000 | % of total | RM'000 | % of total |
| By country: | | | | |
| Malaysia | 175,578 | 99% | 122,611 | 97% |
| Others | 370 | 1% | 4,099 | 3% |
| | 175,948 | 100% | 126,710 | 100% |
| By industry sector: | | | | |
| Heavy engineering contracts | 150,102 | 85% | 8,492 | 7% |
| Rendering of services | 20,943 | 12% | 105,148 | 83% |
| Sales of goods | 4,317 | 2% | 7,778 | 6% |
| Chartering | 586 | 1% | 5,292 | 4% |
| | 175,948 | 100% | 126,710 | 100% |

(d) Fair value of financial instruments

Determination of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

| | Note |
|--|------|
| Trade and other receivables | 18 |
| Amounts due from subsidiaries, joint ventures, associate and related company | 18 |
| Loans and borrowings (current) | 24 |
| Trade and other payables | 27 |
| Amounts due to subsidiaries, joint ventures, associate and holding company | 27 |

Notes to the Financial Statements

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

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

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 current portion of 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.

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:

| | Group | | | |
|---|-----------------|----------------|----------------|----------------|
| | Carrying amount | | Fair value | |
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Financial liabilities | | | | |
| Interest bearing loans and borrowings, representing hire purchase and finance lease liabilities | (891) | (209) | (888) | (207) |

The fair value of the Group's long term financial instruments are categorised as level 2 in the fair value hierarchy as they are estimated by discounting the future contractual cash flows at the current market rate available for similar instruments.

(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, 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 ("EUR"). Foreign exchange exposures are kept to an acceptable level.

Notes to the Financial Statements

29. 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 2016 | | | | | |
| USD | 49 | 588 | (1,192) | – | (555) |
| EUR | 10,621 | 5,827 | (12,061) | – | 4,387 |
| | 10,670 | 6,415 | (13,253) | – | 3,832 |
| At 31 December 2015 | | | | | |
| USD | 1,807 | 5,389 | (7,914) | (55,560) | (56,278) |
| EUR | 23,052 | 2,301 | (11,691) | – | 13,662 |
| | 24,859 | 7,690 | (19,605) | (55,560) | (42,616) |

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 EUR exchange rates against the respective functional currencies of the Group's entities, with all other variables held constant.

| | Group Profit/(loss) net of tax | |
|--------------------------|-----------------------------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| USD/RM - strengthened 5% | (28) | (2,814) |
| - weakened 5% | 28 | 2,814 |
| EUR/RM - strengthened 5% | 219 | 683 |
| - weakened 5% | (219) | (683) |

Notes to the Financial Statements

30. 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 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is derived by dividing the amount of borrowings (Note 24) over total equity. At the reporting date, the Group's gearing ratio calculated by dividing the amount of borrowings (Note 24) over the aggregate of the equity held by shareholders and non-controlling interests is 0.73 times (2015: 1.32 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, 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.

31. SEGMENTAL INFORMATION

On 21 August 2015, the Group announced the Internal Reorganisation exercise of its corporate structure. Subsequent to the announcement, the Group's business has been re-organised based on three main distinct divisions, namely Defence and Security, Energy and Commercial. The others category refers to investment holding entities. For each of the segments, the Managing Director reviews the internal management reports at least on a quarterly basis. The following summary describes the operations of each of the Group's segments:

- (i) Defence and Security – The business units under this segment are principally engaged in shipbuilding and maintenance, repair and overhaul ("MRO") of Navy's patrol vessels. In addition, this segment is also involved in manufacturing, supply and maintenance of defence related electronic products;
- (ii) Energy – The business unit under this segment is principally engaged in the fabrication of steel structures & platforms, marine engineering, oil & gas fabrication, hook up & commissioning and other services related to the oil & gas industry; and
- (iii) Commercial – The business units under this segment is principally engaged in the heavy engineering, shipbuilding, MRO of non-Navy's vessels, providing trainings, trading of goods and MRO of aircraft wheels and brakes.

Included in the Defence and Security segment, the revenue of approximately RM282,701,000 (2015: RM230,449,000) is derived from two major customers.

The Group operates fully within Malaysia. The other segments are not reportable segments to be disclosed under the requirements of MFRS 8. Transfer pricing between operating segments are on arm's 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 is eliminated in full.

Notes to the Financial Statements

31. 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 tables below. Accordingly, the comparative has also been restated:

| | Defence and Security RM'000 | Energy RM'000 | Commercial RM'000 | Others RM'000 | Elimination RM'000 | Total RM'000 |
|---|--------------------------------------|------------------|----------------------|------------------|-----------------------|-----------------|
| As at 31 December 2016 | | | | | | |
| Group Total Sales | 289,573 | 11,781 | 2,722 | 86,754 | (83,312) | 307,518 |
| Inter-segment Sales | (1,610) | – | (18) | (81,684) | 83,312 | – |
| External Revenue | 287,963 | 11,781 | 2,704 | 5,070 | – | 307,518 |
| Results | | | | | | |
| Segment result-external | 115,942 | 5,333 | (6,298) | (31,865) | 18,060 | 101,172 |
| Interest income | 624 | – | – | 4,593 | (3,125) | 2,092 |
| Finance costs | (355) | – | (1,170) | (18,238) | 3,595 | (16,168) |
| Share of result in joint ventures | 22,011 | – | – | – | – | 22,011 |
| Share of result in associates | (26,899) | – | – | – | – | (26,899) |
| Profit/(loss) before taxation from continuing operations | 111,323 | 5,333 | (7,468) | (45,510) | 18,530 | 82,208 |
| Income tax expense | | | | | | (1,701) |
| Profit for the year from continuing operations | | | | | | 80,507 |
| Discontinued operation | | | | | | |
| Loss from discontinued operation, net of tax | – | – | (3,811) | – | – | (3,811) |
| Profit for the year | | | | | | 76,696 |
| Other Information | | | | | | |
| Continuing operations | | | | | | |
| Depreciation | 5,276 | 106 | 155 | 991 | – | 6,528 |
| Other non-cash expenses | 31,356 | – | 589 | 1,222 | – | 33,167 |
| Discontinued operation | | | | | | |
| Other non-cash expenses | – | – | 4,927 | – | – | 4,927 |

Notes to the Financial Statements

31. 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 tables below. Accordingly, the comparative has also been restated: (cont'd.)

| | Defence and Security RM'000 | Energy RM'000 | Commercial RM'000 | Others RM'000 | Elimination RM'000 | Total RM'000 |
|---|--------------------------------------|------------------|----------------------|------------------|-----------------------|-----------------|
| As at 31 December 2015 | | | | | | |
| Group Total Sales | 231,929 | 26,898 | 6,815 | 28,411 | (28,412) | 265,641 |
| Inter-segment Sales | (2,925) | – | (68) | (25,419) | 28,412 | – |
| External Revenue | 229,004 | 26,898 | 6,747 | 2,992 | – | 265,641 |
| Results | | | | | | |
| Segment result-external | 76,919 | (13,575) | (1,179) | (35,477) | (15,056) | 11,632 |
| Interest income | 292 | – | – | 4,085 | (3,934) | 443 |
| Finance costs | (258) | – | (1,162) | (21,537) | 4,755 | (18,202) |
| Share of result in joint ventures | 21,494 | – | – | – | – | 21,494 |
| Share of result in associates | (19,316) | – | – | – | – | (19,316) |
| Profit/(loss) before taxation from continuing operations | 79,131 | (13,575) | (2,341) | (52,929) | (14,235) | (3,949) |
| Income tax expense | | | | | | (3,589) |
| Loss for the year from continuing operations | | | | | | (7,538) |
| Discontinued operation | | | | | | |
| Loss from discontinued operation, net of tax | – | – | (23,201) | – | – | (23,201) |
| Loss for the year | | | | | | (30,739) |
| Other Information | | | | | | |
| Continuing operations | | | | | | |
| Depreciation | 4,910 | 106 | 160 | 976 | – | 6,152 |
| Other non-cash expenses | – | – | 2,662 | 3,986 | – | 6,648 |
| Discontinued operation | | | | | | |
| Depreciation | – | – | 4,202 | – | – | 4,202 |
| Other non-cash expenses | – | – | 12,647 | – | – | 12,647 |

Notes to the Financial Statements

31. SEGMENTAL INFORMATION (CONT'D.)

Pursuant to the announcement made by the Company on 23 December 2015 to dispose off all three chemical tankers, the chartering segment has been classified as discontinued operation within the Commercial Division as at 31 December 2015. Further details of the event is disclosed in Note 21.

32. OPERATING LEASE ARRANGEMENTS

(a) 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 | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Future minimum rental payments: | | |
| Not later than 1 year | 2,424 | 2,363 |
| Later than 1 year but not later than 5 years | 3,982 | 3,952 |
| Later than 5 years | 9,201 | 10,309 |
| | 15,607 | 16,624 |

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

(b) The Group as lessor

The Group has entered into a commercial property lease for its investment property. The non-cancellable lease has a remaining lease term of ten years. The lease includes a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating lease at the reporting date is as follows:

| | Group | |
|--|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 |
| Not later than 1 year | 2,534 | 2,443 |
| Later than 1 year but not later than 5 years | 7,920 | 10,454 |
| Later than 5 years | 10,755 | 10,755 |
| | 21,209 | 23,652 |

Notes to the Financial Statements

33. CAPITAL COMMITMENTS

| | Group | | Company | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Approved but not contracted for: | | | | |
| - Property, plant and equipment | 26,955 | 248,330 | - | - |
| Approved and contracted for: | | | | |
| - Property, plant and equipment | 493 | 648 | - | - |

34. CONTINGENT LIABILITY

Muara Hijau Sdn Bhd ("Muara Hijau") was a contractor appointed by a subsidiary of the Group to supply microturbine generator ("MTG") for its oil & gas project. During performance of test run in the commissioning phase to synchronise the MTG and a diesel engine generator, the MTG tripped and damaged. Due to such incident, Muara Hijau claims that the warranty of the MTG is void. Muara Hijau is now claiming for the alleged costs incurred amounting to RM5,537,450 during the commissioning phase and to repair and maintain the MTG as well as renewal of its warranty.

The Group is currently reviewing and drafting the response to the Statement of Claim and have engaged solicitors to act on its behalf in this matter.

The High Court had fixed the matter for further case management on 21 March 2017.

Notes to the Financial Statements

35. SIGNIFICANT EVENTS

(a) Internal Reorganisation

On 21 August 2015, the Group announced the Internal Reorganisation of its corporate structure, in order to achieve better operational efficiencies, organisational clarity and focus on its core businesses. The Group structure is divided into three main distinct divisions namely the Defence and Security Division, Energy Division and Commercial Division. The Internal Reorganisation is not expected to have any material impact on the earnings of the Group for the financial year ended 31 December 2016.

The proposed Internal Reorganisation is expected to be completed by 30 June 2017.

(b) Rightsizing

An exercise was undertaken to identify the optimal organisational structure for the Group. An obvious component of this exercise is a critical review of appropriate human capital resources, which will impact the entire Group. Specific rightsizing initiatives, based on the Group's established performance appraisal processes, have commenced in all primary operating facilities, including the head office and will lead to a reduction in overall employee headcount.

To date, a total of 149 personnel had accepted the mutual separation scheme offered by the Group as at to date with a total actual payment of approximately RM8.3 million.

This process will continue until the Group reaches its desired organisation structure.

(c) Arbitration

A customer of the Group, issued a notice of arbitration dated 7 December 2012 against a subsidiary of the Group for alleged breach of contract. The subsidiary, in response, has initiated a counter-claim against the customer.

The subsidiary had entered into a settlement agreement with the customer on 13 October 2016.

In accordance with the settlement, the subsidiary proposed and the customer had accepted a settlement sum of USD1.5 million as full and final settlement of all claims and counterclaims, on the basis that each party is to bear its own legal costs in relation to the claims and counterclaims, including but not limited to the costs incurred in the arbitration under the Kuala Lumpur Regional Centre for Arbitration ("KLIRCA") Rules 2013.

Both parties also agreed in the settlement agreement that the property in and ownership of all and any goods and materials bought or supplied by either party for the construction of the Vessels, presently located at the subsidiary's premises, shall if not already so vested, vest in the subsidiary.

The Group has effected the settlement payment of USD1.5 million on 25 October 2016.

Notes to the Financial Statements

36. RELATED PARTY DISCLOSURES

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

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Interest income | | | | |
| Subsidiaries | – | – | 6,399 | 10,674 |
| Government-related financial institutions | 394 | 399 | 56 | – |
| Joint ventures | 31 | 34 | – | – |
| Dividend income | | | | |
| Joint ventures (Note 16) | 2,771 | 5,485 | – | – |
| Subsidiary | – | – | 70,000 | – |
| Sales of goods/Rendering of services | | | | |
| Associates | 158,959 | 153,589 | – | – |
| Joint ventures | 106,630 | 62,773 | – | – |
| Purchases of goods/Rendering of services | | | | |
| Immediate holding company | 368 | 351 | – | 297 |
| Related companies | 2,988 | 3,391 | – | 255 |
| Joint ventures | 235 | 69 | – | – |
| Associates | 2,695 | 5,867 | – | – |
| Interest expense paid to: | | | | |
| Subsidiaries | – | – | 91 | 126 |
| Joint ventures | – | 9 | – | – |
| Government-related financial institutions | 7,377 | 8,726 | 6,254 | 7,550 |

The directors are of the opinion that the above transactions are entered 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 2016 are disclosed in Notes 18 and 27.

Notes to the Financial Statements

36. 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 | |
|---|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Wages and salaries | 6,440 | 8,019 | 1,024 | 872 |
| Defined contribution plan | 749 | 894 | 68 | 74 |
| Others | 1,266 | 1,114 | 688 | 518 |
| | 8,455 | 10,027 | 1,780 | 1,464 |
| Included in the total key management personnel are: | | | | |
| Directors' remuneration (Note 7) | 939 | 1,901 | 858 | 502 |

(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 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 Ministry of Defence ("MINDEF") to undertake In Service Support ("ISS") for 2 Royal Malaysian Navy's Prime Minister Class Scorpene Submarines for EUR193.0 million (RM870.0 million equivalent) and RM532.0 million and is effective until 30 November 2016. The contract was finalised on 3 September 2015.
- On 12 October 2015, BDNC has received and accepted an additional Letter of Acceptance from MINDEF dated 29 September 2015, with a revised and final negotiated price of the Extended Contract of RM153.2 million and EUR70.3 million and a revised tenure to 31 March 2018.

Notes to the Financial Statements

36. RELATED PARTY DISCLOSURES (CONT'D.)

(c) Government-related entities (cont'd.)

(i) *Individually significant transactions because of size of transactions (cont'd.)*

- On 16 December 2011, BN Shipyard, an associate of the Group, received a letter of award from the 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 RM9.0 billion. The contract was finalised on 17 July 2015.
- BHICAS, a joint venture of the Group, received a letter of award on 30 January 2013 for the ISS for 6 Royal Malaysian Navy helicopters (Fennec AS555SN) at a contract value of RM32.0 million for a period of 3 years from the date of acceptance of the award. On 18 February 2016, BHICAS received and accepted the Extended Letter of Award ("Extended LOA") from the Ministry of Defence Malaysia ("MOD") for the extension of obligations in relation to said ISS Contract the Royal Malaysian Navy with the consideration under the first letter of award and the Extended LOA is now revised to RM63.2 million only, excluding Goods and Services Tax. The Extended LOA is for a period of 3 years starting from 7 February 2016.
- BHICAS, a joint venture of the Group, received a letter of award on 26 June 2013 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 RM65.0 million. On 12 October 2016, BHICAS has received and accepted a Letter of Acceptance from the Government of Malaysia ("GOM") for the provision of Integrated Maintenance and Logistic Support Services for three (3) units of Malaysian Maritime Enforcement Agency Dauphin AS365N3 Helicopters at a ceiling contract value of RM62.6 million (inclusive of Goods and Services Tax) and for a period of two (2) years and nine (9) months, effective from 1 October 2016. A formal contract between the GOM and BHICAS will be signed at a later date.
- BHICAS, a joint venture of the Group, received a letter of award on 20 March 2014 for the ISS contract for the maintenance and supply of spare parts for the Royal Malaysian Air Force EC725 Helicopters at a contract value of RM220.0 million for a period of 3 years from the date of acceptance of the award.
- On 2 September 2015, BN Shipyard an associate of the Group received a Letter of Work from MINDEF awarding BNS a contract for scheduled refit maintenance of KD PAHANG for the RMN at a ceiling contract value of RM92.4 million. The written acknowledgement was executed on 17 September 2015.

37. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 1 March 2017.

Notes to the Financial Statements

38. 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 2016 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 | |
|--|------------------|----------------|-----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Total retained profits/(accumulated losses) of the Company and its subsidiaries: | | | | |
| Realised | (176,381) | (381,824) | (85,725) | (94,707) |
| Unrealised | 20,048 | 35,068 | - | - |
| Total share of retained profits from associates: | | | | |
| Realised | 85,750 | 112,647 | - | - |
| Total share of retained profits from joint ventures: | | | | |
| Realised | 129,903 | 109,962 | - | - |
| Unrealised | (11,598) | (13,668) | - | - |
| Consolidated adjustments | 47,722 | (137,815) | (85,725) | (94,707) |
| | 50,335 | 159,176 | - | - |
| Total Group retained profits/(accumulated losses) as per consolidated financial statements | 98,057 | 21,361 | (85,725) | (94,707) |

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.

Shareholding Statistics

AS AT 15 FEBRUARY 2017

Issued Share Capital : RM248,457,614 represented by 248,457,614 ordinary shares
 Class of Share : Ordinary shares
 Voting Right : One vote per ordinary share

ANALYSIS BY SIZE OF SHAREHOLDINGS

| Size of Shareholdings | No. of holders | % | No. of shares | % |
|---|----------------|---------------|--------------------|---------------|
| 1 – 99 | 1,127 | 30.57 | 18,552 | 0.01 |
| 100 – 1,000 | 961 | 26.06 | 546,507 | 0.22 |
| 1,001 – 10,000 | 1,177 | 31.92 | 5,064,607 | 2.04 |
| 10,001 – 100,000 | 355 | 9.63 | 10,789,300 | 4.34 |
| 100,001 – Less than 5% of issued shares | 64 | 1.74 | 31,304,600 | 12.60 |
| 5% and above of issued shares | 3 | 0.08 | 200,734,048 | 80.79 |
| Total | 3,687 | 100.00 | 248,457,614 | 100.00 |

INFORMATION ON SUBSTANTIAL SHAREHOLDERS

| Size of Shareholdings | No. of share direct | % | No. of shares indirect | % |
|---------------------------------|---------------------|------|------------------------|------|
| Boustead Holdings Berhad | 161,497,448 | 65.0 | – | – |
| Lembaga Tabung Angkatan Tentera | 20,261,800 | 8.16 | 161,497,448 | 65.0 |
| Lembaga Tabung Haji | 18,974,800 | 7.64 | – | – |

DIRECTORS SHAREHOLDING

| Name of Directors | Direct | No. of share % | Indirect | Size of % |
|--|-----------|----------------|----------------------|-----------|
| Tan Sri Dato' Seri Lodin Wok Kamarudin | 2,000,000 | 0.80 | – | – |
| Tan Sri Dato' Seri Ahmad Ramli Haji Mohd Nor | 2,002,100 | 0.80 | 11,200* ¹ | # |
| Datuk Azzat Kamaludin | 350,000 | 0.14 | – | – |
| Dato' Ishak Osman | 10,000 | # | 20* ² | # |
| Encik Abd Malik 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

30 LARGEST SHAREHOLDERS AS AT 15 FEBRUARY 2017

| | Name of shareholders | No. of shares | % |
|----|---|---------------|-------|
| 1 | BOUSTEAD HOLDINGS BERHAD ACCOUNT NON-TRADING | 161,497,448 | 65.00 |
| 2 | LEMBAGA TABUNG ANGKATAN TENTERA | 20,261,800 | 8.16 |
| 3 | LEMBAGA TABUNG HAJI | 18,974,800 | 7.64 |
| 4 | TAN HAN CHONG | 3,072,000 | 1.24 |
| 5 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR OH KIM SUN (CEB) | 2,083,400 | 0.84 |
| 6 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AHMAD RAMLI BIN MOHD NOR (8029256) | 2,000,000 | 0.80 |
| 7 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PERAMJEET SINGH A/L GIAN SINGH (8029243) | 2,000,000 | 0.80 |
| 8 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHE LODIN BIN WOK KAMARUDDIN (8029271) | 2,000,000 | 0.80 |
| 9 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN MENG SEONG (8029269) | 1,614,400 | 0.65 |
| 10 | LIEW YAM FEE | 1,208,800 | 0.49 |
| 11 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NORAZLAN BIN MOHAMAD NORDIN (CEB) | 1,080,000 | 0.43 |
| 12 | B & A FAMILY HOLDINGS SDN BHD | 900,000 | 0.36 |
| 13 | HSBC NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR BANK JULIUS BAER & CO. LTD. (SINGAPORE BCH) | 810,000 | 0.33 |
| 14 | TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHOW KWAI PING | 760,500 | 0.31 |
| 15 | HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING) | 702,300 | 0.28 |

List of Top 30 Holders

30 LARGEST SHAREHOLDERS AS AT 15 FEBRUARY 2017 (CONT'D.)

| | Name of shareholders | No. of shares | % |
|----|--|--------------------|--------------|
| 16 | WONG AH TIM @ ONG AH TIN | 636,000 | 0.26 |
| 17 | TAN CHING LING | 572,400 | 0.23 |
| 18 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR NOOR AZMAN @ NOOR HIZAM B MOHD NURDIN (CEB) | 474,000 | 0.19 |
| 19 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MONINDAR KAUR A/P HARCHARAN SINGH (8037133) | 424,000 | 0.17 |
| 20 | TAN LEE HWA | 390,000 | 0.16 |
| 21 | PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SIM LEONG THUN (E-SS2) | 388,600 | 0.16 |
| 22 | MAVIS TAN KENG MUN | 383,000 | 0.15 |
| 23 | ONG TONG PHENG @ ENG AH TOON | 376,000 | 0.15 |
| 24 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AGROMEGAH CORPORATION SDN BHD | 366,800 | 0.15 |
| 25 | AZZAT BIN KAMALUDIN | 350,000 | 0.14 |
| 26 | CHAN YOKE CHENG | 350,000 | 0.14 |
| 27 | DB (MALAYSIA) NOMINEE (ASING) SDN BHD EXEMPT AN FOR DEUTSCHE BANK AG SINGAPORE (PWM ASING) | 336,000 | 0.14 |
| 28 | LAI YOON KEE | 336,000 | 0.14 |
| 29 | KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR RITZ CREST SDN BHD | 331,000 | 0.13 |
| 30 | KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR AGROBULK HOLDINGS SDN BHD | 327,300 | 0.13 |
| | Total | 225,006,548 | 90.56 |

List of Properties

| Location | Description | Areas | Tenure | Age | Net book value RM'000 |
|---|--|----------------|---|----------|--------------------------|
| LAND | | | | | |
| Pajakan Negeri No. 649 Lot No. 3222 Mukim 13 Daerah Timur Laut Pulau Pinang | Shipyard | 20.21 acres | Leasehold expiring on 24/01/2072 | 45 years | 22,436 |
| HSD 6981 Lot No. 9777 Mukim 13 Daerah Timur Laut Pulau Pinang | Reclaimed land for the extension of the area of the shipyard | 5.5 acres | Leasehold expiring on 24/01/2072 | 45 years | 1,486 |
| HS(D) 16204, PT8711 Mukim Lumut Daerah Manjung, Perak | Marine industry land | 76.0 acres | Leasehold expiring on 18/10/2099 | 16 years | – |
| HSM 3558 Lot No. 20238 Mukim 13 Daerah Timur Laut Pulau Pinang | Building | 0.8 acre | Leasehold expiring on 15/11/2073 | 3 years | – |
| INVESTMENT PROPERTY | | | | | |
| Master Title No. Geran 19583 Lot No. 1210 Mukim Damansara Daerah Petaling Selangor | Helicopter Hangar Building | 1.0 acre | 20 years, sublease expiring on 14/04/2033 with an option to renew for a further term of 10 years | 4 years | 13,840 |

NOTES :

The Group purchased two (2) pieces of land at Kota Kinabalu, Sabah and Bentong, Pahang with total cost of RM19.7 million. The transfer of land titles are still in progress.

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Proxy Form

BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD (11106-V)
(Incorporated in Malaysia)

Number of shares

*I/We _____ *NRIC/*Passport/*Company No. _____
[FULL NAME IN BLOCK LETTERS]

of _____
[ADDRESS]

being a member of **BOUSTEAD HEAVY INDUSTRIES CORPORATION BERHAD**, hereby appoint

_____ *NRIC/*Passport/*Company No. _____
[FULL NAME IN BLOCK LETTERS]

of _____
[ADDRESS]

and/or _____ *NRIC/*Passport/*Company No. _____
[FULL NAME IN BLOCK LETTERS]

of _____
[ADDRESS]

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for my/our behalf at the 45th Annual General Meeting of the Company to be held at **Mutiara Ballroom, Ground Floor, The Royale Chulan Damansara, No. 2, Jalan PJU 7/3, Mutiara Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan** on **Wednesday, 5 April 2017** at **2.30 p.m.** and at any adjournment thereof and to vote as indicated below:-

| | RESOLUTIONS | FOR | AGAINST |
|-----|---------------|-----|---------|
| 1. | RESOLUTION 1 | | |
| 2. | RESOLUTION 2 | | |
| 3. | RESOLUTION 3 | | |
| 4. | RESOLUTION 4 | | |
| 5. | RESOLUTION 5 | | |
| 6. | RESOLUTION 6 | | |
| 7. | RESOLUTION 7 | | |
| 8. | RESOLUTION 8 | | |
| 9. | RESOLUTION 9 | | |
| 10. | RESOLUTION 10 | | |

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 2017

Signature of Member or Common Seal

Notes:

- Only depositors whose names appear in the Record of Depositors as at 27 March 2017 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.
- 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

No. of ordinary shares held:

CDS Account No.:

Proportion of shareholdings First Proxy: _____%
to be represented by proxies Second Proxy: _____%

Contact No.:

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

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